# California

Forms & Instructions

# 100W

## 2010

Corporation Tax Booklet
Water's-Edge Filers

Members of the Franchise Tax Board

John Chiang, Chair
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**This booklet contains:**

**Form 100W,** California Corporation Franchise or Income Tax Return — Water's-Edge Filers

**Schedule H (100W),** Dividend Income Deduction — Water's-Edge Filers

**Schedule P (100W),** Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers

**Form 100-WE,** Water's-Edge Election

**FTB 2416,** Schedule of Included Controlled Foreign Corporations (CFC)

**FTB 2424,** Water's-Edge Foreign Investment Interest Offset

**FTB 3539,** Payment for Automatic Extension for Corps and Exempt Orgs

**FTB 3805Q,** Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

**FTB 3885,** Corporation Depreciation and Amortization

California e-file

For more information regarding business e-file, see page 2 or go to **ftb.ca.gov** and search for **business efile**.

State of California
Franchise Tax Board

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## Business e-file

Business e-file is available for the following returns:

- Form 100, California Corporation Franchise or Income Tax Return, including combined reports.
- **Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, including combined reports.**
- Form 100S, California S Corporation Franchise or Income Tax Return.
- Form 100X, Amended Corporation Franchise or Income Tax Return for taxable years beginning on or after January 1, 2010.
- Form 565, Partnership Return of Income.
- Form 568, Limited Liability Company Return of Income.

For more information, go to **ftb.ca.gov** and search for **business efile**.

# Instructions for Form 100W

## California Corporation Franchise or Income Tax Return — Water's-Edge Filers

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2009,** and to the California Revenue and Taxation Code (R&TC).

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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.

## Introduction

Corporations may elect to compute income attributable to California sources on the basis of a water's-edge combined report. In general, under a water's-edge election, affiliated foreign corporations are excluded from the combined report.

**For purposes of these instructions, the word "taxpayer" means a corporation in the combined group that has a California filing requirement.**

The statute allowing the corporation to file on a water's-edge basis does not supersede the concept of unity; it merely limits the unitary entities included in the combined report. For a discussion of the concepts of the unitary method of taxation and its application by the state of California, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report. Once the corporation computes its income attributable to California sources on the water's-edge combined report basis, the corporation may either file a separate return or may elect to file a single return with the other corporations in the water's-edge group. See Schedule R-7, Election to File a Unitary Taxpayers' Group Return, which is included in Schedule R, Apportionment and Allocation of Income.

S corporations normally may not be included in a combined report. For S corporations filing on a water's-edge basis, this booklet should be used in conjunction with Form 100S, California S Corporation Franchise or Income Tax Return.

For more information, see General Information R, Apportionment of Income; S, Combined Report; and T, Water's-Edge Reporting.

## What's New/Tax Law Changes

**Web Pay –** Beginning **November 2010**, corporations can make payments electronically at the Franchise Tax Board's (FTB's) website using Web Pay. After a one-time online registration, corporations can make an immediate payment or schedule payments up to a year in advance. For more information, go to **ftb.ca.gov** and search for **web pay**.

**e-filing –** The FTB offers e-filing for corporations filing Form 100X, Amended Corporation Franchise or Income Tax Return, for taxable years beginning on or after January 1, 2010.

**Federal Schedule UTP (Form 1120)** – For taxable years beginning on or after January 1, 2010, the Internal Revenue Service (IRS) requires certain corporations to file Schedule UTP (Form 1120), Uncertain Tax Position Statement, with their income tax returns. **For California purposes**, if a corporation is required to file the Schedule UTP (Form 1120) with the federal tax return, the corporation must attach a copy of the federal Schedule UTP (Form 1120) to the California tax return.

**Net Operating Loss** – For taxable years beginning in 2010 and 2011, California suspended the net operating loss (NOL) carryovers deduction. Corporations may continue to compute and carryover NOLs during the suspension period. However, corporations with net income after state adjustments (pre-apportioned income) of less than $300,000 or with disaster loss carryovers are not affected by the NOL suspension rules.

Also, California modified the NOL carryback provision. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations, inside this booklet.

**Large Corporate Understatement of Tax** – For taxable years beginning on or after January 1, 2010, the large corporate understatement of tax penalty rules have changed. See General Information M, Penalties, for more information.

**Assigned Credit Claimed by Assignee –** For taxable years beginning on or after January 1, 2010, R&TC Section 23663 allows an eligible assignee to claim assigned credits, received this taxable year or carried over from prior years, against its tax liabilities. For more information, get form FTB 3544A, List of Assigned Credit Received and/or Claimed by Assignee, or go to **ftb.ca.gov** and search for **credit assignment**.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015.

**Backup Withholding** – Beginning on or after January 1, 2010, with certain limited exceptions, payers that are required to withhold and remit backup withholding to the IRS are also required to withhold and remit to the FTB. The California backup withholding rate is 7% of the payment. For California purposes, dividends, interests, and any financial institutions release of loan funds made in the normal course of business are exempt from backup withholding.

If the corporation (payee) has backup withholding, the corporation (payee) must contact the FTB to provide a valid Taxpayer Identification Number, which is either the California corporation number or the federal employer identification number (FEIN), before filing the tax return. Failure to provide the California corporation number or FEIN may result in a denial of the backup withholding credit. For more information, go to **ftb.ca.gov** and search for **backup withholding**.

**California Film and Television Credit –** For taxable years beginning on or after **January 1, 2011**, a film and television credit against the net tax will be allowed. The credit, which is allocated and certified by the California Film Commission, is 20% of expenditures attributable to a qualified motion picture and 25% of production expenditures attributable to an independent film or a TV series that relocates to California. A qualified taxpayer may sell a credit, attributable to an independent film, to an unrelated party once they receive the certificate from the California Film Commission. Prior to the sale, the qualified taxpayer must notify the FTB of the sale by using form FTB 3551, Sale of Credit Attributable to an Independent Film. For more information, go to **ftb.ca.gov** and search for **film**.

**Single Sales Factor Apportionment –** For taxable years beginning on or after **January 1, 2011**, any apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), may make an irrevocable annual election on an original timely filed return to apportion California business income using the single sales factor.

**Doing Business –** For taxable years beginning on or after January 1, 2011, a corporation is doing business if it actively engages in any transaction for the purpose of financial or pecuniary gain or profit in California or if any of the following conditions is satisfied:

- The corporation is organized or commercially domiciled in California.
- Sales, as defined in R&TC Section 25120(e) or (f), of the corporation in California, including sales by the corporation's agents and independent contractors, exceed the lesser of $500,000 or 25 percent of the taxpayer's total sales.
- Real and tangible personal property of the corporation in California exceed the lesser of $50,000 or 25 percent of the taxpayer's total real and tangible personal property.
- The amount paid in California by the corporation for compensation, as defined in R&TC Section 25120(c), exceeds the lesser of $50,000 or 25 percent of the total compensation paid by the corporation.

In determining the amount of the corporation's sales, property, and payroll for doing business purposes, include the corporation's pro rata share of amounts from partnerships and S corporations.

For more information, go to **ftb.ca.gov** and search for **2011**.

**Conformity –** For updates regarding the following federal acts, go to **ftb.ca.gov** and search for **conformity**.

- The Health Care and Education Reconciliation Act of 2010
- The Patient Protection and Affordable Care Act
- The Small Business Jobs Act of 2010.

## Important Information

- The FTB offers e-filing for corporations filing combined reports and Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, and certain accompanying forms and schedules. Check with the software providers to see if they support business e-filing.
- Corporations with total assets of $10 million or more must complete the California Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, **and** attach a copy of the federal Schedule M-3 (Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More, **and/or** federal Schedule M-3 (Form 1120-F), Net Income (Loss) Reconciliation for Foreign Corporations with Reportable Assets of $10 Million or More. For more information, see Schedule M-1 instructions included in this booklet.
- If the corporation was involved in a reportable transaction, including a listed transaction, the corporation may have a disclosure requirement. Attach federal Form 8886, Reportable Transaction Disclosure Statement, to the back of the California return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, send a duplicate copy of federal Form 8886 to the address on next page.

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The FTB may impose penalties if the corporation fails to file federal Form 8886, Form 8918, Material Advisor Disclosure Statement, or any other required information. A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

For more information, go to **ftb.ca.gov** and search for **tax shelter**.

- California law conforms to the federal law which allows a 2009 charitable contribution deduction for cash contributions made after January 11, 2010, and before March 1, 2010, for the relief of victims in areas affected by the earthquake in Haiti on January 12, 2010. Corporations may claim the deduction on the 2009 **or** 2010 California tax return. Corporations may choose to claim the deduction in different taxable years for federal and California purposes.
- For taxable years beginning on or after January 1, 2009, a new jobs credit in the amount of $3,000 is allowed for a qualified employer for each increase in qualified full-time employee hired in the current taxable year. For more information, go to **ftb.ca.gov** and search for **new jobs** or get form FTB 3527, New Jobs Credit.
- For taxable years beginning on or after July 1, 2008, credit earned by members of a combined reporting group may be assigned to an affiliated corporation that is a member of the same combined reporting group. A credit assigned may only be claimed by the affiliated corporation against its tax in taxable years beginning on or after January 1, 2010. Get form FTB 3544, Election to Assign Credit Within Combined Reporting Group, or form FTB 3544A, for more information.
- For taxable years beginning on or after January 1, 2009:
  - Group nonresident returns may include less than two nonresident individuals.
  - Nonresident individuals with more than $1 million of California taxable income are eligible to be included in group nonresident returns.
  - An additional one percent tax will be assessed on nonresident individuals who would have California taxable income over $1 million.

  Get FTB Pub.1067, Guidelines for Filing a Group Form 540NR, for more information.
- For taxable years beginning on or after January 1, 2008, the corporation can designate a third party to discuss the tax return with the FTB. For more information, see General Information X, Signatures.
- A C corporation is a separate legal entity and generally offers liability protection to its owners (shareholders). C corporations are taxed on their earnings and the shareholders are taxed on these earnings when distributed as dividends. For more information, get the Form 100, Corporation Tax Booklet.
- An S corporation is a hybrid business entity. It is a separate legal entity and generally offers liability protection to its owners (shareholders). An S corporation must elect to be treated as an S corporation. The S corporation pays a reduced tax rate of 1.5% on its net income. The profits and losses from the S corporation pass-through to each shareholder through the Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc., and each shareholder is responsible for paying taxes on the distributive share. California taxpayers wishing to elect to be treated as an S corporation should get the Form 100S, S Corporation Tax Booklet, for more information.
- A controlled foreign corporation (CFC) must include in a water's edge combined report a portion of its income based on the ratio of its Subpart F income bears to the current year earnings and profits, and its U.S. source income, regardless of whether the CFC is a California taxpayer. See form FTB 2416, Schedule of Included Controlled Foreign Corporation (CFC), included in this booklet, for more information.
- Use form FTB 3725, Assets Transferred from Parent Corporation to Insurance Company Subsidiary, to report assets transferred from a parent corporation to an insurance company subsidiary. Get form FTB 3725 for more information.
- Use form FTB 3726, Deferred Intercompany Stock Account (DISA) and Capital Gains Information, to meet the annual disclosure requirements of the combined reporting group of each DISA balance. Make sure to answer Question R on Form 100W, Side 2. Get form FTB 3726 for more information.
- For taxable years beginning on or after January 1, 2003, corporate shareholders of a Regulated Investment Company (RIC) are explicitly denied a dividend deduction for earnings from the RIC that are not from stock dividends.
- R&TC Sections 17024.5 and 23051.5 have been amended to clarify that, unless otherwise expressly allowed, federal elections made before a taxpayer becomes a California taxpayer are binding for California tax purposes.
- For installment sales occurring on or after January 1, 2009, buyers will be required to withhold on each installment sale payment if the sale of California real property is structured as an installment sale.
- For transactions occurring on or after January 1, 2007, that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3 % of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the FTB. Get FTB Pub. 1016, Real Estate Withholding Guidelines, for more information.
- R&TC Section 18662 requires buyers to withhold income taxes when purchasing California real property from corporate sellers with no permanent place of business in California immediately after the transfer. For more information, get FTB Pub. 1016.

  Sellers of California real estate must attach a copy of Form 593, Real Estate Withholding Tax Statement, to their tax return as proof of withholding.

  If the corporation needs to verify withholding payments, the corporation may call Withholding Services and Compliance at 916.845.4900 or **888**.792.4900.
- For the purposes of determining the correct amount of tax for water's-edge electors, a presumption of correctness attaches to all federal determinations, including determinations made at the audit, appeals, and/or competent authority levels.

**California law conforms to federal law for the following:**

- The IRC Section 1245(b)(8) relating to amortizable Section 197 intangibles property disposed **on or after January 1, 2010**.
- The federal grant tax treatment for specified energy property.
- The useful life of motor sports entertainment complex.
- For taxable years beginning on or after January 1, 2005, corporations may **elect** to expense under IRC Section 179 part or all of the cost of certain properties placed in service during the taxable year and used in the trade or business. For more information, see form FTB 3885, Corporation Depreciation and Amortization, included in this booklet.
- Large banks' bad-debt losses deduction, which is limited to the actual losses rather than contributions to a reserve for bad debts.
- AMT treatment of contributions of appreciated property.
- Disallowing the deduction for club membership fees and lobbying expenses.
- Disallowing the deduction for employee remuneration in excess of $1 million.
- For purposes of inventory accounting, an adjustment for shrinkage, based on an estimate, may be made. Taxpayers can voluntarily change their method of accounting if the method currently being used does not utilize estimates of inventory shrinkage and the taxpayer now wishes to use that method.
- Required recognition of gain on certain appreciated financial positions in personal property.
- Allows securities traders and commodities traders and dealers to elect to use mark-to-market accounting similar to what is currently required for securities dealers. Commodities would include only commodities of a kind that are dealt with in the organized commodities exchange. An election to use the mark-to-market method for federal purposes is considered an election for state purposes and a separate election is not allowed.
- Limitation on exception for investment companies under IRC Section 351.
- Expansion of deduction for certain interest and premiums paid for company-owned life insurance.
- Modification of holding period applicable to dividends received deduction.
- Repeal of special installment sales rule for manufacturers of tangible personal property.
- Payment of estimated tax for closely held real estate investment trusts (REIT) and income and services provided by REIT subsidiaries.

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

- The enhanced IRC Section 179 expensing election for assets placed in service in 2010 or 2011 taxable year.
- The first-year depreciation deduction allowed for new luxury autos or certain passenger automobiles acquired and placed in service in 2010.
- The domestic production activities deduction.
- The IRC Section 613A (d)(4) relating to the exclusion of certain refiners.
- The federal election to defer the income from discharge of indebtedness in connection with the reacquisition after December 31, 2008, and before January 1, 2011.
- The IRS Notice 2008-83 relating to the treatment of deductions under IRC Section 382(h) following an ownership change.
- The 50% bonus depreciation deduction [IRC Section 168(k)] for assets acquired and placed in service during 2008 through 2010, and during 2011 for certain qualifying property.
- The decreased estimated tax payments for certain small businesses.
- The treatment of the loss from the sale or exchange of certain preferred stock (of Fannie Mae or Freddie Mac).

- 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 energy efficient commercial buildings deduction.
- Reduce the compensation deduction for certain employers from $1 million to $500,000; and makes certain parachute payments nondeductible.
- The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil or gas well property.
- Certain environmental remediation expenditures that would otherwise be chargeable to capital accounts may be expensed and taken as a deduction in the year the expense was paid or incurred.
- Deduction for corporate donation of scientific property and computer technology.
- Decreased capital gains tax rate.
- Exemption from AMT for small corporations.
- The treatment of Subpart F and IRC Section 936 income.

The above lists are not intended to be all-inclusive of the federal and state conformities and differences. For additional information, refer to the R&TC.

**California Taxpayers that are 25% Foreign-Owned U.S. Corporations and Foreign Corporations**
Corporations that are required to file federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, with the federal return must attach a copy(ies) to the California return. The penalty for failing to include a copy of federal Form(s) 5472 as required is $10,000 per form. See General Information M, Penalties, for more information.

**Information Return for U.S. Taxpayers Who Have Ownership (Directly or Indirectly) in a Foreign Corporation**
For taxable years beginning on or after January 1, 1997, U.S. taxpayers who have an ownership interest (directly or indirectly) in a foreign corporation and are required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failing to include a copy of federal Form(s) 5471 as required is $1,000 per form. See General Information M, Penalties, for more information.

**Records Maintenance Requirements**
Any taxpayer filing on a worldwide or a water's-edge basis is required to keep and maintain records and make the following available upon request:

- Any records needed to determine the correct treatment of items reported on the water's-edge combined report for purposes of determining the income attributable to California.
- Any records needed to determine the treatment of items as nonbusiness or business income.
- Any records needed to determine the apportionment factors.
- Documents and information needed to determine the proper attribution of income to the U.S. or foreign jurisdictions under Section 482, Sections under Subchapter N of Chapter 1, or other similar provisions of the IRC.

See R&TC Section 19141.6 and the related regulations for more information. A corporation may be required to authorize an agent, through a Power of Attorney (POA), to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504. For more information, go to **ftb.ca.gov** and search for **poa**.

The penalty for not maintaining the above required records is $10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the corporation of the failure, a penalty of $10,000 may be assessed for each additional 30-day period of continued failure. See General Information M, Penalties, for more information.

**Classification of Certain Business Trusts and Certain Foreign Single Member Limited Liability Companies (SMLLCs)**
In general, the classification of a business entity should be the same for California purposes as it is for federal purposes. However, an exception may apply for certain eligible business entities (business trusts and SMLLCs) existing prior to January 1, 1997, that were taxed as corporations for California purposes under former R&TC Section 23038. For taxable years beginning on or after January 1, 1997, a business trust or a previously existing foreign SMLLC may make an irrevocable election to be classified the same as federal for California purposes. To make the election the business trust or the SMLLC must have been classified as a corporation under California law, but classified as a partnership (for a business trust) or elected to be treated as a disregarded entity (for SMLLC) for federal tax purposes for taxable years beginning before January 1, 1997. If this election is not made, the existing eligible business entity will continue to be classified and taxed as a corporation for California purposes. Get form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, for more information.

# General Information

C corporations filing on a water's-edge basis are required to use Form 100W to file their California tax returns. In general, water's-edge rules provide for an election out of worldwide combined reporting. Under water's-edge, the scope of combined reporting is limited to certain corporations, whose income is subject to tax (directly or indirectly) by the United States government. S corporations filing on water's-edge basis should use Form 100S to file their California tax returns.

**When Completing the Form 100W:**
- Use black or blue ink on the tax return sent to the FTB.
- Print name and address (in CAPITAL LETTERS).
- When a domestic corporation files the **first** California tax return, the fiscal year beginning date **must** be the date the corporation is incorporated.
- Round cents to the nearest whole dollar. For example, round $50.50 up to $51 or round $25.49 down to $25.
- Send a clean legible copy.
- Enter all types of payments (overpayment from prior year, estimated tax, nonresident tax, etc.) made for the 2010 taxable year on the applicable line.
- When making a payment with a check or money order, enclose, but **do not** staple, payment to the face of the tax return.
- Assemble the corporation return in the following order: Form 100W, Schedule R (if required) or Form 100-WE, supporting schedules, and a copy of federal return (if required). **Do not** use staples or other permanent bindings to assemble the tax return.

## A Franchise or Income Tax

**Corporation Franchise Tax**
Entities subject to the corporation minimum franchise tax include all corporations (e.g. LLCs electing to be taxed as corporations) that meet any of the following:

- Incorporated or organized in California.
- Qualified or registered to do business in California.
- Doing business in California, whether or not incorporated, organized, qualified, or registered under California law.

The minimum franchise tax must be paid by corporations incorporated in California or qualified or registered under California law whether the corporation is active, inactive, not doing business, or operates at a loss. See General Information C, Minimum Franchise Tax, for more information.

The measured franchise tax is imposed on corporations doing business in California and is measured by the net income of the current taxable year for the privilege of doing business in that taxable year.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit.

In the case of a corporation incorporated in California or qualified with the California Secretary of State (SOS), but not doing business in this state, careful attention should be given to the term "doing business." It is not necessary that the corporation conducts business or engages in transactions within the state on a regular basis. Even an isolated transaction during the taxable year may be enough to cause the corporation to be "doing business."

Also, when a corporation is either a general partner of a partnership or a member of an LLC that is "doing business" in California, the corporation is considered to be "doing business" in California.

**Corporation Income Tax**
The corporation income tax is imposed on all corporations that derive income from sources within California but are not doing business in California.

For purposes of the corporation income tax, the term "corporation" is not limited to incorporated entities but also includes the following:

- Associations.
- Massachusetts or business trusts.
- REITs.
- LLCs electing to be taxed as corporations other than those subject to the corporate franchise tax.
- Other business entities, including partnerships, electing to be taxed as corporations.

Get FTB Pub. 1063, California Corporation Tax Law – A Guide for Corporations, for more information.

## B Tax Rates

The following tax rates apply to corporations subject to either the corporation franchise tax or the corporation income tax.

- Corporations other than banks and financial corporations . . . . . . . . . . . . . . . . 8.84%
- Banks and financial corporations . . . . . . 10.84%

## C Minimum Franchise Tax

All corporations subject to the franchise tax, including banks, financial corporations, corporate general partners of partnerships, and corporate members of LLCs doing business in California, must file Form 100, California Corporation Franchise or Income Tax Return, or Form 100W and pay at least the minimum franchise tax as required by law. The minimum franchise tax, as indicated below, must be paid whether the corporation is active, inactive, operates at a loss, or files a return for a short period of less than 12 months.

- Domestic qualified inactive gold or quicksilver mining corporations . . . . . . . . . . .$25
- All other corporations subject to franchise tax (see General Information A, Franchise or Income Tax, for definitions) . . . . . . . . . . . . .$800

A combined group filing a single return must pay at least the minimum franchise tax for each corporation in the group that is subject to franchise tax.

For corporations incorporated or qualified through the California SOS to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California SOS is no longer required. For the first taxable year, the corporation will **not** be subject to the minimum franchise tax and will compute its tax liability by multiplying its state net income by the appropriate tax rate. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to corporations that are not qualified by the California SOS, or reorganize solely to avoid payment of their minimum franchise tax.

There is no minimum franchise tax for the following entities:

- Credit unions.
- Corporations that are not incorporated in California, not qualified under the laws of California, or are not doing business in California even though they derive income from California sources. For more information regarding “doing business,” get FTB Pub. 1050, Application and Interpretation of Public Law 86-272; FTB Pub. 1060, Guide for Corporations Starting Business in California, or FTB Pub. 1063.
- Corporations that are not incorporated under the laws of California; whose sole activities in this state are engaging in convention and trade show activities for seven or fewer days during the taxable year; and that do not derive more than $10,000 of gross income reportable to California during the taxable year. These corporations are not “doing business” in California. For more information, get FTB Pub. 1060 or FTB Pub. 1063.
- Newly formed or qualified corporations filing an initial return for taxable years beginning on or after January 1, 2000.

## D Accounting Period/Method

The taxable year of a corporation must not be different from the taxable year used for federal purposes, unless initiated or approved by the FTB (R&TC Section 24632).

A change in accounting method requires consent from the FTB. However, a corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to change its accounting method without prior approval and does so, is deemed to have the FTB’s approval if: (1) the corporation files a timely Form 100W consistent with the change for the first taxable year the change becomes effective for federal purposes, and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change must be attached to Form 100W for the first taxable year the change becomes effective. Get FTB Notice 2000-8 for more information. The FTB may modify a requested change if the change would distort income for California purposes.

California is not following the automatic consent procedure for a change of accounting method involving previously unclaimed allowable depreciation or amortization prescribed by federal Revenue Procedure 96-31. Get FTB Notice 96-3 for more information.

## E When to File

File Form 100W on or before the 15th day of the 3rd month after the close of the taxable year unless the return is for a short-period as required under R&TC Section 24634. Generally, the due date of a short-period return is the same as the due date of the federal short-period return. See R&TC Section 18601(c) for the due date of a short-period return.

When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.

Due to the federal Emancipation Day holiday on April 15, 2011, tax returns or payments due by this date, and received on April 18, 2011, will be considered timely.

See General Information O, Dissolution/Withdrawal, and P, Ceasing Business, for information on final returns.

A corporation that converts to another type of entity, such as a limited liability company or limited partnership, must file two California returns. The converted entity is required to file a short-period return for the taxable year ending on the date of cancellation. The new entity would then be subject to all of the filing requirements and tax obligations for that new entity from the date of conversion.

