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California

Forms & Instructions

568

1998

Limited Liability Company Tax Booklet

Members of the Franchise Tax Board

Kathleen Connell, Chair

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This booklet contains two copies of:

Form 568, Limited Liability Company
Return of Income, pages 15 and 19

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

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

This booklet contains one copy of:

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



State of California
Franchise Tax Board

1998 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, 1998**, and to the California Revenue and Taxation Code (R&TC).

General Information

A Changes To Note

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

California law is the same as federal law regarding:

- Allocation of basis amounts for properties distributed by the partnership;
- Repeal of requirements that inventory must be substantially appreciated with respect to the sale or exchange of partnership interest;
- Extension of time for taxing precontribution gain;
- Transfer of property to foreign partnerships and corporations subject to information reporting;
- Controlled foreign partnerships and corporations subject to information reporting;
- The closing of partnership taxable year with respect to deceased partners;
- The recognition of gain for a constructive sale of property in which the partnership held an appreciated position;
- Election by dealers in commodities and traders in securities or commodities to use the mark-to-market method of accounting. A federal election is considered to be an election for state purposes, and no separate state election is allowed;
- Reporting of certain payments to attorneys under IRC Section 6045(f). If the taxpayer complied with the requirements of IRC Section 6045(f) for federal purposes, the taxpayer will be deemed to have complied for state purposes;
- Exemption of the incremental cost of a clean fuel vehicle from the limits on depreciation for vehicles;
- Suspension of taxable income limit on percentage depletion for marginal production properties for tax years beginning after December 31, 1997 and before January 1, 2000; and
- Limitations on property for which the forecast method may be used.

California Revenue and Taxation Code (R&TC) Section 18152.5 conforms to IRC Section 1202 with modifications. In order to be eligible for the 50% exclusion of gain on qualified small business stock for stock issued after August 10, 1993 and before January 1, 1999, the corporation issuing the stock must meet the following conditions in addition to the conditions cited in IRC Section 1202:

- 80% of the corporation's payroll, as measured by total dollar value, is attributable to employment located in California; and
- 80% (by value) of the assets of the corporation are used by the corporation in the active conduct of a trade or business in California (R&TC Section 18152.5).

California has not conformed to the following provisions of the Taxpayer Relief Act of 1997:

- Provisions relating to Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA);
- Simplified flow-through for electing large partnerships;
- Simplified audit procedures for electing large partnerships;
- Due date for furnishing information to electing large partnerships;
- Partnership returns required on magnetic tape; and
- Treatment of partnership items of IRA's.

California has also not conformed to the alternate minimum tax provision of IRC Section 57(a) for qualified small business stock. For state purposes, the LLC should include an item of tax preference equal to 50% of the amount excluded from gross income under R&TC Section 18152.5 on the Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc. (R&TC Section 17062).

B Important Information

California Tax Information on the 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 through 1998 California tax forms and publications. Our Internet address is: <http://www.ftb.ca.gov>

Federal Tax Information on the Internet

The Internal Revenue Service (IRS) also has federal forms and publications available to download, view and print. Their Internet address is: <http://www.irs.ustreas.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.

Effective January 1, 1999 until January 1, 2002, the definition of "Professional Limited Liability Partnership Services" has been expanded to include the practice of architecture.

Substitute Schedule K-1 (568)

If the limited liability company (LLC) does not use an official Franchise Tax Board (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-1 (568) on microfiche. Instead, use an official or an FTB-approved substitute Schedule K-1 (568). See General Information U, Substitute Schedules, in this booklet.

Federal/State Differences

For LLCs classified as partnerships, California tax law generally conforms to federal tax law in the area of partnerships (Internal Revenue Code, Subchapter K — Partners and Partnerships). However, there are some California law differences and areas of non-conformity:

- An annual tax is generally imposed on limited partnerships, limited liability companies, limited liability partnerships, and real estate mortgage investment conduits (REMICs) that are partnerships.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- Deduction for taxes paid to other states is not allowed.
- California follows federal law by requiring partnerships to use a required tax year, but it does not conform to the federal required payment provision.
- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

Please Note: This list is not intended to be an all-inclusive of the federal and state differences. For additional information, please consult California's Revenue and Taxation Code.

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 LLC tax of \$800 (due on the 15th day of the 4th month of the LLC's taxable year) as well as the LLC fee based on total annual income. See General Information H, Limited Liability Company Tax and Fee, for more information.

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 LLCs not organized in the state of California to register with the California Office of the Secretary of State (SOS) before entering into 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:

LIMITED LIABILITY COMPANIES
CALIFORNIA SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280

Telephone: (916) 653-3795

or contact the SOS on their website at:

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

D Purpose

Use Form 568, Limited Liability Company Return of Income:

- To determine the amount of the LLC fee (including a disregarded entity's fee) based on total annual income;
- To pay the 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 1998 or any fiscal year beginning in 1998.

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 2) is a single member limited liability company (SMLLC) that was treated as an association taxable as a corporation prior to January 1, 1997, for California tax purposes, and 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 before entering into intrastate business in California.

If the LLC is registered in California, but is:

- Not doing business in California; and
- Does not have California source income;

the LLC is still required to file Form 568. However, if the LLC meets all of the above provisions, then it may be eligible for a reduced filing program. The LLC's filing requirement will be satisfied by:

1. Completing a Form 568 with all supplemental schedules;
2. Completing and attaching California Schedule K-1 (568) for members with California addresses;
3. Writing "SB 1106 Filing" in red on top of the front page of the Form 568; and
4. Entering the total number of members in Question J on the front of the Form 568.

An LLC that is an electing large partnership for federal purposes and uses the federal Form 1065-B, U.S. Return of Income for Electing Large Partnerships, must still use Form 568. California law does not conform to the federal electing large partnership provisions.

Certain publicly traded partnerships treated as corporations under IRC Section 7704 must file Form 100.

A resident member of an out-of-state 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 Check-the-Box Regulations

California has conformed to the federal entity classification regulations (commonly known as "check-the-box" regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation or a SMLLC (Stats. 1997, Ch. 608). The regulations replace the former system of analyzing 4 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 2 or more owners will be a partnership for tax purposes unless it elects to be taxed as a corporation. For tax purposes, an eligible entity with a single owner will be disregarded, unless the entity elects to be taxed as a corporation.

Generally, any elections made for federal purposes under the federal "check-the-box" regulations are binding for California purposes, and 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.

Normally, the classification of a business entity should be the same for California purposes as it is for federal purposes. However, an exception may apply for certain existing eligible business entities (business trusts and SMLLCs) that were taxed as corporations for California purposes under the former R&TC Section 23038. If such an existing eligible business entity is, without an election for federal purposes, classified as a partnership (in the case of a business trust) or a disregarded entity (in the case of a SMLLC) for income years beginning on or after January 1, 1997, the entity may elect to be classified the same as federal for income years beginning on or after January 1, 1997 for California. If this election is not made, the existing eligible business entity will continue to be classified and taxed as a corporation for California purposes. Get form FTB 3574, Special Election for Business Trusts and Certain Single Member Foreign LLCs, for more information.

California issued regulations effective January 1, 1997, that make the classification of business entities under federal regulations (Treas. Reg. Sections 301.7701 through 301.7701-3) generally applicable to California. If an eligible entity is disregarded for federal tax purposes, it is also disregarded for state tax purposes, except that a SMLLC must still pay a tax and fee, file a return and limit tax credits.

