



California

Forms & Instructions

100S

1996

S Corporation Tax Booklet

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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 39. 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 100S

California S Corporation Franchise or 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).

Tax Law Changes

In general, California did not conform its law to changes made to the IRC by the federal Revenue Reconciliation Act of 1993 (P.L. 103-66). California legislation during 1994 and 1996 did adopt a few specific provisions of the 1993 federal changes. All other references in these instructions are to the IRC as it existed on January 1, 1993.

Caution: Changes to the S corporation provisions of the IRC were made by the federal Small Business Job Protection Act of 1996 (P.L. 104-188). At the time this booklet went to press, California had not conformed to those changes, however a conformity bill is expected to be introduced during the next legislative session.

Expired Credits

The following credits have expired: Employer Ridesharing, Low Emission Vehicles and Recycling Equipment. Any carryover credit from prior years may be used in 1996 and future years to the extent allowable until the excess credit is exhausted.

Changes to California Law due to the provisions of SB38 (CH 96-954) (effective for income years beginning on or after January 1, 1996, unless indicated otherwise)

New Disabled Access Credit

The disabled access credit is similar to the federal credit, but is limited to \$125, based on 50% of qualified expenditures that do not exceed \$250. The credit is figured on form FTB 3548, Disabled Access Credit.

New Donated Agricultural Products Transportation Credit

The donated agricultural products transportation credit is 50% of the costs paid or incurred for the transportation of agricultural products that are donated to nonprofit charitable organizations. The credit is figured on form FTB 3547, Donated Agricultural Products Transportation Credit.

New Enhanced Oil Recovery Credit

This credit is similar to the federal credit but is limited to expenditures made for qualified enhanced oil recovery projects that are located within California. The credit is figured on form FTB 3546, Enhanced Oil Recovery Credit.

Manufacturers' Investment Credit

Space vehicles, parts and satellites have been added to the definition of qualified property.

Corporate Charitable Contributions Deduction

The maximum limit for the charitable contributions deduction is increased to 10% of net income. Excess contributions over the deduction limit may be carried over for up to five years.

Discharge of Indebtedness

California law incorporates the 1993 federal amendments to the IRC regarding the treatment of income from the discharge of qualified real property business indebtedness, the repeal of the stock-for-debt exception in determining income from discharge of indebtedness and additions to the list of tax attributes that are reduced in discharge of indebtedness situations.

Minimum Franchise Tax for Qualified Corporations

For income years beginning on or after January 1, 1997, the minimum franchise tax shall be reduced to \$600 for Qualified New Corporations. A Qualified

New Corporation is a corporation that reasonably estimates it will have gross receipts, less returns and allowances, of \$1 million or less and a tax liability of \$800 or less during its income year. The corporations are required to pay the minimum franchise tax for their first income year to the California Secretary of State (SOS). If during the first income year, the corporation's gross receipts exceed \$1 million or tax liability exceeds \$800, the corporation must pay an additional tax of \$200, to the FTB on the due date of its return, without regard to extension, for its first income year.

Estimate Payments

California R&TC Section 23221 has been amended to incorporate the federal expanded annualization periods for income years beginning on or after January 1, 1997. Refer to the Form 100-ES instructions for more information.

Water's-Edge Qualifying Dividends Deduction

California R&TC Section 24411 has been amended to allow for a flat 75% deduction for all qualifying dividends received, except that dividends resulting from specified construction projects are 100% deductible. Form FTB 2411 has been eliminated and the water's edge dividend deduction is computed on Schedule H of Form 100S.

Deduction for Dividends Paid to an Employee Stock Ownership Plan (ESOP)

The provisions of R&TC Section 24611 that conform to the federal tax treatment of the dividends paid deduction are extended.

Research Credit

California now allows the research credit for payments made to additional qualified organizations for taxpayers engaged in specified biopharmaceutical and biotechnology activities.

Corporation Owned Life Insurance Policies

R&TC Section 24424 has been amended to conform with federal provisions of IRC Section 264 regarding certain amounts paid in connection with insurance contracts.

Interest Expense Deduction

Section 24344.7 has been added to the R&TC incorporating amendments made to IRC Section 163 by Section 13228 of the Revenue Reconciliation Act of 1993 (P.L. 103-66), which relates to modifications to the limitations on deductions for certain interest.

Important Information

California Tax Forms on the Internet!

Do you need a California franchise or income tax form or publication? Do you have Internet access? If so, you may download, view and print 1994, 1995 and 1996 California tax forms and publications. Go to <http://www.ftb.ca.gov> for the California Franchise Tax Board (FTB) Home Page.

Filing Requirements

Legislation repealed R&TC Section 18634, thereby eliminating the filing requirement (Form FTB 2427, Worldwide Affiliation Schedule) for any bank or corporation with total worldwide assets (including related entities) exceeding \$200 million, operative for information returns due on or after January 1, 1996. The due date includes approved extensions to file the information return.

General Information

Form 100S is used if a corporation has elected to be a California small business corporation (S corporation).

All federal S corporations that are subject to California laws and that did not make a California C corporation election must file Form 100S and pay the greater of the minimum franchise tax or the 1.5% income or franchise tax. The tax rate for financial S corporations is 3.5%. However, under California law, if an S corporation has one or more shareholder who is a nonresident of California or a trust with nonresident fiduciaries, the S corporation must file form FTB 3830, S Corporation's List of Shareholders and Consents (included in this booklet). This list must include the names and social security numbers or federal employer identification numbers (FEIN) of all shareholders and each nonresident shareholder's or fiduciary's signed consent to be subject to California's jurisdiction to tax the shareholder's pro rata share of income attributable to California sources.

R&TC Section 23801 authorizes the FTB to make a retroactive revocation of the S corporation status if the S corporation fails to meet the requirements outlined above.

The taxable income of the S corporation is calculated two different ways for two different purposes. First, it is calculated in the same manner as for C corporations, with certain modifications, for purposes of the 1.5% income or franchise tax. Second, it is calculated using federal rules for the pass-through of income and deductions, etc. for the purposes of pass-through to the shareholders.

Records Maintenance Requirements

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

- Any records as may be appropriate in determining the correct treatment of items reported on the worldwide or water's-edge combined report for purposes of determining the income attributable to California.
- Any records as may determine the treatment of items as nonbusiness or business income.
- Any records as may be appropriate to determine the apportionment factor.
- Documents and information, to determine the attribution of income to the U.S. or foreign jurisdictions under IRC Subpart F, IRC Section 882, or other similar provisions of the IRC.

For more information refer to R&TC Section 19141.6. A corporation may be required to authorize an agent to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504.

A Franchise or Income Tax

Corporation franchise tax

Entities subject to the corporation franchise tax include all S corporations:

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

The tax must be prepaid for the privilege of doing business. It is measured by the income of the preceding income year for the privilege of doing

business in the following taxable year. For purposes of these instructions, the term "income year" means taxable year for S corporations that are taxed under Chapter 3 of the Bank and Corporation Tax Law.

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

Corporation income tax

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

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

- Associations;
- Massachusetts or business trusts; and
- Real estate investment trusts.

B Tax Rate and Minimum Franchise Tax

The tax rate for S corporations that are subject to either the franchise or the income tax is 1.5%. The tax rate for certain capital gains, built-in gains and excess net passive income is 9.3%.

For income years ending on or after December 31, 1995, financial S corporations are required to use a rate of 2% above the corporate rate (currently 1.5% or 9.3% for certain capital gains, built-in gains and excess net passive income). See R&TC Section 23186(f).

All S corporations subject to the corporation franchise tax and any S corporation "qualified" to do business in California must file Form 100S and pay at least the minimum franchise tax as required by law. The minimum franchise tax is \$800 and must be paid whether the S corporation is active, inactive, operates at a loss or files a return for a short period.

There is no minimum franchise tax for:

- Corporations that are subject only to income tax if they are not "doing business" in California, and are not incorporated or qualified under the laws of California, but derive income from sources within California (get FTB Pub. 1050, FTB Pub. 1060, or FTB Pub. 1063 for more information regarding "doing business");
- Credit unions;
- Exempt HOAs and PACs;
- Qualified non-profit farm cooperative associations;
- Exempt organizations; and
- Corporations that are not incorporated under the laws of California and whose sole activities in this state are engaging in convention and trade show activities for 7 or fewer days during an income year, and that do not derive more than \$10,000 of gross income reportable to this state during an income year are not "doing business" in California (get FTB Pub. 1060 for more information).

S corporations are not subject to the alternative minimum tax.

C Elections and Terminations

Elections

Corporations that elect federal S corporation status are deemed to have made a California S election on the same date as the federal election. These corporations must report the federal S election to the FTB using form FTB 3560, S Corporation Election or Termination/Revocation.

If a federal S corporation wants to be a California C corporation, it must elect such treatment using form FTB 3560. Only corporations incorporated or qualified to do business in California may make this election. Such an election is treated as a revocation of the California election and will be disregarded if not filed when due.

A federal S corporation that previously elected to be a California C corporation may elect to become a California S corporation unless the California S corporation status was terminated within the past 5 years. Use form FTB 3560 to make this election.

Terminations

A corporation may terminate its S corporation status by:

- Revoking the election (federal or state); or
- Ceasing to qualify as an S corporation; or
- Violating the passive investment income restrictions on corporations with earnings and profits.

An S corporation may terminate, by revocation, its S election for California, without terminating its federal S election. (R&TC Sections 23801(a)(4)(A)(ii) or 23801(a)(4)(F)(i)). However, terminating the corporation's federal S election simultaneously terminates its California S election.

If the corporation terminates its S corporation status, short period returns are required for the S corporation short year and the C corporation short year, if applicable.

During the 5 years after the termination of the S corporation status, the corporation may not make another California S election unless the FTB consents.

For more information about elections and terminations, get form FTB 3560.

D Accounting Period and Method

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

A change in accounting method by an S corporation requires consent from the FTB. However, an S corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to make a change in its accounting method without prior approval, and that does so, is deemed to have the FTB's approval if: (1) the S corporation files a timely Form 100S consistent with the change for the first year the change is effective, and (2) the change is consistent with California law. Attach to Form 100S a copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change. The FTB may modify requested changes if the adjustments would distort income for California purposes.

Note: California is not following the automatic consent procedure of Federal Revenue Procedure 96-31.

E When to File

File Form 100S no later than the 15th day of the 3rd month after the close of the income year unless the return is for a short period as required under R&TC Section 24634. See R&TC Section 18601(c) for the due date of the short period return. Farmer's cooperative associations must file Form 100S by the 15th day of the 9th month after the close of the income year.

For final returns, see General Information O and General Information P.

F Extension of Time to File

An S corporation that cannot file its California return by the 15th day of the 3rd month following the close of the income year may file on or before the 15th day of the 10th month without filing a written request for an extension, unless the corporation is suspended as of the original due date. This does not extend the time for payment. The full amount of tax must be paid by the original due date of Form 100S. If there is an unpaid tax liability on the original due date, get form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations.

Note: If the corporation must pay its tax liability using Electronic Funds Transfer (EFT), all taxes due **must** be remitted by EFT to avoid penalties. Do not send form FTB 3539.

G 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 the FTB EFT Section at (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

H Where to File

If tax is due, and the corporation is not required to use EFT, make the check or money order payable to the Franchise Tax Board. Write the California corporation number on the check or money order. Mail the return and payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0501

Mail all other returns, including those with payment by EFT to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

I Net Income Computation

The computation of net income from trade and business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100S. There are two ways to complete Form 100S. **Note:** Regardless of the net income computation method used, the corporation must attach any form, schedule or supporting document referred to on the return, schedules or forms filed with FTB.

1. Federal reconciliation method

- a. Attach a copy of federal Form 1120S, Page 1, U.S. Income Tax Return for an S Corporation, and all pertinent supporting schedules, or transfer the information from federal Form 1120S, Page 1, onto Schedule F and attach all pertinent supporting schedules;
- b. Enter the amount of federal ordinary income (loss) from trade or business activities before any net operating loss (NOL) on Form 100S, Side 1, line 1; and
- c. Enter the state adjustments (including any adjustments necessary to report items not

included in ordinary trade or business income (or loss) on line 2 through line 13 to arrive at California net income or loss, Side 1, line 15.

See the specific line instructions for more information.

2. Schedule F – California computation

If you have no federal filing requirement, or if you maintain separate records for state purposes, complete Form 100S, Schedule F, Computation of Trade or Business Income, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 22, to Side 1, line 1. Complete Form 100S, Side 1, line 2 through line 13, only if applicable.

Substitution of federal schedules

S corporations may not substitute federal schedules for California schedules.

J Certain Capital Gains/Built-in Gains

For California purposes, when a C corporation elects to be an S corporation, certain items of gain or loss recognized in S corporation years are subject to the C corporation 9.3% tax rate instead of the S corporation 1.5% tax rate (financial S corporations add 2%).

Former IRC Section 1374 allowed a threshold amount in determining if the S corporation was subject to the 9.3% tax. However, former IRC Section 1374 was replaced by current IRC Section 1374, which does not allow the threshold amount and is applicable to other items of income in addition to capital gains.

Capital gains under former IRC Section 1374

Generally, S corporations that made the federal S election before January 1, 1987, or during 1987 or 1988 and are under the transitional relief rules applicable to built-in gains may be subject to a tax on capital gains (under former IRC Section 1374) for California purposes for certain sales or dispositions.

Based on former IRC Section 1374, a tax is imposed at 9.3% (or the financial C corporation tax rate) if:

- The S corporation is not subject to tax on the gain under the new built-in gains rules (see below);
- The excess of the net long-term capital gain over the net short-term capital loss is more than \$25,000;
- The excess is more than 50% of the corporation's taxable income; and
- The taxable income is more than \$25,000.

The capital gains tax under former IRC Section 1374 does not apply if the corporation was an S corporation during each of the preceding 3 years or for the entire period in the case of new corporations in existence for less than 4 years. However, see the instructions for federal Form 1120S, Schedule D, for rules applicable to certain carryover basis assets.

Built-in gains under current IRC Section 1374

For those S corporations that made the initial federal S election after December 31, 1986, certain income items reported by the S corporation are taxed at 9.3% (or the financial C corporation tax rate). This provision applies for a period of 10 years following the C corporation's election to become an S corporation. The amount of built-in gain that is taxed at 9.3% (or the financial C corporation tax rate) is the excess of recognized built-in gains over recognized built-in losses, limited by taxable income as determined under IRC Section 1374(d)(2)(A). The follow-

ing items are treated as built-in gains subject to this tax:

- Accounts receivable of cash basis taxpayers from C corporation years;
- Long-term contract deferred income from C corporation years;
- Deferred income from installment sales made in C corporation years;
- Recapture of depreciation from C corporation years;
- Income from unreplaced Last-in, First-out (LIFO) inventory from C corporation years; and
- Any other income item that is attributable to C corporation years.

Note: For purposes of current IRC Section 1374, the effective date of any California S election made in 1987 and 1988 reverts back to the date of the federal S election if the corporation was previously a federal S corporation.

Transitional rules under current IRC Section 1374

The Tax Reform Act of 1986, Act Section 633(d)(8), to which California conforms, provides special transitional relief from the built-in gains tax for qualified S corporations. A "qualified S corporation" is any S corporation that has an applicable value of \$10 million or less on August 1, 1986, all times thereafter and before the corporation is completely liquidated, and is more than 50% owned by 10 or fewer qualified persons. A "qualified person" is an individual, an estate or a trust that is described in IRC Section 1361(c)(2)(A)(ii) or (iii).

This transitional relief applies to qualified corporations that elected S corporation status after December 31, 1986, and before January 1, 1989. The relief is not available to an otherwise qualified S corporation in the case of the sale or distribution of capital assets held 6 months or less or in the case of the sale or distribution of assets which results in ordinary income (loss).

K Estimated Tax

Every S corporation, unless exempt by law, must pay estimated tax using Form 100-ES, Corporation Estimated Tax.

Note: If the corporation must pay its tax liability using EFT, all estimate payments due **must** be remitted by EFT to avoid penalties.

Generally, estimated tax is due and payable in 4 equal installments:

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

Note for first-time filers: The first tax return the corporation files reports the income of its first income year. The tax shown on that return is the tax for the privilege of doing business in the corporation's 2nd taxable year. The prepayment of tax made to the Office of the Secretary of State at the time of incorporation or qualification is for the privilege of "doing business" during the S corporation's **first** taxable year. **Do not** claim this prepayment as an estimated tax payment or credit against the tax liability shown on the return for any given year.

California law has conformed to the federal expanded annualization periods for the computation of estimate payments.

For more information, get the instructions for Form 100-ES.

L Commencing S Corporations

Effective for income years beginning on or after January 1, 1997, the minimum tax for the 1st income year is \$600 for Qualified New Corporations. The minimum tax for the 1st income year is paid to the California SOS. A Qualified New Corporation is a corporation that reasonably estimates for the income year that it will have **both** (1) gross receipts less returns and allowances reportable to California of \$1,000,000 or less and (2) tax on net income that does not exceed \$800. If during the first income year the corporation's gross receipts exceed \$1,000,000 or tax on net income exceeds \$800, then an additional tax amount of \$200 shall be due on the **original** due date of its return for the first income year.

The tax measured by the income in the first year of business (first income year) is for the privilege of "doing business" during the second year.

If the first income year is for a short period of less than 12 months, or if the S corporation is inactive during the first income year, pay at least the minimum franchise tax by the first estimate installment due date, and file Form 100S by the due date.

For more information, get FTB Pub. 1060, Guide for Corporations Starting Business in California.

Note for first-time filers: The first tax return the corporation files reports the income of its first income year. The tax shown on that return is the tax for the privilege of doing business in the corporation's second taxable year. The prepayment of tax made to the Office of the Secretary of State at the time of incorporation or qualification is for the privilege of "doing business" during the S corporation's **first** taxable year. **Do not** claim this prepayment as an estimated tax payment or credit against the tax liability shown on the return for any given year.

M Penalties

Failure to file a timely return

Any S corporation that fails to file Form 100S on or before the extended due date is assessed a penalty. The penalty is 5% of the unpaid tax for each month, or part of the month, the tax remains unpaid from the due date of the return until filed. The penalty may not exceed 25% of the unpaid tax. If the corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return.