## F Extension of Time to File

If the corporation cannot file its California return by the 15th day of the 3rd month after the close of the taxable year, it may file on or before the 15th day of the 10th month without filing a written request for an extension unless the corporation is suspended on the original due date.

An automatic extension does not extend the time for payment of tax; the full amount of tax must be paid by the original due date of Form 100W. If there is an unpaid tax liability, complete form FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs, included in this booklet, and send it with the payment by the original due date of the Form 100W.

When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.

Due to the federal Emancipation Day holiday on April 15, 2011, tax returns or payments due by this date, and received on April 18, 2011, will be considered timely.

If the corporation must pay its tax liability electronically, **all** payments **must** be remitted by electronic fund transfer (EFT) or Web Pay to avoid the penalty. **Do not** send form FTB 3539.

## G Electronic Payments

**Electronic Funds Transfer (EFT)**
Corporations remitting an estimated tax payment or extension payment in excess of $20,000 or having a total tax liability in excess of $80,000 must remit all of their payments through EFT. Once a corporation meets the threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically to avoid the 10% non-compliance penalty. Corporations required to remit payments electronically may use Web Pay and be considered in compliance with that requirement. The FTB notifies corporations that are subject to this requirement. Those that do not meet these requirements may participate on a voluntary basis. If the corporation pays electronically, complete the form FTB 3539 worksheet for its records. **Do not mail the payment voucher**. For more information, go to **ftb.ca.gov** and search for **eft**, or call 916.845.4025.

**Web Pay**
Beginning **November 2010**, corporations can make payments electronically at the FTB’s website using Web Pay. After a one-time online registration, corporations can make an immediate payment or schedule payments up to a year in advance. For more information, go to **ftb.ca.gov** and search for **web pay**.

## H Where to File

**Payments**
If a tax is due and the corporation is not required to make the payment electronically (by EFT or Web Pay),

- Mail Form 100W with **payment** to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0501
- e-filed returns: Mail form FTB 3586, Payment Voucher for Corporation e-filed Returns, with **payment** to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0531

Using black or blue ink, make the check or money order payable to the “Franchise Tax Board.” Write the California corporation number and “2010 Form 100W” on the check or money order.

Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

**Do not** attach a copy of the return with the balance due payment if the corporation already filed/e-filed a return for the same taxable year.

**Refunds**

- Mail Form 100W requesting a **refund** to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0502

**Return Without Payment or Paid Electronically**

- Mail Form 100W **without a payment** or **paid by EFT or Web Pay** to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0500

**Private Delivery Services**
California law conforms to federal law regarding the use of certain designated private delivery services to meet the “timely mailing as timely filing/paying” rule for tax returns and payments. See federal Form 1120, U.S. Corporation Income Tax Return, for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **do not** use an FTB PO box.

**Private Mail Box (PMB)**
Include the PMB in the address field. Write “PMB” first, then the box number. Example: 111 Main Street PMB 123.

## I Net Income Computation

The computation of net income from trade or business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100W. There are two ways to complete Form 100W, the federal reconciliation method or the California computation method:

1. **Federal Reconciliation Method**
   a. Transfer the information from the federal Form 1120, Page 1, to Form 100W, Side 3, Schedule F, and attach a copy of the federal return with all supporting schedules.
   b. Enter the amount of federal ordinary income (loss) from trade or business activities before any Net Operating Loss (NOL) and special deductions on Form 100W, Side 1, line 1.

c. Enter state adjustments on line 2 through line 17 to arrive at net income (loss) after state adjustments, Side 1, line 18.

2. **Schedule F – California Computation Method**
If the corporation has no federal filing requirement or if the corporation **maintains** separate records for state purposes, complete Form 100W, Side 3, Schedule F, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 29, to Side 1, line 1. Complete Form 100W, Side 1, line 2 through line 17, only if applicable.

For more information, see the specific line instructions.

Regardless of the net income computation method used, the corporation must attach any form, schedule, or supporting document referred to on the return, schedules, or forms filed with the FTB.

## J Alternative Minimum Tax (AMT)

Corporations that claim certain types of deductions, exclusions, and credits may be subject to California AMT. Generally, corporations that complete federal Form 4626, Alternative Minimum Tax – Corporations, also must complete California Schedule P (100W), Alternative Minimum Tax and Credit Limitations – Water's-Edge Filers. See Schedule P (100W), included in this booklet, for more information.

## K Estimated Tax

Every corporation must pay estimated tax using Form 100-ES, Corporation Estimated Tax.

For taxable years beginning on or after January 1, 2010, corporations are required to pay the following percentages of the estimated tax liability during the taxable year:

- 30% for the first required installment
- 40% for the second required installment
- No estimated tax payment is required for the third installment
- 30% for the fourth required installment

For exceptions and prior year's information, get Form 100-ES.

Estimated tax is generally due and payable in four installments as follows:

- The 1st payment is due by the 15th day of the 4th month of the taxable year (this payment may not be less than the minimum franchise tax, if applicable).
- The 2nd, 3rd, and 4th installments are due and payable by the 15th day of the 6th, 9th, and 12th months respectively, of the taxable year.

If no amount is due, **do not** mail Form 100-ES.

California law has conformed to the federal expanded annualization periods for the computation of estimate payments. For taxable years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

Get the instructions for Form 100-ES for more information.

For taxable years beginning on or after January 1, 2006, California conforms to the federal tax law in excluding the annual payments of the LIFO recapture tax from the computation of estimated tax.

If the corporation must pay its tax liability electronically, **all** estimate payments due **must** be remitted by EFT or Web Pay to avoid the penalty.

## L New/Commencing Corporations

For taxable years beginning on or after January 1, 2000, no prepayment to the California SOS is required and the corporation is required to pay measured tax instead of minimum tax for its first taxable year if the corporation incorporated or registered through the California SOS. For more information, see General Information C, Minimum Franchise Tax, or get FTB Pub. 1060.

## M Penalties

**Failure to File a Timely Return**
Any corporation that fails to file Form 100W on or before the extended due date is assessed a delinquent filing penalty. The delinquent filing penalty is computed at 5% of the tax due, after allowing for timely payments, for every month that the return is late, up to a maximum of 25%. If a corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return. See R&TC Section 19131 for more information.

**Failure to Pay Total Tax by the Due Date**
Any corporation that fails to pay the total tax shown on Form 100W by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months), the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax. See R&TC Section 19132 for more information.

The late payment penalty may be waived where 90% of the tax shown on the return, but not less than minimum franchise tax if applicable, is paid by the original due date of the return.

If a corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be assessed, but the total penalty may not exceed 25% of the unpaid tax.

**Underpayment of Estimated Tax**
Any corporation that fails to pay, pays late, or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment of estimated tax for the period from the date the installment was due until the date it is paid, or until the original due date of the tax return, whichever is earlier. Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

The underpayment of estimated tax penalty shall not apply to the extent the underpayment of an installment was created or increased by any provision of law that is chaptered during and operative for the taxable year of the underpayment.

See R&TC Sections 19142, 19144,19145, 19147, 19148, 19149, 19150, 19151, and 19161 for more information.

If the corporation uses Exception B or Exception C to compute or eliminate any of the required installments, form FTB 5806 must be attached to **the front of** Form 100W and the box on Side 2, line 41b should be checked.

**Large Corporate Understatement of Tax**
Corporations are subject to a penalty in an amount equal to 20% of the understatement of tax liabilities that:

- Exceeds the greater of $1 million or 20% of the tax shown on an original or amended return filed on or before the original or extended due date of the return, for taxable years beginning on or **after** January 1, 2010.
- In excess of $1 million for taxable years beginning on or after January 1, 2003, and **before** January 1, 2010.

**EFT Penalty**
If the corporation must pay its tax liability electronically, **all** payments **must** be remitted by EFT or Web Pay to avoid the penalty. The penalty is 10% of the amount not paid electronically. See R&TC Section 19011 and General Information G, Electronic Payments, for more information.

**Information Reporting Penalties**
U.S. corporations that have an ownership interest (directly or indirectly) in a foreign corporation and were required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failure to include a copy of federal Form(s) 5471, as required, is $1,000 per required form for each year the failure occurs. The penalty applies for taxable years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(ies) of federal Form 5471 to all returns filed for subsequent years. See R&TC Section 19141.2 for more information.

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100W. The penalty for failing to include a copy of federal Form(s) 5472, as required, is $10,000 per required form for each year the failure occurs. See R&TC Section 19141.5 for more information.

If the corporation does not file its Form 100W by the due date or extended due date, whichever is later, cop(ies) of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copy(ies) indicating the taxpayer's name, California corporation number, and taxable year. Mail to the same address used for returns without payments. See General Information H, Where to File, for more information. When the corporation files Form 100W, also attach copy(ies) of the federal Form(s) 5472.

For information on filing the required federal informational returns on a CD, see General Information V, Information Returns.

**Record Maintenance Penalty**
The penalty for failure to maintain certain records is $10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the corporation of the failure, in general, a penalty of $10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed.

See "Records Maintenance Requirements" on page 5 for a discussion of the records required to be maintained. See R&TC Section 19141.6 and the regulations thereunder for more information.

**Accuracy and Fraud Related Penalties**
California conforms to IRC Sections 6662 through 6665 that authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment, and the imposition of a fraud penalty equal to 75% of the related underpayment. See R&TC Section 19164 for more information.

**California Secretary of State (SOS) Penalty**
The California Corporations Code requires the FTB to assess a penalty for failure to file an annual Statement of Information with the California SOS. For more information, see R&TC Section 19141, or contact:

STATEMENT OF INFORMATION UNIT
ATTENTION: PENALTY
CALIFORNIA SECRETARY OF STATE
PO BOX 944230
SACRAMENTO CA 94244-2300
Telephone: 916.657.3537

**Other Penalties**
Other penalties may be imposed for a payment returned for insufficient funds, non-U.S. foreign

corporations operating while forfeited or without qualifying to do business in California, and domestic corporations operating while suspended in California. See R&TC Sections 19134 and 19135 for more information.

## N Interest

Interest is due and payable on any tax due if not paid by the original due date of Form 100W. Interest is also due on some penalties. The automatic extension of time to file Form 100W does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Business Entity Refund/Billing Information, for more information.

## O Dissolution/Withdrawal

The corporation must fill in the applicable box on Form 100W, Side 1, Question A1, if dissolving, merging or withdrawing. The date should be the date the corporation filed/will file with the California SOS. For taxable years beginning on or after January 1, 2006, corporations are not required to obtain a Tax Clearance Certificate.

The franchise tax for the period in which the corporation formally dissolves or withdraws is measured by the income of the taxable year in which it ceased doing business in California, unless such income has already been taxed at the rate prescribed for the taxable year of dissolution or withdrawal.

A corporation that commenced doing business in California before January 1, 1972, is allowed a credit that may be refunded in the year of dissolution or withdrawal. The amount of the refundable credit is the difference between the minimum franchise tax for the corporation's first full 12 months of doing business and the total tax paid for the same period.

To claim this credit, add this amount to the value on Form 100W, line 35. Make a notation to the right of Side 1, line 35: "Dissolving/Withdrawing."

The return for the final taxable period is due on or before the 15th day of the 3rd full month after the month during which the corporation withdrew or stops doing business in California.

Corporations are subject to income tax or franchise tax for the final taxable period. Corporations that file a final franchise tax return must pay at least the minimum franchise tax as specified in R&TC Section 23153.

For taxable years beginning on or after January 1, 2006, the minimum franchise tax will not be assessed after the taxable year the final tax return is filed, if a corporation meets all of the following requirements:

- The corporation files a timely **final** franchise tax return for the preceding taxable year, including extension.
- The corporation did **not** do business in California after the final taxable year.
- The corporation files the appropriate documents for dissolution with the California SOS within 12 months of the timely filed **final** franchise tax return.

To get samples and forms for filing a dissolution, surrender, or merger agreement, go to **sos.ca.gov** and search for **corporation dissolution**. Or address the request to:

LEGAL REVIEW
CALIFORNIA SECRETARY OF STATE
1500 11TH ST    3RD FLOOR
SACRAMENTO  CA  95814-5701
Telephone: 916.657.5448

## P Ceasing Business

For taxable years beginning on or after January 1, 2000 (other than the first taxable year beginning on or after that date), the tax for the final year in which the corporation does business in California is determined according to or measured by its net income for the taxable year during which the corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum franchise tax.

For more information, see R&TC Section 23151.1.

The unreported income on installment obligations, the distribution of notes, and the distribution of corporate assets (i.e. land, buildings) at a gain must be included in income in the year of cessation. There is no federal law counterpart regarding this issue.

For more information, see R&TC Sections 24672 and 24451.

A domestic or qualified corporation will remain subject to the minimum franchise tax for each taxable year it is in existence until a certificate of dissolution (and certificate of winding up, if necessary), or certificate of withdrawal is filed with the California SOS. See General Information O, Dissolution/Withdrawal, and R&TC Sections 23331 through 23335 for more information.

## Q Suspension/Forfeiture

If a corporation does not file a Form 100W and/or does not pay any tax, penalty, or interest due, its powers, rights, and privileges may be suspended (in the case of a domestic corporation) or forfeited (in the case of a foreign corporation).

Corporations that operate while suspended or forfeited are subject to a $2,000 penalty per taxable year, which is in addition to any tax, penalties, and interest already accrued. Also, any contracts entered into during suspension or forfeiture are voidable at the request of any party to the contract other than the suspended or forfeited corporation.

Such contracts will remain voidable and unenforceable unless the corporation applies for relief from contract voidability and the FTB grants relief.

See R&TC Sections 19135, 19719, 23301, 23305.1, and 23305.2 for more information.

## R Apportionment of Income

Corporations with business income attributable to sources both within and outside of California are required to apportion such income. Use Schedule R to calculate the apportionment percentage. Be sure to answer Question M on Form 100W, Side 2.

For more information, see R&TC Sections 25120 through 25136.

## S Combined Report

When filing a combined report answer the applicable questions on Form 100W, Schedule Q, Question B.

If two or more corporations are engaged in a unitary business and derive income from sources within and outside of California, the members of the unitary group that are subject to California's franchise or income tax are required to apportion the combined income of the entire unitary group in order to compute the measure of the tax.

If the income of a unitary group is derived wholly from California sources, its members may either file returns on a separate accounting basis or file on a combined report basis. See R&TC Section 25101.15 for more information.

Members of a unitary group may elect to file a single group return by filing Schedule R-7, Election to File a Unitary Taxpayers' Group Return. For more information, get Schedule R and go to Side 5 for Schedule R-7.

Attach the Schedule R behind the Form 100W and prior to the supporting schedules.

A combined unitary group's single return must present the group's data stated separately for each corporation, as well as totals for the combined group. The total combined tax, which must include at least the applicable minimum franchise tax for each corporation subject to the franchise tax, must be shown on Form 100W, Side 1, line 24.

For more information, get FTB Pub. 1061.

## T Water's-Edge Reporting

### Water's-Edge Combined Report

**Entities Included**

The water's-edge combined report includes only the income and apportionment factors of the members of the unitary group that meet the criteria set forth in R&TC Section 25110, as summarized below. If an entity meets any one of these criteria **and** is unitary, it must be included in the combined report. If an entity does not meet any of these criteria, it must be excluded from the combined report.

1. Any domestic international sales corporation, as defined in IRC Section 992, and any foreign sales corporation, as defined in IRC Section 922.
2. Any corporation (other than a bank), regardless of where it is incorporated, if the average of its property, payroll, and sales factors within the U.S. is 20% or more. R&TC Section 25128, requiring the double weighting of the sales factor, does not apply for purposes of this inclusion test. For more information, get FTB Legal Ruling 95-5.
3. Any corporation incorporated in the U.S., except for corporations making an election under IRC Sections 931 to 936.
4. Any export trade corporation as defined in IRC Section 971.
5. Any controlled foreign corporation (CFC), as defined in IRC Section 957, that has Subpart F income as defined in IRC Section 952. The income and apportionment factors of such corporation are included in the combined report based on the ratio of the total Subpart F income of such entity for the year to its current year earnings and profits (E&P). The ratio cannot exceed 100% or be less than 0%. If the current year E&P is zero or less, none of the income and factors of the entity are included in the combined report. Subpart F income defined in IRC Sections 955 and 956, is not considered in the computation.
6. Any corporation not described in items 1 through 5 with less than 20% of its average property, payroll, and sales in the U.S., or any foreign organized bank that has income attributable to sources within the U.S. Such entities are included in the combined report only to the extent of their U.S. located income and factors. In general, U.S. located income includes effectively connected income (ECI), or is treated as effectively connected, with the conduct of a trade or business in the United States, under the provisions of the IRC. Because California is not a party to the federal tax treaties, the ECI immunity provisions of the federal tax treaties do not apply for California purposes. Any income satisfying the IRC definition of ECI, that is excluded from federal taxable income due to a tax treaty, is included for California purposes.

If a corporation meets the inclusion criteria under both items 5 and 6 above, it must include both sources of income in the water's-edge combined report. A CFC cannot exclude its "Subpart F" income from the water's-edge combined report, even if it is a California taxpayer or has income from a U.S. source.

For more information, see R&TC Section 25110(a) and the regulations thereunder.

A taxpayer that is filing on a water's-edge basis for one or more lines of business should use Form 100W even though that taxpayer may also have one or more lines of business that are not on a water's-edge basis.

**Intercompany Transactions Occurring On or After January 1, 2001**
Cal. Code Regs., tit. 18 section 25106.5-1 provides detailed rules relating to the treatment of intercompany transactions between members of a combined reporting group. These regulations apply to all intercompany transactions that occur on or after January 1, 2001. In general, the regulations adopt the treatment of intercompany transactions applicable for federal consolidated return purposes.

For more information, see Cal. Code Regs., tit. 18 section 25106.5-1, and FTB Pub. 1061. In addition, taxpayers may wish to review the federal consolidated return treatment of intercompany transactions as prescribed by Treas. Reg. Section 1.1502-13.

**Intercompany Transactions Occurring Before January 1, 2001**
Intercompany transactions that occurred prior to January 1, 2001, are treated as follows:

1. If a combined group has deferred gain or loss from intercompany transactions, a water's-edge election under R&TC Section 25111 will cause certain previously deferred gains or losses to be taxed over a 60-month period beginning with the first day of the election period. This applies only to transactions where either the transferee, the transferor, or both, are to be excluded from a combined report by reason of the water's-edge election. It does not apply if both the transferor and the transferee are included in the water's-edge combination.
2. Generally, such gains or losses will be apportioned using the percentage used in the last worldwide combined report that preceded the first water's-edge year. FTB Notice 89-601 provides that the percentage in the year of the original transaction can be used in certain circumstances.

The deferral method referred to in FTB Notice 89-601 applies to intercompany transactions involving fixed assets and capitalized items only. Certain other types of intercompany transactions, including intercompany sales of inventory and intangible assets, must be reported under the elimination/carryover basis method. When members of a combined group use the elimination/carryover basis method, the transferor's basis will carry over to the transferee.

A subsequent water's-edge election will have no effect on the recognition of profit under this method. Any profit eliminated as a result of using this method would be recognized by the transferee when the asset is sold outside the combined reporting group.

## Water's-Edge Election

For taxable years beginning on or after January 1, 2003, R&TC Section 25113 governs the manner of making a water's-edge election. R&TC Section 25113:

- Provides that the FTB may accept other objective evidence that a water's-edge election is intended.
- Reforms the acquisition rules so that a taxpayer's water's-edge election would no longer automatically apply to other non-electing affiliates with which it becomes unitary. Instead, when two or more taxpayers become unitary, the status of the larger taxpayer would prevail.
- Eliminates the automatic renewal provisions. The taxpayer elects for an initial 84 month period and the election remains in place thereafter until terminated.

To make a water's-edge election under R&TC Section 25113, a corporation must:

- Compute the corporation's income on a water's-edge basis.
- Use Form 100W.
- Attach Form 100-WE, Water's-Edge Election, to the timely filed original return for the year of the election.

To file on a water's-edge basis, the corporation must do all of the following:

- File on a water's-edge basis for a period of 84 months.
- Agree to business income treatment of dividends received from any of the following:
  1. Over 50% owned entities engaged in the same general line of business as the members of the water's-edge group.
  2. Entities that are a significant source of supply to, or a significant purchaser of, the output of the members of the water's-edge group. Significant means an amount equal to 15% or more.
- Consent to the taking of depositions from key employees or officers of the members of the water's-edge group and to the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

For more information, see R&TC Sections 25110(b), 25113, and the regulations thereunder.

**Taxpayers Covered by an Election**
For an election to be effective, all affiliated taxpayers engaged in a single unitary business must file on a water's-edge basis. A taxpayer or an affiliated group of taxpayers that is engaged in more than one unitary business may make a water's-edge election with respect to any one or more of its businesses, but need not elect for all of its businesses. For example, a taxpayer engaged in two unitary businesses may elect water's-edge for one of the businesses and may remain subject to worldwide combined reporting treatment for the other business.

The common parent of a controlled group that files a consolidated federal return, or the common parent wherever domiciled or organized, may file an election on behalf of all members of the controlled group that are part of the water's-edge combined report group. The common parent need not be a California taxpayer. An election made on a group return of a self-assessed combined reporting group shall constitute an election by each taxpayer member included in that group return.

In cases where the water's-edge election is not entered into by a common parent, each taxpayer included in the combined report must enter into a separate election.

**Time of Making the Election**
The election must be made by all unitary taxpayers, included in the combined report, on a timely filed original return for the year of the election. Use Form 100-WE to make the election. Attach the completed Form 100-WE to the timely filed original return Form 100W. A copy of the original election must be attached to all subsequent returns filed during the election period.

Taxpayers with valid elections made prior to January 1, 2003, continue to file on a water's-edge basis and are subject to the provisions of R&TC Section 25113. The start date, as elected under R&TC Section 25111, remains in effect.

**The election must be made on a timely filed original return. See R&TC Section 25113 and Cal. Code Regs., tit. 18 section 25113.**

**Taxpayers with Different Fiscal Year Ends**
Taxpayers engaged in a unitary business with different fiscal year ends will make the election on each individual return. For each member of the group, the election period will begin on the first day of the taxable year of the last member of the water's-edge group to file its return and make the election. Each taxpayer that has a taxable year beginning earlier than the last member of the group will compute its tax liability on its initial return using a hybrid worldwide/water's-edge combination method.

**Effect of Changes in Affiliation**
If a corporation that is subject to California tax becomes a member of a water's-edge group, or if a unitary affiliate of an electing water's-edge group becomes subject to California tax after the election, it is deemed to have elected and is bound by the original election. When a taxpayer ceases to be a member of the water's-edge group, the taxpayer must continue to file on a water's-edge basis.

If an electing taxpayer is acquired by a nonelecting taxpayer and becomes a member of a new affiliated group, then the filing method, worldwide or water's-edge, would be determined by reference to the larger taxpayer group. The larger taxpayer group is determined by comparing the value of the total business assets of the electing taxpayer and its component unitary group to the value of the total business assets of the nonelecting taxpayer and its component unitary group.

If a water's-edge taxpayer meets certain criteria, it may automatically terminate the water's-edge election or it may request the FTB's consent to terminate of its water's-edge election. See "Termination of Election" below.

A non-electing corporation that is subsequently proven to be unitary with a water's-edge group pursuant to an audit determination of the FTB is deemed to have made a water's-edge election.

When an affiliation change occurs, a statement should be attached to the return identifying which affiliates were included in the original group, the appropriate California corporation numbers, and what changes have occurred.

For more information, see R&TC Section 25113 and Cal. Code Regs., tit. 18 section 25113.

**Termination of Election**
Once a valid water's-edge election is made, the election remains in place until it is terminated.

**Termination After Expiration of the Initial 84 Month Period**
The taxpayer has the option to terminate its water's-edge election after the initial 84 month period. This termination does not require the FTB's consent. The termination must be made on an original, timely filed return for the first year in which the water's-edge election is to be terminated.

To terminate the corporation's water's-edge election after the 84 month period do all of the following:

- Compute the corporation's income on a worldwide basis.
- Use Form 100.
- Attach a statement to the Form 100, explaining that the corporation is terminating its water's-edge election. Provide the name of any taxpayer that was bound by the water's-edge election.

