



# California

Forms & Instructions

# 568

# 1997

Limited Liability Company  
Tax Booklet

**This booklet contains:**

**Form 568**, Limited Liability Company Return of Income, pages 13 and 17

**Schedule D (568)**, Capital Gain or Loss, pages 25 and 28

**Schedule K-1 (568)**, Member's Share of Income, Deductions, Credits, etc., pages 21 and 23

**FTB 3522**, Limited Liability Company Tax Voucher, page 39

**FTB 3537**, Payment Voucher for Automatic Extension for Limited Liability Companies, page 37

**FTB 3832**, Limited Liability Company's List of Members and Consents, page 36

**FTB 3885L**, Depreciation and Amortization, pages 25 and 28

Members of the Franchise Tax Board

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State of California  
Franchise Tax Board

# 1997 Instructions for Form 568, Limited Liability Company Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1997**, and to the California Revenue and Taxation Code (R&TC).

## General Information

### A Changes You Should Note

Due to California legislation enacted in 1997, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1997, and to selected provisions of the federal Taxpayer Relief Act of 1997 (Public Law 105-34). For example, California law and federal law are the same regarding:

- Treatment of certain appreciated inventory distributions from limited liability companies (LLCs) electing to be taxed as partnerships, removing the requirement that substantially appreciated inventory exceed 10% of the value of all LLC property, other than money;
- Recognition of gain when the member receives marketable securities and money exceeding the member's basis in the LLC immediately before the distribution;
- Denial of indirect contributions to political parties;
- Depreciation under the income forecast method for property placed in service on or after 1/1/97 and before 8/6/97 (California does not conform to the limitations enacted by the federal Taxpayer Relief Act of 1997);
- Application of the involuntary conversion rules to presidentially declared disasters;
- Provision to prevent conversion of ordinary income into capital gain;
- Repeal of certain exceptions to the market discount rules;
- Accrual of income by holders of stripped preferred stock;
- Nonrecognition treatment for certain transfers by common trust funds to regulated investment companies;
- Merchant marine capital construction fund accounts;
- Reduction in compensation taken into account in determining contributions and benefits under qualified retirement plans;
- Treatment of excess pension assets used for retiree health benefits;
- Establishment of savings incentive match plans for employees of small employers (SIMPLE plans); and
- Mark to Market accounting method required for securities dealers for taxable years beginning on or after January 1, 1997. The IRC Section 481 adjustment is taken into account ratably over five years beginning with the first income year beginning on or after January 1, 1997.

**Check-the-Box Regulations.** California has conformed to the federal entity classification regulations (commonly known as "check-the-box" regulations) that allow certain unincorporated entities to choose tax treatment as a partnership, corporation or as a disregarded entity (Stats. 1997, Ch. 608). The regulations replace the former system of analyzing four corporate characteristics to determine classification for tax purposes. An "eligible entity" (defined as a business entity that is not a trust, a corporation organized under any federal or state statute, a foreign entity specifically listed as a per se corporation, or other special business entities under the IRC, such as a publicly traded partnership, real estate mortgage investment conduit, financial asset securitization investment trust, or regulated investment company) may choose its classification. An eligible entity with two or more owners will be a partnership for tax purposes unless it elects to be taxed as a corporation. An eligible entity with a single owner will be disregarded for tax purposes, unless the entity elects to be taxed as a corporation. Any elections made for federal purposes under the federal regulations are binding for California purposes. No separate elections are allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California tax return for the year in which the election is effective.

During 1997, California issued proposed regulations that would make the classification of business entities under federal regulations (Treas. Reg. Sections 301.7701 through 301.7701-3) applicable to California. In addition, if an eligible entity is disregarded for federal tax purposes, it would be disregarded for taxes imposed under the California Bank and Corporation Tax Law and the California Personal Income Tax Law, except for the requirement for an LLC that is disregarded to pay a tax and a fee, to file a return, and to limit tax credits.

Form 568 is restructured to accommodate disregarding an LLC with a single member (SMLLC). (Previously California taxed LLCs with only one member as corporations.) The LLC tax and fee are now reported on Side 1. A new consent by the single owner of a disregarded LLC was added to Side 1. Schedule Q, Total Income, was replaced by a worksheet in the instructions. The effect of these changes is that a SMLLC need only complete Side 1 and remit the LLC tax and fee. The single owner would include the various items of income, deductions, credits, etc., of the disregarded SMLLC on the tax return filed by the owner. **Note:** Utilization of credits attributable to the disregarded SMLLC are limited to the regular tax liability on the income attributable to the activities of the disregarded SMLLC. The limitation on the SMLLC's credits is the difference between: 1) the regular tax liability of the single owner computed with the items of income, deductions, etc., attributable to the disregarded entity; and 2) the regular tax liability of the single owner computed without the items of income, deductions, etc., attributable to the disregarded entity. Previously existing foreign SMLLC's must limit any carryover credits as well as current year credits. It is the responsibility of the single owner to limit the SMLLC's credits on the owner's tax return. The single owner should be prepared to furnish information supporting the use of any credits attributable to the disregarded LLC.

**IMPORTANT:** An exception to the general rule that California classification is the same as federal classification exists in the case of an eligible business entity, other than one which, within the sixty-month period preceding the effective date of the regulations, was not doing business in California, did not derive income from sources within California, or has no owner who was a resident of California, within the sixty-month period preceding the effective date of the regulations and that was properly classified as an association taxable as a corporation. These entities are generally: 1) business trusts that were classified as corporations under California law, but were classified as partnerships for federal tax purposes for taxable or income years beginning before January 1, 1997, and 2) previously existing foreign SMLLCs that were classified as corporations under California law but claimed to be partnerships for federal tax purposes for taxable or income years beginning before January 1, 1997. These business trusts and previously existing foreign SMLLCs will continue to be classified as corporations for California tax purposes and must continue to file Form 100, California Corporation Franchise or Income Tax Return, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See proposed Title 18, Cal. Code of Reg. Sections 23038(a)-(b) and the Form 100 instructions.

As a result of other California legislation, the following changes are effective for taxable years beginning on or after January 1, 1997:

**Insurance Agents and Brokers.** Insurance agents and insurance brokers are permitted to form LLCs.

**New Rice Straw Credit.** A credit is allowed in an amount equal to \$15 per ton of rice straw grown in California that is purchased by an end user that is not related to the grower. The credit is certified by the Department of Food and Agriculture.

**New Farmworker Housing Credit.** A credit is allowed for 50% of the qualified amount of costs paid or incurred to construct or rehabilitate qualified farmworker housing. Banks and financial corporations are allowed a credit for 50% of the foregone interest income on qualified farmworker housing loans. The credits are certified by the California Tax Credit Allocation Committee.

**New Community Development Financial Institutions Deposits Credit.** A credit is allowed in an amount equal to 20% of each qualified deposit made by a taxpayer into a community development financial institution. The credit is certified by the California Organized Investment Network (COIN) of the Department of Insurance.

**New Enterprise Zone Act.** The California Legislature repealed the Enterprise Zone Act and the Employment and Economic Incentive Act (eliminating enterprise zones and program areas) and enacted a new Enterprise Zone Act.

Carryovers of the former enterprise zone and program area hiring credit, sales or use tax credit, and net operating loss deduc-

tion may be used to offset income and tax of the "new" enterprise zones. For income or taxable years beginning before January 1, 1997, please see the 1997 FTB 3805Z, Enterprise Zone Business Booklet, for more information.

## B Important Information

**California Tax Forms on Internet.** Do you need a California income tax form or publication? Do you have Internet access? If so, you may download, view and print 1994, 1995, 1996 and 1997 California tax forms and publications. Our Internet address is:

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

**Limited Liability Partnerships (LLP).** California law authorizes the formation of LLPs for activities limited to either the practice of public accountancy or law and related services. California recognizes out-of-state LLPs doing business in California. LLPs are subject to an annual tax and are required to file California Form 565, Partnership Return of Income.

**Substitute Schedule K-1 (568).** If the LLC does not use an official FTB Schedule K-1 (568) or a software program with an FTB-approved Schedule K-1 (568), it must get approval from the FTB to use a substitute form. **Do not** file Schedule K-1s (568) on microfiche. Instead, use an official or an FTB-approved substitute Schedule K-1 (568). See page 8 for more information.

## C Introduction

The Beverly-Killea Limited Liability Company Act of 1994 (Stats.1994, Ch.1200) authorized the formation of LLCs in California and recognized out-of-state LLCs doing business in California. LLCs combine traditional corporate and partnership characteristics. LLC members are afforded:

- Limited liability with the extent of a member's liability limited to the member's equity investment;
- Flexible management alternatives; and
- Liberal membership qualification requirements.

LLCs classified as partnerships generally will determine their California income, deductions and credits under the Personal Income Tax Law. They will be subject to an annual \$800 LLC tax (due on the 15th day of the 4th month of the LLC's taxable year) as well as an annual fee based on total income. See General Information G.

LLCs organized in California are vested with all the rights and powers enjoyed by a natural person in carrying out business affairs. California law, however, does not allow the formation or registration of LLCs (foreign or domestic) in California to render any type of professional service for which a license, certification or registration is required under the Business and Professions Code or the Chiropractic Act, with the exception of insurance agents and insurance brokers.

California law requires that LLCs not organized in the state of California register with the California Office of the Secretary of State (SOS) before commencing intrastate business in California. The laws of the state or foreign country in which the LLC is organized generally govern the internal affairs of the LLC. The SOS may not deny recognition of an LLC because the laws of the organization's home state or foreign country differ from California's laws, except in the case of professional service LLCs, which are not allowed to register as LLCs in California.

For more information about organizing and registering an LLC in California, contact:

CALIFORNIA SECRETARY OF STATE  
LIMITED LIABILITY COMPANIES  
PO BOX 944228  
SACRAMENTO CA 94244-2280  
(916) 653-3795

## D Purpose

Use Form 568, Limited Liability Company Return of Income:

- To determine the amount of the LLC's (including a disregarded entity's) annual fee based on total income;
- To remit the annual LLC fee;
- To report the annual LLC tax; and
- To report income, deductions, gains, losses, etc., from the operation of a multiple member LLC that has elected to be taxed as a partnership. Form 568, included in this booklet, is the return for calendar year 1997 or any fiscal year beginning in 1997.

## E Who Must File

Every LLC that is:

- Doing business in California;
- Organized in California; or
- Organized in another state or foreign country but registered with the SOS

must file Form 568 unless the LLC: 1) has elected to be taxed as a corporation for federal tax purposes or is a SMLLC that was treated as an association taxable as a corporation prior to January 1, 1997, for California tax purposes, and 2) did not elect to change that tax treatment in the current taxable or income year.

Regardless of where the trade or business of the LLC is primarily conducted, an LLC is considered to be doing business in California if any of its members, managers or other agents are conducting business in California on behalf of the LLC. In such a case, the LLC is required to file Form 568.

LLCs organized under the laws of another state or foreign country are required to register with the SOS to transact intrastate business in California.

A resident member of a nonresident LLC taxed as a partnership not required to file Form 568, may be required to furnish a copy of federal Form 1065, U.S. Partnership Return of Income, to substantiate the member's share of LLC income or loss.

## F When and Where to File

An LLC must file Form 568 (described in General Information G Limited Liability Company Tax and Fee) and pay the fee and any nonconsenting member tax by the 15th day of the 4th month following the close of its taxable year.

Mail Form 568 with payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0601

Make the check or money order payable to the "Franchise Tax Board." Write the LLC's SOS file number, the federal employer identification number (FEIN) and "1997 Form 568" on the check or money order.

Mail Form 568 without payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0600

If the LLC cannot file Form 568 by the due date, it is granted an automatic 6 month extension without filing a request for extension.

**Note:** The automatic extension does not extend the time to pay the LLC fee or nonconsenting member tax. If the LLC is filing the return on extension, see form FTB 3537, Payment Voucher for Automatic Extension for Limited Liability Companies on page 37, to submit the required payment.

If the 1997 LLC tax of \$800 was not paid on or before the 15th day of the 4th month after the beginning of the taxable year, the tax should be remitted using the 1997 form FTB 3522, Limited Liability Company Tax Voucher. To assure proper application of the tax payment to the LLC account, **do not** remit the \$800 with Form 568.

**Note:** The 1998 LLC tax of \$800 is due on or before the 15th day of the 4th month after the beginning of the 1998 taxable year (April 15, 1998, for calendar year filers). The payment is to be remitted with form FTB 3522, on page 39 of this booklet.

## G Limited Liability Company Tax and Fee

### Limited Liability Company Tax

LLCs are subject to an annual tax of \$800 if they are doing business in California or have articles of organization accepted, or a certificate of registration issued by the SOS. The tax is pre-paid for the privilege of doing business in California, and is due and payable on or before the 15th day of the 4th month after the **beginning** of the taxable year. The LLC tax must be paid for each taxable year until a certificate of cancellation of registration or of articles of organization is filed with the SOS.

Use form FTB 3522, to submit payment of the \$800 tax. Make the check or money order payable to the "Franchise Tax Board." Write the LLC's SOS file number, the FEIN and "1998 Form 3522" on the check or money order.

If the 15th day of the 4th month of an existing foreign LLC's taxable year has passed before an existing foreign LLC commences business in California or registers with the SOS, the LLC annual tax should be paid immediately after commencing business or registering with the SOS.

**Limited Liability Company Fee**

In addition to the LLC tax, every LLC must pay an annual fee based on total income. The fee is due on or before the 15th day of the 4th month after the **close** of the LLC's taxable year. For taxable years beginning on or after January 1, 1996, the fee is equal to:

- \$500, if the total income from all sources reportable to California (Form 568, Side 1, line 1) for the taxable year is \$250,000 or more, but less than \$500,000;
- \$1,500, if the total income from all sources reportable to California (Form 568, Side 1, line 1) for the taxable year is \$500,000 or more, but less than \$1,000,000;
- \$3,000, if the total income from all sources reportable to California (Form 568, Side 1, line 1) for the taxable year is \$1,000,000 or more, but less than \$5,000,000; or
- \$4,500, if the total income from all sources reportable to California (Form 568, Side 1, line 1) for the taxable year is \$5,000,000 or more.

To determine an LLC's annual fee, "total income" means gross income (as defined in R&TC Section 24271) plus the cost of goods sold that are connected with the LLC's trade or business. See the Specific Line Instructions for Form 568, Line 1 for more information.

If the Franchise Tax Board (FTB) determines multiple LLCs were formed for the primary purpose of reducing fees, the LLC's total income from all sources that are reportable to California could take into account the aggregate total income of all commonly controlled LLC members. "Commonly controlled" means control of more than 50% of the capital interests or profit interests of the taxpayer and any other LLC or partnership by the same persons.