A SMLLC need only complete Form 568, Side 1 and pay the annual LLC tax and LLC fee. The single owner would include the various items of income, deductions, credits, etc., of the SMLLC on the tax return filed by the owner. **Note:** Utilization of credits attributable to the SMLLC is limited to the regular tax liability on the income attributable to the activities of the 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 SMLLC; and 2) the regular tax liability of the single owner computed without the items of income, deductions, etc., attributable to the SMLLC. It is the responsibility of the single owner to limit the 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 SMLLC.

The owner of the SMLLC should perform the following steps to determine the SMLLC's credit limitation:

- Compute the owner's tax with the SMLLC income, and the owner's tax without the SMLLC income.

Form 568 Instructions

- Compute Schedule P (100, 540, 540NR or 541), up to the line where the credit is to be taken.
- Determine the credit to be utilized. The amount allowed is the lesser of:
 1. The total credit or the limitation based on the LLC's business income; or
 2. The net tax balance that may be offset by credits on Schedule P (100, 540, 540NR or 541) on the line above the line where the credit is to be taken.

The following example shows the credit limit calculation for an SMLLC that is owned by a C corporation. The SMLLC has a LAMBRA credit of \$4,000. The computation of the C corporation's regular tax liability with the SMLLC income is \$5,000. The computation of the C corporation's regular tax liability without the SMLLC income is \$3,000. The difference in tax is \$2,000, which is the C corporation's credit limitation on all LLC credits. The owner of the SMLLC then performs the following steps:

1. Compute Schedule P (100), Side 2 down to line 4, column (c). The amount is \$1,000.
2. Enter the limitation amount from Schedule P (100), Side 2, line 4, column (c) in column (f).
3. Enter the following amounts from the table below on the Schedule P (100):
 - \$4,000 from column (d) of the table below, to Schedule P (100), Side 2, line 5, column (a);
 - \$1,000 from column (f) of the table below, to Schedule P (100), Side 2, line 5, column (b);
 - \$3,000 from column (g) of the table below, to Schedule P (100), Side 2, line 5, column (d).

| (a) Credit name | (b) Credit amount | (c) Total prior year credit carryover | (d) Total credit: add col. (b) & col. (c) | (e) Limitation based on LLC business income | (f) Credit used on Sch P (but not greater than col. (d) or col. (e)) | (g) Carryover: col. (d) minus the smaller of col. (e) or col. (f) |
|-----------------|-------------------|---------------------------------------|---|---|--|---|
| LAMBRA | \$4,000 | 0 | 4,000 | 2,000 | 1,000 | \$3,000 |

IMPORTANT: There is an exception to the general rule that California classification is the same as federal classification. The exception exists in the case of an eligible business entity, other than one which, within the 60-month period preceding January 1, 1997:

- Was not doing business in California;
- Did not derive income from sources within California; or
- Had no members who were residents of California;

and that was properly classified as an association taxable as a corporation (R&TC Section 23038(b)(1)(c)).

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 form FTB 3574 and Title 18, Cal. Code of Reg. Sections 23038(a)-(b).

G When and Where to File

An LLC must file Form 568 (described in General Information H) and pay the LLC fee and any nonconsenting member's 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 federal employer identification number (FEIN), SOS file number and "1998 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.

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

If the 1998 annual 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 1998 form FTB 3522, Limited Liability Company Tax Voucher. To assure proper application of the tax payment to the LLC account, **do not** send the \$800 with Form 568.

Note: The 1999 annual LLC tax of \$800 is due on or before the 15th day of the 4th month after the **beginning** of the 1999 taxable year (April 15, 1999, for calendar year filers). The payment is sent with form FTB 3522. Do not mail the \$800 annual LLC tax with Form 568.

Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See the instructions for federal Form 1065 for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
 SACRAMENTO CA 95827

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

H Limited Liability Company Tax and Fee

Annual 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 annual tax is prepaid 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 annual tax must be paid for each taxable year until a Form LLC-4/7, Certificate of Cancellation, is filed with the SOS. See General Information S, Cancelling a Limited Liability Company, for more information.

Use form FTB 3522 to submit payment of the \$800 annual LLC tax. Make the check or money order payable to the "Franchise Tax Board." Write the LLC's FEIN, SOS file number and "1999 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 the existing foreign LLC commences business in California or registers with the SOS, the annual LLC tax should be paid immediately after commencing business or registering with the SOS.

Limited Liability Company Fee

In addition to the annual LLC tax, every LLC must pay a fee based on total annual income. The LLC 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, use the following chart to compute the fee:

| IFT total annual income from Form 568, Side 1, line 1 is: | The fee is: | |
|---|----------------|--------|
| over — | but not over — | |
| \$ 250,000 | \$ 499,999 | \$ 500 |
| 500,000 | 999,999 | 1,500 |
| 1,000,000 | 4,999,999 | 3,000 |
| 5,000,000 | and over | 4,500 |

To determine the LLC fee, "total annual 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 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 include 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.

Nonconsenting Nonresident Member's Tax

Every nonresident member must sign form FTB 3832, Limited Liability Company's List of Members and Consents, and return the form with Form 568. If a member fails to sign form FTB 3832, the LLC is required to pay tax on the member's distributive share of income at the highest marginal rate. Any amount paid by the LLC will be considered a payment made by the member.

If the LLC's return is being filed on or before the 15th day of the 4th month (fiscal year) or April 15, 1999 (calendar year), the LLC completes the Schedule T. See Specific Line Instructions for Schedule T in this booklet for further information.

If the LLC is unable to complete Form 568 on or before the due date of the return, it must complete form FTB 3537. However, the nonconsenting nonresident members' tax along with the voucher must be received on or before the 15th day of the 4th month (fiscal year) or April 15, 1999 (calendar year). Failure to do so may cause penalties and interest to be assessed. See the instructions for form FTB 3537 included in this booklet.

I 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 a Form 568 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.

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 the notice of tax due is mailed by FTB until the date the return is filed.

For "small partnerships," as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns does not apply for California purposes. Get FTB Notice CR-88-692 for more information and see R&TC Section 19172.

Annual Limited Liability Company Tax

If the LLC failed to pay its total annual LLC 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 interest will be computed from the due date of the annual LLC tax payment to the date paid.

Limited Liability Company 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.

Nonconsenting Nonresident Member's 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.

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.

J 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.

Generally, an LLC may not use the cash method of accounting if the LLC has a corporate member, averages annual gross receipts of more than \$5 million or is a tax shelter. For exceptions to this rule, see IRC Section 448.

The mark-to-market accounting method is 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 5 years beginning with the 1st income year beginning on or after January 1, 1997.

Rounding to Whole-Dollar Amounts

All amounts shown on the return and accompanying schedules should be whole-dollar amounts. To round, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next whole dollar.

K 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. In that case, 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 also applies to LLCs, see the instructions for federal Form 1065.

L 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) 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 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 if the amount of tax or fee the LLC or a member owes has been affected. 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.

M 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. 4227A, Guide to Information Returns Filed With California, for more information.

LLCs must report payments made to California residents by providing copies of federal Form 1099 (series). 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 submit a copy of federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

LLCs must report interest paid on municipal bonds that are issued by a state other than California, or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments aggregating \$10 or more paid after January 1, 1998. Information returns will be due June 1, 1999. Get form FTB 4800, Federal Tax Exempt Non-California Bond Interest and Interest-Dividend Payment, for more information.

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.