Failure to pay total tax by the due date

Any S corporation that fails to pay the total tax shown on Form 100S by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months) the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax.

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

Underpayment of estimated tax

Any S corporation that fails to pay, pays late or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment 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 S corporation uses Exception B or Exception C to compute or eliminate any of the 4 installments, form FTB 5806 must be attached to the **front** of Form 100S.

Information reporting penalty

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business, must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, with Form 100S. The penalty for failing to include Form(s) 5472 as required is \$10,000 per person.

If the S corporation does not file the tax return by the due date or extended due date, whichever is later, copies of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Mark these separate Form(s) 5472 and mail them to the same address used for Form 100S that do not have a balance due. Then, when the S corporation files Form 100S, also attach copies of the federal Form(s) 5472.

Secretary of State penalty

The California Corporations Code requires the FTB to assess a penalty for failure to file an annual statement of corporate officers with the Office of the Secretary of State. For more information, contact the:

CALIFORNIA SECRETARY OF STATE
PO BOX 944230
SACRAMENTO CA 94244-2300
Telephone: (916) 657-3537

Accuracy and fraud related penalties

California conforms to IRC Sections 6662 through 6664 which authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment and the imposition of a fraud penalty equal to 75% of the related underpayment.

Other penalties

Other penalties may be imposed for a check returned for insufficient funds, failure to pay by EFT when required, failure to report property transfers to non U.S. foreign persons or required information by a non U.S. foreign corporation operating in the U.S., domestic non California, foreign corporations operating while forfeited or without qualifying to do business in California and domestic corporations operating while suspended in California.

For more information, see General Information Q and R&TC Sections 19011, 19134, 19135, 19141.5 and 19164.

N Interest

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

O Dissolution/Withdrawal

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

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

The return for the final taxable period is due on or before the 15th day of the 3rd full month following formal dissolution or withdrawal.

For more information, get FTB Pub. 1038, Guide for Corporations Dissolving, Surrendering (Withdrawing) or Merging.

Samples and forms for a dissolution, surrender or merger agreement filing may be obtained by addressing your request to:

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

P Ceasing Business

Because the corporation franchise tax is a prepaid tax, a special tax computation is necessary when an S corporation ceases to do business. The tax for the final year in which the S corporation does business in California is:

- The tax measured by the income of the preceding year; PLUS
- The tax measured by the income of the year in which the corporation ceases to do business; PLUS
- The tax due on unreported income attributable to installment obligations.

The tax due must be at least the minimum franchise tax. Generally, the S corporation will remain subject to the minimum franchise tax for each year it is in existence until it is formally dissolved or withdrawn through the Office of the Secretary of State. For more information, see General Information O and R&TC Sections 23331 through 23335.

Q Suspension/Forfeiture

If an S corporation fails to file Form 100S and/or fails to pay any tax, penalty or interest due, its powers, rights and privileges may be suspended (in the case of a domestic S corporation) or forfeited (in the case of a foreign S corporation).

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

Such contracts will remain voidable and unenforceable by the corporation unless relief from contract voidability is applied for and granted by the FTB.

For more information, see R&TC Sections 19135, 19719, 23301, 23305.1 and 23305.2.

R Apportionment of Income

S corporations with business income attributable to sources both within and outside of California are required to apportion such income. To calculate the apportionment percentage, use Schedule R, Apportionment and Allocation of Income.

Note: A corporation that has made a valid election to be treated as an S corporation is generally not included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation (R&TC Section 23801(d)(1)).

S Excess Net Passive Investment Income

California conforms to IRC Section 1375 for income years beginning on or after January 1, 1988. If an

S corporation does not have excess net passive investment income for federal purposes, then the S corporation will not have excess net passive investment income for California purposes.

If at the close of the income year, an S corporation has undistributed earnings and profits (defined in IRC Section 1362(d)(3)(B)) from previous years as a C corporation and has passive investment income that represents more than 25% of total gross receipts, then the S corporation may be subject to a tax on the excess net passive investment income. This tax, imposed under R&TC Section 23811, may not be reduced by any financial offset under R&TC Section 23184.

T Water's-Edge Reporting

To make the water's-edge election, an S corporation must enter into a contract with the FTB by filing Form 100-WE, Water's-Edge Contract. For the election to be valid, Form 100-WE must be signed and attached to the original Form 100S and a copy must be attached to all subsequent returns filed during the contract period.

In consideration for being allowed to file on a water's-edge basis, the S corporation must, among other things:

- File on a water's-edge basis for a period of 84 months;
- Agree to business income treatment of dividends received from certain corporations; and
- Consent to the taking of certain depositions and the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

Water's-edge returns must have form FTB 2426, Water's-Edge Cover Sheet, attached to the front of Form 100S.

For more information and the required forms, get the Form 100-WE Booklet.

U Amended Return

To correct or change Form 100S, file Form 100X, Amended Corporation Franchise or Income Tax Return. Also, if the IRS examined and changed the S corporation's federal return or if the S corporation filed an amended federal return, file Form 100X within 6 months of the final federal determination.

V Information Returns

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

Payments that must be reported include, but are not limited to, compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties and pensions exceeding \$600 annually, interest and dividends exceeding \$10 annually, and cash payments over \$10,000 received in a trade or business. Payments of any amount by a broker or barter exchange must also be reported.

S corporations must report payments made to California residents by providing copies of federal Form 1099. S corporations must also submit federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction. Reports must be made for the calendar year and are due to the Internal Revenue Service only on February 28th of the year following payment.

W Net Operating Loss (NOL)

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by qualified corporations for income years beginning on or after January 1, 1994.

R&TC Sections 24416, 24416.1, 24416.2, 24416.3 and 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area designated by the President of the United States or the Governor of California as a disaster area.

For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations (included in this booklet), or get form FTB 3805Z, Enterprise Zone and Program Area Business Booklet, form FTB 3806, Los Angeles Revitalization Zone Booklet and form FTB 3807, Local Agency Military Base Recovery Area Booklet. See R&TC Sections 24416, 24416.1, 24416.2 and 24347.5.

X At-Risk Rules

California S corporations are subject to IRC Section 465 relating to the at-risk rules. For more information, see federal Form 6198, At-Risk Limitations. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

Y Passive Activity Loss Limitation

Caution: Federal legislation in 1993 made several changes to the passive activity loss provisions of the IRC. California has not conformed to those changes.

California S corporations must follow prior IRC Section 469 and the regulations thereunder that allow losses from passive activities to be applied only against income from passive activities.

California law also differs from federal law in that the passive activity loss rules are applied at both the S corporation level and at the shareholder level. The passive activity loss rules must be applied in determining the net income of the S corporation that will be taxed using the 1.5% tax rate. Subsequent to the income and deductions flowing through to the shareholders, the rules are again applied in determining the net income of the shareholder. Treatment at the shareholder level is the same as the federal treatment prior to January 1, 1994.

The passive activity loss rules apply to the S corporation as if it were an individual (i.e., losses from passive activities may not be used to offset other income, except for \$25,000 in losses from rental real estate). However, when determining whether the S corporation materially participates in the activity, the material participation rules that apply to a "closely held C corporation" should be applied to the S corporation. For more information, see IRC Section 469(h)(4).

S corporations must use form FTB 3801, Passive Activity Loss Limitations, to figure the allowable net loss from passive activities.

Z Passive Activity Credits

S corporation credits subject to the passive activity credit limitation rules include:

- Research credit;
- Orphan drug credit carryover; and
- Low-income housing credit.

Get form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

AA Tax Credits

If a C corporation had unused credit carryovers when it elected S corporation status, the carryovers were reduced to 1/3 and transferred to the S corporation. The remaining 2/3 were disregarded. The allowable carryovers may be used to offset the 1.5% tax on net income in accordance with the respective carryover rules. These carryovers may not be passed through to shareholders. Refer to Schedule C (100S), S Corporation Tax Credits, included in this booklet.

S corporations may generate credits from both the Bank and Corporation Tax Law and the Personal Income Tax Law. Follow the guidelines below:

- If a credit listed on page 8 is allowed only under the Bank and Corporation Tax Law, 1/3 of the credit may be used to offset tax. The remaining 2/3 must be disregarded and may not be carried over, and no part of the credit may be passed through to the shareholders; or
- If the credit is allowed only under Personal Income Tax Law, the full credit may be passed through to the shareholders, and no part may be used by the S corporation; or
- If a credit is allowed under both the Bank and Corporation Tax Law and Personal Income Tax Law, the S corporation may use 1/3 of the credit. The remaining 2/3 must be disregarded and may not be carried over. The full amount of the credit, as calculated under the Personal Income Tax Law, may also be passed through to the shareholders.

Credits and credit carryovers may not reduce the minimum franchise tax, built-in gains tax, excess net passive income tax, credit recaptures, the increase in tax imposed for the deferral of installment sale income, or an installment of LIFO recapture tax.

BB Group Nonresident Shareholder Return

Nonresident shareholders of an S corporation doing business in California may elect to file a group nonresident return on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR for Nonresident Shareholders of an S Corporation.

Specific Line Instructions

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

- Income year (beginning and ending dates);
- California corporation number;
- Federal employer identification number; and
- Corporation name.

Caution: California law is different from federal law. California taxes S corporations under Chapter 2 (commencing with Section 23101) or Chapter 3 (commencing with Section 23501) of the Bank and Corporation Tax Law.

Questions A through Q

Answer all applicable questions. Be sure to answer questions F through Q on Side 2. Note the following instructions when answering:

Question B – Transfer or acquisition of voting stock

All S corporations **must** answer Question B.

Answer "yes" to Question B on Side 1 if:

- The percentage of outstanding voting shares of this S corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively surpassed 50% during this year; or
- The total of voting shares transferred to **one** irrevocable trust cumulatively surpassed 50% this year; or
- One or more irrevocable proxies transferred voting rights to more than 50% of the outstanding shares to **one** person or **one** entity during this year; or
- This S corporation's cumulative ownership or control of the stock or other ownership interest in any legal entity surpassed 50% during this year; or
- Cumulatively more than 50% of the total outstanding shares of this S corporation have been transferred or changed ownership or control this year.

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

Question C – Principal business activity code

All S corporations **must** answer Question C.

Using the list found on page 17, enter the code number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California code number may be different from the federal code number.

Question D – Enterprise zone, program area, Los Angeles Revitalization Zone (LARZ), Local Agency Military Base Recovery Area (LAMBRA) tax benefits

Answer "yes" if the S corporation claims:

- Net interest deduction for enterprise zone, program area or LARZ investments (Side 1, line 12);
- An enterprise zone, a program area, the LARZ or the LAMBRA business expense deduction (Side 1, line 13);
- Enterprise zone hiring/sales or use tax credit (Schedule C (100S));
- Program area hiring/sales or use tax credit (Schedule C (100S));
- LARZ hiring/sales or use tax credit (Schedule C (100S)); or
- LAMBRA hiring/sales or use tax credit (Schedule C (100S)).

S corporations must attach form FTB 3805Z, Enterprise Zone/Program Area Deduction and Credit Summary; form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary or form FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Deduction and Credit Summary to Form 100S to claim any of these tax benefits. If the above mentioned forms are not attached, these tax benefits may be disallowed.

Question E – Technological property contribution tax benefits

Check this box if the S corporation claims a credit carryover for the contribution of a computer or scientific equipment.

Line 2 through Line 14 – State adjustments

To figure net income for California purposes, corporations using the federal reconciliation method (see General Information I) must enter California adjustments to the federal net income on line 2 through line 13. If a specific line for the adjustment is not on Form 100S, enter the adjustment on line 7,

Other Additions, or line 13, Other Deductions, and attach a schedule.

Line 2 – Taxes not deductible

California law does not permit a deduction for California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Add these taxes to income on line 2. Examples of these taxes are California's minimum franchise tax and the 1.5% income or franchise tax. California law does not permit a deduction for the environmental taxes imposed by IRC Section 59A.

Line 3 – Interest on government obligations

S corporations subject to the California franchise tax must report interest received on government obligations even though it may be exempt from state or federal income tax. This interest must be added to income on line 3. See line 13 instructions for S corporations subject to the California corporation income tax.

Line 4 – Net capital gain

Enter on this line any net capital gain subject to the 1.5% tax rate (3.5% for financial S corporations) shown on Schedule D (100S), Section B, and any gains subject to the 9.3% tax rate (11.3% for financial S corporations) shown on Schedule D (100S), Section A, line 3a and line 6a.

Line 5 – Depreciation and Amortization

California law is substantially different from federal law. Complete Schedule B (100S) for assets subject to depreciation and for assets subject to amortization. Enter the total of Schedule B, Part I, line 4 and Part II, line 4, on Form 100S Side 1, line 5.

Line 6 – Portfolio income

Enter on this line net portfolio income not included in line 1 but that must be included in the S corporation's net income for computing the 1.5% tax. Include interest, dividends and royalties. Do not include any passive activity amounts on this line. Instead, include passive activity amounts on line 7 or line 13.

Line 7 – Other additions

Include on this line other items not added on any other line to arrive at net income. Attach a schedule that clearly shows how each item was computed and explain the basis for the adjustment.

If a federal contribution deduction was taken in arriving at the amount entered on line 1, include that amount in the computation of line 7. See line 11.

Enter any passive activity income on line 7.

California ordinary net gain or loss

Before entering the amount from Schedule D-1, line 18, determine whether the gain is subject to built-in gains tax. If the gain is subject to built-in gains tax, enter the amount on Schedule D (100S), Part IV so the built-in gains tax can be computed, and enter the difference between the amount on Schedule D-1, line 18 and the amount subject to built-in gains tax on 100S, Side 1, line 7.

Note: Business expense deductions are not allowed with respect to payments 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. "Club" means a club as defined in the Business and Professions Code, Div. 9, Ch. 3, Art. 4, beginning with Section 23425. Add back such deductions on this line.

Line 9 – Deductible dividends

Complete Schedule H and enter the total from Schedule H, column (g) on this line.

Line 10 – Water's-edge dividend deduction

S corporations electing to file on a water's-edge basis may qualify for a dividend deduction for certain qualified dividends. Refer to the instructions for Schedule H on page 9. Complete Schedule H and enter the amount from column f on this line. For more information get Form 100-WE, Water's Edge Booklet and Instructions.

Line 11 – Contributions

For income years beginning on or after January 1, 1996, the contribution deduction is 10% of California net income, without regard to charitable contributions and special deductions (e.g. the deduction for dividends received). The definition of California net income differs from federal taxable income for computing the contribution deduction.

Five year carryover provisions per IRC Section 170(d)(2) shall apply for excess contributions made during income years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100S format, complete Form 100S, Side 1, through line 15 (without regard to line 11). Then complete the worksheet below to determine the contribution deduction to enter on this line.

1. Net income after state adjustments from Side 1, line 15. _____
2. Deduction for dividends received _____
3. Net income for contribution calculation purposes. Add line 1 and line 2. _____
4. Allowable contributions. Multiply line 3 by 10% (.10) _____
5. Enter the amount actually contributed. _____
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 11 _____

If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as an addition on line 7.

Line 12 – Net interest deduction

A deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business inside an enterprise zone, a program area or the LARZ. For more information, get form FTB 3805Z and the 1996 Enterprise Zone and Program Area Business Booklet or form FTB 3806 and the 1996 Los Angeles Revitalization Zone Booklet. If form FTB 3805Z or form FTB 3806 is not attached, these tax benefits may be disallowed.

Be sure to answer "yes" to Question D on Form 100S, Side 1.

Line 13 – Other deductions

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

Include in the computation for line 13 any passive activity loss. Also enter any IRC Section 179 expense from Schedule B (100S), line 5a.

For S corporations subject to income (and not franchise) tax, interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 3, deduct it on this line.

Federal ordinary net gain or loss. Enter any federal ordinary net gain or loss from federal

Form 4797, Sales of Business Property, line 20, if the amount is included in income on line 1.

Line 16 – Net income (loss) for state purposes

If all the S corporation income is derived from California sources, transfer the amount from line 15 to this line. If only a portion of income is derived from California sources, complete Schedule R, Apportionment and Allocation of Income, before entering any amount on this line. Transfer the amount from Schedule R, line 24, to this line.

If this line is a net loss, complete and attach the 1996 form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitation – Corporations, to Form 100S.

Line 17 – R&TC Section 23802(e) deduction

If the S corporation has a tax imposed on excess net passive investment income, certain capital gains and built-in gains, a deduction is allowed against the net income taxed at the 1.5% rate. See the instructions for the "Excess Net Passive Income and Income Tax Worksheet," on page 9 to determine if the S corporation is subject to the tax on excess net passive investment income. If a tax is shown on this worksheet, enter the amount of excess net passive income from line 8 of the worksheet on Form 100S, Side 1, line 17.

For purposes of the built-in gains tax, enter the smaller amount of line 11 or line 13 from Section A, Part III of Schedule D, or line 20 from Section A, Part IV of Schedule D.

Line 18 – Net operating loss carryover deduction

The NOL deduction is the amount of the NOL carryover from prior years that may be deducted from income in this income year. However, the loss may not reduce the S corporation's current year income below zero. Any excess loss must be carried forward.

If line 16 less line 17 is a positive amount, enter the NOL carryover (but not more than line 16 less line 17) from the S corporation's 1995 form FTB 3805Q, Net Operating Loss (NOL) Deduction and Disaster Loss Deduction - Corporations, on line 18. Attach a copy of the 1995 form FTB 3805Q to Form 100S. If the full amount of the NOL carryover may not be deducted this year, complete and attach a 1996 form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 16 less line 17 is a negative amount, S corporations may not claim an NOL carryover deduction. Enter zero on this line. See form FTB 3805Q instructions for the computation of the NOL carryover to future years.

No NOL carryover arising from a year in which an S corporation was a C corporation may be applied against the 1.5% tax. See IRC Section 1371(b)(1) and R&TC Section 23802(d). However, if the corporation terminates its S election, thus becoming a C corporation, then the prior year NOL carryover may be used to the extent it has not expired.

