

2016 Investment Interest Expense Deduction

3526

Attach to Form 540, Long Form 540NR, or Form 541.

Name(s) as shown on tax return

SSN, ITIN, or FEIN

1	Investment interest expense paid or accrued in 2016. See instructions.	<input checked="" type="radio"/>	1	00
2	Disallowed investment interest expense from 2015 form FTB 3526, line 7. If zero or less, enter -0-	<input checked="" type="radio"/>	2	00
3	Total investment interest expense. Add line 1 and line 2.		3	00
4a	Gross income from property held for investment (excluding any net gain from the disposition of property held for investment). See instructions.		4a	00
4b	Net gain from the disposition of property held for investment. See instructions		4b	00
4c	Net capital gain from the disposition of property held for investment. See instructions.		4c	00
4d	Subtract line 4c from line 4b. If zero or less, enter -0-		4d	00
4e	Enter all or part of the amount on line 4c that you elect to include in investment income. Do not include more than the amount on line 4b. See instructions		4e	00
4f	Investment income. Add line 4a, line 4d, and line 4e		4f	00
5	Investment expenses. See instructions		5	00
6	Net investment income. Subtract line 5 from line 4f.		6	00
7	Disallowed investment interest expense to be carried forward to 2017. Subtract line 6 from line 3. If zero or less, enter -0-	<input checked="" type="radio"/>	7	00
8	Investment interest expense deduction. Enter the smaller of line 3 or line 6. Form 541 filers, stop here and see instructions. All other filers, go to line 9	<input checked="" type="radio"/>	8	00
9	Enter the amount from federal Form 4952, line 8.		9	00
10	California investment interest expense deduction adjustment. Enter the difference between line 8 and line 9. See instructions.	<input checked="" type="radio"/>	10	00

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), California Adjustments, 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 instructions. Taxpayers should not consider the instructions as authoritative law.

A Purpose

Use form FTB 3526, Investment Interest Expense Deduction, to figure the amount of investment interest expense deductible for the current year and the amount, if any, to carry forward to future years. Interest expense paid

by an individual, estate, or trust on a loan allocable to property held for investment may not be fully deductible in the current year.

Net capital gain from the disposition of property held for investment is excluded from investment income when figuring the investment interest limitation. However, taxpayers may elect to include in their investment income as much of their net capital gain investment income as they choose, if they also reduce the amount of net capital gain eligible for the special federal capital gain tax rate.

This form allows you to make a separate California election to include net capital gain investment income in the calculation of the investment interest limitation. However, California taxes all income at the same rate. Consider the effect on your California tax before making a separate California election or applying the federal election for California purposes.

B Who Must File

If you are an individual, estate, or trust and you claim a deduction for investment interest expense, you must complete and attach form FTB 3526 to your tax return.

Exception: You do not have to file form FTB 3526 if **all** of the following apply:

- Your only investment income was from interest or dividends.
- You have no other deductible expenses connected with the production of interest or dividends.

- Your investment interest expense is not more than your investment income.
- You have no disallowed investment interest expense from 2015.

Specific Line Instructions

Generally, California law for the investment interest expense deduction follows federal law. Get the instructions for federal Form 4952, Investment Interest Expense Deduction, for more information. Get federal Publication 550, Investment Income and Expenses, to determine your investment interest expense deduction if you have interest income or expense attributable to a working interest in oil or gas property or if you paid or accrued interest on a loan and you used the proceeds of the loan for more than one purpose.

Line 1 – Investment Interest Expense

Enter the investment interest paid or accrued during the taxable year, regardless of when you incurred the indebtedness. Investment interest expense is interest paid or accrued on a loan (or part of a loan) that is allocable to property held for investment.

Include investment interest expense reported to you on Schedules K-1 (100S, 541, 565, or 568), Share of Income, Deductions, Credits, etc. Include amortization of bond premiums on taxable bonds purchased after October 22, 1986, but before January 1, 1988, unless you elected to offset amortizable bond premiums against the interest payments on the bond. A taxable bond is a bond on which the interest is includible in gross income.