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California

Forms & Instructions

565

2008

Partnership Tax Booklet

Members of the Franchise Tax Board

John Chiang, Chair
Judy Chu, Ph.D., Member
Michael C. Genest, Member

This booklet contains:

Form 565, Partnership Return of Income

FTB 3885P, Depreciation and Amortization

FTB 3538, Payment for Automatic Extension for LPs, LLPs, and REMICs

Schedule D (565), Capital Gain or Loss

Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.

California e file

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

STATE OF CALIFORNIA
FRANCHISE TAX BOARD

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Business e-file

Business e-file is available for the following returns:

- **Form 565, Partnership Return of Income**
- Form 568, Limited Liability Company Return of Income
- 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, S Corporation Franchise or Income Tax Return.

For more information, go to our website at **ftb.ca.gov** and search for **business e file**.

2008 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

What's New

Business Tax Credit Limitation – For taxable years beginning on or after January 1, 2008, and before January 1, 2010, business tax credits can only offset 50% of the net tax, if the corporation's taxable income is $500,000 or more. Corporations with taxable income less than $500,000 are not subject to the credit limitation. For the purpose of this limitation, taxable income means net income for state purposes.

Business tax credits disallowed due to the 50% limitation may be carried over. The carryover period for disallowed credits is extended by the number of taxable years the credits were not allowed.

Withholding Rates – For taxable years beginning on or after January 1, 2009, non-California partnerships will be subject to withholding requirements on a sale of California real property at a rate of 3 1/3% of sales proceeds or 9.3% of gain. The alternative withholding rates for the sale of California real property by non-California S corporations will be increased to 10.8% for S corporations or 12.8% for Financial S corporations.

Installment Sales – For taxable years beginning 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.

Group Nonresident Returns (also known as Composite Returns) – For taxable years beginning on or after 01/01/2009:

- Group nonresident returns may include less than two nonresident individuals.
- Nonresident individuals with more than $1,000,000 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 $1,000,000.

See FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

Third- Party Designee – For taxable years beginning on or after January 1, 2008, a partnership can designate a third party to discuss the tax return with the Franchise Tax Board (FTB). For more information, go to the instructions on page 7, see General Information, Signatures.

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

- Economic Stimulus Act of 2008
- Housing and Economic Recovery Act of 2008

Rice Straw Credit – For taxable years beginning on or after January 1, 2008, the Rice Straw Credit has expired. Unused carryover credits are taken on form FTB 3540.

General Information

A Important Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. 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 our website at **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.

R&TC Sections 17024.5 and 23051.5 have been amended to clarify that, unless otherwise expressly disallowed, federal elections made before a taxpayer becomes a California taxpayer are binding for California tax purposes.

Form 565, Side 1, line 4 through line 12 have been updated to reflect the separation of the lines to report gains and losses. Net amounts are no longer reported on these lines. The lines that included repairs, rent, and taxes have been eliminated and will now be included in line 21 (Other Deductions).

Registered Domestic Partners (RDP)
RDPs under California law must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you entered into in a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, you are required to file a California income tax return using either the
married/RDP filing jointly or married/RDP filing separately filing status.
For more information on what states have legal unions that are considered substantially equivalent, go to our website at **ftb.ca.gov** and search for **RDP**.

For purposes of California income tax, references to a spouse, a husband, or a wife also refer to a California registered domestic partner (RDP), unless otherwise specified. When we use the initials RDP they refer to both a California registered domestic "partner," and a California registered domestic "partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

Round Cents to Dollars
Round cents to the nearest whole dollar. For example, round $50.50 up to $51 or round $25.49 down to $25. If you do not round, the FTB will disregard the cents. This helps process your return quickly and accurately.

Revised Schedule K and Schedule K-1
The California Schedule K (565), Partners' Shares of Income, Deductions, Credits, etc., and Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line items were revised to be in a similar format with the federal Schedule K (1065), Partners' Distributive Share Items, and K-1 (1065), Partner's Share of Income, Deductions, Credits, etc. Refer to the Schedule K Federal/State Line References chart, in this booklet, and the Instructions for Schedule K (565) and Schedule K-1 (565), when completing California Schedule K (565) and Schedule K-1(565).

Limited Partnership Act of 2008
For taxable years beginning on or after January 1, 2008, domestic limited partnerships whose certificates of limited partnership have been canceled may revive by filing a certificate of revival with the California Secretary of State. The certificate of revival must include written confirmation by the FTB that all taxes, interest, and penalties have been paid for all taxable years through the date of revival. This includes the taxable years after the limited partnership canceled.

e-filing – In January 2007, the FTB began offering e-filing for partnerships filing Form 565, California Partnership Return of Income, and certain accompanying forms and schedules. Check with the software provider to see if the partnership can e-file.

Reconciliation of Income – For taxable years beginning on or after January 1, 2006, the Internal Revenue Service (IRS) requires certain partnerships to complete Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return. For California purposes, the partnerships must complete the California Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, and attach either of the following:

- A copy of the Schedule M-3 (Form 1065) and related attachments to the Partnership Return of Income.
- A complete copy of the federal return.

FTB will accept the Schedule M-3 (Form 1065) in a spreadsheet format if more convenient.

Dissolving or Cancelling/Tax Clearance Certificate Process
For taxable years beginning on or after January 1, 2006, Limited Partnerships (LP) or Limited Liability Partnerships (LLP) will not be required to obtain a Tax Clearance Certificate prior to the dissolution or cancellation of the LP or LLP. For more information, see General Information, Cancelling a Limited Partnership or Limited Liability Partnership.

California Use Tax
If your partnership made purchases outside California and used them in California, it may owe California use tax. The partnership should report and

pay the tax on the California Franchise or Income Tax Return unless the use tax has been previously reported to the State Board of Equalization. See page 9, Additional Information "California Use Tax" for more information.

California Tax Information on the Internet
You can download, view, and print California tax forms and publications from our website at **ftb.ca.gov**.

Federal Tax Information on the Internet
The IRS also has federal forms and publications available to download, view, and print. The IRS's website is **irs.gov**.

State Agencies' Websites
Access other state agencies' websites through the State Agencies Directory on California's website at **ca.gov**.

Joint Agency Website
For additional business tax information, go to the California Tax Service Center website, sponsored by the Board of Equalization (BOE), Employment Development Department (EDD), the FTB, and the IRS. The Joint Agency website is located at **taxes.ca.gov.**

Providing California and Federal Returns
The FTB may request a copy of California or federal returns that are subject to or related to a federal examination. Generally, the California statute of limitations is four years from the due date of the return or from the date filed, whichever is later. However, the statute is extended in situations where an individual or a business entity is under examination by the IRS. For additional information concerning the extended statute of limitation due to a federal examination, see General Information, Amended Return.

The FTB recommends keeping copies of returns and records that verify income, deductions, adjustments, or credits reported, for at least the minimum time required under the statute of limitations. However, some records should be kept much longer. For example, partners should keep records substantiating their basis in a partnership and property owners should keep records to figure the basis of property.

Substitute Schedule K-1 (565)
The FTB recommends filing **paperless** substitute Schedules K-1 (565). Since software is most often used to prepare Form 565 and Schedules K-1 (565), you may already have the information needed to prepare paperless Schedules K-1 (565). Once the information is in a database or spreadsheet, it's easy to transfer to the required record layout and then save it to a CD or diskette.

Get approval from the FTB to use substitute Schedules K-1 (565), if the partnership:

- Wants to use paperless Schedules K-1 (565).
- Does not use the official California Schedule K-1 (565) prepared by the FTB.
- Does not use a software program with an FTB-approved Schedule K-1 (565).

The FTB does not accept federal Schedules K-1 (1065) as a substitute schedule.

For more information, see General Information, Substitute Schedules.

Federal/State Differences
California tax law generally conforms to federal tax law in the area of partnerships (IRC Subchapter K – Partners and Partnerships). However, there are some differences:

- California does not conform to the additional first-year depreciation of certain qualified property placed in service after 10/03/2008, and the election to claim additional research and minimum tax credits in lieu of claiming the bonus depreciation.
- California does not conform to the energy efficient commercial buildings deduction.
- California does not conform to reduce the compensation deduction for certain employers from $1 million to $500,000; and makes certain parachute payments nondeductible.
- California does not conform to extend of suspension of income limitations on percentage depletion for production from marginal wells. 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.
- An $800 annual tax is generally imposed on LPs, Limited Liability Companies (LLCs) classified as partnerships for tax purposes, LLPs, and REMICs that are partnerships or are classified as partnerships for tax purposes.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- A deduction for taxes paid to other states is not allowed.
- California follows federal law by requiring partnerships to use a required taxable year. However, California does not conform to the federal required payment provision.
- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California law modifies the federal definitions for unrealized receivables and substantially appreciated inventory items.
- California does not conform to the electing large partnership provisions.
- Partnerships can electronically file their California partnership returns. Also, partnerships can file Schedules K-1 (565) via CD or diskette. (See General Information, Substitute Schedules, for more information.)
- California has not conformed to the provisions relating to the Tax Equity and Fiscal Responsibility Act (TEFRA).
- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

This list is not intended to be all-inclusive for the federal and state differences. For additional information, consult California's R&TC.

Conversion to a Limited Liability Company (LLC)
A partnership that converts to an LLC during the year must file two California returns. Even if the partners/members and the business operations remain the same, the partnership should file Form 565 for the beginning of the year to the date of change. For the remainder of the year, the newly converted LLC would file Form 568, Limited Liability Company Return of Income. See General Information, Accounting Periods, for further instructions.

Revised Uniform Partnership Act (RUPA)
California has enacted RUPA which applies to partnerships formed after January 1, 1997. RUPA applies to all partnerships after January 1, 1999. RUPA governs the formation, operation, and liquidation of partnerships in California. However, the R&TC governs the taxation of partnerships doing business in California. For partnerships operating under the newest version of the Uniform Limited Partnership Act of 2008, see Limited Partnership Act of 2008 under "Important Information."

Tax Shelter
If the partnership was involved in a reportable transaction, including a listed transaction, the partnership may have a disclosure requirement. Attach the 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 the federal Form 8886 to the address below. The FTB may impose penalties if the partnership fails to file federal Form 8886, federal 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.

ATSU 398 MS: F385
FRANCHISE TAX BOARD
PO BOX 1673
SACRAMENTO CA 95812-9900

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

Claim of Right
If the partnership had to repay an amount that was included in income in an earlier year, under a claim of right, the partnership may be able to deduct the amount repaid from its income for the year in which it was repaid. Or, if the amount the partnership repaid is more than $3,000, the partnership may be able to take a credit against its tax for the year in which it was repaid. For more information, see the Repayment section of federal Publication 525, Taxable and Nontaxable Income.

B Purpose

Form 565 is an information return for calendar year 2008 or fiscal years beginning in 2008. Use Form 565 to report income, deductions, gains, losses, etc., from the operation of a partnership.

C Definitions

Limited Partnership (LP)
A partnership formed by two or more persons under the laws of this state and having one or more general partners and one or more limited partners. Limited partnerships are required to register with the California SOS.

Limited Liability Partnership (LLP)
California law authorizes the formation of LLPs with activities limited to either the practice of public accountancy, law, architecture, and related services. California also recognizes out-of-state LLPs doing business in California.

An LLP is a partnership, other than a limited partnership, that has a Certificate of Registration on file with the California SOS as described in Corporation Code Section 16951.

Real Estate Mortgage Investment Conduit (REMIC)
A special tax vehicle for entities that issue multiple classes of investor interests backed by a fixed pool of mortgages.

For additional information get the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, federal Publication 938, Real Estate Mortgage Investment Conduits (REMICs) Reporting Information,(And Other Collateralized Debt Obligations (CDOs)).

Additional Definitions
For definitions of a partnership, general partner, limited partner, nonrecourse loans, apportionment, unitary, etc., see the Partner's Instructions for the Schedule K-1 (565) and the instructions for federal Form 1065, U.S. Partnership Return of Income.

D Who Must File

A partnership (including REMICs classified as partnerships) that engages in a trade or business in California or has income from a California source must file Form 565. Regardless of where the trade or business of the partnership is conducted, a partnership is considered to be doing business in California if any of its partners (general or limited) or other agents are conducting business in California on behalf of the partnership.

An electing large partnership that completes federal Form 1065-B, U.S. Return of Income for Electing Large Partnerships, must still use Form 565. California does not conform to the electing large partnership provisions.

LPs and LLPs (both foreign and domestic) doing business in California, that have a certificate on file, or are registered with the California SOS (whether or not doing business in California) must file a return and pay the $800 annual tax.

The LP is still required to file if it is registered in California and both of the following apply:

- It is not doing business in California.
- It does not have California source income.

However, if the LP meets both of the above provisions, then it may be eligible for the reduced filing program. The LP's filing requirement will be satisfied by:

1. Completing Form 565 with all supplemental schedules.
2. Completing and attaching California Schedules K-1 (565) for partners with California addresses.
3. Writing "SB 1106 Filing" in red at the top of Form 565, Side 1.
4. Entering the total number of partners in Question K, Side 2, of Form 565.

Religious and apostolic organizations that are exempt from income tax under R&TC Section 23701k are not required to file Form 565. However, Form 565 should be prepared and attached to Form 199, California Exempt Organization Annual Information Return.

LLCs may be classified for tax purposes as a partnership, a corporation, or a disregarded entity (see General Information, Check-the-Box Regulations). The LLC must file the appropriate California return for its classification.

If your LLC classified as a partnership:	**IT MUST FILE FORM *568*.**
Does business in California	**Note: Nonregistered foreign LLCs that are not doing business, but are deriving income from California or filing to report an election on behalf of a California resident, MUST FILE FORM 565.**
Organized in California	
Organized in another state or foreign country, but registered with the SOS	
Has income from California sources	

Nonregistered foreign LLCs (excluding disregarded entities/single member LLCs) that are members of an LLC doing business in California or general partners in a limited partnership doing business in California are considered to be doing business in California and should file Form 568.