Note: NOL carryovers arising from a year in which the S corporation was a C corporation may be used in computing the tax on built-in gains.

If the S corporation has an enterprise zone, a program area, a LARZ or LAMBRA loss, enter the amount from form FTB 3805Z, Worksheet VI or form FTB 3806, Worksheet VI or form FTB 3807, Worksheet VI only if the corporation has income in the current year.

Line 19 – Disaster loss carryover deduction

If the corporation has a disaster loss carryover deduction, enter the total amount from Part III, line 2 of the 1996 FTB 3805Q only if the corporation has income in the current year.

Line 21 – Tax

S corporations must use a tax rate of 1.5%. Financial S corporations must use the financial tax rate of 3.5% if a calendar year filer. The tax on this line may not be less than the minimum franchise tax, if applicable. See General Information B.

Line 22 through Line 25 – Tax credits

Credits may be used to reduce the California tax liability but may not be used to reduce the tax on line 21 to an amount less than the minimum franchise tax, if applicable. Also, the S corporation is allowed to claim only 1/3 of the total credit against the 1.5% franchise tax. See General Information Z and AA.

Complete the applicable credit form for each credit claimed. For any carryover only credits, complete form FTB 3540, Credit Carryover Summary.

Transfer the credits from the respective credit forms to Schedule C to compute the amount of credit to claim on Form 100S. Then transfer the credits from Schedule C to Form 100S. Each credit is identified by a code number. To claim one, two or three credits enter the credit name, code number and the amount of the credit on line 22, line 23 and line 24. Enter the total of any remaining credits from Schedule C on line 25.

Attach all credit forms, schedules and Schedule C to Form 100S.

CREDIT NAME	CODE	DESCRIPTION
Disabled Access Credit – FTB 3548	205	Similar to the federal credit, but limited to \$125 based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation Credit – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: Cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery Credit – FTB 3546	203	1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for enterprise zone businesses
Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for LAMBRA's
Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax – FTB 3806	159	Business incentives for LARZ
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturers' Investment – FTB 3535	199	6% of the cost of qualified property
Prior Year Alternative Minimum Tax – FTB 3510	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in 1996
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Program Area Hiring & Sales or Use Tax – FTB 3805Z	177	Business incentives for program areas
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Salmon & Steelhead Trout Habitat Restoration – Obtain certification from: DEPARTMENT OF FISH AND GAME C/O TIMBER TAX CREDITS PROGRAM PO BOX 944209 SACRAMENTO CA 95244-2090	200	10% of qualified costs
Agricultural Products	175	The expiration dates for these credits have passed. However, these credits had carryover features. You may claim these credits only if there is a carryover available from prior years. If you are not required to complete Schedule P (100), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.
Commercial Solar Electric System	196	
Commercial Solar Energy	181	
Contribution of Computer Software	202	
Employer Ridesharing	191	
	192	
	193	
Energy Conservation	182	
Low Emission Vehicles	160	
Orphan Drug	185	
Residential Rental & Farm Sales	186	
Recycling Equipment	174	
Ridesharing	171	
Solar Energy	180	
Solar Pump	179	
Technological Property Contributions	201	
Water Conservation	178	

Line 28 – Tax from Schedule D (100S)

S corporations must enter the tax from Schedule D (100S) (included in this booklet). See General Information J for more information.

Line 29 – Excess net passive income tax

If the corporation has always been an S corporation for California purposes or has no federal excess net passive investment income, the excess net passive investment income tax does not apply. See General Information S for more information.

To determine if the S corporation owes this tax, complete line 1 through line 3 and line 9 of the "Excess Net Passive Income and Income Tax Worksheet" on page 9. If line 2 is greater than line 3 and the S corporation has taxable income, it must pay the tax. Complete a separate schedule using the format of line 1 through line 11 of the worksheet on page 9 to figure the tax. Enter the tax on Form 100S, Side 1, line 29. Attach the schedule showing the computation. Reduce each item of passive income passed through to shareholders by its portion of the tax on line 29. See

IRC Section 1366(f)(3) and R&TC Section 23803(b)(2).

R&TC Section 23811(e) provides a deduction for C corporation earnings and profits attributable to California sources for any income year by the amount of a consent dividend paid after the close of the income year. The amount of the consent dividend is limited to the difference between the C corporation earnings and profits attributable to California sources and the C corporation earnings and profits for federal purposes.

Line 35 and Line 36 – Tax due or overpayment

In addition to any amount entered on line 35 or line 36, tax due or overpayment, also include any amounts required to be included from Schedule J, Add-On Taxes or Recapture of Tax Credits.

Line 39 – Penalties and Interest

Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, to the front of Form 100S only if Exception B or Exception C is used to compute or eliminate the penalty.

Excess Net Passive Income and Income Tax Worksheet

1	Enter gross receipts for the income year (see IRC Section 1362(d)(3)(C) for gross receipts from the sale of capital assets)*.	1		
2	Enter passive investment income as defined in IRC Section 1362(d)(3)(D)*	2		
3	Enter 25% (.25) of line 1. If line 2 is less than line 3, the corporation is not liable for this tax.	3		
4	Excess passive investment income. Subtract line 3 from line 2	4		
5	Enter expenses directly connected with the production of income on line 2 (see IRC Section 1375(b)(2))*	5		
6	Net passive income. Subtract line 5 from line 2	6		
7	Divide the amount on line 4 by the amount on line 2	7		
8	Excess of net passive income. Multiply line 6 by line 7 (see instructions on line 11, below)	8		
9	Enter taxable income**	9		
10	Enter the smaller of line 8 or line 9	10		
11	Excess net passive income tax. Enter 9.3% (financial S corporations must use financial rate) of line 10 here and on Form 100S, Side 1, line 29. (If an amount is entered here go to line 8 above, and carry the line 8 amount to Form 100S, line 17.)	11		

* Income and expenses on line 1, line 2 and line 5 are from total operations for the income year. This includes applicable income and expenses from Form 100S, Side 1. See IRC Sections 1362(d)(3)(D) and 1375(b)(4) for exceptions regarding line 2 and line 5.

** Taxable income is defined in federal Treas. Regulations Section 1.1374-1A(d). Figure taxable income by completing line 1 through line 17 of Form 100, California Corporation Franchise or Income Tax Return. Clearly mark "ENPI Taxable Income" on the Form 100 computation and attach it to Form 100S.

Schedules

Schedule B (100S)

California generally conforms to the provisions of IRC Section 197 for amortization of intangibles for income years beginning on or after January 1, 1994. However, there may be differences in the federal and California amounts for intangible assets acquired in income years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

California did not allow depreciation under the federal accelerated cost recovery system (ACRS) for years prior to 1987. California also does not allow depreciation under ACRS for assets placed in service while the corporation was taxable as a C corporation.

S corporations must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Refer to form FTB 3885, Corporation Depreciation and Amortization, to determine how to continue depreciating these assets. The following were the most common methods used to calculate depreciation for years prior to 1987:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

For assets placed in service after 1987, S corporations may use the same method for California as was used for federal purposes. S corporations conducting a trade or business inside an enterprise zone, program area, the LARZ or a LAMBRA may elect to treat a portion of the cost of qualified property as a business expense in the first year it is placed in service. This expense deduction is in lieu of the IRC Section 179 expense deduction. For more information, get form FTB 3805Z, form FTB 3806 or form FTB 3807.

Schedule C (100S)

Use Schedule C (100S) to determine the allowable amount of credits to claim on the 1996 Form 100S and the credit carryover to future years. For more information, see General Information Y, Z and AA.

Column (a)

The amount entered in column (a) must be limited to 1/3 the amount of the total credit.

Schedule D (100S)

Schedule D (100S) is divided into Section A and Section B. Use Section A to report all built-in gains and certain capital gains subject to the 9.3% tax rate (11.3% for financial S corporations). Use Section B to report all other capital gains subject to the 1.5% tax rate (3.5% for financial S corporations). For more information, see General Information J.

Section A

Part I and Part II

S corporations use Part I to report and summarize gains and losses attributable to: (1) sale or exchange of capital assets; and (2) gains on distributions to shareholders of appreciated assets that are capital assets. Be sure to use the California basis for all assets when computing the gain or loss. Refer to the instructions for federal Schedule D (Form 1120S) for more information.

Part III

To determine if the S corporation is subject to the tax on certain capital gains, see the instructions for federal Schedule D (Form 1120S) and General Information J.

Part IV

Line 16

To determine if the S corporation is subject to tax on built-in gains, see the instructions for federal Schedule D (Form 1120S) and General Information J.

Apportioning corporations only: All recognized built-in gains and all recognized built-in losses apportioned and allocated to California must be included on line 16.

Line 19

Enter on this line the amount from form FTB 3805Q that reflects NOLs from the years the corporation was a C corporation. Reduce future NOL carryovers from C corporation years by the amount applied on this line.

Section B

S corporations use Part I and Part II to report the sale or disposition of all capital assets acquired as an S corporation or which are not reported in Section A. For more information, see the instructions for federal Schedule D (Form 1120S).

Schedule F

Line 7 – Compensation of Officers

If the S corporation's total receipts are \$150,000 or more, complete and attach federal Schedule E (1120S) or a schedule showing the compensation of officers. On the schedule list:

- Name of officer;
- Social security number of officer;
- Percentage of time devoted to the business;
- Percentage of stock owned; and
- Amount of compensation.

Also show the calculation of compensation of officers deducted:

- Total compensation of officers, minus
- Compensation of officers claimed in the cost of goods sold schedule and elsewhere on the return.

Schedule H

S corporations may claim a deduction for dividends paid by a corporation taxed by California on earnings from which the dividends are paid.

To determine the deductible percentage of a dividend (Schedule H, column (d)) send a written

request showing the complete name of the dividend paying corporation to:

DEDUCTIBLE DIVIDENDS
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

Or call the FTB at the phone numbers listed on page 39 of this booklet. Allow six to eight weeks for a written reply.

To figure the amount of dividends to enter on Form 100S, determine the corporation's percentage of ownership of the dividend-paying corporation, as shown below, and enter on Schedule H, column (f):

- 70%, if the dividend paying corporation is less than 20% owned;
- 80%, if the dividend paying corporation is 20%, but not more than 50%, owned; or
- 100%, if the dividend paying corporation is more than 50% owned.

Enter the total amount from column (g) on Form 100S, line 9.

Recent legislation amended R&TC Section 24411 to allow for a flat 75% deduction of a portion of the dividends received and included in the water's-edge return. Dividends received from banks **do not** qualify for the water's-edge dividend deduction. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

In no event will a R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Sections 24402 or 24410 or which was eliminated under R&TC Section 25106.

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

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

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

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

The R&TC Section 24411 deduction is 75% of qualifying dividends.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity attributable to an alteration of land or any improvement thereto. The construction project, the location of which is not subject to the taxpayers' control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the water's-edge group. For more information, see R&TC Section 24411 and

Form 100-WE, Water's-Edge Booklet and instructions.

List the total qualifying water's-edge dividends in column (c) and write "WE" next to the amount. Multiply the total qualifying dividends by 75%, and enter the result in column (d). Add the total amount of foreign construction project dividends, if any, to the amount entered in column (d) and enter the result in the total for column (f). Write "WE" next to the amount. Also enter the total amount from column (f) on Form 100S, Side 1, line 10. Or, attach a schedule showing the above computation.

Schedule J

Complete Schedule J if the S corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for:

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

Revise the tax due or overpayment on Form 100S, line 35 or line 36, as appropriate, by the amount from Schedule J, line 6.

LIFO recapture tax. If the S corporation computed the LIFO recapture tax in the final year as a C corporation, include on Schedule J, line 1 any LIFO installment due this income year.

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

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the S corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3) (R&TC Section 24667), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information. Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain nondealer installment obligations. If an obligation arising from the disposition of property to which IRC Section 453A (R&TC Section 24667) applies is outstanding at the close of the income year, the corporation must include the interest due under IRC Section 453A(c) on Schedule J, line 3b. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information.

IRC Section 197(f)(9)(B)(ii) election. Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible

under the related person exception to the anti-churning rules.

Credit recaptures. Complete Schedule J, line 5, if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit; or
- FTB 3805Z, Part VI, Hiring Credit — Enterprise Zone & Program Areas Recapture of Deduction and Credits; or
- FTB 3806, Los Angeles Revitalization Zone Recapture of Deduction and Credits; or
- FTB 3807, Part VI, Local Agency Military Base Recovery Area Recapture of Deduction and Credits; or
- FTB 3535, Manufacturers' Investment Credit.

Schedule K and Schedule K-1

Shareholders' shares of income, deductions, credits, etc.

Purpose of schedules

Schedule K (100S) is a summary schedule of all the shareholders' shares of the S corporation's income, deductions, credits, etc. Schedule K-1 (100S) shows each shareholder's separate share of pass-through items and adjusted basis. Use federal Schedule K and Schedule K-1 (Form 1120S) as a basis for preparing California Schedule K and Schedule K-1 (Form 100S).

Note: Amounts on Schedule K-1 may not add up to amounts reflected on Form 100S, Side 1 amounts because Side 1 calculates tax at the S corporation level while Schedule K-1 amounts are calculated using different rules.

Attach one copy of each Schedule K-1 (100S) to the Form 100S filed with the FTB. Keep one copy of each Schedule K-1 (100S) for the S corporation's records, and give each shareholder a copy of Schedule K-1 (100S) on or before the due date of Form 100S.

Note: Be sure to give each shareholder a copy of either the Shareholder's Instructions for Schedule K-1 (100S) (included in this booklet) or specific instructions for each item reported on the shareholder's Schedule K-1 (100S).

Substitute forms

You need approval from the FTB to use a substitute Schedule K-1 (100S). The substitute schedule must include the Shareholder's Instructions for Schedule K-1 (100S) or other prepared specific instructions. For more information, get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms.

General Instructions

In column (b) on Schedules K and K-1 (100S), enter the corresponding amounts from federal Schedules K and K-1 (Form 1120S). In column (c), enter adjustments resulting from differences between California and federal law for each of the specific line items. In column (d), enter the California amount, which is the result of combining column (b) and column (c).

Reminder: When entering California adjustments in column (c) of Schedule K (100S) or Schedule K-1 (100S), be sure to adjust for differences between federal and California amounts (or taxes), as applicable to individuals, for:

- Built-in gains tax (Schedule D (100S));
- Capital gains tax (Schedule D (100S)); and

- Excess net passive income tax (Form 100S, Side 1, line 29).

This column must not be used to adjust for apportionment or allocation of income.

Column (e) of Schedule K-1 (100S) is used to report California source income amounts and credits. Include the following items in column (e):

- Gross income less allowable deductions from separate businesses, trades or professions conducted wholly within the state (see Title 18 Cal. Code Reg. Section 17951-4 (a));
- Business income from unitary businesses, trades or professions of the S corporation apportioned to California determined by application of R&TC Sections 25128 through 25137, inclusive (see Title 18 Cal. Code Reg. Section 17951-4 (c)). Generally, income will be apportioned using either a 3 or 4 factor formula depending upon whether more than 50% of the business receipts of the apportioning activity are from agricultural, extractive, savings and loan, bank or financial activity. In most cases, the determination of whether or not the 3 or 4 factor apportionment applies can be determined by reference to the gross business receipts of the S corporation itself. Apply the apportionment factors from Schedule R, Apportionment and Allocation of Income, to the business income portion of each line item. However, if the shareholder conducts a trade or business that is unitary with the S corporation, the determination of whether the 3 or 4 factor apportionment applies must be determined at the shareholder level. In such cases, the apportionment items on Schedule K-1 (100S), table 2 will be used by the shareholder in making that determination. Amounts in column (e) will only be used if the shareholder is not unitary with the S corporation (For more information, see Total amounts using California law on page 33). **Note:** A 4 factor formula is defined as property, payroll and a double-weighted sales factor;
- Nonbusiness income allocated to this state under the provisions of R&TC Sections 25124 through 25127 (see Title 18 Cal. Code Reg. Sections 17951-3, 17951-4 (c) and 17952). Do not enter nonbusiness items whose source is based on the residency or commercial domicile of the shareholder. Enter these amounts on the applicable lines on Schedule K-1 (100S), table 1 (attach a schedule if necessary); and
- California tax credits.

If a husband and wife each had a separate interest in the S corporation, you must prepare a separate Schedule K-1 (100S) for each of them.

If a husband and wife held an interest together, prepare one Schedule K-1 (100S) if the two of them are considered to be one shareholder.

On each Schedule K-1 (100S), enter the name, address and identifying number of the shareholder and the S corporation and the shareholder's distributive share of each item. For an individual shareholder, enter the shareholder's social security number. For all other shareholders, enter their federal employer identification number.

Special reporting requirements for passive activities

If items of income (loss), deduction or credit from more than one activity are reported on Schedule K-1 (100S), the S corporation must

attach a statement to Schedule K-1 (100S) for each activity that is a passive activity to the shareholder. Rental activities are passive activities to all shareholders. Trade or business activities are passive activities to shareholders who do not materially participate in the activity.

The attachment must include all the information explained in the instructions for federal Schedule K-1 (Form 1120S).

Specific Line Instructions

Item A through Item E (Schedule K-1 (100S) only)

To insure correct processing of Schedule K-1 (100S), answer all items that are appropriate.

Item A and Item B (Schedule K-1 (100S) only)
See the instructions for Item A and Item C of federal Schedule K-1 (Form 1120S).

Income

Line 1 – Ordinary income (loss) from trade or business activities

Enter in column (c) any California adjustments to ordinary income that do not need to be separately stated. Include in this column the adjustment to add back the minimum franchise tax or the 1.5% tax.

Line 2 – Net income (loss) from rental real estate activities

Enter the net of income and expenses of any rental real estate activity of the S corporation. If the S corporation has more than one rental real estate activity reported on these lines, attach a separate schedule or use Schedule K-1 (100S), line 23 to list the income or loss from each activity, plus any other information required under the rules for passive activities. Attach form FTB 3801, Passive Activity Loss Limitations, to Form 100S.