If a taxpayer terminates its election, it must file on a worldwide basis for at least 84 months before making another water's-edge election. The FTB may waive application of this rule for good cause. Good cause for these purposes has the same meaning as described in Treas. Reg. Section 1.1502-75(c).

**Termination Before Expiration of the Initial 84 Month Period**

Termination Caused by Affiliation Change – In the case of an affiliation change, as discussed above in "Effect of Changes in Affiliation," if an electing water's-edge taxpayer becomes a member of a larger, nonelecting taxpayer group, then the taxpayer's water's-edge election is automatically terminated. The termination is effective at the time the electing taxpayer becomes part of the combined report of the larger, nonelecting taxpayer group. It is not necessary to file a form FTB 1117, Request to Terminate Water's-Edge Election.

Termination by the FTB's Consent – An electing taxpayer may request the FTB's consent to terminate the water's-edge election for good cause or to permit the state to contract with an expatriate corporation, or its subsidiary pursuant to Public Contract Code Section 10286.1(b)(2) prior to the expiration of the

84 month period. Good cause for these purposes has the same meaning as described in Treas. Reg. Section 1.1502-75(c).

If the FTB grants the taxpayer's request to terminate its water's-edge election, the taxpayer must file on a worldwide basis for at least 84 months before making another water's-edge election. The FTB may waive the application of this rule for good cause.

To request termination of a water's-edge election, the corporation must timely file form FTB 1117 **separately from any other form**. Mail form FTB 1117 to:

FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

For more information, see R&TC Section 25113 and Cal. Code Regs., tit. 18 section 25113.

**Request for Consent for a Water's-Edge Re-Election**
Use form FTB 1115, Request for Consent for a Water's-Edge Re-Election, to request the FTB's consent to re-elect water's-edge prior to the expiration of the 84 month period following the last day of the terminated election, for good cause as provided in R&TC Section 25113 (c) (11). See form FTB 1115 instructions for more information.

## U Amended Return

To correct or change a previously filed Form 100W, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. File Form 100X within six months after the corporation filed an amended federal return or after a final federal determination, if the Internal Revenue Service (IRS) examined and changed the corporation's federal return.

## V Information Returns

Every corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns to report the amount of such payments.

Payments that must be reported include, but are not limited to the following:

- Payments exceeding $600 annually for compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties, legal services whether or not the payee is incorporated, interest (such as interest charged for late payment), and pensions.
- Payments exceeding $10 annually for interest earned and dividends.
- All payment amounts made by a broker or barter exchange.
- All payment amounts for gross proceeds paid to an attorney whether or not the services are performed for the payer.
- Cash payments over $10,000 received in a trade or business.

See instructions for federal Forms 1099 (series), 1098, 5498, and W2-G; federal Publication 1220, Specifications for Filing Forms 1098, 1099, 3921, 3922, 5498, 8935 and W-2G Electronically; and form FTB 4227A, Guide to Information Returns Filed With California.

Report payments to the FTB and the IRS using the appropriate federal form. Reports must be made for the calendar year. Federal Forms 1099 (series), 1098, and W-2G's are due no later than February 28th and federal Form 5498 is due by May 30th of the year following payment. When the due date falls on a weekend or holiday, the deadline to file without penalty is extended to the next business day. Due to the federal Emancipation Day holiday on April 15, 2011, information returns due by this date, and received on April 18, 2011, will be considered timely.

Federal Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business, is due within 15 days after the date of the transaction.

California requires corporations to report to the FTB, interest paid on municipal bonds held by California taxpayers and issued by a state other than California, or a municipality other than a California municipality. Entities paying interest to California residents on these types of bonds are required to report interest payments aggregating $10 or more and paid after January 1, 2010. These information returns will be due June 1, 2011. For more information, get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information.

California conforms to the information reporting requirements imposed under IRC Sections 6038 through 6038C. Any federal Forms 5471, 5472, or 926 required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. These federal information returns should be attached to the Form 100W when filed or provided separately on CD as follow:

**Corporations That e-file Their Returns.** The federal information returns can be included electronically as part of the e-filed return, or can be provided separately on a CD, per the instructions below.

**Corporations That File Paper Returns.** The options are different depending on the number of federal information returns filed:

- If less than 100, attach a copy of each federal information return to the California tax return.
- If 100 or more, attach a copy of each federal information return to the California tax return **or** submit the federal information returns via CD, separate from the California return, as follow:
  - Save the federal information returns on a CD in Adobe PDF format (not a stream of the federal data).
  - Write on the CD the corporation's name, the **California corporation number**, and the taxable year.
  - Mail the CD **only** to PO Box 1779, Rancho Cordova, CA 95741-1779.
  - Mail the California tax return to the regular filing address. Attach a statement to the return stating that the federal information returns (e.g., Forms 5471, 5472) were submitted on a CD.

If these federal information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

## W Net Operating Loss (NOL)

For taxable years beginning in 2010 and 2011, California suspended the NOL carryovers deduction. Corporations may continue to compute and carryover an NOL during the suspension period. **However**, corporations with net income after state adjustments (pre-apportioned income) of less than $300,000 or with disaster loss carryovers are not affected by the NOL suspension rules.

Also, California modified the NOL carryback provision. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations, inside this booklet.

NOL carryovers incurred prior to the water's-edge election are limited to the amount of NOL carryover that the taxpayer would have incurred if a water's-edge election had been in effect in the loss year.

R&TC Sections 24416.1 through 24416.7, 24416.20 and R&TC Section 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area declared by the President of the United States or the Governor of California as a disaster area. If the disaster is declared by the Governor of California only, subsequent state legislation is required for the disaster provision to be activated. Losses taken into account under the disaster provisions may not be included in computing regular NOL deductions.

For more information, see form FTB 3805Q included in this booklet, or get form FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation – Pierce's Disease; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary; form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; or form FTB 3809, Targeted Tax Area Deduction and Credit Summary.

## X Signatures

**Phone Number and Email Address**
Include the officer's phone number and email address in case the FTB needs to contact the corporation for information needed to process this return. By providing this information the FTB will be able to process the return or issue the refund faster.

**Preparer Tax Identification Number**
Tax preparers have the option of providing their individual Social Security Number (SSN) or Preparer Tax Identification Number (PTIN) on the tax returns they prepare. Preparers who want a PTIN should go to the IRS website at **irs.gov** for more information.

**Third Party Designee**
If the corporation wants to allow the FTB to discuss its 2010 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the corporation is authorizing the FTB to call the paid preparer to answer any questions that may arise during the processing of the tax return. The corporation is also authorizing the paid preparer to:

- Give the FTB any information that is missing from the return.
- Call the FTB for information about the processing of the return or the status of any related refund or payments.
- Respond to certain FTB notices about math errors, offsets, and return preparation.

The corporation is not authorizing the paid preparer to receive any refund check, bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before the FTB.

The authorization will automatically end no later than the due date (without regard to extensions) for filing the corporation's 2011 tax return. If the corporation wants to expand the paid preparer's authorization, get form FTB 3520, Power of Attorney, Declaration for the Franchise Tax Board. If the corporation wants to revoke the authorization before it ends, notify the FTB in writing or call 800.852.5711.

# Specific Line Instructions

Taxpayers that are **not** filing on water's-edge basis should **use** Form 100.

Filing Form 100W without errors will expedite processing. Before mailing Form 100W, make sure entries have been made for the following:

- California corporation number (a valid seven digit number assigned by the California SOS).
- Federal employer identification number (FEIN) (nine digits).
- Corporation name (use the true legal name filed with the California SOS) and address (include PMB no., if applicable).

File the 2010 Form 100W for calendar year 2010 and fiscal years that begin in 2010. Enter taxable year beginning and ending dates **only** if the return is for a short year or a fiscal year. If a domestic corporation files the **first** California tax return, the fiscal year beginning date **must** be the date the corporation is incorporated. If the corporation reports its income using a calendar year, leave the date area blank. If the return is being filed for a short period (less than 12 months), write "short year" in red in the top margin. Convert all foreign monetary amounts to U.S. dollars.

The 2010 Form 100W may also be used if:

- The corporation has a taxable year of less than 12 months that begins and ends in 2011.
- The 2011 Form 100W is not available at the time the corporation is required to file its return. The corporation must show its 2011 taxable year on the 2010 Form 100W and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2010.

# Questions A through BB

Answer all applicable questions and attach additional sheets, if necessary. Be sure to answer Questions C through BB on Form 100W, Side 2. Use the following instructions when answering:

**Question A2 – Deferred income**
California has not conformed to the federal election to defer the discharge of indebtedness income as described in IRC Section 108(i). If the corporation elected to defer the discharge of indebtedness income for federal purposes, check the "Yes" box and enter the entire amount of the **federal** deferred income. Include this amount on Form 100W, line 8.

**Question B – Combined report information**
If the answer to Question B1 is:

- "Yes," make sure to complete all the questions listed
- "No," skip Questions B2 - B4 and go to Question B5

**Question B5 – FTB 3544 and/or 3544A**
Check the "Yes" box if form FTB 3544 and/or 3544A is attached to Form 100W.

**Question E – Principal business activity (PBA) code**
All corporations **must** answer Question E.

Include the six digit PBA code from the Principal Business Activity Codes chart included in this booklet. The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California PBA code number may be different from the federal PBA code number.

If, as its principal business activity, the corporation: (1) Purchases raw material. (2) Subcontracts out for labor to make a finished product from the raw materials. (3) Retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes under "Manufacturing." Also, write in the business activity and the principal product or service on the lines provided.

**Question I – Doing business as (DBA)**
Corporations doing business under a name other than that entered on Side 1 of Form 100W must enter the DBA name in Question I. If the corporation is doing business under multiple DBA's attach a schedule listing all DBA's.

Leave Question I blank if the corporation is not using a DBA to conduct business.

**Question J – Transfer or acquisition of voting stock**
All corporations **must** answer all three questions. If the corporation does not own or lease (as specified below) real property in California, answer "No" to the questions. Real property includes land, buildings, structures, fixtures. See R&TC Section 104 for more information.

The questions provide information regarding changes in ownership with regard to real property held by legal entities (R&TC Section 64). If any of the answers are "Yes," a Statement of Change in Control and Ownership of Legal Entities (BOE-100-B), must be filed with the California State Board of Equalization (BOE). Failure to do so within 45 days of the event date for transactions occurring on or after January 1, 2011 will result in substantial penalties. Get forms and information from the BOE website at **boe.ca.gov** and search for **leop**.

There may be a change in ownership or control if, during this year, one of the following occurred with respect to this corporation or any of its subsidiaries:

- The percentage of outstanding voting shares transferred to, or owned or controlled by, **one** person or **one** legal entity cumulatively exceeded 50%.
- The total outstanding voting shares transferred to or held by **one** irrevocable trust or trust beneficiary cumulatively exceeded 50%.
- One or more irrevocable proxies cumulatively transferred voting rights to more than 50% of the outstanding voting shares to **one** person or **one** entity.
- This corporation, or any of its subsidiaries, cumulatively acquired ownership or control of more than 50% of the outstanding voting shares or other ownership interests in any legal entity.
- As of the end of this year, cumulatively more than 50% of the total outstanding voting shares have been transferred, or the corporation experienced a change in ownership or control in one or more transactions since March 1, 1975.

For purposes of these questions, leased real property is a leasehold interest in taxable real property: (1) leased for a term of 35 years or more (including renewal options), if not leased from a government agency; or (2) leased for any term, if leased from a government agency.

R&TC Section 64(e) requires this information for use by the California State BOE.

**Question L – Reportable transaction or listed transaction**
Federal Form 8886, Reportable Transaction Disclosure Statement, is required to be attached to any return on which a deduction, loss, credit, or any other tax benefit is claimed or is reported, or any income the corporation's reported from an interest in a reportable transaction. If the corporation is required to file this form with the federal return, attach a copy to the corporation's Form 100W.

A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

A Reportable Transaction is any transaction as defined in R&TC Section 18407 and Treas. Reg. Section 1.6011-4 and includes, but is not limited to the following:

- A transaction with a significant book-tax difference (entered into prior to August 3, 2007). Beginning January 6, 2006, this transaction was no longer required to be disclosed on Form 8886. See IRS Notice 2006-06.
- A Listed Transaction, or a transaction that is substantially similar to a Listed Transaction, which has been identified by the IRS or the FTB to be a tax avoidance transaction.
- A Confidential Transaction which is offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which provides the taxpayer with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained.
- A loss transaction under IRC Section 165 which is at least $10 million in any one year or $20 million in any combination of taxable years. (Those numbers would be reduced to $2 million and $4 million on the Form 100S.)
- A transaction where the taxpayer is claiming a tax credit of greater than $250,000 and held the asset for less than 45 days (entered into prior to August 3, 2007).
- A transaction of interest is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has identified by notice, regulation, or other form of published guidance as a transaction of interest (entered into beginning November 1, 2006).

A Listed Transaction is a specific transaction, or one that is substantially similar, which has been identified by the IRS or the FTB to be a tax avoidance transaction.

**Question S – Regulated investment company (RIC)**
California conforms to federal law for taxable years beginning on or after January 1, 1998, for the provisions related to the repeal of the 30% gross income test for RICs.

**Question T – Real estate mortgage investment conduit (REMIC)**
If a corporation is a REMIC for federal purposes, it is deemed to be a REMIC for California purposes. A REMIC is subject to the minimum franchise tax but is not subject to the income or franchise tax. The income of a REMIC is taxable to the holders of the REMIC interests. In order to qualify, substantially all of the assets of the entity must consist of "qualified mortgages" and "permitted investments." See the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, to determine if the corporation qualifies. California law is the same as federal law, except California does not impose a tax on prohibited transactions, as defined in IRC Section 860F. The income or gain from such prohibited transactions remains includible in the California tax base. If the corporation is a REMIC for federal purposes, answer "Yes" to Question T, complete Form 100W and attach a copy of federal Form 1066.

**Question U – Real estate investment trust (REIT)**
California tax law has partially conformed to the REIT provisions of the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170) for taxable years beginning on or after January 1, 2001, except for the provisions relating to income from redetermined rents, redetermined deductions, and excess interest. Additionally, a federal election to treat property as foreclosure property under IRC Section 856(e)(5) is considered to be an election for California as well. No separate elections are allowed.

**Question V – Limited liability company (LLC) or limited partnership (LP)**
Answer "Yes" only if the business entity for which the Form 100W is being filed is organized as an LLC or LP but is classified as a corporation for federal tax purposes. An LLC classified as a partnership for federal purposes should generally file Form 568. A LP should file Form 565.

**Question Z – Corporations that own 80% of an insurance company**
One of the provisions of R&TC Section 24410 includes a reporting requirement to the Legislature. To meet this requirement, the FTB may contact any corporation who answers "Yes" for additional information.

# Line 1 through Line 42

**Line 1 – Net income (loss) before state adjustments**
Corporations using the federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120, line 28, to Form 100W, Side 1, line 1; and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120, Page 1, onto

Form 100W, Side 3, Schedule F and transfer the amount from Schedule F, line 29, to Form 100W, Side 1, line 1.

- Then, complete Form 100W, Side 1, line 2 through line 17, State Adjustments.

Corporations using the California computation method to figure net income (see General Information I) must transfer the amount from Form 100W, Side 3, Schedule F, line 29; to Side 1, line 1. Complete Form 100W, Side 1, line 2 through line 17, only if applicable.

**Line 2 through Line 17 – State adjustments**
To figure net income for California purposes, corporations using the federal reconciliation method must enter California adjustments to the federal net income on line 2 through line 17. If a specific line for the adjustment is not on Form 100W, corporations must enter the adjustment on line 8, Other additions, or line 16, Other deductions, and attach a schedule that explains the adjustment.

**Line 2 and Line 3 – Taxes not deductible**
California does not permit a deduction of California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Such taxes that are shown on Form 100W, Schedule A, must be added to income by entering the amount on Side 1, line 2 or line 3 (see Schedule A, column (d) for the amount to be added to income). California does not permit a deduction for environmental taxes imposed by IRC Section 59A.

R&TC Section 17942 provides that LLC fee is not a tax. Therefore, it is deductible. **Do not** include any part of an LLC fee on line 2 or line 3.

**Line 4 – Interest on government obligations**
Corporations subject to California franchise tax must report all interest received on government obligations (such as federal, state, or municipal bonds). On line 4, enter all interest on government obligations that is not included in the federal ordinary income (loss).

Corporations subject to California corporation income tax, see instructions for line 16.

**Line 5 – Net California capital gain**
Complete Schedule D, on Side 5 of Form 100W, and enter the California net capital gain from Schedule D, line 11 on Form 100W, line 5.

Get FTB Pub. 1061 for instructions on determining the net capital gain when a combined report is filed.

**Line 6 and Line 12 – Depreciation and amortization**
California law is substantially different from federal law for corporations.

Complete form FTB 3885 included in this booklet, to determine the amounts to enter on line 6 or line 12.

**Line 7a – Net income from Included Controlled Foreign Corporations (CFCs)**
R&TC Section 25110(a)(2)(A) provides that a portion of the income and apportionment factors of any CFC (defined in IRC Section 957) that has Subpart F income, as defined in IRC Section 952, must be included in the combined report of a taxpayer making a water's-edge election. Complete and attach form FTB 2416, Schedule of Included Controlled Foreign Corporations (CFC), included in this booklet, to compute the amount to enter on line 7a.

**Line 7b – Income not included in federal consolidated return**
Use this line to report the net income from corporations included in the combined report but not included in the federal consolidated return.

**Line 8 – Other additions**
R&TC Section 24425 disallows expenses allocable to income, which is not included in the measure of the Franchise Tax or Income Tax. Add back such deductions on this line. Also, any miscellaneous items that must be added to arrive at net income after state adjustments (line 18) should be shown on this line. Attach a schedule to itemize amounts.

If any federal contribution deduction was taken in arriving at the amount entered on Form 100W, Side 1, line 1, include that amount on line 8.

**California Ordinary Net Gain or Loss.** Enter any California ordinary net gain or loss from Schedule D-1, Sales of Business Property. Attach Schedule D-1.

**Deferred Income**. California has not conformed to the federal election to defer the discharge of indebtedness income as described in IRC Section 108(i). If the corporation elected to defer the discharge of indebtedness income for federal purposes, include this amount on line 8.

**Line 10 and Line 11 – Dividends**
Complete Schedule H (100W), Dividend Income Deduction – Water's-Edge Filers, included in this booklet. Enter the total amount from Schedule H (100W), Part I, line 4, column (d), on Form 100W, Side 1, line 10. Enter the total amount from Part II, line 4, column (g), on Form 100W, Side 1, line 11a. Enter the total amount from Part III, line 4, column (g), on Form 100W, Side 1, line 11b.

**Foreign Investment Interest Offset**
R&TC Section 24344(c) provides that interest expense incurred for purposes of foreign investment is offset against the water's-edge dividends deductible under R&TC Section 24411. The offset cannot be greater than the deduction allowed pursuant to R&TC Section 24411. Complete and attach form FTB 2424, Water's-Edge Foreign Investment Interest Offset, to the return. For more information, see the instructions for form FTB 2424 included in this booklet.

**Line 13 – Capital gain from federal**
Enter the federal capital gain net income from federal Form 1120, line 8. The California net capital gain should have been added to income on line 5.

**Line 14 – Contributions**
The contribution deduction for a California corporation is limited to the adjusted basis of the assets being contributed.

For taxable years beginning on or after January 1, 1996, the contribution deduction is limited to 10% of California net income. Carryover provisions per IRC Section 170(d)(2) apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100W format, complete Form 100W, Side 1, line 1 through line 18 without regard to line 14, Contributions. If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as a positive number on line 8. Enter the adjusted basis of the assets contributed on line 5 of the worksheet. Then complete the worksheet that follows to determine the contributions to enter on line 14.

1. Net income after state adjustments from Side 1, line 18 . . . . . . . . . . . . . . . ______
2. Deduction for dividends received . . . . . . . . . . . . . . . . . . . . . . . . ______
3. Net income for contribution calculation purposes. Add line 1 and line 2 . . . . . . . . . . . . . . . . . ______
4. Contributions. Multiply line 3 by 10% (.10) . . . . . . . . . . . . . . . . . . . . ______
5. Enter the amount actually contributed . . . . . . . . . . . . . . . . . . . . . . ______
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 14 . . . . . ______

Get Schedule R to figure the contribution computation for apportioning corporations.

**Line 15 – EZ, TTA, or LAMBRA business expense and/or EZ net interest deduction**
Businesses conducting a trade or business within an Enterprise Zone (EZ), Targeted Tax Area (TTA), or Local Agency Military Base Recovery Area (LAMBRA) may elect to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the taxable year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z; form FTB 3809; or form FTB 3807.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business within an EZ. For more information, get form FTB 3805Z.

Be sure to attach a copy of the applicable form to the Form 100W if any of these benefits are claimed. If the proper form is not attached, these tax benefits may be disallowed.

**Line 16 – Other deductions**
Include on this line deductions not claimed on any other line. Attach a schedule that clearly shows how each deduction was computed and explain the basis for the deduction.

For corporations subject to income tax (instead of the franchise tax), interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 4, it must be deducted on line 16.

**Federal Ordinary Net Gain or Loss.** Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property.

**Line 19 – Net income (loss) for state purposes**
If all corporate income is derived from California sources, transfer the amount on line 18 directly to line 19.

If only a portion of income is derived from California sources, complete Schedule R before entering any amount on line 19. Transfer the amount from Schedule R, line 35, to Form 100W, line 19. Be sure to answer "Yes'' to Question M on Form 100W, Side 2.

If this line is a net loss, complete and attach the 2010 form FTB 3805Q to Form 100W.

**Line 20, Line 21, and Line 22**
The order in which line 20, line 21, and line 22 appear is not meant to imply the order in which any NOL carryover deduction or disaster loss deduction is to be taken if more than one type of deduction is available.

**Line 20 – Net operating loss (NOL) carryover deduction**
The NOL carryover deduction is suspended for the 2010 and 2011 taxable years if the corporation net income after state adjustments (pre-apportioned income) is $300,000 or more. For more information, see form FTB 3805Q inside this booklet.

The NOL carryover deduction is the amount of the NOL carryover from prior years that may be deducted from income in the current taxable year.

If line 19 is a positive amount, **and** line 18 is less than $300,000, enter the NOL carryover from the 2010 form FTB 3805Q, Part III, line 3 on Form 100W, line 20. The loss may not reduce current year income below zero. Any excess loss must be carried forward. Attach a copy of the 2010 form FTB 3805Q to Form 100W.

If the full amount of the NOL carryover may not be deducted this year, complete and attach a 2010 form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 19 is a negative amount, or line 18 is $300,000 or more, corporations may not claim an NOL carryover deduction. Enter -0- on line 20. See the 2010 form FTB 3805Q instructions to compute the NOL carryover to future years.

If the corporation terminates its election to be taxed as an S corporation, thus becoming a C corporation, then only that portion of the prior NOL carryover incurred while it had C corporation status may be used to the extent it has not expired.

**Line 21 – Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction**
The Pierce's disease, EZ, the former Los Angeles Revitalization Zone (LARZ), LAMBRA, or TTA NOL carryover deduction is suspended for the 2010 and 2011 taxable years, if the corporation net income after state adjustments (pre-apportioned income) is $300,000 or more. For more information, get form FTB 3805D, form FTB 3805Z, form FTB 3806, form FTB 3807, or form FTB 3809.

An NOL generated by a farming business due to Pierce's disease or a business that operates (operated) or invests (invested) within an EZ, the former LARZ, the TTA, or a LAMBRA receives special tax treatment. The loss may not reduce the corporation's current taxable year income below zero. Any excess loss must be carried forward. Compute the corporation's EZ, TTA, or LAMBRA NOL using form FTB 3805Z; form FTB 3809; or form FTB 3807, respectively.

Compute and enter the Pierce's disease, EZ, TTA, former LARZ, or LAMBRA NOL carryover deduction from the corporation's form FTB 3805D; form FTB 3805Z; form FTB 3809; form FTB 3806; or form FTB 3807, on Form 100W, line 21. Attach a copy of the applicable form to the Form 100W.

**Line 22 – Disaster loss carryover deduction**
Disaster loss is not subject to the 2010 and 2011 NOL suspension rules. If the corporation has a disaster loss carryover deduction, enter the total amount from the 2010 form FTB 3805Q, Part III, line 2, if there is income in the current year. The loss may not reduce current taxable year income below zero. Any excess loss must be carried forward.