Certain publicly traded partnerships (PTP) treated as corporations under IRC Section 7704 must file Form 100, California Corporation Franchise or Income Tax Return.

A qualifying syndicate, pool, joint venture, or similar organization may elect under IRC Section 761(a) (which California follows) not to be treated as a partnership for state income tax purposes and will not be required to file Form 565 except for the year of election. If Form 565 is filed, a copy of the operating agreement and all amendments must be attached to the return, unless a copy has been previously filed with the FTB.

Partnerships, except LPs and LLPs, organized or registered in California, that do not do business in California and that do not receive income from California sources are not required to file Form 565. However, resident partners of a nonresident partnership may be required to furnish a copy of federal Form 1065.

E When and Where to File

A partnership must file Form 565 and pay the $800 annual tax (if required) by the 15th day of the 4th month (fiscal year) or April 15, 2008 (calendar year), following the close of its taxable year.

PAYMENTS

- Mail Form 565 with **payment** (LPs, LLPs, and REMICs only) to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0601

- E-filed returns: Mail form FTB 3587, Payment Voucher for LP, LLP and REMIC e-filed Returns, with payment to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0531

Make the check or money order payable to the **"Franchise Tax Board."** Write the partnership's federal employer identification number (FEIN), California SOS file number and "2008 Form 565" on the check or money order.

Note: California SOS file number must begin with "19" or "20."

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 partnership already filed a return for the same taxable year.

REFUNDS

- Mail Form 565 requesting a **refund** to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0602

RETURN WITHOUT PAYMENT or PAID by EFT

- Mail Form 565 **without a payment** or **paid by EFT** to:

  FRANCHISE TAX BOARD
  PO BOX 942857
  SACRAMENTO CA 94257-0600

Extensions
California does not require the filing of written extensions. If a partnership needs more time to file Form 565 by the return's due date, the partnership is granted an automatic six month extension.

However, the automatic extension does not extend the time to pay the $800 annual tax.

If the partnership is filing the return under extension, see form FTB 3538, Payment for Automatic Extension for LPs, LLPs, and REMICs, included in this booklet. Send form FTB 3538 and the tax payment to the FTB by the 15th day of the 4th month following the close of the taxable year.

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 the instructions for

federal Form 1065 for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

Caution: Private delivery services cannot deliver items to PO boxes. If you will be using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

F Annual Tax

The $800 annual tax applies to all LLCs, LPs, LLPs, and REMICs, if any of the following apply to the entity:

- It is doing business in California.
- It is registered in California.
- It is organized in California.

This tax cannot be deducted as an expense by the partnership or deducted from the partner's distributive share.

An LP that is filing ONLY to report California source income is NOT subject to the annual tax if all of the following apply:

- It is not doing business in California.
- It is not registered in California.
- It is not organized in California.

Enter the annual tax payment made for the 2008 taxable year on the applicable line of Form 565.

G Penalties and Interest

Failure to File a Timely Return or Provide Information
A penalty is assessed against the partnership if it is required to file a partnership return and one of the following occur:

- It fails to file the return on time, including extensions.
- It files a return, including Schedules K-1 (565), that fails to show all the information required.

The amount of the penalty for each month, or part of a month (for a maximum of five months) that the failure continues, is $10 multiplied by the total number of partners in the partnership during any part of the taxable year for which the return is due. Interest will be charged on the penalty from the date the notice of tax due is sent by the FTB to the date the return is filed.

"Small partnerships," as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns, does not apply for California purposes. For more information see R&TC Section 19172.

Failure to Pay Total Tax by Due Date
For LPs, LLPs, and REMICs that must pay the $800 annual tax with Form 565, a penalty for late payment of tax may be assessed. Any LP, LLP, or REMIC that fails to pay the $800 annual tax by the original due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month or part of a month (not to exceed 40 months) the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. Interest will be due and payable on the late payment.

Interest
Interest is due and payable on any tax due if not paid by the original due date. Interest is also due on some penalties. The automatic extension of time to file 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.

Other Penalties/Fees
A penalty may also be charged if a payment is returned for insufficient funds. In addition, fees may be charged for the cost of collections.

H Accounting Methods

Compute ordinary income or loss by the accounting method regularly used to maintain the partnership's books and records. This method must clearly reflect the partnership's income or loss.

Partnerships given permission to change their accounting method for federal purposes should see IRC Section 481 for information relating to the adjustments required.

Generally, a partnership may not use the cash method of accounting if the partnership has a corporate partner, average annual gross receipts of more than $5 million, or is a tax shelter. For exceptions, see IRC Section 448.

The mark-to-market accounting method is required for securities dealers. The IRC Section 481 adjustment is taken into account ratably over five years beginning with the first income year.

I Accounting Periods

Partnership returns normally must be filed for an accounting period that includes 12 full months. A short period return must be filed if the partnership is created or terminated within the taxable year. In that case, write "Short Period" in red ink at the top of Form 565, Side 1.

For information on the required taxable year of a partnership, see the instructions for federal Form 1065.

J Amended Return

If, after the partnership files its return, it becomes aware of changes it must make, the partnership should file an amended Form 565 and an amended paper Schedule K-1 (565) for each affected partner, if applicable. Check the "Amended Return" box on Form 565, Side 1, Item H(3) and on Schedule K-1 (565), Side 1, Item H(2). Give a corrected Schedule K-1 (565) labeled "Amended" to each affected partner. If the partnership originally filed a group nonresident partner Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, the partnership should file an amended Form 540NR.

If the partnership wishes to file amended Schedules K-1 (565) via CD or diskette see General Information, Substitute Schedules.

If the partnership's federal return is changed for any reason, the federal change may affect the partnership's California return. This would include changes made because of an examination. The partnership must file an amended return within six months of the final federal adjustments. The partnership should attach a copy of the federal Revenue Agent's Report or other notice of the adjustments to the return. The partnership should inform the partners that they may also be required to file amended returns based on any changes made by the IRS within six months from the date of the final federal adjustments.

K Required Information Returns

Every partnership must file information returns if, in the course of its trade or business any of the following occur:

- The partnership makes payments of rents, salaries, wages, annuities, or other fixed or determinable income during one taxable year totaling $600 or more to one person.
- The partnership pays an individual or one payee interest and dividends totaling $10 or more.
- The partnership receives cash payments over $10,000.

Payments of any amount by a broker, dealer, or barter exchange agent must also be reported.

Partnerships must report payments made to California residents by providing copies of federal Form 1099. Get FTB Pub. 4227A, Guide to Information Returns Filed With California, for more information.

If the partnership has nonresident partners, see the reporting and withholding requirements on Form 592, Quarterly Nonresident Withholding Statement; Form 592-F, Foreign Partner or Member Annual Return, Form 592-A, Foreign Partner or Member Quarterly Withholding Remittance Statement; and Form 592-B, Nonresident Withholding Tax Statement.

Partnerships must submit a copy of federal Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

Partnerships must report interest paid on municipal bonds issued by a state other than California or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments totaling $10 or more paid after January 1, 2008. Information returns will be due June 1, 2009. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information, for more information.

Partnerships must use form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report interest due or to be refunded under the look-back method on long-term contracts.

If you are filing form FTB 3834 to compute the interest due or to be refunded under the look-back method, attach a copy of form FTB 3834 to Form 565.

Any information returns required for federal purposes under IRC Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to Form 565 when filed. If the information returns are not provided, penalties may be imposed.

Mail all information returns, unless otherwise noted, separately from Form 565. Information returns should be mailed to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0600

L Special Items

California law generally follows federal law in the areas of:

- IRC Section 702(a) items
- Elections
- Distributions of unrealized receivables and inventory items
- Partners' dealings with the partnership
- Contributions to the partnership
- Income of foreign nonresident partners subject to withholding, Forms 592, 592-A, 592-B, and 592-F
- Basis and at-risk rules
- Passive activity limitations
- Net operating loss deductions by a partner (a partnership is not allowed the deduction)
- Publicly traded partnerships (PTP)
- Long-term contracts
- Installment sales
- Vacation pay
- Amortization of past service costs
- Distributions of contributed property by a partnership
- Recognition of precontribution gain in certain partnership distributions to contributing partners

See the instructions for federal Form 1065 for specific information about these provisions.

M Signatures

General Partner

Form 565 is not considered a valid return unless it is signed by a general partner. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that individual must sign the return.

Paid Preparer's Information

Anyone who is paid to prepare the partnership return must sign the return and complete the "Paid Preparer's Use Only" area of the return.

The paid preparer must do all of the following:

- Complete the required preparer information.
- Sign in the space provided for the preparer's signature.
- Give the partnership a copy of the return in addition to the copy to be filed with the FTB.

An individual who prepares the return and does not charge the partnership should not sign the partnership return.

Third Party Designee

If the partnership wants to allow the FTB to discuss its 2008 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 partnership is authorizing the FTB to call the paid preparer to answer any questions that may arise during the processing of its return. The partnership 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 partnership is not authorizing the paid preparer to receive any refund check, bind the partnership to anything (including any additional tax liability), or otherwise represent the partnership before the FTB.

The authorization will automatically end no later than the due date (without regard to extensions) for filing the partnership's 2009 tax return. If the partnership wants to expand the paid preparer's authorization, see form FTB 3520, Power of Attorney Declaration for the Franchise Tax Board. If the partnership wants to revoke the authorization before it ends, notify the FTB in writing or call 800.852.5711.

N Group Returns

Nonresidents or Part-year Residents

For taxable years beginning on or after January 1, 2006, a corporation may file a group nonresident return on behalf of certain electing nonresident individuals who receive wages, salaries, fees, or other compensation from that corporation for director services performed in California, including attendance of board of directors' meetings in California.

The laws guiding California's taxation of nonresidents, former nonresidents, and part-year residents set rules for calculating loss carryovers, deferred deductions, and deferred income, including the tax computation method to recognize those items. Get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, for more information.

Nonresident partners of a partnership doing business or deriving income from sources within California may elect to file a group nonresident return (R&TC Section 18535).

For taxable years beginning on or after 01/01/2009:

- Group nonresident returns may include less than two nonresident individuals.
- Nonresident individuals with more than $1,000,000 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 $1,000,000.

See Publication 1067, Guidelines for Filing a Group Form 540NR, for more information.

O Investment Partnerships

Income of nonresident partners, including banks or corporations, derived from "qualifying investment securities" of an "investment partnership" is considered income from sources other than California, except as noted below. Therefore, nonresident partners generally will not be taxed on this income. The partnership should inform its nonresident partners if all or a portion of their distributive share of income is from "qualifying investment securities" of an "investment partnership" and whether it is sourced to California. See Specific Instructions, Question V on page 13 of this booklet, for definitions of qualifying investment securities and investment partnership.

However, for apportioning purposes, income from a partnership that is an investment partnership is generally considered business income (see Appeal of Estate of Marion Markus, Cal. St. Bd. of Equal., May 6, 1986). Investment partnerships doing business within and outside California should apportion California source income using California Schedule R, Apportionment and Allocation of Income.

Investment partnerships doing business solely within California should treat all business income of the investment partnership as California source income.

Investment partnerships that have California source income should fill out column (e) of the Schedule K-1 (565) showing each partner's distributive share of California source income.

Generally, partners who are nonresident individuals would not record this income as California source income. However, there are two exceptions to the general rule when a nonresident individual may have California source income from an investment partnership. Nonresident individual partners will be taxed on their distributive shares of income from the investment partnership if the income from the qualifying investment securities is interrelated with either of the following:

- Any other business activity of the nonresident partner.
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

Corporations that are partners in an investment partnership are generally not taxed on their distributive share of partnership's income, provided that the income from the partnership is the corporation's only California source income. However, the corporation will be taxed on its distributive share of California source income of the partnership if either of the following apply:

- The corporation participates in the management of the investment activities of the investment partnership.
- The corporation has derived income from or attributable to sources within California other than income from the investment partnership.

P Cancelling a Limited Partnership (LP) or Limited Liability Partnership (LLP)

LPs and LLPs are required to pay the $800 annual tax and file Form 565 until the appropriate papers are filed with the California SOS.

For taxable years beginning on or after January 1, 2006, the annual tax will not be assessed if the LP or LLP meets the following requirements:

1. The LP or LLP files a timely Final Partnership Return of Income for the preceding taxable year, including extension.
2. The LP or LLP did not do business in California after the final taxable year.
3. The LP or LLP files the appropriate documents for dissolution with the California SOS within 12 months of the timely filed Final Partnership Return of Income.

Limited Partnerships (LPs)
In order to terminate an LP, the following steps must be taken:

1. File a timely Final Partnership Return of Income with the FTB and pay the $800 annual tax for the taxable year of the final return.
2. File Form LP-4/7, Certificate of Cancellation, with the California SOS. The California SOS also requires a domestic LP to file Form LP-3, Certificate of Dissolution. Contact the California SOS for more details.

The Form LP-4/7's effective date will stop the assessment of the $800 annual tax for future taxable years. If Form LP-4/7 is filed after the taxable year ending date, a subsequent year's return and an additional $800 tax may be required. However, if the LP does no business after the end of the taxable year for which the final annual return is filed, and the LP files its termination documents with the California SOS before 12 months from the date the final return was timely filed, the LP will not owe the annual tax for subsequent years.

Example – An LP files a timely 2007 return marked final on April 15, 2008, and pays the $800 annual tax for 2007. The LP does no business after 2007. The LP files its termination documents with the California SOS before April 15, 2009. The LP does not owe the $800 annual tax for 2008.

Limited Liability Partnerships (LLPs)
In order to terminate an LLP, the following steps much be taken:

1. File a timely Final Partnership Return of Income with the FTB and pay the $800 annual tax for the taxable year of the final return.
2. File Form LLP-4, Notice of Change of Status, with the California SOS. Contact the California SOS for more details.

