

Form 1099, California S-Corporation Dividend or Income Tax Return, line 21) completed without regard to any person (other than).

Partnership Interest/Partnership (PII). A PII is a partnership whose interests are treated as an estate or a secondary market or are really treated as a secondary market for the individual's account. (See the information provided on PII's in the instructions to Form 990-B for an explanation of established secondary market and secondary market information which you receive from your partnership will usually indicate whether or not your partnership interest is an interest in a PII. If you have income or loss from a PII see below. All others go to Step 3.

Passive activity loss rules for Partners in PII's.

Passive losses from a PII use only what income from the same PII. Therefore, do not include passive income, gains, or losses from a PII on Form 990-B, line 1 (total) and the following steps to figure and report your income, gains, and losses from PII's.

1. Complete current year income, gains, losses, and prior year adjustment boxes from each activity of the PII. Determine whether you have an overall gain (total partnership income less losses) or an overall loss.
2. If you had an overall gain, the overall gain is composite income. The remaining gain is gain or income from a passive activity and the total loss is a loss from a passive activity.
3. If you had an overall loss (but did not disqualify your interest in the PII as an unrelated person in a fully taxable transaction during the year), the net loss is (deducted and carried) to the next year. All income or gain to income or gain from a passive activity and income (loss) to the amount of income or gain reported is loss from a passive activity.
4. Report all gain or income and any allowed losses on the forms or schedules where the type of gain, income, or loss source needs to be reported. For example, a gain from the sale of business property (IRC Section 1221 gain) would be reported on California Schedule D-1, Sale of Business Property. Write "from PII" to the right of the amount or include it according to your software's instructions.

Remember to use California amounts. Include only the same type of income and losses you would include in figuring your net income or loss from a non-PII passive activity. For amounts reportable on Schedule E, you will need to use California Adjustment Worksheet, Schedule E Activities. See Step 4, "Figuring the California Adjustment."

Example. You own an interest in a PII. The PII reports ordinary income of \$5,000 for federal purposes and ordinary dividend of \$1,000 for California purposes. The PII has a prior year IRC Section 1231 unallowed loss of \$2,000 for federal purposes and a prior

year IRC Section 1231 (California unallowed) IRC Section 1231 loss of \$5,000 for California purposes. You have an overall gain of \$4,000 (\$,000 - 2,000) for federal purposes and overall gain of \$2,000 (\$,000 - 2,000) for California purposes. You would report "from PII" \$2,000 loss on California Schedule D-1. The difference between the California loss of \$2,000 and the federal loss of \$5,000 would be included in the California adjustment on Schedule E (240) or 242(B). California Capital Gain or Loss Adjustment, or California Schedule D-1. You would report the following on your California Adjustment Worksheet, Schedule E Activities 270 (2007), line 2:

on Schedule E	on Form 990-B	on California Form	on Federal Form
Income	Income	\$,000	\$,000
Losses	Losses	\$,000	\$,000

Step 3 — Completing the Worksheets on Form 990-B, Side 3 and Side 4

After you have completed Form 990-B, line 1, complete Worksheets 1, 4, and 5 or 6.

How to Report Allowed Losses. On Federal Form 990-B, follow the instructions and use Worksheet 5 and Worksheet 6 to identify the amount of allowed losses from each activity.

Step 4 — Figuring the California Adjustment

After you have completed the Worksheets on Side 3 and Side 4 of Form 990-B, and you have determined the amount allowed for each activity, you will need to figure your California adjustment.

If California has a separate form or schedule to figure the California adjustment, use it to compute the amount of the California adjustment. Include the allowed losses from Worksheet 5 or Worksheet 6 on the California form or schedule on which they are normally reported. For example, California Schedule C (240 or 242(B)) is comparable to federal Schedule C, Capital Gains and Losses, and California Schedule D-1 is comparable to federal Form 4797, Sale of Business Property.

When there are no comparable California forms or schedules, use the California Adjustment Worksheet on Form 990-B.

Side 3. Specifically, California items not from forms or schedules comparable to federal Schedules C, E, or F. Each passive activity that has no comparable California form or schedule should be listed on the California Adjustment Worksheet corresponding to the federal schedule where it was reported.

Remember to include nonpassive activity amounts when the nonpassive activities are reported on the same federal schedule as those activities that are passive for California.

Using the California Adjustment Worksheet. Complete columns (a) through column (d) of

each worksheet. Group all activities from each type of federal schedule in the appropriate worksheet as indicated on column (a). If you need more space, attach additional sheets.

Column (a). Enter a description of the activity. Include **passive and nonpassive activities** that are reported on the same federal schedule. For example, if you have one federal Schedule E activity that is passive for California and one Schedule E activity that is nonpassive for California, include both activities and their corresponding amounts on the California Adjustment Worksheet, Schedule E Activities.

Column (b). Enter the character of the activity for California purposes as passive or nonpassive.

Column (c). Enter your California net income (loss) from this activity after application of the PII, rules in e.g., Schedule C, line 21, Schedule E income, line 21, Schedule E loss, line 22, and Schedule F, line 26.

Column (d). Enter the federal net income (loss) from this activity after application of the PII, rules in e.g., Schedule C, line 21, Schedule E income, line 21, Schedule E loss, line 22, and Schedule F, line 26.

If you have an activity that is nonpassive for federal purposes and passive for California purposes (as in the case of rental real estate professionals), use the actual federal amounts allowed in column (c) of the California Adjustment Worksheet.

Complete each California Adjustment Worksheet as follows:

Worksheet 1

1. Add the column (c) amounts and enter the results on the "Total line" for column (c).
2. Add the column (d) amounts and enter the results on the "Total line" for column (d).
3. Subtract the Total amount of column (d) from the Total amount of column (c) and enter the difference on the Total line for column (e).
4. California Adjustment column (e)
 - If the Total column (e) amount is positive, you have a California addition. Enter this amount on Schedule CA (240 or 242(B)) as follows:

California Adjustment Worksheet	Schedule CA (240 or 242(B))
Total column (c) =	line 12, column C
Total column (d) =	line 12, column C
Total column (e) =	line 12, column C

- If the Total column (e) amount is negative, you have a California subtraction. Enter this amount on Schedule CA (240 or 242(B)) as follows:

California Adjustment Worksheet	Schedule CA (240 or 242(B))
Total column (c) =	line 12, column E
Total column (d) =	line 12, column E
Total column (e) =	line 12, column E

Enter all amounts on Schedule CA (240 or