**Line 24 – Tax**
Use rates listed in General Information B, Tax Rates, and C, Minimum Franchise Tax.

**Line 25 – New jobs credit**
Use form FTB 3527 to calculate the new jobs credit. Enter the credit amount generated on line 25a and amount claimed on line 25b. **Do not** claim the credit on Schedule P (100W). Get form FTB 3527 for more information, and attach a copy of the credit form to the Form 100W.

**Line 26a through Line 27 – Tax credits**
For taxable years beginning on or after January 1, 2010, an eligible assignee can claim assigned credits, received this taxable year or carried over from prior years, against its tax liabilities. For more information, get form FTB 3544A.

**Note:** The total amount of specific credit claimed on Form 100W or Schedule P (100W) should include both: (1) the total assigned credit claimed from form FTB 3544A, column (i), and (2) the amount of credit claimed that was generated by the assignee.

A variety of tax credits are available to California corporations to reduce tax. However, corporations may not reduce the tax (line 24) below the minimum franchise tax, if applicable.

Also, the amount of the credit that a corporation is allowed to claim may be limited. Generally, if the corporation completed federal Form 4626, the corporation may have limited credits. Complete Schedule P (100W), included in this booklet, to compute this limitation.

Corporations claiming the following credits are not subject to the tentative minimum tax limitation:

- Enterprise zone hiring & sales or use tax credit
- LARZ construction hiring & sales or use tax credit carryover
- Solar energy credit carryover, code 180
- Commercial solar energy credit carryover
- Commercial solar electric system credit
- Research credit
- Orphan drug credit carryover
- Low-income housing credit
- Manufacturers' investment credit carryover
- Targeted tax area hiring and sales or use tax credit
- Natural heritage preservation tax credit
- Clinical testing expense credit carryover

Each credit is identified by a code number. See the Credit Chart on page 15. To claim one or two credits, enter the credit name, code number, and the amount of the credit on line 26a and line 26b. To claim more than two credits, use Schedule P (100W). List two of the credits on line 26a and line 26b. Enter the total of any remaining credits from Schedule P (100W) on line 27. **Do not** make an entry on line 27 unless line 26a and line 26b are complete.

To figure tax credits, use the appropriate form or schedule. If the corporation claims a credit carryover for an expired credit, use form FTB 3540, Credit Carryover Summary, to figure the amount of credit, unless the corporation is required to complete Schedule P (100W). In that case, enter the amount of the credit on Schedule P (100W) and complete Schedule P (100W). **Do not** attach form FTB 3540.

Attach the credit form or schedule and Schedule P (100W), if applicable, to Form 100W.

**Line 29 – Balance**
Subtract line 28 from line 24. Enter the result or the applicable minimum franchise tax, whichever is more. See General Information C, Minimum Franchise Tax.

**Line 30 – Alternative minimum tax (AMT)**
Enter on this line the AMT from Schedule P (100W), Part I, line 19, or Part II, line 18, whichever is applicable.

**Line 33 – 2010 Estimated tax payments**
Enter the total amount of estimated tax payments made during the 2010 taxable year on this line.

**Line 34– 2010 Withholding (Form 592-B and/or 593)**
Enter the 2010 resident and nonresident or real estate withholding credit from Form 592-B, Resident and Nonresident Withholding Tax Statement and/or Form 593, Real Estate Withholding Tax Statement. Attach a copy of the form(s) to the lower front of Form 100W, Side 1.

**Line 37 and Line 38 – Tax due or overpayment**
Revise the amount of tax due or overpayment, if applicable, by the amount on Side 3, Schedule J, line 6. See instructions for Schedule J.

**Line 39 – Amount to be credited to 2011 estimated tax**
If the corporation chooses to have the overpayment credited to next year's estimated tax payment, the corporation cannot later request that the overpayment be applied to the prior year to offset any tax due.

**Line 40 – Refund**

**Direct Deposit of Refund (DDR)**
Direct deposit is fast, safe, and convenient. To have the refund directly deposited into the corporation's bank account, enter the account information on Form 100W, Side 2, lines 40a, 40b, and 40c. Be sure to fill in **all** the information. **Do not** attach a voided check or deposit slip.

**Caution:** Check with the corporation's financial institution to make sure the deposit will be accepted and to get the correct routing and account numbers. The FTB is not responsible for a lost refund due to incorrect account information.

To cancel the DDR, call the FTB at 916.845.0353. The FTB is not responsible when a financial institution rejects a direct deposit. If the FTB, the bank, or financial institution rejects the direct deposit due to an error in the routing number or account number, the FTB will issue a paper check.

**Line 41 – Penalties and interest**
Enter on line 41a the amount of any penalties and interest due. Complete and attach form FTB 5806 to the **front** of Form 100W, only if Exception B or Exception C is used in computing or eliminating the penalty. Be sure to check the box on line 41b.

# Schedules

## Schedule A — Taxes Deducted

Enter the nature of the tax, the taxing authority, the total tax, and the amount of the tax that is not deductible for California purposes on Form 100W, Side 3, Schedule A.

If the corporation is using the California computation method to compute the net income, enter the difference of column (c) and column (d) on Schedule F, line 17.

## Schedule D — Capital Gains or Losses

California law does not conform to the federal reduced capital gains tax rates. California taxes capital gains at the same rate as other types of income. California does not allow a three-year carryback of capital losses.

Enter any unused capital loss carryover from 2009 Form 100W, Side 5, Schedule D, line 11 on 2010 Form 100W, Side 5, Schedule D, line 3.

For information regarding the application of the capital loss limitation and the capital loss carryover in a combined report, see Cal. Code Regs., tit. 18 section 25106.5-2 and FTB Pub. 1061.

**Line 1 and Line 5**
Report short-term or long-term capital gains (losses) from form FTB 3725, Assets Transferred from Parent Corporation to Insurance Company Subsidiary, on Schedule D. Make sure to label on Schedule D, Part I, line 1 and/or Part II, line 5, under column (a) Description of property: **"FTB 3725."** Enter the amount of short-term or long-term capital gains (losses) from form FTB 3725 on Schedule D, Part I, line 1, column (f) and/or Part II, line 5, column (f). Attach a copy of form FTB 3725 to the Form 100W.

Report short-term or long-term capital gains from form FTB 3726, Deferred Intercompany Stock Account (DISA) and Capital Gains Information, on Schedule D. Make sure to label on Schedule D, Part I, line 1 and/or Part II, line 5, under column (a) Description of property: **"DISA."** Enter the amount of short-term or long-term capital gains from form FTB 3726 on Schedule D, Part I, line 1, column (f) and/or Part II, line 5, column (f). Attach a copy of form FTB 3726 to the Form 100W.

## Schedule F — Computation of Net Income

See General Information I, Net Income Computation, for information on net income computation methods.

**Line 4 - Total dividends**
Enter the total amount of dividends received.

**Line 13 – Salaries and wages**
Gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised on or after January 1, 1997, and before January 1, 2002, can be excluded from gross income if the individual's earned income is $40,000 or less. The exclusion from gross income is subject to AMT and the corporation is not allowed a deduction for the compensation excluded from the employee's gross income. For more information, see R&TC Section 24602.

**Line 17– Taxes**
If the corporation is using the California computation method to compute the net income, enter on line 17 the difference of column (c) and column (d) of Schedule A.

**Line 27 – Other deductions**
**Do not** include the dividend deduction on this line. Instead enter the dividend deduction on Form 100W, Side 1, line 10, line 11a or line 11b.

## Schedule G — Bad Debts Reserve Method

For taxable years beginning on or after January 1, 2002, only banks that are not a large bank, as defined in the IRC Section 585(c)(2), may use the bad debt reserve method.

For the purpose of the bad debt reserve method, banks include savings and loan associations, and other financial institutions. For more information, see IRC Sections 581 and 585. Complete Schedule G on this page and attach it to Form 100W.

## Schedule J — Add-On Taxes and Recapture of Tax Credits

Complete Schedule J on Form 100W, Side 3, if the corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for the following:

- Last-in, first-out (LIFO) recapture resulting from an S corporation election.
- Interest computed under the look-back method for completed long-term contracts.
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations.
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible.

Revise the amount of tax due or overpayment on Form 100W, line 37 or line 38, as applicable by the amount from Schedule J, line 6.

**Installment Payment of Tax Attributable to LIFO Recapture for Corporations Making an S Corporation Election.** A corporation that uses the LIFO inventory pricing method and makes an S corporation election must include a "LIFO recapture amount" in income for its last year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the first-in, first-out (FIFO) method, over the inventory amount using the LIFO method, at the close of the corporation's last taxable year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture in income is payable in four equal installments. The first installment is due on the original due date of Form 100W of the electing corporation's last year as a C corporation.

To determine the additional tax due to LIFO recapture, the corporation must complete Form 100W, Side 1, line 19 through line 31, based on income that does not include the LIFO recapture amount.

On a separate worksheet using the Form 100W format, the corporation must complete the equivalent of Form 100W, Side 1, line 19 through line 31, based on taxable income including the LIFO recapture amount. Form 100W, Side 1, line 31, must then be compared to line 31 of the worksheet. The difference is the additional tax due to LIFO recapture.

Since Form 100W, Side 1, line 31, does not include the additional tax due to LIFO recapture, the corporations must include 1/4 of the additional tax on Schedule J, line 1, and adjust line 37 or line 38 accordingly. Attach the worksheet showing the computation.

The electing S corporations must pay the remaining three installments of deferred tax with Form 100S.

**Long-term Contracts.** If the corporation must compute interest under the look-back method for completed long-term contracts, complete and attach form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Include the amount of interest the corporation owes or the amount of interest to be credited or refunded to the corporation on Schedule J, line 2. If interest is to be credited or refunded, enter as a negative amount. Attach form FTB 3834 to Form 100W.

**Interest on Tax Attributable to Payments Received on Installment Sales of Certain Timeshares and Residential Lots.** If the corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138. Attach a schedule showing the computation.

**Interest on Tax Deferred Under the Installment Method for Certain Nondealer Installment Obligations.** If an obligation arising from the disposition of property to which IRC Section 453A(c) applies is outstanding at the close of the taxable year, the corporation must include the interest due under IRC Section 453A on Schedule J, line 3b. For the applicable interest rates, get FTB Pub. 1138.

**IRC Section 197(f)(9)(B)(ii) Election.** Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

**Credit Recapture.**
Complete Schedule J, line 5, if the corporation completed the credit recapture portion for any of the following forms:

- FTB 3501, Employer Child Care Program/Contribution Credit
- FTB 3511, Environmental Tax Credit
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary
- FTB 3808, Manufacturing Enhancement Area Credit Summary
- FTB 3809, Targeted Tax Area Deduction and Credit Summary

Also complete Schedule J, line 5, if the corporation is subject to recapture for any of the following credits:

- The Farmworker Housing Credits
- The Community Development Financial Institution Deposits Credit

## Schedule M-1— Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. The federal and state Schedule M-1 may be the same when the corporation uses the federal reconciliation method for net income computation. See General Information I, Net Income Computation, for more information. The California Schedule M-1 will be different from the federal Form 1120, Schedule M-1 if using the California computation method for net income. The California computation method is generally used when the corporation has no federal filing requirement, or if the corporation maintains separate records for state purposes.

**Reporting Requirements.** If the corporation's total receipts (see top of page 16 for definition of total receipts) for the taxable year **and** total assets at the end of the taxable year are less than $250,000, the corporation is not required to complete, Schedule L, Schedule M-1, and Schedule M-2. However, this information must be available in the future upon request.

**Corporation With Total Assets of $10 Million or More.** For taxable years beginning on or after January 1, 2004, the IRS generally requires corporations with total assets of $10 million or more on the last day of the taxable year to complete federal Schedule M-3 (Form 1120/1120-F) instead of federal Schedule M-1.

For California purposes, the corporation must complete the California Schedule M-1, **and** attach either of the following:

- A copy of the federal Schedule M-3 (Form 1120/1120-F) and related attachments to the Form 100W.
- A complete copy of the federal return.

The FTB will accept the federal Schedule M-3 (Form 1120/1120-F) in a spreadsheet format if more convenient.

**Schedule G Bad Debts Reserve Method**. See instructions

| **(a)** Taxable year | **(b)** Accounts outstanding at the end of the year | Amount added to reserve **(c)** Current year's provisions | Amount added to reserve **(d)** Recoveries | **(e)** Amount charged against reserve | **(f)** Reserve for bad debts at end of year |
|---|---|---|---|---|---|
| 2005 | | | | | |
| 2006 | | | | | |
| 2007 | | | | | |
| 2008 | | | | | |
| 2009 | | | | | |
| 2010 | | | | | |

# Credit Chart

| Credit Name | Code | Description |
|---|---|---|
| **Current Credits List** | | |
| Community Development Financial Institution Deposits – Obtain certification from: CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, SUITE 1600 SACRAMENTO CA 95814 Website: **insurance.ca.gov** | 209 | 20% of qualified investments made into a community development financial institution |
| Disabled Access for Eligible Small Businesses – FTB 3548 | 205 | Similar to the federal credit, but limited to $125 per eligible small business, and based on 50% of qualified expenditures that do not exceed $250 |
| Donated Agricultural Products Transportation – FTB 3547 | 204 | 50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations |
| Employer Child Care Contribution – FTB 3501 | 190 | Employer: 30% of contributions to a qualified plan |
| Employer Child Care Program – FTB 3501 | 189 | Employer: 30% of the cost of establishing a child care program or constructing a child care facility |
| Enhanced Oil Recovery – FTB 3546 | 203 | 1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California |
| Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z | 176 | Business incentives for trade or business activities conducted within an enterprise zone |
| Environmental Tax – FTB 3511 | 218 | Five cents ($0.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in California |
| Local Agency Military Base Recovery Area Hiring & Sales or Use Tax – FTB 3807 | 198 | Business incentives for trade or business activities conducted within a local agency military base recovery area |
| Low-Income Housing – FTB 3521 | 172 | Similar to the federal credit but limited to low-income housing in California |
| Manufacturing Enhancement Area – FTB 3808 | 211 | Hiring credit for Manufacturing Enhancement Area |
| Natural Heritage Preservation – FTB 3503 | 213 | 55% of the fair market value of the qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government |
| New Jobs – FTB 3527 | 220 | $3,000 allowed for a qualified employer for each increase in qualified full-time employee hired in the current taxable year |
| Prior Year Alternative Minimum Tax | 188 | Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in the current year |
| Prison Inmate Labor – FTB 3507 | 162 | 10% of wages paid to prison inmates |
| Research – FTB 3523 | 183 | Similar to the federal credit but limited to costs for research activities in California |
| Targeted Tax Area Hiring & Sales or Use Tax – FTB 3809 | 210 | Business incentives for trade or business activities conducted within a targeted tax area |

**Repealed Credits with Carryover Provisions:** The expiration dates for these credits have passed. However, these credits had carryover provisions. The corporation may claim these credits if there is a carryover available from prior years. If the corporation is not required to complete Schedule P (100W), get form FTB 3540, Credit Carryover Summary, to figure the credit carryover to future years.

| | |
|---|---|
| Agricultural Products | 175 |
| Commercial Solar Electric System | 196 |
| Commercial Solar Energy | 181 |
| Contribution of Computer Software | 202 |
| Employer Ridesharing – Large employer | 191 |
| Employer Ridesharing – Small employer | 192 |
| Employer Ridesharing – Transit passes | 193 |
| Energy Conservation | 182 |
| Farmworker Housing – Construction | 207 |
| Joint Strike Fighter Wage | 215 |
| Joint Strike Fighter Property | 216 |
| Los Angeles Revitalization Zone Hiring & Sales or Use Tax | 159 |
| Low-Emission Vehicles | 160 |
| Manufacturers' Investment | 199 |
| Orphan Drug | 185 |
| Recycling Equipment | 174 |
| Rice Straw | 206 |
| Ridesharing | 171 |
| Salmon & Steelhead Trout Habitat Restoration | 200 |
| Solar Energy | 180 |
| Solar Pump | 179 |
| Solar or Wind Energy System | 217 |
| Technology Property Contributions | 201 |

## Principal Business Activity Codes

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its ''total receipts.'' **Total receipts** is defined as the sum of gross receipts or sales (Form 100W, Side 3, Schedule F, line 1a) plus all other income (Form 100W, Side 3, Schedule F, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on Form 100W, Question E. For the business activity code number, enter the six-digit code selected from the list below. On the next line enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on the next line.

### Agriculture, Forestry, Fishing, and Hunting

*Code*

**Crop Production**

111100 Oilseed & Grain Farming
111210 Vegetable & Melon Farming (including potatoes & yams)
111300 Fruit & Tree Nut Farming
111400 Greenhouse, Nursery, & Floriculture Production
111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

**Animal Production**

112111 Beef Cattle Ranching & Farming
112112 Cattle Feedlots
112120 Dairy Cattle & Milk Production
112210 Hog & Pig Farming
112300 Poultry & Egg Production
112400 Sheep & Goat Farming
112510 Aquaculture (including shellfish & finfish farms & hatcheries)
112900 Other Animal Production

**Forestry and Logging**

113110 Timber Tract Operations
113210 Forest Nurseries & Gathering of Forest Products
113310 Logging

**Fishing, Hunting and Trapping**

114110 Fishing
114210 Hunting & Trapping

**Support Activities for Agriculture and Forestry**

115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
115210 Support Activities for Animal Production
115310 Support Activities for Forestry

### Mining

211110 Oil & Gas Extraction
212110 Coal Mining
212200 Metal Ore Mining
212310 Stone Mining & Quarrying
212320 Sand, Gravel, Clay, & Ceramic & Refractory Mineral Mining & Quarrying
212390 Other Nonmetallic Mineral Mining & Quarrying
213110 Support Activities for Mining

### Utilities

221100 Electric Power Generation, Transmission & Distribution
221210 Natural Gas Distribution
221300 Water, Sewage, & Other Systems
221500 Combination Gas and Electric

### Construction

*Code*

**Construction of Buildings**

236110 Residential Building Construction
236200 Nonresidential Building Construction

**Heavy and Civil Engineering Construction**

237100 Utility System Construction
237210 Land Subdivision
237310 Highway, Street, & Bridge Construction
237990 Other Heavy & Civil Engineering Construction

**Specialty Trade Contractors**

238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)
238210 Electrical Contractors
238220 Plumbing, Heating, & Air-Conditioning Contractors
238290 Other Building Equipment Contractors
238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)
238900 Other Specialty Trade Contractors (including site preparation)

### Manufacturing

**Food Manufacturing**

311110 Animal Food Mfg
311200 Grain & Oilseed Milling
311300 Sugar & Confectionery Product Mfg
311400 Fruit & Vegetable Preserving & Specialty Food Mfg
311500 Dairy Product Mfg
311610 Animal Slaughtering and Processing
311710 Seafood Product Preparation & Packaging
311800 Bakeries & Tortilla Mfg
311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

**Beverage and Tobacco Product Manufacturing**

312110 Soft Drink & Ice Mfg
312120 Breweries
312130 Wineries
312140 Distilleries
312200 Tobacco Manufacturing

**Textile Mills and Textile Product Mills**

313000 Textile Mills
314000 Textile Product Mills

**Apparel Manufacturing**

315100 Apparel Knitting Mills
315210 Cut & Sew Apparel Contractors
315220 Men's & Boys' Cut & Sew Apparel Mfg
315230 Women's & Girls' Cut & Sew Apparel Mfg
315290 Other Cut & Sew Apparel Mfg
315990 Apparel Accessories & Other Apparel Mfg

**Leather and Allied Product Manufacturing**

316110 Leather & Hide Tanning & Finishing
316210 Footwear Mfg (including rubber & plastics)
316990 Other Leather & Allied Product Mfg

**Wood Product Manufacturing**

321110 Sawmills & Wood Preservation
321210 Veneer, Plywood, & Engineered Wood Product Mfg
321900 Other Wood Product Mfg

**Paper Manufacturing**

322100 Pulp, Paper, & Paperboard Mills
322200 Converted Paper Product Mfg

**Printing and Related Support Activities**

323100 Printing & Related Support Activities

**Petroleum and Coal Products Manufacturing**

324110 Petroleum Refineries (including integrated)
324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
324190 Other Petroleum & Coal Products Mfg

**Chemical Manufacturing**

325100 Basic Chemical Mfg
325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
325410 Pharmaceutical & Medicine Mfg
325500 Paint, Coating, & Adhesive Mfg
325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
325900 Other Chemical Product & Preparation Mfg

**Plastics and Rubber Products Manufacturing**

326100 Plastics Product Mfg
326200 Rubber Product Mfg

**Nonmetallic Mineral Product Manufacturing**

327100 Clay Product & Refractory Mfg
327210 Glass & Glass Product Mfg
327300 Cement & Concrete Product Mfg
327400 Lime & Gypsum Product Mfg
327900 Other Nonmetallic Mineral Product Mfg

**Primary Metal Manufacturing**

331110 Iron & Steel Mills & Ferroalloy Mfg
331200 Steel Product Mfg from Purchased Steel
331310 Alumina & Aluminum Production & Processing
331400 Nonferrous Metal (except Aluminum) Production & Processing
331500 Foundries

**Fabricated Metal Product Manufacturing**

332110 Forging & Stamping
332210 Cutlery & Handtool Mfg
332300 Architectural & Structural Metals Mfg
332400 Boiler, Tank, & Shipping Container Mfg
332510 Hardware Mfg
332610 Spring & Wire Product Mfg
332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg
332810 Coating, Engraving, Heat Treating, & Allied Activities
332900 Other Fabricated Metal Product Mfg

**Machinery Manufacturing**

333100 Agriculture, Construction, & Mining Machinery Mfg
333200 Industrial Machinery Mfg
333310 Commercial & Service Industry Machinery Mfg
333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
333510 Metalworking Machinery Mfg
333610 Engine, Turbine, & Power Transmission Equipment Mfg
333900 Other General Purpose Machinery Mfg

**Computer and Electronic Product Manufacturing**

334110 Computer & Peripheral Equipment Mfg
334200 Communications Equipment Mfg
334310 Audio & Video Equipment Mfg
334410 Semiconductor & Other Electronic Component Mfg
334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
334610 Manufacturing & Reproducing Magnetic & Optical Media

**Electrical Equipment, Appliance, and Component Manufacturing**

335100 Electric Lighting Equipment Mfg
335200 Household Appliance Mfg
335310 Electrical Equipment Mfg
335900 Other Electrical Equipment & Component Mfg

**Transportation Equipment Manufacturing**

336100 Motor Vehicle Mfg
336210 Motor Vehicle Body & Trailer Mfg
336300 Motor Vehicle Parts Mfg
336410 Aerospace Product & Parts Mfg
336510 Railroad Rolling Stock Mfg
336610 Ship & Boat Building
336990 Other Transportation Equipment Mfg

**Furniture and Related Product Manufacturing**

337000 Furniture & Related Product Manufacturing

**Miscellaneous Manufacturing**

339110 Medical Equipment & Supplies Mfg
339900 Other Miscellaneous Manufacturing

### Wholesale Trade

**Merchant Wholesalers, Durable Goods**

423100 Motor Vehicle & Motor Vehicle Parts & Supplies
423200 Furniture & Home Furnishings
423300 Lumber & Other Construction Materials
423400 Professional & Commercial Equipment & Supplies
423500 Metal & Mineral (except Petroleum)
423600 Electrical & Electronic Goods
423700 Hardware, & Plumbing & Heating Equipment & Supplies
423800 Machinery, Equipment, & Supplies
423910 Sporting & Recreational Goods & Supplies
423920 Toy & Hobby Goods & Supplies
423930 Recyclable Materials
423940 Jewelry, Watch, Precious Stone, & Precious Metals
423990 Other Miscellaneous Durable Goods

Code

**Merchant Wholesalers, Nondurable Goods**

424100 Paper & Paper Products
424210 Drugs & Druggists' Sundries
424300 Apparel, Piece Goods, & Notions
424400 Grocery & Related Products
424500 Farm Product Raw Materials
424600 Chemical & Allied Products
424700 Petroleum & Petroleum Products
424800 Beer, Wine, & Distilled Alcoholic Beverages
424910 Farm Supplies
424920 Book, Periodical, & Newspapers
424930 Flower, Nursery Stock, & Florists' Supplies
424940 Tobacco & Tobacco Products
424950 Paint, Varnish, & Supplies
424990 Other Miscellaneous Nondurable Goods

