TAXABLE YEAR **2015**

Corporation Depreciation and Amortization

CALIFORNIA FORM **3885**

Attach to Form 100 or Form 100W.

Corporation name	California corporation number

Part I Election To Expense Certain Property Under IRC Section 179

1 Maximum deduction under IRC Section 179 for California	1	$25,000
2 Total cost of IRC Section 179 property placed in service	2	
3 Threshold cost of IRC Section 179 property before reduction in limitation	3	$200,000
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5 Dollar limitation for taxable year. Subtract line 4 from line 1. If zero or less, enter -0-	5	

	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
6			
7 Listed property (elected IRC Section 179 cost)		7	

8 Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	8	
9 Tentative deduction. Enter the **smaller** of line 5 or line 8	9	
10 Carryover of disallowed deduction from prior taxable years	10	
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5	11	
12 IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11	12	
13 Carryover of disallowed deduction to 2016. Add line 9 and line 10, less line 12	13	

Part II Depreciation and Election of Additional First Year Depreciation Deduction Under R&TC Section 24356

	(a) Description of property	(b) Date acquired (mm/dd/yyyy)	(c) Cost or other basis	(d) Depreciation allowed or allowable in earlier years	(e) Depreciation method	(f) Life or rate	(g) Depreciation for this year	(h) Additional first year depreciation
14								

15 Add the amounts in column (g) and column (h). The total of column (h) may not exceed $2,000. See instructions for line 14, column (h)	15		

Part III Summary

16 Total: If the corporation is electing: IRC Section 179 expense, add the amount on line 12 and line 15, column (g) **or** Additional first year depreciation under R&TC Section 24356, add the amounts on line 15, columns (g) and (h) **or** Depreciation (if no election is made), enter the amount from line 15, column (g)	16	
17 Total depreciation claimed for federal purposes from federal Form 4562, line 22	17	
18 Depreciation adjustment. If line 17 is greater than line 16, enter the difference here and on Form 100 or Form 100W, Side 1, line 6. If line 17 is less than line 16, enter the difference here and on Form 100 or Form 100W, Side 2, line 12. (If California depreciation amounts are used to determine net income before state adjustments on Form 100 or Form 100W, no adjustment is necessary.)	18	

Part IV Amortization

	(a) Description of property	(b) Date acquired (mm/dd/yyyy)	(c) Cost or other basis	(d) Amortization allowed or allowable in earlier years	(e) R&TC section (see instructions)	(f) Period or percentage	(g) Amortization for this year
19							

20 Total. Add the amounts in column (g)	20	
21 Total amortization claimed for federal purposes from federal Form 4562, line 44	21	
22 Amortization adjustment. If line 21 is greater than line 20, enter the difference here and on Form 100 or Form 100W, Side 1, line 6. If line 21 is less than line 20, enter the difference here and on Form 100 or Form 100W, Side 2, line 12	22	

2015 Instructions for Form FTB 3885

Corporation Depreciation and Amortization

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2015**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2015. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to **ftb.ca.gov** and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

A Purpose

Use form FTB 3885, Corporation Depreciation and Amortization, to calculate California depreciation and amortization deduction for corporations, including partnerships and limited liability companies (LLCs) classified as corporations.

S corporations must use Schedule B (100S), S Corporation Depreciation and Amortization.

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Generally, depreciation is used in connection with tangible property.

Amortization is an amount deducted to recover the cost of certain capital expenses over a fixed period. Generally amortization is used for intangible assets.

For amortizing the cost of certified pollution control facilities, use form FTB 3580, Application and Election to Amortize Certified Pollution Control Facility.

B Federal/State Differences

Differences between federal and California laws affect the calculation of depreciation and amortization. The following lists are not intended to be all-inclusive of the federal and state conformities and differences. For more information, refer to the R&TC.