The Form LLP-4's effective date (the date Form LLP-4 is received by the California SOS) will stop the assessment of the $800 annual tax for future taxable years. If Form LLP-4 is filed after the taxable year ending date, a subsequent year return and an additional $800 may be required.

Additional Information
For more information on how to cancel your partnership, contact:

By Mail:

LPs – BUSINESS ENTITIES SECTION
PO BOX 944225
SACRAMENTO CA 94244-2250

LLPs – BUSINESS ENTITIES SECTION
PO BOX 944228
SACRAMENTO CA 94244-2280

In Person:

CALIFORNIA SECRETARY OF STATE
1500 11TH STREET, 3RD FLOOR
SACRAMENTO CA 95814

Phone Number: 916.657.5448
Office hours are Monday through Friday, 8 a.m. to 5 p.m.

Website: **sos.ca.gov**
Email address: partnerships@sos.ca.gov

If the partnership is being terminated or cancelled to convert to another type of business entity, be sure to file the appropriate forms with the California SOS.

Q Withholding Requirements

Foreign (non-U.S.) Nonresident Partners
As described in IRC Section 1446 and modified by R&TC Section 18666, if a partnership has any income or gain from a trade or business within California, and if any portion of that income or gain is allocable under IRC Section 704 to a foreign (non-U.S.) nonresident partner, the partnership is required to withhold tax on the allocable amount.

State and Federal Differences Regarding Foreign (non-U.S.) Nonresident Partners
California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws in this area are:

a. The California withholding rate is 8.84% for C corporations and 9.3% for individuals, partnerships, and fiduciaries.

b. Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18662.

Domestic (U.S.) Nonresident Partners
A partnership is required to withhold funds for income or franchise taxes when it makes a distribution of income to a domestic (U.S.) nonresident partner (R&TC Section 18662). This includes prior year income that should have been, but was not, previously reported as income from California sources on the partner's California income tax return. However, withholding is not required if distributions of income from California sources to the partner are $1,500 or less during the calendar year or if the FTB directs the payer not to withhold.

Domestic (U.S.) nonresident partners include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic (U.S.) nonresident partners also include nonresident estates, trusts, LLCs, and partnerships that do not have a permanent place of business in California. Foreign nonresident partners covered under R&TC Section 18666 are not domestic nonresident partners.

Partnerships with income from within and outside California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable in determining the California part of the distribution subject to the withholding. Partnerships are required to withhold at a rate of seven percent of distributions (including property) of income from California sources made to domestic nonresident partners.

The FTB has administrative authority to allow reduced withholding rates, including waivers, when requested in writing. These authorizations may be one-time, annual, or for a longer period. Waivers or reduced withholding rates will normally be approved when distributions are made by publicly traded partnerships and on distributions to brokerage firms, tax-exempt organizations, and tiered partnerships.

No withholding is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon examination the FTB determines that withholding was required, the partnership may be liable for the withholding and penalties.

Send waiver requests and inquiries to:

WITHHOLDING SERVICES AND COMPLIANCE
FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0651

Telephone: **888.**792.4900 or
916.845.4900 (not toll-free)

The withholding should be reported on and sent with Form 592, Form 592-A, Form 592-B, and/or Form 592-F. For more information, get FTB Pub. 1017, Nonresident Withholding Guidelines.

The taxable income of nonresident partners is the distributive share of California sourced partnership income, not the distributed amount.

R Check-the-Box Regulations

California generally conforms to the federal entity classification regulations (commonly known as "check-the-box" regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation, or an entity disregarded as separate from its owner.

Generally, any elections made for federal purposes under the federal "check-the-box" regulations are considered California elections. No separate elections are allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California return for the year in which the election is effective. The entity should file the appropriate California return.

An "eligible entity" may choose its classification. An eligible entity is a business entity that is not a trust, a corporation organized under a federal or state statute, a foreign entity specifically listed as a per se corporation, or other special business entities. Other special business entities under the IRC include PTPs, REMICs, financial asset securitization investment trusts (FASITs), or regulated investment companies (RICs). An eligible entity with two or more owners will be a partnership (for tax purposes) unless it elects to be taxed as a corporation. An eligible entity with a single owner will be disregarded for tax purposes, unless the entity elects to be taxed as a corporation. If the separate existence of an entity is disregarded, its activities are treated as activities of the owner and are reported on the appropriate California return.

IMPORTANT: The exception to the general rule exists under R&TC Section 23038(b)(2)(C) in the case of an eligible business entity. The exception does not apply to a business entity which, during the 60 month period preceding January 1, 1997, was appropriately classified as an association taxable as a corporation and met all of the following conditions:

- The business entity was not doing business in California.
- The business entity did not derive income from sources within California.
- The business entity had no partners who were residents of California.

The eligible business entities are generally: 1) Business trusts that were classified as corporations under California law, but were classified as partnerships for federal tax purposes for taxable years beginning before January 1, 1997; and 2) Previously existing foreign single member limited liability companies (SMLLCs) that were classified as corporations under California law but claimed to be partnerships for federal tax purposes for taxable years beginning before January 1, 1997.

These business trusts and previously existing foreign SMLLCs will continue to be classified as corporations for California tax purposes and must continue to file Form 100, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, and Cal. Code Regs., tit. 18 sections 23038(a)-(b).

S Substitute Schedules

Partnerships or their tax professional must get approval from the FTB to use a substitute schedule, if any of the following apply:

- The partnership wants to use **paperless** Schedules K-1 (565).
- The partnership does not use the official California Schedule K-1 (565) prepared by the FTB.
- The partnership does not use a software program with an FTB-approved Schedule K-1 (565.)

If you use computer software, read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. All printing should be done to the standards specified in FTB Pub. 1098, Annual Requirements and Specifications for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms. For more information, get FTB Pub. 1095D, Tax Practitioner Guidelines for Computer-Prepared Returns.

Partnerships are subject to penalties for failure to file the appropriate Schedule K-1 (565). See General Information, Penalties and Interest.

To participate in the FTB's substitute forms program, get FTB Pub. 1098, and form FTB 1096, Agreement to Comply with FTB Pub. 1098, Annual Requirements and Specifications.

Paperless Schedule K-1 (565)

For the procedures, formatting specifications, and record layouts required to program paperless Schedules K-1 (565) get FTB Pub. 1062, Guidelines for Filing Paperless Schedules K-1 (565 or 568).

The transmittal form FTB 3604, Transmittal of Paperless Schedules K-1 (565 or 568) on CD or Diskette, must accompany paperless Schedules K-1 (565) submitted on CD or diskette. Form FTB 3604 is included in FTB Pub. 1062, or in a fillable format on our website at **ftb.ca.gov**.

K-1 (565 or 568) TestWare is also available at no charge. K-1 TestWare will help identify and correct errors during programming and before submitting the paperless schedules.

K-1 (565 or 568) TestWare includes two programs:

- K-1 Verify, edits the Schedule K-1 (565) records to ensure the fields are the correct length and position that the FTB requires, and produces an edit report.
- K-1 Convert, converts spreadsheet formats to standard fixed length formats so you can use them with K-1 Verify.

Once verification is made to ensure the partnership's paperless Schedules K-1 (565) pass the K-1 Verify program, send the schedules to the FTB using form FTB 3604. Multiple partnerships can be put on the same CD or diskette. It is not necessary to provide a separate CD or diskette for each partnership. However, include each partnership's name, FEIN, and number of Schedules K-1 for that partnership in the space provided on form FTB 3604.

If the partnership files paperless Schedules K-1 (565), file all Schedules K-1 (565) for that partnership using the paperless process. **Do not** file paper Schedules K-1 (565) with the Form 565 if the partnership has filed or will file paperless Schedules K-1 (565).

Do not file Schedules K-1 (565) on microfiche or file federal Schedules K-1 (1065) with the Form 565.

To get the publication and the K-1 Testware, go to our website at **ftb.ca.gov** and search for **testware**.

Assistance is available from our e-file Help Desk at 916.845.0353.

Additional Information

California Use Tax

General Information

The use tax has been in effect in California since July 1, 1935. It applies to purchases from out-of-state sellers and is similar to the sales tax paid on purchases made in California.

In general, partnerships must pay California use tax on purchases made from outside California (for example, by telephone, over the Internet, by mail, or in person) if both of the following apply:

- The seller does not collect California sales or use tax.
- The partnership uses, gives away, stores, or consumes the item in this state.

Example: The partnership purchases a conference table from a company in North Carolina. The company ships the table from North Carolina to the partnership's address in California for the partnership's use and does not charge California sales or use tax. The partnership owes use tax on the purchase.

Complete the Use Tax Worksheet on page 11 to calculate the amount due.

Extensions to file. If the partnership requests an extension to file its tax return, wait until the partnership files its return to report the purchases subject to use tax and to make the use tax payment.

To avoid late payment penalties for use tax, the partnership must report and pay the use tax with a timely filed income tax return.

Changes in use tax reported. Do not file an Amended Partnership Return of Income to revise the use tax previously reported. If the partnership has changes to the amount of use tax previously reported on the original tax return, contact the State Board of Equalization.

For assistance, go to the State Board of Equalization's website at **boe.ca.gov** or call their Taxpayer Information Section at 800.400.7115 or TTY/TDD 800.735.2929. Income tax information is not available at this number.

Specific Instructions

Form 565

Fill In All Applicable Lines and Schedules
Enter the total amounts on the applicable lines of Schedule K (565). **Do not** enter these items directly on Form 565, Side 1, Schedule A or Schedule D. **Do not** apply the apportionment factor to the items on Schedule K (565). Enter any items specially allocated to the partners on the applicable line of the partner's Schedule K-1 (565).

Whole numbers should be shown on the return and accompanying schedules.

Name, Address, FEIN, and California SOS File Number
The partnership may use its legal or trade name on all California returns and other documents filed. Print the partnership's legal or trade name, address, FEIN, and California SOS file number.

- Federal employer identification number (FEIN) (nine digits)
- Secretary of State (California SOS) file number is 12 digits and begins with "19" or "20"
- Partnership name (use the legal name filed with the California SOS) and address, include Private Mail Box (PMB) number, if applicable.

If the partnership leases a PMB from a private business rather than a PO box from the United States Postal Service, include the PMB in the address area. Example: 111 Main Street PMB 123.

Item G – Total Assets at End of Taxable Year
See the instructions for Question O before completing this item.

If the partnership is required to complete this item, enter the total assets at the end of the partnership's taxable year. This is determined by the accounting method regularly used to maintain the partnership's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

Item I – Principal Business Activity Code (PBA)
California uses the 6-digit federal PBA Code based on the North American Industry Classification System (NAICS).

Common trust funds are required to use PBA code 525920. Investment clubs are required to use PBA code 523900. For further information, see the instructions for federal Form 1065.

Income

Line 1 through Line 12
California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity income on line 1 through line 12. However, for California tax purposes, business income of the partnership is computed using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be business income for California sourcing purposes. **Do not** include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825 to Form 565. Use California amounts and attach a statement reconciling any differences between federal and California amounts.

Use worldwide amounts determined under California law when completing these lines.

Form 565, line 4 through line 11 have been separated to report total gains and total losses. Net amounts are no longer reported.

Line 6 – Total Farm Profit
Line 7 – Total Farm Loss
Enter on line 6 the partnership's total farm profit from federal Schedule F (Form 1040), Profit or Loss from Farming, Line 36, Net farm profit or (loss). Enter on line 7 the partnership's total farm loss from federal Schedule F (Form 1040), Line 36. Attach federal Schedule F to Form 565. If the amount includable for California purposes is different from the amount on federal Schedule F, enter the California amount and attach a note explaining the difference.

Line 8 – Total Gain from Schedule D-1
Line 9 – Total Loss from Schedule D-1
Include only ordinary gains (losses) from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains (losses) from the sale, exchange, or involuntary conversion of rental activity assets must be reported separately on Schedule K (565) and Schedule K-1 (565).

A partnership that is a partner in another partnership must include on Schedule D-1, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

Deductions

Line 13 through Line 22
California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity deductions on line 13 through line 21. Include amounts for repairs, rents, and taxes on line 21. **Do not** include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565).

Use worldwide amounts determined under California law when completing these lines.

Federal reporting requirements for organization expenses, syndication expenses, and uniform capitalization rules apply for California.

Claim of Right. To claim as a deduction, enter the amount on Line 21. If you elect to take the credit instead of the deduction, remember to use the California tax rate, add the credit amount to the total on line 27, Total payments. To the left of this total, write IRC 1341 and the amount of the credit.

Line 17a – Depreciation and Amortization
Enter on line 17a the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885P, Depreciation and Amortization, included in this booklet, to figure depreciation and amortization. Transfer the total from form FTB 3885P, line 6, to Form 565, Side 1, line 17a, or federal Form 8825, line 14, or as appropriate (use California amounts). See the instructions for form FTB 3885P for more information.

Do not include any expense deduction for recovery property (IRC Section 179; Enterprise Zones, R&TC Section 17267.2; Targeted Tax Area, R&TC Section 17267.6; and Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the partnership. Instead, it is passed through separately to the partners and is reported on line 12 of Schedule K (565) and Schedule K-1 (565).

Line 24 – Tax
Enter the $800 annual tax required for LPs, LLPs, and REMICs. See General Information, Annual Tax, for further details on the annual tax requirements.

Line 25 – Nonresident Withholding Credit
If taxes were withheld from payment to the partnership, the partnership can either allocate the entire withholding credit to all its partners or claim a portion (not to exceed the total tax due) and allocate the remaining portion to all its partners. If the partnership claims any of the amount withheld, attach Form 592-B from the withholding entity to the front lower portion of the partnership return. The partnership must file Forms 592 and 592-B to allocate any remaining withholding credit to its partners. For more information, get FTB Pub. 1017, Nonresident Withholding Guidelines.