**H Penalties and Interest**

**Failure to File a Timely Return or Provide Information**

A penalty is assessed against the LLC if it is required to file an LLC return and it:

- Fails to file the return on time, including extensions; or
- Files a return (including Schedule K-1 (568)) that fails to show all the information required, unless the failure is due to reasonable cause.

The amount of the penalty for each month, or part of a month (for a maximum of 5 months) that the failure continues, is \$10 multiplied by the total number of members in the LLC during any part of the taxable year for which the return is due. Interest will be charged on the penalty from the date of the notice of tax due.

The federal exception to the imposition of penalties for failure to file partnership returns that is provided to "small partnerships" (defined in IRC Section 6231) applies to LLCs classified as partnerships for federal tax purposes but is not applicable for California purposes. Get FTB Notice CR-88-692 for more information.

**LLC Fee**

Any LLC that fails to pay its total fee by the due date is assessed a penalty of 5% of the unpaid fee, plus 0.5% for each month, or part of a month, (not to exceed 40 months) that the fee remains unpaid. This penalty cannot exceed 25% of the unpaid fee. The penalty and interest will be computed from the due date of the payment to the date paid.

**Nonresident Members' Tax**

Any LLC that fails to pay its total nonresident members' tax by the due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month, or part of a month, (not to exceed 40 months) that the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. The penalty and interest will be computed from the due date of the payment to the date paid.

**Annual LLC Tax**

If the LLC failed to pay its total LLC annual tax on or before the 15th day of the 4th month after the beginning of the taxable year (April 15 for calendar year filers), a late payment penalty plus interest will be added to the tax due. The penalty and inter-

est will be computed from the due date of the LLC annual tax payment to the date paid.

**Note:** A penalty may also be charged if a check is returned for insufficient funds. In addition, fees may be charged for the cost of collection if an LLC fails to file a return or fails to pay the tax or fee.

**I Accounting Methods**

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

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

**Rounding to Whole-Dollar Amounts**

We encourage you to show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next whole dollar.

**J Accounting Periods**

LLC returns normally must be filed for an accounting period that includes 12 full months. A short period return may be filed if the LLC is created or terminated within the taxable year. Please write "Short Period" in red ink at the top of Form 568, Side 1.

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

**K Amended Return**

If, after the LLC files its return, it becomes aware of changes it must make to income, deductions, credits, etc., the LLC should file an amended Form 568 and an amended Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., for each member. Check the amended return box in Item I on Side 1 of Form 568. Give a corrected Schedule K-1 (568) labeled "Amended" to each member. If the LLC had filed a Form 540NR group nonresident member return, the LLC should file an amended Form 540NR.

If the LLC's federal partnership return is changed for any reason, the federal change may affect the LLC's California return. This would include changes made as a result of an examination of the LLC's federal partnership return by the IRS. The LLC must file an amended return within 6 months of the final federal determination. The LLC should attach a copy of the federal Revenue Agent's Report or other notice of the adjustment to the return. The members may also be required to file amended returns within 6 months from the date of the final federal determination.

**L Required Information Returns**

Every LLC must file information returns if, in the course of its trade or business it:

- Makes payments to one person of rents, salaries, wages, annuities or other fixed or determinable income during one calendar year totaling \$600 or more;
- Pays to an individual or one payee interest and dividends totaling \$10 or more during one calendar year; and
- Receives cash payments over \$10,000.

Payments of any amount by a broker, dealer or barter exchange agent must also be reported. Get FTB Pub. 4227, Guide to Information Returns Filed With California, for more information.

LLCs must report payments made to California residents by providing FTB with copies of federal Form 1099 (series). Reports are made for the calendar year and generally are due on February 28th of the year following payment. For nonresidents, see the reporting and withholding requirements on Form 592, Nonresident Withholding Annual Return; Form 592-A, Nonresident Withholding Remittance Statement; and Form 592-B, Nonresident Withholding Tax Statement. LLCs must also submit the 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.

A new reporting requirement exists for interest paid on municipal bonds issued by a state other than California, or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest pay-

ments aggregating \$10 or more paid after January 1, 1997. Information returns will be due June 1, 1998. For more information call 1-800-338-0505, select general tax information and enter code number 740 when instructed to do so.

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

## M Special Items

California LLC tax law generally follows federal partnership tax law in the areas of:

- IRC Section 702(a) items;
- Elections;
- Distributions of unrealized receivables and inventory;
- Members' dealings with the LLC;
- Contributions to the LLC;
- Income of foreign nonresident members subject to withholding-at-source, Forms 592, 592-A and 592-B;
- Basis and at-risk rules;
- Passive activity limitations;
- Net operating loss deduction by a member of the LLC (An LLC is not allowed the deduction for net operating losses for California or federal purposes);
- Publicly traded partnerships;
- Long-term contracts;
- Installment sales;
- Vacation pay;
- Amortization of past service costs;
- Distributions of contributed property by an LLC; and
- Recognition of precontribution gain in certain LLC distributions to members.

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

## N Signatures

Form 568 is not a valid return unless it is signed by an authorized member or manager of the LLC. If a receiver, trustee in bankruptcy or assignee controls the organization's property or business, that person must sign the return.

### Paid Preparer's Information

Generally, anyone who is paid to prepare the LLC return must sign the return and complete the Paid Preparer's Use Only area of the return.

The paid preparer must:

- Complete the required preparer information;
- Sign in the space provided for the preparer's signature (signature stamps or labels are not acceptable); and
- Give the LLC a copy of the return in addition to the copy to be filed with the FTB.

A person who prepares the return and does not charge the LLC should not sign the LLC return.

## O Group Returns

Nonresident members of an LLC doing business or deriving income from sources in California may elect under R&TC Section 18535 to file a group nonresident return. For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR. See page 40 for information on how to order this publication.

## P Investment Partnerships

Income of nonresident members, including a bank or corporation, derived from "qualifying investment securities" of an LLC that qualifies as an "investment partnership" is considered to be income from sources other than California, except as noted below. Therefore, nonresident members generally will not be taxed on this income. The LLC should inform its nonresident members if all or a portion of their distributive share of income is from "qualifying investment securities" of an "investment partnership" and whether it is sourced to California.

Nonresident members will be taxed on their distributive share of income from the "investment partnership" if the "qualifying investment securities" are interrelated with any other business activity of the nonresident member, or entity in which the nonresident member owns an interest that is separate and distinct from the investment activity of the LLC and is conducted in Cali-

fornia, or if the "qualifying investment securities" are acquired with the working capital of a California trade or business.

A bank or corporation will be taxed on its distributive share of income if it participates in the management of the investment activities or it engages in a unitary business with another taxpayer that participates in managing the investment activities or has other income from California sources. See Question K instructions for definitions of "investment partnership" and "qualifying investment securities."

Income from qualifying investment securities of an investment partnership (as defined in R&TC Sections 17955 and 23040.1) should be entered net of appropriate expenses in Table 1 of Schedule K-1 (568).

## Q Nonresident Members

An LLC is required to file form FTB 3832, Limited Liability Company's List of Members and Consents, with Form 568. Form FTB 3832 is signed by the nonresident members evidencing each member's consent to the jurisdiction of California to tax their pro rata share of income attributable to California sources.

Form FTB 3832 is required to be filed:

- For the first taxable period for which the LLC became subject to tax; or
- For any taxable period in which the LLC had a nonresident member not previously listed on form FTB 3832.

Separate forms for an individual (or groups of individuals) are permissible. The LLC must maintain and have available for inspection a form FTB 3832 signed by each nonresident member.

If the LLC fails to file form FTB 3832 on behalf of any nonresident member on time, then the LLC is responsible for payment of tax on that nonresident member's distributive share of income determined at the highest marginal rate. If the LLC fails to timely pay the tax of such nonresident member, the LLC shall be subject to penalties and interest as defined in R&TC Sections 19132 and 19101. Any amount paid by the LLC on behalf of a nonresident member will be considered a payment made by the member.

An LLC may recover from the nonresident member the payment of tax paid on behalf of the nonresident member.

## R Dissolving an LLC

The LLC tax and fee, if applicable, must be paid for each taxable year until a certificate of cancellation of registration or of articles of organization is filed with the SOS. Along with the LLC's certificate of cancellation, an LLC must file with FTB a statement that a person or other business entity assumes responsibility for any taxes or fees that may become due after the LLC's dissolution. For more information concerning the dissolution of an LLC, get form FTB 3555L, Limited Liability Company or Limited Liability Partnership Assumption of Tax Liability/Request for Tax Clearance Certificate, or contact:

CALIFORNIA SECRETARY OF STATE  
LIMITED LIABILITY COMPANIES  
PO BOX 944228  
SACRAMENTO CA 94244-2280  
(916) 653-3795

## Specific Instructions

### Form 568

#### Fill In All of the Applicable Lines and Schedules

Enter any items specially allocated to the members on the appropriate line of the applicable member's Schedule K-1 (568) and the total amount on the appropriate line of Schedule K (568). Do not enter these items directly on Form 568, Side 2, or on Schedule A or Schedule D.

#### Name, Address, SOS File Number and FEIN

The LLC may use its legal or trade name (DBA) on all tax returns and other documents filed.

Use the label on the booklet that was mailed to the LLC unless it is incorrect. If the label information is incorrect or if the LLC does not have a label, print the LLC's legal or trade name, address, SOS file number and FEIN on the appropriate lines.

**Item F – Total Assets at End of Taxable Year**

See the instructions for Question S before completing this item. If you are required to complete this item, enter the total assets at the end of the LLC's taxable year, as determined by the accounting method regularly used in maintaining the LLC's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

**Question K through Question W**

– Check the "Yes" or "No" box.

**Question K** – An "investment partnership," defined in R&TC Sections 17955 and 23040.1, is a partnership that meets **both** of the following criteria:

1. No less than 90% of the cost of the partnership's total assets consist of:
  - Qualifying investment securities;
  - Deposits at banks or other financial institutions; and
  - Office equipment and office space reasonably necessary to carry on the activities of an investment partnership.
2. No less than 90% of the partnership's gross income is from interest, dividends and gains from the sale or exchange of qualifying investment securities.

"Qualifying investment securities," defined in R&TC Sections 17955 and 23040.1, include:

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

"Qualifying investment securities" do not include an interest in a partnership, unless the partnership qualifies as an "investment partnership."

See R&TC Sections 17955 and 23040.1 and General Information P, Investment Partnerships.

**Question M** – If Question M is answered "yes," see the federal partnership instructions concerning an election to adjust the basis of the LLC's assets under IRC Section 754.

**Question O** – All LLCs must answer question O. If the answer is "Yes," a "Statement of Change in Control and Ownership of Legal Entities" (PT-100-B) must be filed with the State Board of Equalization, or substantial penalties may result. Forms and information may be obtained from the Board of Equalization at (916) 323-5685.

Answer "Yes" to Question O if:

Under R&TC Section 64(c),

- The percentage of membership interests, including interests in both the capital and profits, of this company or in any of its subsidiary(ies) owned by **one** person or **one** entity cumulatively surpassed 50% during this year; or
- The total membership interests, including capital and profits interests, transferred to **one** irrevocable trust cumulatively surpassed 50% during this year; or
- One or more members transferred the control of, or the interests in, more than 50% of the total membership interests, including capital and profits interests, to **one** person or **one** entity during this year; or
- This company's cumulative ownership or control of the membership interests, including capital and profits interests, voting stock, or other ownership interests in any other legal entity surpassed 50% during this year; or

Under R&TC Section 64(d)

- Cumulatively more than 50% of the total membership interests, including capital and profits interests, in this company

have been transferred this year in one or more transactions that have occurred since March 1, 1975.

**Question P** – R&TC Sections 18662 and 18666 require taxes to be withheld from certain payments or allocations of income and remitted to the FTB.

**1. Foreign Nonresident Members**

As described in IRC Section 1446 and modified by R&TC Section 18666, if an LLC has any income, gain or loss from a trade or business within California, and if any portion of that income, gain or loss is allocable under IRC Section 704 to a foreign nonresident member, the LLC is required to withhold tax on the amount allocable to such foreign member.

**State and federal differences** — California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws are:

- a. The California withholding rate is 8.84% for corporations, 1.5% for S corporations and 9.3% for individuals, partnerships, LLCs and fiduciaries.
- b. Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18666.

**2. Domestic Nonresident Members**

R&TC Section 18662 requires the withholding of funds for income or franchise taxes by an LLC when it makes a distribution of income to a domestic nonresident member. This includes prior year income that should have been, but was not previously reported as income from California sources on the member's California income tax return. However, withholding is not required if distributions of income from California sources to the member are \$1,500 or less during the calendar year or if the payor is otherwise directed by the FTB not to withhold. Domestic nonresident members include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic nonresident members also include nonresident estates and trusts, partnerships and LLCs that do not have a permanent place of business in California. Foreign nonresident members covered under R&TC Section 18666 are not domestic nonresident members.

LLCs with income from both within and outside of California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable. LLCs are required to withhold tax at a rate of 7% of distributions (including property) of income from California sources made to domestic nonresident members.

For more information, get California Schedule R, Apportionment and Allocation of Income, and refer to General Information C, Partnerships and Limited Liability Companies.

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

No withholding of tax is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon audit the FTB determines that tax withholding was required on a distribution, the LLC may be liable for the amount that should have been withheld and penalties.

Send waiver requests and inquiries to:

WITHHOLD-AT-SOURCE SECTION  
FRANCHISE TAX BOARD  
PO BOX 651  
SACRAMENTO CA 95812-0651  
Telephone: (916) 845-4900

The tax withholding should be reported on and remitted with Forms 592, 592-A and 592-B.

The taxable income of nonresident members is the distributive share, not the distributed amount. For more information,

## Form 568 Instructions

get FTB Pub. 1017, Nonresident Withholding — Partnership Guidelines.

**Question S** – If Question 5a through Question 5c on federal Form 1065, Schedule B, are all answered “Yes,” also answer “Yes” to Question S on Form 568, Side 1.

If Question S is answered “yes,” the LLC is not required to complete Schedules L, M-1 and M-2 or Item F on Side 1 of Form 568 or Item I on Schedule K-1 (568).

**Question W** – Federal Form 8271, Investor Reporting of Tax Shelter Registration Number, is required to be attached to any return on which a deduction, loss, credit or any other tax benefit is claimed or reported, or any income reported, from an interest in a registration-required tax shelter. If you were required to file this form with your federal return, attach a copy to your Form 568. Do not attach copies of Schedule K-1 (1065) you may have received from a registration-required tax shelter.

## Specific Line Instructions

### Form 568, Side 1

#### Line 1 — Total income from LLC fee worksheet

The amount of LLC fee is determined by taking into account “Total income from all sources reportable to California.” This means income from all sources before taking into account apportionment and allocation. Use the LLC Income Worksheet on page 12 to determine the total income that is the basis of the LLC fee.

If you are a SMLLC that is a disregarded entity computing the gross receipts fee on this worksheet, enter your amounts for the fee computation using the applicable disregarded entity lines on the form and any other applicable line amounts. Ignore the line items addressing Schedule B.