Any information returns required for federal purposes under IRC Section 6038, Section 6038A and Section 6038B are also required for California purposes. Attach the information returns to the Form 568 when filed. If the information returns are not provided, penalties may be imposed under R&TC Section 19141.2 and Section 19141.5

All information returns, unless otherwise noted, are mailed separately from the Form 568. Information returns should be sent to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

N 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.

O 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.

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

Q Investment Partnerships

Income of nonresident members, including banks or corporations, derived from "qualifying investment securities" of an LLC that qualifies as an "investment partnership" is considered 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.

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

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

LLC investment partnerships that have California source income should show on Schedule K-1 (568), column (e) each member's distributive share of California source income.

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

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

Nonresident individuals will be taxed on their distributive share of investment income from an LLC investment partnership if the qualifying securities were purchased with working capital of a trade or business that the nonresident owns an interest in and that is conducted in California (R&TC Section 17955).

Corporations that are members in an LLC investment partnership are not generally taxed on their distributive share of LLC income, provided that the income from the LLC is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the LLC investment partnership; or
- Has income derived from or attributable to sources within this state other than income from the LLC investment partnership,

then the corporation will be taxable on its distributive share of California source income from the LLC.

See Question K instructions for definitions of "investment partnership" and "qualifying investment securities."

R Nonresident Members

An LLC is required to file form FTB 3832 with Form 568. Form FTB 3832 is signed by the nonresident members to show their consent to California's jurisdiction 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 paying the tax on that nonresident member's distributive share of income determined at the highest marginal rate. See General Information H for more information.

If the LLC fails to timely pay the tax of such nonresident member, the LLC shall be subject to penalties and interest (R&TC Section 19132 and Section 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 tax it paid on behalf of the nonresident member.

S Cancelling a Limited Liability Company

LLCs are required to pay the \$800 annual LLC tax and file a California return until the appropriate cancellation papers are filed with the SOS. In order to cancel an LLC, the following steps must be taken:

1. File a Form LLC-4/7, Certificate of Cancellation, with the SOS. The SOS also requires a domestic LLC to file a Form LLC-3, Certificate of Dissolution. Please contact the SOS for more details;
2. Pay the \$800 annual LLC tax to FTB;
3. File a final California LLC return with FTB; and
4. File form FTB 3555L, Request for Tax Clearance Certificate Limited Liability Company or Limited Liability Partnership, with the FTB.

For additional information, contact the SOS by mail at:

LIMITED LIABILITY COMPANIES
OFFICE OF THE SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280

Telephone: (916) 653-3795

Or on the Internet at: <http://www.ss.ca.gov>

T Withholding Requirements

Foreign Nonresident Members

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

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 in this area 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.

Domestic Nonresident Members

R&TC Section 18662 requires an LLC to withhold funds for income or franchise taxes 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 FTB directs the payor 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 California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable in determining the California part of the distribution subject to withholding. 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.

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 examination 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:

NONRESIDENT WITHHOLDING SECTION
FRANCHISE TAX BOARD
PO BOX 651
SACRAMENTO CA 95812-0651
Telephone: (916) 845-4900

The tax withholding should be reported on and paid with Form 592, Form 592-A and/or Form 592-B.

The taxable income of nonresident members is the distributive share, not the distributed amount. For more information, get FTB Pub. 1017, Nonresident Withholding — Partnership Guidelines.

U Substitute Schedules

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 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.

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)

Beginning in 1997, LLCs are subject to penalties for failure to file the appropriate Schedule K-1 (568).

Specific Instructions

Form 568

Fill In All 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, FEIN and SOS File Number

The LLC may use its legal or trade name (DBA) on all tax returns and other documents filed. Print the LLC's legal or trade name, address, FEIN and SOS file number on the appropriate lines.

Item C – Beginning in 1998, California will use the revised 6-digit federal Principal Business Activity (PBA) Code based upon the North American Industrial Classification System (NAICS). Please see the PBA Code chart contained in the federal Form 1065 booklet for the appropriate 6-digit code.

Common trust funds are required to use the PBA code 525920. Investment clubs are required to use PBA code 523910.

Item F – Total Assets at End of Taxable Year

See the instructions for Question R before completing this item. If the LLC is 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

Form 568 Instructions

taxable year, enter the total assets as of the beginning of the taxable year.

Question J – Enter the maximum number of members in the LLC at any time during the taxable year. The number of Schedule K-1 (568) attached to the Form 568 must equal the number of members entered on Question J. Do not use abbreviations or terms such as “Various”.

Question K through

Question V – Check the “Yes” or “No” box.

Question K – An “investment partnership” 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,” 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 Section 17955 and Section 23040.1 and General Information Q for more information.

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 BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, must be filed with the State Board of Equalization (BOE), or substantial penalties may result. Forms and information may be obtained from the BOE 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;
- The total membership interests, including capital and profits interests, transferred to **one** irrevocable trust cumulatively surpassed 50% during this year;
- 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;
- 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 Section 18662 and Section 18666 require taxes to be withheld from certain payments or allocations of income and remitted to the FTB. If upon examination FTB determines that tax withholding was required, the LLC may be liable for the tax along with penalties on the amount.

The reference to Form 592, Form 592-A and Form 592-B relates to LLC withholding. If you need additional information concerning LLC withholding, please see General Information Section M and Section T in this booklet.

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

If Question R 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 V – 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 federal 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 (included in this booklet) to determine the total income that is the basis of the LLC fee.

If the entity is 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 the entity is 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 the entity is an LLC that has an ownership interest in a pass-through entity, 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 H, Limited Liability Company Tax and Fee.

Line 3 – 1998 Limited Liability Company Tax

Enter the \$800 annual LLC tax that was due the 15th day of the 4th month (or April 15, 1998 for calendar year filers) after the beginning of the LLC’s 1998 tax year and paid with 1998 form FTB 3522.

Line 4 – Nonconsenting Nonresident Members’ Tax Liability

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 Line Instructions for Schedule T.

Line 13 – Penalties and Interest

Enter penalties and interest. See General Information I, 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, 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 Line Instructions for Schedule T.

If the single owner of the 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 1 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 1 through line 8.

Note: 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 1 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. Attach a copy of federal Form 8825. Use California numbers and attach a statement reconciling any differences between federal and California amounts.

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: 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), 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; Enterprise Zones, R&TC Section 17267.2; Los Angeles Revitalization Zone, R&TC Section 17266; Targeted Tax Area, R&TC Section 17267.6; and Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the LLC. Instead, the expense 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 R 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

Domestic LLCs with 10 or fewer members may not have to complete Schedule M-1 and Schedule M-2 or Item I (Schedule K-1 (568)). See the instructions for Question R for the specific requirements to qualify for this exception.

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: Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item I, column (c), of all the members' Schedule K-1 (568).

Schedule O — Amounts from Liquidation Used to Capitalize a Limited Liability Company

Complete Schedule O if "initial return" is checked in Question I of 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 complete 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 nonconsenting 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 nonconsenting 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 for the LLC's income, deduction, credits, etc. and Schedule K-1 (568) shows each member's distributive share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (568) must be attached to the Form 568 when it is filed with the FTB.

Be sure to give members a copy of their respective Schedule K-1 (568). The LLC should also include a copy of the Member's Instructions for Schedule K-1 (568) or specific instructions for each item reported. These items should be provided to the member on or before the due date of the Form 568.

Schedule K (568)

In column (b) on Schedule K (568), Members' Shares of Income, Deductions, Credits, Etc., enter the amounts from federal Schedule K (1065), Partners' Shares of Income, Credits, Deductions, Etc. In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments related to California source income). In column (d), 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).