The above explanation does not apply to the nonconsenting nonresident member's tax paid by an LLC on behalf of the nonresident member. The nonconsenting nonresident members' tax is not related to the partnership withholding on nonresident partners. Therefore, the tax cannot be claimed using Forms 592 and 592-B; and cannot be claimed by the partnership on this line. The partnership will allocate the entire amount paid by the LLC on its behalf to all of its partners on Schedule K (565) and Schedule K-1 (565), line 15e.

Line 29 – Use Tax
As explained on page 9, California use tax applies to purchases from out of state sellers (for example, purchases made by telephone, over the Internet, by mail, or in person). For questions on whether a purchase is taxable, go to State Board of Equalization's website at **boe.ca.gov**, or call their Taxpayer Information Section at 800.400.7115 or TTY/TDD 800.735.2929.

A partnership may report use tax on its Partnership Return of Income instead of filing a use tax return with the California State Board of Equalization. To

report use tax on the partnership tax return, complete the Use Tax Worksheet below.

If the partnership owes use tax but does not report it on its Partnership Return of Income, the partnership must report and pay the tax to the California State Board of Equalization. To do so, download a copy of Publication 79-B, California Use Tax, from **boe.ca.gov** or request a copy by calling their Taxpayer Information Section.

To avoid late payment penalties for use tax, the partnership must report and pay the use tax with a timely filed income tax return. Failure to timely report and pay the use tax due may result in the assessment of penalties.

Note: Businesses that have a California seller's permit must continue to report business purchases subject to use tax on their sales and use tax returns.

Use Tax Worksheet

Round all amounts to the nearest whole dollar.

1. Enter purchases from out-of-state or Internet sellers made without payment of California sales/use tax. See worksheet instructions below . . . . . $ _____.00
2. Enter the decimal equivalent of the applicable sales and use tax rate. See worksheet instructions below . . . . . _____
3. Multiply line 1 by the tax rate on line 2. Enter result here . . . . . $ _____.00
4. Enter any sales or use tax paid to another state for purchases included on line 1. See worksheet instructions below . . . . . $ _____.00
5. Total Use Tax Due. Subtract line 4 from line 3. Enter the amount here and on line 29. If the amount is less than zero, enter -0- . . . . . $ _____.00

Worksheet, Line 1, Purchases Subject to Use Tax

- Report items that would have been taxable in a California store, such as office equipment and supplies.
- Include handling charges.
- Do not include any other state's sales or use tax paid on the purchases.
- Enter only purchases made during the year that corresponds with the tax return the partnership is filing.

Note: Report and pay any use tax you owe on the following purchases to the State Board of Equalization, not on your income tax return.

- Vehicles, vessels, and trailers that must be registered with the Department of Motor Vehicles.
- Mobile homes or commercial coaches that must be registered annually as required by the Health and Safety Code.
- Vessels documented with the U.S. Coast Guard.
- Aircraft.
- Leases of machinery, equipment, vehicles, and other tangible personal property.

Worksheet, Line 2, Sales and Use Tax Rate

- Enter the decimal equivalent of the sales and use tax rate applicable to the place in California where the property is used, stored, or otherwise consumed. For example, the decimal equivalent of 7.25% is 0.0725, and the decimal equivalent of 7.375% is 0.07375.
- If the partnership does not know the applicable rate, see the table on this page and on the following page. "Sales and Use Tax Rates by County." If the partnership has questions regarding the use tax rate in effect in the partnership's area, go to the State Board of Equalization's website at **boe.ca.gov** or call their Taxpayer Information Section at 800.400.7115 or TTY/TDD 800.735.2929.

Worksheet, Line 4, Credit for Tax Paid to Another State

- This is a credit for tax paid to other states. The partnership cannot claim a credit greater than the amount of tax that would have been due if the purchase had been made in California. For example, if the partnership paid $8.00 sales tax to another state for a purchase, and would have paid $6.00 in California, the partnership can claim a credit of only $6.00 for that purchase.

Sales and Use Tax Rates by County

(includes state, local, and district taxes)

January 1, 2008 Through December 31, 2008

County	Rate	County	Rate
Alameda	8.75%	Orange[1]	7.75%
Alpine	7.25%	Placer	7.25%
Amador	7.25%	Plumas	7.25%
Butte	7.25%	Riverside	7.75%
Calaveras	7.25%	Sacramento	7.75%
Colusa[1]	7.25%	San Benito[1]	7.25%
Contra Costa[1]	8.25%	San Bernardino[1]	7.75%
Del Norte	7.25%	San Diego[1]	7.75%
El Dorado[1]	7.25%	San Francisco	8.50%
Fresno[1]	7.975%	San Joaquin[1]	7.75%
Glenn	7.25%	San Luis Obispo[1]	7.25%
Humboldt[1]	7.25%	San Mateo	8.25%
Imperial	7.75%	Santa Barbara	7.75%
Inyo	7.75%	Santa Clara	8.25%
Kern[1]	7.25%	Santa Cruz[1]	8.00%
Kings	7.25%	Shasta	7.25%
Lake[1]	7.25%	Sierra	7.25%
Lassen	7.25%	Siskiyou	7.25%
Los Angeles[1]	8.25%	Solano	7.375%
Madera	7.75%	Sonoma[1]	7.75%
Marin[1]	7.75%	Stanislaus[1]	7.375%
Mariposa	7.75%	Sutter	7.25%
Mendocino[1]	7.25%	Tehama	7.25%
Merced[1]	7.25%	Trinity	7.25%
Modoc	7.25%	Tulare[1]	7.75%
Mono[1]	7.25%	Tuolumne[1]	7.25%
Monterey[1]	7.25%	Ventura	7.25%
Napa	7.75%	Yolo[1]	7.25%
Nevada[1]	7.375%	Yuba	7.25%

1. Many cities in California impose a district tax which results in a higher sales and use tax rate than in other parts of the county. If you are reporting an item that was purchased for use in one of these counties, please check the following city list to see if a higher rate applies to your city. The tax rates shown apply if you live within the city limits of the listed community.

County	City	Citywide Rate
Colusa	Williams	7.75%
Contra Costa	El Cerrito (effective 7/1/08)[5]	8.75%
Contra Costa	Pinole	8.75%
Contra Costa	Richmond	8.75%
El Dorado	Placerville	7.50%
El Dorado	South Lake Tahoe	7.75%
Fresno	Clovis (effective 10/1/08)[9]	7.975%
Fresno	Reedley (effective 7/1/08)[6]	8.475%
Fresno	Sanger (effective 7/1/08)[7]	8.725%
Fresno	Selma (effective 4/1/08)[1]	8.475%
Humboldt	Trinidad	8.25%
Kern	Delano (effective 4/1/08)[2]	8.25%
Lake	Clearlake	7.75%
Lake	Lakeport	7.75%
Los Angeles	Avalon	8.75%
Los Angeles	Inglewood	8.75%
Los Angeles	South Gate (effective 10/1/08)[10]	9.25%
Marin	San Rafael	8.25%
Mendocino	Fort Bragg	7.75%
Mendocino	Point Arena	7.75%
Mendocino	Ukiah	7.75%
Mendocino	Willits	7.75%

Merced	Los Banos	7.75%
Merced	Merced	7.75%
Mono	Mammoth Lakes (effective 10/1/08)[11]	7.75%
Monterey	Del Rey Oaks	8.25%
Monterey	Pacific Grove (effective 10/1/08)[12]	8.25%
Monterey	Salinas	7.75%
Monterey	Sand City	7.75%
Monterey	Seaside (effective 7/1/08)[8]	8.25%
Nevada	Nevada City	7.875%
Nevada	Truckee	7.875%
Orange	Laguna Beach	8.25%
San Benito	Hollister (effective 4/1/08)[3]	8.25%
San Benito	San Juan Bautista	8.00%
San Bernardino	Montclair	8.00%
San Bernardino	San Bernardino	8.00%
San Diego	El Cajon	8.25%
San Diego	National City	8.75%
San Diego	Vista	8.25%
San Joaquin	Manteca	8.25%
San Joaquin	Stockton	8.00%
San Luis Obispo	Arroyo Grande	7.75%
San Luis Obispo	Grover Beach	7.75%
San Luis Obispo	Morro Bay	7.75%
San Luis Obispo	Pismo Beach (effective 10/1/08)[13]	7.75%
San Luis Obispo	San Luis Obispo	7.75%
Santa Cruz	Capitola	8.25%
Santa Cruz	Santa Cruz	8.50%
Santa Cruz	Scotts Valley	8.50%
Santa Cruz	Watsonville	8.25%
Sonoma	Sebastopol	8.00%
Sonoma	Santa Rosa	8.00%
Stanislaus	Ceres (effective 4/1/08)[4]	7.875%
Tulare	Dinuba	8.50%
Tulare	Farmersville	8.25%
Tulare	Porterville	8.25%
Tulare	Tulare	8.25%
Tulare	Visalia	8.00%
Tuolumne	Sonora	7.75%
Yolo	Davis	7.75%
Yolo	West Sacramento	7.75%
Yolo	Woodland	7.75%

1. The tax rate in Selma prior to April 1, 2008 was 7.975%.
2. The tax rate in Delano prior to April 1, 2008 was 7.25%.
3. The tax rate in Hollister prior to April 1, 2008 was 7.25%.
4. The tax rate in Ceres prior to April 1, 2008 was 7.375%.
5. The tax rate in El Cerrito prior to July 1, 2008 was 8.25%.
6. The tax rate in Reedley prior to July 1, 2008 was 7.975%.
7. The tax rate in Sanger prior to July 1, 2008 was 7.975%.
8. The tax rate in Seaside prior to July 1, 2008 was 7.25%.
9. The tax rate in Clovis prior to October 1, 2008 was 8.275%.
10. The tax rate in South Gate prior to October 1, 2008 was 8.25%.
11. The tax rate in Mammoth Lakes prior to October 1, 2008 was 7.25%.
12. The tax rate in Pacific Grove prior to October 1, 2008 was 7.25%.
13. The tax rate in Pismo Beach prior to October 1, 2008 was 7.25%.

Schedule A — Cost of Goods Sold

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, Schedule A.

Questions

Question J

Check only one box for this question. The partnership checks the box that best describes its business type. For definitions of general partnership, limited partnership, real estate mortgage investment conduit, and limited liability partnership, see General Information, Definitions, and the instructions for federal Form 1065.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit (R&TC Section 23101).

Line Item 6 of Question J is for other types of entities not previously mentioned on line 1 through line 5. If your entity is not a general partnership, LP, REMIC, or LLP, then check the box for line item 6 only. In the space provided, write in the type of entity.

Question K

Enter the maximum number of partners in the partnership during the taxable year. The number of Schedules K-1 (565) sent via magnetic media or attached to Form 565, must equal the number of partners entered in Question K. **Do not** use abbreviations or terms such as "**Various**."

Question O

If the answers to Question 6a through Question 6c on federal Form 1065, Schedule B are all "Yes," answer "Yes" to Question O on Form 565.

If Question O is answered "Yes," the partnership is not required to complete Schedules L, M-1, M-2, or Item G on Side 1 of Form 565 or Item J on Schedule K-1 (565).

Question T

All partnerships **must** answer all three questions. If you do not own or lease (as specified below) real property in California, answer "No" to the questions. (Real property includes land, buildings, structures, and fixtures – see R&TC Section 104).

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 may result in substantial penalties. Forms and information may be obtained from the BOE website at **boe.ca.gov** and can be accessed through **Property Tax**, and then **Legal Entity Ownership Program**.

There may be a change in ownership or control if, during this year, one of the following occurred with respect to this partnership (or any legal entity in which it holds a controlling or majority interest):

- The percentage of partnership interests transferred to, or owned or controlled by **one** person or **one** legal entity cumulatively exceeded 50%.
- The total partnership interests transferred to or held by **one** irrevocable trust or trust beneficiary cumulatively exceeded 50%.
- This partnership, or any legal entity in which it holds a controlling or majority interest, cumulatively acquired ownership or control of more than 50% of the partnership or other ownership interests in any legal entity.
- As of the end of this year, cumulatively more than 50% of the total partnership interests have been transferred or the partnership 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 U

California requires taxes to be withheld from certain payments or allocations of income and sent to the FTB (R&TC Section 18662 and Section 18666). If upon examination, the FTB determines that tax withholding was required, the partnership can be liable for the tax and penalties.

The reference to Forms 592, 592-A, 592-B, and 592-F relates to withholding done by the partnership. If you need additional information concerning partnership withholding, see General Information, Required Information Returns, and Withholding Requirements.

Question V – Investment Partnership.

An "investment partnership" is a partnership that meets the following two criteria:

1. No less than 90% of the cost of the partnership's total assets consist of:
   - Qualifying investment securities
   - Deposits at banks or other financial institutions

- Office equipment and office space reasonably necessary to carry on the activities of an investment partnership

2. No less than 90% of the partnership's gross income is from interest, dividends, and gains from the sale or exchange of qualifying investment securities defined in R&TC Section 17955 and Section 23040.1.

Qualifying investment securities include all of the following:

- Common and preferred stock, as well as debt securities convertible into common stock.
- Bonds, debentures, and other debt securities.
- Foreign and domestic currency deposits or equivalent and securities convertible into foreign securities.
- Mortgage-backed or asset-backed securities secured by governmental agencies.
- Repurchase agreements and loan participations.
- Foreign currency exchange contracts and forward and futures contracts on foreign currencies.
- Stock and bond index securities and futures contracts, and other similar securities.
- Regulated futures contracts.
- Options to purchase or sell any of the preceding qualified investment securities, except regulated futures contracts.

Qualifying investment securities do not include an interest in a partnership, unless the partnership qualifies as an investment partnership. See R&TC Section 17955 and Section 23040.1 and General Information, Investment Partnerships, for more information.

Question X

Federal Form 8886, Reportable Transaction Disclosure Statement, must be attached to any return on which the partnership has claimed or reported income from, or a deduction, loss, credit or other tax benefit attributable to, participation in a reportable transaction. If the partnership is required to file this form with the federal return, attach a copy to the partnership's Form 565. Do not attach copies of federal Schedules K-1 (1065).

