INCOME YEAR

CALIFORNIA SCHEDULE

1995 Apportionment and Allocation of Income R

Attach this schedule to your California tax return.

For income year beginning (MONTH / DAY / YEAR) 1995, and ending (MONTH / DAY / YEAR) .

Corporation name | California corporation number

Address

City | State (country) | ZIP code

Water's-Edge Filers Only: If controlled foreign corporations (CFCs) are included in the combined report, attach form FTB 2416, Retained Earnings of Controlled Foreign Corporations.

Be sure to complete Side 1 and all applicable schedules. See instructions for Schedule R.

1 a Net income (loss) after state adjustments from Form 100, Side 1, line 17; Form 100S, Side 1, line 15; Form 100X, line 4. Partnerships and LLCs: Include the total of line 1 through line 7 from Schedule K less the total of line 8 through line 12 from Schedule K ●	1a	
b Water's-edge foreign investment interest offset. Attach form FTB 2424 ●	1b	
c Total. Combine line 1a and line 1b ●	1c	

Total Nonbusiness Income (Loss) See Instruction A for definitions and examples.

2 Dividends included on line 1a and not deducted on Form 100, Side 1, line 9 and line 10; or Form 100S, Side 1, line 9 ●	2	
3 Interest. Attach schedule ●	3	
4 Net income (loss) from the rental of property from Schedule R-3, line 3, column (c) ●	4	
5 Royalties. Attach schedule ●	5	
6 Gain (loss) from the sale of assets from Schedule R-4, line 2, column (e) ●	6	
7 Partnership or limited liability company income (loss). Attach schedule ●	7	
8 Miscellaneous income (loss). Attach schedule ●	8	

9 Total nonbusiness income (loss). Combine line 2 through line 8 ○●	9	
10 Balance. Subtract line 9 from line 1c ●	10	
11 Interest offset from Schedule R-5, line 9 or line 18 ●	11	
12 Business income (loss) from sources both within and outside of California. Add line 10 and line 11 ○●	12	
13 a Average apportionment percentage from Schedule R-1, line 5 ○	13a	%
b Business income attributable to California. Multiply line 12 by line 13a ○●	13b	

Nonbusiness Income (Loss) Wholly Attributable to California If no income is wholly attributable to California, do not complete line 14 through line 21. Transfer the amount on line 13b to line 22 and complete line 23 and line 24.

14 Dividends and interest income (if taxpayer's commercial domicile is in California):		
a Dividends included in line 2 above ●	14a	
b Interest included in line 3 above ●	14b	
15 Net income (loss) from the rental of property within California from Schedule R-3, line 3, column (b) ●	15	
16 Royalties. Attach schedule ●	16	
17 Gain (loss) from the sale of assets within California from Schedule R-4, line 2, total of column (b) and column (d) ●	17	
18 Partnership or limited liability company income (loss). Attach schedule ●	18	
19 Miscellaneous income (loss). Attach schedule ●	19	
20 Total income (loss) wholly attributable to California. Combine line 13b through line 19 ○●	20	
21 Interest offset from line 11 allocated to income included on line 14a and line 14b. See Instruction K ●	21	
22 Net income (loss) for state purposes before contributions adjustment. Subtract line 21 from line 20 ●	22	
23 Contributions adjustment from Schedule R-6, line 14 ●	23	
24 Net income (loss) for state purposes. Combine line 22 and line 23. Enter here and on Form 100, Side 1, line 18; or Form 100S, Side 1, line 16 ●	24	

Schedule R-1 Apportionment Formula

The following information must be submitted by all corporations having income from sources both within and outside California, regardless of the apportionment method used.	(a) Total within and outside California (omit cents)	(b) Total within California (omit cents)	(c) Percent within California ((b) ÷ (a))
1 **Property:** Use the average yearly value of owned real and tangible personal property used in the business (at original cost, see instructions). Exclude property not connected with the business and the value of construction in progress. Inventory			
Buildings			
Machinery and equipment (including delivery equipment)			
Furniture and fixtures			
Land			
Other tangible assets. Attach schedule			
Rented property used in the business. See Instruction E			
Total property	●	●	●
2 **Payroll:** Use employee wages, salaries, commissions, and other compensation related to business income included in the return.			
Total payroll	●	●	●
3 **Sales:** Use gross receipts, less returns and allowances			
a Sales delivered or shipped to California purchasers:			
(i) Shipped from outside California			
(ii) Shipped from within California			
b Sales shipped from California by any member of the unitary group to:			
(i) The United States Government			
(ii) Purchasers in a state where the corporation and its unitary affiliates are not taxable under Public law 86-272			
c Other gross receipts (rents, royalties, interest, etc.)			
Total sales	●	●	
Divide Sales column (b) by Sales column (a) and multiply by 2 (except for agricultural and extractive industries, or savings and loan activities. See instructions)			●
4 Total percent. Add the percentages in column (c). See Instruction J			
5 Average apportionment percentage. Divide line 4 by 4 (agricultural and extractive or savings and loan industries, divide by 3) and enter here and on Schedule R, Side 1, line 13a. See Instruction I			●

Schedule R-2 Sales and General Questionnaire Attach additional sheets if necessary.

