



California

Forms & Instructions

109

1996

Exempt Organization Business
Income Tax Booklet

Members of the Franchise Tax Board
Kathleen Connell, Chair
Johan Klehs, Member
Craig L. Brown, Member

This booklet contains two copies of:

[Form 109](#), California Exempt Organization Business
Income Tax Return

Do you need help? 1-800-338-0505  **F .A .S .T**

Most of your questions can be answered by reading the instructions in this booklet. But if you find that you need help, use our [F.A.S.T. \(Fast Answers about State Taxes\) toll-free phone service](#) available 24 hours a day. If you cannot get the answer you need, call our [regular toll-free phone service](#) listed on page 16. The best times to call are between 7:00 and 10:00 in the morning and between 6:00 and 8:00 in the evening.



**State of California
Franchise Tax Board**

Instructions for Form 109

Exempt Organization Business Income Tax Return

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1993**, and to the California Revenue and Taxation Code (R&TC).

General Instructions

In general, California did not conform its law to changes made to the IRC by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66). California legislation did adopt specific provisions of the 1993 federal changes and these provisions are specifically identified when appropriate. All other references in these instructions are to the IRC as it existed on January 1, 1993.

A Purpose

A tax-exempt organization that regularly carries on a trade or business that is not substantially related to its exempt purpose may be required to pay tax on the unrelated trade or business income that results from such activity. Use Form 109 to figure the tax on the unrelated business income of the organization.

Filing Form 109 does not replace the requirement to file Form 199, California Exempt Organization Annual Information Statement or Return. Because state and federal laws are generally the same in this area, you should get federal Form 990-T, Exempt Organization Business Income Tax Return and instructions for detailed information.

B Who Must File

Every organization exempt under R&TC Sections 17631 or 23701a through 23701z must file Form 109 if the gross income from an unrelated trade or business is \$1,000 or more. See General Instruction P for the definition of an unrelated trade or business.

Exception

A tax-exempt organization is not required to file Form 109 if:

- It is formed to carry out a function of the state;
- It is carrying out that function; and
- It is controlled by the state.

Exempt homeowners' associations and exempt political organizations that have a taxable income over \$100 must file Form 100, California Corporation Franchise or Income Tax Return.

C Accounting Period

File Form 109 for taxable or income years beginning in 1996. Fill in the taxable or income year information including the month, day and year in the spaces provided at the top of Side 1.

To change an accounting period, file federal Form 1128, Application to Adopt Change or Retain a Tax Year, with the Internal Revenue Service (IRS), and file a copy of the federal approval with Form 109 in the year the change is effective.

D Accounting Method

Taxable income must be computed in accordance with the method of accounting regularly used by the organization in maintaining its books and records. The method must clearly reflect taxable income.

To change an accounting method, file federal Form 3115, Application for Change in Accounting Method, with the IRS, and file a copy of the federal approval with Form 109 in the year the change is effective.

Note: The amounts on Form 109 and accompanying schedules should be rounded off to the nearest whole dollar.

E Mailing Addresses

Mail returns that include a payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0701

Mail refund returns or returns without a payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0700

Note: If the organization is sending more than one return, use separate envelopes and checks to make sure that the returns and payments are processed correctly.

F When to File

Generally, Form 109 is due on or before the 15th day of the 5th month following the close of the income year. However, an employees' trust defined in IRC Section 401(a) and an IRA must file Form 109 by the 15th day of the 4th month after the end of the income year.

Official U.S. Post Office postmarks are considered primary evidence of the date of filing of income tax documents and payments. Postage meter dates are not considered proof of filing on the date shown.

If mail is received that does not bear a postmark assigned by the U.S. Post Office, timely filing is determined by reference to the date of receipt or other appropriate evidence.

G Extension of Time to File Return

If Form 109 cannot be filed by the due date, the exempt organization has an additional seven months to file without filing a written request for extension, unless the organization is suspended as of the original due date. However, to avoid late payment penalties, 100% of the tax liability must be paid by the original due date of the return.

If an extension of time is needed, and an unpaid tax liability is owed, get form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations. Trusts use form FTB 3563, Payment Voucher for Automatic Extension for Fiduciaries.

If the return is not filed by the extended due date, a delinquent filing penalty is charged from the original due date of the return.

H Signature

Corporations and Associations

A corporate officer such as the president, vice president, treasurer, assistant treasurer, chief accounting officer or trustee must sign the return. In the case of an association, a similarly authorized person must sign the return.

Trusts

The individual fiduciary or authorized officer of the trust receiving or having custody or control and management of the income of the trust must sign the return. If two or more individuals act jointly as fiduciaries, the return may be signed by either of them.

Note: A receiver, trustee or assignee must sign any return that must be filed on behalf of the organization.

I Name and Address

Use the preaddressed label if one was provided. If any information on the label is incorrect, draw a single line in ink through it and enter the correct information.

If there is no preaddressed label, copy the information exactly as shown on the preaddressed label received with Form 199 (if provided by the Franchise Tax Board (FTB)), or use the exact name as shown on the exemption letter.

J Tax Rates

Corporations and Associations

The tax rate imposed on the unrelated business income of an incorporated exempt organization or association treated as a corporation is 9.3%.

Any organization determined to be exempt from income tax by FTB does not owe the minimum tax.

Trusts

R&TC Section 23731(b) provides for taxation of trusts at the personal income tax rates imposed by R&TC Section 17041(e). See the Tax Rate Schedule on page 4.

K Payment of Tax

The tax due (total tax minus amounts previously paid) must be paid in full when Form 109 is filed, but not later than the 15th day of the 5th month after the close of the income year. Any credit payment should be claimed on the return and considered in computing the tax due with the return. For corporations and associations, see Form 100-ES instructions for information regarding how and when to pay estimated tax. Trusts completing Form 100-ES must use the tax rate for trusts to figure the correct amount of tax.

Electronic Funds Transfer (EFT)

Corporations that meet certain requirements must remit all of their payments through EFT rather than by paper checks. Once a corporation remits an estimated tax payment or extension payment in excess of \$20,000 or has a total tax liability in excess of \$80,000 in any income year beginning on or after January 1, 1995, the FTB will notify the corporation that all future payments must be made by EFT. Those that wish to participate on a voluntary basis may do so. For more information call (916) 845-4025.

L Penalties and Interest

Late Filing of Return

Any organization that fails to file a return on or before the extended due date may be assessed a penalty. The penalty cannot exceed 25% of the unpaid tax.

Late Payment of Tax

Any organization that fails to pay the total tax shown on the return 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.

Note: If an organization is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be

assessed, but the total will not exceed 25% of the unpaid tax.

Underpayment of Estimated Tax

Any corporation, unincorporated association or trust that fails to pay or underpays an installment of estimated tax is assessed a penalty. The penalty is computed as a percentage of the underpayment for the underpayment period. Use form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

Note: If the organization uses Exception B, tax on annualized income, or Exception C, tax on annualized seasonal income, to compute or eliminate tax penalty for any of the four installments, form FTB 5806 must be attached to the front of the return.

Interest

Interest is due and payable on any tax due that is not paid by the original due date of the return. An extension of time to file a return does not stop interest from accruing.

M Net Operating Loss Deduction

California allows a net operating loss deduction, which may be claimed on Side 1, line 4 or line 12. Get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations, or form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates and Trusts, for additional information.