If you are an LLC that owns a disregarded entity, include items of income and deduction from the disregarded entity on Schedule B. Do not enter any amounts on lines addressing disregarded entities in the LLC fee worksheet.

If you are an LLC that has an ownership interest in a pass-through entity, you will need to contact the pass-through entity in most instances to get the information for line 3, line 9c, line 10c, line 13b, line 14b, line 15b, line 16b, line 17b, and line 18d.

#### Line 2 — Limited Liability Company Fee

Enter the amount of the LLC fee. See General Information G, Limited Liability Company Tax and Fee.

#### Line 3 — 1997 LLC Tax

Enter the \$800 annual LLC tax that was due the 15th day of the 4th month after the beginning of the LLC’s 1997 tax year and paid with 1997 form FTB 3522.

#### Line 4 — Nonconsenting Nonresident Members’ Tax Liability from Schedule T

Enter the total tax computed on Schedule T. The LLC is responsible for paying the tax of nonconsenting nonresident members and nonconsenting owners of disregarded entities. Treat a nonconsenting owner of a disregarded entity in the same manner as a nonconsenting nonresident member. See the Specific Instructions for Schedule T.

#### Line 13 — Penalties and Interest

Enter penalties and interest. See General Information H, Penalties and Interest.

#### Single Member LLC Information and Consent

Please complete all requested information. If the owner has both a federal taxpayer identification number (TIN) and a California SOS file number, please enter both. Provide the identification numbers of the entity that will report the items of income, deductions, credits, etc., of the disregarded entity and the type of return the owner will file. This owner will be responsible for limiting any credits attributable to the disregarded entity.

The LLC must treat the failure of the sole owner to sign this consent in the same manner as the failure of a nonresident to sign form FTB 3832. See the Specific Instructions for Schedule T.

If the owner of the single member LLC signs the consent, only Form 568, Side 1, and payment of the amount due is required.

Multiple member LLCs will complete the remaining schedules, as appropriate.

## Schedule A — Cost of Goods Sold

Use Schedule A on Side 2 of Form 568 to report the cost of goods sold for the taxable year.

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

## Schedule B — Income and Deductions

#### Line 1a through Line 8

California’s reporting requirements for LLCs are generally the same as the federal reporting requirements for partnerships. Follow the instructions for federal Form 1065, line 1a through line 8.

**Note:** Be sure to use worldwide amounts determined under California law when completing these lines.

As with the federal reporting requirement, include only trade or business activity income on line 1a through line 8. However, for California tax purposes, business income of the LLC is defined using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be included as business income for California sourcing purposes. Do not include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (568) and Schedule K-1 (568). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

#### Line 5 — Net Farm Profit (Loss)

Enter the LLC’s net profit (loss) from federal Schedule F (Form 1040), Profit or Loss From Farming. Attach federal Schedule F (Form 1040) to Form 568. If the amount includable for California purposes is different from the amount on federal Schedule F (Form 1040), enter the California amount and attach an explanation of the difference.

#### Line 6 — Net Gain (Loss) from Schedule D-1

Include only ordinary gains or losses from the sale, exchange or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange or involuntary conversion of rental activity assets must be reported separately on Schedule K (568) and Schedule K-1 (568), generally as part of the net income (loss) from the rental activity.

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

#### Line 9 through Line 21

California’s reporting requirements for LLCs are generally the same as the federal reporting requirements for partnerships. Follow the instructions for federal Form 1065, line 9 through line 21. **Note:** Be sure to use worldwide amounts determined under California law when completing these lines.

As with the federal reporting requirements, include only trade or business activity deductions on line 9 through line 20. Do not include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (568) and Schedule K-1 (568).

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

#### Line 16a — Depreciation and Amortization

Enter on line 16a only the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885L, Depreciation and Amortization (included in this booklet on page 25 and page 28), to figure depreciation and amortization. Transfer the total from form FTB 3885L, line 6 to Form 568, Side 2, line 16a, or federal Form 8825, as appropriate (use California amounts). See the instructions for form FTB 3885L for more information.

Do not include any expense deduction for depreciable property (IRC Section 179/R&TC Sections 17267.2 and 17268) on this line. The amount of this expense is not deducted by the LLC. Instead, it is passed through separately to the members and is reported on line 9 of Schedule K (568) and Schedule K-1 (568).

## Schedule L — Balance Sheets

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

**Note:** Domestic LLCs with 10 or fewer members may not have to complete Schedule L. See the instructions for Question S for the specific requirements to qualify for this exception.

## Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Members' Capital Accounts and Schedule K-1 (568), Item I — Analysis of Member's Capital Account

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

**Note:** Be sure to use worldwide amounts determined under California law when filling out Schedule M-1.

Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item I, column (c), of all the members' Schedule K-1 (568).

## Schedule O — Recognized Gains from Liquidations Used to Capitalize a Limited Liability Company

Complete Schedule O if "initial return" is checked in Question I of FTB Form 568.

Schedule O is a summary of the entities liquidated to capitalize the LLC and the amount of gains recognized in such liquidations.

Include the names and identification numbers of all entities liquidated. Check the appropriate box for the type of entity liquidated. Include the amount of liquidation gains recognized in order to capitalize the LLC.

## Schedule T — Nonconsenting Nonresident Members' Tax Liability

Use Schedule T to compute the nonresident member's tax liability to be paid by the LLC. List the names and identification numbers of all nonresident members who failed to sign form FTB 3832 and consent to be subject to California tax. Also list the nonresident member's distributive share of income.

To compute the amount of tax that must be paid by the LLC on behalf of a nonconsenting nonresident member, multiply such member's distributive share of income by the following tax rates:

- 8.84% if the member is a corporation; or
- 9.3% if the member is an individual, partnership or an estate or trust; or
- 1.5% if the member is an S corporation.

The tax being paid by the LLC on behalf of nonresident members is due on the 15th day of the 4th month following the close of the LLC's taxable year.

## Schedule K (568) and Schedule K-1 (568) — Member's Share of Income, Deductions, Credits, etc.

### Purpose

Schedule K (568) is a summary schedule of all the members' shares of the LLC's income, deductions, credits, etc. Schedule K-1 (568) shows each member's separate share. One copy of each Schedule K-1 (568) must be attached to Form 568 when it is filed with the FTB. One copy must be kept with a copy of the LLC return as a part of the LLC's records. One copy must be given to each member.

**Note:** Be sure to give each member a copy of either the Member's Instructions for Schedule K-1 (568) or specific instructions for each item reported on the member's Schedule K-1 (568).

If a husband and wife each had an interest in the LLC, you must prepare a separate Schedule K-1 (568) for each spouse. If a husband and wife held an interest together, prepare one Schedule K-1 (568) if they are considered to be one member.

On each Schedule K-1 (568), enter the name, address and state or federal identifying number of the member and LLC and the member's distributive share of each item.

For an individual member, you must enter the member's social security number. For all other members, you must enter their FEIN. However, if a member is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.

### Substitute Forms

If the LLC does not use an official FTB Schedule K-1 (568) or a software program with an FTB-approved Schedule K-1 (568), it must get approval from the FTB to use a substitute Schedule K-1 (568). Get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms, for more information.

**Note:** Do not file Schedule K-1s (568) on microfiche.

### Compliance with LLC Filing Requirements

To help ensure the accurate and timely processing of your Form 568, please verify the following:

- A Schedule K-1 (568) has been attached for each member included on Form 568, Side 1, Question J.
- The attached Schedule K-1 (568) contains the member's correct name, address and identifying number.
- Questions and Items A through I are completed on Schedule K-1 (568, Side 1).
- The appropriate entity type box (Schedule K-1 (568), Question A) is checked for each member.
- All attached Schedule K-1s reconcile to Schedule K.
- The member's percentage (Schedule K-1 (568), Question C) is expressed in decimal format (i.e., 33.5432). Do not print fractions.
- Substitute computer-generated Schedule K-1 forms **must** have been approved by the FTB.

**Note:** If you use a computer software product, please read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. To ease processing, all printing must be courier, standard OCR-A font or standard print font with a minimum 10 pitch (pica spacing).

### Penalty for Failure to File Appropriate Schedule K-1 (568)

LLCs may be subject to penalties for failure to file the appropriate Schedule K-1 (568). The penalty may be imposed when there is clear evidence of deliberate noncompliance with FTB filing requirements.

### Schedule K (568) Only

In column (b) on Schedule K (568), enter the worldwide income computed under California law. For members to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss) and portfolio income must be considered separately by the member. Rental activity income (loss) and portfolio income are not reported on Form 568, Side 2 so that these amounts are not combined with trade or business activity income (loss).

### Schedule K-1 (568) Only

Regardless of the classification of income for federal purposes, the LLC's income from California sources is determined in accordance with California law. Under Title 18, Cal. Code Reg. Sections 17951-1 through 17951-4, if a member has an interest in an LLC and the LLC conducts a trade or business wholly within California, the income from that trade or business is California source income. If a member has an interest in an LLC engaged in a single trade or business conducted within and outside California, the business income of that trade or business is required to be apportioned using the Uniform Division of Income for Tax Purposes Act, R&TC Sections 25120 through 25139. Special rules apply if the LLC has income that is not attributable to the trade or business of the LLC.

Generally, income, including rents, royalties, gains or losses, that is attributable to real or tangible property located in California is California source income (see Title 18, Cal. Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This income information is entered in Table 2, Part B and on the appropriate line of Schedule K-1 (568), column (e). Income from intangible property is determined at the member level. This income will often be sourced to the residence (for corporations, the commercial domicile) of the member. However, special sourcing rules apply to income from intangibles in some cases. (For more information, see Member's Instructions for Schedule K-1 (568) on page 29.) Because the determination of the source of intangibles must be made at the member level, intangible income that is not from a trade or business of the LLC is not entered in Schedule K-1 (568), column (e). Instead it is entered only in Table 1.

In column (b) on Schedule K-1 (568), enter the amounts from federal Schedule K-1 (1065). In column (c), enter the adjustments resulting from differences between California and federal law for each specific line item. In column (d), enter the California amount, which is the result of combining column (b) and column (c).

Use column (e) to report California source income and credits. Include the following items in column (e):

1. 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)).
2. The portion of the LLC's business income from a business, trade or profession conducted within and outside California that is apportioned to California (including intangible income attributable to the business, trade or profession) (see Title 18, Cal. Code Reg. Section 17951-4(c) and R&TC Sections 25128 through 25137). In most cases, business income is apportioned using a 4-factor formula consisting of property, payroll and a double-weighted sales factor. If more than 50% of the business receipts of the LLC are from agricultural, savings and loan, bank and financial or extractive activities, the LLC's business income will be apportioned using a 3-factor formula of payroll, property and a single weighted sales factor. Apportioning LLCs should get and complete Schedule R, Apportionment and Allocation of Income, and attach it to the Form 568.
3. Tangible and intangible income of the LLC not attributable to the business, trade or profession of the LLC (nonbusiness income). Enter the member's share of income from real and tangible property in California in column (e) and in Table 2, Part B. Enter the member's share of income from intangible property in Table 1. Because the source of this income must be made at the member level, do not enter an amount for such intangibles in column (e). Intangible income attributable to the business, trade or profession of the LLC must be included in column (e). For more information, see Member's Instructions for Schedule K-1 (568).
4. California tax credits.

**Members and LLCs Not in a Single Unitary Business**

Schedule K-1 (568), column (d), reflects the member's distributive share of LLC items under California law. Column (e) reflects income that is taxable to California based on the sourcing and apportioning rules of California. The computation of these amounts is a matter of law and regulation, and the residency status of the members is not a factor in the computation of column (d) and column (e).

**Members and LLCs in a Single Unitary Business**

Special rules apply if the member and LLC are engaged in a single unitary business. In that case, a unitary member will not use the income information shown in column (e). Instead, the member's distributive share of business income is combined with the member's own business income, and the combined business income is apportioned using an apportionment formula that consists of an aggregate of the member's share of the apportionment factors from the LLC and its own apportionment factors. See Title 18, Cal. Code Reg. Section 25137-1(f) for more information. The determination of whether a 3 or 4-factor apportionment formula applies to the combined income will be made at the member level. The member's distributive share of business income and property, payroll and sales factors are entered in Table 2. If all of the members are unitary with the LLC, the LLC need not complete column (e) or attach Schedule

R. For further information, see Member's Instructions for Schedule K-1 (568).

**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 (568), the LLC must attach a statement to Schedule K-1 (568) for each activity that is a passive activity to the member. Rental activities are passive activities to all members; trade or business activities may be passive activities to some members. The attachment must include all the information explained in the instructions for federal Schedule K-1 (1065).

**Question A (Schedule K-1 (568))**

Check the appropriate box to indicate the members entity type. An exempt organization should check that box, regardless of legal form.

**Question B (Schedule K-1 (568))**

See the instructions for Question C on federal Schedule K-1 (1065).

**Question C (Schedule K-1 (568))**

Percentages must be expressed in decimal format carried to four places. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000.

**Specific Line Instructions**

The California Schedule K (568) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (568) refer to the instructions for federal Schedule K (1065).

**Question D (Schedule K-1 (568))**

See the instructions for Question F on federal Schedule K-1 (1065).

Income

Line 1 through Line 7 –

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Income (Loss), line 1 through line 7.

**Line 1, column (c)** – An adjustment to increase the business income of a service LLC to reflect the guaranteed payment deduction adjustment required by Title 18, Cal. Code Reg. Section 17951-4(f) should be made here.

**Note:** Schedule K must include all income and losses from the LLC activities as determined pursuant to California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K.

**Line 6** – Enter on line 6 the amount shown on Schedule D-1, Sales of Business Property, line 7. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 7.

If the LLC has more than one activity and the amount on line 6 is a passive activity amount to the member, attach a statement to Schedule K-1 (568) (or use the space provided on Side 2 of Schedule K-1 (568)) that identifies which activity the IRC Section 1231 gain (loss) relates to.

Deductions

**Line 8 – Charitable Contributions**

Enter the total amount of charitable contributions made by the LLC during its taxable year on Schedule K (568) and each member's distributive share on Schedule K-1 (568). Attach an itemized list to both schedules that show the amount subject to the 50%, 30% and 20% limitations.

Members are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170.

Line 9 through Line 11 –

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Deductions, line 9 through line 11.

Investment Interest

**Line 12a through Line 12b(2)**

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

**Line 12a – Interest Expense on Investment Debts**

Enter 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 line 12a of Schedule K (568) and Schedule K-1 (568) (rather than line 10 of Schedule K (568) and Schedule K-1 (568)).

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

**Line 12b(1) and Line 12b(2) – Investment Interest Income and Expenses**

Enter on line 12b(1) only the investment income included on line 4a through line 4e of Schedule K (568) and Schedule K-1 (568). Enter on line 12b(2) only investment expense included on line 10 of Schedule K (568) and Schedule K-1 (568).