1 Describe briefly the nature and location(s) of your California business activities: ____________________

2 State the exact title and principal business activity of any joint venture, partnership or limited liability company in which the corporation has an interest: ____________________

3 Does the California sales figure on Schedule R-1 include all sales shipped from California where the purchaser is the U.S. Government? ☐ Yes ☐ No
If no, explain ____________________

4 Does the California sales figure on Schedule R-1 include all sales shipped from California to states in which all members of the combined unitary group are immune under Public Law 86-272? ☐ Yes ☐ No If no, explain. ____________________

5 Are the nonbusiness items reported on Schedule R, Side 1, line 2 through line 8, and the apportionment factor items reported on Schedule R-1 treated consistently on all state tax returns filed by the taxpayer? ☐ Yes ☐ No If no, explain. ____________________

6 Has this corporation or any member of its combined unitary group changed the way income is apportioned or allocated to California from prior year returns? ☐ Yes ☐ No
If yes, explain. ____________________
____________________ See Instruction I.

7 Does the California sales figure on Schedule R-1 (or comparable schedule in a combined report) include all sales shipped to California purchasers, including those made by any unitary affiliate claiming immunity from taxation in this state under Public Law 86-272? ☐ Yes ☐ No If no, indicate the name of the selling member and the nature of the sale activity believed to be immune. ____________________

8 Does the California sales figure on Schedule R-1 (or comparable schedule in a combined report) include all sales delivered to customers outside this state which have ultimate destination in this state? ☐ Yes ☐ No If no, explain. ____________________

Schedule R-3 Net Income (Loss) From the Rental of Nonbusiness Property

	(a) Total outside California	(b) Total within California	(c) Total outside and within California ((a) + (b))
1 Income from rents			
2 Total deductions			
3 Net income (loss) from rents. Subtract line 2 from line 1. Enter here and enter column (c) on Side 1, line 4 and column (b) on Side 1, line 15			

Schedule R-4 **Gain (Loss) From the Sale of Nonbusiness Assets**

California sales include transactions involving: (1) real property located in California; (2) tangible personal property, if it had a situs in California at the time of sale, or if the corporation is commercially domiciled in California and not taxable in the state where the property had a situs at the time of sale; and (3) intangible personal property if the corporation's commercial domicile is in California.

1 Description of property sold	Real estate and other tangible assets		Intangible assets		Total
	(a) Gain (loss) from outside California	**(b)** Gain (loss) from within California	**(c)** Gain (loss) from outside California	**(d)** Gain (loss) from within California	**(e)** Gain (loss)
2 Total gain (loss)					

Schedule R-5 **Computation of Interest Offset** Complete only if there are entries on line 2 and/or line 3 of Schedule R and if Schedule R-1 is required. See Instruction K.

1 Total interest expense deducted	**1**			
2 Water's-edge foreign investment interest offset from Side 1, line 1b	**2**			
3 Balance. Subtract line 2 from line 1	**3**			
4 Nonbusiness interest expense deducted in arriving at the amounts on Side 1, lines 2 through 8	**4**			
5 Balance of interest expense. Subtract line 4 from line 3			**5**	
6 Total interest income (Form 100, Side 1, line 4 and Schedule F, line 5a and line 5b; or Form 100S, Side 1, line 3, Schedule F, line 5 and Schedule K, line 4a)*	**6**			
7 Nonbusiness interest income from Side 1, line 3	**7**			
8 Business interest income. Subtract line 7 from line 6			**8**	
9 Balance. Subtract line 8 from line 5. If line 8 exceeds line 5, enter -0- here and on Side 1, line 11, and do not complete the rest of this schedule			**9**	
10 Total dividend income	**10**			
11 Deducted dividends from Form 100, Side 1, line 9 and line 10; or Form 100S, Side 1, line 9	**11**			
12 Net dividend income. Subtract line 11 from line 10			**12**	
13 Business dividend income	**13**			
14 Deducted dividends from Form 100, Side 1, line 9 and line 10; or Form 100S, Side 1, line 9 attributable to business dividend income	**14**			
15 Net business dividend income. Subtract line 14 from line 13			**15**	
16 Net nonbusiness dividend income. Subtract line 15 from line 12			**16**	
17 Total nonbusiness interest and dividend income. Add line 7 and line 16			**17**	
18 Enter the lesser of line 9 or line 17. Enter here and on Side 1, line 11			**18**	

If interest and/or dividend income is reported on Side 1, line 14a or line 14b, enter the allocable portion of line 18 on Side 1, line 21. See Instruction K. If no interest or dividend income is reported on Side 1, line 14a or line 14b, do not deduct any interest expense on Side 1, line 21.
*If the return is being filed under Chapter 3, include exempt interest deducted on Form 100, line 14 and line 15; or Form 100S, line 12 and line 13.

Schedule R-6 **Contributions Adjustment** See Instruction L.