Line 3a, Line 3b and Line 3c – Net income (loss) from other rental activities (Schedule K (100S) only)

Enter the net of income and expenses of other rental activities not listed on line 2 above. If the S corporation has more than one rental activity reported on these lines, attach a separate schedule listing the income or loss from each activity, plus any other information required under the rules for passive activities.

Line 4a through Line 4f – Portfolio income (loss)

Portfolio income (loss) is any gross income from interest, dividends, annuities or royalties that is not derived in the ordinary course of business. Portfolio income must be separately accounted for as such. Portfolio income also includes gains or losses from the sale or other disposition of property (other than an interest in a passive activity) producing portfolio income or held for investment.

Line 4a, Line 4b and Line 4c – Interest, dividend and royalty income

Enter only taxable interest, dividend and royalty income that is portfolio income.

Line 4d and Line 4e – Net capital gain (loss)

Enter on line 4d and line 4e the amount of capital gains and losses that is portfolio income (loss). If any of the income (loss) is not portfolio income (loss), include it on line 6.

Line 4f – Other portfolio income (loss)

Enter any other portfolio income (loss) not entered on line 4a through line 4e.

Line 5 – Net gain (loss) under IRC Section 1231

The amount for line 5 comes from Schedule D-1, Sales of Business Property. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report these gains or losses on line 6.

If the S corporation has more than one activity and the amount on line 5 is a passive activity amount to the shareholder, attach a statement to Schedule K-1 (100S) (or use Schedule K-1 (100S), line 23) to identify to which activity the IRC Section 1231 gain (loss) relates.

Line 6 – Other income (loss)

Enter any other item of income or loss not included on line 1 through line 5, such as:

- Wagering gains and losses. See IRC Section 165(d).
- Recovery of tax benefit items. See IRC Section 111.
- Any gain or loss where the S corporation was a trader or dealer in IRC Section 1256 contracts or property related to such contracts. See IRC Section 1256(f).
- Net gain (loss) from involuntary conversions due to casualty or theft.
- Loss(es) from qualified low-income housing projects for shareholders that are qualified investors.

Deductions

Line 7 – Charitable contributions

Enter the total amount of charitable contributions made by the S corporation during its income year on Schedule K (100S) and each shareholder's distributive share on Schedule K-1 (100S). On an attachment to each schedule, separately show the dollar amount of contributions subject to each of the 50%, 30% and 20% of adjusted gross income limits.

A resident shareholder is allowed a deduction for contributions to a qualified organization as provided in IRC Section 170.

Line 8 – Expense deduction for recovery property

The amount of expense deduction for recovery property that can be claimed from all sources will vary depending on the type of property and the year of designation. For more information, see IRC Section 179 and R&TC Sections 17201, 17252.5, 17265 and 17268.

Line 9 – Deductions related to portfolio income (loss)

Enter on this line the deductions allocable to portfolio income (loss) other than interest expenses. Generally, these deductions are IRC Section 212 expenses and are subject to IRC Section 212 limitations at the shareholder level. However, interest expense related to portfolio income (loss) is generally investment interest expense and is reported on line 11a.

Investment Interest

Line 11a through Line 11b(2)

These lines must be completed whether or not a shareholder is subject to the investment interest rules.

Line 11a – Interest expense on investment debts

Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on Schedules K and K-1 (100S), line 11a rather than Schedules K and K-1 (100S), line 9. Investment interest does not include interest expense allocable to a passive activity. A passive activity is a rental activity or a trade or business activity in which the shareholder does not materially participate.

Property held for investment includes a shareholder's interest in a trade or business activity that is not a passive activity to the shareholder and in which the shareholder does not materially participate. An example would be a shareholder's working interest in oil and gas property (i.e., the shareholder's interest is not limited) if the shareholder does not materially participate in the oil and gas activity.

The amount on line 11a will be reflected (after applying the investment interest expense limitations) by individual shareholders on their Schedule CA (540 or 540NR), California Adjustments.

For more information, get form FTB 3526, Investment Interest Expense Deduction.

Line 11b(1) and Line 11b(2) – Investment income and expenses

Enter on line 11b(1) only the investment income included on Schedules K and K-1 (100S), line 4a through line 4f. Enter on line 11b(2) only the investment expense included on Schedules K and K-1 (100S), line 9.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the shareholder on Schedule K-1 (100S) (items other than the amounts included on Schedule K-1 (100S), line 4a through line 4f and line 9), give each shareholder a schedule identifying these amounts.

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

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

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income.

For more information get form FTB 3526.

Tax Credits**Line 12a – Low-income housing credit**

R&TC Section 23610.5 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. The credit is generally effective for buildings placed in service after 1986. If the shareholders are eligible to claim the low-income housing credit, attach a copy of form FTB 3521, Low-Income Housing Credit, to Form 100S and to each shareholder's Schedule K-1 (100S).

Line 12b – Other credits related to rental real estate activities

Report any information that the shareholder needs to figure credits related to a rental real estate activity other than the low-income housing credit. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

Line 12c – Credits related to other rental activities

Use this line to report information that the shareholder needs to figure credits related to a rental activity other than a rental real estate activity. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

Line 13 – Other credits

Enter on an attached schedule each shareholder's allocable share of any credit or credit information reported on Schedule C (100S) that is related to a trade or business activity.

The following are examples of credits that may apply to each shareholder:

- Enterprise zone and program area hiring/sales or use tax credit (get form FTB 3805Z);
- Los Angeles Revitalization Zone (LARZ) hiring/sales or use tax credit (get form FTB 3806);
- Local Agency Military Base Recovery Area (LAMBRA) hiring/sales or use tax credit (get form FTB 3807);
- Employer child care program/contribution credit (get form FTB 3501);
- Research credit (get form FTB 3523); or
- Manufacturers' investment credit (get form FTB 3535).

Adjustments and Tax Preference Items**Line 14a through Line 14e**

Enter the items of income and deductions that enter into each shareholder's computation of adjustments and tax preference items. A shareholder with alternative minimum tax items may be required to file Schedule P (540, 540NR or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get the instructions for federal Schedules K and K-1 (Form 1120S), Adjustments and Tax Preference Items, line 14a through line 14e.

Other State Taxes**Line 15a through Line 15e**

Subject to certain conditions, shareholders may claim a credit against their individual tax for net income taxes paid by the S corporation to another state which either taxes the corporation as an S corporation or does not recognize S corporation status. For purposes of this credit, net income taxes include the shareholder's share of taxes on, according to, or measured by income. Enter the name of the other state(s), the income reported to the other state(s) and the amount of tax paid. Attach a copy of the return filed with the other state.

Residents are taxable on all their pro rata share of income and generally receive a credit for taxes paid to other states. Nonresidents must use the

amounts shown in column (e). For more information, see R&TC Sections 18001, 18002 and 18006.

Other Items**Line 16a through Line 19**

Refer to the instructions for federal Schedules K and K-1 (Form 1120S).

Line 20 (Schedule K only)

Enter total distributions made to shareholders other than dividends reported on line 22 of Schedule K. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

Line 21 (Schedule K only)

The S corporation may need to report supplemental information separately to each shareholder that is not specifically requested on the Schedule K-1(100S).

Attach a schedule to the Schedule K showing the computation of those items that must be reported separately to shareholders including any credit recapture reported by shareholders on line 23 of Schedule K-1. Refer to the instructions for line 21 of the federal Schedule K(1120S).

Shareholders may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the S corporation. As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, adjustments and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses. The S corporation can provide the shareholder's proportionate interest of aggregate gross receipts on Schedule K-1(100S), line 23. For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

Line 22 (Schedule K only)

Report the distribution amount made out of prior C corporation years accumulated earnings and profits (E&P). The corporation should issue a federal Form 1099-DIV to each of the shareholders reporting their proportionate distribution amounts.

Line 20 (Schedule K-1 only)

Report the distribution amount for each shareholder that was paid out of prior C corporation years accumulated earnings and profits (E&P). Each shareholder should receive a federal Form 1099-DIV reporting the proportionate distribution amount shown on line 20 of Schedule K-1 (100S).

Line 21 (Schedule K-1 only)

Report the distribution amount for each shareholder for distributions other than dividends reported on line 20 of Schedule K-1(100S). Non-cash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

Line 22 (Schedule K-1 only)

Report the amount of loan repayments the S corporation has made to each shareholder who has loaned the S corporation money.

Supplemental Information

Line 23 (Schedule K-1 only)

The S corporation will provide supplemental information required to be reported to each shareholder on this line.

The S corporation should provide an amount showing each shareholder's proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1(100S), line 23. Refer to the instructions above for line 21 Schedule K.

If the S corporation completed the credit recapture portion of:

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

report the recapture amount on line 23.

Schedule L

Line 23

Retained earnings include balances in the accumulated adjustments account (AAA), the other adjustments account, and other retained earnings.

Schedule M-2

The computation of the California AAA and other adjustments account is similar to the federal computation applying California amounts. Get the instructions for federal Form 1120S and IRC Section 1368 for additional information.

Column (a) – The AAA is an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation for the corporation's post-1986 years. S corporations with accumulated E&P from C corporation years must maintain the AAA to determine the tax effect of distributions during S years and the post-termination transition period. An S corporation without accumulated E&P does not need to maintain the AAA in order to determine the tax effect of distributions. However, if an S corporation without accumulated E&P engages in certain transactions to which IRC Section 381(a) applies, such as a merger into an S corporation with accumulated E&P, the S corporation must be able to calculate its AAA at the time of the merger for purposes of determining the tax effect of post-merger distributions. Therefore, it is recommended that all S corporations maintain the AAA account.

At the end of the income year the AAA is determined by taking into account all items of income, loss and deductions for the income year (including nondeductible losses and expenses

which are not capitalized but excluding certain exempt income and state taxes attributable to C years). After the year-end income and expense adjustments are made, the account is reduced by distributions made during the income year.

Note: The amount on Form 100S, Side 1, line 2 should be included as an other addition on Schedule M-2, line 3 and as an other reduction on Schedule M-2, line 5. Also include any other adjustments to arrive at California income.

Note: The AAA may have a negative balance at year end.

Column (b) – The other adjustments account is adjusted for tax-exempt income (and related expenses) of the S corporation. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year.

Column (c) – Other retained earnings include appropriated and unappropriated retained earnings accumulated in prior years when the S corporation was a C corporation. Line 1, column (c) for the first S corporation return will be the sum of the ending balances of appropriated and unappropriated retained earnings for the previous year. Any dividend distributions should be entered on line 5, column (c).

Distributions

Generally, property distributions (including cash) are applied in the following order to reduce accounts of the S corporation that are used to compute the tax effect of distributions made by the S corporation to its shareholders:

1. Reduce AAA (but not below zero). If distributions during the income year exceed the AAA at the close of the income year, the AAA is allocated pro rata to each distribution made during the year. (IRC Section 1368(c))
2. Reduce accumulated E&P. Generally, the S corporation has accumulated E&P only if it has not distributed E&P accumulated in prior years when the S corporation was a C corporation (IRC Section 1361(a)(2)), or when the S corporation merged with another corporation which has C corporation accumulated E&P. The only adjustments that can be made to the accumulated E&P of an S corporation are:
 - a. Reductions for dividend distributions;
 - b. Adjustments for redemptions, liquidations, reorganizations, etc.; and
 - c. Reductions for R&TC Sections 24356.2, 24356.3 or 24356.4 property income recapture (relating to additional depreciation deduction for program areas, enterprise zones and LARZ) for which the S corporation is liable.
3. Reduce the other adjustment account.
4. Reduce any remaining shareholders' equity account.

Note: Shareholders' previously taxed income (PTI) (Column (c), federal Form 1120S, Schedule M-2, 1120S) — California S corporations will **never** have undistributed PTI. The federal code section which created PTI was removed from the IRC before California incorporated the federal S corporation provisions into the R&TC.

Elections relating to the order of distributions

The corporation may modify the ordering rules by making one or more of the following elections:

- Election to distribute accumulated E&P first. If the corporation has accumulated E&P and wants to distribute E&P before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders (IRC Section 1368(e)(3)(B)). This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see **Statement Regarding Elections** below.
- Election to make a deemed dividend. If the corporation wants to distribute all or part of its C corporation accumulated E&P through a deemed dividend, it may elect to do so with the consent of all its affected shareholders (IRC Section 1368(e)(3)(B)). Under this section, the corporation will be treated as also having made the election to distribute E&P first. The amount of the deemed dividend cannot exceed the C corporation E&P made during the tax year. A deemed dividend is treated as if it were a pro rata distribution of money to the shareholders, received by the shareholders, and immediately contributed back to the corporation all on the last day of the tax year. This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see **Statement Regarding Elections** below.

Statement Regarding Elections

To make any of the above elections, the corporation must attach a statement to a timely filed original or amended Form 100S for the year in which the election is made. The corporation must identify the election it is making and state that each shareholder consents to the election. A corporate officer must sign the statement under penalties of perjury on behalf of the corporation. The statement of election to make a deemed dividend must include the amount of the deemed dividend distributed to each shareholder.

When making either of the above elections, the corporation must prepare copies of federal Form 1099-DIV to shareholders to report this dividend as taxable income.

Note: The corporation may file the election for California purposes only. It is not necessary for the corporation to have the same election for federal purposes in order to make a California election. However, regardless of whether or not the corporation makes the same election on the federal return, the corporation must attach a separate election statement to the California return.

C corporation E&P

Check the box below Schedule M-2, line 9, if the S corporation was a C corporation in a prior year(s) and has C corporation E&P at the end of the income year. For this purpose, C corporation E&P means the remaining balance of E&P of any S corporation for any income year when it was not an S corporation. If the S corporation has C corporation E&P, it may be liable for excess net passive income tax and the distributions to shareholders may have different tax consequences for federal and California purposes. See instructions for Form 100S, Side 1, line 28 and line 29, for details on these taxes.

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations

1996

3805Q

Attach to your California tax return.

Corporation name as shown on the return

California corporation number

During the year the corporation incurred the NOL the corporation was a(n): C Corporation S Corporation Exempt Corporation Limited Liability Company (corporations only)

If the corporation previously filed California returns under another corporate name, enter the corporation name and California corporation number:

Note: If the corporation is included in a combined report of a unitary group, see instructions, General Information Section C.

PART I Computation of current year NOL. If you do not have a current year NOL, go to Part II.

- 1 Net loss for state purposes from Form 100, line 18; Form 109, line 2; or Form 100S, line 16.
Enter as a positive number. 1 _____
- 2 1996 disaster loss included in line 1. Enter as a positive number 2 _____
- 3 Subtract line 2 from line 1. If zero or less enter -0- and see instructions 3 _____
- 4 a Enter the amount of the loss incurred by a new business included in line 3 4a _____
b Enter the amount of the loss incurred by an eligible small business included in line 3. 4b _____
c Add line 4a and line 4b 4c _____
- 5 Subtract line 4c from line 3 5 _____
- 6 General NOL. Multiply line 5 by 50% (.50) 6 _____
- 7 1996 NOL carryover. Add line 2, line 4c and line 6. See instructions 7 _____

PART II NOL carryover and disaster loss carryover limitations. See Instructions.

1 Net income (loss) – Enter the amount from Form 100, line 18; Form 109, line 2; or Form 100S, line 16 less line 17 (but not less than -0-)	(g) Available Balance	
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Prior Year NOLs

(a) Year of loss	(b) Code	(c) Type of NOL (See below)	(d) Initial loss	(e) Carryover from 1995	(f) Amount used in 1996		(h) Carryover to 1997 (col. (e) - col. (f))
2							

Current Year NOLs

3 1996	16	DIS					
4 1996							
1996							
1996							
1996							

Type of NOL: General (GEN), New Business (NB), Eligible Small Business (ESB), Title 11 (T11), or Disaster (DIS).

PART III 1996 NOL deduction

- 1 Total the amounts in column (f) for Part II, line 2, except current year disaster losses. 1 _____
- 2 Enter the total amount from column (f) that represents disaster loss carryovers here and on Form 100, line 20; or Form 100S, line 19. For Form 109, enter -0-. 2 _____
- 3 Subtract line 2 from line 1. Enter this amount on Form 100, line 19; Form 109, line 4; or Form 100S, line 18 3 _____

1996 Instructions for Form FTB 3805Q

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

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

General Information

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 during 1994 and 1996 did adopt specific provisions of the 1993 federal changes and these provisions are specifically identified when appropriate. All other references are to the IRC as it existed on January 1, 1993.

A Purpose of Form

Use form FTB 3805Q to figure the current year NOL and to limit NOL and disaster loss carryover deductions.

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

- An NOL may be carried over only to future years (no carrybacks are allowed); and
- The carryover period and percentages differ from federal allowances.

Only a portion of the NOL may be eligible for carryover to future years because California has established different categories of NOL. The following table shows the percentages and carryover periods for the various kinds of losses:

Type of NOL	NOL That Can Be Carried Over	Carryover Period
General NOL	50%	5 Years
New Business – 1/1/94		
NOL Incurred:		
Year 1	100%	8 Years
Year 2	100%	7 Years
Year 3	100%	6 Years
Eligible Small Business Gross receipts < \$1 million	100%	5 Years
Taxpayer in Title 11 Bankruptcy	50%	10 Years
Disaster Losses	100%	5 Years
	50%	10 Years

B Apportioning Corporations

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

C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using their individual apportionment factors (R&TC Section 25108). Complete a separate

form FTB 3805Q for each taxpayer included in the combined report.

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

D Water's-Edge

Each taxpayer's NOL carryover is limited to the amount determined by recomputing the income and factors of the original worldwide combined reporting group as if the water's-edge election had been in force for the year of the loss. The carryover may not be increased as a result of the recomputation.

E S Corporations

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

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

Specific Line Instructions

Part I

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

Line 1 – Enter the net loss from Form 100, line 18; Form 109, line 2; or Form 100S, line 16.

Line 2 – If the corporation incurred a disaster loss during 1996, enter the amount of the loss on this line. Enter as a positive number.

Line 3 – If the amount is zero or less the corporation does not have a current year general NOL. Go to Part II for computation of

carryovers and the current year NOL and carryover from disaster losses.

Line 7 – Go to Part II, Current Year NOLs, to record your 1996 NOL carryover to 1997. Complete columns (b), (c), (d) and (h) only, for each type of loss that you incurred.