If items of investment income or expense are included in the amounts that are required to be passed through separately to the member on Schedule K-1 (568) (items other than the amounts included on line 4 and line 10 of Schedule K-1 (568)), give each member 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. Generally, investment income and investment expense do not include any income or expense from a passive activity.

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

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

Credits

**Line 13a(1) – Withholding on Payments to the LLC Allocated to All Members**

If taxes were withheld from payments to the LLC by another entity, this withholding is allocated to all members according to their LLC interests.

**Line 13a(2) – LLC Withholding on Nonresident Members (Schedule K-1 (568) only)**

If taxes were withheld-at-source on a domestic or foreign nonresident member, the amount of this withholding is entered on the member's Schedule K-1 (568), line 13a(2). This is not a distributive item.

**Line 13a(3) – Total Withholding (Schedule K-1 (568) only)**

The amounts on a member's Schedule K-1 (568), line 13a(1) and line 13a(2) are added to get the total amount of withholding credit for that member for the LLC year. If taxes were withheld by the LLC or if there is a pass-through withholding credit from another entity, the LLC must provide each affected member (including California residents) a completed Form 592-B, Nonresident Withholding Tax Statement. Members must attach Form 592-B to the front of their California income or franchise tax return to claim amounts withheld. Schedule K-1 (568) may not be used to claim this withholding credit.

**Line 13b through Line 13e**

– These lines relate to rental activities. Use line 14 to report credits related to trade or business activities.

**Note:** California line numbers are different from federal line numbers.

**Line 13b – Low-Income Housing Credit**

IRC Section 42 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. Get form FTB 3521, Low-Income Housing Credit, for more information.

**Line 13c – Credits Related to Rental Real Estate Activities Other Than Line 13b**

Report any information that the members need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each member's Schedule K-1 (568) a schedule showing the amount to be reported and the applicable form on which the amount should be reported.

**Line 13d – Credits Related to Other Rental Activities**

Use this line to report information that the members need to figure credits related to a rental activity. Attach to each member's Schedule K-1 (568) a schedule showing the amount to be reported and the applicable form on which the amount should be reported.

**Line 13e – Nonconsenting Member Tax Paid by LLC (Schedule K-1 (568) only)**

If income tax was paid by the LLC on behalf of nonresident members who did not sign form FTB 3832, Limited Liability Company's List of Members and Consents, consenting to California's jurisdiction to tax their share of LLC income from California sources, the amount paid is entered on the member's Schedule K-1 (568), line 13e. This is not a distributive item. Members must attach a copy of Schedule K-1 (568) to their California income or franchise tax return to claim the tax paid by the LLC on their behalf.

**Line 14 – Other Credits**

Enter on an attached schedule each member's allocable share of any credit or credit information that is related to a trade or business activity.

Examples of credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits credit. Use credit code 209.
- Disabled Access credit for Eligible Small Businesses — get form FTB 3548.
- Donated Agricultural Products Transportation credit — get form FTB 3547.
- Employer Child Care Program/Contribution credit — get form FTB 3501.
- Enhanced Oil Recovery credit — get form FTB 3546.
- Enterprise Zone Hiring & Sales or Use Tax credit — get form FTB 3805Z.
- Farmworker Housing Credit-Construction. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.
- Los Angeles Revitalization Zone Hiring & Sales or Use Tax credit — get form FTB 3806.
- Local Agency Military Base Recovery Area Hiring & Sales or Use Tax — get form FTB 3807.
- Manufacturers' Investment credit — get form FTB 3535.
- Prison Inmate Labor credit — get form FTB 3507.
- Research credit — get form FTB 3523.
- Rice Straw credit. Use credit code 206.
- Salmon and Steelhead Trout Habitat Restoration credit. Use credit code 200.

Line 14 may also include the distributive share of net income taxes paid to other states by the LLC. Subject to limitations of R&TC Sections 18001 and 18006, members may claim a credit against their individual income tax for net income taxes paid by the LLC to another state. The amount of tax paid must be supported by a schedule of the credits, the states paid, and evidence of payment of the tax. Get Schedule S, Other State Tax Credit, for more information.

Adjustments and Tax Preference Items

Line 15a through

Line 15e – Enter each member’s distributive share of income and deductions that are adjustments and tax preference items. Get Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries; or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations, to determine amounts and for other information.

For additional information, see instructions for federal Schedule K, Adjustments and Tax Preference Items, line 16a through line 16e.

Other

Line 16 through

Line 21 – See the instructions for federal Schedule K-1 (1065), “Other,” line 18 through line 24.

Line 22 – The LLC may need to report supplemental information that is not specifically requested on the Schedule K-1 (568) separately to each member.

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

As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, positive and negative adjustments and preference items attributed 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 in which the taxpayer is an owner or has an ownership interest. The LLC can provide the member’s proportionate interest of aggregate gross receipts on Schedule K-1 (568), line 22. For purposes of R&TC Section 17062(b)(4), “aggregate gross receipts, less returns and allowances” means the sum of the gross receipts of the trades or businesses which the taxpayer owns and the proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns and of pass-through entities in which the taxpayer holds an interest. “Gross receipts” means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120. For purposes of this section “pass-through entity” means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), and a real estate mortgage investment conduit (REMIC). See R&TC Section 17062 for more information.

Also show on line 22 a statement noting each of the following:

1. Each member’s distributive share of business income apportioned to an EZ, LARZ or LAMBRA; and
2. Each member’s distributive share of business capital gain or loss included in 1 above.

Tables – (Schedule K-1 (568) only)

Table 1

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

Table 2

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

**Part A.** Enter the member’s distributive share of the LLC’s business income in Part A. The member will then add that income to its own business income and apportion the combined business income.

Business income is defined by Title 18, Cal. Code Regs. Section 25120(a) as income arising in the regular course of the corporation’s trade or business. Business income includes income from tangible and intangible property if the acquisition, management and disposition of the property constitutes integral parts of the taxpayer’s regular trade or business.

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

Nonbusiness income is all income other than business income.

**Part C.** Enter the member’s distributive share of the LLC’s payroll, property, and sales factors in Part C.

Analysis (Schedule K (568) only)

Line 23a through

Line 23b – See the federal instructions for Schedule K (1065), Analysis of Net Income (Loss).

LLC Income Worksheet — Keep for your records.

1	Total income from Form 568, Schedule B, line 8 . . . . .	1	_____
2	Gross income of disregarded business entities . . . . .	2	_____
3	LLC's distributive share of gross ordinary income from pass-through entities . . . . .	3	_____
4	Add gross farm income from federal Schedule F . . . . .	4	_____
5	Total the amounts from Schedule B, line 4 through line 7. If the total is positive, enter as a negative. If the amount is negative, enter as a positive . . . . .	5	_____
6	Enter the total of other income (not loss) from Form 568, Schedule B, line 7. . . . .	6	_____
7	Enter the ordinary gains (not losses) and the recapture income from Schedule D-1, Part II, line 18 . . . . .	7	_____
8	Combine the amounts from line 1 through line 7 . . . . .	8	_____
9	<b>Rental real estate</b>		
	a Enter gross rents from federal Form 8825, line 17 . . . . .	9a	_____
	b Enter gross rents of disregarded business entities from rental real estate . . . . .	9b	_____
	c Enter LLC's distributive share of gross rents from rental real estate . . . . .	9c	_____
	d Enter the total of line 9a through line 9c . . . . .	9d	_____
10	<b>Other rentals</b>		
	a Enter gross income from other rental activities (do not enter net amount from Schedule K, line 3a, but the gross income from other rentals) . . . . .	10a	_____
	b Enter the gross income of disregarded entities from other rentals . . . . .	10b	_____
	c Enter the LLC's distributive share of gross income from other rentals from pass-through entities . . . . .	10c	_____
	d Enter the total of line 10a through line 10c . . . . .	10d	_____
11	<b>Interest</b>		
	a Enter total interest of disregarded entities . . . . .	11a	_____
	b Enter interest from Schedule K, line 4a . . . . .	11b	_____
	c Add line 11a and line 11b . . . . .	11c	_____
12	<b>Dividends</b>		
	a Enter total dividends of disregarded entities . . . . .	12a	_____
	b Enter dividends from Schedule K, line 4b . . . . .	12b	_____
	c Add line 12a and line 12b . . . . .	12c	_____
13	<b>Royalty income</b>		
	a Enter gross royalty income of disregarded entities . . . . .	13a	_____
	b Enter LLC's distributive share of gross royalty income from pass-through entities . . . . .	13b	_____
	c Enter LLC's gross royalty income included in Schedule K, line 4c . . . . .	13c	_____
	d Add line 13a through line 13c . . . . .	13d	_____
14	<b>Capital gains</b>		
	a Enter capital gains (not losses) of disregarded entities . . . . .	14a	_____
	b Enter LLC's distributive share of capital gains (not losses) from pass-through entities . . . . .	14b	_____
	c Enter capital gains (not losses) included in Schedule D (568) . . . . .	14c	_____
	d Add line 14a through line 14c . . . . .	14d	_____
15	<b>Other portfolio income</b>		
	a Enter other portfolio income (not loss) of disregarded entities . . . . .	15a	_____
	b Enter the LLC's distributive share of other portfolio income (not loss) from pass-through entities . . . . .	15b	_____
	c Enter LLC's other portfolio income (not loss) included in Schedule K, line 4e . . . . .	15c	_____
	d Add line 15a through line 15c . . . . .	15d	_____
16	<b>1231 gains</b>		
	a Enter 1231 gains (not losses) of disregarded entities . . . . .	16a	_____
	b Enter LLC's distributive share of 1231 gains (not losses) from pass-through entities . . . . .	16b	_____
	c Enter LLC's 1231 gains (not losses) included in Schedule D-1 . . . . .	16c	_____
	d Add line 16a through line 16c . . . . .	16d	_____
17	<b>Other income (not loss) not included in line 6</b>		
	a Enter other income (not loss) of disregarded entities . . . . .	17a	_____
	b Enter LLC's distributive share of other income (not loss) from pass-through entities . . . . .	17b	_____
	c Enter LLC's other income (not loss) included in Schedule K, line 7 . . . . .	17c	_____
	d Add line 17a through line 17c . . . . .	17d	_____
18	<b>Cost of goods sold</b>		
	a Enter cost of goods sold of disregarded entities . . . . .	18a	_____
	b Enter cost of goods sold from Form 568, Schedule B, line 2 . . . . .	18b	_____
	c Enter cost of goods sold from federal Schedule F (plus California adjustments) . . . . .	18c	_____
	d Enter LLC's distributive share of cost of goods sold from other pass-through entities . . . . .	18d	_____
	e. Total line 18a through line 18d . . . . .	18e	_____
19	Add line 8, line 9d, line 10d, line 11c, line 12c, line 13d, line 14d, line 15d, line 16d, line 17d and line 18e. Enter here and on Form 568, Side 1, line 1 . . . . .	19	_____

1997 Limited Liability Company Return of Income

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For calendar year 1997 or fiscal year beginning M M D D 1 9 9 7 , and ending M M D D 1 9 Y Y .

A Principal business activity name, B Principal product or service, C Principal business code, G Check accounting method, H Secretary of State (SOS) file number, E Date business started, F Enter total assets at end of year, I Check applicable box

J Enter the number of Schedules K-1, K Is this LLC an investment partnership?, L Is this LLC apportioning income to California using Schedule R?, M Was there a distribution of property or a transfer, N Is this LLC under audit by the IRS or has it been audited in a prior year?, O Did this LLC or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership?, P (1) Does the LLC have any foreign nonresident members?, (2) Does the LLC have any nonresident members?, (3) Were Form 592, Form 592-A and Form 592-B filed for these members?, Q Enter ordinary income (loss) shown on federal Form 1065 for the same calendar or fiscal (taxable) year, R Are any members in this LLC also LLCs or partnerships?, S Does the LLC meet all the requirements shown in the instructions for Question S?, T Is this LLC a member or partner in another LLC or partnership?, U Is this LLC a publicly traded partnership as defined in IRC Section 469(k)(2)?, V Is this LLC a business entity disregarded for tax purposes?, W Is the LLC required to complete federal Form 8271? If "Yes", see instructions

Attach check or money order here. 1 Total income from LLC Income Worksheet, line 19, 2 Limited Liability Company Fee. See instructions, 3 1997 LLC Tax, 4 Nonconsenting nonresident members' tax liability from Schedule T, 5 Total tax and fee. Add line 2, line 3 and line 4, 6 Amount paid with form FTB 3537 and 1997 FTB 3522, 7 Overpayment from prior year allowed as a credit, 8 Total payments. Add line 6 and line 7, 9 Tax and fee due. If line 5 is more than line 8, subtract line 8 from line 5, 10 Overpayment. If line 8 is more than line 5, subtract line 5 from line 8, 11 Amount of line 10 to be credited to 1998 tax or fee, 12 Amount to be refunded. Subtract line 11 from line 10, 13 Penalties and interest. See instructions, 14 Amount due. Add line 9 and line 13. Pay this amount with this return.

Single Member LLC Information and Consent — Complete only if the LLC has elected to be disregarded. Federal TIN, Sole Owner's Name, SOS File No.