1 Total contributions paid	**1**	
2 Net income after state adjustments from Side 1, line 1c	**2**	
3 Portion of dividends deductible under R&TC Sections 24402 , 24410 and 24411 from Form 100, Side 1, line 10 and line 11; or Form 100S, Side 1, line 9 and line 10, and other adjustments. See Instruction K	**3**	
4 Contributions deducted on Form 100, Side 1, line 13; or on Form 100S, Side 1, line 11	**4**	
5 Total. Add line 2 through line 4	**5**	
6 Multiply line 5 by 5% (.05)	**6**	
7 Net income (loss) for state purposes before contributions adjustment from Side 1, line 22	**7**	
8 Amount deductible on line 3 multiplied by the average apportionment percentage from Schedule R-1, line 5	**8**	
9 Contributions deducted (from line 4 above) multiplied by the average apportionment percentage from Schedule R-1, line 5. . . .	**9**	
10 Total. Add line 7 through line 9	**10**	
11 Multiply line 10 by 5% (.05)	**11**	
Contributions Adjustment		
12 Enter the amount shown on line 9	**12**	
13 Amount of contributions allowable:		
a If line 1 equals or exceeds line 6, enter the lesser of line 1 or line 11	**13a**	
b If line 1 is less than line 6, divide line 10 by line 5. Then multiply line 1 by the result and enter here.	**13b**	
14 Contributions adjustment. Subtract line 13a or line 13b from line 12. Enter here and on Side 1, line 23. If the result is a negative amount, enter in brackets	**14**	

Schedule R-7 Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations

This election is an integral part of the return of all taxpayers participating in the election, and must be filed annually with the Schedule R. Signing the return is an acknowledgement that the key corporation and its electing affiliates agree to comply with the following terms and conditions:

Each of the taxpayers listed in Schedule R-7, Part I, hereby elect to file a single unitary taxpayer's group return. The unitary taxpayers' group return constitutes the return for each member of the electing group, and satisfies the requirement of each electing member to file its own return.

Each corporation that elects to file a group return agrees to be bound by the terms and conditions specified in this schedule and its instructions. The filing of its group return indicates acceptance of all terms and conditions. To be eligible, each corporation must: 1) be a taxpayer required to file a return in this state, 2) be a member of a single unitary group for its entire income year, 3) have the same income year as the key corporation or have an income year that is wholly included within the income year of the key corporation and 4) have the same statutory filing date as the key corporation for the income year.

The key corporation must file the unitary taxpayers' group return. With the initial return and thereafter, any payment of taxes for the income year shall be made using the key corporation's California corporate number as designated below. The key corporation must be taxable in California and, where applicable, be the parent corporation. If the parent corporation is not the key corporation, the key corporation should be the taxpayer with the largest value of assets in California. The key corporation agrees to act as surety and agent for each member of the group. In addition, all electing members agree that subsequent adjustments to the liability of the members of the group may be assessed, billed or paid to the key corporation on behalf of its members, either in the name of the key corporation or the name of the members. Adjustments to the liability of the members of the group will ordinarily be reflected in a single notice. However, supplemental schedules reflecting the adjusted liability of each member will be provided upon request. Waiver of a statute of limitations by the key corporation will apply to all electing member corporations. If the key corporation does not fulfill its obligation to pay tax or act on behalf of its members, each member may be independently assessed or billed for its own tax liability. If that becomes necessary, each member will generally be credited with taxes previously paid in accordance with the member's self-assessed tax liability (See Legal Ruling 95-2). It is the responsibility of the members of the group to assure that amounts paid by one member on behalf of another are properly accounted for between the members. The liability for each electing corporation subject to the franchise tax cannot be less than the minimum tax. See Instruction M.

The election is binding on all members for all matters for the income year of the election. If some or all of the corporations included in the election to file a unitary taxpayers' group return are later determined not to be members of the unitary group of the key corporation, the key corporation and electing members agree that any subsequent adjustment for any and all members included in the original group return may still be assessed, billed or paid to the key corporation.

The election remains in effect for the payment of estimated tax and tax paid with an extension of time to file for the following year by the key corporation on behalf of the group, unless notice of termination of the election is provided to the Franchise Tax Board on or before the time of payment.

Part 1

List of Taxpayers Making Election to File a Single Unitary Taxpayers' Group Return. Attach additional sheets if necessary.

Electing taxpayer corporation	California corporation number	Total self-assesed tax	Amount of estimated tax paid (Form 100-ES)	Amount paid with extension (FTB 3539)	Amount paid with this return	Total payments
(Key corporation)						
Total						

Part 2

In Part 2 list each nonelecting affiliated corporation of which more than 50% of the voting stock is owned or controlled directly or indirectly by common interests, whether or not unitary with the key corporation. Include the California corporation number for each taxpayer corporation.

List of All Nonelecting Affiliates (whether or not unitary with the key corporation). Attach additional sheets if necessary.

Affiliate corporation's name	California corporation number (if applicable)	Is this corporation unitary with the electing group?		Does this corporation file a California return on a different fiscal year than the electing group?		Was this corporation acquired or disposed of during the year?		
		Yes	No	Yes	No	Acq.	Dis.	Date

Instructions for Schedule R

Apportionment and Allocation of Income

References in these instructions are to the California Revenue and Taxation Code (R&TC).

General Instructions

This schedule is used by all taxpayers and partnerships who are required to apportion business income. Special instructions apply to individuals and partnerships. See General Instructions B and C.