**Wholesale Electronic Markets and Agents and Brokers**

425110 Business to Business Electronic Markets
425120 Wholesale Trade Agents & Brokers

## Retail Trade

**Motor Vehicle and Parts Dealers**

441110 New Car Dealers
441120 Used Car Dealers
441210 Recreational Vehicle Dealers
441221 Motorcycle Dealers
441222 Boat Dealers
441229 All Other Motor Vehicle Dealers
441300 Automotive Parts, Accessories, & Tire Stores

**Furniture and Home Furnishings Stores**

442110 Furniture Stores
442210 Floor Covering Stores
442291 Window Treatment Stores
442299 All Other Home Furnishings Stores

**Electronics and Appliance Stores**

443111 Household Appliance Stores
443112 Radio, Television, & Other Electronics Stores
443120 Computer & Software Stores
443130 Camera & Photographic Supplies Stores

**Building Material and Garden Equipment and Supplies Dealers**

444110 Home Centers
444120 Paint & Wallpaper Stores
444130 Hardware Stores
444190 Other Building Material Dealers
444200 Lawn & Garden Equipment & Supplies Stores

**Food and Beverage Stores**

445110 Supermarkets and Other Grocery (except Convenience) Stores
445120 Convenience Stores
445210 Meat Markets
445220 Fish & Seafood Markets
445230 Fruit & Vegetable Markets
445291 Baked Goods Stores
445292 Confectionery & Nut Stores
445299 All Other Specialty Food Stores
445310 Beer, Wine, & Liquor Stores

**Health and Personal Care Stores**

446110 Pharmacies & Drug Stores
446120 Cosmetics, Beauty Supplies, & Perfume Stores
446130 Optical Goods Stores
446190 Other Health & Personal Care Stores

**Gasoline Stations**

447100 Gasoline Stations (including convenience stores with gas)

Code

**Clothing and Clothing Accessories Stores**

448110 Men's Clothing Stores
448120 Women's Clothing Stores
448130 Children's & Infants' Clothing Stores
448140 Family Clothing Stores
448150 Clothing Accessories Stores
448190 Other Clothing Stores
448210 Shoe Stores
448310 Jewelry Stores
448320 Luggage & Leather Goods Stores

**Sporting Goods, Hobby, Book, and Music Stores**

451110 Sporting Goods Stores
451120 Hobby, Toy, & Game Stores
451130 Sewing, Needlework, & Piece Goods Stores
451140 Musical Instrument & Supplies Stores
451211 Book Stores
451212 News Dealers & Newsstands
451220 Prerecorded Tape, Compact Disc, & Record Stores

**General Merchandise Stores**

452110 Department stores
452900 Other General Merchandise Stores

**Miscellaneous Store Retailers**

453110 Florists
453210 Office Supplies & Stationery Stores
453220 Gift, Novelty, & Souvenir Stores
453310 Used Merchandise Stores
453910 Pet & Pet Supplies Stores
453920 Art Dealers
453930 Manufactured (Mobile) Home Dealers
453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)

**Nonstore Retailers**

454110 Electronic Shopping & Mail-Order Houses
454210 Vending Machine Operators
454311 Heating Oil Dealers
454312 Liquefied Petroleum Gas (Bottled Gas) Dealers
454319 Other Fuel Dealers
454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

## Transportation and Warehousing

**Air, Rail, and Water Transportation**

481000 Air Transportation
482110 Rail Transportation
483000 Water Transportation

**Truck Transportation**

484110 General Freight Trucking, Local
484120 General Freight Trucking, Long-distance
484200 Specialized Freight Trucking

**Transit and Ground Passenger Transportation**

485110 Urban Transit Systems
485210 Interurban & Rural Bus Transportation
485310 Taxi Service
485320 Limousine Service
485410 School & Employee Bus Transportation
485510 Charter Bus Industry
485990 Other Transit & Ground Passenger Transportation

**Pipeline Transportation**

486000 Pipeline Transportation

**Scenic & Sightseeing Transportation**

487000 Scenic & Sightseeing Transportation

Code

**Support Activities for Transportation**

488100 Support Activities for Air Transportation
488210 Support Activities for Rail Transportation
488300 Support Activities for Water Transportation
488410 Motor Vehicle Towing
488490 Other Support Activities for Road Transportation
488510 Freight Transportation Arrangement
488990 Other Support Activities for Transportation

**Couriers and Messengers**

492110 Couriers
492210 Local Messengers & Local Delivery

**Warehousing and Storage**

493100 Warehousing & Storage (except lessors of miniwarehouses & self- storage units)

## Information

**Publishing Industries (except Internet)**

511110 Newspaper Publishers
511120 Periodical Publishers
511130 Book Publishers
511140 Directory & Mailing List Publishers
511190 Other Publishers
511210 Software Publishers

**Motion Picture and Sound Recording Industries**

512100 Motion Picture & Video Industries (except video rental)
512200 Sound Recording Industries

**Broadcasting (except Internet)**

515100 Radio & Television Broadcasting
515210 Cable & Other Subscription Programming

**Telecommunications**

517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications & internet service providers)

**Data Processing Services**

518210 Data Processing, Hosting, & Related Services

**Other Information Services**

519100 Other Information Services (including news syndicates, libraries, internet publishing & broadcasting)

## Finance and Insurance

**Depository Credit Intermediation**

522110 Commercial Banking
522120 Savings Institutions
522130 Credit Unions
522190 Other Depository Credit Intermediation

**Nondepository Credit Intermediation**

522210 Credit Card Issuing
522220 Sales Financing
522291 Consumer Lending
522292 Real Estate Credit (including mortgage bankers & originators)
522293 International Trade Financing
522294 Secondary Market Financing
522298 All Other Nondepository Credit Intermediation

**Activities Related to Credit Intermediation**

522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)

**Securities, Commodity Contracts, and Other Financial Investments and Related Activities**

523110 Investment Banking & Securities Dealing
523120 Securities Brokerage

Code

523130 Commodity Contracts Dealing
523140 Commodity Contracts Brokerage
523210 Securities & Commodity Exchanges
523900 Other Financial Investment Activities (including portfolio management & investment advice)

**Insurance Carriers and Related Activities**

524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150 Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
524210 Insurance Agencies & Brokerages
524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)

**Funds, Trusts, and Other Financial Vehicles**

525100 Insurance & Employee Benefit Funds
525910 Open-End Investment Funds (Form 1120-RIC)
525920 Trusts, Estates, & Agency Accounts
525990 Other Financial Vehicles (including mortgage REITS & closed-end investment funds)

"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under **Management of Companies (Holding Companies)** on next page.

## Real Estate and Rental and Leasing

**Real Estate**

531110 Lessors of Residential Buildings & Dwellings (including equity REITs)
531114 Cooperative Housing (including equity REITs)
531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITs)
531130 Lessors of Miniwarehouses & Self-Storage Units (including equity REITs)
531190 Lessors of Other Real Estate Property (including equity REITs)
531210 Offices of Real Estate Agents & Brokers
531310 Real Estate Property Managers
531320 Offices of Real Estate Appraisers
531390 Other Activities Related to Real Estate

**Rental and Leasing Services**

532100 Automotive Equipment Rental & Leasing
532210 Consumer Electronics & Appliances Rental
532220 Formal Wear & Costume Rental
532230 Video Tape & Disc Rental
532290 Other Consumer Goods Rental
532310 General Rental Centers
532400 Commercial & Industrial Machinery & Equipment Rental & Leasing

**Lessors of Nonfinancial Intangible Assets (except copyrighted works)**

533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)

## Professional, Scientific, and Technical Services

**Legal Services**

541110 Offices of Lawyers
541190 Other Legal Services

*Code*

**Accounting, Tax Preparation, Bookkeeping, and Payroll Services**

541211 Offices of Certified Public Accountants
541213 Tax Preparation Services
541214 Payroll Services
541219 Other Accounting Services

**Architectural, Engineering, and Related Services**

541310 Architectural Services
541320 Landscape Architecture Services
541330 Engineering Services
541340 Drafting Services
541350 Building Inspection Services
541360 Geophysical Surveying & Mapping Services
541370 Surveying & Mapping (except Geophysical) Services
541380 Testing Laboratories

**Specialized Design Services**

541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)

**Computer Systems Design and Related Services**

541511 Custom Computer Programming Services
541512 Computer Systems Design Services
541513 Computer Facilities Management Services
541519 Other Computer Related Services

**Other Professional, Scientific, and Technical Services**

541600 Management, Scientific, & Technical Consulting Services
541700 Scientific Research & Development Services
541800 Advertising & Related Services
541910 Marketing Research & Public Opinion Polling
541920 Photographic Services
541930 Translation & Interpretation Services
541940 Veterinary Services
541990 All Other Professional, Scientific, & Technical Services

## Management of Companies (Holding Companies)

551111 Offices of Bank Holding Companies
551112 Offices of Other Holding Companies

## Administrative and Support and Waste Management and Remediation Services

**Administrative and Support Services**

561110 Office Administrative Services
561210 Facilities Support Services
561300 Employment Services
561410 Document Preparation Services
561420 Telephone Call Centers
561430 Business Service Centers (including private mail centers & copy shops)
561440 Collection Agencies
561450 Credit Bureaus
561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)

*Code*

561500 Travel Arrangement & Reservation Services
561600 Investigation & Security Services
561710 Exterminating & Pest Control Services
561720 Janitorial Services
561730 Landscaping Services
561740 Carpet & Upholstery Cleaning Services
561790 Other Services to Buildings & Dwellings
561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)

**Waste Management and Remediation Services**

562000 Waste Management & Remediation Services

## Educational Services

611000 Educational Services (including schools, colleges, & universities)

## Health Care and Social Assistance

**Offices of Physicians and Dentists**

621111 Offices of Physicians (except mental health specialists)
621112 Offices of Physicians, Mental Health Specialists
621210 Offices of Dentists

**Offices of Other Health Practitioners**

621310 Offices of Chiropractors
621320 Offices of Optometrists
621330 Offices of Mental Health Practitioners (except Physicians)
621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists
621391 Offices of Podiatrists
621399 Offices of All Other Miscellaneous Health Practitioners

**Outpatient Care Centers**

621410 Family Planning Centers
621420 Outpatient Mental Health & Substance Abuse Centers
621491 HMO Medical Centers
621492 Kidney Dialysis Centers
621493 Freestanding Ambulatory Surgical & Emergency Centers
621498 All Other Outpatient Care Centers

**Medical and Diagnostic Laboratories**

621510 Medical & Diagnostic Laboratories

**Home Health Care Services**

621610 Home Health Care Services

*Code*

**Other Ambulatory Health Care Services**

621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)

**Hospitals**

622000 Hospitals

**Nursing and Residential Care Facilities**

623000 Nursing & Residential Care Facilities

**Social Assistance**

624100 Individual & Family Services
624200 Community Food & Housing, & Emergency & Other Relief Services
624310 Vocational Rehabilitation Services
624410 Child Day Care Services

## Arts, Entertainment, and Recreation

**Performing Arts, Spectator Sports, and Related Industries**

711100 Performing Arts Companies
711210 Spectator Sports (including sports clubs & racetracks)
711300 Promoters of Performing Arts, Sports, & Similar Events
711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures
711510 Independent Artists, Writers, & Performers

**Museums, Historical Sites, and Similar Institutions**

712100 Museums, Historical Sites, & Similar Institutions

**Amusement, Gambling, and Recreation Industries**

713100 Amusement Parks & Arcades
713200 Gambling Industries
713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

## Accommodation and Food Services

**Accommodation**

721110 Hotels (except Casino Hotels) & Motels
721120 Casino Hotels
721191 Bed & Breakfast Inns
721199 All Other Traveler Accommodation
721210 RV (Recreational Vehicle) Parks & Recreational Camps
721310 Rooming & Boarding Houses

*Code*

**Food Services and Drinking Places**

722110 Full-Service Restaurants
722210 Limited-Service Eating Places
722300 Special Food Services (including food service contractors & caterers)
722410 Drinking Places (Alcoholic Beverages)

## Other Services

**Repair and Maintenance**

811110 Automotive Mechanical & Electrical Repair & Maintenance
811120 Automotive Body, Paint, Interior, & Glass Repair
811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
811210 Electronic & Precision Equipment Repair & Maintenance
811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
811410 Home & Garden Equipment & Appliance Repair & Maintenance
811420 Reupholstery & Furniture Repair
811430 Footwear & Leather Goods Repair
811490 Other Personal & Household Goods Repair & Maintenance

**Personal and Laundry Services**

812111 Barber Shops
812112 Beauty Salons
812113 Nail Salons
812190 Other Personal Care Services (including diet & weight reducing centers)
812210 Funeral Homes & Funeral Services
812220 Cemeteries & Crematories
812310 Coin-Operated Laundries & Drycleaners
812320 Drycleaning & Laundry Services (except Coin-Operated)
812330 Linen & Uniform Supply
812910 Pet Care (except Veterinary) Services
812920 Photofinishing
812930 Parking Lots & Garages
812990 All Other Personal Services

**Religious, Grantmaking, Civic, Professional, and Similar Organizations**

813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)

# Instructions for Schedule H (100W)

## Dividend Income Deduction — Water's-Edge Filers

## Important Information

Revenue and Taxation Code (R&TC) Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" for qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and before January 1, 2008, an 80% deduction was allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividends received deduction. See Specific Instructions, Part III, for more information.

In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th 976, 134 Cal Rptr. 2nd 390, the California Court of Appeal found R&TC Section 24402 to be unconstitutional. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, R&TC Section 24402 deduction is not available.

For taxable years beginning on or after January 1, 2008, dividend elimination is allowed regardless of whether the payer/payee are taxpayer members of the California combined unitary group return, or whether the payer/payee had previously filed California tax returns, as long as the payer/payee filed as members of a comparable unitary business outside of California when the earnings and profits from which the dividends were paid arose.

In addition, dividend elimination is allowed for dividends paid from a member of a combined unitary group to a newly formed member of the combined unitary group if the recipient corporation has been a member of the combined unitary group from its formation to its receipt of the dividends. Earnings and profits earned before becoming a member of the unitary group do not qualify for elimination. See R&TC Section 25106 for more information.

## Specific Instructions

A corporation may eliminate or deduct dividend income when certain requirements are met. The available eliminations or deductions are described below.

### Part I – Elimination of Intercompany Dividends (R&TC Section 25106)

A corporation may eliminate dividends received from unitary subsidiaries but only to the extent that the dividends are paid from unitary earnings and profits accumulated while both the payee and payer were members of the combined report. See R&TC Section 25106 for more information.

Complete Part I and enter the total of Part I, line 4, column (d) on Form 100W, Side 1, line 10.

### Part II – Deduction for Qualifying Dividends Paid to a Member of a Water's-Edge Combined Report (R&TC Section 24411)

R&TC Section 24411 allows a 75% deduction of qualifying dividends received and included in the water's-edge return. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity related to alteration or improvement of land. The construction project, the location of which is not subject to the taxpayer's control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the taxpayer. See R&TC Section 24411 for more information.

In no event will an R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Section 24410 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if both the following conditions are met:

- The average of the payer's property, payroll, and sales factors within the U.S. is less than 20%.
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

Report the dividends received from certain foreign constructions projects in Part II, column (g). Write the dividend payer's name and label dividends received from certain foreign construction projects as "FCP" in Part II, column (a).

Complete Schedule H (100W), Part II and enter the total of Part II, line 4, column (g) on Form 100W, Side 1, line 11a. For Part II, column (d), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part II, column (d).

### Part III – Deduction for Dividends Paid to a Corporation by an Insurance Company (R&TC Section 24410)

R&TC Section 24410 provides that a corporation that owns 80% or more of each class of stock of an insurer is entitled to an 85% dividends received deduction for qualified dividends received from that insurer. The deduction would be allowed regardless of whether the insurer does business in California. The 85% deduction applies to taxable years beginning on or after January 1, 2008.

The amount of the dividends that qualify for the dividends received deduction is the total amount of dividends received from that insurer, multiplied by the insurer's qualified dividend percentage. The qualified dividend percentage is determined under R&TC Section 24410(c).

To complete Part III:

1. Fill in columns (a) through (c).
2. Enter in column (d) the total amount of insurance dividends received.
3. Enter the qualified dividend percentage in column (e).
4. Multiply the amount in column (d) by the qualified dividend percentage in column (e) and enter that amount in column (f).
5. Multiply the amount in column (f) by 85% and enter the result in column (g).
6. Total amounts in Part III, line 4, column (g). Enter the amount from Part III, line 4, column (g) on Form 100W, Side 1, line 11b.

The calculation of the qualified dividend percentage should be presented in a supplemental schedule that is attached to the taxpayer's return. That schedule should identify the amount of the net written premiums for all the insurance companies in the commonly controlled group for the preceding five years (including an identification of property/casualty premiums, life insurance premiums, and financial guarantee premiums), the relative weight given to each class of net written premiums, and the total income of the insurance companies in the commonly controlled group (including premium and investment income for the preceding five years). See R&TC Section 24410 for more information.

# Instructions for Schedule P (100W)

## Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2009,** and to the California Revenue and Taxation Code (R&TC).

## What's New

**Assigned Credit Claimed by Assignee –** For taxable years beginning on or after January 1, 2010, California Revenue and Taxation Code (R&TC) Section 23663 allows an eligible assignee to claim assigned credits, received this taxable year or carryover from prior years, against its tax liabilities. For more information, get form FTB 3544A, List of Assigned Credit Received and/or Claimed by Assignee, or go to **ftb.ca.gov** and search for **credit assignment**.

**NASSCO AMT Reduction** – The Board of Equalization recently ruled in the *Appeal of NASSCO Holdings, Inc* 2010-SBE-001, November 17, 2010, that a corporate taxpayer may use Enterprise Zone (EZ) credits and/or the Manufacturing Investment Credit (MIC) to reduce alternative minimum tax (AMT). For more information, see the instructions for Part II, Section C or go to **ftb.ca.gov** and search for **nassco**.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015.

## Important Information

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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 R&TC in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years beginning on or after January 1, 2009, a new jobs credit in the amount of $3,000 is allowed for a qualified employer for each increase in qualified full-time employee hired in the current taxable year. If the available credit exceeds the current year tax liability, the excess credit may be carried over to reduce the "tax" in the following year, and succeeding seven years if necessary, until the credit is exhausted. For more information, go to **ftb.ca.gov** and search for **new jobs** or get form FTB 3527, New Jobs Credit. See Form 100W Booklet, line 25 specific instructions for information on how to claim the New Jobs Credit.

For taxable years beginning on or after July 1, 2008, credit earned by members of a combined reporting group may be assigned to an affiliated corporation that is a member of the same combined reporting group. A credit assigned may only be claimed by the affiliated corporation against their tax in taxable years beginning on or after **January 1, 2010**. Get form FTB 3544, Election to Assign Credit Within Combined Reporting Group or form FTB 3544A, for more information.

**California law conforms to federal law regarding:**
- The contribution deduction in excess of adjusted basis for appreciated property.
- Large banks' bad-debt losses deduction, which is limited to the actual losses rather than contributions to a reserve for bad debts.
- The removal of the adjusted current earnings (ACE) depreciation adjustment.
- The use of the same depreciation recovery periods for regular tax and AMT for property placed in service after December 31, 1998.
- The repeal of the installment method AMT adjustment for farmers. Farmers are allowed to use the installment method of accounting for purposes of AMT for payments received in taxable years beginning on or after January 1, 1997, for installment sales related to the sale or disposition of farm property made in taxable years beginning on or after January 1, 1988.
- The treatment of merchant marine capital construction account funds as an adjustment item for AMT.

**California law does not conform to federal law regarding:**
- The election to claim additional research and minimum tax credits in lieu of claiming additional first-year depreciation of certain qualified property.
- The 15% alternative tax with qualified timber gains under IRC Section 1201(b).
- The elimination of AMT for small businesses.

These lists are not intended to be all inclusive of the federal and state conformities and differences. For more information, refer to the California R&TC.

## General Information

Unless stated otherwise, the term "corporation" as used in Schedule P (100W), Alternative Minimum Tax and Credit Limitations-Water's-Edge Filers, and in these instructions, includes banks, financial corporations, and partnerships or limited liability companies (LLCs) classified as corporations, but not S corporations.

For the purpose of these instructions the term corporation means corporation that elects to compute income attributable to California source on the water's-edge basis.

California tax laws give special treatment to some types of income and allow special deductions and credits for some types of expenses. Corporations that benefit from these laws may have to pay AMT in addition to the minimum franchise tax.

Use this schedule to calculate AMT and to figure credits that are limited by the TMT or that may reduce AMT.

See IRC Sections 55 through 59 for more information on figuring AMT. Note that R&TC Sections 23455, 23456, 23457, and 23459 modify IRC Sections 55 through 59.

**Who Must File**
- Corporations should file Schedule P (100W) if the sum of: AMT adjustments, preference items, loss denials, other items as specified under IRC Section 59, and state net income exceeds $40,000.

In addition, if the corporation claims credits that are limited by TMT (Part I, line 17) or that reduce the AMT (Part I, line 19), the corporation must file Schedule P (100W).

**Members of a Combined Report.** Alternative minimum taxable income (AMTI) and ACE are apportioned and allocated to California and to each taxpayer in the same manner as net income for purposes of regular tax. A separate AMT calculation is required for **each** member of a combined report. Complete a separate Schedule P (100W) for **each** member included in the combined report. Attach the Schedule P (100W) for each member in the combined report **behind** the combined Schedule P (100W) for all members. See instructions for Part I, line 4b, line 5a, line 5b, line 5e, line 7b, line 9, and line 10.

**Short-Period Tax Return.** For a short-period tax return, use the formula in IRC Section 443(d) to determine the AMTI and AMT.

**Credit for Prior Year AMT.** If the corporation paid AMT for 2009 or has a carryover of credit for prior year AMT and has no AMT liability for 2010, the corporation may use this credit in 2010 to reduce its regular tax liability. Complete Part III to figure this credit.

## Specific Line Instructions

## Part I — Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

**Line 1- Net income (loss) after state adjustments**
Enter the amount from Form 100W, line 18. If the corporation filed a Schedule R, Apportionment and Allocation of Income, with the return, enter the amount from Schedule R, line 1c.

**Line 2a – Depreciation of tangible property placed in service after 1986 and before 1999**
**Do not** include depreciation adjustments attributable to a tax shelter farm activity or a passive activity on this line. Instead, include the adjustment on line 2g or line 2h.

Refigure the depreciation as follows:
- For property other than real property and property on which the straight-line method was used, use the 150% declining balance method, switching to straight-line for the first taxable year in which that method will give a higher depreciation deduction. Use the same life classes as used on the federal Form 4626, Alternative Minimum Tax – Corporations.

- For personal property having no asset depreciation range (ADR) class life, use 12 years.
- For residential rental and nonresidential real property, use the straight-line method over 40 years.

Determine the depreciation adjustment by subtracting the recomputed depreciation from the California depreciation on form FTB 3885, Corporation Depreciation and Amortization. Enter the difference on this line.

If the corporation elected to depreciate a grapevine that was replanted in a vineyard as a result of phylloxera or Pierce's disease infestation over five years instead of 20 years for regular tax, it must depreciate the grapevine over 10 years for AMT.

Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.

Include on line 2a any differences between regular and AMT depreciation (e.g., Section 179 depreciation differences).

**Line 2b – Amortization of certified pollution control facilities placed in service after 1986**
For any certified pollution control facility placed in service in California after 1986 and before 1999, the five-year depreciation method available for such facilities for regular tax purposes must be replaced for AMT purposes by the alternative depreciation system (ADS) specified under IRC Section 168(g) (straight-line method, without regard to salvage value). A facility placed in service after December 31, 1998 is depreciated using the IRC Section 168 straight-line method. For more information, see IRC Section 56(a)(5).

**Line 2c – Amortization of mining exploration and development costs incurred after 1987**
If the corporation elected the optional ten-year write-off under IRC Section 59(e) for all assets in this category, skip this line.

With respect to each mine or other natural deposit, (other than an oil, gas, or geothermal well) refigure the expenses before the 30% reduction under IRC Section 291(b) by amortizing them over ten years beginning with the year in which the expenses were paid or incurred. Figure the adjustment by subtracting the refigured amount from the deduction taken under IRC Section 616(a) or 617(a) after the 30% reduction. Enter the amount on this line. If a loss resulted with respect to those expenses, see IRC Section 56(a)(2)(B), for more information.