Organizations operating within an enterprise zone or program area, get form FTB 3805Z, Enterprise Zone and Program Area Business Booklet.

Organizations operating within the Los Angeles Revitalization Zone, get form FTB 3806, Los Angeles Revitalization Zone Booklet.

Organizations operating with a Local Agency Military Base Recovery Area, get form FTB 3807, Local Agency Military Base Recovery Area Booklet.

N Alternative Minimum Tax

California law is generally the same as federal law relating to alternative minimum tax (AMT). Trusts subject to AMT must file Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries. Corporations subject to AMT must file Schedule P (100), Alternative Minimum Tax and Credit Limitations – Corporations.

O Income to Be Reported

Corporations and Associations

Report all income from an unrelated trade or business whether derived from sources within or outside California.

Business income attributable to sources both within and outside California is apportioned. See the instructions for Side 1, line 2 and the Apportionment Formula Worksheet.

Trusts

Report all income from an unrelated trade or business derived from sources within California. If income is derived from outside California and one or more trustees are nonresidents, the percentage of income that is applicable to the total number of resident trustees is reported.

At-Risk Provisions

For the rules limiting a loss to the amount at-risk for certain trade or business and production of income activities, see federal Form 6198, At-Risk Limitations.

Passive Activity Loss Limitation

For California purposes, the passive loss rules of IRC Section 469 apply to closely held corpora-

tions, S corporations, personal service corporations and trusts. Organizations subject to passive loss rules must complete form FTB 3801, Passive Activity Loss Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, to figure their allowable passive activity loss.

An organization subject to the passive activity loss limitations may also be required to adjust credits attributable to passive activities on form FTB 3801-CR, Passive Activity Credit Limitations. If a passive activity is also subject to the at-risk rules of IRC Section 465, the at-risk rules apply before the passive loss rules apply.

P Unrelated Trade or Business

Unrelated trade or business is any regularly carried on trade or business that is not substantially related to the organization's exempt purpose or function, or to exercising or performing any purpose or function described in R&TC Section 23701. An unrelated trade or business does not include:

- An activity where substantially all the work in carrying on the trade or business is performed by volunteers (without compensation);
- An activity that is carried on by a Section 23701d organization primarily for the convenience of its members, students, patients, officers or employees;
- An activity that is carried on by a local association of employees described in Section 23701f, organized before May 27, 1969, such as selling work-related clothes, equipment and items normally sold through vending machines, snack bars, etc., for the convenience of its members at their usual workplace; or
- Selling merchandise that was donated to the organization.

For additional information, see IRC Section 513.

Unrelated Business Taxable Income

Unrelated business taxable income is the gross income derived from any regularly carried on unrelated trade or business less the deductions that are directly connected with the carrying on of the unrelated trade or business.

In the case of an organization that regularly conducts two or more unrelated business activities, unrelated business taxable income is the sum of gross income from all such unrelated business activities, less the sum of the deductions allowed with respect to all such unrelated business activities.

Expenses, depreciation and similar items that arise from conducting the exempt function are not deductible in computing unrelated business taxable income. However, expenses directly connected with unrelated business income are deductible (see Specific Line Instructions for Side 2, Part I and Part II, line 20, for the exception concerning contributions).

For additional information, see IRC Section 512.

Q Exclusions

Items excluded from unrelated business taxable income are:

1. Dividends, interest, annuities and deductions directly connected with such income. However, unrelated debt-financed income and income derived from controlled organizations is taxable, whether or not the activities that produced such income represent a regularly carried on trade or business.
2. Royalties (including overriding royalties) and deductions directly connected with such income. Mineral royalties are excluded whether measured by production or by gross

or taxable income from the mineral property. However, where the organization owns a working interest in a mineral property and is not relieved of its share of the development costs by the terms of any agreement with an operator, income received from the working interest cannot be excluded.

Note: Debt-financed royalty income is taxable whether or not the organization owns a working interest in the property.

3. Rents from real property (including elevators and escalators) and rents from personal property leased with such real property and deductions directly connected with such rents. Rents attributable to personal property must be an incidental amount of the total rents received or accrued under the lease determined at the time when the property is first subject to use by the lessee. Rents attributable to personal property generally are not an incidental amount of the total rents if the rents attributable to personal property exceed 10% of the total rents from all the property leased. See federal Income Tax Regulation Section 1.512(b)-1(c)(3)(iii) regarding multiple leases. However, the exclusion will not apply if such rents are derived from a controlled organization or the property leased is debt-financed property.

If the rents are derived from the leasing of debt-financed property to a controlled organization, the taxation of rents is first considered under the controlling organization rules. Only the untaxed portion of rents is subject to the unrelated debt-financed income rules.

4. Gains or losses from the sale, exchange or other disposition of property, except:
 - a. Stock in trade or other property that would be includible in inventory if on hand at the close of the taxable year;
 - b. Property held primarily for sale to customers in the ordinary course of the trade or business, including the cutting of timber (see Specific Line Instructions for Side 2, Part I and Part II, lines 4a, 4b and 4c, for treatment of capital gains or ordinary losses); and
 - c. Certain gains on debt-financed and depreciable property.
5. The income and deductions resulting from:
 - a. Organizations performing research for the government;
 - b. A college, university or hospital performing research for any person; and
 - c. Organizations operating primarily for fundamental research.

Exception

The exclusion rules described above do not apply to social and recreational clubs (R&TC Section 23701g), voluntary employees' beneficiary associations (R&TC Section 23701i) and supplemental unemployment compensation benefits trusts (R&TC Section 23701n).

California law is the same as federal law for organizations described in IRC Section 501(c)(7) or 501(c)(9).

Controlled organization means either a:

- Stock corporation – the ownership of stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of shares of all other classes of stock of the corporation; or
- Nonstock organization – an organization of which at least 80% of the directors or trustees of such organization are either representative

of or are directly or indirectly controlled by an exempt organization.

R Exempt Function Income

Exempt function income is:

- a. The amount derived from dues, fees, charges or similar amounts of gross income from members;
- b. The amount (other than gross income derived from any unrelated trade or business that is regularly carried on) set aside for religious, charitable, scientific, literary or educational purposes or for the prevention of cruelty to children or animals; and
- c. In the case of an organization described in R&TC Section 23701i, the amount set aside for the payment of life, sick, accident or other benefits.

S Information Returns

Organizations engaged in an unrelated trade or business may be required to file a federal information return to report certain payments. Refer to the federal Instructions for Form 990-T, Other Forms You May Need To File, for further information.

There are severe penalties for failure to file information returns or include correct payee identification numbers on the returns. Detailed filing instructions are available on California Form 592, Nonresident Withholding Annual Return.

Salaries, wages or other compensation for personal services are reported on state copies of Form W-2 and Form DE-7. These are to be filed with the Employment Development Department.

T Federal Form 990-T

Refer to the federal "Instructions for Form 990-T Schedule E" for further information regarding:

- 1. Debt-financed property;
- 2. Allocation rules for debt-financed property;
- 3. Acquisition indebtedness;
- 4. Average acquisition indebtedness;
- 5. Average adjusted basis; and
- 6. Adjusted basis of property.

For the special rules for holding companies (R&TC Sections 23701h and 23701x and IRC Sections 501(c)(2) and 501(c)(25)), see the federal Form 990-T General Instructions for Consolidated Returns.

1996 Tax Rate Schedule for Trusts

IF THE TAXABLE INCOME IS . . .