Unless stated otherwise the term ''corporation'' as used in these instructions and forms includes ''banks''.

For purposes of these instructions, the term ''partnership'' includes limited liability companies that are classified as partnerships for tax purposes and the term ''partners'' includes members of limited liability companies.

A Apportionment and Allocation

APPORTIONMENT – Generally refers to the division of business income among states by the use of an apportionment formula.

ALLOCATION – Generally refers to the assignment of nonbusiness income to a particular state.

When a portion of a corporation's income is from sources outside California, the portion of the corporation's total net income that has its source in California is determined using the allocation and apportionment provisions in the Uniform Division of Income for Tax Purposes Act (R&TC Sections 25120 through 25141 and the applicable regulations). The first step is to determine which portion of the corporation's net income is ''business income'' and which portion is ''nonbusiness income.''

Nonbusiness income is allocated to specific states as provided in R&TC Sections 25123 through 25127 and the applicable regulations. Business income is apportioned to the states in which the business is conducted, based on the property, payroll, and sales apportionment factors set forth in R&TC Sections 25128 through 25137 and the applicable regulations. The sum (or net) of the business income apportioned to California, plus the nonbusiness income items directly allocated to California, is the corporation's California net income.

BUSINESS INCOME – Is defined by 18 Cal. Code Regs. Section 25120(a) as income arising from transactions and activities in the regular course of the corporation's trade or business. Business income includes income from tangible and intangible property if the acquisition, management and disposition of the property constitute integral parts of the corporation's regular trade or business operations. Accordingly, the critical element in determining whether income is ''business income'' or ''nonbusiness income'' is the identification of the transactions and activities that are the elements of a particular trade or business. In general, all transactions and activities of the corporation that are dependent on or contribute to the operations of the corporation's economic enterprise as a whole give rise to business income.

Example A – Corporation Y owns 30% of Corporation X. Corporation Y makes substantial purchases from Corporation X for use in its unitary business operations and, except for the ownership percentage, would be considered unitary with Corporation X's business operations. A dividend from Corporation X paid to Corporation Y is business income.

Example B – The corporation operates a multistate chain of men's clothing stores. The corporation purchases a 5-story office building primarily for use in connection with its principal business. It uses the street floor as one of its retail stores and the second and third floors for its general corporate headquarters. It leases the remaining two floors to others. The rental of the two floors is incidental to the operation of the corporation's business. The rental income is business income.

Example C – The corporation is engaged in the multistate business of manufacturing and selling industrial chemicals. In connection with that business, the corporation obtained patents on some of its products. The corporation licensed the production of the chemicals in foreign countries. In return, the corporation receives royalties. The royalties received by the corporation are business income.

Example D – In conducting its multistate manufacturing business, the corporation systematically sells and replaces automobiles, machines, and other equipment used in the business. The gains or losses resulting from those sales constitute business income.

Example E – The taxpayer is engaged in a multistate manufacturing and selling business. The taxpayer usually has working capital that it regularly invests in interest bearing securities. The interest income is business income.

NONBUSINESS INCOME – Means all income other than business income.

In accordance with R&TC Sections 25120 through 25141 inclusive, the income of the corporation is business income unless clearly classifiable as nonbusiness income.

Example A – The corporation operates a multistate chain of men's clothing stores. The corporation invests in a 20-story office building and uses the street floor as one of its retail stores and the second floor for its general corporate headquarters. The remaining 18 floors are leased to others. The rental of the 18 floors is not incidental to, but rather is separate from, the operation of the corporation's trade or business. The net rental income is nonbusiness income of the clothing store business.

Example B – The corporation operates a multistate chain of grocery stores. An office building that had been used as the corporate headquarters did not provide adequate space. A new and larger building, located elsewhere, was acquired for use as the new headquarters. The old building was rented to an investment company under a 5-year lease. Upon expiration of the lease, the building was sold at a gain or (loss). The gain or (loss) on the sale is nonbusiness income and the rental income received during the lease period is nonbusiness income.

Note: Special rules apply to gain or loss from the sale by a corporation of a nonbusiness partnership interest:

- If 50% or less of the value of the partnership's assets at the time of sale consist of intangibles, divide the original cost of tangible property in California owned by the partnership at the time of the sale by the original cost of all tangible personal property owned by the partnership at the time of the sale. Multiply this ratio by the gain or loss to find the California amount; or
- If more than 50% of the value of the partnership's assets at the time of sale consist of intangibles, multiply the gain or loss by the sales factor of the partnership for its first full taxable period immediately preceding the taxable period during which the partnership interest was sold, to find the California amount.

B Individuals

Nonresidents and resident individuals eligible for the other states tax credit who have income or loss from a trade or business activity conducted within and outside California must apportion their income in accordance with the provisions of R&TC Sections 25120 through 25139 (see 18 Cal. Code of Regs. Section 17951-4). Items of income or loss that would be treated as nonbusiness income under those sections if earned by a corporation should be sourced using the normal rules that apply to individuals. Individuals complete only Schedule R-1, R-2 and lines 12, 13a, and 13b on Schedule R. Enter on line 12 the total income from the trade or business after any adjustment for federal and state differences (see Schedule CA (540)). Nonresidents or part-year residents enter the amount from line 13b on Schedule CA (540NR), line 12, column E. In completing these schedules replace the term ''corporation'' with apportioning business activity.