**Line 2d – Basis adjustments in determining gain or loss from sale or exchange of property**
If the corporation disposed of property during the year, refigure the gain or loss from such sale taking into account the AMT adjustments on line 2a through line 2c. Enter the difference between the gain or loss reported for regular tax and the recomputed gain or loss. If the recomputed gain is less, or the loss is more, enter the difference as a negative amount. Otherwise, enter a positive amount.

**Line 2e – Long-term contracts entered into after February 28, 1986**
If the corporation entered into a long-term contract after February 28, 1986, determine the taxable income from the contract under the percentage of completion method of accounting as modified by IRC Section 460(b) and R&TC Section 24673.2 using AMT adjustments and tax preference items.

Determine the difference between that result and the amount determined for the contract in figuring the regular tax and enter the difference on this line. If the refigured taxable income is less than the result when determining the regular tax, enter the difference as a negative amount.

California conforms to IRC Section 460(b)(2). This section requires the taxpayer to "look-back" to previous years during which the contract work for certain contracts were in progress. The taxpayer must compute interest on the difference between the tax that was actually paid and the tax that would have been paid if the taxpayer had known the actual contract prices and costs that would finally result.

Get form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to figure the interest due or to be refunded under the "look-back method."

**Line 2f – Installment sales of certain property**
For regular tax purposes, corporations may use the installment method of accounting for sales of certain property. For AMT, corporations may not determine income from dispositions of inventory or other property described in IRC Section 1221(a)(1) using the installment method, except for certain dispositions of timeshares or residential lots, if the corporation elected to pay interest under IRC Section 453(l)(2)(B) (R&TC Section 24667).

If the corporation used the installment method for regular tax purposes, but was required for AMT purposes to report the entire gain in the year of disposition, the corporation may have adjustments with respect to those dispositions. Enter on this line as a negative amount the current year income the corporation reported for regular tax.

Farmers that received payments for a taxable year beginning on or after January 1, 1997, for qualified installment sales made in taxable years beginning on or after January 1, 1988, do not need to make an adjustment on this line.

**Line 2g – Tax shelter farm activities (personal service corporations only)**

**Caution:** To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, **do not** include them on any other line of this schedule.

Complete this line only if the corporation has a gain or loss from a tax shelter farm activity, as defined in IRC Section 58(a)(2), that is not a passive activity. If the tax shelter farm activity is a passive activity, the corporation must include the gain or loss with its other passive activities on line 2h.

Refigure all gains and losses reported for regular tax purposes from tax shelter farm activities using the AMT adjustments and tax preference items.

Figure the tax shelter farm activity gain or loss for AMT using the same rules the corporation used for regular tax except:

- **Do not** take any refigured loss unless the corporation is insolvent. For more information, see IRC Section 58(c)(1).
- **Do not** offset gains from other tax shelter activities with any refigured loss.

Instead, suspend and carry over the loss to future taxable years until one of the following applies:

- The corporation has a gain in a future taxable year from that same tax shelter farm activity.
- The corporation disposes of the activity.

Enter on this line the difference between the AMT tax shelter farm loss and the regular tax shelter farm loss.

**Line 2h – Passive activities (closely held corporations and personal service corporations only)**

**Caution:** To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Corporations may enter two kinds of adjustments on this line:

**Regular Passive Activities.** Refigure passive activity gains and losses for AMT by taking into account all AMT adjustments, tax preference items and AMT prior year unallowed losses that apply to the passive activity.

**Tax Shelter Passive Farm Activities.** Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments, tax preference items, and AMT prior year unallowed losses. If the amount is a gain, it may be included on form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, but if it is a loss, the adjustment for tax shelter passive farm activity is the loss the corporation reported for regular tax. The AMT loss carryover is the refigured AMT loss.

If, at the end of the taxable year, the corporation's liabilities exceed the fair market value of the corporation's assets (insolvency), increase the passive activity loss allowed by that excess (but not more than the total loss). For more information, see IRC Section 58(c)(1).

**Line 2i – Certain loss limitations**
Refigure the allowable losses from at-risk activities and basis limitations applicable to partnerships, taking into account the AMT adjustments and tax preference items. See IRC Sections 59(h), 465, and 704(d). If the refigured loss is more than the loss reported for purposes of the regular tax, enter on this line as a negative amount the difference between the loss reported on the tax return for purposes of the regular tax and the refigured loss.

**Line 2k – Merchant marine capital construction funds**
Amounts deposited in these funds are not deductible for AMT. Earnings on these funds are not excludable from gross income for AMT. If the corporation deducted these amounts or excluded them from income for regular tax, add them back on line 2k.

## Tax Preference Items

**Line 3a – Depletion**
In the case of mines, wells, and other natural deposits, enter the amount by which the deduction for depletion under IRC Section 611 is more than the adjusted basis of the property at the end of the corporation's taxable year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. Get federal Form 4626 for more information. However, the California depletion costs may continue to be different from the federal amounts because of prior differences in law and differences in basis.

See IRC Section 291(a)(2) for reduction in the amount allowable as a deduction in the case of iron ore and coal.

**Line 3b – Intangible drilling costs**
If the corporation elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

Enter the amount by which excess intangible drilling costs exceed 65% of net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs as follows: From the intangible drilling and development costs allowable under IRC Section 263(c) or 291(b) (except costs in drilling a nonproductive well), subtract the amount that would have been allowable if these costs had been capitalized and either amortized over 120 months starting when production began or treated according to an election made under IRC Section 57(b)(2).

Net income from oil, gas, and geothermal properties is gross income from them, minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure the line 3b amount separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

California conformed in 1993 to the limited federal repeal of intangible drilling costs preferences for independent producers. California now conforms to the limit on the benefit of the exclusion of the preference for intangible drilling costs of 40% of AMTI. See the instructions for federal Form 4626. Also, note that the intangible drilling costs amounts may differ from federal amounts because of prior differences in the law.

**Line 3c – Accelerated depreciation of real property placed in service before 1987**
Enter on this line, but not less than zero, the difference between the depreciation taken for this property in determining the regular tax and depreciation as refigured using the straight-line method. Figure this amount separately for each property and include only positive adjustments. Use the straight-line method over the life of the property using the half-year convention and no salvage value.

**Line 3d – Amortization of certified pollution control facilities placed in service before 1987**
For any certified pollution control facility in California placed in service before 1987 (or before August 1, 1986, if an election was made), figure the amount by which the amortization allowable under IRC Section 169 is more than the depreciation deduction otherwise allowable. Before figuring this tax preference item, reduce the amortizable basis by 20% (15% if the facility was placed in service in 1983 or 1984, 0% if placed in service before 1983), as required under IRC Section 291. Multiply the difference above by 59.6% (71.6% if the facility was placed in service in 1983 or 1984, 100% if placed in service before 1983). Enter only positive amounts.

**Line 3e – Charitable contributions including appreciated property**
Enter on this line the difference between the charitable contributions deduction allowed for AMT purposes and the deduction allowed for regular tax purposes. Use only income and deductions allowed for AMT purposes when refiguring the limit based on taxable income under IRC Section 170(b)(2).

Also, for taxable years prior to January 1, 2002, California did not conform to the federal treatment of contributions of appreciated property for AMT. As a result, all carryovers from these contributions are:

- Limited to the cost or other basis for any contribution in excess of adjusted basis.
- Treated as an AMT preference item.

**Line 4b – Apportioned pre-adjustment AMTI**
For taxpayers required to apportion their income, pre-adjustment AMTI is apportioned and allocated to California in the same manner as net income for purposes of the regular tax. This may be done by transferring the amount from line 4a to Schedule R, line 1c. Refigure the Schedule R taking into account any AMT adjustments, then transfer the refigured net income from Schedule R, line 35 to Schedule P (100W), line 4b.

For combined reports, each taxpayer's pre-adjustment AMTI is the sum of (1) that corporation's apportioned share of combined business pre-adjustment AMTI and (2) any of that corporation's nonbusiness California source pre-adjustment AMTI. For additional guidance in making these computations, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

**Line 5a – ACE**
If this schedule is for a regulated investment company or a real estate investment trust, skip this line.

The ACE is the pre-adjustment AMTI from line 4a with additional adjustments. California's ACE adjustment generally follows the federal ACE adjustment rules in IRC Section 56(g). To compute the California ACE, the federal ACE worksheet included in the instructions for the federal Form 4626 can be used by taking into account the modifications of R&TC Sections 23456 (e) and (f), if applicable. For example:

**Taxes.** Taxes on, according to, or measured by income are not deductible from earnings and profits (E&P). Foreign taxes on, according to, or measured by income are not deductible even though a foreign tax credit is not taken for federal purposes. Environmental taxes imposed by IRC Section 59A are not deductible from E&P.

**Depreciation and Amortization.** For property placed in service on or after January 1, 1981, and before January 1, 1987, the amount allowable as depreciation or amortization must be determined using the straight-line method for each taxable year of useful life (determined without regard to R&TC Section 24354.2) that the corporation has held the property.

For property placed in service on or after January 1, 1987, and before January 1, 1990, the amount allowable as depreciation or amortization must be determined by using the state AMTI depreciable basis as of the close of the taxable year beginning before January 1, 1990, and applying IRC Section 168(g). For property placed in service in taxable years beginning on or after January 1, 1990, and before January 1, 1998, use the ADS described in IRC Section 168(g). For property placed in service in taxable years beginning on or after January 1, 1998, the ACE depreciation is the same as the AMT depreciation. Therefore, no ACE depreciation adjustment is necessary for those assets.

**Dividends.** Dividends deductible for regular California tax purposes are deductible from E&P.

The provision of IRC Section 56(g)(4)(C)(ii), for 100% dividend, does not apply.

The provisions of IRC Sections 56(g)(4)(C)(iii) and (iv), for dividends from IRC Section 936 companies and certain dividends received by certain cooperatives, do not apply.

**Certain Amortization Provisions.** IRC Section 56(g)(4)(D)(ii) was modified to specify that circulation expenditures under IRC Section 173 (R&TC Section 24364) and organizational expenditures under IRC Section 248 (R&TC Section 24407) do not apply to expenditures paid or incurred in taxable years beginning on or after January 1, 1990, for E&P calculations.

**Interest Income.** For entities not subject to the minimum franchise tax, interest income included in E&P must not exceed the amount of interest income included for regular tax purposes.

Appropriate adjustments must be made to limit deductions from ACE for interest expense in accordance with the provisions of R&TC Sections 24344 and 24425.

**Line 5b – Apportioned ACE**
For apportioning taxpayers and members of a combined report, ACE is apportioned and allocated to California in the same manner as net income for purposes of the regular tax and AMTI (FTB Legal Ruling 94-3). The method described in the instructions for line 4b may be used to compute the California ACE.

**Line 5e – Excess of AMTI increases over AMTI reductions from prior year ACE adjustments**
For combined reports, each taxpayer corporation enters the excess of its prior year accumulated positive California ACE adjustments over its prior year accumulated negative California ACE adjustments.

**Line 7a – Reduction for disaster loss carryover deduction**
Disaster loss is not subject to the 2010 and 2011 NOL suspension rules.

If a disaster loss carryover is claimed in 2010, enter the amount on this line.

**Line 7b – AMT net operating loss (NOL) deduction**
The NOL carryover deduction is suspended for the 2010 and 2011 taxable years if the corporation net income after state adjustments (pre-apportioned income) is $300,000 or more. The corporation may continue to compute and carryover an NOL during the suspension period. **However**, corporations with net income after state adjustments (pre-apportioned income) of less than $300,000 **or** with disaster loss carryovers are not affected by the NOL suspension rules. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations.

**Note.** If taxpayers are required to be included in a combined report, the 2010 and 2011 NOL limitation amount of $300,000 or more shall apply to the aggregate amount of pre-apportioned income for **all** members included in the combined report.

The AMT NOL is the NOL determined for regular tax except for the following:

1. For any taxable year beginning before 1988, reduce the NOL amount by any preference items attributable to the deferred tax that has not been paid.
2. In the case of a loss year beginning after 1987, the NOL determined for regular tax for such year must be:
   (a) Reduced by the positive AMT adjustments and increased by the negative AMT adjustments.
   (b) Reduced by the tax preference items (but only to the extent they increased the NOL as determined for regular tax).
3. Reduce the AMT NOL by any expired losses.
4. The AMT NOL may not offset more than 90% of the AMTI, Part I, line 6. Enter on line 7b the smaller of the AMT NOL or 90% of the amount on line 6.

Taxpayers that are members of a unitary group filing a combined report must separately compute the NOL carryover and application of the NOL carryover for each corporation in the group (R&TC Section 25108).

NOL carryovers from pre-water's-edge years are limited to the lesser of the amount of NOL carryover that would have resulted if a water's-edge election had been in effect in the loss year, or the NOL carryover as computed on a world-wide basis under R&TC Section 24416(c).

The amount carried over for AMT is likely to differ from the amount (if any) that is carried over for regular tax; therefore, it is essential that the corporation retain adequate records for both AMT and regular tax.

If the corporation had a loss from a farming business due to Pierce's disease, or from a business activity within an enterprise zone, the former Los Angeles Revitalization Zone, Local Agency Military Base Recovery Area, or the Targeted Tax Area, get form FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation - Pierce's Disease; FTB 3805Z, Enterprise Zone Business Booklet; FTB 3806, Los Angeles Revitalization Zone Business Booklet; FTB 3807, Local Agency Military Base Recovery Area Business Booklet; or FTB 3809, Targeted Tax Area Business Booklet.

**Line 9 and Line 10**
The $40,000 exemption and the $150,000 limitation apply to each corporation included in the combined report that has a filing requirement in California, to the extent that each corporation has AMTI.

**Line 16 – Banks and financial corporations**
Corporations with negative or zero taxable income on Form 100W, line 23, enter -0-.

**Line 18 – Regular tax before credits**
For installment obligations subject to IRC Section 453(l)(2)(B) (Timeshares and Residential Lots) and IRC Section 453A (Nondealer dispositions greater than $150,000), **do not** include tax increases for interest on the deferred tax liability.

**Line 19 – AMT**
If line 17 is more than zero and if the corporation has credits or credit carryovers, continue to Part II. Otherwise, stop here and enter the amount from line 19 on Form 100W, line 30.

## Part II — Credits that Reduce Tax

Complete Part II only if the corporation has tax credits.

**Use Part II to determine the following:**
- The amount of credit that may be used to offset tax.
- The tax that may be offset.
- The amount of credit, if any, that may be carried over to future years.
- The order in which to claim credits, if the corporation has more than one credit to claim.

Credits are applied against the tax on a separate entity basis. Unless otherwise provided by statutory authority, specific credits are only available to the corporation that incurred the expense that generated the credits.

**Before the corporation completes Part II:**
- Complete Form 100W through line 24.
- Figure the amount of credit(s) using a schedule or the credit form identified in the Credit Table on the next page. Be sure to attach the credit form or schedule to the tax return, if applicable.

**To complete Part II:**
- Complete line 1 through line 3 to figure the amount of excess tax the corporation may offset by credits.
- Identify in which section(s) of Part II the corporation may take tax credit(s). Credits **without** carryover provisions are listed on Schedule P (100W) in Section A1 and may be taken only in that section. The corporation is allowed to carryover the amount of the Prison Inmate Labor credit, that was disallowed due to the 50% limitation for taxable years 2008 and 2009. The carryover period for the disallowed credit is extended by the number of taxable years the credit was not allowed. Credits **with** carryover provisions are listed on the Credit Table on the next page. The table identifies the section(s) of Part II in which the corporation may take these tax credits.
- If the corporation has credit(s) in Section B, be sure to complete line 10 in addition to the line(s) for the corporation's credit(s).
- Complete column (a) through column (d) for each line on which the corporation is taking a credit. See "Column Instructions" below for more information.
- Once the corporation has completed Part II, see "How to Claim Credits" on next page.

**Column Instructions –** In column:
(a) Enter the amount of credit available to offset tax.
(b) Figure the amount of credit the corporation is able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line.
(c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line.
(d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

## Section A – Credits that reduce excess regular tax

**Section A Instructions**

**Line 3 –** Subtract line 2 from line 1. If the amount is zero or less, continue to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

1. Does the Credit Table show that the corporation may take the credit **only** in Sections A1 or A2?
   **Yes** **Do not** take the credit this year. Go to question 2.
   **No** Go to Section B to figure the amount of credit the corporation may take this year. Then continue to Section C if the corporation's credit is listed in that section.
2. Does the credit have carryover provisions?
   **Yes** Enter the credit code, credit name, and credit amount in column (a) in the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit the corporation may carry over and use in future years.
   **No** **Do not** take the credit this year or in future years.

**Section A1 Instructions**

**Line 4 –** If the corporation has the credit listed in this section, complete column (a) through column (c). The corporation is allowed to carryover the amount of the Prison Inmate Labor credit, that was disallowed due to the 50% limitation for taxable years 2008 and 2009. The carryover period for the disallowed credit is extended by the number of taxable years the credit was not allowed.

**Section A2 Instructions**

For taxable years beginning on or after January 1, 2002, the credit for prior year AMT has to be applied before any credits that can reduce the regular tax below the TMT in accordance with R&TC Section 23036(c).

**Line 5 through Line 9 –** Follow the Credit Table Instructions on the next page to find out in which section to claim the credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Generally, it is to the corporation's advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, the corporation may want to apply credits with no limitation on the carryover first if that is more advantageous.

Corporations may use these credits to reduce regular tax but not below TMT. The corporation may be able to, if applicable, carry them over to future years. The credits that do not have shading in column (d) can be carried over to future years, if applicable, after reducing the regular tax down to TMT.

## Section B – Credits that may reduce regular tax below TMT

Corporations may use these credits to reduce the regular tax below TMT. Corporations may also carry over to future taxable years any credits remaining after reducing the regular tax down to the minimum franchise tax, if applicable. But, if the corporation has a tax balance and can continue to use the credit in Section C, apply the carryover in Section C.

**Section B Instructions**

**Line 11 through Line 14 –** Follow the Credit Table Instructions to find out in which section to claim the credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

## Section C — Credits that may reduce AMT

If the corporation has AMT, the corporation may reduce AMT using current EZ credit and/or remaining credit carryover from either the solar energy, commercial solar energy, EZ hiring & sales or use tax, or MIC after reducing the regular tax down to the minimum franchise tax (if applicable). Corporations may carry over to future taxable years any credits remaining after reducing the AMT to zero.

**Section C Instructions**

**Lines 16a, 16b, 17a and 17b –** If the corporation has any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

**How to Claim Credits**

Claim credits by transferring them to Form 100W as follow:

**Credits on Line 4 through Line 14**

If the corporation claims only one or two credits, enter the name, code number, and amount of the credit from column (b) on Form 100W, line 26a and line 26b.

If the corporation has any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 100W, line 27.

## Part III — Credit for Prior Year AMT

Use this part to figure the 2010 credit for prior year AMT if the corporation paid AMT for 2009 or had an AMT credit carryover from 2009.

For members of a unitary group filing a combined report, compute the credit for prior year AMT for each entity in the current year's group.

**Line 1**

Enter the AMT from the 2009 Schedule P (100W), Part I, line 19. If this amount was reduced by any credits from Part II, Section C, use the AMT from Section C, line 18 of the 2009 Schedule P (100W).

**Line 2**

Enter the credit for prior year carryover from the 2009 Schedule P (100W), Part II, line 9, column (d).

**Credit Table Instructions**

To use the table:

1. Find the corporation's credit(s) listed in the table.
2. See which sections are identified in the columns under "Offset Tax in Section."
3. Take the credit only in sections the table identifies for the corporation's credit.
4. Complete each section before going to the next section.

**Credit Table**

| Code | Current Credits | Form | Offset Tax in Section | | | |
|---|---|---|---|---|---|---|
| 209 | Community Development Financial Institution Deposits | N/A | | A2 | | |
| 205 | Disabled Access for Eligible Small Businesses | FTB 3548 | | A2 | | |
| 204 | Donated Agricultural Products Transportation | FTB 3547 | | A2 | | |
| 190 | Employer Child Care Contribution | FTB 3501 | | A2 | | |
| 189 | Employer Child Care Program | FTB 3501 | | A2 | | |
| 203 | Enhanced Oil Recovery | FTB 3546 | | A2 | | |
| 176 | Enterprise Zone Hiring & Sales or Use Tax<br>1 = hiring<br>2 = sales or use tax | FTB 3805Z | | | $B_1$<br>$B_2$ | $C_1$<br>$C_2$ |
| 218 | Environmental Tax | FTB 3511 | | A2 | | |
| 198 | Local Agency Military Base Recovery Area Hiring & Sales or Use Tax | FTB 3807 | | A2 | | |
| 172 | Low-Income Housing | FTB 3521 | | | B | |
| 211 | Manufacturing Enhancement Area Hiring | FTB 3808 | | A2 | | |
| 213 | Natural Heritage Preservation | FTB 3503 | | | B | |
| 220 | New Jobs* | FTB 3527 | | A2 | | |
| 188 | Prior Year Alternative Minimum Tax | N/A | | A2 | | |
| 162 | Prison Inmate Labor | FTB 3507 | A1 | | | |
| 183 | Research | FTB 3523 | | | B | |
| 210 | Targeted Tax Area Hiring & Sales or Use Tax | FTB 3809 | | | B | |
| **Code** | **Repealed Credits with Carryover Provisions** | **Form** | **Offset Tax in Section** | | | |
| 175 | Agricultural Products | FTB 3540 | | A2 | | |
| 196 | Commercial Solar Electric System | FTB 3540 | | | B | |
| 181 | Commercial Solar Energy | FTB 3540 | | | B | C |
| 202 | Contribution of Computer Software | FTB 3540 | | A2 | | |
| | Employer Ridesharing | | | | | |
| 191 | Large | | | | | |
| 192 | Small | FTB 3540 | | A2 | | |
| 193 | Transit Passes | | | | | |
| 182 | Energy Conservation | FTB 3540 | | A2 | | |
| 207 | Farmworker Housing – Construction | FTB 3540 | | A2 | | |
| 215 | Joint Strike Fighter Wage | FTB 3540 | | A2 | | |
| 216 | Joint Strike Fighter Property | FTB 3540 | | A2 | | |
| 159 | Los Angeles Revitalization Zone Hiring & Sales or Use Tax | FTB 3806 | | | B | |
| 160 | Low-Emission Vehicles | FTB 3540 | | A2 | | |
| 199 | Manufacturers' Investment | FTB 3540 | | | B | C |
| 185 | Orphan Drug | FTB 3540 | | | B | |
| 174 | Recycling Equipment | FTB 3540 | | A2 | | |
| 206 | Rice Straw | FTB 3540 | | A2 | | |
| 171 | Ridesharing | FTB 3540 | | A2 | | |
| 200 | Salmon & Steelhead Trout Habitat Restoration | FTB 3540 | | A2 | | |
| 180 | Solar Energy | FTB 3540 | | | B | C |
| 179 | Solar Pump | FTB 3540 | | A2 | | |
| 217 | Solar or Wind Energy System | FTB 3540 | | A2 | | |
| 201 | Technological Property Contribution | FTB 3540 | | A2 | | |

***Do not** claim the New Jobs Credit on Schedule P (100W). Claim this credit on Form 100W, line 25b.

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# Instructions for Form FTB 2416

## Schedule of Included Controlled Foreign Corporations (CFC)

## General Information

### A Purpose

Revenue and Taxation Code (R&TC) Section 25110(a)(2)(A)(ii) provides that the income and apportionment factors of any Controlled Foreign Corporation (CFC) (as defined in Internal Revenue Code [IRC] Section 957) that has Subpart F income (defined in IRC Section 952) are to be included in the combined report of a taxpayer making a water's-edge election.

Use form FTB 2416, Schedule of Included Controlled Foreign Corporations (CFC), to compute the net income and apportionment factors required to be included in the water's-edge combined report.

### B Controlled Foreign Corporation

In general, a foreign corporation is a corporation that is not created or organized in the U.S. or under the laws of the U.S. or any state.

A CFC is any foreign corporation that is more than 50% owned or considered to be owned per IRC Section 958(b) by U.S. shareholders.

### C Apportionment

For each CFC, the amounts included in income and the apportionment factors are determined by multiplying the total income and each component of the apportionment factors by a fraction. The numerator of the fraction is the current taxable year total Subpart F income defined in IRC Section 952 and the denominator is the current taxable year earnings and profits (E&P) as defined in IRC Section 964.

See R&TC Section 25110(a)(2) and the related regulations for more information.