California law conforms to federal law for the following:

- The sport utility vehicles (SUVs) and minivans built on a truck chassis are included in the definition of trucks and vans when applying the 6,000 pound gross weight limit. See IRS Rev. Proc. 2003-75 for more information.
- The additional first-year depreciation, **or** the election to expense the cost of the property as provided in IRC Section 179, **with modification**.
- The federal Class Life Asset Depreciation Range (ADR) System provisions, which specifies a useful life for various types of property. However, California law does not allow the corporation to choose a depreciation period that varies from the specified asset guideline system.

California law does not conform to federal law for the following:

- The enhanced IRC Section 179 expensing election.
- The first-year depreciation deduction allowed for new luxury autos or certain passenger automobiles acquired and placed in service in 2010 through 2015.
- IRC Section 613A(d)(4) relating to the exclusion of certain refiners. See R&TC Section 24831.3 for more information.
- IRC Section 168(k) relating to the 50% bonus depreciation deduction for certain assets.
- The additional first-year depreciation of certain qualified property placed in service after October 3, 2008, and the election to claim additional research and minimum tax credits in lieu of claiming the bonus depreciation.
- The accelerated recovery period for depreciation of smart meters and smart grid systems.
- The ten-year useful life for grapevines planted as replacements for vines subject to Phylloxera or Pierce's disease. California law allows a useful life of five years.
- The federal special class life for gas station convenience stores and similar structures.
- The depreciation under Modified Accelerated Cost Recovery System (MACRS) for corporations, except to the extent such depreciation is passed through from a partnership or LLC classified as a partnership.

C Depreciation Calculation Methods

Depreciation methods are defined in R&TC Sections 24349 through 24354. Depreciation calculation methods, described in R&TC Section 24349, are as follows:

Straight-Line. The straight-line method divides the cost or other basis of property, less its estimated salvage value, into equal amounts over the estimated useful life of the property. An asset may not be depreciated below a reasonable salvage value.

Declining Balance. Under this method, depreciation is greatest in the first year and smaller in each succeeding year. The property must have a useful life of at least three years. Salvage value is not taken into account in determining the basis of the property, but the property may not be depreciated below a reasonable salvage value.

The amount of depreciation for each year is subtracted from the basis of the property and a uniform rate of up to 200% of the straight-line rate is applied to the remaining balance.

For example, the annual depreciation allowances for property with an original basis of $100,000 are:

Year	Remaining basis	Declining balance rate	Depreciation allowance
First.	$100,000	20%	$20,000
Second . . .	80,000	20%	16,000
Third	64,000	20%	12,800
Fourth	51,200	20%	10,240

Sum-of-the-Years-Digits Method. This method may be used whenever the declining balance method is allowed. The depreciation deduction is figured by subtracting the salvage value from the cost of the property and multiplying the result by a fraction. The numerator of the fraction is the number of years remaining in the useful life of the property. Therefore, the numerator changes each year as the life of the property decreases. The denominator of the fraction is the sum of the digits representing the years of useful life. The denominator remains constant every year.

Other Consistent Methods. Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

D Period of Depreciation

Under Cal. Code Regs., tit. 18, section 24349(l), California conforms to the federal useful lives of property.

Use the following information as a guide to determine reasonable periods of useful life for purposes of calculating depreciation. Actual facts and circumstances will determine useful life. However, the figures listed below represent the normal periods of useful life for the types of property listed as shown in IRS Rev. Proc. 87-56.

- Office furniture, fixtures, machines, and equipment . . . . 10 yrs.

  This category includes furniture and fixtures (that are not structural components of a building) and machines and equipment used in the preparation of paper or data.

  Examples include: desks; files; safes; typewriters; accounting, calculating, and data processing machines; communications equipment; and duplicating and copying equipment.
- Computers and peripheral equipment (printers, etc.). . . . . 6 yrs.
- Transportation equipment and automobiles (including taxis) . . . . 3 yrs.
- General-purpose trucks:
  Light (unloaded weight less than 13,000 lbs.) . . . . 4 yrs.
  Heavy (unloaded weight 13,000 lbs. or more) . . . . 6 yrs.
- Buildings

  This category includes the structural shell of a building and all of its integral parts that service normal heating, plumbing, air conditioning, fire prevention and power requirements, and equipment such as elevators and escalators.