OVER	BUT NOT OVER
\$ 0	\$ 4,908
4,908	11,632
11,632	18,357
18,357	25,484
25,484	32,207
32,207	111,695
111,695	223,390
223,390	AND OVER

COMPUTED TAX IS . . .

			OF AMOUNT OVER
\$ 0.00	PLUS	1.0%	\$ 0
49.08	PLUS	2.0%	4,908
183.56	PLUS	4.0%	11,632
452.56	PLUS	6.0%	18,357
880.18	PLUS	8.0%	25,484
1,418.02	PLUS	9.3%	32,207
8,810.40	PLUS	10.0%	111,695
19,979.90	PLUS	11.0%	223,390

Specific Line Instructions

Side 1

Line 2 – Apportionment Formula

Business income of corporations and associations attributable to sources within and outside California is apportioned. Use the apportionment worksheet to determine the apportionment percentage. Retain the worksheet in your files.

Instructions for apportionment formula worksheet —

Line 1 – Property factor — Owned property is valued at its original cost. Rented property is valued at eight times its net annual rental.

Line 6 – Average Apportionment Percentage — Divide the total percentage on line 5 by the number of factors that have amounts in column (a). The sales factor must be counted as two factors. Organizations that have all factors would have a denominator of four (property, payroll and twice the sales factor). However, do not include those factors with a zero in the totals of both column (a) and column (b).

Line 25 and Line 26 – Tax Due/Overpayment

Add to the amount of tax due or overpayment, as appropriate, the amount from Schedule K, line 5. See Schedule K Instructions for more information.

Line 29 – Penalties and Interest

Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, only if Exception B, tax on annual income, or Exception C, tax on annualized seasonal income, is used in computing the penalty.

Line 30 – Corporations that are required to pay by EFT, must remit this payment by EFT. See General Instruction K.

Apportionment Formula Worksheet

Use only for unrelated trade or business amounts	(a) Total within and outside California	(b) Total within California	(c) Percent within California (b) ÷ (a)
1. Property factor: Use the average yearly value of owned and rented real and tangible personal property used in the business. See instructions			
2. Payroll factor: Wages, and other compensation of employees			
3. Sales factor: Gross sales and/or receipts less returns and allowances			
4. Multiply line 3, column (c) by 2 .			
5. Total percentage. Add the percentages in column (c) line 1, line 2 and line 4.			
6. Average apportionment percentage. Divide line 5 by 4 and enter the result here and on Form 109, Side 1, line 2. See instructions			

1996

109

For taxable or income year beginning MONTH DAY YEAR 1996, and ending MONTH DAY YEAR .

Attach Preaddressed Label or See Instructions

California corporation or organization number FEIN
Corporation/organization name
Address
City, town, or post office

- A Is this organization claiming any enterprise zone, program area, Los Angeles Revitalization Zone (LARZ) or Local Agency Military Base Recovery Area (LAMBRA) tax benefits?
B Final Return?
C Nature of trade or business
D Accounting method used

Organizations Taxable as Corporations

Table with 9 rows for corporations, including lines 1-9 for unrelated business taxable income, deductions, and tax calculations.

Organizations Taxable as Trusts

Table with 10 rows for trusts, including lines 10-17 for unrelated business taxable income, deductions, and tax calculations.

Table with 3 rows for total tax, including lines 18-20 for tax from line 9, alternative minimum tax, and total tax.

Table with 4 rows for payments, including lines 21-24 for overpayment, estimated tax payments, and total payments and credits.

Table with 10 rows for tax due or overpayment, including lines 25-30 for tax due, overpayment, penalties, and total amount due.

Person to contact for additional information: Telephone ()

Please Sign Here: Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Paid Preparer's Use Only: Preparer's signature, Date, Check if self-employed, Preparer's SSN/FEIN, Firm's name, FEIN, Daytime telephone.

Unrelated Business Taxable Income

Part I Unrelated Trade or Business Income

1	a	Gross receipts or gross sales	b	Less returns and allowances	Balance	1c		
2		Cost of goods sold and/or operations from Schedule A, line 7				2		
3		Gross profit. Subtract line 2 from line 1c.				3		
4	a	Capital gain net income. See Specific Line Instructions – Trusts attach Schedule D (541).				4a		
	b	Net gain (loss) from Part II, federal Form 4797 (attached) – Trusts attach Schedule D-1.				4b		
	c	Capital loss deduction for trusts.				4c		
5		Income (or loss) from partnerships. See specific line instructions. Attach Schedule K-1 (565) or similar schedule				5		
6		Rental income from Schedule C				6		
7		Unrelated debt-financed income from Schedule D.				7		
8		Investment income of an R&TC Section 23701g, 23701i, or 23701n organization from Schedule E.				8		
9		Annuities, interest, rents and royalties of controlled organizations from Schedule F.				9		
10		Exploited exempt activity income from Schedule G.				10		
11		Advertising income from Schedule H, Part III, Column A.				11		
12		Other income. Attach schedule.				12		
13		Total unrelated trade or business income. Add line 3 through line 12				13		

Part II Deductions Not Taken Elsewhere (Except for contributions, deductions must be directly connected with the unrelated business income.)

14		Compensation of officers, directors and trustees from Schedule I.				14		
15		Salaries and wages				15		
16		Repairs				16		
17		Bad debts.				17		
18		Interest. Attach schedule				18		
19		Taxes. Attach schedule				19		
20		Contributions. See instructions and attach schedule				20		
21	a	Depreciation (Corporations and Associations – Schedule J) (Trusts – form FTB 3885F).	21a					
	b	Less: depreciation claimed on Schedule A.	21b			21		
22		Depletion. Attach schedule				22		
23	a	Contributions to deferred compensation plans				23a		
	b	Employee benefit programs. See instructions				23b		
24		Other deductions. Attach schedule				24		
25		Total deductions. Add line 14 through line 24.				25		
26		Unrelated business taxable income before allowable excess advertising costs. Subtract line 25 from line 13.				26		
27		Excess advertising costs from Schedule H, Part III, Column B				27		
28		Unrelated business taxable income before specific deduction. Subtract line 27 from line 26				28		
29		Specific deduction. See instructions				29		
30		Unrelated business taxable income. Subtract line 29 from line 28. If less than -0-, enter -0-				30		

Caution: No business expense deduction will be allowed to a taxpayer for expenses incurred at or payments made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin.

Schedule A Cost of Goods Sold and/or Operations Method of Inventory Valuation (specify)

1		Inventory at beginning of year	1		
2		Purchases.	2		
3		Cost of labor	3		
4	a	Additional IRC Section 263A costs. Attach schedule.	4a		
	b	Other costs. Attach schedule.	4b		
5		Total. Add line 1 through line 4b.	5		
6		Inventory at end of year.	6		
7		Cost of goods sold and/or operations. Subtract line 6 from line 5. Enter here and on Part I, line 2.	7		

Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to this organization? Yes No

Schedule B Tax Credits Do not complete if you must file Schedule P (100 or 541).

1	Enter credit name	code no.	●	1		
2	Enter credit name	code no.	●	2		
3	Enter credit name	code no.	●	3		
4	Enter credit name	code no.	●	4		
5	Enter credit name	code no.	●	5		
6	Enter credit name	code no.	●	6		
7	Total. Add line 1 through line 6. Enter here and on Side 1, line 8, for corporations, or line 16 for trusts.		●	7		

Schedule C Rental Income from Real Property and Personal Property Leased with Real Property

Note: For rental income from debt-financed property, use Schedule D, R&TC Section 23701g, Section 23701i and Section 23701n organizations. See instructions for exceptions.