If you have a business that qualifies as a new business or a small business and your NOL is greater than the amount of net loss from such a business, use the general NOL first. If you operate one or more new businesses and one or more eligible small businesses, determine the amount of the loss attributable to the new business(es) and to the small business(es). The NOL deduction will be taken in the following manner. The NOL is first treated as a new business NOL to the extent of the loss from the new business. Any remaining NOL is then treated as an eligible small business NOL to the extent of the loss from the eligible small business. Any further remaining NOL is treated as an NOL under the general rules.

Part II

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

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

When to use an NOL carryover – Use your NOLs in the order the losses were incurred. There is no requirement to deduct NOL carryovers before disaster loss carryovers.

Prior Year NOLs

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

Column (b) – If the loss is due to a disaster, enter the disaster code from the list on the next page. If the loss is from a New Business or Eligible Small Business, enter the Principal Business Activity Code from Question G on Form 100 or Question C on Form 100S. If the loss was from a pass-through entity, enter the entity's federal employer identification number from Schedule K-1.

Column (c) – Enter the type of loss from the following list:

General NOL carryover is the NOL available as a result of a loss incurred in years after 1986 under R&TC Section 24416. The carryover period for these NOLs is:

Year Loss was incurred	Carryover Period
1987-1990	7 Years
1991	6 Years
After 1991	5 Years

Note: If the corporation has a current year NOL loss under R&TC Section 24416.2 (relating to enterprise zone, program area, LAM-BRA or LARZ NOLs), it must **elect** to carry over the loss either under that section or the loss under R&TC Section 24416 (relating to general NOLs). The election is irrevocable. Get form FTB 3805Z, form FTB 3807 or form FTB 3806, for more information.

Disaster loss carryover is a casualty loss in a certain area of California declared by the President of the United States or the Governor of California to be in a state of disaster. California has conformed to IRC Section 165 (i) permitting the disaster loss to be taken against the previous year's income. If you made this election, see Current Year NOLs, Part II, line 3.

If special legislation is enacted under R&TC Section 24347.5 and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to 5 income years. If any of the excess loss remains after the 5-year period, 50% of that remaining loss may be carried over for up to 10 additional years.

Following is a list of events that have been declared disasters:

Year	Code	Event
1996	16	Firestorms '96.
1995	15	Storms, flooding and other related casualties.
1994	14	San Luis Obispo fire and other related casualties.
1994	13	Los Angeles, Orange, and Ventura County Earthquake and related casualties.
1993	12	Storms, floods and other related casualties.
1992	11	Wildfires and other related casualties in Calaveras and Shasta Counties.
1992	10	San Bernardino County earthquake and other related casualties.
1992	9	Riots, arson and related casualties in California during April and May.
1992	8	Humboldt County earthquake and related casualties.
1992	7	Storms, floods and other related casualties.
1991	6	Oakland/Berkeley fire and other related casualties.
1990	5	Santa Barbara fires and other related casualties.
1989	4	Bay Area earthquake and other related casualties.
1987	3	Forest fires, October earthquake and other related casualties.
1986	2	Storms, floods, and other related casualties.
1985	1	Forest fires and related casualties occurring in California.

A new business NOL is an NOL incurred by a trade or business activity that first commenced in California on or after January 1, 1994. For taxable years beginning on or after January 1, 1994, taxpayers engaged in a new business may carry over 100% of an NOL incurred in the first three years of operation for an extended period but only to the extent of the net loss from the new business. If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over at 50% as a general NOL.

The carryover period for new business NOLs is based on when the loss occurred.

Loss occurred	Carryover Period
1st year of business activity. . . .	8 years
2nd year of business activity. . . .	7 years
3rd year of business activity. . . .	6 years

If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business thereafter conducted by the taxpayer or related person is not a new business if the fair market value of the acquired assets exceeds 20% of the fair market value of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as they were used in immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the Standard Industrial Classification (SIC) manual, 1987 edition.

If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and thereafter commences an additional trade or business in this state, the additional trade or business qualifies as a new business only if the activity is classified under a different division of the Standard Industrial Classification (SIC) manual, 1987 edition.

For taxpayers who first commence doing business in this state after December 31, 1993, business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Section 267 or IRC Section 318.

An eligible small business NOL is an NOL incurred in operating a trade or business activity which generates gross receipts less returns and allowances less than \$1 million during the income year. For income years beginning on or after January 1, 1994, taxpayers engaged in an eligible small business may carry over 100% of an NOL but only to the extent of the net loss from an eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business the excess may be carried over at 50% as a general NOL.

The carryover period for an eligible small business NOL is five years.

Title 11 bankruptcy

If the corporation is claiming an NOL carryover deduction under the provisions of R&TC Section 24416(e)(4)(A), enter the carryover amount on Side 1, Part II, line 2.

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

Column (e) – Enter the carryover amount from the 1995 form FTB 3805Q, Part II, column (h).

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

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

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

Current Year NOLs

Line 3, Column (d) – Enter your 1996 disaster loss from Part I, line 2. If you did not elect to deduct your disaster loss in the prior year:

- In column (f), enter the disaster loss used in 1996.
- In column (h), enter column (d) less column (f).

If you elected to deduct your 1996 disaster loss on your 1995 return, and you have an excess amount to be carried over to 1996, enter the carryover amount from your 1995 form FTB 3805Q, Part II, line 3, in Part II, line 2, column (e). Use the Prior Year NOL instructions on the previous page for column (a) through column (h) except:

- In column (a), enter 1996;
- In column (b), enter 16; and
- In column (d), enter the total disaster loss incurred in 1996.

Line 4 – Enter your 1996 NOL from Part I, line 3. If you have a current year NOL from more than one source, list each loss separately. Enter the initial loss to be carried over to subsequent years in column (d) and column (h) for each NOL.

Principal Business Activity Code Chart

Agriculture, Forestry and Fishing

Code
 0400 Agricultural production
 0600 Agricultural services (except veterinarians), forestry, fishing, hunting and trapping

Mining

Metal mining
 1010 Iron ores
 1070 Copper, lead and zinc, gold and silver ores
 1098 Other metal mining
 1150 Coal mining

Oil and gas extraction

1330 Crude petroleum, natural gas and natural gas liquids
 1380 Oil and gas field services

Nonmetallic minerals, except fuels

1430 Dimension, crushed and broken stone; sand and gravel
 1498 Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders

1510 General building contractors
 1531 Operative builders

1600 Heavy construction contractors

Special trade contractors

1711 Plumbing, heating and air conditioning
 1731 Electrical work
 1798 Other special trade contractors

Manufacturing

Food and kindred products

2010 Meat products
 2020 Dairy products
 2030 Preserved fruits and vegetables
 2040 Grain mill products
 2050 Bakery products
 2060 Sugar and confectionary products
 2081 Malt liquors and malt
 2088 Alcoholic beverages, except malt liquors and malt
 2089 Bottled soft drinks and flavorings
 2096 Other food and kindred products

2100 Tobacco manufacturers

Textile mill products

2228 Weaving mills and textile finishing
 2250 Knitting mills
 2298 Other textile mill products

Apparel and other textile products

2315 Men's and boy's clothing
 2345 Women's and children's clothing
 2388 Other apparel and accessories
 2390 Miscellaneous fabricated textile products

Lumber and wood products

2415 Logging, sawmills and planing mills
 2430 Millwork, plywood and related products
 2498 Other wood products, including wood buildings and mobile homes

2500 Furniture and fixtures

Paper and allied products

2625 Pulp, paper and board mills
 2699 Other paper products

Printing and publishing

2710 Newspapers
 2720 Periodicals
 2735 Books, greeting cards and miscellaneous publishing
 2799 Commercial and other printing and printing trade services

Chemicals and allied products

Code
 2815 Industrial chemicals, plastics materials and synthetics
 2830 Drugs
 2840 Soap, cleaners and toilet goods
 2850 Paints and allied products
 2898 Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)

2910 Petroleum refining (including integrated)
 2998 Other petroleum and coal products

Rubber and misc. plastics products

3050 Rubber products, plastics footwear, hose and belting
 3070 Misc. plastics products

Leather and leather products

3140 Footwear, except rubber
 3198 Other leather and leather products

Stone, clay and glass products

3225 Glass products
 3240 Cement, hydraulic
 3270 Concrete, gypsum and plaster products
 3298 Other nonmetallic mineral products

Primary metal industries

Ferrous metal industries; misc. primary metal products
 3380 Nonferrous metal industries

Fabricated metal products

3410 Metal cans and shipping containers
 3428 Cutlery, hand tools and hardware; screw machine products, bolts and similar products
 3430 Plumbing and heating, except electric and warm air
 3440 Fabricated structural metal products
 3460 Metal forgings and stampings
 3470 Coating, engraving and allied services

3480 Ordnance and accessories, except vehicles and guided missiles
 3490 Misc. fabricated metal products

Machinery, except electrical

3520 Farm machinery
 3530 Construction and related machinery
 3540 Metalworking machinery
 3550 Special industry machinery
 3560 General industrial machinery
 3570 Office, computing and accounting machines
 3598 Other machinery except electrical

Electrical and electronic equipment

3630 Household appliances
 3665 Radio, television and communication equipment
 3670 Electronic components and accessories
 3698 Other electrical equipment

3710 Motor vehicles and equipment

Transportation equipment, except motor vehicles

3725 Aircraft, guided missiles and parts
 3730 Ship and boat building and repairing
 3798 Other transportation equipment, except motor vehicles

Instruments and related products

3815 Scientific instruments and measuring devices; watches and clocks
 3845 Optical, medical and ophthalmic goods
 3860 Photographic equipment and supplies

3998 Other manufacturing products

Transportation and Public Utilities

Transportation

Code
 4000 Railroad transportation
 4100 Local and interurban passenger transit
 4200 Trucking and warehousing
 4400 Water transportation
 4500 Transportation by air
 4600 Pipe lines, except natural gas
 4700 Miscellaneous transportation services

Communication

4825 Telephone, telegraph and other communication services
 4830 Radio and television broadcasting

Electric, gas and sanitary services

4910 Electric services
 4920 Gas production and distribution
 4930 Combination utility services
 4990 Water supply and other sanitary services

Wholesale Trade

Durable

5008 Machinery, equipment and supplies
 5010 Motor vehicles and automotive equipment
 5020 Furniture and home furnishings
 5030 Lumber and construction materials
 5040 Sporting, recreational, photographic and hobby goods, toys and supplies
 5050 Metals and minerals, except petroleum and scrap
 5060 Electrical goods
 5070 Hardware, plumbing and heating equipment and supplies
 5098 Other durable goods

Nondurable

5110 Paper and paper products
 5129 Drugs, drug proprietaries and druggists' sundries
 5130 Apparel, piece goods and notions
 5140 Groceries and related products
 5150 Farm-product raw materials
 5160 Chemicals and allied products
 5170 Petroleum and petroleum products
 5180 Alcoholic beverages
 5190 Misc. nondurable goods

Retail Trade

Building materials, garden supplies and mobile home dealers

5220 Building materials dealers
 5251 Hardware stores
 5265 Garden supplies and mobile home dealers

5300 General merchandise stores

Food stores

5410 Grocery stores
 5490 Other food stores

Automotive dealers and service stations

5515 Motor vehicle dealers
 5541 Gasoline service stations
 5598 Other automotive dealers

5600 Apparel and accessory stores

5700 Furniture and home furnishings stores

5800 Eating and drinking places

Misc. retail stores

5912 Drug stores and proprietary stores
 5921 Liquor stores
 5995 Other retail stores

Finance, Insurance and Real Estate

Banking

Code
 6030 Mutual savings banks
 6060 Bank holding companies
 6090 Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks

6120 Savings and loan associations
 6140 Personal credit institutions
 6150 Business credit institutions
 6199 Other credit agencies

Security, commodity brokers and services

6210 Security brokers, dealers and flotation companies
 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance

6355 Life insurance
 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies
 6359 Other insurance companies
 6411 Insurance agents, brokers and service

Real estate

6511 Real estate operators and lessors of buildings
 6516 Lessors of mining, oil and similar property
 6518 Lessors of railroad property and other real property
 6530 Condominium management and cooperative housing associations
 6550 Subdividers and developers
 6599 Other real estate

Holding and other investment companies, except bank holding companies

6744 Small business investment companies
 6749 Other holding and investment companies except bank holding companies

Services

7000 Hotels and other lodging places

7200 Personal services

Business services

7310 Advertising
 7389 Business services, except advertising

Auto repair; misc. repair services

7500 Auto repair and services
 7600 Misc. repair services

Amusement and recreation services

7812 Motion picture production, distribution and services
 7830 Motion picture theaters
 7900 Amusement and recreation services, except motion pictures

Other services

8015 Offices of physicians, including osteopathic physicians
 8021 Offices of dentists
 8040 Offices of other health practitioners
 8050 Nursing and personal care facilities
 8060 Hospitals
 8071 Medical laboratories
 8099 Other medical services
 8111 Legal services
 8200 Educational services
 8300 Social services
 8600 Membership organizations
 8911 Architectural and engineering services
 8930 Accounting, auditing and bookkeeping
 8980 Miscellaneous services (including veterinarians)

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California S Corporation Franchise or Income Tax Return

1996

100S

Header section with fields for 'For calendar year 1996 or income year beginning' and '1996, and ending'. Includes 'Affix Preaddressed Label' and 'Provide Both California Corporation number and FEIN' instructions. Contains checkboxes for 'Final return?', 'Did this S corporation have a change in control...', and 'Principal business activity code'.

Table for 'State Adjustments' with rows 1-15. Includes descriptions like 'Ordinary income (loss) from trade or business activities' and 'Net income (loss) after state adjustments'. Includes checkboxes for lines 9-13.

If all income is derived from California sources, transfer the amount from line 15 to line 16. If income is derived from sources both within and outside of California, complete Schedule R and transfer the amount from Schedule R, line 24, to line 16 below.

Table for 'Calif. Net-Income' with rows 16-20. Includes descriptions like 'Net income (loss) for state purposes' and 'Net income for tax purposes'.

Table for 'Taxes' with rows 21-30. Includes descriptions like 'Tax' and 'Total tax'. Includes checkboxes for lines 22-25.

Table for 'Pay-ments' with rows 31-34. Includes descriptions like 'Overpayment from prior year allowed as a credit' and 'Total payments'.

Table for 'Amount Due or Refund' with rows 35-40. Includes descriptions like 'Tax due', 'Overpayment', and 'Total amount due'. Includes a checkbox for 'Check box if estimate penalty was computed using Exception B or Exception C'.

Schedule F Computation of Trade or Business Income See General Information I.

Income	1	a) Gross receipts or sales _____ b) Less returns and allowances _____	Balance	1c	
	2	Cost of goods sold		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Net gain (loss)		4	
	5	Other income (loss). Attach schedule	●	5	
	6	Total income (loss). Combine line 3 through line 5.		6	
Deductions	7	Compensation of officers. Attach schedule. See instructions		7	
	8	Salaries and wages	●	8	
	9	Repairs		9	
	10	Bad debts		10	
	11	Rents	●	11	
	12	Taxes		12	
	13	Interest		13	
	14	a) Depreciation _____ b) Less depreciation reported elsewhere on return _____	Balance	14	
	15	Depletion		15	
	16	Advertising		16	
	17	Pension, profit-sharing, etc. plans		17	
	18	Employee benefit programs		18	
	19	a) Total travel and entertainment _____ b) Deductible amount		19b	
	20	Other deductions. Attach schedule	●	20	
	21	Total deductions. Add line 7 through line 20	●	21	
	22	Ordinary income (loss) from trade or business. Subtract line 21 from line 6. Enter here and on Side 1, line 1	●	22	

Schedule V Cost of Goods Sold Method of inventory valuation

1	Inventory at beginning of year		5	Other costs. Attach schedule	
2	Purchases	●	6	Total. Add line 1 through line 5.	
3	Cost of labor	●	7	Inventory at end of year.	
4	Other IRC Sec. 263A costs. Attach schedule	●	8	Cost of goods sold. Line 7 minus line 6.	●

Was there any substantial change in the manner of determining quantities, costs or valuations between opening and closing inventory? . . . Yes No

If "Yes," attach an explanation. Enter California seller's permit number, if any _____

Check if the LIFO inventory method was adopted this income year for any goods. If checked, attach federal Form 970 ●

If the LIFO inventory method was used for this income year, enter the percentage (or amounts) of closing inventory computed under LIFO ● _____

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

Schedule J Add-On Taxes or Recapture of Tax Credits. See instructions.

1	LIFO recapture due to S corporation election (IRC Sec. 1363(d) deferral — \$_____).	●	1	
2	Interest computed under the look-back method for completed long-term contracts (Attach FTB 3834)	●	2	
3	Interest on tax attributable to installment: a) Sales of certain timeshares and residential lots	●	3a	
		●	3b	
4	IRC Section 197(f)(9)(B)(ii) election	●	4	
5	Credit recapture name: _____	●	5	
6	Combine line 1 through line 5. Revise the amount on Side 1, line 35 or line 36, whichever applies, by this amount. Write "Schedule J" to the left of line 35 or line 36	●	6	

Questions (continued from Side 1)

- F** Date incorporated: _____ ● Where: State Country _____
- G** Maximum number of shareholders in the corporation at any time during the year ● _____
- H** Date business began in California or date income was first derived from California sources: ● _____
- I** Is the corporation under audit by the IRS or has it been audited in a prior year? ● Yes No
- J** Effective date of federal S election: ● _____
- K** Effective date of California S election: ● _____
- L** Accounting method: ● (1) Cash (2) Accrual (3) Other
- M** Location of principal accounting records: _____
- N** "Doing business as" name: ● _____
- O** Have all required information returns (e.g. federal Form 1099 series) been filed with the Franchise Tax Board? N/A Yes No
- P** S corporation is: ● Apportioning income to California Not apportioning income
- Q** During the income year, were gross receipts (less returns and allowances) of this corporation more than \$1 million? ● Yes No

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. Declaration of preparer (other than the taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer ▶	Title	Date	Telephone ()
Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN/FEIN
Firm's name (or yours, if self-employed) and address ▶	FEIN ▶		Telephone ▶ ()

Schedule K S Corporation Shareholders' Shares of Income, Deductions, Credits, etc.