C Partnerships and Limited Liability Companies

Partnerships and limited liability companies (LLC) that are classified as partnerships for tax purposes, with income or loss from a trade or business conducted within and outside California, must apportion business income in accordance with the provisions of R&TC Sections 25120 through 25139 (see 18 Cal. Code Regs. Section 17951-4). Partnership or LLC items of income or loss that would be treated as nonbusiness income if earned by a corporation are allocated as if such income or loss were earned by the individual partner. Partnerships or LLCs complete only Schedules R-1, R-2, R-3 and R-4. For purposes of Schedule R-4, partnerships or LLCs should not allocate nonbusiness income from intangibles. Complete Schedule R, line 1 through line 13b, except for line 1b and line 11, which apply only to corporations. In completing these schedules replace the term ''corporation'' with partnership or LLC.

If a trade or business conducted by a partner or member is unitary with the trade or business of the partnership or LLC, the partner's or member's distributable share of business income of the partnership is treated as business income of the partner. The partner or member must add its share of the partnership's or LLC's property, payroll and sales within and outside California to its own property, payroll and sales within and outside California in order to apportion the combined income. This will be reflected on the partner's or member's individual return. For further information, see 18 Cal. Code Regs. Section 25137-1.

Also see the instructions for Schedule K-1 in the Form 565 and Form 568 Booklets.

D Water's-Edge Filers

Corporations filing on a water's-edge basis that own controlled foreign corporations must complete form FTB 2416, Retained Earnings of Controlled Foreign Corporations, and attach it to this schedule.

Water's-edge filers who are deducting dividends under R&TC Section 24411 must complete and file form FTB 2411, Water's-Edge Dividend Deduction, with Form 100 or Form 100S.

Water's-edge filers who are subject to the foreign dividend interest offset must complete form FTB 2424, Water's-Edge Foreign Investment Interest Offset, and attach it to Form 100 or Form 100S. The foreign investment interest offset requires the application of foreign interest expense to offset the foreign dividend deduction. In general, the calculation requires the identification of foreign interest using the ratio of unassigned foreign assets over unassigned total assets.

Address any questions regarding water's-edge legislation and other water's-edge issues to:

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

For more information regarding water's-edge reporting, get Form 100-WE, Water's-Edge Booklet and FTB Notice 93-7.

E Property Factor

The property factor is a fraction. The numerator is the value of real and tangible personal property owned or rented and used in California during the income year to produce business income. The denominator is the value of all the corporation's real and tangible personal property owned or rented and used during the income year to produce business income. Property owned by the corporation that is in transit between states is considered to be located at its destination.

Property is included in the factor if it is actually used or is available for use or capable of being used during the income year. It remains in the property factor until its permanent withdrawal is established by an identifiable event such as its sale or conversion to the production of nonbusiness income. Property used in the production of nonbusiness income is excluded from the factor.

Property owned by the corporation is valued at its original cost averaged over the income year. In general, ''original cost'' is the basis of the property for federal income tax purposes (prior to any federal adjustments) at the time of acquisition by the corporation and adjusted by subsequent capital additions or improvements, special deductions and partial disposition because of sale, exchange, abandonment, etc. Depreciation does not reduce original cost.

As a general rule, the average value of property owned by the corporation is computed by averaging the values at the beginning and ending of the income year. The Franchise Tax Board may require or allow monthly averaging if this method is required to properly reflect the average value of property for the income year.

Rented property is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rents paid for the property, less the aggregate annual subrental rates paid by subtenants. Subrents are not deducted when the subrents constitute business income.

F Payroll Factor

The payroll factor is a fraction. The numerator is the compensation paid in California during the income year to produce business income. The denominator is the total compensation paid during the income year to produce business income. Compensation connected with the production of nonbusiness income is excluded from the payroll factor.

The total amount ''paid'' to employees is determined on the basis of the corporation's accounting method. Under the accrual method, all compensation properly accrued is deemed to have been paid.

Regardless of the corporation's method of accounting, at the election of the corporation, compensation paid to employees may be included in the payroll factor by use of the cash method if the corporation is required to report the compensation under that method for unemployment compensation purposes.

The term ''compensation'' means wages, salaries, commissions and any other form of remuneration paid directly to employees for personal services. Payments made to an independent contractor, or any other person not properly classifiable as an employee, are excluded.

Compensation is paid in California if any one of the following tests, applied sequentially, are met.

1. The employee's service is performed entirely within California;
2. The employee's service is performed both within and outside of California, but the service performed outside of California is incidental to the employee's service within California (''incidental'' means any service that is temporary or transitory in nature, or that is rendered in connection with an isolated transaction);
3. If the employee's service is performed both within and outside of California, the employee's compensation will be attributed to California if:
   - the employee's base of operations is in California, or
   - there is no base of operations in any state in which some part of the service is performed, but the place from which the service is directed or controlled is in California, or
   - the base of operations, or the place from which services are directed or controlled is not in any state that some part of the service is performed, but the employee's residence is in California.