  Type of building:
  Apartments. . . . . 40 yrs.
  Dwellings (including rental residences) . . . 45 yrs.
  Office buildings. . . . . 45 yrs.
  Warehouses . . . . 60 yrs.

E Depreciation Methods to Use

Corporations may use the straight-line method for any depreciable property. Before using other methods, consider the kind of property, its useful life, whether it is new or used, and the date it was acquired. Use the following chart as a general guide to determine which method to use:

Property description	Maximum depreciation method
Real estate acquired 12/31/70 or earlier	
New (useful life 3 yrs. or more)	200% Declining balance
Used (useful life 3 yrs. or more)	150% Declining balance
Real estate acquired 1/1/71 or later	
Residential rental:	
New.	200% Declining balance
Used (useful life 20 yrs. or more) . . .	125% Declining balance
Used (useful life less than 20 yrs.) . .	Straight-line
Commercial and industrial:	
New (useful life 3 yrs. or more)	150% Declining balance
Used	Straight-line
Personal property	
New (useful life 3 yrs. or more)	200% Declining balance
Used (useful life 3 yrs. or more)	150% Declining balance

See "Other Consistent Methods" information on this page.

The Class Life ADR System of depreciation may be used for designated classes of assets placed in service after 1970.

The Guideline Class Life System of depreciation may be used for certain classes of assets placed in service before 1971.

F Election To Expense Certain Property Under IRC Section 179

For taxable years beginning on or after January 1, 2005, corporations may elect IRC Section 179 to expense part or all of the cost of depreciable tangible property used in the trade or business and certain other property described in federal Publication 946, How to Depreciate Property. To elect IRC Section 179, the corporation must have purchased property, as defined in IRC Section 179(d)(2), and placed it in service during the taxable year. If the corporation elects this deduction, the corporation must reduce the California depreciable basis by the IRC Section 179 expense. The total IRC Section 179 expense deduction cannot exceed the corporation's business income. See the instructions for federal Form 4562, Depreciation and Amortization, for more information.

California does not allow IRC Section 179 expense election for off-the-shelf computer software.

California conforms to the federal changes made to the deduction of business start-up and organizational costs paid or incurred on or after January 1, 2005. **Exceptions:** California does not conform to the federal increase in the deduction for start-up expenses in 2010 taxable year.

California law does not conform to the federal limitation amounts under IRC Section 179(b)(1) & (2). For California purposes, the maximum IRC Section 179 expense deduction allowed is $25,000. This amount is reduced if the cost of all IRC Section 179 property placed in service during the taxable year is more than $200,000.

G Amortization

California conforms to the IRC Section 197 amortization of intangibles for taxable years beginning on or after January 1, 1994. Generally, assets that meet the definition under IRC Section 197 are amortized on a straight-line basis over 15 years. There may be differences in the federal and California amounts for intangible assets acquired in taxable years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

Amortization of the following assets is governed by California law:

Bond premiums	R&TC 24360 – 24363.5
Research expenditures	R&TC 24365
Reforestation expenses	R&TC 24372.5
Organizational expenditures	R&TC 24407 – 24409
Start-up expenses	R&TC 24414

Other intangible assets may be amortized if it is approved with reasonable accuracy that the asset has an ascertainable value that diminishes over time and has a limited useful life.

Specific Line Instructions

For properties placed in service during the taxable year, the corporation may complete Part I if the corporation elects to expense qualified property under IRC Section 179, or Part II if the corporation elects additional first year depreciation deduction for qualified property under R&TC Section 24356. The corporation may **only** elect IRC Section 179 **or** the additional first year depreciation deduction for the same taxable year. The election must be made on a timely filed tax return (including extension). The election may not be revoked except with the Franchise Tax Board's consent.