Street Address, City, State and ZIP Code, Consent statement: I consent to the jurisdiction of the State of California to tax my LLC income and agree to file returns and pay tax as may be required by the Franchise Tax Board. Signature, Date, Title, Return filed with FTB by Owner: Form 540, Form 541, Form 100, Form 100S, Form 565, Form 568, Other



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 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, Preparer's SSN/FEIN, Firm's name (or yours, if self-employed) and address, FEIN, ZIP CODE

**Schedule A Cost of Goods Sold**

1	Inventory at beginning of year . . . . .	1		
2	Purchases less cost of items withdrawn for personal use . . . . .	2		
3	Cost of labor. . . . .	3		
4	Additional IRC Section 263A costs. Attach schedule. . . . .	4		
5	Other costs. Attach schedule. . . . .	5		
6	Total. Add line 1 through line 5 . . . . .	6		
7	Inventory at end of year . . . . .	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Schedule B, line 2 . . . . .	8		
9	a Check all methods used for valuing closing inventory:			
	● (1) <input type="checkbox"/> Cost    (2) <input type="checkbox"/> Lower of cost or market as described in Treas. Reg. Section 1.471-4    (3) <input type="checkbox"/> Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c)    (4) <input type="checkbox"/> Other. Specify method used and attach explanation _____			
	b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970. . . . . <input type="checkbox"/>			
	c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the LLC? . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			
	d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "yes," attach explanation . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			

**Schedule B Income and Deductions**

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	1	a Gross receipts or sales \$_____ 1b Less returns and allowances \$_____ . . . . . Balance	1c		
	2	Cost of goods sold (Schedule A, line 8) . . . . .	2		
	3	Gross profit. Subtract line 2 from line 1c. . . . . ●	3		
	4	Ordinary income (loss) from other LLCs, partnerships and fiduciaries. Attach schedule . . . . . ●	4		
	5	Net farm profit (loss). Attach federal Schedule F (Form 1040) . . . . . ●	5		
	6	Net gain (loss) from Schedule D-1, Part II, line 18 . . . . . ●	6		
	7	Other income (loss). Attach schedule . . . . . ●	7		
	8	Income (loss). Combine line 3 through line 7 . . . . . ●	8		
Deductions	9	Salaries and wages (other than to members) . . . . .	9		
	10	Guaranteed payments to members . . . . . ●	10		
	11	Repairs . . . . .	11		
	12	Bad debts . . . . . ●	12		
	13	Rent . . . . .	13		
	14	Taxes . . . . .	14		
	15	Deductible interest expense not claimed elsewhere on return . . . . .	15		
	16	a Depreciation and amortization. Attach form FTB 3885L \$_____ b Less depreciation reported on Schedule A and elsewhere on return \$_____ . . . . . Balance	16c		
	17	Depletion. Do not deduct oil and gas depletion . . . . .	17		
	18	Retirement plans, etc. . . . .	18		
	19	Employee benefit programs . . . . .	19		
	20	Other deductions. Attach schedule . . . . . ●	20		
	21	TOTAL deductions. Add line 9 through line 20 . . . . . ●	21		
	22	Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 . . . . . ●	22		

**Schedule T Nonconsenting Nonresident Members' Tax Liability**

Member's name	Social security number or FEIN	Distributive share of income x Tax Rate	Tax Due
		x	
		x	
		x	
		x	
		x	

Total the amount of tax due. Enter the total here and on Side 1, line 4 . . . . .  
 Attach additional sheets if necessary.



Schedule K **Members' Shares of Income, Deductions, Credits, Etc.**

		(a) Distributive share items		(b) Total amounts using California law	
Income (Loss)	1	Ordinary income (loss) from trade or business activities (Side 2, line 22)		1	
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825		2	
	3	a	Gross income from other rental activities	3a	
		b	Less expenses. Attach schedule	3b	
		c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c	
	4	Portfolio income (loss). See instructions:			
		a	Interest income	● 4a	
		b	Dividend income	● 4b	
		c	Royalty income	● 4c	
		d	Net capital gain (loss) (Schedule D (568))	4d	
		e	Other portfolio income (loss). Attach schedule	● 4e	
		5	Guaranteed payments to members	● 5	
		6	Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1	● 6	
	7	Other income (loss). Attach schedule	7		
Deductions	8	Charitable contributions. See instructions. Attach schedule		8	
	9	Expense deduction for recovery property (R&TC Sections 17266, 17267.2 and 17268 and IRC Section 179). Attach schedule		9	
	10	Deductions related to portfolio income		10	
	11	Other deductions. Attach schedule		11	
Investment Interest	12	a	Interest expense on investment debts	12a	
		b	(1) Investment income included on line 4a through line 4e above	12b(1)	
			(2) Investment expenses included on line 10 above	12b(2)	
Credits	13	a	(1) Withholding on LLC allocated to all members	13a(1)	
		b	Low-income housing credit	13b	
		c	Credit(s) other than credits shown on line 13b related to rental real estate activities. Attach schedule	13c	
		d	Credit(s) related to other rental activities. See instructions. Attach schedule	13d	
	14	Other credits. See instructions. Attach schedule		● 14	
	14	a	Total credits received. Add line 13b through line 14	14a	
Adjustments and Tax Preference Items	15	a	Depreciation adjustment on property placed in service after 1986	15a	
		b	Adjusted gain or loss	15b	
		c	Depletion (other than oil and gas)	15c	
		d	(1) Gross income from oil, gas and geothermal properties	15d(1)	
			(2) Deductions allocable to oil, gas and geothermal properties	15d(2)	
	e	Other adjustments and tax preference items. Attach schedule	15e		
Other	16	a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a	
		b	Type of expenditures	16b	
	17	Tax-exempt interest income		17	
	18	Other tax-exempt income		18	
	19	Nondeductible expenses		19	
	20	Distributions of money (cash and marketable securities)		20	
	21	Distribution of property other than money		21	
22	Other items and amounts reported separately to members. Attach schedule		22		
Analysis	23	a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result subtract the sum of line 8 through line 12a and line 16a	● 23	
		b	Analysis of members:		

Members	(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other	(f) LLC
		i. Active	ii. Passive				



Schedule L **Balance Sheets.** See the instructions for Question S before completing Schedules L, M-1 and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other 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				
<b>Liabilities and Capital</b>				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Members' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 **Reconciliation of Income per Books With Income per Return. Use Total Amounts Using California Law.**

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize	●	a Tax-exempt interest \$ _____	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$ _____	●
a Depreciation \$ _____		b Travel and entertainment \$ _____	
b Travel and entertainment \$ _____	●	c LLC annual tax \$ _____	
c LLC annual tax \$ _____		8 Total of line 6 and line 7	
5 Total of line 1 through line 4	●	9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	

Schedule M-2 **Analysis of Members' Capital Accounts. Use California Amounts.**

1 Balance at beginning of year		6 Distributions: a Cash	●
2 Capital contributed during year	●	b Property	●
3 Net income (loss) per books		7 Other decreases. Itemize	
4 Other increases. Itemize		_____	●
_____	●	8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5	

Schedule O **Recognized Gains from Liquidations Used to Capitalize a Limited Liability Company** (Complete only if Initial Return box is checked in Question I.)

Name(s) of entity liquidated (if more than one, attach a schedule)

Type of entity:  C corporation  S corporation  Partnership  Limited Partnership  Sole Proprietor  Farmer

Entity identification number(s) \_\_\_\_\_

Amount of liquidation gains recognized to capitalize the LLC \_\_\_\_\_

1997 Limited Liability Company Return of Income

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For calendar year 1997 or fiscal year beginning M M D D 1 9 9 7 , and ending M M D D 1 9 Y Y .

A Principal business activity name (same as federal) Limited liability company name (type or print) DBA Date business started B Principal product or service (same as federal) Number and street (or PO Box number if mail is not delivered to street address) F Enter total assets at end of year. See instructions. C Principal business code (same as federal) City or town, state and ZIP code I Check applicable box (1) Initial return (2) Final return (3) Amended return G Check accounting method: (1) Cash (2) Accrual (3) Other (attach explanation) H Secretary of State (SOS) file number

J Enter the number of Schedules K-1. Attach one for each person who was a member at any time during the taxable year K Is this LLC an investment partnership? See instructions. L Is this LLC apportioning income to California using Schedule R? M Was there a distribution of property or a transfer (for example, by sale or death) of an LLC interest during the taxable year? N Is this LLC under audit by the IRS or has it been audited in a prior year? O Did this LLC or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership? (See Instructions - Penalties May Apply.) P (1) Does the LLC have any foreign nonresident members? (2) Does the LLC have any nonresident members? (3) Were Form 592, Form 592-A and Form 592-B filed for these members? Q Enter ordinary income (loss) shown on federal Form 1065 for the same calendar or fiscal (taxable) year. Explain any differences between federal ordinary income (loss) and amount shown on line 22 in a separate schedule. (Not applicable for disregarded entities). R Are any members in this LLC also LLCs or partnerships? S Does the LLC meet all the requirements shown in the instructions for Question S? T Is this LLC a member or partner in another LLC or partnership? U Is this LLC a publicly traded partnership as defined in IRC Section 469(k)(2)? V Is this LLC a business entity disregarded for tax purposes? If yes, see instructions and only complete Side 1. Are there credits or credit carryovers attributable to the disregarded entity? W Is the LLC required to complete federal Form 8271? If "Yes", see instructions.

Attach check or money order here. 1 Total income from LLC Income Worksheet, line 19 2 Limited Liability Company Fee. See instructions 3 1997 LLC Tax 4 Nonconsenting nonresident members' tax liability from Schedule T 5 Total tax and fee. Add line 2, line 3 and line 4 6 Amount paid with form FTB 3537 and 1997 FTB 3522 7 Overpayment from prior year allowed as a credit. 8 Total payments. Add line 6 and line 7 9 Tax and fee due. If line 5 is more than line 8, subtract line 8 from line 5 10 Overpayment. If line 8 is more than line 5, subtract line 5 from line 8 11 Amount of line 10 to be credited to 1998 tax or fee 12 Amount to be refunded. Subtract line 11 from line 10 13 Penalties and interest. See instructions 14 Amount due. Add line 9 and line 13. Pay this amount with this return.

Single Member LLC Information and Consent - Complete only if the LLC has elected to be disregarded. Federal TIN Sole Owner's Name SOS File No.

Street Address, City, State and ZIP Code Consent statement: I consent to the jurisdiction of the State of California to tax my LLC income and agree to file returns and pay tax as may be required by the Franchise Tax Board. Signature Date Title Return filed with FTB by Owner Form 540 Form 541 Form 100 Form 100S Form 565 Form 568 Other



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 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 Preparer's SSN/FEIN Firm's name (or yours, if self-employed) and address FEIN ZIP CODE

**Schedule A Cost of Goods Sold**

1	Inventory at beginning of year . . . . .	1		
2	Purchases less cost of items withdrawn for personal use . . . . .	2		
3	Cost of labor. . . . .	3		
4	Additional IRC Section 263A costs. Attach schedule. . . . .	4		
5	Other costs. Attach schedule. . . . .	5		
6	Total. Add line 1 through line 5 . . . . .	6		
7	Inventory at end of year . . . . .	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Schedule B, line 2 . . . . .	8		
9	a Check all methods used for valuing closing inventory:			
	● (1) <input type="checkbox"/> Cost    (2) <input type="checkbox"/> Lower of cost or market as described in Treas. Reg. Section 1.471-4    (3) <input type="checkbox"/> Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c)    (4) <input type="checkbox"/> Other. Specify method used and attach explanation _____			
	b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970. . . . . <input type="checkbox"/>			
	c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the LLC? . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			
	d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "yes," attach explanation . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			

**Schedule B Income and Deductions**

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	1	a Gross receipts or sales \$_____ 1b Less returns and allowances \$_____ . . . . . Balance	1c		
	2	Cost of goods sold (Schedule A, line 8) . . . . .	2		
	3	Gross profit. Subtract line 2 from line 1c. . . . . ●	3		
	4	Ordinary income (loss) from other LLCs, partnerships and fiduciaries. Attach schedule . . . . . ●	4		
	5	Net farm profit (loss). Attach federal Schedule F (Form 1040) . . . . . ●	5		
	6	Net gain (loss) from Schedule D-1, Part II, line 18 . . . . . ●	6		
	7	Other income (loss). Attach schedule . . . . . ●	7		
	8	Income (loss). Combine line 3 through line 7 . . . . . ●	8		
Deductions	9	Salaries and wages (other than to members) . . . . .	9		
	10	Guaranteed payments to members . . . . . ●	10		
	11	Repairs . . . . .	11		
	12	Bad debts . . . . . ●	12		
	13	Rent . . . . .	13		
	14	Taxes . . . . .	14		
	15	Deductible interest expense not claimed elsewhere on return . . . . .	15		
	16	a Depreciation and amortization. Attach form FTB 3885L \$_____ b Less depreciation reported on Schedule A and elsewhere on return \$_____ . . . . . Balance	16c		
	17	Depletion. Do not deduct oil and gas depletion . . . . .	17		
	18	Retirement plans, etc. . . . .	18		
	19	Employee benefit programs . . . . .	19		
	20	Other deductions. Attach schedule . . . . . ●	20		
	21	TOTAL deductions. Add line 9 through line 20 . . . . . ●	21		
	22	Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 . . . . . ●	22		

**Schedule T Nonconsenting Nonresident Members' Tax Liability**

Member's name	Social security number or FEIN	Distributive share of income x Tax Rate	Tax Due
		x	
		x	
		x	
		x	
		x	

Total the amount of tax due. Enter the total here and on Side 1, line 4 . . . . .  
 Attach additional sheets if necessary.



Schedule K **Members' Shares of Income, Deductions, Credits, Etc.**

		(a) Distributive share items		(b) Total amounts using California law		
Income (Loss)	1	Ordinary income (loss) from trade or business activities (Side 2, line 22)		1		
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825		2		
	3	a	Gross income from other rental activities	3a		
		b	Less expenses. Attach schedule	3b		
		c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		
	4	Portfolio income (loss). See instructions:				
		a	Interest income	● 4a		
		b	Dividend income	● 4b		
		c	Royalty income	● 4c		
		d	Net capital gain (loss) (Schedule D (568))	4d		
		e	Other portfolio income (loss). Attach schedule	● 4e		
		5	Guaranteed payments to members		● 5	
		6	Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1		● 6	
	7	Other income (loss). Attach schedule		7		
Deductions	8	Charitable contributions. See instructions. Attach schedule		8		
	9	Expense deduction for recovery property (R&TC Sections 17266, 17267.2 and 17268 and IRC Section 179). Attach schedule		9		
	10	Deductions related to portfolio income		10		
	11	Other deductions. Attach schedule		11		
Investment Interest	12	a	Interest expense on investment debts	12a		
		b	(1) Investment income included on line 4a through line 4e above	12b(1)		
			(2) Investment expenses included on line 10 above	12b(2)		
Credits	13	a	(1) Withholding on LLC allocated to all members	13a(1)		
		b	Low-income housing credit	13b		
		c	Credit(s) other than credits shown on line 13b related to rental real estate activities. Attach schedule	13c		
		d	Credit(s) related to other rental activities. See instructions. Attach schedule	13d		
	14	Other credits. See instructions. Attach schedule		● 14		
	14	a	Total credits received. Add line 13b through line 14	14a		
Adjustments and Tax Preference Items	15	a	Depreciation adjustment on property placed in service after 1986	15a		
		b	Adjusted gain or loss	15b		
		c	Depletion (other than oil and gas)	15c		
		d	(1) Gross income from oil, gas and geothermal properties	15d(1)		
			(2) Deductions allocable to oil, gas and geothermal properties	15d(2)		
	e	Other adjustments and tax preference items. Attach schedule		15e		
Other	16	a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a		
		b	Type of expenditures	16b		
	17	Tax-exempt interest income		17		
	18	Other tax-exempt income		18		
	19	Nondeductible expenses		19		
	20	Distributions of money (cash and marketable securities)		20		
	21	Distribution of property other than money		21		
22	Other items and amounts reported separately to members. Attach schedule		22			
Analysis	23	a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result subtract the sum of line 8 through line 12a and line 16a.	● 23		
		b	Analysis of members:			



Members	(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other	(f) LLC
		i. Active	ii. Passive				

Schedule L **Balance Sheets.** See the instructions for Question S before completing Schedules L, M-1 and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other 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				
<b>Liabilities and Capital</b>				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Members' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 **Reconciliation of Income per Books With Income per Return. Use Total Amounts Using California Law.**

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize	●	a Tax-exempt interest \$ _____	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$ _____	●
a Depreciation \$ _____			
b Travel and entertainment \$ _____		8 Total of line 6 and line 7	
c LLC annual tax \$ _____	●	9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	
5 Total of line 1 through line 4	●		

Schedule M-2 **Analysis of Members' Capital Accounts. Use California Amounts.**

1 Balance at beginning of year		6 Distributions: a Cash	●
2 Capital contributed during year	●	b Property	●
3 Net income (loss) per books		7 Other decreases. Itemize	
4 Other increases. Itemize			●
	●	8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5	

Schedule O **Recognized Gains from Liquidations Used to Capitalize a Limited Liability Company** (Complete only if Initial Return box is checked in Question I.)