''Base of operations'' is the place of a permanent nature from which the employee starts work and returns in order to receive instructions or communications from customers or other persons, to replenish stock or other materials, to repair equipment, or to perform any other functions necessary to the exercise of the trade or profession at some other point or points.

Individuals and partners engaged in the practice of a profession may be subject to special rules for determining the payroll factor. Sole proprietors and partners engaged in the practice of law, accounting, medicine, engineering or any other profession involving personal services where capital is not a material income producing factor should refer to 18 Cal. Code Regs. Section 179514 (f) for information regarding computation of the payroll factor.

G Sales Factor

Important: For income years beginning on or after January 1, 1993 the sales factor is a double weighted factor for all corporations except those corporations with more than 50% of gross business receipts derived from extractive or agricultural business activities. For income years beginning on or after January 1, 1994, savings and loan activities are also excepted from the double weighted sales factor.

Extractive business activities means activities relating to the production, refining, or processing of oil, natural gas, or mineral ore. Agricultural business activities means activities relating to livestock, poultry, fruit, truck farm, ranch, nursery, or range. Refer to R&TC Section 25128(c).

Savings and loan activity means any activity performed by savings and loan associations or savings banks which have been chartered by federal or state law.

If a taxpayer derives more than 50% of its gross business receipts from conducting an extractive or agricultural business activity or savings and loan activity, all the business income of the taxpayer must be apportioned to California using a single weighted sales factor. Unitary corporations must apply the 50% test to the business receipts of the entire group. If the entire group satisfies one of the exceptions, all members of the group must use a single weighted sales factor. If not, all members of the group must use a double weighted sales factor.

The sales factor is a fraction. The numerator is the gross receipts derived during the income year from transactions and activities attributable to California in the regular course of the unitary affiliates' trade or business. The denominator is the total gross receipts derived during the income year from transactions and activities everywhere in the regular course of the corporation's trade or business.

Gross receipts means gross sales less returns and allowances and includes all interest income, service charges, carrying charges or time-price differential charges incidental to these gross receipts. If federal and state excise taxes (including sales taxes) are passed on to the buyer or included in the selling price of the product, they must be included in gross receipts. This applies regardless of where the accounting records are maintained or the location of the contract or other evidence of indebtedness.

The following are rules for determining ''sales'' in various situations.

1. In the case of a corporation engaged in manufacturing and selling goods or products, ''sales'' includes all gross receipts from the sales of such goods or products held for sale to customers in the ordinary course of its trade or business. Goods or products also include other property of a kind that would properly be included in the inventory if on hand at the close of the income year.
2. In the case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, ''sales'' includes the entire reimbursed cost, plus the fee.
3. In the case of a corporation engaged in providing services, such as the performance of equipment service contracts or research and development contracts, ''sales'' includes the

gross receipts from the performance of such services, including fees, commissions and similar items.

4. In the case of a corporation engaged in renting real or tangible property, ''sales'' includes the gross receipts from the rental, lease or licensing the use of the property.
5. In the case of a corporation engaged in the sale, assignment, or licensing of intangible personal property such as patents and copyrights, ''sales'' includes the gross receipts therefrom.
6. In the case of a corporation that derives receipts from the sale of equipment used in its business, these receipts constitute ''sales''. For example, a truck express company owns a fleet of trucks and sells its trucks under a regular replacement program. The gross receipts from the sales of the trucks are included in the sales factor.

Gross receipts from the sales of tangible personal property (except sales to the U.S. Government) are attributable to California if 1) the property is delivered or shipped to a purchaser within California regardless of the f.o.b. point or other conditions of sale, or 2) the property is shipped from an office, store, warehouse, factory or other place of storage within California by any member of the combined group and no member of the combined group is taxable in the state of the purchaser. Any transportation of goods by vehicle is a form of shipment, whether the vehicle is owned by the seller, the purchaser or a common carrier. If a seller transfers possession of goods to a purchaser at the purchaser's place of business in California, the sale is a California sale. However, if goods are transferred to the purchaser's employee or agent at some other location in California, and the purchaser immediately transports the goods to another state, the sale is not a California sale. (See Legal Ruling 95-3.) (See General Instructions H.)

Gross receipts from sales of tangible personal property to the U. S. Government are attributable to California if the property is shipped from California. Only sales for which the U. S. Government makes direct payment to the seller according to the terms of a contract constitute sales to the U. S. Government. Thus, as a general rule, sales by a subcontractor to the prime contractor, the party to the contract with the U. S. Government, do not constitute sales to the U. S. Government.

For income years beginning on or after January 1, 1994, sales of unprocessed timber or softwood cut in California and delivered to a purchaser outside the United States are included in the California numerator of the apportionment sales factor.

Sales, other than sales of tangible personal property, are apportioned to California if:

1. The income-producing activity is performed wholly within California, or
2. A portion of the income-producing activity is performed outside of California but a greater portion of this activity is performed within California than in any other state, based on costs of performance.