Part II is also used to calculate depreciation for property (with or without the above elections).

Part I Election To Expense Certain Property Under IRC Section 179

Complete Part I if the corporation elects IRC Section 179 expense. Include all assets qualifying for the deduction since the limit applies to **all** qualifying assets as a group rather than to each asset individually. The total IRC Section 179 expense for property, for which the election may be made, is figured on line 5. The amount of IRC Section 179 expense deductions for the taxable year cannot exceed the corporation's business income on line 11. See the instructions for federal Form 4562 for more information.

Line 2

Enter the cost of all IRC Section 179 qualified property placed in service during the taxable year including the cost of any listed property. See General Information F, Election To Expense Certain Property Under IRC Section 179, for information regarding qualified property. See line 7 instructions for information regarding listed property.

Line 5

If line 5 is zero, the corporation cannot elect to expense any IRC Section 179 property. Skip line 6 through line 11, enter zero on line 12.

Line 6

Do not include any listed property on line 6. Enter the elected IRC Section 179 cost of listed property on line 7.

Column (a) – Description of property. Enter a brief description of the property the corporation elects to expense.

Column (b) – Cost (business use only). Enter the cost of the property. If the corporation acquired the property through a trade-in, **do not** include any carryover basis of the property traded in. Include only the excess of the cost of the property over the value of the property traded in.

Column (c) – Elected cost. Enter the amount the corporation elects to expense. The corporation does not have to expense the entire cost of the property. The corporation can depreciate the amount it does not expense.

Line 7

Use a format similar to federal Form 4562, Part V, line 26 to determine the elected IRC Section 179 cost of listed property. Listed property generally includes the following:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, SUVs, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones (and other similar telecommunications equipment).
- Computers or peripheral equipment.

Exception. Listed property generally does not include:

- Photographic, phonographic, communication, or video equipment used exclusively in the corporation's trade or business.
- Any computer or peripheral equipment used exclusively at a regular business.
- An ambulance, hearse, or vehicle used for transporting persons or property for hire.

Listed property used 50% or less in business activity does not qualify for the IRC Section 179 expense deduction. For more information regarding listed property, get the instructions for federal Form 4562.

Line 11

The total cost the corporation can deduct is limited to the corporation's business income. For the purpose of the IRC Section 179 election, business income is the net income derived from the corporation's active trade or business, Form 100 or Form 100W, line 17, before the IRC Section 179 expense deduction (excluding items not derived from a trade or business actively conducted by the corporation).

Part II Depreciation and Election of Additional First Year Depreciation Deduction Under R&TC Section 24356

Line 14

Corporations may enter each asset separately or group assets into depreciation accounts. Figure the depreciation separately for each asset or group of assets. The basis for depreciation is the cost or other basis reduced by a reasonable salvage value (except when using the declining balance method), additional first-year depreciation (if applicable), and tax credits claimed on depreciable property (where specified). This may cause the California basis to be different from the federal basis.

If the Guideline Class Life System or Class Life ADR System is used, enter the total amount from the corporation's schedule showing the computation on form FTB 3885, column (g), and identify as such.

Line 14, Column (h), Additional first-year depreciation.

Corporations may elect to deduct up to 20% of the cost of "qualifying property" in the year acquired in addition to the regular depreciation deduction. The maximum additional first-year depreciation deduction is $2,000. Corporations must reduce the basis used for regular depreciation by the amount of additional first-year depreciation claimed.

"Qualifying property" is tangible personal property used in business and having a useful life of at least six years. Land, buildings, and structural components **do not** qualify. Property converted from personal use, acquired by gift, inheritance, or from related parties also **does not** qualify.

See R&TC Section 24356 and the applicable regulations for more information.

Part IV Amortization

Line 19, Column (e) – R&TC section.

Enter the correct R&TC section for the type of amortization. See General Information G, Amortization, for a list of the R&TC sections.