Name(s) of entity liquidated (if more than one, attach a schedule)

Type of entity:  C corporation  S corporation  Partnership  Limited Partnership  Sole Proprietor  Farmer

Entity identification number(s) \_\_\_\_\_

Amount of liquidation gains recognized to capitalize the LLC \_\_\_\_\_

1997

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

K-1 (568)

For taxable or income year beginning MMDD 1997, and ending MMDD 19YY.

Member's identifying number, Member's name, address, state and ZIP code, LLC's FEIN, Secretary of State file number, LLC's name, address, state and ZIP code.

A What type of entity is this member? B Is this member a foreign member? C Enter member's percentage (without regard to special allocations) of: Profit sharing, Loss sharing, Ownership of capital.

D Member's share of liabilities: Nonrecourse, Qualified nonrecourse financing, Other. E Tax shelter registration number. F Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2). G Check here if this is: (1) a final Schedule K-1 (568) (2) an amended Schedule K-1 (568). H Is this member a nonresident of California?

I Analysis of member's capital account: Table with columns (a) Capital account at beginning of year, (b) Capital contributed during year, (c) Member's share of line 3, line 4 and line 7 Form 568, Schedule M-2, (d) Withdrawals and distributions, (e) Capital account at end of year (combine column (a) through column (d)).

Caution: Refer to Partner's Instructions for federal Schedule K-1 (1065) before entering information from this schedule on your tax return.

Main table with columns (a) Distributive share item, (b) Amount from federal Schedule K-1 (1065), (c) Adjustments, (d) Total amounts using California law (Combine col. (b) and col. (c)), (e) California source amounts and credits. Rows include Income (Loss) and Deductions.



(a) Distributive share item		(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts . . . . .				
	b (1) Investment income included on line 4a through line 4e . . . . .				
	(2) Investment expenses included on line 10 . . . . .				
Credits	13 a (1) Withholding on LLC allocated to all members . . . . .	[Hatched Area]			
	(2) LLC withholding on nonresident members . . . . .				
	(3) Total withholding (equals amount on Form 592-B if calendar year LLCs) . . . . .				
	b Low-income housing credit . . . . .				
	c Credits other than line 13b related to rental real estate activities. Attach schedule . . . . .				
	d Credits related to other rental activities. See instructions. Attach schedule . . . . .				
	e Nonconsenting member tax paid by LLC . . . . .				
14 Other credits. Attach required schedules or statements. . . . .					
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 . . . . .				
	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	16 a Total expenditures to which an IRC Section 59(e) election may apply . . . . .				
	b Type of expenditures . . . . .	[Hatched Area]			
	17 Tax-exempt interest income . . . . .				
	18 Other tax-exempt income . . . . .				
	19 Nondeductible expenses . . . . .				
	20 Distributions of money (cash and marketable securities) . . . . .				
	21 Distributions of property other than money . . . . .				
22 Supplemental information required to be reported separately to each member. Attach additional schedules. See instructions. \$ _____					

**Table 1** — Member's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the member):

Interest \$ \_\_\_\_\_ Sec 1231 Gains/Losses \$ \_\_\_\_\_ Capital Gains/Losses \$ \_\_\_\_\_  
 Dividends \$ \_\_\_\_\_ Royalties \$ \_\_\_\_\_ Other \$ \_\_\_\_\_

FOR USE BY APPORTIONING UNITARY MEMBERS ONLY. See instructions.

**Table 2** — Member's share of distributive items.

- A. Member's share of the LLC's business income. See instructions. \$ \_\_\_\_\_  
 B. Member's share of nonbusiness income from real and tangible property sourced or allocable to California.  
 Capital Gains/Losses \$ \_\_\_\_\_ Rents/Royalties \$ \_\_\_\_\_  
 Sec 1231 Gains/Losses \$ \_\_\_\_\_ Other \$ \_\_\_\_\_  
 C. Member's share of the property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$ _____	\$ _____
Ending	\$ _____	\$ _____
Payroll	\$ _____	\$ _____
Sales	\$ _____	\$ _____

1997

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

K-1 (568)

For taxable or income year beginning MMDD 1997, and ending MMDD 19YY.

Member's identifying number
Member's name, address, state and ZIP code

LLC's FEIN
Secretary of State file number
LLC's name, address, state and ZIP code

A What type of entity is this member?
B Is this member a foreign member?
C Enter member's percentage (without regard to special allocations) of:
Profit sharing
Loss sharing
Ownership of capital

D Member's share of liabilities:
Nonrecourse
Qualified nonrecourse financing
Other
E Tax shelter registration number
F Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2)
G Check here if this is:
H Is this member a nonresident of California?

Table I: Analysis of member's capital account. Columns: (a) Capital account at beginning of year, (b) Capital contributed during year, (c) Member's share of line 3, line 4 and line 7 Form 568, Schedule M-2, (d) Withdrawals and distributions, (e) Capital account at end of year.

Caution: Refer to Partner's Instructions for federal Schedule K-1 (1065) before entering information from this schedule on your tax return.

Main table with columns: (a) Distributive share item, (b) Amount from federal Schedule K-1 (1065), (c) Adjustments, (d) Total amounts using California law, (e) California source amounts and credits. Rows include Income (Loss) and Deductions.



(a) Distributive share item		(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts . . . . .				
	b (1) Investment income included on line 4a through line 4e . . . . .				
	(2) Investment expenses included on line 10 . . . . .				
Credits	13 a (1) Withholding on LLC allocated to all members . . . . .				
	(2) LLC withholding on nonresident members . . . . .				
	(3) Total withholding (equals amount on Form 592-B if calendar year LLCs) . . . . .				
	b Low-income housing credit . . . . .				
	c Credits other than line 13b related to rental real estate activities. Attach schedule . . . . .				
	d Credits related to other rental activities. See instructions. Attach schedule . . . . .				
	e Nonconsenting member tax paid by LLC . . . . .				
14 Other credits. Attach required schedules or statements. . . . .					
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 . . . . .				
	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	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 Distributions of money (cash and marketable securities) . . . . .				
	21 Distributions of property other than money . . . . .				
22 Supplemental information required to be reported separately to each member. Attach additional schedules. See instructions. \$ _____					

**Table 1** — Member's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the member):

Interest \$ \_\_\_\_\_ Sec 1231 Gains/Losses \$ \_\_\_\_\_ Capital Gains/Losses \$ \_\_\_\_\_  
 Dividends \$ \_\_\_\_\_ Royalties \$ \_\_\_\_\_ Other \$ \_\_\_\_\_

FOR USE BY APPORTIONING UNITARY MEMBERS ONLY. See instructions.

**Table 2** — Member's share of distributive items.

- A. Member's share of the LLC's business income. See instructions. \$ \_\_\_\_\_
- B. Member's share of nonbusiness income from real and tangible property sourced or allocable to California.  
 Capital Gains/Losses \$ \_\_\_\_\_ Rents/Royalties \$ \_\_\_\_\_  
 Sec 1231 Gains/Losses \$ \_\_\_\_\_ Other \$ \_\_\_\_\_
- C. Member's share of the property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$ _____	\$ _____
Ending	\$ _____	\$ _____
Payroll	\$ _____	\$ _____
Sales	\$ _____	\$ _____

1997 Depreciation and Amortization

3885L

Name as shown on return FEIN

Table with columns: (a) Description of property, (b) Date placed in service, (c) Cost or other basis, (d) Method of figuring depreciation, (e) Life or rate, (f) Depreciation for this year, (g) Code section, (h) Period or percentage, (i) Amortization for this year.

Summary section with lines 1-8: 1 Enter line 1, column (f) and column (i) totals here... 2 California depreciation for assets placed in service before January 1, 1997... 3 Total California depreciation... 4 California amortization for intangibles placed in service before January 1, 1997... 5 Total California amortization... 6 Total depreciation and amortization... 7 Section 179 expense election... 8 Carryover of disallowed deduction to 1998.

1997 Capital Gain or Loss

D (568)

Name as shown on return FEIN

Table with columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Sales price, (e) Cost or other basis, (f) Gain (loss).



Summary section with lines 1-5: 1 Enter line 1, column (f) total here... 2 Capital gain from installment sales... 3 LLC's share of net capital gain (loss)... 4 Capital gain distributions... 5 Net capital gain (loss).

# Instructions for Form FTB 3885L

## Depreciation and Amortization

### General Information

Due to California legislation enacted in 1997, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1997, and to selected provisions of the federal Taxpayer Relief Act of 1997 (Public Law 105-34). For example California law and federal law are the same for:

- Exclusion of gain on the sale of a residence, and
- Certain provisions with respect to individual retirement plans.

### A Purpose

Use form FTB 3885L to compute depreciation and amortization allowed as a deduction on Form 568. Attach form FTB 3885L to Form 568.

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is similar to the straight line method of depreciation in that an annual deduction is allowed to recover certain costs of intangibles over a fixed period of time.

In general, California personal income tax law follows federal law for assets placed in service on or after January 1, 1987. See R&TC Section 17250.

### B Calculation Methods

California did not allow depreciation under the federal ACRS for years prior to 1987.

California law now conforms to federal law for the following:

- Fifteen year class life for gas station convenience stores and similar structures for noncorporate taxpayers.
- Amortization of reforestation expenses over 7 years (noncorporate and corporate taxpayers).
- Depreciation under income forecast method for property placed in service on or after 1/1/97 and before 8/6/97 (noncorporate and corporate taxpayers).
- Nonresidential real property depreciation to be determined by using a recovery period of 39 years rather than 31.5 years for noncorporate taxpayers. California did not conform to this provision until 1/1/97. Therefore, the California recovery period of 31.5 years should be used for property placed in service from 5/13/93 and before 1/1/97.

California did not conform to federal law for the following:

- Expense treatment for small business: For 1997 the maximum allowed under California law is \$13,000; the maximum allowed under federal law is \$18,000.
- Accelerated depreciation for property on Indian reservations;
- Limitation on the use of the income forecast method of depreciation for property placed in service after 8/5/97; and
- Modified luxury automobile depreciation limitation for clean fuel and electric vehicles placed in service after 8/5/97.

As a result of California legislation enacted in 1997:

- Any grapevine replaced in a California vineyard in any taxable year beginning on or after January 1, 1997, as a direct result of Pierce's Disease will be considered five-year property for accelerated cost recovery provisions.
- The corporate provision for the five-year amortization of child care facilities has been repealed.

### Specific Line Instructions

#### Line 1 – California depreciation for assets placed in service after December 31, 1996 and amortization for intangibles placed in service after December 31, 1996.

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 1996. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

#### Line 2 – California depreciation for assets placed in service before January 1, 1997

Enter total California depreciation for assets placed in service prior to January 1, 1997, taking into account any differences in asset basis or differences in California and federal tax law.

#### Line 4 – California amortization for intangibles placed in service before January 1, 1997. Enter total California amortization for intangibles placed in service prior to January 1, 1997, taking into account any differences in asset basis or differences in California and federal tax law.

California has conformed to IRC Section 197 relating to the amortization of intangibles as of January 1, 1994. No deduction is allowed under this section for any taxable year beginning prior to January 1, 1994. If a taxpayer made an election for federal purposes under the Revenue Reconciliation Act of 1993 (P.L. 103-66), relating to the election to have amendments apply to property acquired after July 25, 1991, or relating to an elective binding contract exception, a separate election for state purposes is not allowed under R&TC Section 17024.5(e)(3), and the federal election is binding. In the case of an intangible that was acquired in a taxable year beginning before January 1, 1994, and that is amortized under IRC Section 197, the amount to be amortized cannot exceed the adjusted basis of that intangible as of the first day of the first taxable year beginning on or after January 1, 1994. This amount must be amortized ratably over the period beginning with the first month of the first taxable year beginning on or after January 1, 1994, and ending 15 years after the month in which the intangible was acquired.

#### Assets with a Federal Basis Different from California Basis

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

#### Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 568, Schedule B, line 16a.

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

**Line 7** – Enter the IRC Section 179 expense election amount from the following worksheet.

These limitations apply to the LLC and each member.

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

**Note:** Follow the instructions on federal Form 4562 for Listed Property.

1. Maximum dollar limitation . . . . .	\$ 13,000
2. Total cost of IRC Section 179 property placed in service during the tax year . . . . .	_____
3. Threshold cost of IRC Section 179 property before reduction in limitation . . . . .	\$200,000
4. Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . .	_____
5. Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0- . . . . .	_____

(a) Property	(b) Cost	(c) Elected cost
6.		

- |   |       |
|---|-------|
| 7. Listed property. Use federal Form 4562, Part V, line 27, making any adjustments for California law and basis differences . . . . .   | _____ |
| 8. Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7. . . . .  | _____ |
| 9. Tentative deduction. Enter the smaller of line 5 or line 8. . . . .  | _____ |
| 10. Carryover of disallowed deduction from 1996. See instructions for line 9 through line 12 on the federal Form 4562 . . . . .   | _____ |
| 11. Income limitation. Enter the smaller of line 5 or the aggregate of the LLC's items of income and expense described in IRC Section 702(a) from any business actively conducted by the LLC (other than credits, tax-exempt IRC Section 179 expense deduction and guaranteed payments under IRC Section 707(c)). . . . . | _____ |
| 12. IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (568), line 9 and on form FTB 3885L, line 7 . . . . .  | _____ |
| 13. Carryover of disallowed deduction to 1998. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885L . . . . .  | _____ |

## Instructions for Schedule D (568)

### Capital Gain or Loss

#### General Information

Use Schedule D (568) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any members. Do not use this form to report the sale of business property. For sales of business property use California Schedule D-1.

Enter specially allocated capital gains (losses) received from LLCs, partnerships, S corporations and fiduciaries on Schedule D (568), line 3. Enter capital gains (losses) that are specially allocated to members on line 4d of Schedule K-1 (568). Do not include these amounts on Schedule D (568). See the instructions for Schedule K (568) and Schedule K-1 (568) for more information. Also refer to the instructions for federal Schedule D (1065).