''Income-producing activity'' means the transactions and activity directly engaged in by the corporation in the regular course of its trade or business for the ultimate purpose of earning gains or profits. ''Income-producing activity'' applies to each separate item of income. ''Income-producing activity'' does not include transactions and activities performed on behalf of a corporation, such as those conducted by an independent contractor.

''Costs of performance'' means direct costs determined in a manner consistent with generally accepted accounting principles and in accordance with industry practices in the corporation's trade or business.

Special Rules. The following are special rules to determine if receipts from the income-producing activities are attributable to California.

1. Gross receipts from the rendering of personal services by employees or the use of tangible and intangible property by the corporation in performing a service are attributable to California to the extent that the services are performed within California.

   If a portion of the services relating to a single item of income are performed within and outside of California, the gross receipts for the performance of the services are attributable to California only if, based on costs of performance, a greater portion of the services are performed within California.

   If a portion of the services are performed within California, and the services performed in each state constitute a separate income-producing activity, the gross receipts for the performance of the services attributable to California are measured by the ratio which the time spent in performing the services within California bears to the total time spent in performing the services everywhere.

   Time spent in performing services includes the amount of time expended in the performance of a contract or other obligation that gives rise to the gross receipts.

   Personal service not directly connected with the performance of the contract or other obligation (for example, time expended in negotiating the contract) is excluded from the computations.
2. Gross receipts from the sale, rental, leasing, licensing or other use of real property are attributable to California if the real property is located within California.
3. Gross receipts from the rental, leasing, licensing or other use of tangible personal property are attributable to California if the property is located within California.

   If tangible personal property is located within and outside of California during the rental, lease or licensing period, gross receipts attributable to California are measured by the ratio which the time the property was physically present or was used within California bears to the total time or use of the property during the period.

There are instances where a corporation will exclude gross receipts from the sales factor in order for the apportionment formula to work fairly. See 18 Cal. Code Regs. Section 25137 for more information.

H Taxable in Another State

A corporation is ''taxable in another state'' if it meets either one of the two following tests:

1. The corporation is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, or a corporate stock tax because of its business activity in another state; or
2. Another state has jurisdiction to tax net income, regardless of whether or not that state imposes such a tax on the corporation.

The first test applies only if a corporation carries on business activities in another state. However, the corporation is not taxable in another state if the corporation:

- files and pays tax voluntarily, when not required to do so by the laws of that state; or
- pays a minimal fee for qualification, organization, or for the privilege of doing business in that state, but does not actually engage in business activities in that state; or
- engages in some activity, not sufficient to be taxed, and the minimum franchise tax bears no relation to the corporation's activities in that state.

The second test applies if the corporation's business activities are sufficient to give the state jurisdiction to impose a net income tax under the Constitution and statutes of the U. S. Jurisdiction to tax is not present if the state is prohibited from imposing the tax because of Public Law 86-272, 15 U.S.C. 381-385.

I Consistency in Reporting

Corporations that changed the way the following items were treated in prior year returns, must disclose the nature and extent of these changes on Schedule R-2, line 6. Disclose any changes to:

- classification of income as business or nonbusiness income;
- valuation of property or inclusion of property in the property factor;
- determination of the amount of compensation paid used in the payroll factor; or
- inclusion of gross receipts in the sales factor.

Disclose only inconsistencies in the valuation or assignment of items in the three factors that materially affect the apportionment percentage. On Schedule R-2, line 5, explain (with references to the laws or regulations of the other state) any inconsistencies in the determination of nonbusiness income and in the factors due to a difference in state laws or regulations. Show the amount of inconsistency on a state-by-state basis.

When a corporation sells tangible personal property that is shipped from California and assigned to a state in which the corporation does not file a return or report, the corporation must identify the state to which the property is shipped, report the total amount of sales assigned to that state and furnish the facts that the corporation relied on in establishing jurisdiction to tax by that state.

J Computation of Apportionment Percentage

When computing the average apportionment percentage for Schedule R-1, line 5, divide the total percent on line 4 by the number of factors that have amounts in column (a). For most corporations, the denominator is four (property, payroll and twice the sales factor). For agricultural, extractive and savings and loans industries, the denominator is three (property, payroll and sales). Those factors with zero balances in the totals of both column (a) and column (b) will not be included in the fraction. For example, if the taxpayer has no payroll then the average apportionment percentage would be computed by entering 1/3 of line 4 instead of the standard 1/4.

K Computation of Interest Offset

If the corporation's income is subject to apportionment by formula, the interest expense deduction is the amount equal to interest income subject to apportionment plus the amount, if any, that the balance of interest expense exceeds nonbusiness interest and nonbusiness dividend income.

Interest expense not deductible under the preceding paragraph is directly offset against nonbusiness interest and nonbusiness dividend income.

In any case in which the tax of a corporation is or has been determined in a combined report with another corporation, all dividends paid by one to another of such corporations are, to the extent dividends are paid out of the income of the unitary business, eliminated from the income of the recipient and are not taken into account for interest offset purposes.

Note: If no dividend or interest income is classified as nonbusiness income on Side 1, line 2 and line 3, it is not necessary to complete Schedule R-5.