	(a) Pro rata share items	(b) Amount from federal Schedule K (1120S)	(c) California adjustment	(d) Total amount using California law Combine (b) and (c) where applicable
Income (Loss)	1 Ordinary income (loss) from trade or business activities			●
	2 Net income (loss) from rental real estate activities			●
	3 a Gross income from other rental activities.			
	b Expenses from other rental activities. Attach schedule			
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a			●
	4 Portfolio income (loss):			
	a Interest			●
	b Dividends			●
	c Royalties			●
	d Net short-term capital gain (loss). Attach Schedule D (100S)			●
e Net long-term capital gain (loss). Attach Schedule D (100S)			●	
f Other portfolio income (loss). Attach schedule			●	
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .			●	
6 Other income (loss). Attach schedule			●	
Deductions	7 Charitable contributions			●
	8 Expense deduction for recovery property (R&TC Sections 17252.5 and 17265 and IRC Section 179). Attach Schedule B (100S)			
	9 Deductions related to portfolio income (loss). Attach schedule			●
	10 Other deductions. Attach schedule			
Investment Interest	11 a Interest expense on investment debts			●
	b (1) Investment income included on lines 4a through 4f above (2) Investment expenses included on line 9 above.			
Tax Credits	12 a Low-income housing credit. See instructions. Attach schedule			●
	b Credits related to rental real estate activities other than on line 12(a). Attach schedule			●
	c Credits related to other rental activities. See instructions. Attach schedule .			●
	13 Other credits. Attach schedule			●
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86.			
	b Adjusted gain or loss			
	c Depletion (other than oil and gas)			
	d (1) Gross income from oil, gas and geothermal properties (2) Deductions allocable to oil, gas and geothermal properties.			
	e Other adjustments and tax preference items. Attach schedule			
Other State Taxes	15 a Type of income _____			
	b Name of state _____			
	c Total gross income from sources outside California. Attach schedule			
	d Total applicable deductions and losses. Attach schedule.			
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued			●
Other Items	16 a Total expenditures to which an IRC Section 59(e) election may apply			
	b Type of expenditures _____			
	17 Tax-exempt interest income.			
	18 Other tax-exempt income			
	19 Nondeductible expenses			
	20 Total property distributions (including cash) other than dividend distributions reported on line 22 below			●
	21 Other items and amounts not included in line 1 through line 20 above that are required to be reported separately to shareholders. Attach schedule . . .			●
	22 Total dividend distributions paid from accumulated earnings and profits			●
23 Income (loss) (required only if Schedule M-1 must be completed). Combine line 1, line 2 and line 3c through line 6. From the result, subtract the sum of line 7 through line 11a and line 16a.				

Schedule L Balance Sheets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 Federal and state government obligations				
5 Other current assets. Attach schedule(s)				
6 Loans to shareholders. Attach schedule(s)				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other fixed depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				
14 Total assets.		●		●
Liabilities and shareholders' equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule(s)				
18 Loans from shareholders. Attach schedule(s)				●
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities. Attach schedule(s)				
21 Capital stock		●		●
22 Paid-in or capital surplus		●		●
23 Retained earnings		●		●
24 Less cost of treasury stock		()		()
25 Total liabilities and shareholders' equity.				

Schedule M - 1 Reconciliation of income (loss) per books with income (loss) per return Do not complete this schedule if the amount on Schedule L, line 14, column (d), is less than \$25,000.

1 Net income per books		5 Income recorded on books this year not included on Schedule K, lines 1 through 6 (itemize)	
2 Income included on Schedule K, lines 1 through 6, not recorded on books this year (itemize)	●	a Tax-exempt interest \$	●
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 11a and line 16a (itemize)		6 Deductions included on Sch. K lines 1 through 11a and line 16a, not charged against book income this year (itemize)	
a Depreciation \$		a Depreciation \$	
b State taxes \$		b State tax refunds \$	
c Travel and entertainment \$			
4 Total. Add lines 1 through 3	●	7 Total. Add line 5 and line 6	
		8 Income (loss) (Sch. K, line 23, col. d). Line 4 less line 7	

Schedule M - 2 California accumulated adjustments account, other adjustments account, and other retained earnings See instructions.

Important: Use California figures and federal procedures.	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Other retained earnings (see instructions)
1 Balance at beginning of year	●		
2 Ordinary income from Form 100S, Side 1, line 1			
3 Other additions			
4 Loss from Form 100S, Side 1, line 1	()		
5 Other reductions	()	()	
6 Combine lines 1 through 5			
7 Distributions other than dividend distributions	●		
8 Balance at end of year. Subtract line 7 from line 6	●		
9 Retained earnings at end of year. Add line 8, columns (a) through (c)			●

● If the corporation has C corporation E&P at the end of the income year, check the box and enter the amount. See instructions.

California S Corporation Franchise or Income Tax Return

1996

100S

Header section with fields for 'For calendar year 1996 or income year beginning' and '1996, and ending'. Includes 'Affix Preaddressed Label' and 'Provide Both California Corporation number and FEIN'. Contains questions A-E regarding final return status, control changes, business activity code, and enterprise zone benefits.

Table for State Adjustments (lines 1-15). Columns include description, amount, and tax status. Rows include ordinary income, foreign tax, interest, capital gain, depreciation, portfolio income, other additions, total adjustments, deductible dividends, water's-edge dividend deduction, contributions, net interest deduction, other deductions, total deductions, and net income after state adjustments.

If all income is derived from California sources, transfer the amount from line 15 to line 16. If income is derived from sources both within and outside of California, complete Schedule R and transfer the amount from Schedule R, line 24, to line 16 below.

Main table for California Net-Income (lines 16-40). Columns include description, amount, and tax status. Rows include net income for state purposes, R&TC deduction, net operating loss carryover, disaster loss carryover, net income for tax purposes, franchise tax, credits, balance, tax from Schedule D, excess net passive income tax, total tax, overpayment from prior year, 1996 estimated tax payments, total payments, tax due, overpayment, amount to be credited, amount to be refunded, penalties and interest, and total amount due.

Schedule F Computation of Trade or Business Income See General Information I.

Income	1	a) Gross receipts or sales _____ b) Less returns and allowances _____	Balance	1c	
	2	Cost of goods sold		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Net gain (loss)		4	
	5	Other income (loss). Attach schedule	●	5	
	6	Total income (loss). Combine line 3 through line 5.		6	
Deductions	7	Compensation of officers. Attach schedule. See instructions		7	
	8	Salaries and wages	●	8	
	9	Repairs		9	
	10	Bad debts		10	
	11	Rents	●	11	
	12	Taxes		12	
	13	Interest		13	
	14	a) Depreciation _____ b) Less depreciation reported elsewhere on return _____	Balance	14	
	15	Depletion		15	
	16	Advertising		16	
	17	Pension, profit-sharing, etc. plans		17	
	18	Employee benefit programs		18	
	19	a) Total travel and entertainment _____ b) Deductible amount		19b	
	20	Other deductions. Attach schedule	●	20	
	21	Total deductions. Add line 7 through line 20	●	21	
	22	Ordinary income (loss) from trade or business. Subtract line 21 from line 6. Enter here and on Side 1, line 1	●	22	

Schedule V Cost of Goods Sold Method of inventory valuation

1	Inventory at beginning of year		5	Other costs. Attach schedule	
2	Purchases	●	6	Total. Add line 1 through line 5.	
3	Cost of labor	●	7	Inventory at end of year.	
4	Other IRC Sec. 263A costs. Attach schedule	●	8	Cost of goods sold. Line 7 minus line 6.	●

Was there any substantial change in the manner of determining quantities, costs or valuations between opening and closing inventory? . . . Yes No

If "Yes," attach an explanation. Enter California seller's permit number, if any _____

Check if the LIFO inventory method was adopted this income year for any goods. If checked, attach federal Form 970

If the LIFO inventory method was used for this income year, enter the percentage (or amounts) of closing inventory computed under LIFO ● _____

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

Schedule J Add-On Taxes or Recapture of Tax Credits. See instructions.

1	LIFO recapture due to S corporation election (IRC Sec. 1363(d) deferral — \$_____).	●	1	
2	Interest computed under the look-back method for completed long-term contracts (Attach FTB 3834)	●	2	
3	Interest on tax attributable to installment: a) Sales of certain timeshares and residential lots	●	3a	
		●	3b	
4	IRC Section 197(f)(9)(B)(ii) election	●	4	
5	Credit recapture name: _____	●	5	
6	Combine line 1 through line 5. Revise the amount on Side 1, line 35 or line 36, whichever applies, by this amount. Write "Schedule J" to the left of line 35 or line 36	●	6	

Questions (continued from Side 1)

- F** Date incorporated: _____ ● Where: State Country _____
- G** Maximum number of shareholders in the corporation at any time during the year ● _____
- H** Date business began in California or date income was first derived from California sources: ● _____
- I** Is the corporation under audit by the IRS or has it been audited in a prior year? ● Yes No
- J** Effective date of federal S election: ● _____
- K** Effective date of California S election: ● _____
- L** Accounting method: ● (1) Cash (2) Accrual (3) Other
- M** Location of principal accounting records: _____
- N** "Doing business as" name: ● _____
- O** Have all required information returns (e.g. federal Form 1099 series) been filed with the Franchise Tax Board? N/A Yes No
- P** S corporation is: ● Apportioning income to California Not apportioning income
- Q** During the income year, were gross receipts (less returns and allowances) of this corporation more than \$1 million? ● Yes No

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. Declaration of preparer (other than the taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer ▶	Title	Date	Telephone ()
Paid Preparer's Use Only	Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN/FEIN
	Firm's name (or yours, if self-employed) and address ▶		FEIN ▶	Telephone ▶ ()

Schedule K S Corporation Shareholders' Shares of Income, Deductions, Credits, etc.

	(a) Pro rata share items	(b) Amount from federal Schedule K (1120S)	(c) California adjustment	(d) Total amount using California law Combine (b) and (c) where applicable
Income (Loss)	1 Ordinary income (loss) from trade or business activities			●
	2 Net income (loss) from rental real estate activities			●
	3 a Gross income from other rental activities.			
	b Expenses from other rental activities. Attach schedule			
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a			●
	4 Portfolio income (loss):			
	a Interest			●
	b Dividends			●
	c Royalties			●
	d Net short-term capital gain (loss). Attach Schedule D (100S)			●
e Net long-term capital gain (loss). Attach Schedule D (100S)			●	
f Other portfolio income (loss). Attach schedule			●	
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .			●	
6 Other income (loss). Attach schedule			●	
Deductions	7 Charitable contributions			●
	8 Expense deduction for recovery property (R&TC Sections 17252.5 and 17265 and IRC Section 179). Attach Schedule B (100S)			
	9 Deductions related to portfolio income (loss). Attach schedule			●
	10 Other deductions. Attach schedule			
Investment Interest	11 a Interest expense on investment debts			●
	b (1) Investment income included on lines 4a through 4f above (2) Investment expenses included on line 9 above.			
Tax Credits	12 a Low-income housing credit. See instructions. Attach schedule			●
	b Credits related to rental real estate activities other than on line 12(a). Attach schedule			●
	c Credits related to other rental activities. See instructions. Attach schedule .			●
	13 Other credits. Attach schedule			●
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86.			
	b Adjusted gain or loss			
	c Depletion (other than oil and gas)			
	d (1) Gross income from oil, gas and geothermal properties (2) Deductions allocable to oil, gas and geothermal properties.			
	e Other adjustments and tax preference items. Attach schedule			
Other State Taxes	15 a Type of income _____			
	b Name of state _____			
	c Total gross income from sources outside California. Attach schedule			
	d Total applicable deductions and losses. Attach schedule.			
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued			●
Other Items	16 a Total expenditures to which an IRC Section 59(e) election may apply			
	b Type of expenditures _____			
	17 Tax-exempt interest income.			
	18 Other tax-exempt income			
	19 Nondeductible expenses			
	20 Total property distributions (including cash) other than dividend distributions reported on line 22 below			●
	21 Other items and amounts not included in line 1 through line 20 above that are required to be reported separately to shareholders. Attach schedule . . .			●
	22 Total dividend distributions paid from accumulated earnings and profits			●
23 Income (loss) (required only if Schedule M-1 must be completed). Combine line 1, line 2 and line 3c through line 6. From the result, subtract the sum of line 7 through line 11a and line 16a.				

Schedule L Balance Sheets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 Federal and state government obligations				
5 Other current assets. Attach schedule(s)				
6 Loans to shareholders. Attach schedule(s)				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other fixed depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				
14 Total assets.		●		●
Liabilities and shareholders' equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule(s)				
18 Loans from shareholders. Attach schedule(s)				●
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities. Attach schedule(s)				
21 Capital stock		●		●
22 Paid-in or capital surplus		●		●
23 Retained earnings		●		●
24 Less cost of treasury stock		()		()
25 Total liabilities and shareholders' equity.				

Schedule M - 1 Reconciliation of income (loss) per books with income (loss) per return Do not complete this schedule if the amount on Schedule L, line 14, column (d), is less than \$25,000.

1 Net income per books		5 Income recorded on books this year not included on Schedule K, lines 1 through 6 (itemize)	
2 Income included on Schedule K, lines 1 through 6, not recorded on books this year (itemize)	●	a Tax-exempt interest \$	●
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 11a and line 16a (itemize)		6 Deductions included on Sch. K lines 1 through 11a and line 16a, not charged against book income this year (itemize)	
a Depreciation \$		a Depreciation \$	
b State taxes \$		b State tax refunds \$	
c Travel and entertainment \$		7 Total. Add line 5 and line 6	●
4 Total. Add lines 1 through 3	●	8 Income (loss) (Sch. K, line 23, col. d). Line 4 less line 7	

Schedule M - 2 California accumulated adjustments account, other adjustments account, and other retained earnings See instructions.

Important: Use California figures and federal procedures.	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Other retained earnings (see instructions)
1 Balance at beginning of year	●		
2 Ordinary income from Form 100S, Side 1, line 1			
3 Other additions			
4 Loss from Form 100S, Side 1, line 1	()		
5 Other reductions	()	()	
6 Combine lines 1 through 5			
7 Distributions other than dividend distributions	●		
8 Balance at end of year. Subtract line 7 from line 6	●		
9 Retained earnings at end of year. Add line 8, columns (a) through (c)			●
● <input type="checkbox"/> If the corporation has C corporation E&P at the end of the income year, check the box and enter the amount. See instructions.			●

1996 S Corporation Depreciation and Amortization

B (100S)

For use by S corporations only. Attach to Form 100S.

Corporation name as shown on Form 100S

California corporation number

Part I Depreciation.

1 Enter federal depreciation from federal Form 4562, line 21 1

2 California depreciation:

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in earlier years	(e) Method of figuring dep.	(f) Life or rate	(g) Depreciation for this year

3 Add the amounts on line 2, column (g) 3

4 Subtract line 3 from line 1. Enter here and on Form 100S, Side 1, line 5 and on the applicable line of Schedule K 4

5a Enter the IRC 179 expense for California purposes. Enter here and on Form 100S, Side 1, line 13. Do not enter more than \$10,000 5a

5b Enter the IRC Section 179 expense for federal purposes. Do not enter more than \$17,500 5b

5c Subtract line 5b from line 5a. Enter here and on Schedule K, line 8, column (c) 5c

Part II Amortization.

1 Enter federal amortization from federal Form 4562, line 41 1

2 California amortization:

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Amortization allowed or allowable in earlier years	(e) R&TC section	(f) Period or percentage	(g) Amortization for this year

3 Add the amounts on line 2, column (g) 3

4 CA amortization adj. Subtract line 3 from line 1. Enter here, on Form 100S, Side 1, line 5, and on the applicable line of Sch. K 4

1996 S Corporation Tax Credits

C (100S)

See instructions for Form 100S, General Information Y, Z and AA. Be sure to complete and attach all supporting credit forms.

	(a) Credit amount limited to 1/3 of total	(b) Carryover from prior year	(c) Credit used this year (not more than (a) + (b))	(d) Tax balance	(e) Credit carryover to 1997
1 Regular tax from form 100S, Side 1, line 21					
2 Minimum franchise tax, if applicable.					
3 Subtract line 2 from line 1. If zero, or less, enter -0-					
4 Code: _____ Credit Name: _____					
5 Code: _____ Credit Name: _____					
6 Code: _____ Credit Name: _____					
7 Code: _____ Credit Name: _____					
8 Code: _____ Credit Name: _____					
9 Enter the credit amounts on Form 100S, line 22, line 23 or line 24. If more than 3 credits, enter the total remaining credits on line 25					

1996 S Corporation Dividend Income

H (100S)

See instructions for Form 100S, Schedule H. Use additional sheet(s) if necessary.

(a) Payer	(b) Common or preferred stock	(c) Dividend received	(d) Deductible %	(e) Deductible dividend ((c) x (d))	(f) Limitation %	(g) Allowable dividend deduction ((e) x (f))

Total. Enter here and on the applicable line of Form 100S, Side 1

S Corporation Capital Gains and Losses and Built-In Gains

D (100S)

Corporation name as shown on Form 100S

California corporation number

SECTION A – 9.3% Tax on Certain Capital Gains and Built-In Gains

Part I Short-Term Capital Gains and Losses — Assets Held One Year or Less. Use additional sheet(s) if necessary.

1 (a) Description of property <small>(Example: 100 shares 7% preferred of "Z" Co.)</small>	(b) Date acquired <small>(mo., day, yr.)</small>	(c) Date sold <small>(mo., day, yr.)</small>	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain (loss) <small>((d) less (e))</small>
2 Short-term capital gain from installment sales from form FTB 3805E, line 26 or line 37					2
3a Net short-term capital gain (loss). Combine line 1 and line 2 and enter here					3a
3b Tax on short-term capital gain(s) included on line 21 below					3b
3c Subtract line 3b from line 3a. Enter this amount on Schedule K (100S), line 4d or line 6					3c

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year. Use additional sheet(s) if necessary.