Compliance with LLC Filing Requirements

To help ensure the accurate and timely processing of the LLC's 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. LLCs eligible for the reduced filing program, see General Information E.
- 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-1 (568) 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 or use terms such as "various."
- Substitute computer-generated Schedule K-1 (568) forms **must** be approved by the FTB.

Schedule K-1 (568)

The Schedule K-1 (568) details each member's distributive share of the LLC's income, deductions, credits, etc. The LLC completes the entire Schedule K-1 (568) by filling out the member's and LLC's information (name, address, identifying numbers), Questions A through I and the member's distributive share of items.

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

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.

The LLC files one Schedule K-1 (568) with the LLC return and gives one copy to the appropriate member. The LLC should also provide a copy of either the Member's Instructions for Schedule K-1 (568) or specific instructions for each item reported.

Determining the Source of the LLC's Income for a Resident Member

A resident member should include the entire distributive share of LLC income in their California income. If the LLC is apportioning, the member may be entitled to a tax credit for taxes paid to other states. The member should be referred to Schedule S, Other State Tax Credit, for more information.

Determining the Source of the LLC's Income for a Nonresident Member

Business Income: Regardless of the classification of income for federal purposes, the LLC's income from California sources is determined in accordance with California law (Title 18, Cal. Code Reg. Section 17951-4). If the LLC conducts:

- A trade or business wholly within California, the income from that trade or business is California source income;
- A business within and outside California, but the part within the state is so separate and distinct that it can be separately accounted for, then only that separate income from within the state is California source income;
- A single trade or business within and outside California; or then California source business income of that trade or business is determined by apportionment. The LLC should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Section 25120 through Section 25139). Special rules apply if the LLC has income that is not attributable to the trade or business of the LLC (nonbusiness income).

Nonbusiness Income: Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, or gains or losses) located in California is California source income (see Title 18, Cal. Code Reg. Section 17951-3 and R&TC Section 25124 and Section 25125). Enter this information on the appropriate line of Schedule K-1 (568). If the LLC believes it may have a unitary member, the information for that member should also be entered in Table 2, Part B, for that member.

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

Note: Because the determination of the source of intangible nonbusiness income must be made at the member level, this income is not entered on Schedule K-1 (568), column (e). It is only entered in Table 1.

Completing Schedule K-1 (568)

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

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

1. Income from separate businesses, trades or professions conducted wholly within California (see Title 18, Cal. Code Reg. Section 17951-4(a)).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for (see Title 18, Cal. Code Reg. Section 17951-4(b)).
3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income attributable to the business, trade or profession (Title 18, Cal. Code Reg. Section 17951-4(c) and R&TC Sections 25128 through 25137). Generally, the LLC should apportion business income using a 4-factor formula consisting of property, payroll and a double weighted sales factor. Use a 3-factor formula consisting of payroll, property and a single weighted sales factor if more than 50% of the business receipts of the LLC are from agricultural, extractive, savings and loans or bank and

- financial activities. Apportioning LLCs should get and complete Schedule R, and attach it to Form 568.
4. Nonbusiness income from real and tangible property located in California. Enter the member's share of nonbusiness income from real and tangible property located in California in column (e). If the LLC believes it may have a unitary member, this income should also be entered in Table 2, Part B.
 5. California credits.

Note: Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Member's Instructions for Schedule K-1 (568).

Completing Column (d) and Column (e): Schedule K-1 (568), column (d), includes the member's distributive share of total LLC income, deductions, gains or losses under California law. Column (e) includes only income, deductions, gains or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the member is not a factor in the computation of amounts to be included in column (d) and column (e).

For an LLC that is doing business only in California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends and gain or loss from sales of securities). For an LLC that is doing business within and outside California, the amounts in column (d) and column (e) will be different, even for California residents.

If the LLC knows the member is a resident, then the LLC answers "No" to Schedule K-1 (568), Question H and completes column (d), only. Otherwise, the LLC should complete column (e) for all other members.

Completing Table 1

LLCs only complete Table 1 if they have nonbusiness intangible income. If the LLC has nonbusiness intangible income, but knows that the member is a resident individual, then the LLC does not need to complete Table 1 for the member.

Completing Table 2

If the LLC knows that the member is not unitary with its trade or business or any other trade or business, then the LLC does not need to complete Table 2 for that member.

Special Rules for Members and LLCs in a Single Unitary Business

Special rules apply if the LLC and a member 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. 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 the member's own apportionment factors (see Title 18, Cal. Code Reg. Section 25137-1(f)). 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 the LLC knows that 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 member's 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, located on the 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 located on the 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 under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K.

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.

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

Line 9 through Line 11

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Deductions, line 9 through line 11. IRC Section 179 expense deductions are subject to different rules for California. See instructions for form FTB 3885P, Depreciation and Amortization.

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 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 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, line 4b, line 4c and line 4e of Schedule K (568) and Schedule K-1 (568). Enter on line 12b(2) only the 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 Limited Liability Company 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) – Limited Liability Company 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 together 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. Members must attach Form 592-B to the front of their California 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 in this section.

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. Generally, the credit is 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, 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 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.

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 (EZ) 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 (LARZ) Hiring & Sales or Use Tax credit — get form FTB 3806.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax credit — get form FTB 3807.
- 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.
- Manufacturing Enhancement Area (MEA) Hiring Credit — get form FTB 3808.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit — get form FTB 3809.

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 Section 18001 and Section 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. Refer the members to Schedule S 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.

Alternative minimum taxable income does not include income, positive and negative adjustments and preference items attributed to any trade or business of a qualified taxpayer who has 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 should 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;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of the pass-through entities gross receipts in which the taxpayer holds an interest.

“Gross receipts” means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120. For purposes of this section, “pass-through entity” means a partnership (as defined by R&TC Section 17008), an S corporation, a 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, LAMBRA, MEA or TTA; 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.

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

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 Reg. 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).

Limited Liability Company Income Worksheet — Keep for your records.