California law and federal law are the same for the following:

- Write-off of lessor improvements when abandoned at termination of lease.
- Application of involuntary conversion rules to presidentially declared disasters.
- Involuntary conversions with: related parties; FCC certified sales and exchanges.
- Basis adjustment required when acquisition of stock representing the controlling interest in a corporation qualifies for replacement property.
- Provisions to prevent conversion of ordinary income to capital gain.
- Repeal of certain exceptions to the market discount rules and recognition of ordinary income on sale or exchange of bonds.
- Election to treat net capital gains as investment income.
- Nonrecognition treatment for certain transfers by common trust funds to regulated investment companies.

1997 Depreciation and Amortization

3885L

Name as shown on return FEIN

Table with columns: (a) Description of property, (b) Date placed in service, (c) Cost or other basis, (d) Method of figuring depreciation, (e) Life or rate, (f) Depreciation for this year, (g) Code section, (h) Period or percentage, (i) Amortization for this year.

Summary section with lines 1-8: 1 Enter line 1, column (f) and column (i) totals here... 2 California depreciation for assets placed in service before January 1, 1997... 3 Total California depreciation... 4 California amortization for intangibles placed in service before January 1, 1997... 5 Total California amortization... 6 Total depreciation and amortization... 7 Section 179 expense election... 8 Carryover of disallowed deduction to 1998.

1997 Capital Gain or Loss

D (568)

Name as shown on return FEIN

Table with columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Sales price, (e) Cost or other basis, (f) Gain (loss).



Summary section with lines 1-5: 1 Enter line 1, column (f) total here... 2 Capital gain from installment sales... 3 LLC's share of net capital gain (loss)... 4 Capital gain distributions... 5 Net capital gain (loss).

# Member's Instructions for Schedule K-1 (568)

## General Information

### A Purpose

A limited liability company (LLC) that has elected to be taxed as a partnership uses Schedule K-1 (568) to report your share of the LLC's income, deductions, credits, etc. Please keep it for your records. Do not file it with your tax return. The LLC has filed a copy with the FTB.

**Although the LLC is not subject to income tax, you are subject to tax on your share of the LLC income, whether or not distributed.**

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1 (568). Generally, the amount of loss and deduction you may claim is limited to your basis in the LLC and the amount for which you are considered at-risk. If you have losses, deductions or credits from a passive activity, you must also apply the passive activity rules. It is the member's responsibility to consider and apply any applicable limitations. See General Line Instruction A, Limitations on Losses, Deductions and Credits.

You should read the federal Schedule K-1 (1065) instructions before completing your tax return with this Schedule K-1 (568) information.

### B Definitions

#### Member

A member is a person owning an interest in the LLC; one whose potential personal liability for LLC debts is limited to the amount of money or other property that the member contributed or is required to contribute to the LLC.

#### Nonrecourse Loans

Nonrecourse loans are those liabilities of the LLC for which none of the members has any personal liability.

#### Corporate Members

Corporate members of LLCs doing business in California may be considered to be doing business in California and are therefore subject to the corporate franchise tax.

#### Apportionment

Apportionment is the process by which business income from a trade or business which is conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the California property, payroll and sales factors of the apportioning trade or business. The total business income of the unitary business is multiplied by this percentage to derive the amount of business income apportioned to California.

#### Unitary

Unitary refers to a method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, irrespective of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. The business income from all of the unitary business activities is combined into a single report. An apportionment formula is then applied to the combined business income to determine the portion attributable to California. For further information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

#### Elections

Generally, the LLC decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your individual income tax return and not by the LLC.

These elections are made under the following Internal Revenue Code (IRC) sections, to which California conforms:

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

#### Additional Information

For more information on the treatment of LLC income, deductions, credits, etc., get the following federal publications: Publication 541, Tax Information on Partnerships, and Publication 535, Business Expenses.

### C Specific Instructions

#### Questions and Items A through I

The LLC completes the questions and items at the top of Schedule K-1 (568) for all members. For more information, see the federal instructions for Schedule K-1 (1065).

#### Schedule K-1 (568)

- **Important Note to Members:** If your Schedule K-1 (568) reports losses and/or deductions, you must first apply the basis limitations described under IRC Section 704(d), the at-risk limitations found under IRC Section 465, and the passive activity loss limitations under IRC Section 469 before such losses/deductions can be deducted on your return. See General Line Instruction A, Limitations on Losses, Deductions and Credits, for additional information. IRC Section 705(a) provides direction on how to compute your basis. If your return is ever examined, you may be required to provide your computations and the supporting documents. You will also need to know your basis when you transfer, sell, or exchange your interest in the LLC and when the LLC terminates.
- If you are an individual member, the amounts in column (c), Adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; i.e., Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.
- Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801 or form FTB 3802, Passive Activity Loss Limitations, and the related worksheets that are used to figure any passive loss limitations.
- If you are not an individual member, report the amounts as instructed on your tax return.
- 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, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (568) 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. See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, for more information.

### D Reporting Information from Columns (d) and (e)

If the LLC income is from activities both within and outside of California, the LLC will complete Schedule R, Apportionment and Allocation of Income, to determine the LLC income from California sources. Resident members will use only the information in column (c) and column (d) to report their share of the LLC's income or loss. Nonresident, corporate, and other entity members must report their share of

## Schedule K-1 (568) Instructions

income apportioned or allocated to California as indicated on Schedule K-1 (568). Special rules apply if a member and the LLC engage in a unitary business. See Title 18, Cal. Code Reg. Sections 17951 and 25137-1 for more information. Also see General Information F, Unitary Members. Nonresident, corporate, and other entity members (other than members that are unitary with the LLC) will use the information in columns (c), (d) and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California.

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

### E Income Not from a Trade Or Business of the LLC

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

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

However, for individuals, estates, trusts and S corporations that are not required to apportion their income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. See Title 18, Cal. Code Reg. Section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the LLC, the intangible income will be included in column (e).

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

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

### F Unitary Members (This section applies to apportioning LLCs only.)

**Note:** The following rules apply not only to corporations, but to an individual or other entity that conducts a trade or business that is unitary with the LLC (see Title 18, Cal. Code Reg. Section 17951, incorporating the provisions of Section 25137 and regulations thereunder).

Unitary members cannot use the California source information reflected in column (e). Such members must use the information in Table 1 and Table 2, as described below.

The member's distributive share of LLC items is determined by applying the LLC rules in R&TC Sections 17851 through

17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in this state or that is includible in the member's business income subject to apportionment are made in accordance with Title 18, Cal. Code Reg. Section 25137-1 if the member, or the LLC, or both, have income from sources within and outside this state. The member, in computing net income for its tax accounting period, must include its distributive share of LLC items referred to above for any LLC taxable year ending within or with the member's tax accounting period.

#### Distributive Items of Business Income

##### Apportionment of Business Income – Unitary Business

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

If you are a member that is unitary with an LLC, use Table 2 to compute your factors, applying the rules shown below (see Title 18, Cal. Code Reg. Section 25137-1 for examples). Members that are unitary with the LLC should perform the following steps:

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

##### 1. Unitary Member's Computation of Property Factor

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

- A. Include in the denominator of the member's property factor the member's distributive share of the LLC's beginning and ending balances of real and tangible property (owned or rented) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of the member's property factor the value of such property that is described in 1A above that is located in California. See Table 2, Part C.
- C. See Title 18, Cal. Code Reg. Section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the member to the LLC or vice versa.

##### 2. Unitary Member's Computation of Payroll Factor

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

## Schedule K-1 (568) Instructions

- A. Include in the denominator of the member's payroll factor the member's distributive share of the LLC's payroll used to produce business income. See Table 2, Part C; and
- B. Include in the numerator any such payroll described in 2A that is applicable to California. See Table 2, Part C.

### 3. Unitary Member's Computation of the Sales Factor

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

- A. Include in the denominator of the sales factor the member's distributive share of the LLC's sales that give rise to business income. See Table 2, Part C;
- B. Include in the numerator of the member's sales factor the amount of such sales described in 3A attributable to California; and
- C. Eliminate intercompany sales as follows:
  - Sales by the member to the LLC to the extent of the member's interest in the LLC; or
  - Sales by the LLC to the member not to exceed the member's interest in all LLC sales (see Title 18, Cal. Code Reg. Section 25137-1(f)(3)).

#### Distributive Items of Nonbusiness Income for a Unitary Member

Income in Table 2, Part B is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (568), column (e) data is not utilized by a unitary member, unitary members must make certain to separately include such items as California source income.

Items that increase your basis, but not below zero, are:

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

Items that decrease your basis but not below zero, are:

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

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

Generally, the California basis is the same as the federal 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 LLC; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as the IRC Section 179, R&TC Sections 17266, 17267.2 and 17268 deduction) that you can claim to the amount you could actually lose in the activity. See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, for more information.

#### Passive Loss Rules

IRC Section 469 limits the deduction of certain losses and credits. California law is the same as this federal provision. These rules apply to members who:

- Are individuals, estates, trusts, closely held corporations, personal service corporations or S corporations; and
- Have a passive activity loss or credit for the taxable year.

A passive activity is generally a trade or business activity in which the member does not materially participate or a rental activity. An LLC may have more than one activity. Each member must apply the passive activity loss limitations on an activity by activity basis.

Individuals, estates and trusts and S corporations must complete form FTB 3801, Passive Activity Loss Limitations, to figure the allowable passive losses, and form FTB 3801-CR, Passive Activity Credit Limitations, to figure the allowable passive credits. Corporations and exempt organization must complete form FTB 3802, Corporate Passive Activity Loss and Credit Limitations.

The amounts reported on Schedule K-1 (568), line 1 and line 14 are passive activity income (loss) or credits from the trade or business of the LLC if you are a limited member, or if you are a general member who did not materially participate in the trade or business activities of the LLC. The amounts reported on Schedule K-1 (568), line 2, line 3 and line 13b are from rental activities of the LLC and are passive activity income (loss) or credits to all members. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The LLC will identify any of these qualified amounts on an attachment for line 2.

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

## General Line Instructions

Line 1  
through

- Line 3 – The amounts shown on line 1 through line 3 reflect your share of income or loss from LLC business or rental operations without reference to limitations on losses or adjustments that may be required of you because of:
- The adjusted basis of your LLC interest;
  - The amount for which you are at-risk as determined under IRC Section 465; or
  - The passive activity limitations of IRC Section 469.

See the federal partnership instructions for line 1 through line 23 for more information. **Note:** Federal line 15a through line 15c and line 17a through line 17g do not apply to California.

### A Limitations on Losses, Deductions and Credits

There are three separate potential limitations on the amount of LLC losses that you may deduct on your return. These limitations and the order in which they must be applied are: the basis rules, the at-risk rules and the passive loss rules. Each of these limitations is discussed separately below.

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

#### Basis Rules

Generally, you may not claim your share of an LLC loss (including a capital loss) that is greater than the adjusted basis of your LLC interest at the end of the LLC's taxable year.

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

## Schedule K-1 (568) Instructions

### Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), California Adjustments — Residents, if you are a resident, or on Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents, if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (568), column (e), on your Schedule CA (540NR), column (E).

**Note to Nonresident Members:** The specific line instructions below that instruct you to enter information from Schedule K-1 (568), column (d), on other forms, apply to resident members. When the instructions make reference to column (d), nonresident members should take information from columns (c), (d) and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

#### A Income (Loss)

##### Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the LLC. For individual members, generally, where you report this amount on Form 540 or Form 540NR 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 LLC or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

**Note:** If the LLC income is from activities both within and outside of California, the amount of income nonresidents or corporate members must report on their income or franchise tax return is a function of the LLC's apportionment percentage and allocation of income for the specific members. Reporting instructions are included in the information provided by the LLC. See also Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 for more information. Also see General Information F, Unitary Members.

##### Line 2 – Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all members. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the LLC will attach a schedule for line 2 to identify such amounts. 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 the line 2 amount.

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

See the federal Specific Instructions for line 2, item 1 and item 2 for more information.

**Note:** If you are a qualified investor reporting a qualified low-income housing project loss, report any California adjustment amount from column (c) on Schedule CA (540 or 540NR).

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

##### Line 3 – Income (Loss) from Other Rental Activities

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

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

##### Line 4a through

##### Line 4e – Portfolio Income (Loss)

Portfolio income (loss) referred to as "portfolio" in these instructions is not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend and royalty income and gain or loss on the sale of property held for investment. If you have amounts on Schedule K-1 (568), line 4a through line 4e, report these amounts as follows:

- Line 4a, column (c) — Report on Schedule CA (540 or 540NR), line 8, column B or line 8, column C, whichever is applicable;
- Line 4b, column (c) — Report on Schedule CA (540 or 540NR), line 9, column B or line 9, column C, whichever is applicable;
- Line 4c, column (c) — Report on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is applicable;
- Line 4d, column (d) — Report on Schedule D; and
- Line 4e, column (d) — Report on 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) is a passive activity amount, the LLC will identify the amount.

The LLC uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty and capital gain (loss) income. The LLC will attach a schedule to Schedule K-1 (568) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the LLC is a residual interest holder.

If the LLC has a residual interest in a REMIC, it will report on the schedule your share of REMIC taxable income (net loss). Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The LLC will also report your share of "excess inclusion" and your share of IRC Section 212 expenses. If you itemized your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income limit and the high income taxpayer adjustment.

## Schedule K-1 (568) Instructions

### Line 5 – Guaranteed Payments to Members

Generally, amounts on this line are not part of a passive activity. If there is an amount on Schedule K-1 (568), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21, column B or line 21, column C, whichever is applicable.

### Line 6 – Net Gain (Loss) Under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you are a member that did not materially participate, 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 column (b) through column (f). Write "From Schedule K-1 (568)" across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and be sure to see "Passive Loss Limitations" on page 1 of the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount to you, see "Passive Loss Limitations" on page 1 of the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

### Line 7 – Other Income (Loss)

Amounts on this line are other items of income (loss) not included on line 1 through line 6.

The LLC should give you a description of the amount of your share for each of these items.

The instructions below tell you where to report line 7 items if the items are not passive activity amounts.

Report loss items that are passive activity amounts on form FTB 3801 or form FTB 3802.

Report income or gain items that are passive activity amounts as instructed below. However, if in addition to this passive activity income or gain, you have passive activity losses from any other source, report the passive activity income or gain on form FTB 3801 or form FTB 3802.

Line 7 items may include:

- LLC gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Gains and losses from wagering (IRC Section 165(d)). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Any income, gain or (loss) to the LLC under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or (loss). Report this amount on Schedule D-1, line 10; and
- Net gain or (loss) from involuntary conversions due to casualty or theft. The LLC will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii) and column (c).

## B Deductions

### Line 8 – Charitable Contributions

The LLC will give you a schedule that shows which contributions were subject to the 50%, 30% and 20% limitations. For further information, see the instructions for federal Form 1040.

If there is an amount on Schedule K-1 (568), line 8, column (c), enter this amount on Schedule CA (540 or 540NR), line 37.