4					
5 Long-term capital gain from installment sales from form FTB 3805E, line 26 or line 37					5
6a Net long-term capital gain (loss). Combine line 4 and line 5 and enter here					6a
6b Tax on long-term capital gain(s) included on line 15 and line 21 below					6b
6c Subtract line 6b from line 6a. Enter this amount on Schedule K (100S), line 4e or line 6					6c

Part III Tax on Certain Capital Gains. See instructions before completing this part.

7 Enter IRC Section 1231 gain from Schedule D-1, line 9		7	
8 Net long-term capital gain (loss). Combine line 6c and 7.		8	
Note: If the corporation is liable for the excess net passive income tax (Form 100S, Side 1, line 29) or the built-in gains tax (Part IV below), see the line 15 instruction for federal Schedule D (Form 1120S) before completing line 9.			
9 Net capital gain. Enter excess net long-term capital gain (line 8) over net short-term capital loss (line 3c)		9	
10 Statutory minimum		10	\$25,000
11 Subtract line 10 from line 9		11	
12 Multiply line 11 by 9.3% (calendar year financial S corporations must use 11.3%)		12	
13 Taxable income. See instructions for federal Schedule D (Form 1120S). Use California amounts		13	
14 Multiply line 13 by 9.3% (calendar year financial S corporations must use 11.3%)		14	
15 Tax on certain capital gains. Enter smaller of line 12 or line 14 here and on Form 100S, Side 1, line 28		15	

Part IV Tax on Built-In Gains. See instructions before completing this part.

16 Excess of recognized built-in gains over recognized built-in losses attributable to California. Attach computation schedule		16	
17 Taxable income. See the instructions for federal Schedule D (Form 1120S). Use California amounts		17	
18 Enter the smaller of line 16 or line 17		18	
19 Net operating loss (NOL) carryover deduction from years the corporation was a C corporation (IRC Section 1374(b)(2)) (limited to the amount allowable for state purposes). Attach the NOL form from the appropriate year. See instructions		19	
20 Subtract line 19 from line 18. If zero or less, enter zero here and on line 21		20	
21 Tax on built-in gains. Multiply line 20 by 9.3% (financial S corps. must use 11.3%). Enter here and on Form 100S, Side 1, line 28		21	

SECTION B – 1.5% Tax on Capital Gains

Part I Short Term Capital Gains and Losses — Assets Held One Year or Less. Use additional sheet(s) if necessary.

1 (a) Kind of property and description <small>(Example: 100 shares of "Z" Co.)</small>	(b) Date acquired <small>(mo., day, yr.)</small>	(c) Date sold <small>(mo., day, yr.)</small>	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain (loss) <small>((d) less (e))</small>
2 a Short-term capital gain from installment sales from form FTB 3805E, line 26 or line 37					2a
b Unused capital loss carryover from 1995 attributable to the S Corporation					2b
3 Net short-term capital gain (loss). Combine line 1 through line 2b. Enter here and on Schedule K, Form 100S, line 4d or line 6					3

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year. Use additional sheet(s) if necessary.

4					
5 Enter gain from Schedule D-1, line 7 or line 9					5
6 Long-term capital gain from installment sales from form FTB 3805E, line 26 or line 37					6
7 Net long-term capital gain (loss). Combine lines 4 through 6. Enter here and on Schedule K, Form 100S, line 4e or line 6					7
8 Enter excess of net short-term capital gain (line 3) over net long-term capital loss (line 7)					8
9 Net capital gain. Enter excess of net long-term capital gain (line 7) over net short-term capital loss (line 3)					9
10 Total lines 8 and 9. Enter here and on Form 100S, Side 1, line 4. Note: If losses exceed gains, carry forward losses to 1997					10

Shareholder's Share of Income, Deductions, Credits, etc.

K-1 (100S)

For use by an S corporation and its shareholders only.

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

Shareholder's identifying number Shareholder's name, address and ZIP code	California corporation number Corporation's name, address and ZIP code
--	---

- A** Shareholder's percentage of stock ownership for income year end ● _____ %
- B** Tax shelter registration number _____ Type: _____
- C** Check here if this is: ● (1) A final Schedule K-1 (2) An amended Schedule K-1
- D** What type of entity is this shareholder? ● (1) Individual (2) Estate/Trust
- E** Is this shareholder a nonresident of California? ► Yes ● No

Caution: Refer to the separate shareholder's instructions for Schedule K-1 (100S) before entering information from this schedule on your tax return.

	(a) Pro rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities.			●	►
	2 Net income (loss) from rental real estate activities.			●	►
	3 Net income (loss) from other rental activities.				
	4 Portfolio income (loss):				
	a Interest			●	►
	b Dividends			●	►
	c Royalties			●	►
d Net short-term capital gain (loss)			●	►	
e Net long-term capital gain (loss)			●	►	
f Other portfolio income (loss). Attach schedule			●	►	
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft):			●	►	
6 Other income (loss). Attach schedule			●	►	
Deductions	7 Charitable contributions				
	8 Expense deduction for recovery property (R&TC Sections 17252.5, 17265, 17266 and 17268 and IRC Section 179). Attach schedule				
	9 Deductions related to portfolio income (loss). Attach schedule				
	10 Other deductions. Attach schedule				
Investment Interest	11 a Interest expense on investment debts			●	►
	b (1) Investment income included on line 4a through line 4f above				
	(2) Investment expenses included on line 9 above				
Tax Credits	12 a Low-income housing credit. See instructions. Attach schedule			●	►
	b Credits related to rental real estate activities other than on line 12(a). Attach schedule			●	►
	c Credits related to other rental activities. See instructions. Attach schedule			●	►
	13 Other credits. Attach schedule			●	►

	(a) Pro rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits														
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86																		
	b Adjusted gain or loss																		
	c Depletion (other than oil and gas)																		
	d (1) Gross income from oil, gas and geothermal properties																		
	(2) Deductions allocable to oil, gas and geothermal properties																		
	e Other adjustments and tax preference items. Attach schedule																		
Other State Taxes	15 a Type of income _____																		
	b Name of state _____																		
	c Total gross income from sources outside California. Attach schedule																		
	d Total applicable deductions and losses. Attach schedule																		
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued				●	▶													
Other Items	16 a Total expenditures to which an IRC Section 59(e) election may apply																		
	b Type of expenditures _____																		
	17 Tax-exempt interest income																		
	18 Other tax-exempt income																		
	19 Nondeductible expenses																		
	20 Total taxable dividend distribution paid from accumulated earnings and profits			●	▶														
	21 Property distributions (including cash) other than dividend distributions reported to you on federal Form 1099-DIV			●	▶														
22 Amount of loan repayments for "Loans from Shareholders"			●	▶															
Supplemental Information	23 Supplemental information that is required to be reported separately to each shareholder. Attach additional sheet(s) if necessary.																		
	<p>Table 1 — Income of the S corporation not attributable to the business, trade or profession of the S corporation (nonbusiness income).</p> <p>A. Shareholder's share of income from real and tangible property in California: Capital Gains/Losses \$ _____ Rents/Royalties \$ _____ 1231 Gains/Losses \$ _____ Other \$ _____</p> <p>B. Shareholder's share of income from intangibles: Interest \$ _____ Royalties \$ _____ Dividends \$ _____ 1231 Gains/Losses \$ _____ Capital Gains/Losses \$ _____ Other \$ _____</p> <p>C. California credits (attach schedule of credits). \$ _____</p> <p>Table 2 — Unitary shareholder's share of business income and factors.</p> <p>A. Shareholder's share of the S corporation's business income. See instructions. \$ _____</p> <p>B. Shareholder's share of the S corporation's property, payroll and sales:</p> <table border="1" style="width:100%; border-collapse: collapse; margin-left: 20px;"> <thead> <tr> <th style="width:30%;">Factors</th> <th style="width:35%;">Total within and outside California</th> <th style="width:35%;">Total within California</th> </tr> </thead> <tbody> <tr> <td>Property: Beginning</td> <td style="text-align:right;">\$ _____</td> <td style="text-align:right;">\$ _____</td> </tr> <tr> <td>Ending</td> <td style="text-align:right;">\$ _____</td> <td style="text-align:right;">\$ _____</td> </tr> <tr> <td>Payroll</td> <td style="text-align:right;">\$ _____</td> <td style="text-align:right;">\$ _____</td> </tr> <tr> <td>Sales</td> <td style="text-align:right;">\$ _____</td> <td style="text-align:right;">\$ _____</td> </tr> </tbody> </table>					Factors	Total within and outside California	Total within California	Property: Beginning	\$ _____	\$ _____	Ending	\$ _____	\$ _____	Payroll	\$ _____	\$ _____	Sales	\$ _____
Factors	Total within and outside California	Total within California																	
Property: Beginning	\$ _____	\$ _____																	
Ending	\$ _____	\$ _____																	
Payroll	\$ _____	\$ _____																	
Sales	\$ _____	\$ _____																	

1996 S Corporation's List of Shareholders and Consents

3830

For use by S corporations with one or more nonresident shareholders or trusts with nonresident fiduciaries. Attach to Form 100S and give a copy to each nonresident shareholder or fiduciary. Use additional sheet(s) if necessary.

Corporation name	California corporation number
------------------	-------------------------------

Note: Completion of this form does not satisfy the requirements for filing an individual income tax return for California.

List below the names and identification numbers of shareholders of record at the end of the corporation's income year.

Number	Shareholder's name	Only nonresident shareholders and nonresident fiduciaries must sign: I consent to the jurisdiction of the State of California to tax my pro rata share of the S corporation income attributable to California sources.		Shareholder's Social security no./Federal employer identification no.
		Signature	Date	
1				
2				
3				
4				
5				
6				
7				
8				
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17				

List below the names and identification numbers of shareholders who sold or transferred their ownership interest before the end of the corporation's income year.

Number	Shareholder's name	Only nonresident shareholders and nonresident fiduciaries must sign: I consent to the jurisdiction of the State of California to tax my pro rata share of the S corporation income attributable to California sources.		Shareholder's Social security no./Federal employer identification no.
		Signature	Date	
1				
2				
3				
4				
5				

General Information

A Purpose of Form

When an S corporation has one or more shareholders who are nonresidents of California, or trusts with nonresident fiduciaries, use form FTB 3830 to:

- List the names and social security numbers or federal employer identification numbers of all shareholders; and
- Obtain the signature of each nonresident shareholder or fiduciary evidencing consent to the jurisdiction of California to tax their pro rata share of income attributable to California sources.

Caution: Failure to complete this form is grounds for the Franchise Tax Board to retroactively revoke the S corporation election.

B Nonresidents Who Must File a California Return

If you are a nonresident shareholder, in addition to form FTB 3830, you may also need to file Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. Form 540NR must be filed if you had income from California sources and:

- You were single or unmarried in 1996 and your gross income from all sources was more than \$10,160; or adjusted gross income from all sources was more than \$8,128; or
- You were married in 1996, and you and your spouse had a combined gross income

from all sources, of more than \$20,320; or adjusted gross income from all sources of more than \$16,256, or

- You can be claimed as a dependent as set in Internal Revenue Code (IRC) Section 63(c)(5) when the individual's gross income from all sources exceeds the standard deduction allowed under the IRC; or
- If you owe the state of California \$1 or more of tax.

C Group Nonresident Shareholder Return

Nonresident shareholders of an S corporation doing business in California may elect to file a group nonresident return using Form 540NR. For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR for Nonresident Shareholders of an S Corporation.

Shareholder's Instructions for Schedule K-1 (100S)

For S Corporation Shareholder's Use Only

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).

Purpose of Schedule K-1 (100S)

The S corporation uses Schedule K-1 (100S) to report your share of the S corporation's income, deductions, credits, etc. Please keep a copy of it for your records.

Although the S corporation is subject to various taxes, you are liable for the income tax on your share of the S corporation's income, whether or not distributed, and you must include your share on your individual tax return.

The amount of losses and deductions that you may claim on your individual tax return may be less than the amount reported on Schedule K-1 (100S). Generally, the amount of losses and deductions you may claim is limited to your basis in the S corporation, debt owed to you by the S Corporation and the amount for which you are considered at-risk. If the S corporation has losses, deductions or credits from a passive activity, you must also apply the passive activity rules. It is your responsibility to consider and apply any applicable limitations. See Limitations on Losses, Deductions and Credits. Use these instructions to help you report the items shown on Schedule K-1 (100S) on your California tax return.

For the line items where "attach schedule" appears, the S corporation should have provided additional information applicable to that line or the S corporation should have made an entry on Side 2, line 23.

Line 1 through Line 22

If you are an individual shareholder, take the amounts in column (c) that are from nonpassive activities and enter these amounts on the appropriate form or schedule as explained in these instructions.

Report the amounts in column (d) or column (e) that are from passive activities on the California form or schedule where they are normally reported. Bring the total amounts figured on the appropriate California form or schedule to form FTB 3801, Passive Activity Loss Limitations, to figure the amount of your passive activity loss limitation. Then transfer the passive activity loss back to the form or schedule it is normally reported on to figure your California adjustment amount. Enter this adjustment amount on the corresponding line of Schedule CA (540 or 540NR), California Adjustments, or Form 541, California Fiduciary Income Tax Return.

If there is no California schedule or form to figure your passive activity loss adjustment amount on (i.e., rental loss from passive activities), you may figure the adjustment amount on the California Adjustment Worksheet in the instructions for form FTB 3801. Enter the total of your adjustments from all passive activities

from line 1 and line 2 of this worksheet on Schedule CA (540 or 540NR), as applicable. If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, these carryforward losses, deductions and credits may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 (100S) to get a net figure to report on any supporting schedules, statements or forms attached to your return. Instead, report the amounts on an attached schedule, statement or form on a year-by-year basis.

Line 1 through Line 3

The amounts shown on line 1 through line 3 reflect your share of income or loss from the S corporation's business or rental operations without reference to your limitations on losses or adjustments that may be required because of:

- The adjusted basis of your S corporation ownership interest;
- The amount for which you are at-risk as determined under IRC Section 465; and
- The passive activity limitations of IRC Section 469.

See the federal Schedule K-1 (Form 1120S) instructions for line 1 through line 3 for more information.

Limitations on Losses, Deductions and Credits

Basis rules

Generally, you may not claim your share of the S corporation loss (including capital loss) that is larger than the adjusted basis of your shareholder interest at the end of the S corporation's income year.

Basis is increased by:

1. All income (including tax-exempt income) reported on Schedule K-1 (100S).

Note: Taxable income must be reported on your tax return (if a return is required) for it to increase your basis.

2. Money and adjusted basis in property contributed to the corporation.
3. The excess of the deduction for depletion over the adjusted basis of the property subject to depletion.

Basis is decreased by:

1. Property distributions (including cash) made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1 (100S), line 21.

2. All losses and deductions (including non-deductible expenses) reported on Schedule K-1 (100S).

These items are not a complete list of factors that determine basis.

At-risk rules

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

The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179 or R&TC Sections 17252.5, 17265 and 17268 deductions) that you may claim to the amount you could actually lose in the activity. See the federal Schedule K-1 (Form 1120S) instructions for At-Risk Limitations for more information.

Passive activity limitations

Caution: During 1993, the U.S. Congress made several changes to the passive activity loss provisions of the IRC. California has not conformed to those changes.

California tax law conforms to prior federal IRC Section 469 rules that limit the deduction of certain losses and credits.

These rules apply to shareholders who:

- Are individuals, estates or trusts; and
- Have a loss or credit from a passive activity.

A passive activity is generally a rental activity or a trade or business activity in which the shareholder does not materially participate.

If you have a loss or deductions from a passive activity, you will need to complete form FTB 3801 to figure the allowable amounts to report on your individual return. You will also need to complete form FTB 3801 if you have passive activity income from this S corporation and passive activity loss or deduction from another source.

The amounts reported on line 2 and line 3 of Schedule K-1 (100S) are from rental activities of the S corporation and are generally passive activity income (loss) to all shareholders.

There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The S corporation will identify any of these qualified amounts on an attachment for line 2.

California Adjustment — Column (c)

Use this column to account for your proportionate share of the differences in the computation of federal and California income.

The major items are:

- California minimum franchise tax;
- Depreciation expense due to different basis of the assets;
- Gain or loss on sale of assets due to the effects of different depreciation methods or basis; and
- Government bond interest income:
 - a) U.S. bond interest is taxable for federal purposes but not for California purposes; and
 - b) State bond interest (other than from California bonds) is taxable for California purposes but not for federal purposes.

Total amounts using California law — Column (d) and California source amounts and credits — Column (e)

Shareholders who are California residents will use amounts shown in column (d) because California resident individuals are subject to personal income tax on all income from whatever source derived (R&TC Section 17071). Nonresident shareholders who do not conduct a trade or business that is unitary with the S corporation should use the amounts in column (c) and column (d) (for total income purposes), and column (e) (for California source income purposes). If the nonresident shareholder conducts a unitary business with the S corporation, data in column (e) should not be used. Instead, the shareholder must combine its share of the S corporation's income with the income from its trade or business and apportion that income using an apportionment percentage consisting of a combination of the factors from its trade or business and the shareholder's share of the factors from the S corporation from Table 2. Amounts in Table 1 should be allocated at the shareholder level (attach schedule).

Income

Line 1 — Ordinary income (loss) from trade or business activities

The amount reported on line 1, column (d) or column (e), is your share of the ordinary income (loss) from the trade or business activities of the S corporation. Generally, where you report this amount on Form 540, Form 540NR or Form 541 depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this S corporation or from any other source, report the line 1, column (d) or column (e), income on form FTB 3801.

If a loss is reported on line 1, column (d) or column (e), report the loss on the applicable

line of form FTB 3801 to determine how much of the loss is allowable.

Line 2 — Net income (loss) from rental real estate activities

Generally, the income (loss) reported on line 2, column (d) or column (e), is a passive activity amount to all shareholders. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations do not apply to qualified investors in qualified low-income housing projects. The S corporation will have attached a schedule for line 2 to identify such amounts, if applicable. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

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

- If you have a loss on line 2, column (d) or column (e) (other than a qualified low-income housing project loss), enter this passive activity loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.
- Note:** If you are a qualified investor reporting a qualified low-income housing project loss, report the California adjustment amount from column (c) directly on Schedule CA (540 or 540NR).
- If you have income on line 2, column (d) or column (e), and no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR).