| | | | |
|----|---|-----|-------|
| 1 | Total income from Form 568, Schedule B, line 8 | 1 | _____ |
| 2 | Gross income of the 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 (Form 1040). Use California amounts | 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 | Rental real estate | | |
| a | Enter the gross rents from federal Form 8825, line 17 | 9a | _____ |
| b | Enter the gross rents from rental real estate of the disregarded business entities | 9b | _____ |
| c | Enter the LLC's distributive share of gross rents from rental real estate | 9c | _____ |
| d | Enter the total of line 9a through line 9c | 9d | _____ |
| 10 | Other rentals | | |
| a | Enter the gross income from other rental activities (do not include any losses from the sale or involuntary conversion of an asset if included in Schedule K, line 3a) | 10a | _____ |
| b | Enter the gross income from other rentals of the disregarded entities | 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 | Interest | | |
| a | Enter the total interest of disregarded entities | 11a | _____ |
| b | Enter the interest from Schedule K, line 4a | 11b | _____ |
| c | Add line 11a and line 11b | 11c | _____ |
| 12 | Dividends | | |
| a | Enter the total dividends of the disregarded entities | 12a | _____ |
| b | Enter the dividends from Schedule K, line 4b | 12b | _____ |
| c | Add line 12a and line 12b | 12c | _____ |
| 13 | Royalty income | | |
| a | Enter the gross royalty income of the disregarded entities | 13a | _____ |
| b | Enter the LLC's distributive share of gross royalty income from pass-through entities | 13b | _____ |
| c | Enter the LLC's gross royalty income included in Schedule K, line 4c | 13c | _____ |
| d | Add line 13a through line 13c | 13d | _____ |
| 14 | Capital gains | | |
| a | Enter the capital gains (not losses) of the disregarded entities | 14a | _____ |
| b | Enter the LLC's distributive share of capital gains (not losses) from pass-through entities | 14b | _____ |
| c | Enter the capital gains (not losses) included in Schedule D (568) | 14c | _____ |
| d | Add line 14a through line 14c | 14d | _____ |
| 15 | Other portfolio income | | |
| a | Enter the other portfolio income (not loss) of the disregarded entities | 15a | _____ |
| b | Enter the LLC's distributive share of other portfolio income (not loss) from pass-through entities | 15b | _____ |
| c | Enter the LLC's other portfolio income (not loss) included in Schedule K, line 4e | 15c | _____ |
| d | Add line 15a through line 15c | 15d | _____ |
| 16 | 1231 gains | | |
| a | Enter the 1231 gains (not losses) of the disregarded entities | 16a | _____ |
| b | Enter the LLC's distributive share of 1231 gains (not losses) from pass-through entities | 16b | _____ |
| c | Enter the LLC's 1231 gains (not losses) included in Schedule D-1 | 16c | _____ |
| d | Add line 16a through line 16c | 16d | _____ |
| 17 | Other income (not loss) not included in line 6 | | |
| a | Enter the other income (not loss) of the disregarded entities | 17a | _____ |
| b | Enter the LLC's distributive share of other income (not loss) from pass-through entities | 17b | _____ |
| c | Enter the LLC's other income (not loss) included in Schedule K, line 7 | 17c | _____ |
| d | Add line 17a through line 17c | 17d | _____ |
| 18 | Cost of goods sold | | |
| a | Enter the cost of goods sold of the disregarded entities | 18a | _____ |
| b | Enter the cost of goods sold from Form 568, Schedule B, line 2 | 18b | _____ |
| c | Enter the cost of goods sold from federal Schedule F (plus California adjustments) | 18c | _____ |
| d | Enter the 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 | _____ |

1998 Limited Liability Company Return of Income

568

For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year 19 _____

Form sections A through G: Principal business activity name, Principal product or service, Principal business code, Check accounting method, Secretary of State (SOS) file number.

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

Table with 14 rows for tax calculations: 1 Total income from Limited Liability Company Income Worksheet, line 19; 2 Limited Liability Company fee; 3 1998 annual LLC tax; 4 Nonconsenting nonresident members' tax liability from Schedule T; 5 Total tax and fee; 6 Amount paid with form FTB 3537 and 1998 form FTB 3522; 7 Overpayment from prior year allowed as a credit; 8 Total payments; 9 Tax and fee due; 10 Overpayment; 11 Amount of line 10 to be credited to 1999 tax or fee; 12 Amount to be refunded; 13 Penalties and interest; 14 Amount due.

Single Member LLC Information and Consent - Complete only if the LLC has elected to be disregarded. Federal TIN, Sole Owner's Name, Street Address, City, State and ZIP Code, Consent statement, Signature, Date, Title.

Please Sign Here: Declaration of preparer, Signature of officer, Title, Date, Telephone. Paid Preparer's Use Only: Preparer's signature, Date, Check if self-employed, 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: | | |
| | <input type="checkbox"/> (1) Cost <input type="checkbox"/> (2) Lower of cost or market as described in Treas. Reg. Section 1.471-4 <input type="checkbox"/> (3) Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) <input type="checkbox"/> (4) 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 | Member's 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) Amount from federal Schedule K (1065) | (c) Adjustment | (d) 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 | | | |
| Deduc- tions | 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 | | |
| Invest- ment Interest | 12 a Interest expense on investment debts. | 12a | | ● |
| | b (1) Investment income included on lines 4a, 4b, 4c and 4e above. (2) Investment expenses included on line 10 above | 12b(1) 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 | | | |
| Adjust- ments and Tax Prefer- ence 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 (2) Deductions allocable to oil, gas and geothermal properties | 15d(1) 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 R 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 | | | | |
| Liabilities and Capital | | | | |
| 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 under 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 \$ _____ | | 8 Total of line 6 and line 7 | |
| b Travel and entertainment \$ _____ | | 9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5 | |
| c Annual LLC tax \$ _____ ● | | | |
| 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 ● | | _____ ● | |
| 5 Total of line 1 through line 4 | | 8 Total of line 6 and line 7 | |
| | | 9 Balance at end of year. Subtract line 8 from line 5 | |

Schedule O Amounts from Liquidation used to Capitalize a Limited Liability Company. (Complete only if initial return box is checked in Side 1, 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) FEIN _____ SSN _____ Corporation _____ SOS _____

Amount of liquidation gains recognized to capitalize the LLC _____

1998 Limited Liability Company Return of Income

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For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year 19 _____

Form sections A through H: Principal business activity name, Principal product or service, Principal business code, Check accounting method, Secretary of State (SOS) file number, FEIN, Date business started, Enter total assets at end of year, Check applicable box.

Form sections J through V: Enter the number of Schedules K-1, Is this LLC an investment partnership?, Is this LLC apportioning income to California using Schedule R?, Was there a distribution of property or a transfer?, Is this LLC under audit by the IRS or has it been audited in a prior year?, Did this LLC or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership?, Does the LLC have any foreign nonresident members?, Are any members in this LLC also LLCs or partnerships?, Does the LLC meet all the requirements shown in the instructions for Question R?, Is this LLC a member or partner in another LLC or partnership?, Is this LLC a publicly traded partnership as defined in IRC Section 469(k)(2)?, Is this LLC a business entity disregarded for tax purposes?, Is the LLC required to complete federal Form 8271? If "Yes", see instructions.

Table with 14 rows for tax calculations: 1 Total income from Limited Liability Company Income Worksheet, line 19; 2 Limited Liability Company fee; 3 1998 annual LLC tax; 4 Nonconsenting nonresident members' tax liability from Schedule T; 5 Total tax and fee; 6 Amount paid with form FTB 3537 and 1998 form FTB 3522; 7 Overpayment from prior year allowed as a credit; 8 Total payments; 9 Tax and fee due; 10 Overpayment; 11 Amount of line 10 to be credited to 1999 tax or fee; 12 Amount to be refunded; 13 Penalties and interest; 14 Amount due.