### Line 9 – Expense Deduction for Recovery Property

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is \$13,000. The \$13,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000. The LLC will give you information on your share of the IRC Section 179 deduction and of the cost of the LLC's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments – Individuals and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount, and there is an amount on Schedule K-1 (568), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable.

Refer to R&TC Sections 17266, 17267.2 and 17268 on how to figure the expense deduction for recovery property in an economic development area.

### Line 10 – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (568), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amount should not be reported on Schedule CA (540 or 540NR), the LLC will have identified that amount for you.

### Line 11 – Other Deductions

Amounts on this line are deductions not included on line 8 through line 10. If there is an amount on Schedule K-1 (568), line 11, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

## C Investment Interest

If the LLC 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 federal Publication 550, Investment Income and Expenses.

### Line 12a – Interest Expense on Investment Debts

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

## Schedule K-1 (568) Instructions

Line 12b(1)

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### Line 12b(2) – Investment Income and Investment Expenses

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

**Caution:** The amounts shown on line 12b(1) and line 12b(2) include only investment income and expenses included on line 4 and line 10 of this Schedule K-1 (568). The LLC should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (568). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this LLC.

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

## D Credits

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

### Line 13a(1) – Withholding on LLC Allocated to All Members

If taxes were withheld from payments to the LLC by another entity, this withholding is allocated to all members according to their respective LLC interests. Your share is entered on line 13a(1).

### Line 13a(2) – LLC Withholding on Nonresident Members

If taxes were withheld-at-source on you as a domestic or foreign nonresident member, the amount of the withholding is entered on line 13a(2).

### Line 13a(3) – Total Withholding

The amounts (if any) on line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit you have for the LLC year. If taxes were withheld by the LLC or if there is a pass-through withholding credit from another entity, the LLC must provide you a completed Form 592-B, Nonresident Withholding Tax Statement. You must attach Form 592-B to the front of your California income or franchise tax return to claim the amount withheld, even if you are a resident. The amount shown on the Form 592-B should be claimed on:

- Form 540, California Resident Income Tax Return, line 38, or;
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 47, or;
- Form 541, California Fiduciary Income Tax Return, line 28, or;
- Form 109, California Exempt Organization Business Income Tax Return, line 22, or;
- Form 100, California Corporation Franchise or Income Tax Return, line 35, or;
- Form 100S, California S Corporation Franchise or Income Tax Return, line 35.

Schedule K-1 (568) may not be used to claim the withholding credit. If the LLC is not on a calendar year, the amount on line 13a(3) may not match the amount on Form 592-B because of the difference in accounting periods.

### Line 13b – Low-Income Housing Credit

Your share of the LLC's low-income housing credit is shown on line 13b, column (d). Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit you take. Credits

from passive activities are generally limited to tax attributable to passive activities.

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

### Line 13c – Other Credits Related to Rental Real Estate Activities

If applicable, the LLC 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.

### Line 13d – Credits Related to Other Rental Activities

If applicable, the LLC 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.

### Line 13e – Nonconsenting Member Tax Paid by LLC

This line shows any income tax paid on your behalf by the LLC if, as a nonresident member, you did not sign form FTB 3832, Limited Liability Company's List of Members and Consents, consenting to California's jurisdiction to tax your pro rata share of the LLC income attributable to California sources. You must attach a copy of Schedule K-1 (568) to your California income or franchise tax return to claim the tax paid by the LLC on your behalf. See the instructions for line 13a(3) for information as to where to claim this credit.

### Line 14 – Other Credits

If applicable, the LLC 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.

Examples of credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits credit. Use credit code 209.
- Disabled Access credit for Eligible Small Business — get form FTB 3548.
- Donated Agricultural Products Transportation credit — get form FTB 3547.
- Employer Child Care Program/Contribution credit — get form FTB 3501.
- Enhanced Oil Recovery credit — get form FTB 3546.
- Enterprise Zone Hiring & Sales or Use Tax credit — get form FTB 3805Z.
- Farmworker Housing Credit-Construction. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.
- Los Angeles Revitalization Zone Hiring & Sales or Use Tax credit — get form FTB 3806.
- Local Agency Military Base Recovery Area Hiring & Sales or Use Tax — get form FTB 3807.
- Manufacturers' Investment credit — get form FTB 3535.
- Prison Inmate Labor credit — get form FTB 3507.
- Research credit — get form FTB 3523.
- Rice Straw credit. Use credit code 206.
- Salmon and Steelhead Trout Habitat Restoration credit. Use credit code 200.

**Note:** The passive activity limitations of IRC Section 469 may limit the amount of credits on line 13b, line 13c, line 13d and line 14. Line 13b, line 13c and line 13d credits are related to the rental activities of the LLC. Line 14 credits are related to the trade or business activities of the LLC. In general, passive activity credits, as defined in R&TC Section 17561, from passive activities are limited to tax attributable to passive activities for California purposes. Credits that may be limited under the passive activity credit rules are the:

- Research credit; and
- Low-income housing credit.

## Schedule K-1 (568) Instructions

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

The LLC has included on line 14 your distributive share of net income taxes paid to other states by the LLC. Subject to the limitations of R&TC Section 18006, members may claim a credit against their individual tax for net income taxes paid by the LLC to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Schedule S, Other State Tax Credit, for more information.

### E Adjustments and Tax Preference Items

#### Line 15a through Line 15e

col. (d) – Use the information reported on line 15a through line 15e, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries; or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations. For additional information, see the federal instructions for Schedule K-1 (1065), Adjustments and Tax Preference Items, line 16a through line 16e.

### F Other

#### Line 16 through Line 19

– See the federal instructions for Schedule K-1 (1065), Other, line 18 through line 21. The LLC should give you a description and the amount of your share for each item applicable to California, in this category.

Line 22 – The LLC will provide supplemental information required to be reported to you on this line. If the LLC is claiming tax benefits from an EZ, LARZ, or LAMBRA, it will give you the business income, and business capital gains and losses, apportioned to the EZ, LARZ or LAMBRA on this line. Get form FTB 3805Z, FTB 3806, or FTB 3807 to claim any applicable credit.

The LLC may have provided an amount showing your proportionate interest in the LLC's aggregate gross receipts, less returns and allowances on this line. Legislation enacted in 1996 allows a qualified taxpayer to exclude income, positive and negative adjustments and preference items attributable to any trade or business from alternative minimum taxable income. 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 during the taxable year from all trades or businesses that the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, LLC, S corporation, regulated investment company (RIC), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC).

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

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of the gross receipts of the trades or businesses which the taxpayer owns and the proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns and of pass-through entities in which the taxpayer holds an interest. "Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120. For purposes of this section "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), and a real estate mortgage investment conduit (REMIC). See R&TC Section 17062 for more information.

### G Table 1

Generally, California sources nonbusiness interest and dividends to the state of residence for nonapportioning individuals. Nonapportioning means doing business entirely within California. For more information regarding the sourcing of intangibles, see R&TC Section 17952.

For apportioning members, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California. For information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 24126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1(568). For additional information, see General Information E, Income Not from a Trade or Business of the LLC.

### H Table 2

The final determination of unity is made at the member level.

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

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

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

The member's share of the LLC's property, payroll and sales factors is in Table 2, Part C. The member combines its apportionment factors with the apportionment factors of the LLC and uses the revised factor to compute its business income apportioned to California. For further information, see General Information E, Income Not from a Trade or Business of the LLC.

Limited Liability Company's List of Members and Consents

For use by limited liability companies (LLCs) with one or more nonresident members. Attach to Form 568 and give a copy to each nonresident member. Use additional sheet(s) if necessary. Separate forms FTB 3832 for individual (or groups of individuals) nonresident members are permissible.

Limited liability company name
Secretary of State file number
Federal employer identification number (FEIN)

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 members of record at the end of the LLC's taxable year.

Table with 4 columns: Number, Member's name, Signature, Date, Social security no./FEIN. Rows 1-20.

List below the names and identification numbers of members who sold or transferred their ownership interest before the end of the LLC's taxable year.

Table with 4 columns: Number, Member's name, Signature, Date, Social security no./FEIN. Rows 1-5.

General Information

A Purpose

When an LLC has one or more members who are nonresidents of California, use form FTB 3832 to:

- List the names and social security numbers or federal identification numbers of all members; and
Obtain the signature of each nonresident member evidencing consent to the jurisdiction of California to tax that member's pro rata share of income attributable to California sources.

Note: If a member fails to sign form FTB 3832, the LLC is required to pay tax on the members' distributive share of income at the highest

marginal rate. Any amount paid by the LLC will be considered a payment made by the member.

B When to File

File form FTB 3832:

- For the first taxable period for which the LLC became subject to tax; or
For any taxable period in which the LLC had a nonresident not previously listed on form FTB 3832.

C Nonresidents Who Must File a California Return

If you are a nonresident member, in addition to signing form FTB 3832, you may also need to file Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. You must file Form 540NR if you had income from California sources and:

- You were single or unmarried at the end of 1997 and your gross income from all sources was more than \$10,384; or adjusted gross income from all sources was more than \$8,307; or
You were married at the end of 1997, and you and your spouse had a combined gross income from all sources of more than \$20,768; or adjusted gross income from all sources of more than \$16,614, or
You owe \$1 or more of California tax.

D Group Nonresident Member Return

Nonresident members of an LLC 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.





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DETACH HERE -----

Limited liability company name	Federal employer identification number (FEIN)	Secretary of State file number
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**Nonresident member(s) that did not sign form FTB 3832:**

**Taxable Year 1997**

Member's name	FEIN or Social security number	Tax due

**Total tax due.** Enter this amount in Box 2 on Side 1  
(This is the amount you expect to enter on Form 568, Side 1, line 4.) . . . . . \$

Attach additional sheets if necessary.



# Instructions for Form FTB 3522

## Limited Liability Company Tax Voucher

### General Information

#### A Purpose

Form FTB 3522 is used to pay the annual limited liability company (LLC) tax of \$800 for taxable year 1998. LLCs should use this form if they:

- Are doing business in California, or
- Have articles of organization accepted by the California Secretary of State (SOS), or
- Have a certificate of registration issued by the SOS.

#### B Who Must Pay the Annual LLC Tax?

Every LLC that is doing business in California or that has articles of organization accepted or a certificate of registration issued by the SOS is subject to the annual LLC tax of \$800. The tax must be paid for each taxable year until a certificate of cancellation of registration or of articles of organization is filed with the SOS.

#### C How to Complete the Form

Please complete all information requested on this form. To assure timely and proper application of the payment to your account, please remember to enter the file number assigned upon registration of the LLC with the SOS and the federal employer identification number (FEIN).

#### D Where to Mail the Annual LLC Tax and Voucher

Mail the annual LLC tax and voucher to:  
 FRANCHISE TAX BOARD  
 PO BOX 942857  
 SACRAMENTO CA 94257-0631

#### E When to Pay the Annual LLC Tax

The annual LLC tax is due and payable on or before the 15th day of the 4th month after the beginning of the LLC's taxable year. **Note:** The taxable year of an LLC that was not previously in existence begins when the LLC is organized, registered or begins doing business in California.

If the 15th day of the 4th month of an existing foreign LLC's taxable year has passed before the foreign LLC commences business in California or registers with the SOS, the LLC annual tax should be paid immediately after commencing business or registering with the SOS.

##### Example:

LLC1, newly-formed calendar year taxpayer, organizes as an LLC in Delaware on June 1, 1998. LLC1 registers with the SOS on August 12, 1998, and begins doing business in California on August 13, 1998. Because LLC1's initial tax year began on June 1, 1998, the annual LLC tax is due September 15, 1998 (the 15th day of the 4th month of the short period taxable year). LLC1's short period (6/1/1998-12/31/1998) tax return is due April 15, 1999, and its annual tax payment with form FTB 3522 is also due April 15, 1999.

#### F Penalties and Interest

If the LLC fails to pay its total tax by the 15th day of the 4th month after the beginning of the taxable year (fiscal year filers) or April 15, 1998 (calendar year filers), a late payment penalty plus interest will be added to the tax due. The penalty and interest will be computed from the due date of the tax payment to the date paid.

For information on the calculation of the penalty, see the instructions for Form 568, General Information H, Penalties and Interest.

#### G Late Payment of Prior Year Annual LLC Tax

If a prior year LLC tax of \$800 was not paid on or before the 15th day of the 4th month after the beginning of the taxable year, the tax should be remitted as soon as possible, using the appropriate year form FTB 3522, Limited Liability Company Tax Voucher. **Do not** use any other form for payment of the tax. This will assure proper application of the payment to the LLC account.

----- DETACH HERE -----

<b>TAXABLE YEAR</b>	<b>Limited Liability Company</b>	<b>CALIFORNIA FORM</b>
<b>1998</b>	<b>Tax Voucher</b>	<b>3522</b>
For calendar year 1998, or fiscal year beginning <b>M M D D 1 9 9 8</b> , and ending <b>M M D D 1 9 Y Y</b> .		
Limited Liability Company name _____		Federal employer identification number (FEIN) _____
DBA/Attention _____		Secretary of State file number _____
Delivery Address _____		
City, town or post office _____		State ZIP code _____
Make your check or money order payable to "Franchise Tax Board." Write your FEIN and "Form FTB 3522 1998" on it. Mail this voucher and your check or money order to: FRANCHISE TAX BOARD, PO BOX 942857, SACRAMENTO CA 94257-0631		Due 15th day of 4th month of taxable year.  Amount of payment <b>\$ 800.00</b>
For Privacy Act Notice, see form FTB 1131.		

# How to Get California Tax Information

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## General Toll-Free Phone Service

Our general 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, 1998. The best times to call are between 7:00 a.m. and 10:00 a.m. in the morning and between 6:00 p.m. and 8:00 p.m. in the evening. Service is also available on Saturdays, April 4 and April 11, 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)

From hearing impaired with TDD . . . 1-800-822-6268

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

### Asistencia Bilingüe en Español

Para obtener servicios en Español y asistencia para completar su declaración de impuestos/formularios, llame al número de teléfono (anotado arriba) que le corresponde.

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## Letters

We can serve you by phone if you call us for information to complete your California tax return. 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 your letter includes your FEIN, your daytime and evening telephone numbers and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD  
PO BOX 942840  
SACRAMENTO CA 94240-0040

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

## How to Get Tax Forms

**By Internet** – If you have Internet access, you may download, view and print 1994, 1995, 1996 and 1997 California tax forms and publications. Our Internet address is:

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

**By phone** – Call our toll-free phone numbers listed to the left under “General Toll-Free Phone Service” to get the California tax forms you need.

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

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

**In person** – Most libraries, post offices and banks provide free California personal income 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). Please note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

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## Your Rights As A Taxpayer

Our goal at the Franchise Tax Board 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 Franchise Tax Board on whether a particular transaction is taxable. You may order FTB Pub. 4058 by writing or calling the Franchise Tax Board using the address or telephone number on this page.