1 Description of property	2 Rent received or accrued	3 Percentage of rent attributable to personal property
		%
		%
		%

4 Complete if any item in column 3 is more than 50%, or for any item if the rent is determined on the basis of profit or income

5 Complete if any item in column 3 is more than 10% but not more than 50%

(a) Deductions directly connected (attach schedule)	(b) Income includible (column 2 less column 4(a))	(a) Gross income reportable (column 2 x column 3)	(b) Deductions directly connected with personal property (attach schedule)	(c) Net income includible (column 5(a) less column 5(b))

Add columns 4(b) and 5(c). Enter here and on Side 2, Part I, line 6

Schedule D Unrelated Debt-Financed Income

1 Description of debt-financed property	2 Gross income from or allocable to debt-financed property	3 Deductions directly connected with or allocable to debt-financed property	
		(a) Straight line depreciation (attach schedule)	(b) Other deductions (attach schedule)

4 Amount of average acquisition indebtedness on or allocable to debt-financed property (attach schedule)	5 Average adjusted basis of or allocable to debt-financed property (attach schedule)	6 Debt basis percentage (column 4 ÷ column 5)	7 Gross income reportable (column 2 x column 6)	8 Allocable deductions (total of columns 3(a) and 3(b) x column 6)	9 Net income (or loss) includible (column 7 less column 8)
		%			
		%			
		%			

Total. Enter here and on Side 2, Part I, line 7

Schedule E Investment Income of a Section 23701g, 23701i or 23701n Organization

1 Description	2 Amount	3 Deductions directly connected (attach schedule)	4 Net investment income (column 2 less column 3)	5 Set-asides (attach schedule)	6 Balance of investment income (column 4 less column 5)

Total. Enter here and on Side 2, Part I, line 8

Enter gross income from members (dues, fees, charges or similar amounts)

Schedule F Income (Annuities, Interest, Rents and Royalties) From Controlled Organizations

1 Name and address of controlled organizations	2 Gross income from controlled organizations	3 Deductions directly connected with column 2 income (attach schedule)	4 Exempt controlled organizations		
			(a) Unrelated business taxable income	(b) Taxable income computed as though not exempt under Sec. 23701, or the amount in col. (a), whichever is greater	(c) Percentage (column (a) ÷ column (b))
					%
					%
					%

5 Nonexempt controlled organizations			6 Gross income reportable (column 2 x column 4(c) or column 5(c))	7 Allowable deductions (column 3 x column 4(c) or column 5(c))	8 Net income includible (column 6 less column 7)
(a) Excess taxable income	(b) Taxable income or amount in column (a), whichever is greater	(c) Percentage (col. (a) ÷ col. (b))			
		%			
		%			
		%			

Total. Enter here and on Side 2, Part I, line 9

Schedule G Exploited Exempt Activity Income, other than Advertising Income

1 Description of exploited activity (attach schedule if more than one unrelated activity is exploiting the same exempt activity)	2 Gross unrelated business income from trade or business	3 Expenses directly connected with production of unrelated business income	4 Net income from unrelated trade or business (col. 2 less col. 3)	5 Gross income from activity that is not unrelated business income	6 Expenses attributable to column 5	7 Excess exempt expense (col. 6 less col. 5 but not more than col. 4)	8 Net income includible (col. 4 less col. 7 but not less than zero)

Total. Enter here and on Side 2, Part I, line 10.

1996

109

For taxable or income year beginning MONTH DAY YEAR 1996, and ending MONTH DAY YEAR

Attach Preaddressed Label or See Instructions

California corporation or organization number FEIN
Corporation/organization name
Address
City, town, or post office

- A Is this organization claiming any enterprise zone, program area, Los Angeles Revitalization Zone (LARZ) or Local Agency Military Base Recovery Area (LAMBRA) tax benefits?
B Final Return?
C Nature of trade or business
D Accounting method used

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Table with 4 rows for payments, including lines 21-24 for overpayment, estimated tax payments, and total payments and credits.

Table with 10 rows for tax due and overpayment, including lines 25-30 for tax due, overpayment, penalties, and total amount due.

Person to contact for additional information: Telephone ()

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Signature of officer Date Title Daytime telephone

Paid Preparer's Use Only Preparer's signature Date Check if self-employed Preparer's SSN/FEIN
Firm's name (or yours, if self-employed) and address FEIN Daytime telephone

Unrelated Business Taxable Income

Part I Unrelated Trade or Business Income

1	a	Gross receipts or gross sales	b	Less returns and allowances	Balance	1c		
2		Cost of goods sold and/or operations from Schedule A, line 7				2		
3		Gross profit. Subtract line 2 from line 1c.				3		
4	a	Capital gain net income. See Specific Line Instructions – Trusts attach Schedule D (541).				4a		
	b	Net gain (loss) from Part II, federal Form 4797 (attached) – Trusts attach Schedule D-1.				4b		
	c	Capital loss deduction for trusts.				4c		
5		Income (or loss) from partnerships. See specific line instructions. Attach Schedule K-1 (565) or similar schedule				5		
6		Rental income from Schedule C				6		
7		Unrelated debt-financed income from Schedule D.				7		
8		Investment income of an R&TC Section 23701g, 23701i, or 23701n organization from Schedule E.				8		
9		Annuities, interest, rents and royalties of controlled organizations from Schedule F.				9		
10		Exploited exempt activity income from Schedule G.				10		
11		Advertising income from Schedule H, Part III, Column A.				11		
12		Other income. Attach schedule.				12		
13		Total unrelated trade or business income. Add line 3 through line 12				13		

Part II Deductions Not Taken Elsewhere (Except for contributions, deductions must be directly connected with the unrelated business income.)

14		Compensation of officers, directors and trustees from Schedule I.				14		
15		Salaries and wages				15		
16		Repairs				16		
17		Bad debts.				17		
18		Interest. Attach schedule				18		
19		Taxes. Attach schedule				19		
20		Contributions. See instructions and attach schedule				20		
21	a	Depreciation (Corporations and Associations – Schedule J) (Trusts – form FTB 3885F).	21a					
	b	Less: depreciation claimed on Schedule A.	21b			21		
22		Depletion. Attach schedule				22		
23	a	Contributions to deferred compensation plans				23a		
	b	Employee benefit programs. See instructions				23b		
24		Other deductions. Attach schedule				24		
25		Total deductions. Add line 14 through line 24.				25		
26		Unrelated business taxable income before allowable excess advertising costs. Subtract line 25 from line 13.				26		
27		Excess advertising costs from Schedule H, Part III, Column B				27		
28		Unrelated business taxable income before specific deduction. Subtract line 27 from line 26				28		
29		Specific deduction. See instructions				29		
30		Unrelated business taxable income. Subtract line 29 from line 28. If less than -0-, enter -0-				30		

Caution: No business expense deduction will be allowed to a taxpayer for expenses incurred at or payments made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin.

Schedule A Cost of Goods Sold and/or Operations Method of Inventory Valuation (specify)

1		Inventory at beginning of year	1		
2		Purchases.	2		
3		Cost of labor	3		
4	a	Additional IRC Section 263A costs. Attach schedule.	4a		
	b	Other costs. Attach schedule.	4b		
5		Total. Add line 1 through line 4b.	5		
6		Inventory at end of year.	6		
7		Cost of goods sold and/or operations. Subtract line 6 from line 5. Enter here and on Part I, line 2.	7		

Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to this organization? Yes No

Schedule B Tax Credits Do not complete if you must file Schedule P (100 or 541).