## Specific Instructions

**Column (b) – Country of incorporation**

Enter the country of incorporation in column (b). Use the list of country codes on form FTB 2416, Side 2.

**Column (c) – Country of primary business activity**

Enter the country in which the CFC conducts its primary trade or business in column (c). Use the list of country codes on form FTB 2416, Side 2. This country may be different from the country of incorporation.

**Column (d) – Principal business activity (PBA) code**

Enter the PBA code of the CFC. The PBA codes are listed on the Principal Business Activity Codes chart included in this booklet.

**Column (e) – Subpart F income**

In determining whether a CFC has Subpart F income, defined by IRC Section 952, for purposes of R&TC Section 25110(a)(2) and the regulations thereunder, the limitation and exclusions provided for in IRC Section 954(b) shall apply. However, IRC Section 952(c) shall not apply.

For these purposes, Subpart F income does not include income defined in IRC Sections 955 or 956.

Include both business and nonbusiness income as defined under R&TC Section 25120 for the current year.

If there is no Subpart F income, none of the income or factors of this CFC will be included in the water's-edge combined report. See *Fujitsu IT Holdings, Inc.* vs. *Franchise Tax Board* (2004) 120 Cal. App. 4th 459.

**Column (f) – Current year earnings and profits**

E&P, as defined in IRC Section 964, includes both business and nonbusiness income for the current taxable year. In most cases, the E&P can be taken from federal Form 5471, page 4, Schedule H, line 5d.

If there is no current E&P, stop. None of the income or factors of this CFC will be included in the water's-edge combined report.

**Column (g) – Percentage**

The percentage may not exceed 100% or be less than zero.

**Column (h) – Net income**

Report the total net income as reflected on the CFC's books and records, adjusted to conform to California tax law.

**Column (i) – Net income included in the combined report**

Enter total from column (i) on Form 100W, Side 1, line 7a.

**Columns (j), (l), (n), and (p) – Apportionment factors**

Determine the apportionment factors for the CFC to be included in the water's-edge combined report including total average property everywhere, rent expense everywhere, payroll everywhere, and sales everywhere based on the apportionment factor rules set forth in R&TC Sections 25129 through 25137. See California Schedule R, Apportionment and Allocation of Income, for more information.

# Alphabetic Listing of Countries and Codes for Form FTB 2416

| Country | Code |
|---|---|
| Afghanistan | AF |
| Akrotiri Sovereign Base Area | AX |
| Albania | AL |
| Algeria | AG |
| Aland Island | XI |
| American Samoa | AQ |
| Andorra | AN |
| Angola | AO |
| Anguilla | AV |
| Antarctica | AY |
| Antigua and Barbuda | AC |
| Argentina | AR |
| Armenia | AM |
| Aruba | AA |
| Ascension | XA |
| Ashmore and Cartier Islands | AT |
| Australia | AS |
| Austria | AU |
| Azerbaijan | AJ |
| Azores | XZ |
| Bahamas, The | BF |
| Bahrain | BA |
| Baker Island | FQ |
| Bangladesh | BG |
| Barbados | BB |
| Bassas da India | BS |
| Belarus | BO |
| Belgium | BE |
| Belize | BH |
| Benin | BN |
| Bermuda | BD |
| Bhutan | BT |
| Bolivia | BL |
| Bosnia-Herzegovina | BK |
| Botswana | BC |
| Bouvet Island | BV |
| Brazil | BR |
| British Indian Ocean Territory | IO |
| Brunei | BX |
| Bulgaria | BU |
| Burkina Faso | UV |
| Burma | BM |
| Burundi | BY |
| Cambodia | CB |
| Cameroon | CM |
| Canada | CA |
| Canary Islands | XY |
| Cape Verde | CV |
| Cayman Islands | CJ |
| Central African Republic | CT |
| Chad | CD |
| Channel Islands | XC |
| Chile | CI |
| China | CH |
| Christmas Island | KT |
| Clipperton Island | IP |
| Cocos (Keeling) Islands | CK |
| Colombia | CO |
| Comoros | CN |
| Congo (Brazzaville) | CF |
| Congo, Democratic Republic of (Zaire) | CG |
| Cook Islands | CW |
| Coral Sea Islands Territory | CR |
| Corsica | VP |
| Costa Rica | CS |
| Cote D'Ivoire (Ivory Coast) | IV |
| Croatia | HR |
| Cuba | CU |
| Cyprus | CY |
| Czech Republic | EZ |
| Denmark | DA |
| Dhekelia Base Area | DX |
| Djibouti | DJ |
| Dominica | DO |
| Dominican Republic | DR |
| East Timor | TT |
| Ecuador | EC |
| Egypt | EG |
| El Salvador | ES |
| England | XE |
| Equatorial Guinea | EK |
| Eritrea | ER |
| Estonia | EN |
| Ethiopia | ET |
| Europe Island Territory | EU |
| Falkland Islands (Islas Malvinas) | FK |
| Faroe Islands | FO |
| Fiji | FJ |
| Finland | FI |
| France | FR |
| French Guinea | FG |
| French Polynesia (Tahiti) | FP |
| French Southern and Antarctic Lands | FS |
| Gabon | GB |
| Gambia, The | GA |
| Gaza Strip | GZ |
| Georgia | GG |
| Germany | GM |
| Ghana | GH |
| Gibraltar | GI |
| Glorioso Islands | GO |
| Greece | GR |
| Greenland | GL |
| Grenada | GJ |
| Grenadines | VC |
| Guadeloupe | GP |
| Guam | GQ |
| Guatemala | GT |
| Guernsey | GK |
| Guinea | GV |
| Guinea-Bissau | PU |
| Guyana | GY |
| Haiti | HA |
| Heard Island and McDonald Islands | HM |
| Honduras | HO |
| Hong Kong | HK |
| Howland Island | HQ |
| Hungary | HU |
| Iceland | IC |
| India | IN |
| Indonesia (including Bali, Belitung, Flores, Java, Moluccas, Sumatra, Timor, etc.) | ID |
| Iran | IR |
| Iraq | IZ |
| Ireland | EI |
| Isle of Man | IM |
| Israel | IS |
| Italy | IT |
| Jamaica | JM |
| Jan Mayen | JN |
| Japan | JA |
| Jarvis Island | DQ |
| Jersey | JE |
| Johnston Atoll | JQ |
| Jordan | JO |
| Juan de Nova Island | JU |
| Kazakhstan | KZ |
| Kenya | KE |
| Kingman Reef | KQ |
| Kiribati (Gilbert Islands) | KR |
| Korea, Democratic People's Republic of (North) | KN |
| Korea, Republic of (South) | KS |
| Kuwait | KU |
| Kyrgyzstan | KG |
| Laos | LA |
| Latvia | LG |
| Lebanon | LE |
| Lesotho | LT |
| Liberia | LI |
| Libya | LY |
| Liechtenstein | LS |
| Lithuania | LH |
| Luxembourg | LU |
| Macau | MC |
| Macedonia | MK |
| Madagascar | MA |
| Malawi | MI |
| Malaysia | MY |
| Maldives | MV |
| Mali | ML |
| Malta | MT |
| Marshall Islands | RM |
| Martinique | MB |
| Mauritania | MR |
| Mauritius | MP |
| Mayotte | MF |
| Mexico | MX |
| Micronesia, Federated States of | FM |
| Midway Islands | MQ |
| Moldova | MD |
| Monaco | MN |
| Mongolia | MG |
| Montenegro | MJ |
| Montserrat | MH |
| Morocco | MO |
| Mozambique | MZ |
| Myanmar | XM |
| Namibia | WA |
| Nauru | NR |
| Navassa Island | BQ |
| Nepal | NP |
| Netherlands | NL |
| Netherlands Antilles | NT |
| New Caledonia | NC |
| New Zealand | NZ |
| Nicaragua | NU |
| Niger | NG |
| Nigeria | NI |
| Niue | NE |
| Norfolk Island | NF |
| Northern Ireland | XN |
| Northern Mariana Islands | CQ |
| Norway | NO |
| Oman | MU |
| Pakistan | PK |
| Palau | PS |
| Palmyra Atoll | LQ |
| Panama | PM |
| Papua New Guinea | PP |
| Paracel Islands | PF |
| Paraguay | PA |
| Peru | PE |
| Philippines | RP |
| Pitcairn Island | PC |
| Poland | PL |
| Portugal | PO |
| Puerto Rico | RQ |
| Qatar (Katar) | QA |
| Redonda | VI |
| Reunion | RE |
| Romania | RO |
| Russia | RS |
| Rwanda | RW |
| St. Helena | SH |
| St. Kitts & Nevis | SC |
| St. Lucia Island | ST |
| St. Pierre and Miquelon | SB |
| St. Vincent and the Grenadines | VC |
| San Marino | SM |
| Sao Tome and Principe | TP |
| Saudi Arabia | SA |
| Senegal | SG |
| Serbia | RB |
| Seychelles | SE |
| Sierra Leone | SL |
| Singapore | SN |
| Slovak Republic | XR |
| Slovakia | LO |
| Slovenia | SI |
| Solomon Islands | BP |
| Somalia | SO |
| South Africa | SF |
| South Georgia and the South Sandwich Islands | SX |
| Spain | SP |
| Spratly Islands | PG |
| Sri Lanka | CE |
| Sudan | SU |
| Suriname | NS |
| Svalbard (Spitsbergen) | SV |
| Swaziland | WZ |
| Sweden | SW |
| Switzerland | SZ |
| Syria | SY |
| Taiwan | TW |
| Tajikistan | TI |
| Tanzania | TZ |
| Thailand | TH |
| Togo | TO |
| Tokelau | TL |
| Tonga | TN |
| Trinidad and Tobago | TD |
| Tristan Da Cunha | XT |
| Tromelin Island | TE |
| Tunisia | TS |
| Turkey | TU |
| Turkmenistan | TX |
| Turks and Caicos Islands | TK |
| Tuvalu | TV |
| Uganda | UG |
| Ukraine | UP |
| United Arab Emirates | AE |
| United Kingdom (England, Wales, Scotland, No. Ireland) | UK |
| Uruguay | UY |
| Uzbekistan | UZ |
| Vanuatu | NH |
| Vatican City | VT |
| Venezuela | VE |
| Vietnam | VM |
| Virgin Islands (British) | VI |
| Virgin Islands (U.S.) | VQ |
| Wake Island | WQ |
| Wales | XW |
| Wallis and Futuna | WF |
| West Bank | WE |
| Western Sahara | WI |
| Western Samoa | WS |
| Yemen (Aden) | YM |
| Yugoslavia | YI |
| Zaire (Democratic Republic of Congo) | CG |
| Zambia | ZA |
| Zimbabwe | ZI |
| Other Country | OC |
| Unknown Country | UC |

# Instructions for Form FTB 2424

## Water's-Edge Foreign Investment Interest Offset

## General Information

Revenue and Taxation Code (R&TC) Section 24344(c) provides that interest expense incurred for purposes of foreign investment (as defined below) may be offset against the foreign dividend deduction allowed under R&TC Section 24411. The foreign investment interest offset may not exceed the total foreign dividend deduction allowed for the taxable year.

Use form FTB 2424, Water's-Edge Foreign Investment Interest Offset, to compute the foreign investment interest offset. The amount of interest expense attributable to foreign investment is equal to the amount of interest expense specifically assigned to foreign investment plus the amount of unassigned interest expense allocated to foreign investment. Unassigned interest expense is allocated by formula. The amount of the offset is limited to the lesser of the following:

- The sum of interest expense specifically assigned and interest expense allocated to foreign investment.
- The foreign dividend deduction.

This limited amount is multiplied by 75% to arrive at the foreign investment interest offset. Interest expense that exceeds the offset amount will be subject to the standard interest offset computation of R&TC Section 24344(b). See FTB Notice 2000-9.

If there is no foreign dividend deduction under R&TC Section 24411, then no foreign interest offset computation is necessary.

## A Definitions

1. **Foreign investment**

   Foreign investment is stock or other equity investment, which is included in total assets, regardless of when it was acquired, in the following instances:

   - An entity whose dividends would be qualifying dividends for purposes of R&TC Section 24411.
   - A non-affiliated corporation that is organized under the laws of a country or political subdivision of a country other than the United States.

   To determine the asset value for the foreign investment, see Section B "Asset Values."

2. **Interest expense assigned to specific property**

   Interest expense is considered to be related solely to specific property, if the existence of all of the facts and circumstances described below is established:

   - The indebtedness on which the interest was paid was specifically incurred for the purpose of purchasing, maintaining, or improving the specific property.
   - The proceeds of the borrowing were actually applied to the specified purpose.
   - The creditor can look only to the specific property (or any lease or other interest therein) as security for payment of the principal and interest of the loan and, thus, has no secured interest in any other property of the borrower or the borrower itself with respect to repayment of the loan.

   Even though the above facts and circumstances are present in substance as well as form, a deduction for interest will not be considered definitely related to a specific property where the motive for structuring the transaction in the manner described above was without any economic significance.

3. **Unassigned interest expense**
   Interest expense paid that does not meet the above conditions to be assigned, is unassigned interest expense.

4. **Interest expense on restricted accounts**
   Interest expense on restricted accounts is interest expense paid on new debt incurred on or after January 1, 1988, if the proceeds of the debt are deposited into an account that prevents its use for foreign investment and the account is not, in fact, used for foreign investment. However, debt shall not be treated as incurred on or after January 1, 1988, if the majority of the proceeds were used to refinance debt incurred prior to January 1, 1988, or the debt arises pursuant to a line of credit or similar arrangement.

5. **Total assets**
   Total assets means all of the assets of a corporation included in a water's-edge combined report by reason of R&TC Section 25110, after the elimination of intercompany accounts of assets.

6. **Average values of assets**
   An average of values is computed by averaging the value of assets at the beginning and ending of the taxable year.

## B Asset Values

Assets and stock or other equity investments with less than 50% ownership are taken into account at the federal tax book value (original cost for federal tax purposes less depreciation, amortization, or depletion).

Stock or other equity investments with more than a 50% ownership are taken into account at the adjusted basis for federal tax purposes if any of the following apply:

- Increased by the amount of the earnings and profits (E&P) of such corporation attributable to such stock, or other equity investment and accumulated during the period the stock, or other equity investment was owned by another affiliated corporation.
- Reduced (but not below zero) by any deficit in E&P of such corporation attributable to such stock or other equity investment for such period.

See R&TC Section 24344(c) and the related regulations for more information.

## Specific Line Instructions

**Line 2**
Enter total interest expense for all entities included in the water's-edge combined report filed pursuant to R&TC Section 25110, net of intercompany interest expense.

**Line 3**
Enter the interest expense specifically assignable to foreign investments. See R&TC Section 24344(c) and the related regulations for more information.

**Line 4**
Enter the interest expense specifically assignable to domestic investments or other property. See R&TC Section 24344(c) and the related regulations for more information.

**Line 11**
Unassigned foreign investment is the average value of all foreign investment to which interest is not specifically assigned.

**Line 12**
Unassigned total assets is the average value of all the water's-edge group's unassigned total assets.

**Line 13**
In calculating the percentage, do not include any foreign investment, and assets to which interest expense has been specifically assigned.

**Note:** If the taxpayer reported the foreign dividend deduction for dividends received from foreign investments and foreign construction projects, the taxpayer must calculate a separate foreign investment interest offset for each component. The two separately calculated amounts are then added together and entered on Schedule R, Side 1, line 1b.

# Instructions for Form FTB 3539

## Payment for Automatic Extension for Corporations and Exempt Organizations

## General Information

Beginning **November 2010**, corporations can make payments electronically at the Franchise Tax Board's (FTB's) website using Web Pay. After a one-time online registration, corporations can make an immediate payment or schedule payments up to a year in advance. For more information go to **ftb.ca.gov** and search for **web pay**.

Use form FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs, **only** if both of the following apply:

- The corporation or exempt organization cannot file its 2010 California (CA) tax return by the original due date.
- The corporation or exempt organization owes tax for the 2010 taxable year.

Use the worksheet on the next page to determine if the corporation or exempt organization owes tax.

- If the corporation or exempt organization does not owe tax, **do not** file form FTB 3539. However, the corporation or exempt organization must file its return by the extended due date listed below.
- If the corporation or exempt organization owes tax, and will not pay the tax due electronically, complete form FTB 3539, make a check or money order, using black or blue ink, and mail them to the FTB by the original due date of the return to avoid late payment penalties and interest. For more information, see Penalties and Interest section on the next page. If the corporation or exempt organization is required to pay electronically, see Electronic Funds Transfer section for more information.

Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

If a corporation (including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs), limited liability companies (LLCs) electing to be treated as corporations, or an exempt organization in good standing) cannot file its CA tax return by the original due date, a seven-month extension to file is granted without submitting a written request. To qualify for the automatic extension, the corporation or exempt organization must file its CA tax return by the extended due date and its powers, rights, and privileges must not be suspended or forfeited by the FTB or the California Secretary of State (SOS) as of the original due date.

## Electronic Funds Transfer

Corporations or exempt organizations remitting an estimated tax payment or extension payment in excess of $20,000 or having a total tax liability in excess of $80,000 must remit all of their payments through EFT. Once a corporation or exempt organization meets the threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically to avoid a 10% non-compliance penalty. Corporations required to remit payments electronically may use Web Pay and be considered in compliance with that requirement. The FTB notifies corporations or exempt organizations that are subject to this requirement. Those that do not meet these requirements may participate on a voluntary basis.

**Payment of Tax Due Dates:** To avoid late payment penalties and interest, 100% of the tax liability must be paid by the following dates (see item 4 below for exception):

| Form Filed | Calendar Year Filers | Fiscal Year Filers: 15th day of the |
|---|---|---|
| Form 100, 100W, or 100S | March 15, 2011 | 3rd month following the close of the taxable year |
| Form 100 for farmers' cooperative | September 15, 2011 | 9th month following the close of the taxable year |
| Form 199 or 109, generally | May 16, 2011 | 5th month following the close of the taxable year |
| Form 109 for employee's trust (IRC 401(a)) or IRA | April 15, 2011 | 4th month following the close of the taxable year |

**Extended Filing Dates:** The extended date for filing the return is as follows:

| Form Filed | Calendar Year Filers | Fiscal Year Filers: 15th day of the |
|---|---|---|
| Form 100, 100W, or 100S | October 17, 2011 | 10th month following the close of the taxable year |
| Form 100 for farmers' cooperative | April 16, 2012 | 16th month following the close of the taxable year |
| Form 199 or 109, generally | December 15, 2011 | 12th month following the close of the taxable year |
| Form 109 for employee's trust (IRC 401(a)) or IRA | November 15, 2011 | 11th month following the close of the taxable year |

1. An extension of time to file the CA tax return is **not** an extension of time to pay the tax.
2. When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day. Due to the federal Emancipation Day holiday on April 15, 2011, tax returns or payments due by this date, and received on April 18, 2011, will be considered timely.
3. Save the completed worksheet, on next page, as a permanent part of the corporation's or exempt organization's tax records, along with a copy of the CA tax return.
4. The FTB may waive the late payment penalty based on reasonable cause if 90% of the tax shown on the return is paid by the original due date of the return, but not less than the minimum franchise tax if applicable.

DETACH HERE — IF NO PAYMENT IS DUE OR PAID ELECTRONICALLY, DO NOT MAIL THIS FORM — DETACH HERE

**(Calendar year corporations — File and Pay by March 15, 2011) (Fiscal year filers – See instructions)**
**(Employees' trust and IRA — File and Pay by April 15, 2011)**
**(Calendar year exempt organizations — File and Pay by May 16, 2011)**

TAXABLE YEAR **2010**

# Payment for Automatic Extension for Corps and Exempt Orgs

CALIFORNIA FORM **3539 (CORP)**

For calendar year 2010 or fiscal year beginning month _____ day ____ year _____, and ending month _____ day ____ year ______ .

California corporation number | FEIN

This entity will file Form: ☐ 100, 100W, or 100S ☐ 109 ☐ 199

Corporation/exempt organization name

Address (suite, room, or PMB no.)

City | State | ZIP Code

Contact telephone no. ( )

**IF NO PAYMENT IS DUE OR PAID ELECTRONICALLY, DO NOT MAIL THIS FORM**

Amount of payment .00

6141103

If the corporation or exempt organization pays electronically, complete the worksheet for the corporation's or exempt organization's records. **Do not mail form FTB 3539.** For more information, go to **ftb.ca.gov** and search for **eft**, or call 916.845.4025.

## Where to File

If tax is due and the corporation or exempt organization is not paying electronically through EFT or Web Pay, make a check or money order using black or blue ink payable to the "Franchise Tax Board" for the amount of the tax due. Write the California corporation number or FEIN and "2010 FTB 3539" on the check or money order. Enclose, but **do not** staple, the payment with the form FTB 3539 and mail to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0551

Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

**Private Mail Box (PMB)**
Include the PMB in the address field. Write "PMB" first, then the box number. Example: 111 Main Street PMB 123.

## Penalties and Interest

- If the corporation or exempt organization fails to pay its total tax liability by the original due date, the corporation or exempt organization will incur a late payment penalty plus interest. If the corporation or exempt organization paid at least 90% of the tax shown on the return by the original due date of the return, but not less than the minimum franchise tax if applicable, the FTB **may** waive the penalty based on reasonable cause. However, the imposition of interest is mandatory.
- If the corporation or exempt organization does not file its CA tax return by the extended due date, or the corporation's powers, rights, and privileges have been suspended or forfeited by the FTB or the California SOS, as of the original due date, the automatic extension will not apply and a delinquency penalty plus interest will be assessed from the original due date of the CA tax return.
- If the corporation or exempt organization is required to remit all of its payments electronically and pays by another method, a 10% non-compliance penalty will be assessed.

## Combined Reports

- If members of a combined unitary group have made or intend to make an election to file a combined unitary group single return, only the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the minimum franchise tax for each corporation of the combined unitary group that is subject to the franchise tax in California.
- If members of a combined unitary group intend to file separate returns with the FTB, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the Tax Payment Worksheet.
- If any member of a combined unitary group meets the requirements for mandatory EFT, all members must remit their payments electronically, regardless of their filing election.

## Exempt Organizations

- **Form 100 filers:**
  The due dates for corporations also apply to the filing of Form 100, California Corporation Franchise or Income Tax Return, by political action committees and exempt homeowners' associations.

  Political action committees and exempt homeowners' associations that file Form 100 should not enter the minimum franchise tax on line 1 of the Tax Payment Worksheet.
- **Form 199 Filers:**
  Generally, Form 199, California Exempt Organization Annual Information Return, requires a $10 filing fee to be paid with the return on the original or extended due date.

  Use form FTB 3539 only if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet.
- **Form 109 Filers:**
  The due dates for filing Form 109, California Exempt Organization Business Income Return, depend on the type of organization filing the return. Employees' pension trusts and IRAs (including education IRAs) must file on or before the 15th day of the 4th month after the close of their taxable year. All other exempt organizations (except homeowners' associations and political organizations) must file on or before the 15th day of the 5th month after the close of their taxable year.

**TAX PAYMENT WORKSHEET FOR YOUR RECORDS**

| | | | | |
|---|---|---|---|---|
| **1** | Total tentative tax. Include alternative minimum tax if applicable. See instructions . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **1** | | 00 |
| **2** | Estimated tax payments including prior year overpayment applied as a credit . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **2** | | 00 |
| **3** | Tax due. If line 2 is more than line 1, see instructions. If line 1 is more than line 2, subtract line 2 from line 1. Enter the result here and on form FTB 3539 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **3** | | 00 |

## How to Complete the Tax Payment Worksheet

**Line 1**
Enter the total tentative tax, including the alternative minimum tax if applicable, for the taxable year.

- If filing Form 100, Form 100W, or Form 100S, and subject to franchise tax, the tentative tax may not be less than the minimum franchise tax and Qualified Subchapter S Subsidiary (QSub) annual tax (S corporations only).
- If filing Form 100, Form 100W, or Form 100S, and subject to income tax, enter the amount of tax. Corporations subject to the income tax do not pay the minimum franchise tax.
- If a corporation incorporates or qualifies to do business in California on or after January 1, 2000, the corporation will compute its tax liability for the first taxable year by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year.
- If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.
- If filing Form 199, use form FTB 3539 only if paying the filing fee of $10 early. Skip line 1 and line 2, and enter the amount of the filing fee on line 3 of the Tax Payment Worksheet, and on form FTB 3539.