Single Member LLC Information and Consent — Complete only if the LLC has elected to be disregarded. Federal TIN, Sole Owner's Name, 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 and Declaration sections: Please Sign Here (Signature of officer, Title, Date, Telephone), Preparer's signature (Preparer's signature, Date, Check if self-employed), Paid Preparer's Use Only (Firm's name, 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: | | | |
| | <input type="checkbox"/> (1) Cost <input type="checkbox"/> (2) Lower of cost or market as described in Treas. Reg. Section 1.471-4 <input type="checkbox"/> (3) Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) <input type="checkbox"/> (4) 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 | Member's 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) Amount from federal Schedule K (1065) | (c) Adjustment | (d) 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 | | | |
| Deduc- tions | 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 | | |
| Invest- ment Interest | 12 a Interest expense on investment debts. | 12a | | ● |
| | b (1) Investment income included on lines 4a, 4b, 4c and 4e above. (2) Investment expenses included on line 10 above | 12b(1) 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 | | | |
| Adjust- ments and Tax Prefer- ence 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 (2) Deductions allocable to oil, gas and geothermal properties | 15d(1) 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 R 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 | | | | |
| Liabilities and Capital | | | | |
| 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 under 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 \$ _____ | | 8 Total of line 6 and line 7 | |
| b Travel and entertainment \$ _____ | | 9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5 | |
| c Annual LLC tax \$ _____ | ● | | |
| 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 Amounts from Liquidation used to Capitalize a Limited Liability Company. (Complete only if initial return box is checked in Side 1, 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) FEIN _____ SSN _____ Corporation _____ SOS _____

Amount of liquidation gains recognized to capitalize the LLC _____

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

For calendar year 1998 or fiscal year beginning month ___ day ___ year 1998, and ending month ___ day ___ year ___

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? (1) Individual, (2) S Corporation, (3) Estate/Trust, (4) C Corporation, (5) General Partnership, (6) Limited Partnership, (7) LLP, (8) LLC, (9) IRA/Keogh/SEP, (10) Exempt Organization. B Is this member a foreign member? C Enter member's percentage (i) Before decrease or termination, (ii) End of year

D Member's share of liabilities: Nonrecourse, Qualified nonrecourse financing, Other. E Tax shelter registration number. F (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2). (2) Check here if this is an investment partnership (R&TC Section 17955 and 23040.1). 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 Member's Instructions for Schedule K-1 (568) 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 lines 4a, 4b, 4c and 4e | | | | | |
| | (2) Investment expenses included on line 10 | | | | | |
| Credits | 13 a (1) Withholding on LLC allocated to all members | [Hatched] | | | | |
| | (2) LLC withholding on nonresident members | | | | | |
| | (3) Total withholding (equals amount on Form 592-B if calendar year LLC) | | | | ● | ▶ |
| | 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] | | | | |
| | 17 Tax-exempt interest income | | | | | |
| | 18 Other tax-exempt income | | | | | |
| | 19 Nondeductible expenses | | | | | |
| | 20 Distributions of money (cash and marketable securities) | | | | [Hatched] | |
| | 21 Distributions of property other than money | | | | [Hatched] | |
| 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 | \$ _____ | \$ _____ |

1998 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, 1998... 3 Total California depreciation... 4 California amortization for intangibles placed in service before January 1, 1998... 5 Total California amortization... 6 Total depreciation and amortization... 7 Section 179 expense election... 8 Carryover of disallowed deduction to 1999.

1998 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

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the Federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

California law is the same as federal law regarding:

- Exemption of the incremental cost of a clean fuel vehicle from the limits on depreciation for vehicles;
- Suspension of taxable income limit on percentage depletion for marginal production properties for tax years beginning after December 31, 1997, and before January 1, 2000; and
- Limitations on property for which the income forecast method may be used.

A Purpose

Use form FTB 3885L, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 568, Limit Liability Company Return of Income. 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 conforms to federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Calculation Methods

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

California does not conform to federal law for the following:

- Expense treatment for small business: For 1998 the maximum allowed under California law is \$16,000; the maximum allowed under federal law is \$18,500; and
- Accelerated depreciation for property on Indian reservations.

As a result of California legislation:

- 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 5-year property for accelerated cost recovery provisions.
- The corporate provision for the 5-year amortization of child care facilities has been repealed.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 1997 and amortization for intangibles placed in service after December 31, 1997.

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 1997. 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, 1998

Enter total California depreciation for assets placed in service prior to January 1, 1998, 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, 1998

Enter total California amortization for intangibles placed in service prior to January 1, 1998, taking into account any differences in asset basis or differences in California and federal tax law.

As of January 1, 1997, California has conformed to IRC Section 197, relating to the amortization of intangibles. 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 (568) 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 | 1 | \$ 16,000 |
| 2 | Total cost of IRC Section 179 property placed in service during the tax year | 2 | |
| 3 | Threshold cost of IRC Section 179 property before reduction in limitation | 3 | \$200,000 |
| 4 | Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- | 4 | |
| 5 | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0- | 5 | |

| | (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 | 7 | |
| 8 | Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7 | 8 | |
| 9 | Tentative deduction. Enter the smaller of line 5 or line 8. | 9 | |
| 10 | Carryover of disallowed deduction from 1997. See instructions for line 9 through line 12 on the federal Form 4562 | 10 | |
| 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)) | 11 | |
| 12 | IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (568), line 9 and on form FTB 3885L, line 7 | 12 | |
| 13 | Carryover of disallowed deduction to 1999. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885L. | 13 | |

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 properties use California Schedule D-1, Sale of Business Property.

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

California Revenue and Taxation Code Section (R&TC) 18152.5 conforms to Internal Revenue (IRC) Section 1202 with modifications. In order to be eligible for the 50% exclusion of gain on qualified small business stock for stock issued after August 10, 1993 and before January 1, 1999, the corporation issuing the stock must meet the following conditions in addition to the conditions cited in IRC Section 1202:

- 80% of the corporation's payroll, as measured by total dollar value, is attributable to employment located in California; and
- 80% (by value) of the assets of the corporation are used by the corporation in the active conduct of a trade or business in California (R&TC Section 18152.5).

Note: The limited liability company also must separately state the amount of the gain that qualifies for the 50% exclusion under R&TC Section 18152.5 on Schedule K, line 7. Each member must determine if he or she qualifies for the gain at the member level.

1998 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, 1998... 3 Total California depreciation... 4 California amortization for intangibles placed in service before January 1, 1998... 5 Total California amortization... 6 Total depreciation and amortization... 7 Section 179 expense election... 8 Carryover of disallowed deduction to 1999.

1998 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 treated as a partnership for tax purposes uses Schedule K-1 (568) to report your distributive share of the LLC's income, deductions, credits, etc. Please keep this schedule for your records. Do not file it with your tax return. The LLC has filed a copy with the Franchise Tax Board (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 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 Specific Instructions C, Loss Limitations.

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

For additional 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.

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

B Definitions

Member

An individual or entity owning an interest in the LLC 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

Liabilities of the LLC for which none of the members have assumed any personal liability.

Qualified Nonrecourse Financing

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

California Business Situs

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

- The income of nonresidents from intangible personal property, such as shares of corporate stocks, bonds, notes, bank deposits and other indebtedness; or
- The income of nonresidents from rents or royalties for the use of, or for the privilege of using in this state, patents, copyrights, secret processes, formulas, goodwill, trade-marks, trade brands, franchises and other like property.

Apportionment

The process by which business income from a trade or business 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.

Unitary

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

Election

The ability to choose a particular accounting method for tax reporting purposes. 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 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).

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

If the LLC income is from activities both within and outside California, the LLC will complete Schedule R, Apportionment and Allocation of Income, to determine the LLC income from California sources. As indicated on Schedule K-1 (568) 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 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 E, 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. For more information get Schedule S, Other State Tax Credit.

Nonapportioning LLCs do not need to fill out column (e) on Schedule K-1 (568) 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.

D 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 whether it is unitary with the member.

Schedule K-1 (568) Instructions

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 the member.

However, for individuals, estates, trusts and S corporations that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds or other intangible personal property in California. This pledge is security for the payment of debt, taxes or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in the state. The bank account will acquire a business situs in California. 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.

E Unitary Members (This section generally applies to apportioning LLCs only.)