Line 3 — Net income (loss) from other rental activities

The amount on line 3, column (d) or column (e), is a passive activity amount for all shareholders.

- If line 3, column (d) or column (e), is a loss, report the loss on the applicable line of form FTB 3801.
- If income is reported on line 3, column (d) or column (e), and you have no passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR).

Line 4 — Portfolio income (loss)

Income (loss) referred to as "portfolio" income (loss) in these instructions is not part of a passive activity subject to the rules of IRC Section 469. Portfolio income includes income not derived in the ordinary course of a trade or business from interest, dividends, annuities or royalties and gain (loss) on the sale of property that produces these types of income or is held for investment. If you have amounts on Schedule K-1 (100S), line 4a through line 4f, report these amounts as follows:

- Line 4a, column (c) and/or column (e) — Report on Schedule CA (540 or 540NR), line 8 whichever column is applicable;
- Line 4b, column (c) and/or column (e) — Report on Schedule CA (540 or 540NR), line 9 whichever column is applicable;

- Line 4c, column (c) and/or column (e) — Report on Schedule CA (540 or 540NR), line 17 whichever column is applicable;
- Line 4d and line 4e, column (d) or column (e) — Report on Schedule D; and
- Line 4f, column (d) or column (e) — Report on the applicable schedule.

Caution: Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are therefore classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) or column (e), is a passive activity amount, the S corporation should identify the amount.

The S corporation uses line 4f, column (d) or column (e), to report portfolio income other than interest, dividend, royalty and capital gain (loss) income. A statement will be attached to tell you what kind of portfolio income is reported on line 4f, column (d) or column (e).

Line 5 — Net gain (loss)

If the amount on line 5 relates to a rental activity, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g) or column (h), whichever is applicable. You do not have to complete the information called for in column (b) through column (f). Write "From Schedule K-1 (100S)" across these columns.
- If a gain is reported on line 5, column (d) or column (e), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and be sure to refer to "Passive Loss Limitations" on page 1 of the instructions for Schedule D-1.
- If a loss is reported on line 5, column (d) or column (e), and it is a passive activity amount to you, refer to "Passive Loss Limitations" on page 1 of the instructions for Schedule D-1. You will need to use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 6 — Other income (loss)

Amounts on this line are other items of income, gain or loss not included on line 1 through line 5. The S corporation should give you a description of your share for each of these items.

Report loss items that are passive activity amounts to you on form FTB 3801.

Report income or gain items that are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any other source, also report the passive activity income or gain on form FTB 3801.

Line 6 items may include the following.

- S corporation gains from the disposition of farm recapture property (refer to

Schedule D-1) and other items to which IRC Section 1252 applies;

- Recovery of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 6, column (c), on Schedule CA (540 or 540NR), line 21 whichever column is applicable;
- Gains and losses from gambling (IRC Section 165(d));
- Any income, gain or loss to the S corporation under IRC Section 751(b). Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain (loss). Report this amount on Schedule D-1, line 10; and
- Net gain (loss) from involuntary conversions due to casualty or theft. The S corporation will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, line 34, column (b)(i), column (b)(ii) and column (c).

Deductions

Line 7 – Charitable contributions

The S corporation will give you a schedule that shows which contributions were subject to the 50%, 30% and 20% limitations. For more information, refer to the federal Form 1040 instructions.

If there is an amount on Schedule K-1 (100S), line 7, column (c), enter this amount on Schedule CA (540 or 540NR), line 36.

Line 8 – Expense deduction for recovery property

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you may claim from all sources is \$10,000. The S corporation will give you information on your share of the cost of the S corporation's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments – Individuals, and federal Publication 534, Depreciating Property Placed in Service Before 1987, for more information.

If the S corporation reported R&TC Sections 24356.2, 24356.3, 24356.4 or 24356.8 for enterprise zone, program area, LARZ or LAMBRA business expense deduction on this line, complete form FTB 3805Z, form FTB 3806 or form FTB 3807, to report your pro rata share.

Line 9 – Deductions related to portfolio income (loss)

Amounts entered on this line are the expenses (other than investment interest expense and expenses from a REMIC) paid or incurred to produce portfolio income. If you have an amount on Schedule K-1 (100S), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 36. If, however, any line 9 amount should not be reported on Schedule CA (540 or 540NR), the S corporation will identify that amount for you.

Line 10 – Other deductions

Amounts on this line are other deductions not included on line 7 through line 9. If there is an amount on Schedule K-1 (100S), line 10, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

Investment Interest

Line 11a and Line 11b

If the S corporation paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and the federal Publication 550, Investment Income and Expenses.

Line 11a – Interest expense on investment debts

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

Line 11b(1) and Line 11b(2) – Investment income and investment expenses

Use the column (d) or column (e) amounts on these lines to determine the amount to enter on form FTB 3526, line 4.

Caution: The amounts shown on line 11b(1) and line 11b(2) include only investment income and expenses included on line 4 and line 9 of this Schedule K-1 (100S). The S corporation should attach a schedule that shows you the amount of any investment income and expenses included in any other lines of your Schedule K-1 (100S). Use these amounts, if any, to adjust line 11b(1) and line 11b(2) to determine your total investment income and total investment expenses from this S corporation. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 4.

Tax Credits

The S corporation will provide you the information needed to compute a credit allowable on your return.

Line 12a – Low-income housing credit

Your share of the S corporation's low-income housing credit is shown on line 12a, column (d) or column (e). Any available credit is entered on form FTB 3521, Low-Income Housing Credit. To claim this credit, attach a copy of form FTB 3521 to your return.

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

For more information, see the instructions for line 13.

Line 12b – Other credits related to rental real estate activities

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

For more information, see the instructions for line 13.

Line 12c – Credits related to other rental activities

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

For more information, see the instructions for line 13.

Line 13 – Other credits

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 12c or line 13 (depending on the type of activity they relate to) include but are not limited to:

- Enterprise zone/program area hiring/sales or use tax credit (FTB 3805Z);
- Los Angeles Revitalization Zone (LARZ) hiring/sales or use tax credit (FTB 3806);
- Local Agency Military Base Recovery Area (LAMBRA) hiring/sales or use tax credit (FTB 3807);
- Research credit and research credit for start-up companies (FTB 3523); or
- Manufacturers' investment credit (FTB 3535).

Note: The at-risk limitations of IRC Section 465, the passive activity limitations of IRC Section 469 and the pass-thru rules of IRC Section 1366 may limit the amount of credits on line 12a, line 12b, line 12c and line 13 that you may take. Credits on line 12a, line 12b and line 12c are related to the rental activities of the S corporation and are passive activity credits to all shareholders. Credits on line 13 are related to the trade or business activities of the S corporation and may be passive activity credits to shareholders who do not materially participate.

In general, except to the extent phase-in relief is available, credits from passive activities are limited to tax attributable to passive activities. Credits on line 13 may be limited under the passive activity credit rules. If you have an amount on line 12b or if the amount on line 13 is for research credit, enter the amount in column (d) or column (e) on form FTB 3801-CR, Passive Activity Credit Limitations, to figure the amount of the credit that may be limited under the passive activity credit limitations.

Adjustments and Tax Preference Items

Line 14a through Line 14e

Use the information reported on line 14a through line 14e (as well as adjustments and tax preference items from other sources) to prepare Schedule P (540, 540NR or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get federal Schedule K-1 (Form 1120S) instructions for Adjustments and Tax Preference Items.

Other State Taxes

Line 15a through Line 15e

You may claim a credit against your individual tax for your share of net income taxes paid by the S corporation to certain other states which either tax the corporation as an S corporation or do not recognize S corporation status. For purposes of this credit, net income taxes include your share of taxes on, according to, or measured by income.

Residents are taxed on their pro rata share of all income and generally receive a credit for taxes paid to other states. Nonresidents and part-year residents use column (e) for your pro rata share of California source pass-through income.

For more information, get California Schedule S, Other State Tax Credit.

Other Items

Line 16a through Line 19

Refer to the instructions for federal Schedule K-1 (1120S).

Line 20

The S corporation will issue a federal Form 1099-DIV to you for this distribution. Report this amount as a taxable dividend on your individual return.

Line 21

Reduce your basis in stock of the S corporation by the distributions on line 21. If these

distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D.

Line 22

If the line 22 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See IRC Section 1367(b)(2) for information on reduction in basis of a loan and restoration of basis of a loan with a reduced basis. See federal Revenue Ruling 68-357, 1968-2 C.B. 372, for more information.

Supplemental Information

Line 23

The S corporation will provide supplemental information required to be reported to you on this line.

The S corporation may have provided an amount showing your proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1(100S), line 23. Legislation enacted in 1996 allows a **qualified taxpayer** to exclude from alternative minimum taxable income adjustments and items of tax preference attributable to any trade or business. A "qualified taxpayer" is defined as an individual, estate or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 from **all** trades or businesses that the taxpayer is an owner of or has an ownership interest in, in the amount of that taxpayer's proportionate interest in each trade or business.

For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a)

and (c) of R&TC Section 25120 and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

If the S corporation listed any credit recapture on this line, see your tax booklet for information on how to report the credit recapture.

Table 1

For nonunitary shareholders, income data contained in Table 1, Part A (income from real and tangible property) should already be reflected in the appropriate line of column (e) and is merely information. Unitary shareholders must reflect such items as California source income.

The income data contained in Table 1, Part B is not reflected in column (e) because the source of such income must be determined at the shareholder level. The shareholder must make a determination whether the nonbusiness intangible income item is from a California source.

Nonbusiness income should be reported net of nonbusiness expenses.

Table 2

If the shareholder and S corporation are engaged in a single unitary business, the shareholder's share of the S corporation's business income is entered on Table 2, Part A. The shareholder will then add that income to their own business income and apportion the combined business income.

The shareholder's share of the S corporation's payroll, property and sales data is in Table 2, Part B. The business income in Table 2, Part A is combined with the taxpayer's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the shareholder's payroll, property, and sales factors.

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Instructions for Automatic Extension for Corporations and Exempt Organizations

1996

3539

Reminder: 1994 Tax Law Change

Effective for income years beginning on or after January 1, 1994, the water's-edge election fee is no longer required.
Note: Payment of water's-edge election fees for calendar year 1993 (or fiscal years beginning in 1993) is still required. **DO NOT** use this form for those payments. Use the 1993 form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations.

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

General Information

If a corporation, including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs) and limited liability companies (LLCs) treated as corporations, or an exempt organization in good standing cannot file its California tax return by the original due date, a seven month extension will be allowed automatically without filing a written request. To qualify for the automatic extension, the corporation's or exempt organization's tax return must be filed by the extended due date. The extended due date for corporations is the 15th day of the tenth month following the close of the income year (fiscal year filers) or October 15, 1997 (calendar year filers). The extended due date for exempt organizations filing Form 199 or 109 is the 15th day of the twelfth month following the close of the taxable year (fiscal year filers) or December 15, 1997 (calendar year filers).

The extended due date for an employee's trust defined in IRC Section 401(a) and an IRA filing Form 109 is the 15th day of the 11th month after the end of the income year (fiscal year filers) or November 17, 1997 (calendar year filers).

However, to avoid late payment penalties and interest, 100 percent of the tax liability must be paid by the 15th day of the third month (fiscal year corporations), or the 15th day of the fifth month (fiscal year exempt organizations) following the close of the income year or March 17, 1997 (calendar year corporations), or May 15, 1997 (calendar year exempt organizations). Employees' trusts and IRAs must pay 100% of the tax liability by the 15th day of the 4th month after the end of the income year.

Complete the tax payment worksheet on Side 2 to see if additional tax is due. **Send in the voucher only if a payment is due.**

Save the completed worksheet as a permanent part of the corporation's or exempt organization's tax records along with a copy of the return.

Electronic Funds Transfer (EFT)

Corporations that meet certain requirements must remit all of their payments through EFT rather than by paper checks. Corporations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 in any income year beginning on or after January 1, 1995, must pay through EFT. The Franchise Tax Board will notify corporations that are subject to this requirement. If you are an EFT taxpayer, **DO NOT USE THIS FORM.** Those that wish to participate on a voluntary basis may do so. For more information, call 1-800-852-2753 or get FTB Pub. 3817, Electronic Transfer Program Information Guide.

Where to File

If tax is due and the corporation is not required to use EFT, attach a check or money order for the tax due to form FTB 3539 and **mail only the voucher portion** with the payment to:

FRANCHISE TAX BOARD
 PO BOX 942857
 SACRAMENTO CA 94257-0551

Penalties and Interest

Remember, an extension of time to file the tax return is not an extension of time to pay the tax. If the corporation or exempt organization fails to pay its total tax by the original due date, a late payment penalty plus interest will be added to the tax due. If the corporation or exempt organization does not file its return by the extended due date, the automatic extension will not apply and a late filing penalty plus interest will be assessed from the original due date of the return.

CUT HERE

(Calendar year corporations — Due March 17, 1997)
 (Employees' trust and IRA — Due April 15, 1997)
 (Calendar year exempt organizations — Due May 15, 1997)

YEAR

Payment Voucher for Automatic Extension for Corporations and Exempt Organizations

CALIFORNIA FORM

1996

3539

For income year beginning		MONTH	DAY	YEAR	MONTH	DAY	YEAR	3 5 3 9
California corporation number		Federal employer identification number			Tax due		00	
Corporation/Exempt Organization name		Address		Check below to indicate the type of form this entity will file.				
City		State		ZIP code		<input type="checkbox"/> Form 100 <input type="checkbox"/> Form 109 <input type="checkbox"/> Form 100S <input type="checkbox"/> Form 199		

**IF NO PAYMENT IS DUE, DO NOT FILE THIS FORM
 EFT TAXPAYERS, DO NOT USE THIS FORM**

Payment Voucher 5

Combined Reports

If members of a combined unitary group have made or intend to make an election to file a Combined Unitary Group Single Return, only the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the minimum franchise tax for each corporation of the combined unitary group that is subject to tax in California.

If members of a combined unitary group intend to file separate returns with the Franchise Tax Board, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the worksheet.

Exempt Organizations

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

Political action committees and exempt homeowners' associations that file Form 100 should **not** enter the minimum franchise tax on line 1 of the Tax Payment Worksheet below.

Form 199 Filers:

Form 199, California Exempt Organization Annual Information Statement or Return, requires a \$10 filing fee to be paid with the return on the original or extended due date.

Use form FTB 3539 **only** if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet below.

How to Complete the Tax Payment Worksheet

- Line 1** - Enter the total tentative tax, including the alternative minimum tax for the income year.
- If filing Form 100 or 100S, the tentative tax may not be less than the minimum franchise tax.
 - If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.
- Line 2** - Enter the estimated tax payments, including prior year overpayment applied as a credit.
- Line 3** - **Tax due.** If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tax. The corporation or exempt organization has no tax due. **DO NOT SEND THE PAYMENT VOUCHER.** The corporation or exempt organization will automatically qualify for an extension if the tax return is filed by the extended due date. If the amount on line 1 is more than the amount on line 2, then the corporation's or exempt organization's tax is more than its payments and credits. The corporation or exempt organization has tax due.
- Subtract line 2 from line 1. Enter this amount on line 3 below and on form FTB 3539.

TAX PAYMENT WORKSHEET FOR YOUR RECORDS

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

How To Get California Tax Information

Regular Toll-Free Phone Service

Our regular toll-free phone service is available from 7:00 a.m. until 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 income 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 your California Corporation number or federal employer identification number, your daytime and evening telephone numbers and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will 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 income tax forms and publications. Our Internet address is:

<http://www.ftb.ca.gov>

By phone – Use F.A.S.T. to order the 1996 California tax forms listed to the right. To order a form on the list:

- Call 1-800-338-0505, from within the United States; or
- 1-916-845-6600, from outside the United States (not toll-free)
- Select bank and corporations income tax form requests.
- Enter the three-digit code shown to the left of the form title when you are instructed to do so.

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.

For prior year California tax forms, call our toll-free number listed under "Regular Toll-Free Phone Service."

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.

California Tax Forms and Publications

- 817 California Corporation Tax Forms and Instructions. This booklet contains:
Form 100, California Corporation Franchise or Income Tax Return
- 821 Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations
- 822 FTB 3885, Depreciation/Amortization
- 807 FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations
- 816 California S Corporation Tax Forms and Instructions. This booklet contains:
Form 100S, California S Corporation Franchise or Income Tax Return
- 823 Schedule B(100S), S Corporation Depreciation and Amortization
Schedule C (100S), S Corporation Tax Credits
Schedule H (100S), Dividend Income
- 824 Schedule D (100S), Capital Gains and Losses and Built-In Gains
- 825 Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits
- 826 FTB 3830, S Corporation's List of Shareholders and Consents
- 814 Form 109, Exempt Organization Business Income Tax Return
- 818 Form 100-ES, Corporation Estimated Tax
- 813 Form 100X, Amended Corporation Return
- 815 Form 199, Exempt Organization Return
- 819 Schedule R, Apportionment and Allocation of Income
- 812 FTB Pub. 1038, Guide for Corporations Dissolving, Withdrawing or Merging
- 809 FTB Pub. 1060, Guide for Corporations Starting Business in California
- 810 FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report
- 827 Form 100-WE, Water's-Edge Booklet
- 829 FTB 3564, Authorization of Agent Under Revenue and Taxation Code Section 19141.6
- 820 FTB Pub. 1068, Exempt Organizations Requirements for Filing Returns and Paying Filing Fees
- 802 FTB 3500, Exemption Application
- 808 FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
- 803 FTB 3555, Request for Tax Clearance
- 804 FTB 3557, Application for Revivor
- 811 FTB 3560, S Corporation Election or Termination/Revocation
- 806 FTB 5806, Underpayment of Estimated Tax by Corporations



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; and
- Order current year California tax forms.

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 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 (not toll-free) . . . 1-916-845-6600

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

To Order Forms

Refer to Where to Get Income Tax Forms on previous page.

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-Filing 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 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?