**Line 2**
Enter the estimated tax payments, including prior year overpayment applied as a credit. S corporations may include any QSub annual tax payments.

**Line 3**
**Excess payments.** If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tentative tax. The corporation or exempt organization has no tax due. **Do not mail form FTB 3539**. The corporation or exempt organization will automatically qualify for an extension if the CA tax return is filed by the extended due date and the corporation or exempt organization is in good standing with the FTB and California SOS.

**Tax due**. If the amount on line 1 is more than the amount on line 2, the corporation's or exempt organization's tentative tax is more than its payments and credits. The corporation or exempt organization has tax due.

Subtract line 2 from line 1. Enter this amount on line 3 and on form FTB 3539.

# 2010 Instructions for Form FTB 3805Q

## Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2009,** and to the California Revenue and Taxation Code (R&TC).

## What's New

**Net Operating Loss** – For taxable years beginning in 2010 and 2011, California suspended the net operating loss (NOL) carryovers deduction. Corporations may continue to compute and carryover NOLs during the suspension period. **However**, corporations with net income after state adjustments (pre-apportioned income) of less than $300,000 **or** with disaster loss carryovers are not affected by the NOL suspension rules.

If taxpayers are required to be included in a combined report, the 2010 and 2011 NOL limitation amount of $300,000 or more shall apply to the aggregate amount of pre-apportioned income for **all** members included in the combined report.

The carryover period for any NOL or NOL carryover, for which a deduction is disallowed because of the 2008-2011 suspension, are extended by:

- One year for losses incurred in taxable years beginning on or after January 1, 2010, and before January 1, 2011.
- Two years for losses incurred in taxable years beginning before January 1, 2010.
- Three years for losses incurred in taxable years beginning before January 1, 2009.
- Four years for losses incurred in taxable years beginning before January 1, 2008.

Also, California modified the NOL carryback provision. NOLs incurred in taxable years beginning on or after January 1, 2013, **instead** of January 1, 2011, may be carried back to each of the preceding two taxable years.

The allowable NOL carryback percentage varies. For an NOL incurred in a taxable year beginning on or after:

- January 1, 2013, and before January 1, 2014, the carryback amount shall not exceed 50% of the NOL.
- January 1, 2014, and before January 1, 2015, the carryback amount shall not exceed 75% of the NOL.
- January 1, 2015, the carryback amount shall be 100% of the NOL.

## Important Information

- For taxable years beginning in 2008 and 2009, California has suspended the NOL carryover deduction. Corporations may continue to compute and carryover an NOL during the suspension period. However, corporations with taxable income of less than $500,000 or with disaster loss carryovers are not affected by the NOL suspension rules.

  The carryover period for suspended losses is extended by:

  - Two years for losses incurred in taxable years beginning before January 1, 2008.
  - One year for losses incurred in taxable years beginning on or after January 1, 2008, and before January 1, 2009.
- For NOLs incurred in taxable years beginning on or after January 1, 2008, California has extended the NOL carryover period from 10 taxable years to 20 taxable years following the year of the loss.
- For taxable years that began in 2002 and 2003, California suspended the NOL carryover deduction. Corporations continued to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses was not affected by the NOL suspension rules.

  The carryover period for an NOL incurred in taxable years:

  - Beginning before January 1, 2002, have been extended for two years.
  - Beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.
- The general NOL carryover percentage varies for NOLs incurred prior to January 1, 2004. See General Information F, Types of NOLs, for more information.
- In 1998, the Franchise Tax Board (FTB) implemented the new principal business activity (PBA) code chart that is based on the North American Industry Classification System (NAICS) in the corporate tax booklets. However, the California Revenue and Taxation Code (R&TC) still uses the Standard Industrial Codes (SIC) for purposes of the new business and eligible small business NOL.

## General Information

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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 R&TC in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

### A Purpose

Use form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations, to figure the current year NOL and to limit NOL and disaster loss carryover deductions.

Exempt trusts should use form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

The California NOL is figured the same way as the federal NOL, except that for California:

- The carryover period and the amount to be carried over differ from federal allowances. See General Information F, Types of NOLs, for more information.
- An NOL may be carried over only to future years (no carrybacks are allowed).

  **Note:** California will allow NOLs incurred in taxable years beginning on or after January 1, 2013, to be carried back to each of the preceding two taxable years.

If the corporation has a current year NOL under R&TC Sections 24416.2, 24416.5, and 24416.6 (relating to Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), or Targeted Tax Area (TTA) NOLs), the corporation **must elect** on its return for the taxable year in which the loss is incurred to carryover the loss either under that section or the loss under R&TC Section 24416.20 (relating to general NOLs). If the corporation elects to compute the NOL under R&TC Section 24416.1(c) (relating to EZ, LAMBRA, or TTA NOLs), the corporation must:

- Make the election in a statement attached to the original return.
- Use the applicable economic development area (EDA) form to calculate the NOL.

The election is irrevocable. Get form FTB 3805Z, Enterprise Zone Deduction and Credit Summary, FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, or FTB 3809, Target Tax Area Deduction and Credit Summary for more information.

### B Apportioning Corporations

The loss carryover for a corporation that apportions income is the amount of the corporation's loss, if any, after adding income or loss apportioned to California with income or loss allocable to California under Chapter 17 of the Corporation Tax Law. The loss carryover may be deducted from income of that corporation apportioned and allocable to California in subsequent taxable years.

### C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using its individual apportionment factors (R&TC Section 25108). Complete a separate form FTB 3805Q for **each** taxpayer included in the combined report. Attach the separate forms for each taxpayer member **behind** the combined form FTB 3805Q for all members.

Unlike the loss treatment for a federal consolidated return, a California loss carryover for one member in a combined report may not be applied to the income of another member included in the combined report. Get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for more information.

**Note**. If taxpayers are required to be included in a combined report, the 2010 and 2011 NOL limitation amount of $300,000 or more shall apply to the aggregate amount of pre-apportioned income for **all** members included in the combined report.

### D Water's-Edge

For water's-edge taxpayers, R&TC Section 24416.20(c) imposes a limitation on the NOL deduction if the NOL is generated during a non-water's-edge taxable year. The NOL carryover is limited to the lesser amount as re-determined by computing the income and factors of the original worldwide combined reporting group as if the water's-edge election had been in force for the taxable year of the loss. If R&TC Section 24416.20(c) applies, the NOL carryover for each corporation may be decreased, but not increased.

## E S Corporations

An S corporation is allowed to carryover a loss that is incurred during a taxable year in which it has in effect a valid election to be treated as an S corporation. The loss is also separately calculated under the pass-through rules and passed to the shareholders in the year incurred and is taken into account in determining each shareholder's NOL carryover, if any.

If a corporation changes from a C corporation to an S corporation, the loss incurred while the corporation was a C corporation may not be applied to offset income subject to the 1.5% tax imposed on an S corporation. However, losses incurred while the corporation was a C corporation may be applied against the built-in gains which are subject to tax. If the corporation incurred losses while it was a C corporation and an S corporation, and the S corporation is using C corporation losses to offset its built-in gains, the S corporation must complete two forms FTB 3805Q and attach them to Form 100S, California S Corporation Franchise or Income Tax Return. The unused losses incurred while the S corporation was a C corporation are "unavailable" except as provided for above unless and until the S corporation reverts back to a C corporation or the carryover period expires.

However, if an S corporation changes to a C corporation, any S corporation NOLs are lost.

## F Types of NOLs

The table below shows the types of NOLs available, a description, and the percentages and carryover periods for each type of loss.

***Note:** The carryover period for any NOL or NOL carryover, for which a deduction is disallowed because of the 2008-2011 suspension, are extended. For more information, see What's New section.

| Type of NOL and Description | Taxable Year NOL Incurred | NOL Carried Over | Carryover* Period |
|---|---|---|---|
| **General NOL (GEN)**<br>Available as a result of a loss incurred in taxable years after 1986 and allowed under R&TC Section 24416.20. Does not include losses incurred from activities that qualify as a new business, an eligible small business, EZ, LARZ, LAMBRA, TTA, disaster loss, or Pierce's disease. | On or after<br>01/01/2008<br>2004-2007<br>2002-2003<br>2000-2001<br>1987-1999 | <br>100%<br>100%<br>60%<br>55%<br>None | <br>20 Years<br>10 Years<br>10 Years<br>10 Years<br>Expired |
| **Disaster Losses (DIS)**<br>Casualty losses in areas of California declared by the President of the United States or the Governor of California to be in a state of disaster. If the disaster is declared by the Governor of California only, subsequent state legislation is required for the disaster provision to be activated.<br>An election may be made under IRC Section 165(i) permitting the disaster loss to be taken against the previous year's income. If the corporation made this election, see Part II, current year NOLs, line 3 and federal Form 4684 instructions for when the election must be filed. If special legislation is enacted and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to five taxable years. If any excess loss remains after the five-year period, 50% of that remaining loss may be carried over for up to 10 additional taxable years for losses occurred in any taxable year beginning before January 1, 2000; 55% for losses incurred in any taxable year beginning on or after January 1, 2000, and before January 1, 2002; 60% for losses incurred in any taxable year beginning on or after January 1, 2002, and before January 1, 2004; or 100% for losses incurred in any taxable year beginning on or after January 1, 2004. | See "List of events that have been declared as disasters on the next page. | 100%<br><br>See instructions | First 5 Years<br><br>10 Years Thereafter |
| **New Business NOL (NB)**<br>Get FTB Legal Ruling 96-5 for more information.<br>NB means any trade or business activity that is first commenced in California on or after January 1, 1994. 100% of an NB NOL may be carried over, but only to the extent of the net loss from the new business. The term ''new business'' also includes any taxpayer engaged in biopharmaceutical activities or other biotechnology activities described in Codes 2833 to 2836 of the SIC Manual. Also, it includes any taxpayer that has not received regulatory approval for any product from the United States Food and Drug Administration. See R&TC 24416.20(g)(7)(A) for more information.<br>If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over as a general NOL.<br>If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business conducted by the taxpayer or related person is not a new business if the fair market value (FMV) of the acquired assets exceeds 20% of the FMV of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as were used immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the SIC Manual.<br>If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and then starts an additional trade or business in California, the additional trade or business qualifies as a new business only if the activity is classified under a different division classification of the SIC Manual.<br>Business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Sections 267 or 318. | On or after 01/01/2008<br>On or after 01/01/2000 and before 01/01/2008<br><br>On or after 01/01/1994 and before 01/01/2000<br>Year of business<br>Year 1<br>Year 2<br>Year 3 | 100%<br><br>100%<br>For the first three years of business<br><br><br>100%<br>100%<br>100% | 20 Years<br><br>10 Years<br><br><br><br>8 Years<br>7 Years<br>6 Years |
| **Eligible Small Business NOL (ESB)**<br>Get FTB Legal Ruling 96-5 for more information.<br>ESB NOL incurred in a trade or business activity that has gross receipts, less returns and allowances, of less than $1 million during the taxable year.<br>100% of an NOL may be carried over, but only to the extent of the net loss from the eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business, the excess may be carried over as a general NOL.<br>The corporation should use the same SIC Code division classifications described in the new business NOL section to determine what constitutes a trade or business activity. | On or after 01/01/2008<br><br>On or after 01/01/2000 and before 01/01/2008<br><br>On or after 01/01/1994 and before 01/01/2000 | 100%<br><br>100%<br><br>None | 20 Years<br><br>10 Years<br><br>Expired |

## Specific Line Instructions

## Part I – Current year NOL

Use Part I of this form to figure the current year NOL eligible for carryover.

**Line 2 –** If the corporation incurred a disaster loss during the 2010 taxable year, enter the amount of the loss on this line. Enter as a positive number.

**Line 3 –** If the amount is zero or less, the corporation does not have a current year general NOL. Go to Part II for computation of general NOL carryovers, the current year disaster loss, and carryover from disaster losses.

**Line 6 –** Go to Part II, Current Year NOLs, to record the corporation's 2010 NOL carryover to 2011. Complete columns (b), (c), (d), and (h) only, for each type of loss that the corporation incurred.

If the corporation has an eligible qualified new business or a small business and the NOL is greater than the amount of net loss from such a business, use the general NOL first. If the corporation operates one or more new businesses and one or more eligible small businesses, determine the amount of the loss attributable to the new business(es), the small business(es), and the general NOL in the following manner. The NOL is first treated as a new business NOL to the extent of the loss from the new business. Any remaining NOL is then treated as an eligible small business NOL to the extent of the loss from the eligible small business. Any further remaining NOL is treated as an NOL under the general rules.

## Part II – NOL carryover and disaster loss carryover limitations

Use Part II to limit current year disaster loss and NOL carryover deductions to current year income and to record all of the corporation's loss carryover information.

If the corporation has losses from more than one source and/or more than one category, the corporation must compute the allowable NOL carryover for **each** loss separately.

**When to use an NOL carryover**

If the corporation NOL carryover deduction is not suspended, use the corporation's NOLs and disaster losses in the order the losses were incurred. There is no requirement to deduct NOL carryovers before disaster loss carryovers.

**Line 1** – The NOL carryover deduction is suspended for 2010 and 2011 taxable years if the corporation net income after state adjustments (line 18 of Form 100 and Form 100W, or line 15 less line 17 of Form 100S) is $300,000 or more. The corporation may continue to compute and carryover an NOL during the suspension period. **However**, corporations with net income after state adjustments (pre-apportioned income) of less than $300,000 **or** with disaster loss carryovers are not affected by the NOL suspension rules.

**Line 2 – Prior Year NOLs**

**Column (a) –** Enter the year the loss was incurred.

**Column (b) –** If the loss is due to a disaster, enter the disaster code from the following list. If the loss is from a new business or eligible small business, enter the SIC Code for the new business or eligible small business from the Standard Industrial Classification Manual. **Do not** enter the code from the PBA chart available in the 2010 Form 100, Form 100W, or Form 100S tax booklets. If the loss was from an S corporation, enter the entity's California corporation number from Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.

List of events that have been declared disasters:

| Year | Code | Event |
|---|---|---|
| 2010<br>2011 | 47 | Severe Winter Storms, Flooding, Debris, and Mud Flows 12/2010 to 1/2011** |
| 2010 | 46 | San Bruno Explosion |
| 2010 | 45 | Kern County Wildfires |
| 2010 | 44 | CA Winter Storms 01/10, 02/10 |
| 2009 | 43 | Los Angeles, Monterey and Placer County Wildfires |
| 2010 | 42 | Baja California (Imperial County) Earthquake 2010 |
| 2010 | 41 | Humboldt County Earthquake |
| 2009 | 40 | Santa Barbara Wildfires |
| 2008 | 39 | Southern California Wildfires 10, 11/2008 |
| 2008 | 38 | Humboldt County Wildfires |
| 2008 | 37 | California Wildfires 2008 |
| 2007 | 36 | Riverside County Winds |
| 2008<br>2007 | 35 | Inyo Complex Fire |
| 2007 | 34 | Southern California Wildfires |
| 2007 | 33 | Santa Barbara and Ventura County Fires |
| 2007 | 32 | El Dorado County Wildfires |
| 2007 | 31 | California Severe Freeze 01/07 |
| 2006 | 30 | Riverside and Ventura County Wildfires |
| 2006 | 29 | San Bernardino County Wildfires |
| 2006 | 28 | Northern California flooding, mudslides, and landslides (03/06 to 04/06) |
| 2006<br>2005 | 27 | Northern California flooding, mudslides, and landslides (12/05 to 01/06) |
| 2004 | 26 | Shasta County Wildfires |
| 2005<br>2004 | 25 | Southern California flooding, debris flows, and mudslides |
| 2004 | 24 | San Joaquin Levee Break |
| 2003 | 23 | San Simeon earthquake |
| 2003 | 22 | Southern California fires and other related casualties |
| 2000 | 21 | Napa County earthquake |
| 1999<br>1998 | 19 | Winter Freeze 98/99 |
| 1998 | 18 | El Niño 98 |
| 1997<br>1996 | 17 | Disaster floods 96/97 |
| 1995 | 15 | Storms, flooding, and other related casualties (expired)* |

*Corporations that elected to deduct the disaster loss in the prior year under IRC Section 165(i), the final year to deduct the disaster loss carryover was last year. Corporations that did not elect IRC Section 165(i), the final year to deduct the disaster loss carryover is this year.

**Carryover period and percentage are limited to the NOL rules. No special legislation was enacted.

**Column (c) –** Enter the type of NOL: General (GEN), New Business (NB), Eligible Small Business (ESB), or Disaster (DIS). For more information see the table in General Information F, Types of NOLs.

Using Pierce's disease, or an EDA NOL, get the applicable form for the NOL type.

**Column (d) –** Enter 100% of the initial loss for the year given in column (a).

**Column (e) –** Enter the NOL carryover amount from the 2009 form FTB 3805Q, Part II, column (h).

**Column (f) –** Enter the smaller of the amount in column (e) or the amount in column (g) of the previous line.

**Column (g) –** Enter the result of subtracting column (f) from the balance in column (g) of the previous line.

**Column (h) –** Subtract the amount in column (f) from the amount in column (e) and enter the result.

**Current Year NOLs**

If a disaster loss occurs between the date of the publication and the end of the taxable year, go to **ftb.ca.gov** for an updated version of this form, which will include information for any subsequent disaster loss. Then follow the line 3 instructions.

**Line 3 – Current year Disaster Loss**

If the corporation did not elect to deduct the current year disaster loss in the prior year:

- In column (d), enter your 2010 disaster loss from Part I, line 2.
- In column (f), enter the disaster loss used in 2010.
- In column (h), enter column (d) less column (f).

If the corporation elected to deduct the 2010 disaster loss on the 2009 tax return, and the corporation has an excess amount to be carried over to 2010, enter the carryover amount in Part II, line 2, column (e). Use the Prior Year NOL instructions for column (a) through column (h) except:

- In column (a), enter 2010.
- In column (b), enter the new disaster code.
- In column (d), enter the total disaster loss incurred in 2010.

# 2010 Instructions for Form FTB 3885

## Corporation Depreciation and Amortization

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2009**, and to the California Revenue and Taxation Code (R&TC).

## General Information

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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 federal grant tax treatment for specified energy property.
- The useful life of motor sports entertainment complex.
- 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 federal 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 for assets placed in service in 2010 or 2011 taxable year.
- The first-year depreciation deduction allowed for new luxury autos or certain passenger automobiles acquired and placed in service in 2010.
- The IRC Section 613A(d)(4) relating to the exclusion of certain refiners. See R&TC Section 24831.3 for more information.
- The 50% bonus depreciation deduction [IRC Section 168(k)] for assets acquired and placed in service during 2008 through 2010, and during 2011 for certain qualifying property.
- 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.
- California law allows a useful life of five years, instead of ten years, for grapevines planted as replacements for vines subject to Phylloxera or Pierce's disease.
- 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 page 48.

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 the 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. 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.

**Limitations.** Federal limitation amounts are different than California limitation amounts. 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. The total IRC Section 179 expense deduction cannot exceed the corporation's business income.

## 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 expense for qualified property under R&TC Section 24356. The corporation may **only** elect IRC Section 179 **or** the additional first year expense deduction for the same taxable year. The election must be made on a timely filed 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, 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). **Note:** California does not conform to the federal exclusion of these items from being treated as listed property for taxable years beginning on or after January 1, 2010.
- 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, see 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 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 18, 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 Expense 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 it applies), 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.

An election may be made to expense up to 40% of the cost of property described in R&TC Sections 24356.6, 24356.7, and 24356.8. For more information, get form FTB 3809, Targeted Tax Area Deduction and Credit Summary; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; or form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary.

### 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.

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# How To Get California Tax Information

## Where To Get Tax Forms and Publications

**By Internet** – You can download, view, and print California tax forms, instructions, publications, FTB Notices, and FTB Legal Rulings at **ftb.ca.gov**.

**By phone** – You can order current year California tax forms from 6 a.m. to 10 p.m. weekdays, 6 a.m. to 4:30 p.m. Saturdays, except holidays.

- Refer to the list in the right column and find the code number for the form you want to order.
- Call 800.338.0505.
- Select "Business Entity Information."
- Select "Forms and Publications."
- Enter the three-digit code shown to the left of the form title when instructed.

Allow two weeks to receive your order. If you live outside California, allow three weeks to receive your order.

**By mail** – Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

## Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. **Do not** attach correspondence to your tax return unless the correspondence relates to an item on the return.

## General Phone Service

Telephone assistance is available year-round from 7 a.m. until 5 p.m. Monday through Friday, except holidays. Hours subject to change.

| | |
|---|---|
| Telephone: | 800.852.5711 from within the United States<br>916.845.6500 from outside the United States |
| TTY/TDD: | 800.822.6268 for persons with hearing or speech impairment |
| IRS: | 800.829.4933 call the IRS for federal tax questions |

**Asistencia bilingüe en español:**

Asistencia telefónica está disponible todo el año durante las 7 a.m. y las 5 p.m. lunes a viernes, excepto días festivos. Las horas están sujetas a cambios.

| | |
|---|---|
| Teléfono: | 800.852.5711 dentro de los Estados Unidos<br>916.845.6500 fuera de los Estados Unidos |
| TTY/TDD: | 800.822.6268 personas con discapacidades auditivas y del habla |
| IRS: | 800.829.4933 llame al IRS para preguntas sobre impuestos federales |

## California Tax Forms and Publications

817 California Corporation Tax Forms and Instructions.
This booklet contains:
- Form 100, California Corporation Franchise or Income Tax Return;
- Schedule H (100), Dividend Income Deduction
- Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations
- FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs
- FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations
- FTB 3885, Corporation Depreciation and Amortization

816 California S Corporation Tax Forms and Instructions.
This booklet contains:
- Form 100S, California S Corporation Franchise or Income Tax Return;
- Schedule B (100S), S Corporation Depreciation and Amortization
- Schedule C (100S), S Corporation Tax Credits
- Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains
- Schedule H (100S), S Corporation Dividend Income Deduction
- Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.
- Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet
- FTB 3539, Payment for Automatic Extension for Corps and Exempt Orgs
- FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

814 Form 109, Exempt Organization Business Income Tax Booklet
818 Form 100-ES, Corporation Estimated Tax
815 Form 199, California Exempt Organization Annual Information Return and Instructions
802 FTB 3500, Exemption Application
831 FTB 3500A, Submission of Exemption Request
943 FTB Pub. 4058, California Taxpayers' Bill of Rights

## Your Rights As A Taxpayer

The FTB's goals include making certain that your rights are protected so that you have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you request written advice from the FTB on whether a particular transaction is taxable.

See "Where To Get Tax Forms and Publications," on this page.

# Automated Phone Service

**(Keep This Booklet For Future Use)**

Use our automated phone service to get recorded answers to many of your questions about California taxes and to order current year California business entity tax forms and publications. This service is available in English and Spanish to callers with touch-tone telephones. Have paper and pencil ready to take notes.

Telephone: 800.338.0505 from within the United States
916.845.6600 from outside the United States

## To Order Forms

See "Where to Get Tax Forms and Publications" on the previous page.

## To Get Information

You can hear recorded answers to Frequently Asked Questions 24 hours a day, 7 days a week. Call our automated phone service at the number listed above. Select "Business Entity Information," then select "Frequently Asked Questions." Enter the 3-digit code, listed below, when prompted.

**Code Filing Assistance**

715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 24 of Form 100 or Form 100W?
717 What are the tax rates for corporations?
718 How do I get an extension of time to file?
722 When does my corporation have to file a short-period return?
734 Is my corporation subject to franchise tax or income tax?

**S Corporations**

704 Is an S corporation subject to the minimum franchise tax?
705 Are S corporations required to make estimated payments?
706 What forms do S corporations file?
707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?

**Exempt Organizations**

709 How do I get tax-exempt status?
710 Does an exempt organization have to file Form 199?
736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

**Minimum Tax and Estimate Tax**

712 What is the minimum franchise tax?
714 My corporation is not doing business; does it have to pay the minimum franchise tax?

**Billings and Miscellaneous Notices**

503 How do I file a protest against a Notice of Proposed Assessment?
723 I received a bill for $250. What is this for?

**Corporate Dissolution**

724 How do I dissolve my corporation?

**Limited Liability Companies (LLCs)**

750 How do I organize or register an LLC?
752 What tax forms do I use to file as an LLC?
753 When is the annual tax payment due?

**Miscellaneous**

700 Who do I need to contact to start a business?
701 I need a state Employer ID number for my business. Who do I contact?
703 How do I incorporate?
737 Where do I send my payment?

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