1	Enter credit name	code no.	●	1		
2	Enter credit name	code no.	●	2		
3	Enter credit name	code no.	●	3		
4	Enter credit name	code no.	●	4		
5	Enter credit name	code no.	●	5		
6	Enter credit name	code no.	●	6		
7	Total. Add line 1 through line 6. Enter here and on Side 1, line 8, for corporations, or line 16 for trusts.		●	7		

Schedule C Rental Income from Real Property and Personal Property Leased with Real Property

Note: For rental income from debt-financed property, use Schedule D, R&TC Section 23701g, Section 23701i and Section 23701n organizations. See instructions for exceptions.

1 Description of property	2 Rent received or accrued	3 Percentage of rent attributable to personal property
		%
		%
		%

4 Complete if any item in column 3 is more than 50%, or for any item if the rent is determined on the basis of profit or income

5 Complete if any item in column 3 is more than 10% but not more than 50%

(a) Deductions directly connected (attach schedule)	(b) Income includible (column 2 less column 4(a))	(a) Gross income reportable (column 2 x column 3)	(b) Deductions directly connected with personal property (attach schedule)	(c) Net income includible (column 5(a) less column 5(b))

Add columns 4(b) and 5(c). Enter here and on Side 2, Part I, line 6

Schedule D Unrelated Debt-Financed Income

1 Description of debt-financed property	2 Gross income from or allocable to debt-financed property	3 Deductions directly connected with or allocable to debt-financed property	
		(a) Straight line depreciation (attach schedule)	(b) Other deductions (attach schedule)

4 Amount of average acquisition indebtedness on or allocable to debt-financed property (attach schedule)	5 Average adjusted basis of or allocable to debt-financed property (attach schedule)	6 Debt basis percentage (column 4 ÷ column 5)	7 Gross income reportable (column 2 x column 6)	8 Allocable deductions (total of columns 3(a) and 3(b) x column 6)	9 Net income (or loss) includible (column 7 less column 8)
		%			
		%			
		%			

Total. Enter here and on Side 2, Part I, line 7

Schedule E Investment Income of a Section 23701g, 23701i or 23701n Organization

1 Description	2 Amount	3 Deductions directly connected (attach schedule)	4 Net investment income (column 2 less column 3)	5 Set-asides (attach schedule)	6 Balance of investment income (column 4 less column 5)

Total. Enter here and on Side 2, Part I, line 8

Enter gross income from members (dues, fees, charges or similar amounts)

Schedule F Income (Annuities, Interest, Rents and Royalties) From Controlled Organizations

1 Name and address of controlled organizations	2 Gross income from controlled organizations	3 Deductions directly connected with column 2 income (attach schedule)	4 Exempt controlled organizations		
			(a) Unrelated business taxable income	(b) Taxable income computed as though not exempt under Sec. 23701, or the amount in col. (a), whichever is greater	(c) Percentage (column (a) ÷ column (b))
					%
					%
					%

5 Nonexempt controlled organizations			6 Gross income reportable (column 2 x column 4(c) or column 5(c))	7 Allowable deductions (column 3 x column 4(c) or column 5(c))	8 Net income includible (column 6 less column 7)
(a) Excess taxable income	(b) Taxable income or amount in column (a), whichever is greater	(c) Percentage (col. (a) ÷ col. (b))			
		%			
		%			
		%			

Total. Enter here and on Side 2, Part I, line 9

Schedule G Exploited Exempt Activity Income, other than Advertising Income

1 Description of exploited activity (attach schedule if more than one unrelated activity is exploiting the same exempt activity)	2 Gross unrelated business income from trade or business	3 Expenses directly connected with production of unrelated business income	4 Net income from unrelated trade or business (col. 2 less col. 3)	5 Gross income from activity that is not unrelated business income	6 Expenses attributable to column 5	7 Excess exempt expense (col. 6 less col. 5 but not more than col. 4)	8 Net income includible (col. 4 less col. 7 but not less than zero)

Total. Enter here and on Side 2, Part I, line 10.

Part I and Part II – Unrelated Business Taxable Income

Line 1 – Gross Receipts or Sales

Enter the gross income from any unrelated trade or business regularly carried on that involves the sale of goods or performance of services. However, if the activity is a type includible in Schedules C through H, report it on the appropriate schedule and corresponding line of Part I, instead of on line 1. For example, an exempt social club would report its restaurant and bar receipts from nonmembers on line 1, but would report its investment income on Schedule E and on Part I, line 8.

Lines 4(a), 4(b), and 4(c) – Net gain or loss from the sale of capital assets and ordinary gains and losses

Corporations and Associations

California law requires recognition of capital gains and losses for corporations and associations. R&TC Section 24990 places these gains and losses into long-term and short-term categories. California has conformed to the federal law that limits the deduction of capital losses to the amount of capital gains and allows excess losses to be carried forward for five years. However, California does not allow loss carrybacks or the carryover of losses incurred in income years beginning prior to January 1, 1990.

The rules relating to debt-financed property do not apply to an R&TC Section 23701g or 23701i organization, and Schedule D (541) should be completed without regard to such rules. However, see IRC Section 512(a)(3) for nonrecognition of gain in certain cases.

Trusts

The computation of the **net capital gain** income reported on line 4(a) should be reported on Schedule D (541). Attach a copy of that schedule to the trust return.

The computation of **ordinary gains and losses** reported on line 4(b) should be reported on Schedule D-1. Attach a copy of that schedule to the trust return.

If a trust has a **net capital loss**, it is subject to the limitations in Schedule D (541). Enter on line 4(c) the loss figured on Schedule D (541).

Line 5 – Income (or Loss) from Partnerships

If the organization is a partner in a partnership carrying on an unrelated trade or business, enter the organization's share (whether or not distributed) of the partnership gross income and deductions from the unrelated trade or business. See federal Form 990-T, Specific Instructions for Part I, line 5, for information regarding the treatment of income from publicly traded partnerships.

Lines 14 - 25 – Deductions

Enter only the expenses for each item directly connected with unrelated trade or business activities and contribution deductions that may be deducted from related business income.

Caution: No deduction is allowed for expenses incurred at or payments made to a club that restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin.

No expense reported on Schedule A or Schedules C through H is included in Part II, other than excess advertising costs entered on line 27. For example, officers' compensation allocable to advertising income is reported on Schedule H only and is not entered on Part II, line 14.

Where the facilities or personnel are used both to carry on the exempt function and to conduct unrelated trade or business activities, cost of goods sold, depreciation and similar expenses attributable to such facilities or personnel (e.g., overhead) must be allocated between the two uses on a reasonable basis. Attach a schedule showing the allocation of the expenses between the two uses.

Line 20 – Contributions

Attach a schedule showing the name of each organization and the amount paid. If a contribution is made in property other than money, state the kind of property contributed and the method used to determine its fair market value.

If a charitable contribution deduction is allowed by reason of a sale of property to a charitable organization, the adjusted basis for determining the gain from the sale is an amount that is in the same ratio to the adjusted basis as the amount realized is to the fair market value of the property. See IRC Section 1011(b).