Note: The following rules apply not only to corporations, but to individuals or other entities that conduct a trade or business that is unitary with the LLC's trade or business (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 is 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 with the factors of the member for any LLC year ending within the member's tax accounting period. 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 your property factor your 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:

- A. Include in the denominator of your payroll factor your 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 Title 18, Cal. Code Reg. Sections 25134 to 25136. Apply the following special rules:

- A. Include in the denominator of the sales factor your distributive share of the LLC's sales that give rise to business income. See Table 2, Part C;
- B. Include in the numerator of your sales factor the amount of such sales described in 3A 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.

Specific Instructions

A Questions and Items

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

B 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, at-risk, and passive activity limitations before such losses/deductions can be deducted on your return. See Specific Instructions C, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis. If your return is ever examined, you may be required to provide your computations and the supporting documents for your membership interest.

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, Passive Activity Loss Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the LLC knows that you are a California resident, it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual 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 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. 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) for more information.

C Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (568) reflect your distributive share of income from the LLC's business or rental operations. If you have losses from the LLC, there are three potential limitations imposed on losses which you may deduct on your return. These limitations and the order in which they must be applied are:

- Basis rules (IRC Section 704);
- At-risk rules (IRC Section 465); and
- Passive loss rules (IRC Section 469).

Each of these limitations are 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, California tax law is the same as federal tax law concerning basis limitation. 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.

The LLC is not responsible for keeping the information needed to compute the basis of your LLC interest. Although the LLC does provide you with an analysis of the changes to your capital account on your Schedule K-1 (568), Item I, that information is based on the LLC's books

and records and should not be used to compute your basis.

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

Items that increase your basis are:

- Money and the adjusted basis of property you 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 the 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 basis of your LLC interest.

At-Risk Rules

The at-risk rules limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179, R&TC Sections 17266, 17267.2, 17267.6 and 17268) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the 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.

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

Passive Loss Rules

IRC Section 469 limits the deduction of certain losses and credits. California law is generally the same as this federal provision. These rules apply to members who have a passive activity loss or credit for the taxable year.

For California purposes, passive loss limitations apply to individuals, estates, trusts (other than grantor trusts), closely held corporations and S corporations.

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

A passive activity is generally a trade or business activity in which the member does not materially participate or a rental real estate activity in which the partner does not actively participate. 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 to calculate the allowable passive losses and form FTB 3801-CR, Passive Activity Credit Limitations, to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (568), line 1 and line 14 are normally passive activity income (loss) or credits from the trade or business of the LLC if you are a 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.

The passive loss rules apply to the items attributable to each publicly traded partnership (PTP) that is not treated

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

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

D Investment Partnership Income

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

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

If you are a corporate member, the amounts in column (e) will generally not be taxable in California provided the income from the LLC is the corporation's only California source income. However, if the corporation:

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

then the corporation will be taxable on its distributive share of California source income of the LLC. See R&TC Section 23040.1 for more details.

Specific Line Instructions

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

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

F(2) – If this box is checked, the LLC qualifies as an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California. See Specific Instructions D, Investment Partnership Income, for additional information.

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, where you

report this amount on Form 540 or Form 540NR depends on whether or not this amount is a passive activity.

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 California, the amount nonresidents or corporate members must report on their tax return is a function of the LLC's apportionment percentage and allocation of income. 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 E, 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. However, 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 Portfolio Income (Loss)

Portfolio income (loss) referred to as "portfolio" in these instructions is generally 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;

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

Line 5 – Guaranteed Payments to Members

Amounts on this line are not normally 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 21f, column B or line 21f, 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, 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" in 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" in 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 reported on this line are other items of income (loss) not included on line 1 through line 6. The LLC should give you a description for each of these items.

Use the instructions below to:

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

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

and losses after the passive loss limitations have been computed.

Line 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;
- 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); and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5, and issued after August 10, 1993 but before January 1, 1999). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedules K (568) and K-1 (568). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 7, column (c).

B Deductions

Line 8 – Charitable Contributions

The LLC will provide 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 38.

Line 9 – Expense Deduction for Recovery Property

The maximum amount of expense deduction for recovery property for California purposes R&TC Section 17255 (IRC Section 179 deduction) that you can claim for all sources is \$16,000. The \$16,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

The LLC will provide 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, 17267.6 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

Schedule K-1 (568) Instructions

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 should identify 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).

See federal instructions for Schedule K-1 (1065), line 11, for examples of other deductions. Also see FTB Pub. 1001 for differences between federal and state tax law for certain deductions.

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.

Line 12b(1) – 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 lines 4a, 4b, 4c, 4e and 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 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

Add together the amounts (if any) on line 13a(1) and line 13a(2) 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. However, the passive activity credit limitations of IRC Section 469 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 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.

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 for Eligible Small Business credit — get form FTB 3548.
- Donated Agricultural Products Transportation credit — get form FTB 3547.
- Employer Child Care Program/Contribution credit — get form FTB 3501.
- Enhanced Oil Recovery credit — get form FTB 3546.
- Enterprise Zone (EZ) Hiring & 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.
- Local Agency Military Base Recovery Area (LAMBRA) 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.

Schedule K-1 (568) Instructions

- Manufacturing Enhancement Area (MEA) Hiring credit — get form FTB 3808.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax credits — get form FTB 3809.

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.

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), 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, LAMBRA, MEA or TTA, it will give you the business income, and business capital gains and losses, apportioned to the EZ, LARZ, LAMBRA, MEA or TTA, on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808 or FTB 3809 to claim any applicable credit.

The LLC may have provided an amount showing your proportionate interest in the LLC's aggregate gross receipts, less returns and allowances on this line. A qualified taxpayer may exclude income, positive and negative adjustments and preference items attributable to any trade or business from alternative minimum taxable income. A "qualified taxpayer" 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 in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, LLC, S corporation, reg-

ulated investment company (RIC), real estate investment trust (REIT) or 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;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of pass-through entities gross receipts in which the taxpayer holds an interest.

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

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

See the instructions for Schedule K-1 (1065), line 25, for examples of supplemental information to be reported here. Also, see FTB Pub. 1001 for a listing of items of nonconformity for individuals.

G Table 1

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

For apportioning 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 D, 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 D, 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 | Federal employer identification number (FEIN) _____ Secretary of State file number _____ |
|--------------------------------|---|

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

List below the names and identification numbers of members of record at the end of the LLC's taxable year.

| Number | Member's name | Only nonresident members must sign: I consent to the jurisdiction of the State of California to tax my pro rata share of the LLC income attributable to California sources. | | Social security no./FEIN |
|--------|---------------|---|------|--------------------------|
| | | Signature | Date | |
| 1 | | | | |
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| 13 | | | | |
| 14 | | | | |
| 15 | | | | |

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.

| Number | Member's name | Only nonresident members must sign: I consent to the jurisdiction of the State of California to tax my pro rata share of the LLC income attributable to California sources. | | Social security no./FEIN |
|--------|---------------|---|------|--------------------------|
| | | Signature | Date | |
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 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 employer 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 member's 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 1998 and your gross income from all sources was more than \$10,623; or adjusted gross income from all sources was more than \$8,498; or
- You were married at the end of 1998, and you and your spouse had a combined gross income from all sources of more than \$21,246; or adjusted gross income from all sources of more than \$16,996; 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.

Instructions for Form FTB 3537

Payment Voucher for Automatic Extension for Limited Liability Companies

Reminder

A Limited Liability Company (LLC) **should not** use form FTB 3537 to pay its annual LLC tax of \$800. Instead, the LLC should use form FTB 3522, Limited Liability Company Tax Voucher, to pay the annual LLC tax.

General Information

This form applies to all LLCs other than LLCs electing to be taxed as corporations.