Use Schedule R-5 to make the interest expense computation. Enter on Side 1, line 11, the amount of interest offset from Schedule R-5, line 9 or line 18. Enter on Side 1, line 21, the amount of interest expense applicable to California dividend and interest income by:

- dividing the total of Side 1, line 14a and line 14b by the total of Side 1, line 2 and line 3; and
- multiplying the result by the total of Side 1, line 11.

L Contributions Adjustment

As a general rule, California law limits the deductibility of charitable contributions to 5% of the corporation's California net income before deducting the contributions, adjusted for the use of the apportionment formula and any nonbusiness income and losses.

Include the amount of adjustments to income other than those specified on Schedule R-6, line 3. For purposes of the charitable contribution limitation, net income is to be computed without regard to deductions for items included in Art. 2, Ch. 7, of the Bank and Corporation Tax Law (other than organizational expenses). Refer to R&TC Section 24358.

Use Schedule R-6 to compute deductible contributions for state purposes. If the contributions deducted do not exceed the 5% limit, and if no nonbusiness income or loss is classified on Side 1, line 14 through line 20, it is not necessary to complete Schedule R-6.

M Combined Report

The unitary method of computing California income is required when two or more corporations are engaged in a unitary business, a portion of which is carried on in California. A tax return for each corporation subject to the Bank and Corporation Tax Law is required, unless Schedule R-7, Election to File a Unitary Taxpayer's Group Return and List of Affiliated Corporations, is filed with the Franchise Tax Board. For detailed information, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

N Group Return Election

As a convenience for taxpayers, a group of unitary corporate taxpayers may elect to file a single group return. The election applies **only** to those members of a unitary group which are taxpayers (i.e., are themselves subject to the California income or franchise tax). Do not complete the Schedule R-7 for unitary groups that have only one California taxpayer. The designated ''key'' corporation makes the election on behalf of itself and the electing members by completing Schedule R-7 (Form 100, Schedule R) and attaching the schedule to the return.
Schedule R-7 is effective only for the income year with which it is filed. By filing a group return and the completed Schedule R-7, each electing member indicates acceptance of all terms and conditions set forth in Schedule R-7. The group return satisfies the requirement of each electing taxpayer member to file its own return. Failure to complete all of the items requested in this election may result in incorrect processing of the return.

The tax liability of each taxpayer member of the unitary group is computed using the combined reporting instructions described in FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report. The tax liabilities of the electing group members are then aggregated and reported on the group return.

Corporations That Cannot Elect to File a Group Return: Because of statutory filing requirements, California taxpayers may not be included in a group return unless: 1) the taxpayer's income year is the same as or wholly within the key corporation's income year and 2) the due date of the taxpayer's return for the income year is the same as the due date of the key corporation's return. In addition, corporations may not file a group return if more than one unitary business is being conducted by any one taxpayer. For example: if Division 1 of Corporation A is engaged in a unitary business with Corporation B and Division 2 of Corporation A is engaged in a separate unitary business with Corporation C (i.e., the business of A-B and A-C are not unitary with each other), a group return may not be filed by A, B and C. Two separate combined report computations will be necessary to determine and apportion the income of each of the businesses A (Division 1)-B and A (Division 2)-C.

Tax Liability of Electing Members: Show the liability for each electing corporation on Schedule R-7 in the ''total self assessed tax'' column. The liability of each corporation included in the group return is the same as if each member of the group filed a separate return. Thus, it is necessary to determine each corporation's share of the combined report income apportioned to California, using the factor method prescribed by Legal Ruling 234 and FTB Notice 90-3. Each member then applies its own nonbusiness income or loss and its own net operating loss (if applicable) to that amount to arrive at the corporate taxpayer's net income (loss) for state purposes. In determining the member's tax liability, tax credits authorized by Chapter 3.5 of the Bank and Corporation Tax Law may be claimed only by the particular member that is eligible for the credit. Each member incorporated, qualified to do business or doing business in this state must pay at least the minimum franchise tax provided for in R&TC Sections 25135 and 23181. Clearly show the computation of the tax liability for each member of the group.

Caution: Failure to indicate each member's correct self-assessed tax liability may result in incorrect processing if separate assessments or refunds are required. (See Legal Ruling 95-2).

Payment of Tax: Any tax required to be paid with the group single return should normally be paid by the key corporation on behalf of its members, using the key corporation's California corporation number. In addition, if the group has made an election for the preceding income year, estimated taxes and payments with extension of time to file for the income year should be made by the key corporation on behalf of the members, using the key corporation's California corporation number.

In the columns ''Amount of estimated tax paid (Form 100-ES),'' ''Amount paid with extension (FTB 3539),'' ''Amount paid with this return, and ''Total Payments,'' indicate amounts which were paid using the key corporation's number on the key corporation line, whether or not the funds were paid by the key corporation itself. If for any reason, estimated taxes, funds applied from a prior year refund, or taxes paid with an extension are made in the name and corporate number of an electing member other than the key corporation, these amounts should be entered on the member's line to allow proper crediting of taxes paid.

Note: If the corporation must pay its tax liability using electronic funds transfer (EFT), all taxes must be remitted by EFT to avoid penalties. For information on who is required to make EFT payments, get Pub. 3817, Electronic Funds Transfer Information Guide.