Corporations and Associations

Enter charitable contributions or gifts actually paid within the income year to or for the use of charitable and governmental organizations described in R&TC Section 24357.

The amount claimed cannot exceed 5% of the unrelated business taxable income computed without regard to this deduction.

This deduction is allowed whether or not directly connected with the carrying on of a trade or business. A declaration, signed by an officer or other authorized person, must be attached to the return stating that the resolution authorizing the contribution was adopted by the board of directors or other governing body.

Trusts

Enter charitable contributions or gifts actually paid within the income year to or for the use of charitable and governmental organizations described in IRC Section 170. See the instructions for federal Form 990-T for limitations on amounts of contributions you may claim.

Line 21a and Line 21b – Depreciation Corporations and Associations

California law is generally the same as federal law with the exceptions noted below:

1. California has not adopted the federal Modified Accelerated Cost Recovery System (MACRS).
2. California prohibits the use of the 20% ADR ranges. Only the mid-range asset guideline period is allowed.
3. California allows the special additional first-year depreciation. (R&TC 24356, not IRC 179.)

Complete Schedule J and enter the amount on line 21a. Enter any depreciation claimed on Schedule A on line 21b.

Trusts

In 1987, California changed the rules for depreciation by conforming to the federal MACRS. The California MACRS applies to assets placed in service on or after January 1, 1987.

Complete form FTB 3885F, Depreciation and Amortization – Fiduciaries, to figure the difference between state and federal depreciation. Enter the total from form FTB 3885F, line 5, on Form 109, Part II, line 21a, and attach form FTB 3885F to Form 109.

Line 22 – Depletion

California law is the same as federal law.

If a deduction is claimed for timber, attach an explanatory statement.

Line 23(b) – Employee Benefit Programs

Enter the amount of your contributions to employee benefit programs that are not an incidental part of a deferred compensation plan included on line 23(a). Contributions to employee benefit programs that are reported on this line include contributions to insurance, health and welfare programs.

Line 29 – Specific Deduction

The law provides for a specific deduction of \$1,000 from unrelated business income. Only one specific deduction of \$1,000 is allowed regardless of the number of unrelated businesses. However, a diocese, province of a religious order or convention or association of churches is allowed one specific deduction for each parish, individual church district or other local unit that regularly conducts an unrelated trade or business. This applies only to such units that are not separate legal entities, but are components of a larger entity (diocese, province, convention, association, etc.). Each specific deduction is equal to the lesser of: (a) \$1,000; or (b) the gross income from any unrelated trade or business regularly carried on by the local unit.

Schedule B – Tax Credits

A variety of credits are available to exempt organizations to reduce tax on unrelated business income.

However, the amount of some credits that the organization may claim may be limited. Corporations and trusts must complete Schedule P (100 or 541), Alternative Minimum Tax and Credit Limitations, to compute this limitation. Generally, if the organization completed federal Form 4626 or 8656, Alternative Minimum Tax, it must complete Schedule P (100 or 541).

Credits not subject to this limitation are:

- Solar energy credit carryover;
- Commercial solar energy credit carryover;
- Research credit; and
- Low-income housing credit.

To figure credits, use the appropriate form or schedule as indicated below. Then complete either Side 2, Schedule B, or Schedule P (100 or 541), whichever is appropriate. Transfer the credits from Side 2, Schedule B, line 7, or from Schedule P (100 or 541) to:

- For corporations, Side 1, line 8; or
- For trusts, Side 1, line 16.

Attach the credit form, schedule or statement and Schedule P (100 or 541), if applicable, to Form 109.

Note: If the organization claims a credit carryover for an expired credit, use form FTB 3540, Credit Carryover Summary, to figure the amount of the credit, unless the organization is required to complete Schedule P. In that case, enter the amount of the credit on Schedule P (100 or 541), Section B and do not attach form FTB 3540.

If the organization claims a credit with carryover provisions and the amount of the credit available this year exceeds the tax, the organization may carry over any excess credit to next year until the credit is used.

The following credits are available:

Prison inmate labor credit

A credit is allowed equal to 10% of wages paid to prison inmates employed under an approved joint venture agreement. Use form FTB 3507, Prison Inmate Labor Credit, to figure this credit.

Low-emission vehicles credit carryover

An organization may claim this credit for the amount that was authorized by the California Energy Commission only if a carryover is available from prior years. If you are not required to

complete Schedule P, use form FTB 3540 to figure this credit.

Employer ridesharing credit carryovers (Pre-1989)

An organization may claim this credit for the cost of sponsoring a ridesharing program for its employees, operating a private, third-party ridesharing program or providing subsidized public transit passes to its employees only if a carryover is available from pre-1989 taxable or income years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Employer ridesharing credit carryovers (1989 through 1995)

An organization may claim this credit (under the Large Employer or Small Employer Program) for the cost of sponsoring a ridesharing program for its employees, operating a private, third-party ridesharing program only if carryovers are available, or for the cost of providing subsidized public transit passes to its employees only if a carryover is available. These credits were available in taxable or income years beginning after January 1, 1989 and before January 1, 1996. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Enterprise zone or program area hiring/sales or use tax credit

Special credits and other incentives are allowed for qualified organizations located in designated economic incentive areas known as "enterprise zones" and "program areas." Credits available to exempt organizations operating in these areas are:

- Hiring credit, which may be claimed for a portion of wages paid to qualified employees; and
- Sales or use tax credit, which may be claimed for the sales or use tax paid to purchase qualified property.

Use form FTB 3805Z, Enterprise Zone/ Program Area Deduction and Credit Summary, to figure this credit. Be sure to check the "yes" box for question A on Side 1. If form FTB 3805Z is not attached, enterprise zone and program area benefits may be disallowed.

Local agency military base recovery area

Employers may claim a credit equal to a percentage of wages paid to qualified individuals hired to work in a local agency military base recovery area (LAMBRA). Business operators may claim a credit equal to the sales or use tax paid on the purchase of certain machinery and equipment for use in the LAMBRA. Use form FTB 3807, Local Agency Military Base Recovery Area Booklet, to figure the amount of these credits. Be sure to check the "yes" box for question A on Side 1. If form FTB 3807 is not attached, LAMBRA benefits may be disallowed.

Los Angeles Revitalization Zone hiring/sales or use tax credit

Employers may claim a credit equal to a percentage of the wages paid to qualified individuals hired to work in the Los Angeles Revitalization Zone (LARZ). Business operators may claim a credit equal to the sales or use tax paid on the purchase of machinery and equipment for use in the LARZ. You must use form FTB 3806, Los Angeles Revitalization Zone Booklet, to figure the amount of this credit. Be sure to check the "yes" box for question A on Side 1. If form FTB 3806 is not attached, LARZ benefits may be disallowed.

Water conservation credit carryover (trusts only)

A trust may claim this credit for the costs of installing water conservation measures only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Solar pump credit carryover

An organization may claim this credit for the costs of installing a solar pump system only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Energy conservation credit carryover

An organization may claim this credit for the costs of installing energy conservation measures only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Residential rental and farm sales credit carryover (trusts only)

A trust may claim this credit for selling residential rental or farm property only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Employer child care program credit

Employers may claim a credit of 30% of the costs paid or incurred (not to exceed \$50,000) for establishing a child care program or constructing a child care facility for use primarily by their employees. The credit is also available to building owners that establish a child care program for their tenant's employees. Use form FTB 3501, Employer Child Care Program/Contribution Credit, to figure this credit.