If an LLC cannot file its California LLC return, Form 568, by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year), it may file its LLC return on or before the 15th day of the 10th month following the close of the taxable year (fiscal year) or October 15, 1999 (calendar year), without filing a written request for an extension.

If the return is filed by the 15th day of the 10th month following the close of the taxable year (fiscal year) or October 15, 1999 (calendar year), the return will qualify for the extension.

However, an extension of time to **file** the LLC return is not an extension of time to **pay** the LLC fee or the nonconsenting nonresident members' tax.

Use the payment voucher below to mail in the payment for the LLC fee and the nonconsenting nonresident members' tax by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year).

How to Complete Form FTB 3537

Enter all the information requested on this form. To ensure the timely and proper application of the payment to the LLC's account, enter the federal employer identification number (FEIN) and the Secretary of State (SOS) file number (assigned upon registration with the SOS).

Side 1 – Box 1, LLC fee due –

This is the amount you expect to enter on Form 568, Side 1, line 2. Use the table located in the Form 568 booklet to estimate the LLC fee.

Box 2, Total members' tax due –

Enter the amount from Side 2. See the Form 568 Booklet for the proper calculation of this tax.

Box 3, Amount of payment –

Enter the total of box 1 and box 2.

Side 2 – List the name, social security number or FEIN for each nonconsenting nonresident member that did not sign form FTB 3832, Limited Liability Company's List of Members and Consents.

Where to File

Detach and mail the voucher portion along with the payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0651

Penalties and Interest

If the LLC fails to pay 100% of its LLC fee or the nonconsenting nonresident members' tax by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year), a late payment penalty plus interest will be added to the tax due.

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

TAXABLE YEAR

1998

Payment Voucher for Automatic Extension for Limited Liability Companies

CALIFORNIA FORM

3537

| | | |
|--|----------|---|
| For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year | | |
| Limited liability company name | | Federal employer identification number (FEIN) |
| DBA/Attention | | Secretary of State file number |
| Delivery address | | 5 |
| City, town or post office | | |
| State | ZIP Code | 6 |
| Make the check or money order payable to "Franchise Tax Board." Write the FEIN and "FTB 3537 1998" on it. Mail this voucher and the check or money order to: FRANCHISE TAX BOARD PO BOX 942857 SACRAMENTO CA 94257-0651 | | |
| Do not use this form to pay the annual LLC tax. | | 8 |

(Calendar year — Due April 15, 1999) **Box 1 – LLC fee due**

Box 2 – Total members' tax due (side 2)

Box 3 – Amount of payment (add box 1 and 2)

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

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

Nonresident member(s) that did not sign form FTB 3832:

Taxable Year 1998

| Member's name | FEIN or Social security number | Member's 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.) \$

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 1999. LLCs should use this form if they:

- Are doing business in California,
- 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 Form FTB 3522

Enter all the information requested on this form. To ensure the timely and proper application of the payment to the LLC's account, enter the federal employer identification number (FEIN) and the SOS file number (assigned upon registration with the SOS).

D Where to Mail

Detach and mail the voucher portion along with the payment 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 (fiscal year) or April 15, 1999 (calendar 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 annual LLC tax should be paid immediately after commencing business or registering with the SOS.

Example:

LLC1, a newly-formed calendar year taxpayer, organizes as an LLC in Delaware on June 1, 1999. LLC1 registers with the SOS on August 12, 1999, and begins doing business in California on August 13, 1999. Because LLC1's initial tax year began on June 1, 1999, the annual LLC tax is due September 15, 1999 (the 15th day of the 4th month of the short period taxable year). LLC1's short period (6/1/1999-12/31/1999) tax return is due April 15, 2000, and its annual tax payment with form FTB 3522 is also due April 15, 2000.

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) or April 15, 1999 (calendar year), 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 to the date of payment.

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 tax year form FTB 3522. **Do not** use any other form for payment of the tax. This will assure proper application of the payment to the LLC's account.

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

TAXABLE YEAR

1999

**Limited Liability Company
Tax Voucher**

CALIFORNIA FORM

3522

For calendar year 1999 or fiscal year beginning month _____ day _____ year 1999, and ending month _____ day _____ year _____.

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 the check or money order payable to "Franchise Tax Board." Write the FEIN and "FTB 3522 1999" on it. Mail this voucher and the 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

8 0 0 . 0 0

352299109

FTB 3522 1998

How to Get California Tax Information

General Toll-Free Phone Service

Between January 4 – April 15, 1999, our general toll-free phone service is available:

- Monday – Friday, 6 a.m. until midnight; and
- Saturday, 8 a.m. until 5 p.m.

After April 15, 1999, our general toll-free phone service is available:

- Monday – Friday, 7 a.m. until 8 p.m.

The best times to call are before 10 a.m. and after 6 p.m. (PST).

From within the United States (800) 852-5711

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

From hearing impaired with TDD . . . (800) 822-6268

For federal tax questions, call the IRS at (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.

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 respond to your letter within 6 to 8 weeks. In some cases, we may need to call you for additional information.

Where to Get Income Tax Forms

By Internet – If you have Internet access, you may download, view and print 1994 through 1998 California tax forms and publications. Our Internet address is:
<http://www.ftb.ca.gov>

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

By mail – Please allow 2 weeks to receive your order. If you live outside California, please allow 3 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.

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. See “Where to Get Income Tax Forms” on this page for how to get FTB Pub. 4058.

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

If you need an answer to any of the following questions, call (800) 338-0505, select general tax information, follow the recorded instructions and enter the 3 digit code when you are instructed to do so.

- 750 – How do I organize or register a limited liability company (LLC)?
- 751 – How do I cancel my registration as an LLC?
- 752 – What tax forms do I use to file as an LLC?
- 753 – When is the annual tax payment due?
- 754 – What extension voucher do I use to pay the LLC fee and/or member’s tax?
- 755 – Where does an LLC send its tax payments?
- 756 – As an LLC, I never did any business or even opened a door, bank account or anything. Why do I owe the \$800 annual tax?
- 757 – How are the LLC fee’s calculated (for taxable years 1996-current)?
- 758 – I’m a corporation that has converted to an LLC during the current year. Am I liable for the tax as a corporation and an LLC in the same year?
- 759 – If I have non-resident members, and cannot get all their signatures on the consent release form, can I still file the return?

District Offices

You can get information, California tax forms and resolve problems on your account if you visit one of our district offices.

| District Office | Address |
|-----------------|--------------------------------|
| Bakersfield | 1800 30th St, Ste 370 |
| Burbank | 333 N Glenoaks Blvd, Rm 200 |
| Fresno | 2550 Mariposa St, Rm 3002 |
| Long Beach | 4300 Long Beach Blvd, Ste 700B |
| Los Angeles | 300 S Spring St, Ste 5704 |
| Oakland | 1515 Clay St, Ste 3N-305 |
| Sacramento | 3321 Power Inn Road |
| San Bernardino | 464 W 4th St, Ste 454 |
| San Diego | 5353 Mission Ctr Rd, Ste 314 |
| San Francisco | 50 Fremont St, Ste 900 |
| San Jose | 96 N Third St, 4th Fl |
| Santa Ana | 600 W Santa Ana Blvd, Ste 300 |
| Santa Rosa | 50 D St, Rm 130 |
| Stockton | 31 E Channel St, Rm 219 |
| Ventura | 4820 McGrath St, 2nd Fl |
| West Covina | 100 N Barranca St, Rm 600 |