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. 1.6011-4 and includes, but is not limited to:

- A Confidential Transaction, which is a transaction offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which is a transaction that 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 Section 165, which is a transaction resulting in a loss of at least $10 million in any one-year or $20 million in any combination of taxable years for a partnership that has only corporations as partners, (looking through partners that are themselves partnerships); or, $2 million in any one-year or $4 million in any combination of taxable years for all other partnerships.
- 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 transaction where the taxpayer is claiming a tax credit of greater than $250,000 and held the asses for less than 45 days (entered into prior to August 3, 2007).
- A transaction of interest, which is a transaction that is the same as or substantially similar to one of the types of transactions that has been identified by the Internal Revenue Service as a transaction of interest (entered into on or after November 2, 2006).
- A Listed Transaction, which is a specific reportable transaction, or one that is substantially similar, that has been identified by the Internal Revenue Service or the Franchise Tax Board as a tax avoidance transaction.

Schedule K (565) and Schedule K-1 (565) — Partner's Shares of Income, Deductions, Credits, etc.

Purpose of Schedules

Schedule K (565) is a summary schedule for the partnership's income, deductions, credits, etc., and Schedule K-1 (565) shows each partner's distributive share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (565) must be attached to Form 565 when it is filed with the FTB. For alternative methods of filing Schedules K-1 (565), see General Information, Substitute Schedules.

Be sure to give each partner a copy of their respective Schedule K-1 (565). Also include a copy of the Partner's Instructions for Schedule K-1 (565) or specific instructions for each item reported on the partner's Schedule K-1 (565). These items should be provided to the partner on or before the due date of the Form 565.

Schedule K (565) Only

In column (b), enter the amounts from federal Schedule K. In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments relating to California source income). In column (d) on Schedule K (565), enter the worldwide income computed under California law. For partners to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss), and portfolio income (loss) must be considered separately by the partners. Rental activity income (loss) and portfolio income (loss) are not reported on Form 565, Side 1 so that these amounts are not combined with trade or business activity income (loss). Schedule K (565) is used to report the totals of these (and other) amounts.

Apportioning partnerships only

Once the Schedule K (565) has been completed, apportioning partnerships should also complete Schedule R before completing its partners' Schedules K-1 (565).

Compliance with Partnership Filing Requirements

To help ensure the accurate and timely processing of the partnership's Form 565, verify the following:

- A California approved Schedule K-1 (565) has been sent via magnetic media or attached (to Form 565) for each partner identified on Form 565, Side 2, Question K. Partnerships eligible for the reduced filing program, see General Information, Who Must File.
- The Schedule K-1 (565) contains the partner's correct name, address, and identifying number in the correct fields.
- Questions A through J are completed on Side 1 of Schedule K-1 (565).
- The appropriate entity type box (Schedule K-1 (565), Side 1, Question B) is checked for each partner.
- All Schedules K-1 (565) reconcile to Form 565, Schedule K (565).
- The partner's percentage (Schedule K-1 (565) Question D) is expressed in decimal format and carried to four decimal places (i.e., 33.5432). Do not print fractions, the percentage symbol (%), or use terms such as "**Various**."
- Substitute computer-generated Schedule K-1 (565) forms **must** be approved by the FTB.

For the highest rate of accuracy and rapid processing, file Schedules K-1 (565) on CD or diskette. See General Information, Substitute Schedules, for more details.

Schedule K-1 (565) Only

The partnership completes the entire Schedule K-1 (565) filling out the partner's and partnership's information (name, address, identifying numbers), Questions A through J, and the partner's distributive share of items.

For partners with PMB addresses, include the designation number in the partner's address area. Precede the number (or letter) with "PMB."

For each individual partner, enter the partner's social security number. For all other partners enter the FEIN. However, if a partner is an individual retirement account (IRA), enter the identifying number of the custodian of the IRA. **Do not** enter the social security number of the person for whom the IRA is maintained.

The partnership files one California Schedule K-1 (565) for each partner either by CD or diskette or by attaching a copy to the partnership return. **Do not** attach federal Schedules K-1 (1065). These forms are not California approved forms.

Determining the Source of the Partnership's Income for a Resident Partner

A resident partner should include the entire distributive share of partnership income in their California income. If the partnership is apportioning, the partner may be entitled to a credit for taxes paid to other states. The partner

should be referred to Form 540, Schedule S, Other State Tax Credit, for more information.

Determining the Source of the Partnership's Income for a Nonresident Partner

Business income: Regardless of the classification of income for federal purposes, income from California sources is determined in accordance with California law, (Cal. Code Regs., tit. 18 section 17951-4). California source business income of a trade or business is determined by apportionment, if the partnership conducts any of the following:

- A trade or business wholly within California, the income from that trade or business is California source income.
- A business within and outside California, but the part within California is so separate and distinct that it can be separately accounted for, then only that separate income within California is California source income.
- A single trade or business within and outside California.

The partnership should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Section 25120 through Section 25139). Special rules apply if the partnership has income that is not attributable to the trade or business of the partnership (nonbusiness income).

Nonbusiness Income: Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, gains, or losses) located in California is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Section 25124 and Section 25125). Enter this information on the appropriate line of Schedule K-1 (565). If the partnership believes it may have a unitary partner, the information should also be entered on Side 3, Table 2, Part B, for that partner.

The source of nonbusiness income attributable to intangible property depends upon the partner's state of residence or commercial domicile. Individuals generally source this income to their state of residence and corporations to their commercial domicile.

Because the determination of the source of intangible nonbusiness income must be made at the partner level, this income is not entered on Schedule K-1 (565), column (e). It is entered only on Side 3, Table 1.

Completing Schedule K-1 (565)

Questions A through J
See the Instructions for federal Form 1065, Specific Instructions, Schedule K-1 Only, Part II, Information About the Partner, for more information on completing question A through question J.

Questions A and B, Schedule K-1 (565)
Check the appropriate box to indicate a general or limited partner and the partner's entity type. An exempt organization should check box 10 regardless of its legal form.

Question C, Schedule K-1 (565)
Check the appropriate box to indicate if this is a foreign partner.

Questions D and E, Schedule K-1 (565)
Percentages must be four to seven characters in length and have a decimal point before the four final characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000. Do not enter fractions, the percentage symbol (%), or use terms such as "**Various**."

For more information on completing Questions D and E, get the instructions for federal Form 1065, Specific Instructions, Schedule K-1 Only, Part II, Information About the Partner.

Question F, Schedule K-1 (565)
Enter the reportable transaction or tax shelter registration number(s), if applicable. See instructions for Form 565 Question X for more information.

Completing Column (b) through Column (e)

- In **column (b)**, enter the amounts from federal Schedule K-1 (1065).
- In **column (c)**, enter the adjustments resulting from differences between California and federal law for each specific line item.
- In **column (d)**, enter the result of combining column (b) and column (c). This is total income under California law.

Column (e) is used to report California source amounts and credits. Include the following items in this column:

1. Income from separate businesses, trades, or professions conducted wholly within California, Cal. Code Regs., tit. 18 section 17951-4(a).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for, Cal. Code Regs., tit. 18 section 17951-4(b).
3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income attributable to the business, trade, or profession, Cal. Code Regs., tit. 18 section 17951-4(c) and R&TC Sections 25128 through 25137. Generally, the partnership should apportion business income using a four-factor formula consisting of property, payroll, and a double-weighted sales factor. Use a three-factor formula consisting of payroll, property, and a single-weighted sales factor if more than 50% of the business receipts of the partnership are from agricultural, extractive, savings and loans, banks, and financial activities. Apportioning partnerships should complete Schedule R and attach it to Form 565.
4. Nonbusiness income from real and tangible property located in California. Enter the partner's share of nonbusiness income from real and tangible property located in California in column (e). If the partnership believes it may have a unitary partner, enter this income in Table 2, Part B.
5. California credits.

Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Partner's Instructions for Schedule K-1 (565).

Column (d) and Column (e)
Schedule K-1 (565), column (d), includes the partner's distributive share of total partnership income, deductions, gains, or losses under California law. Column (e) includes only income, deductions, gains, or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the partner is not a factor in the computation of amounts to be included in column (d) and column (e).

For a partnership that is doing business wholly within California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, gains, or losses from sales of securities).

For a partnership that is doing business within and outside California, the amounts in column (d) and column (e) may be different.

If the partnership knows the partner is a resident individual, then the partnership answers "No" to Question I on Schedule K-1 (565), and completes column (d) only. Otherwise, the partnership should complete column (e) for all other partners.

Completing Table 1
Complete Table 1 only if the partnership has nonbusiness intangible income. If the partnership has nonbusiness intangible income, but knows that the partner is a resident individual, then the partnership does not need to complete Table 1 for the partner.

Completing Table 2
The partnership does not need to complete Table 2 for a partner, if the partnership knows that the partner is not unitary with its trade or business or any other trade or business.

Special Rules for Partners and Partnerships in a Single Unitary Business
Special rules apply if the partnership and a partner are engaged in a single unitary business. In that case, a unitary partner will not use the income information shown in column (e). Instead, the partner's distributive share of business income is combined with the partner's own business income. The combined business income is apportioned using an apportionment formula that consists of an aggregate of the partner's share of the apportionment factors from the partnership and the partner's apportionment factors, Cal. Code Regs., tit. 18 section 25137-1(f). The determination of whether a three-factor or four-factor apportionment formula applies to the combined income will be made at the partner level. The partner's distributive share of business income and property, payroll, and sales factors are entered in Table 2.

If the partnership knows that all of the partners are unitary with the partnership, the partnership need not complete column (e) for any of the Schedules K-1 (565) or attach a Schedule R. For further information, see Partner's Instructions for Schedule K-1 (565).

Special Reporting Requirements for Passive Activities
If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (565), the partnership must attach a statement to Schedule K-1 (565) for each activity that is a passive activity to the partner. Rental activities are passive activities to all partners; trade or business activities are passive activities to limited partners and to general

partners who do not materially participate in the activity. The statement must include all the information explained in the instructions for federal Schedule K-1 (1065).

Specific Line Instructions
The California Schedule K (565) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (565) refer to the instructions for federal Schedule K (1065).

When completing the California Schedule K (565) and Schedule K-1 (565), refer to the Federal/State Line References chart that shows the specific line references between the federal Schedule K (565) and Schedule K-1 (1065), and the California Schedule K (565) and Schedule K-1 (565).

Income

Line 1 through Line 11c
See the instructions for federal Form 1065, Specific Instructions Schedules K and K-1, and Schedule K-1 (565) Income (Loss), line 1 through line 11.

Schedule K (565) must include all income and losses from the partnership activities as determined under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K (565).

Line 10 – Enter on line 10, the amount shown on Schedule D-1, Sales of Business Property, line 7. **Do not** include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts. Instead, report them on line 11b or line 11c.

If the partnership has more than one activity and the amount on line 10 is a passive activity amount to the partner, attach a statement to Schedule K-1 (565) that identifies to which activity the IRC Section 1231 gain (loss) relates.

Deductions

Line 12 through Line 13
See the instructions for federal Form 1065, Specific Instructions Schedules K and K-1 and Schedule K-1 (565), Deductions, line 12, and line 13a through line 13e.

Effective for taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions for reporting the sale, exchange or disposition of property for which an IRC Section 179 expense deduction was claimed in prior years by a partnership. If the partnerships elects the Section 17267.2 business expense deduction, the partnership may not claim a Section 179 deduction for this asset.

California has not conformed to the federal Job Creation and Worker Assistance Act of 2002 that allows taxpayers to take an additional first-year depreciation deduction and Alternative Minimum Tax depreciation adjustment for property placed in service after September 10, 2001.

Line 13a – Charitable Contributions
Enter the total amount of charitable contributions made by the partnership during its taxable year on Schedule K (565) and each partner's distributive share on Schedule K-1 (565). Attach an itemized list to both schedules showing the amount subject to the 50%, 30%, and 20% limitations.

Partners are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170. For taxable years beginning on or after January 1, 2002, California law conforms to the federal law, relating to the denial of the deduction for lobbying activities, club dues, and employee remuneration in excess of one million dollars.

California conforms to IRC Section 170(f)(8) substantiation requirement for charitable contributions.

Line 13b – Investment Interest Expense
This line must be completed whether or not a partner is subject to the investment interest rules. Enter the interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 13b of Schedule K (565) and Schedule K-1 (565), rather than line 13d of Schedule K (565) and Schedule K-1 (565).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partnership and in which the partner does not materially participate. An example would be a partner's working interest in an oil and gas property (i.e., the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity. Investment interest does not include interest expense allocable to a passive activity. For more information, get form FTB 3526, Investment Interest Expense Deduction.

Line 14
The information reported on line 14 of the federal Schedule K (1065), and federal Schedule K-1(1065), does not apply to California and therefore there is no line 14.

Credits

Line 15a – Total Withholding, Schedule K-1 (565) only
If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide each affected partner (including California residents) a completed Form 592-B. Partners must attach Form 592-B to the front of their California return to claim withheld amounts. Schedule K-1 (565) may **not** be used to claim this withholding credit.

Line 15b through Line 15d
These lines relate to rental activities. Use line 15f to report credits related to trade or business activities.

California line numbers are different from federal line numbers in this section.

Line 15b – Low-Income Housing Credit
A credit may be claimed by owners of residential rental projects providing low-income housing (IRC Section 42). Generally, the credit is effective for buildings placed in service after 1986. Get form FTB 3521, Low-Income Housing Credit, for more information.

Line 15c – Credits Other Than Line 15b Related To Rental Real Estate Activities
Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

Line 15d – Credits Related to Other Rental Activities
Use this line to report information that the partners need to figure credits related to a rental activity. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

Line 15e – Nonconsenting Nonresident Member's Tax Allocated to All Partners
If income tax was paid by an LLC on behalf of a member that is a partnership because the general partner in the partnership did not sign form FTB 3832, Limited Liability Company Nonresident Members' Consent, the amount paid is entered on the member's Schedule K-1 (568), line 15e. This credit is allocated to all partners according to their partnership interest. Partners must attach a copy of the Schedule K-1 (568), previously issued to their partnership by the LLC as well as the Schedule K-1 (565) issued by their partnership, to their California tax return to claim their share of the tax paid by the LLC on their partnership's behalf.