Employer child care contribution credit

Employers may claim a credit of 30% of their contributions (not to exceed \$360) to a qualified child care plan made on behalf of any dependent under the age of 12 of the employer's California employee. Use form FTB 3501, Employer Child Care Program/Contribution Credit, to figure this credit.

Technological property contribution credit carryover (corporations only)

Corporations may claim this credit for contributions of technological property only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Contribution of computer software credit carryover (corporations only)

Corporations may claim this credit for contributions of computer software only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Recycling equipment credit carryover

An organization may claim this credit for purchasing qualified recycling equipment, which was certified by the California Waste Management Board, only if a carryover is available. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Agricultural products credit carryover

Organizations may claim a credit for donations of agricultural products to non-profit organizations only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Commercial solar energy credit carryover and solar energy credit carryover

Organizations may claim this credit for the cost of installing a commercial solar energy or solar energy system only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Research credit

This credit is similar to the expired federal credit but is limited to costs for increasing research activities in California. Use form FTB 3523, Research Credit, to figure this credit.

Orphan drug credit

Organizations may claim a credit for clinical drug testing only if a carryover is available from prior years. If you are not required to complete Schedule P, use form FTB 3540 to figure this credit.

Low-income housing credit

This credit is available to organizations that undertake the development of low-income housing in California. Use form FTB 3521, Low-Income Housing Credit, to figure this credit.

Credit for prior year minimum tax

Corporations that paid alternative minimum tax (AMT) for 1995 or have a carryover of credit for prior year AMT and have no AMT liability for 1996 may use this credit in 1996. Use Part III of Schedule P(100) to figure this credit. For trusts, use form FTB 3510, Credit for Prior Year Alternative Minimum Tax - Individuals or Fiduciaries, to figure this credit.

Other state tax credit (trusts only)

In certain cases, a trust may claim as a credit its allocable portion of net income tax paid to another state or U.S. possession on income also taxed by California. Complete Schedule S, Other State Tax Credit, to figure this credit.

Note: No credit is allowed for income taxes paid to any city, the federal government or a foreign country. A copy of the other state tax return must be attached if a credit is claimed.

Manufacturers' investment credit

Qualified taxpayers may claim a credit of 6% of the qualified costs paid or incurred after January 1, 1994, for the purchase of qualified manufacturing equipment. Use form FTB 3535, Manufacturers' Investment Credit, to figure this credit.

Disabled Access Credit

Organizations may claim this credit which is similar to the federal credit, but limited to \$125 per eligible small business, and based on 50% of qualified expenditures that do not exceed \$250. Use form FTB 3548, Disabled Access Credit, to figure this credit.

Donated Agricultural Products Transportation Credit

Organizations may claim this credit for 50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations. Use form FTB 3547, Donated Agricultural Products Transportation Credit, to figure this credit.

Enhanced Oil Recovery Credit

Organizations may claim this credit which is similar to the federal credit but is limited to qualified enhanced oil recovery projects located within California. Use form FTB 3546, Enhanced Oil Recovery Credit, to figure this credit.

Side 3

Schedule C - Rental Income

Important Note: For rental income from debt-financed property, see Schedule D instructions. All organizations except those qualified under R&TC Sections 23701g, 23701i and 23701n must enter net rental income from Schedule C on Side 2, Part I, line 6.

Organizations qualified under R&TC Sections 23701g, 23701i and 23701n must include gross rents on Side 2, Part I, line 6 (other than income which is determined to be nonexempt function income) and applicable expenses on Side 2, Part II, line 14 through line 24.

Except in the case of an R&TC Section 23701g, 23701i or 23701n organization, only the following rents are taxable:

1. Rents from personal property leased with real property, if the rents attributable to the personal property are more than 10% but not more than 50% of the total received or

accrued under the lease. In such case, rents attributable to the real property are not taxable except as specified in the General Instructions and in 2 below.

2. All rents from real property and personal property, if:
 - a. More than 50% of the total rents received or accrued under the lease are attributable to personal property; or
 - b. The determination of the amount of the rents depends in whole or in part on the income or profits derived by any person from the property leased, other than an amount based on a fixed percentage or fixed percentages of receipts or sales.

See IRC Section 512(b)(3) requiring a redetermination of the percentage of rent attributable to personal property if:

1. There is an increase of 100% or more by reason of the placing of additional or substitute personal property in service; or
2. There is a modification of the lease by which there is a change in the rent charged.

Schedule D – Unrelated Debt-Financed Income

For taxable or income years beginning on or after January 1, 1990, California has conformed to federal law relating to the treatment of certain partnership allocations for property acquired by the partnership and partnership interests acquired after October 13, 1987.

Debt-financed property is any property held to produce income if at any time during the tax year there was acquisition indebtedness.

To complete Schedule D, see the federal instructions for Form 990-T, Schedule E. Use California amounts where there are California and federal differences.

Schedule E – Investment Income of a R&TC Section 23701g, 23701i or 23701n Organization

Report all income from investments in securities and other similar investment income from non-members. Do not include interest on state and local obligations.

Investment income includes all income from debt-financed property whether or not such income is subject to taxation under R&TC Section 23735. However, an R&TC Section 23701g, 23701i or 23701n organization may set aside income to the extent that it would not be taxable on such income if it were an organization subject to the rules contained in IRC Section 512(a)(1). If income is set aside, attach a schedule showing the computations.

Income and deductions, other than in connection with investment income, are reported in Parts I and II. For example, nonmember income of an R&TC Section 23701g organization from the use of the club's facilities by the public must be reported on Side 2, Part I, line 1, line 2 and line 3, and the deductions (directly connected) in Part II, line 14 through line 24. (Organizations described in R&TC Section 23701g, see federal

Rev. Proc. 71-17 for certain rules relating to non-member income.)

Schedule F – Income (Annuities, Interest, Rents, and Royalties) From Controlled Organizations

Controlling organizations: See General Instruction Q.

Enter the total annuities, interest, rent and royalties derived from each controlled organization during the year in Schedule F, column 2. Enter the total deductions directly connected with this income for each controlled organization in column 3.

a. Exempt Controlled Organizations

If the controlled organization is exempt from taxation under R&TC Section 23701, the controlling organization must take into account a percentage of the interest, annuities, royalties and rents. Compute this percentage by figuring the ratio of the unrelated business taxable income of the controlled organization to whichever is the greater:

1. The taxable income of the controlled organization (computed as though it was not exempt from taxation under R&TC Section 23701); or
2. Its unrelated business income.

Determine both 1 and 2 without regard to any amount paid directly or indirectly to the controlling organization.

b. Nonexempt Controlled Organizations

If the controlled organization is not exempt from taxation under R&TC Section 23701, the controlling organization must take into account a percentage of the interest, annuities, royalties and rents computed by figuring the ratio of the "excess taxable income" (defined below) of the controlled organization to whichever is the greater:

1. The taxable income of the controlled organization; or
2. Its excess taxable income.

Determine both 1 and 2 without regard to any amount paid directly or indirectly to the controlling organization.

"Excess taxable income" means the portion of the controlled organization's taxable income that exceeds the amount of taxable income that, if derived directly by the controlling organization, would not be unrelated business taxable income.

Schedule G – Exploited Exempt Activity Income, Other than Advertising Income

Generally, California law is the same as federal law.

Side 4

Schedule H – Advertising Income and Excess Advertising Costs

Generally, California law is the same as federal law.