Line 15f – Other Credits
Attach a statement showing each partner's allocable share of any credit or credit information that is related to a trade or business activity.

Credits that can be reported on line 15f include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Environmental Tax Credit. Get form FTB 3511.
- Farmworker Housing Credit – Construction. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.

- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

Line 15f may also include the distributive share of net income taxes paid to other states by the partnership. Subject to limitations of R&TC Section 18001 and R&TC Section 18006, partners may claim a credit against their individual income tax for net income taxes paid by the partnership to another state. The amount of tax paid must be supported by a schedule of payments and evidence of tax liability by the partnership to the other states. Refer partners to Form 540, Schedule S for more information.

All of the above credit forms are available on our website at **ftb.ca.gov.**

Line 16
The information reported on line 16 of the federal Schedule K (1065) and federal Schedule K-1(1065), Foreign Transactions, does not apply to California and therefore there is no line 16.

Alternative Minimum Tax (AMT) Items

Line 17a through Line 17f
Enter each partner's distributive share of income and deductions that are adjustments and tax preference items. Get Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations, to determine amounts and for other information.

California law conforms to the existing federal law eliminating the deduction for contributions of appreciated property as an item of tax preference. As a result, taxpayers no longer need to include in their computation of Alternative Minimum Taxable Income the amount by which any allowable deduction for contributions of appreciated property exceeds the taxpayer's adjusted basis in the contributed property.

For additional information, see instructions for federal Schedule K (1065), Alternative Minimum Tax (AMT) Items, line 17a through line 17f. For differences between federal and California law for alternative minimum tax (AMT), see R&TC Section 17062.

Tax-Exempt Income and Nondeductible Expenses

Line 18a through Line 18c – Tax-exempt income and Nondeductible Expenses
Enter on Schedule K (565) the amounts of tax-exempt interest income, other tax-exempt income, and nondeductible expenses from federal Schedule K (1065) lines 18a, 18b, and 18c. Enter on Schedule K-1 (565) the amounts of tax-exempt income, other tax-exempt income, and nondeductible expenses, from federal Schedule K-1 (1065) box 18. The partnership should give each partner a description and the amount of the partner's share for each item applicable to California in this category.

Distributions

Line 19a and Line 19b – Distributions
Enter on Schedule K (565) the amounts of cash and marketable securities, and other property from federal Schedule K (1065), line 19a and line 19b. Enter on Schedule K-1 (565) the amounts of cash and marketable securities, and other property from federal Schedule K-1 (1065), box 19.

Other Information

Line 20a and Line 20b – Investment Income and Investment Expenses
These lines must be completed whether or not a partner is subject to the investment interest rules.

Enter on line 20a only the investment income included on line 5, line 6, line 7, and line 11a of Schedule K (565) and Schedule K-1 (565). Enter on line 20b only investment expenses included on line 13d of Schedule K (565) and Schedule K-1 (565).

If items of investment income or expenses are included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (565), items other than the amounts included on line 5 through line 9, line 11a, and line 13d of Schedule K-1 (565), give each partner a statement identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expenses generally do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. **Do not** reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. Get the instructions for form FTB 3526 for more information.

Line 20c – Other information
See the instructions for the federal Schedule K (1065), line 20c, Other Items and Amounts. For credit recaptures attach a schedule including credit recapture names and amounts.

Supplemental Information
The partnership may need to report supplemental information that is not specifically requested on the Schedule K-1 (565) separately to each partner. If the partnership has supplemental information not included in lines 1 through 20b, write, "See attached" on line 20c, column b and column d and provide a schedule with the details.

Partners may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the partnership.

Alternative minimum taxable income does not include income, positive and negative adjustments, and preference items attributed to any trade or business of a qualified taxpayer who has aggregate gross receipts, less returns and allowances, during the taxable year of less than $1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The partnership should provide the partner's proportionate interest of aggregate gross receipts on Schedule K-1 (565), line 20c.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of all of the following:

- The gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the pass-through entity's gross receipts in which the taxpayer holds an interest.

"Aggregate gross receipts" means the sum of gross receipts from the production of business income, within the meaning of subdivisions (a) and (c) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section, "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), and a REMIC. See R&TC Section 17062 for more information.

Also show on line 20c a statement showing each of the following:

1. Each partner's distributive share of business income apportioned to an EZ, LAMBRA, MEA, or TTA.
2. Each partner's distributive share of business capital gain or loss included in 1 above.

Analysis – Schedule K (565) only

Line 21a through Line 21b(2)
For the instructions for line 21a through line 21b(2) of Schedule K (565), see the instructions for federal Schedule K (1065), Analysis of Net Income (Loss).

Other Partner Information – Schedule K-1 (565) only

Table 1

Enter the partner's share of nonbusiness income from intangibles. Because the source of this income must be determined at the partner level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short-term and long-term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

Enter nonbusiness income from intangibles in Table 1 net of related expenses.

Table 2

The final determination of unity is made at the partner level. If the partnership and the partner are unitary, or if the partnership is uncertain as to whether it is unitary with the partner, it should furnish the information in Table 2.

Part A. Enter the partner's distributive share of the partnership's business income. The partner will then add that income to its own business income and apportion the combined business income.

Cal Code Regs., tit. 18 section 25120 defines "business income" as income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income.

Part B. Enter the partner's share of nonbusiness income from real and tangible property that is located in California. This income has a California source, and should also be included on the appropriate line in column (e).

Nonbusiness income is all income other than business income.

Part C. Enter the partner's distributive share of the partnership's property, payroll, and sales factors.

Schedule L — Balance Sheets

California's reporting requirements are the same as the federal reporting requirements. The amounts reported on the balance sheet should agree with the books and records of the partnership and should include all amounts whether or not subject to taxation. Attach a statement explaining any differences between federal and state amounts or any differences between the balance sheet and the partnership's books and records. Follow the instructions for federal Form 1065, Schedule L.

Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question O for the specific requirements to qualify for this exception.

Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Partner's Capital Accounts

Domestic partnerships with 10 or fewer partners may not have to complete Schedule M-1, Schedule M-2, or Item J on Schedule K-1 (565). See the instructions for Question O for the specific requirements to qualify for this exception.

If the partnership is required to complete Schedule M-1 and Schedule M-2, the amounts shown should agree with the partnership's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item J, column (c), of all the partners' Schedules K-1 (565).

Net Income (Loss) Reconciliation for Certain Partnerships. For taxable years beginning on or after January 1, 2006, the IRS requires certain partnerships to complete Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return. For California purposes, the partnership must complete the California Schedule M-1, and attach either of the following:

- A copy of the Schedule M-3 (Form 1065) and related attachments to the California Franchise or Income Tax Return.
- A complete copy of the federal return.

FTB will accept the Schedule M-3 (Form 1065) in a spreadsheet format if more convenient.

SCHEDULE K FEDERAL/STATE LINE REFERENCES

California Schedule K (565) has been modified to better assist taxpayers to transfer amounts from their federal Schedule K (1065) to their California Schedule K (565). The modifications consist of reordering the line items to be in a similar format to the federal Schedule K (1065). The reference chart shown below will assist the taxpayer in transferring the amounts from one schedule to the other. The chart cross-references the lines on the federal Schedule K (1065) to the appropriate line items on the California Schedule K (565). For detailed instructions, refer to the Specific Line Instructions in this booklet for Schedule K (565) and Schedule K-1 (565) - Partner's Share of Income, Deductions, Credits, etc.

Federal Schedule K (1065)		CA Schedule K (565)	
Line	**Items**	**Line**	**Items**
1	Ordinary business income (loss)	**1**	Ordinary income (loss) from trade or business activities
2	Net rental real estate income (loss)	**2**	Net income (loss) from rental real estate activities
3a	Other gross rental income (loss)	**3a**	Gross income (loss) from other rental activities
3b	Expenses from other rental activities	**3b**	Less expenses
3c	Other net rental income (loss)	**3c**	Net income (loss) from other rental activities
4	Guaranteed payments	**4**	Guaranteed payments to partners
5	Interest income	**5**	Interest income
6a	Ordinary dividends	**6**	Dividends
6b	Qualified dividends	**–**	Included in line 6 above
7	Royalties	**7**	Royalties
8	Net short-term capital gain (loss)	**8**	Net short-term capital gain (loss). Attach Schedule D (565)
9a	Net long-term capital gain (loss)	**9**	Net long-term capital gain (loss). Attach Schedule D (565)
9b	Collectibles 28% gain (loss)	**–**	Included in line 8 and line 9 above, as applicable
9c	Unrecaptured section 1250 gain	**–**	Included in line 8 and line 9 above, as applicable
10	Net section 1231 gain (loss)	**10a**	Total Gain under IRC Section 1231 (other than due to casualty or theft)
–	Included in line 10 above	**10b**	Total Loss under IRC Section 1231 (other than due to casualty or theft)
	Not applicable	**11a**	Other Portfolio Income (loss)
11	Other Income (loss)	**11b**	Total other income
–	Included in line 11 above	**11c**	Total other loss
12	Section 179 deduction (attach Form 4562)	**12**	Expense deduction for recovery property (IRC Section 179 and R&TC Sections 17267.2, 17267.6, and 17268
13a	Contributions	**13a**	Charitable contributions
13b	Investment interest expense	**13b**	Investment interest expense
13c	Section 59(e)(2) expenditures: (1) Type	**13c**	1. Total expenditures to which IRC Section 59(e) election may apply 2. Type of expenditures
	Not applicable	**13d**	Deductions related to portfolio income
13d	Other deductions (1) Type	**13e**	Other deductions
14a-c	Self-employment	**14a-c**	*Not applicable*
15a	Low-income housing credit (section 42(j)(5))	**15a**	Withholding on partnership allocated to all partners
15b	Low-income housing credit (other)	**15b**	Low-income housing credit
15c	Qualified rehabilitation expenditures (rental real estate)	**15c**	Credits other than the credit shown on line 15b related to rental real estate activities
15d	Other rental real estate credits	**15d**	Credit(s) related to other rental activities
15e	Other rental credits	**15e**	Nonconsenting nonresident members' tax allocated to all partners
15f	Other credits	**15f**	Other credits
16a-n	Foreign Transactions	**16a-n**	*Not applicable*
17a	Post-1986 depreciation adjustment	**17a**	Depreciation adjustment on property placed in service after 1986
17b	Adjusted gain or loss	**17b**	Adjusted gain or loss
17c	Depletion (other than oil and gas)	**17c**	Depletion (other than oil and gas)
17d	Oil, gas, and geothermal properties – gross income	**17d**	Gross income from oil, gas, and geothermal properties
17e	Oil, gas, and geothermal properties – deductions	**17e**	Deductions allocable to oil, gas, and geothermal properties
17f	Other AMT items	**17f**	Other alternative minimum tax items
18a	Tax-exempt interest income	**18a**	Tax-exempt interest income
18b	Other tax-exempt income	**18b**	Other tax-exempt income
18c	Nondeductible expenses	**18c**	Nondeductible expenses
19a	Distributions of cash and marketable securities	**19a**	Distributions of money (cash and marketable securities)
19b	Distributions of other property	**19b**	Distributions of property other than money
20a	Investment income	**20a**	Investment income
20b	Investment expenses	**20b**	Investment expenses
20c	Other items and amounts	**20c**	Other information

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Instructions for Schedule D (565)

Capital Gain or Loss

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. 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 our website at **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.

Internet Access

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Access other state agencies' websites through the State Agencies Directory on California's website at **ca.gov.**

Purpose

Use Schedule D (565), Capital Gain or Loss, to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners. Do not use this form to report the sale of business property. For sales of business properties, use California Schedule D-1, Sale of Business Property.

Enter specially allocated capital gains (losses) received from limited liability companies (LLCs) classified as partnerships, partnerships, S corporations, and fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc. Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565), Partner's Share of Income, Deductions, Credits, etc., and Schedule K-1 (565) for more information. Also, refer to the instructions for federal Schedule D (1065), Capital Gains and Losses.

Nonresident and Part-Year Resident Partners, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency. With the enactment of AB 1115 (Stats. 2001, Ch 920) capital loss carryover and capital loss limitations for nonresident partners and part-year resident partners, for the portion of the year they were nonresidents, are determined based upon California source income and loss items only for the computation of their California taxable income. Moreover, the character of their gains and losses on the sale or exchange of property used in trade or business or certain involuntary conversions (IRC Section 1231) are determined for purposes of calculating their California taxable income by netting California sources Section 1231 gains and losses only.

California law conforms to federal law for the recognition of gain on a constructive sale of property in which the partnership held an appreciated interest.

Qualified Small Business Stock

R&TC Section 18152.5 is similar to IRC Section 1202 regarding the exclusion of 50% of the gain on the sale of qualifying small business stock originally issued after August 10, 1993, that was held for more than five years. However, for California purposes, at least 80% of the issuing corporation's payroll must be attributable to employment located within California, and at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.

R&TC Section 18038.5 also provides for the deferral of gain from the sale of small business stock that has been held for six months or more, if qualified replacement stock is purchased within 60 days after the sale giving rise to the gain. Report gain deferred from the sale of qualified small business stock in accordance with the instructions contained in Revenue Procedure 98-48.

The partnership also must separately state the amount of the gain that qualifies for the 50% exclusion under R&TC Section 18152.5 on Schedule K, line 11. Each partner must determine if he or she qualifies for the gain at the partner level.

Instructions for Form FTB 3885P

Depreciation and Amortization

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

A Purpose

Use form FTB 3885P, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 565, Partnership Return of Income. Attach form FTB 3885P to Form 565.

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. Land is not depreciable.

Amortization is an amount deducted to recover the cost of certain capital expenses over a fixed period.

In general, California conforms to federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Federal/State Calculation Differences

California law has not always conformed to federal law with regard to depreciation methods, special credits, or accelerated write-offs. Consequently, the recovery periods and the basis on which the depreciation is calculated may be different from the amounts used for federal purposes. Reportable differences may occur if all or part of your assets were placed in service:

- **Before January 1, 1987:** California disallowed depreciation under the federal Accelerated Cost Recovery System (ACRS). Continue to calculate California depreciation in the same manner as in prior years for those assets.
- **On or after January 1, 1987:** California provides special credits and accelerated write-offs that affect the California basis for qualifying assets. California does not conform to all the changes to federal law enacted in 1993. Therefore, the California basis or recovery periods may be different for some assets.

California law does not conform to the federal law for 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.
- Accelerated recovery period for depreciation of smart meters and smart grid systems.

Additional differences may occur for the following:

- **Luxury Automobile Depreciation:** California generally conforms to the federal 2003 increase (IRC Section 280F) for the limitation on luxury automobile depreciation. However, California does not conform to IRC Section 168(k) provisions (30% and 50% additional first year depreciation). In addition, 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.
- **Amortization of Certain Intangibles** (IRC Section 197): Property classified as Section 197 property under federal law is also Section 197 property for California purposes. There is no separate California election required or allowed. However, for Section 197 property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period.
- **Qualified Indian reservation property:** California has not conformed to the accelerated recovery periods available under the Alternative Depreciation System (ADS) for such property.
- **Grapevines subject to Phylloxera or Pierce's Disease:** For California purposes, replacement grapevines may be depreciated using a recovery period of five years instead of ten years.

This list is not intended to be all-inclusive of the federal and state differences. For additional information, please refer to California's R&TC.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 2007, and amortization for intangibles placed in service after December 31, 2007

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 2007. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 2008

Enter total California depreciation for assets placed in service prior to January 1, 2008, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for intangibles placed in service before January 1, 2008

Enter total California amortization for intangibles placed in service prior to January 1, 2008, taking into account any differences in asset basis or differences in California and federal tax law.

Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, Side 1, line 17a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the partnership should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., for purposes of passive activity reporting requirements. Use California amounts to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

Line 7

Enter the Internal Revenue Code (IRC) Section 179 expense election amount from line 12 of the following worksheet.

These limitations apply to the partnership and each partner.

Election to Expense Certain Tangible Property (IRC Section 179) Worksheet

Follow the instructions on federal Form 4562, Depreciation and Amortization, for listed property.

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

	(a) Description of property	(b) Cost	(c) Elected cost
6			

7	Listed property. Use federal Form 4562, Part V, line 29. Make any adjustments for California law and basis differences	7	
8	Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 2007. See instructions for line 10 through line 13 on federal Form 4562	10	
11	Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership, other than credits, tax-exempt IRC Section 179 expense deduction, and guaranteed payments under IRC Section 707(c)	11	
12	IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (565), line 12 and on form FTB 3885P, line 7	12	
13	Carryover of disallowed deduction to 2009. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P	13	

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Partner's Instructions for Schedule K-1 (565)

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. 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 our website at **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.

For taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of an asset for which an IRC Section 179 expense was claimed in a prior year by a partnership, limited liability company (LLC) or S corporation.

Partners should follow federal reporting requirements as detailed in federal Form 1065, U.S. Return of Partnership Income, and federal Form 4797, Sale of Business Property instructions.

Revised Schedule K-1 – The California Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line items were revised to be in a similar format with the federal Schedule K-1 (1065), Partner's Share of Income, Deductions, Credits, etc. For more information, get the Schedule K Federal/State Line References chart inside the Form 565, Partnership Tax Booklet.

Round Cents To Dollars – Round cents to the nearest whole dollar. For example, round $50.50 up to $51 or round $25.49 down to $25.

A Purpose

The partnership uses Schedule K-1 (565) to report your distributive share of the partnership's income, deductions, credits, etc. Keep the Schedule K-1 (565) for your records. Information from the Schedule K-1 (565) should be used to complete your California return. However, do not file the schedule with your California return. The partnership has filed a copy with the Franchise Tax Board (FTB).

As a partner of the partnership, you are subject to tax on your distributive share of the partnership income, whether or not distributed.

The amount of loss and deduction you are allowed to claim on your California return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity loss and credit rules. It is the partner's responsibility to consider and apply any applicable limitations. See Specific Instructions, Loss Limitations.

You should also read the federal Schedule K-1 (1065) instructions before completing your California return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications:

— Publication 541, Partnerships
— Publication 535, Business Expenses

Any information returns required for federal purposes under IRC Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to your California return when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

Internet Access

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B Definitions

General Partner

An individual or entity owning interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

Limited Partner

An individual or entity owning an interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans

Liabilities of the partnership for which none of the partners have assumed any personal liability.

Qualified Nonrecourse Financing

Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government, or borrowed from a "qualified person."

California Business Situs

The place at which intangible personal property is employed as capital in California; or the place where the property is located if possession and control of the property is localized in connection with the taxpayer's business that is within this state, so that substantial use or value attaches to the property.

Apportionment

The process by which business income from a trade or business conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the property (including rent), payroll, and sales factors of the apportioning trade or business.

Unitary

A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For more information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Election

The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to compute taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California return and not by the partnership. These elections are made under the following IRC Sections, to which the R&TC conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness)
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred)

Additional Definitions

For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, or the instructions for federal Form 1065, U.S. Return of Partnership Income.

C Reporting Information from Columns (d) and (e)

If the partnership derives income from activities conducted both within and outside California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss.

Nonresident, corporate, and other entity partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Cal. Code Regs., tit. 18 sections 17951 and 25137-1 for more

information. Also see General Information, Unitary Partners. Nonresident, corporate, and other entity partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d), and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information get Form 540, Schedule S, Other State Tax Credit.

Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the "No" box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

Inconsistent Treatment of Items

Generally, partners must report tax items shown on their Schedule K-1s and any attached schedules, the same way the partnership treated the items on its tax return. If the treatment on a partner's original or amended tax return is inconsistent with the partnership's treatment, or if the partnership has not filed a tax return, the partner must attach a statement with its original or amended tax return to identify and explain any inconsistency or to note that a partnership tax return has not been filed. If a partner is required to attach this statement but fails to do so, the partner may be subject to an accuracy related penalty.

D Income Not from a Trade Or Business of the Partnership (Nonbusiness Income)

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that nonbusiness intangible income will be determined at the partner level. However, nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

The source of income from all nonbusiness intangibles will depend on whether the partner is required to apportion its income and whether the partner is a corporation. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the partner.

However, for individuals, estates, and trusts that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Cal. Code Regs., tit. 18 section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is an apportioning taxpayer or a corporation, Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 require that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1. The partner must determine the source of such income by applying the rules described above.

E Unitary Partners

The following rules apply to corporations, individuals and other entities that conduct a trade or business that is unitary with the partnership's trade or business (see Cal. Code Regs., tit. 18 section 17951, incorporating the provisions of section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described in the following instructions, and in the Specific Line Instructions.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or, that is includible in the partner's business income subject to apportionment is made in accordance with Cal. Code Regs., tit. 18 section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business

If the partnership's activities and the partner's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors with the factors of the partner for any partnership year ending within the partner's tax accounting period. Combined business income is then apportioned by using a 3- or 4-factor formula consisting of the combined property, payroll, and a single or double-weighted sales factor. Use of a 3-factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are more than 50% from agricultural, extractive, banking, or savings and loans and other financial business activities.

If you are a partner that is unitary with the partnership, use Table 2 to compute your factors, applying the rules shown below (see Cal. Code Regs., tit. 18 section 25137-1 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. Compute property, payroll, and sales factors by combining your share of the partnership's factors from Table 2, Part C, with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

1. Unitary Partner's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Cal. Code Regs., tit. 18 sections 25130 and 25131. Also apply the following special rules:

A. Include in the denominator of your property factor your distributive share of the partnership's beginning and ending balances of real and tangible personal property owned (if rented, multiply net annual rents paid, by 8) and used during the tax accounting period in the regular course of business. See Table 2, Part C.

B. Include in the numerator of your property factor the value of such property that is described in 1A (above) that is located in California. See Table 2, Part C.

C. See Cal. Code Regs., tit. 18 section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

2. Unitary Partner's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Cal. Code Regs., tit. 18 sections 25132 and 25133. Apply the following special rules:

A. Include in the denominator of your payroll factor your distributive share of the partnership's payroll used to produce business income. See Table 2, Part C.

B. Include in the numerator any such payroll described in 2A that is applicable to California. See Table 2, Part C.

3. Unitary Partner's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with Cal. Code Regs., tit. 18 sections 25134 to 25136. Apply the following special rules:

A. Include in the denominator of the sales factor your distributive share of the partnership's sales that give rise to business income. See Table 2, Part C.

B. Include in the numerator of your sales factor the amount of such sales described in 3A (on the previous page) attributable to California.
C. Eliminate intercompany sales as one of the following:
   - Sales by the partner to the partnership to the extent of the partner's interest in the partnership.
   - Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales. See Cal. Code Regs., tit. 18 section 25137-1(f)(3).

Distributive Items of Nonbusiness Income for a Unitary Partner
Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (565), column (e) data is not utilized by a unitary partner, unitary partners must make certain to separately include such items as California source income.

Specific Instructions

Questions and Items

The partnership completes the questions and items on the Schedule K-1 (565) for all partners. Partners should follow federal reporting requirements as detailed in the instructions for federal Form 1065, and federal Form 4797.

Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk, and the passive activity loss limitations before such losses/deductions can be deducted on your California return. See Specific Instructions, Loss Limitations, below. Also, see IRC Section 705(a) for information on how to compute basis.

If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), California adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D (540), California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. See the instructions for federal Schedule K-1 (1065) for more information.

Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income or loss from the partnership's business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses before you may deduct losses on your tax return. These limitations and the order in which they must be applied are:

- Basis limitations (IRC Section 704)
- At-risk limitations (IRC Section 465)
- Passive activity loss and credit limitations (IRC Section 469).

Each of these limitations is discussed separately in the following instructions.

Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

Basis Rules
Generally, California tax law conforms to federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provide you with an analysis of the changes to your capital account on your Schedule K-1 (565), Item J, that information is based on the partnership's books and records and should not be used to compute your basis.

You can compute the basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis may include the following:

- Money and the adjusted basis of property you contributed to the partnership.
- Your distributive share of the partnership's income.
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis, but not below zero, may include the following:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the liabilities of the partnership (and/or your individual liabilities assumed by the partnership).

This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the basis of your partnership interest.

At-Risk Rules
The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as IRC Section 179, R&TC Sections 17267.2, 17267.6, and 17268 deduction) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

See the instructions for federal Schedule K-1 (1065), At-Risk Limitations, and federal Publication 925, Passive Activity and At-Risk Rules, for more information.

Passive Activity Loss and Credit Rules
IRC Section 469 limits the deduction of certain losses and credits. California law generally conforms to this federal provision. These rules apply to partners who have a passive activity loss or credit for the taxable year.

For California purposes, the passive loss limitations apply to:

1. Individuals
2. Estates
3. Trusts (other than grantor trusts)
4. Closely held corporations
5. S Corporations

Even though the passive loss rules do not apply to grantor trusts, partnerships, and limited liability companies, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates and trusts, and S corporations must complete form FTB 3801 to calculate the allowable passive losses, and form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 15f are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3, and line 15b are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply separately to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, partners who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold, IRC Section 469(k). See the instructions for form FTB 3801 and form FTB 3802 for the rules to calculate and report income, gains, and losses from passive activities that you held through each PTP you owned during the taxable year.

See the instructions for federal Schedule K-1 (1065), Passive Activity Limitations, and federal Publication 925 for more information.

Investment Partnership Income

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&TC Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an investment partnership if the income from the qualifying investment securities is interrelated with either of the following:

- Any other business activity of the nonresident partner.
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

If you are a corporate partner, the amounts in column (e) will also generally not be taxable in California provided the income from the partnership is the corporation's only California source income. However, if the corporation does either of the following:

- Participates in the management of the investment activities of the partnership or is engaged in a unitary business with another corporation or partnership that participates in the management of the investment activities of the partnership
- Has income attributable to sources within California other than income from the investment partnership

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&TC Section 23040.1 for more information.

Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

G(1) – If this box is checked, the partnership is a PTP as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains, and losses from PTPs.

G(2) – If this box is checked, the partnership is an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California. See Specific Line Instructions, Credits, for more information.

Note to Nonresident Partners: The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

Income (Loss)

Line 1 – Ordinary Income (Loss) from Trade or Business Activities
The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where this amount is reported depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their California returns is a function of the partnership's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 for more information. In addition, see General Information, Unitary Partners.

Line 2 – Net Income (Loss) from Rental Real Estate Activities
Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. If you have an amount on Schedule K-1 (565), line 2, column (c), report the California adjustment on Schedule CA (540 or 540NR), line 17, column B or column C, whichever is applicable.

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special $25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

See the federal Schedule K-1 (1065) Specific Instructions for box 2, item 1, and item 2 for more information.

Report any California adjustment amount from column (c) on Schedule CA (540 or 540NR) if you are a qualified investor reporting a qualified low-income housing project loss.

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

Line 3 – Net Income (Loss) from Other Rental Activities
The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.

Line 4 – Guaranteed Payments to Partners
Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 4, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable. If this is a passive activity for the partner, then the partner must also complete the passive activity form. Use federal Form 8582, Passive Activity Loss Limitations, for federal purposes and form FTB 3801 for California purposes.

Portfolio Income – Line 5 through Line 11a
Portfolio income (loss) is generally not subject to the passive activity of IRC Section 469. Portfolio income includes interest, dividend, royalty income and gain or loss on the sale of property held for investment. Generally, amounts reported on line 8, line 9, and line 11a are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). However, if an amount reported on line 8, line 9, or line 11a, column (d), is a passive amount, the partnership should identify the amount.