Schedule K – Add-On or Recapture of Tax

If you are required to include installment payments of "add-on" taxes from:

- Interest computed under the look-back method for completed long-term contracts;
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations;
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible; or

have credit amounts to recapture; complete Schedule K.

Enter the amount of tax due or overpayment from Schedule K, line 5, on Form 109, line 25 or line 26, as appropriate.

Long-term contracts

If the organization must compute interest under the look-back method for completed long-term contracts, complete and attach form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Include the amount of interest the organization owes or the amount of interest to be credited or refunded on Schedule K, line 1. Attach form FTB 3834 to Form 109.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots

If the organization elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453, it must include the interest on Schedule K, line 2(a). For the applicable interest rates, get FTB Pub. 1138, Bank and Corporation Billing Information – Interest Rates. Attach a schedule showing the computation. See R&TC Sections 17560(d) and 24667(e).

Interest on tax deferred under the installment method for certain nondealer installment obligations

If an obligation arising from the disposition of property to which IRC Section 453A applies is outstanding at the close of the year, the organization must include the interest due under IRC Section 453A on Schedule K, line 2(b). For the applicable interest rate, get FTB Pub. 1138, Bank and Corporation Billing Information. Attach a Schedule showing the computation. See R&TC Sections 17560(e) and 24667(f).

Credit recapture

If the organization completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit;
- FTB 3535, Manufacturers' Investment Credit;
- FTB 3805Z, Hiring Credit – Enterprise Zone and Program Areas; or
- FTB 3806, Hiring Credit – Los Angeles Revitalization Zone; or
- FTB 3806, Sales or Use Tax – Los Angeles Revitalization Zone; or
- FTB 3807, Hiring Credit – Local Agency Military Base Recovery Area; or
- FTB 3807, Sales or Use Tax Credit – Local Agency Military Base Recovery Area;

complete Schedule K, line 4.

F.A.S.T. Toll-Free Phone Service

Call **Fast Answers** about **State Taxes**, the F.A.S.T. toll-free phone service you can use to:

- Get recorded answers to many of your questions about California taxes;
- Order California or federal income tax forms; and
- Find out about your personal income tax refund.

F.A.S.T. is available in English and Spanish to callers with touch-tone or rotary dial telephones.

When Is F.A.S.T. Available?

To answer your questions, F.A.S.T. is available 24 hours a day, seven days a week. To order forms, or to find out about your tax personal income refund, F.A.S.T. is available from 6:00 a.m. to 10:00 p.m., seven days a week, except state holidays.

How To Use F.A.S.T.

Have paper and pencil handy to take notes.

Call from within the
United States 1-800-338-0505

Call from outside the
United States 1-916-845-6600
(not toll-free)

Follow the recorded instructions and enter the three-digit code when you are instructed to do so.

To Find Out About Your Personal Tax Refund

You should wait at least eight weeks after you file your personal tax return before you call to find out about your refund. To use F.A.S.T., you must know the first social security number shown on your tax return and the exact dollar amount of your refund. To find out about your refund, call 1-800-338-0505 between 6:00 a.m. and 10:00 p.m., select Refund Information and follow the recorded instructions.

To Get Information

If you need an answer to any of the following questions, call 1-800-338-0505, select General Tax Information, follow the recorded instructions and enter the three-digit code when you are instructed to do so.

Code – Prefiling Assistance

- 715 – If my actual tax is less than the minimum franchise tax, what figure do I put on line 22 of Form 100?
- 717 – What are the tax rates for corporations?
- 718 – How do I get an extension of time to file?
- 722 – When do I have to file a short-period return?
- 730 – May I claim net operating losses in the first year?
- 731 – Are corporations allowed to use MACRS/ACRS or Section 179 expensing?
- 733 – Can the prepayment to the Secretary of State be applied to my last year of business?
- 734 – What is the difference between franchise tax and income tax?

S corporations

- 704 – Is an S corporation subject to the minimum franchise tax?
- 705 – Are S corporations required to file estimate payments?
- 706 – What forms do S corporations file?

- 707 – The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 21 of Form 100S?
- 708 – Where do S corporations make the state tax adjustment on Schedule K-1(100S)?

Exempt Organizations

- 709 – How do I get tax-exempt status?
- 710 – Does an exempt organization have to file Form 199?
- 735 – How can an exempt organization incorporate without paying corporation fees and costs?
- 736 – I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

Minimum Tax and Estimate Tax

- 711 – Why can't I claim my prepayment tax as a credit or estimate payment on my return?
- 712 – What is the minimum franchise tax?
- 714 – I'm not doing business; do I have to pay the minimum franchise tax?
- 716 – When are my estimate payments due?

Billings and Miscellaneous Notices

- 723 – I received a bill for \$250. What is this for?
- 728 – Why was my corporation suspended?
- 729 – Why is my subsidiary getting a request for a return when we file a combined report?

Tax Clearance

- 724 – How do I dissolve my corporation?
- 725 – What do I have to do to get a tax clearance?
- 726 – How long will it take to get a tax clearance certificate?
- 727 – My corporation was suspended/forfeited. Can I still get a tax clearance?

Miscellaneous

- 700 – Who do I need to contact to start a business?
- 701 – I need a state ID number for my business. Who do I contact?
- 702 – Can you send me an employer's tax guide?
- 703 – How do I incorporate?
- 719 – How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 – How do I change my corporation name?
- 721 – How do I change my accounting period?
- 732 – What is the Water's-Edge Election?
- 737 – Where do I send my payment?
- 738 – What is electronic funds transfer?
- 739 – How do I get a copy of my state corporate tax return?

Regular Toll-Free Phone Service

Our regular toll-free phone service is available from 7:00 a.m. to 8:00 p.m. Monday through Friday from January 2 through April 15, 1997. The best times to call are between 7:00 and 10:00 in the morning and between 6:00 and 8:00 in the evening. Service is also available on Saturday, April 5 and April 12, from 8:00 a.m. until 5:00 p.m. After April 15 service is available Monday through Friday, between 8:00 a.m. and 5:00 p.m.

From within the
United States 1-800-852-5711

From outside the
United States 1-916-845-6500
(not toll-free)

For hearing impaired
with TDD 1-800-822-6268

For federal tax questions,
call the IRS at 1-800-829-1040

Bilingual Assistance

Para obtener servicio bilingüe de información sobre impuestos o formularios, llame al número de teléfono (anotado arriba) que le corresponde.

Letters

We can serve you quickly if you call us for information to complete your California tax return, or to find out about your tax refund. However, you may want to write to us if you are replying to a notice we sent you, or to get a written reply. If you write to us, be sure to include the California corporation number or federal employer identification number (FEIN), your daytime and evening telephone numbers and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will acknowledge receipt of your letter within six to eight weeks. In some cases we may need to call you for additional information.

Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will 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 can request written advice from the FTB on whether a particular transaction is taxable. You can order FTB Pub. 4058 by calling or writing the FTB using the address above for letters.

Where to Get Income Tax Forms

By Internet – If you have Internet access, you may download, view and print California tax forms and publications. Our Internet address is:
<http://www.ftb.ca.gov>

By phone — Use F.A.S.T. to order 1994, 1995 and 1996 California tax forms.

We will send you two copies of each tax form and one copy of each set of instructions. Please allow two weeks to receive your order.

In person — Most libraries, post offices and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

By mail – Write to:

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