Line 5 – Interest Income
If you have an amount on Schedule K-1 (565) line 5, column (c), report this amount on Schedule CA (540 or 540NR), line 8, column B or column C, whichever is applicable.

Line 6 – Dividends
If you have an amount on Schedule K-1 (565) line 6, column (c), report this amount on Schedule CA (540 or 540NR), line 9, column B or column C, whichever is applicable.

Line 7 – Royalties
If you have an amount on Schedule K-1 (565), line 7, column (c), report this amount on Schedule CA (540 or 540NR), line 17, column B or column C, whichever is applicable.

Line 8 and Line 9 – Net Short-term and Net Long-term Capital Gain (Loss)

If you have an amount on Schedule K-1 (565), line 8 or line 9, column (d), report this amount on the Schedule D (540 or 540NR), line 2.

Line 10a and Line 10b – Total Gain and Total Loss under IRC Section 1231 (Other Than Due to Casualty or Theft)
If the amounts on line 10a and line 10b relate to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amounts on line 10a and line 10b relate to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount report it on Schedule D-1, line 2, column (g).
- If a gain is reported on line 10a, column (d), and it is a passive activity amount report the gain on Schedule D-1, line 2, column (g).
- If a loss is reported on line 10b, column (d), and it is a passive activity amount, see form FTB 3801 to determine if your loss is limited.

Line 11a – Other Portfolio Income (Loss)
The partnership uses line 11a, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 11a, column (d). An example of portfolio income that could be reported on line 11a, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of "excess inclusion" and your share of IRC Section 212 expenses. If you itemize your deductions on federal Schedule A (1040), Itemized Deductions, you may deduct these IRC Section 212 expenses as a miscellaneous deduction.

Line 11b and Line 11c – Total Other Income and Total Other Loss
Amounts reported on these lines are other items of income (loss) not included on line 1 through line 11a. The partnership should give you a description for each of these items.

Use the instructions below to:

- Report income or gain (not losses) from passive activities
- Report income, gain, or losses from all other passive activities

If you have losses from passive activities, or a combination of income, gains, and losses from passive activities, you must first complete form FTB 3801 or form FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 11b and line 11c items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.
- Gains and losses from wagering, IRC Section 165(d). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.
- Any income, gain, or loss to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10.
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10.
- Net gain or loss from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii), and column (c).
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5 and issued after August 10, 1993). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedule K (565) and Schedule K-1 (565). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 11b and line 11c, column (c).

Deductions

Line 12 – Expense Deduction for Recovery Property
For California the maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is $25,000. The $25,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds $200,000.

Federal limitation amounts are different than California limitation amounts.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. Get form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 12, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.

Refer to R&TC Sections 17267.2, 17267.6, and 17268 on how to figure the expense deduction for recovery property in an economic development area.

Line 13a – Charitable Contributions
The partnership will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040, U.S. Individual Income Tax Return, and federal Publication 526, Charitable Contributions, for more information.

California has not conformed to any of the provisions of the Katrina Emergency Disaster Relief Act of 2005.

If there is an amount on Schedule K-1 (565), line 13a, column (c), enter this amount on Schedule CA (540 or 540NR), line 41.

Line 13b – Investment Interest Expense
If the partnership paid or accrued interest debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited. For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 13c – IRC Section 59(e) Expenditures
If you have an amount on Schedule K-1 (565) line 13c, see the instructions for the federal Schedule K-1 (1065), box 13. The partnership should give you a description and the amount of your share for each item applicable to this category.

Line 13d – Deductions Related to Portfolio Income
Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 13d, column (c), enter this amount on Schedule CA (540 or 540NR), line 41. If any of the line 13d amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify these amounts.

Line 13e – Other Deductions
Amounts on this line are deductions not included on lines 12, 13a, and 13d. If there is an amount on Schedule K-1 (565), line 13e, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

See the instructions for federal Schedule K-1 (1065), box 13, for examples of other deductions. Also, get FTB Pub. 1001 for differences between federal and California tax law for certain deductions.

Line 14
The information reported in box 14 of the federal Schedule K-1(1065), does not apply to California and therefore there is no line 14.

Credits

If you have credits that are passive activity credits, complete form FTB 3801-CR (use form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

Line 15a – Total Withholding
Total Withholding is the sum of your distributive share of taxes withheld from payments to the partnership by another entity (allocated to all partners according to their respective partnership interests) plus taxes withheld-at-source on you as a domestic or foreign nonresident partner. If there is a pass-through withholding credit from another entity or taxes were withheld on you by the partnership, the partnership must provide a completed Form 592-B, Nonresident Withholding Tax Statement. Attach Form 592-B to the front of your California return to claim the amount withheld. Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 15a may not match the amount on Form 592-B because of the difference in accounting periods. The amount shown on Form 592-B should be claimed on one of the following:

- Form 540, California Resident Income Tax Return, line 38.
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return (Long Form), line 44.
- Form 541, California Fiduciary Income Tax Return, line 31.
- Form 109, California Exempt Organization Business Income Tax Return, line 17.
- Form 100, California Corporation Franchise or Income Tax Return, line 34.
- Form 100S, California S Corporation Franchise or Income Tax Return, line 33.

Get Pub. 1017, Nonresident Withholding Guidelines, for more information.

Line 15b – Low-Income Housing Credit
Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the Tax Reform Act of 1986.

Line 15c – Other Credits Related to Rental Real Estate Activities
The information you need to compute credits related to rental real estate activities other than the low-income housing credit is provided on this line with an attached schedule. These credits may be limited due to passive activity limitation rules.

Line 15d – Credits Related to Other Rental Activities
Any information you need to compute credits related to rental activities other than rental real estate activities is provided on this line. These credits may be limited due to passive activity limitation rules.

Line 15e – Nonconsenting Nonresident Member's Tax Paid by LLC on behalf of your partnership.
This line shows any income tax paid on your partnership's behalf by an LLC if, the general partner in the partnership did not sign form FTB 3832, Limited Liability Company Nonresident Members' Consent, consenting to California's jurisdiction to tax the partnership's distributive share of the LLC income attributable to California sources.

You must attach a copy of the Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., previously issued to your partnership by the LLC and the Schedule K-1 (565) issued to you by your partnership.

Line 15f – Other Credits
This line is used to report information you need to compute pass-through credits and other items that are not includable on line 15a through line 15d but are related to the trade or business activity. The partnership should provide a schedule and/or statement explaining any items.

Credits that may be reported on line 15f (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Environmental Tax Credit. Get form FTB 3511.
- Farmworker Housing Credit-Construction Credit. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

The passive activity limitations of IRC Section 469 may limit the amount of credits on line 15b, line 15c, line 15d, and line 15f. Line 15b, line 15c, and line 15d credits are related to the rental activities of the partnership. Line 15f credits are related to the trade or business activities of the partnership. In general, passive activity credits from passive activities are limited to tax attributable to passive activities for California purposes (R&TC Section 17561). Credits that may be limited under the passive activity credit rules include the following:

- Research credit
- Low-income housing credit

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. See form FTB 3801-CR for more information.

The partnership can include on line 15f your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Form 540, Schedule S for more information.

Line 16
The information reported in box 16 of the federal Schedule K-1 (1065), does not apply to California and therefore there is no line 16.

Alternative Minimum Tax (AMT) Items

Line 17a through Line 17f column (d)
Use the information reported on line 17a through line 17f, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations. For more information, see the instructions for federal Schedule K-1 (1065), Alternative minimum tax (AMT) items box 17.

Tax-Exempt Income and Nondeductible expenses

Line 18a through Line 18c – Tax-exempt Income and Nondeductible Expenses
See the instructions for federal Schedule K-1 (1065), box 18. The partnership should give you a description and the amount of your share for each item applicable to California in this category.

Distributions

Line 19a and Line 19b – Distributions
See the instructions for federal Schedule K-1 (1065), box 19.

Other Information

Line 20a and Line 20b – Investment Income and Investment Expenses
If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, and federal Publication 550.

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

The amounts shown on line 20a and line 20b include only investment income and expenses included on lines 5, 6, 7, 11, and 13d of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 20a and line 20b to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

Line 20c – Other Information
For credit recaptures attach a schedule that includes the credit recapture, names, and amounts.

The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits from an EZ, LARZ, LAMBRA, MEA, or TTA it will give you the business income and business capital gains and losses apportioned to the EZ, LARZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit.

The partnership may have provided a schedule with amounts showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income. A "qualified taxpayer" means a taxpayer that meets both of the following:

- Is the owner of, or has an ownership interest in a trade or business.
- Has aggregate gross receipts, less returns and allowances, of less than $1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, limited liability company (LLC), S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this partnership to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of the following:

- The gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns.
- The proportional interest of pass-through entities gross receipts in which the taxpayer holds an interest. "Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section, "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&TC Section 17062 for more information.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on Schedule K-1 (565) as other information. Follow the instructions on the federal Form 4797 and federal Schedule K-1 (1065) for the reporting requirements.

Get FTB Pub. 1001 for a listing of items of nonconformity for individuals.

Other Partner Information

Table 1 – Partner's Share of Nonbusiness Income from Intangibles (source of income is dependent on residence or commercial domicile of the partners)
Generally, nonbusiness interest and dividends are sourced to the state of residence for nonapportioning individuals. Nonapportioning means doing business entirely within California. For more information regarding the sourcing of intangibles, see R&TC Section 17952.

For apportioning partners, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California. For more information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 25126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (565). For more information, see General Information, Income Not from a Trade or Business of the Partnership (Nonbusiness Income), and General Information, Unitary Partners.

Table 2 – Partner's Share of Distributive Items
The final determination of unity is made at the partner level.

If the partner and the partnership are engaged in a single unitary business or if the partnership is uncertain as to whether it is unitary with the partner, the partnership will furnish the information in Table 2.

The partner's share of the partnership's business income is entered on Table 2, Item A. The partner then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Item B reflects the partner's share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information on sourcing intangibles, see R&TC Sections 25124 and 25125, and Cal. Code Regs., tit. 18 sections 17951-1, 17951-2, and 17951-3.

The partner's share of the partnership's property, payroll, and sales factors is in Table 2, Item C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For more information see General Information, Income Not from a Trade or Business of the Partnership (Nonbusiness Income), and General Information, Unitary Partners.

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Form 565
Codes for Principal Business Activity

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 partnership derives the largest percentage of its ''total receipts.'' Total receipts is defined as the sum of gross receipts or sales plus all other income. If the partnership purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the partnership 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 565, Question C. 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 partnership's business activity. Finally, enter a description of the principal product or service of the partnership 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 Animal 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

Minerals 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 & 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

Code
- 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

Code
- 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

Internet Publishing and Broadcasting

516110 Internet Publishing & Broadcasting

Telecommunications

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

Internet Service Providers, Web Search Portals, and Data Processing Services

518111 Internet Service Providers
518112 Web Search Portals
518210 Data Processing, Hosting, & Related Services

Other Information Services

519100 Other Information Services (including news syndicates & libraries)

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)

Code

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

523110 Investment Banking & Securities Dealing
523120 Securities Brokerage
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
525930 Real Estate Investment Trusts (Form 1120-REIT)
525990 Other Financial Vehicles (including closed-end investments 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
531114 Cooperative Housing
531120 Lessors of Nonresidential Buildings (except Miniwarehouses)
531130 Lessors of Miniwarehouses & Self-Storage Units
531190 Lessors of Other Real Estate Property
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)

Code

Professional, Scientific, and Technical Services

Legal Services
541110 Offices of Lawyers
541190 Other Legal Services

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

Code

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)
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

Code

Home Health Care Services
621610 Home Health Care Services

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, & Similiar Organizations (includng condominium and homeowners associations)

How to Get California Tax Information

Automated Toll-Free Phone Service

Use our automated toll-free 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.

From within the United States, call 800.338.0505

From outside the United States, call . . . . . 916.845.6600 (not toll-free)

General Toll-Free Phone Service

Telephone assistance is available year-round from 7 a.m. until 6 p.m. Monday through Friday except holidays.

From within the United States, call 800.852.5711
From outside the United States, call . . . . . .916.845.6500 (not toll-free)

For federal tax questions
Call the IRS at 800.829.1040

Assistance for persons with disabilities
We comply with the Americans with Disabilities Act (ADA). Persons with hearing or speech impairments please call:
TTY/TDD 800.822.6268

Asistencia bilingüe en español
Asistencia telefónica esta disponible todo el año durante las 7 a.m. y las 6 p.m. lunes a viernes, excepto días festivos.

Dentro de los Estados Unidos, llame al. 800.852.5711
Fuera de los Estados Unidos,
llame a . . . . . .916.845.6500 (cargos aplican)
Para preguntas sobre impuestos federales,
llame el IRS al 800.829.1040

Sitio web: **ftb.ca.gov**

Asistencia para personas discapacitadas: Nosotros estamos en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos o de habla, pueden llamar al (800) 822-6268 con un aparato de telecomunicación TTY/TDD.

Letters

If you write to us, be sure your letter includes your federal employer identification number (FEIN), SOS file number, your daytime and evening telephone numbers, and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0640

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. Do not attach your letter to your California return.

Where to Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms and publications from our website at **ftb.ca.gov.**

Our Joint Agency website offers California business tax information and forms for the BOE, EDD, FTB, and IRS at **taxes.ca.gov.**

You can also download, view, and print federal forms and publications from the IRS website at **irs.gov.**

By phone – Call our automated toll-free phone number, listed to the left, and follow the recorded instructions.

By mail – Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order. Write to:

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

In person – Many post offices and libraries provide free California tax booklets during the filing season. Most libraries have forms and schedules to photocopy (a nominal fee may apply).

Employees at libraries and post offices cannot provide tax information or assistance.

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 Income Tax Forms and Publications," on this page.

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