



**State of California
Franchise Tax Board**

1999 Guidelines for Corporations Filing A Combined Report

See California Code of Regulations Section 25106.5-0 through Section 25106.5-11 for combined reporting definitions and procedures adopted under Section 25106.5 of the Revenue and Taxation Code.

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Other Publications

Other publications prepared by the Franchise Tax Board include:

- Form 100, California Corporation Tax Booklet
- Form 100-WE, Water’s-Edge Booklet
- FTB Pub. 1038, Instructions for Corporations Requesting Tax Clearance
- FTB Pub. 1050, Application and Interpretation of Public Law 86-272
- FTB Pub. 1060, Guide for Corporations Starting Business in California
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- FTB Pub. 1149, Terminating a Corporation
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Corporations Filing a Combined Report

What's New

California Code of Regulations Section 25106.5-0 through Section 25106.5-11 were adopted for combined reporting definitions and procedures under Section 25106.5 of the Revenue and Taxation Code.

Introduction

This publication sets forth the concepts of the unitary method of taxation and its application by the State of California to corporations subject to either the franchise tax or income tax. It includes instructions for preparing a combined report, which a corporation is required to use in computing its California tax liability when the corporate activities are part of a unitary business conducted by the corporation and its related corporations. A combined report is not equivalent to a consolidated return for federal purposes.

This publication does not address water's-edge statutes under which corporate taxpayers may elect to exclude from the combined report some or all of the income and apportionment factors of certain foreign affiliates in the unitary group. For more information about the water's-edge election, get Form 100-WE, Water's-Edge Booklet.

The Unitary Method

Corporations deriving income from sources both within and outside California are required to measure their tax liability by income derived from or attributable to sources within California. To determine the portion of total income that is attributable to this state, California utilizes the unitary business principle. This concept has been validated by income and franchise tax cases for more than 70 years.

Under the unitary method as applied by California, all of the elements comprising a single trade or business are viewed as a whole or unit, hence the term "unitary." The business income from all activities of a unitary business is combined into a single report, whether such activities are conducted by divisions of a single corporation or by members of a commonly controlled group of corporations. For most businesses, the combined business income is apportioned to California by a formula derived from the Uniform Division of Income for Tax Purposes Act (UDITPA) and Revenue and Taxation Code (R&TC) Sections 25120-25139. The elements required in a combined report are discussed in detail beginning on page 4.

Development of the Unitary Method

The theory underlying the unitary business principle has its roots in property tax law, where the issue of apportionment arose during the 1870s in the context of railroad taxation (*State Railroad Tax Cases*, (1876) 92 U.S. 575). A broader application later evolved as the states adopted the practice of measuring taxes by income. As early as 1920, the United States Supreme Court approved the use of a formula to apportion the income of a single corporation among several states in the case of *Underwood Typewriter Co. v. Chamberlain*, (1920) 254 U.S. 113.

California's use of formula apportionment dates to 1929 and the enactment of the original Franchise Tax Act. The use of the unitary method to combine the income from unitary divisions of a single corporation was validated by the California Supreme Court in *Butler Bros. v. McColgan* (1941), 17 Cal.2d.664. In *Edison California Stores v. McColgan*, (1947) 30 Cal.2d.472, the California Supreme Court extended the unitary business concept to allow apportionment of combined income of a common business activity conducted by a multi-corporate group.

While R&TC Section 25101 provides the general authority for use of the unitary business concept, no statutes have ever been adopted to define precisely the scope of application of the unitary principle. Instead, the law has evolved through a series of judicial decisions. For example:

- In *Superior Oil Co. v. Franchise Tax Board*, (1963), 60 Cal.2d 406, the California Supreme Court held that once it is determined that a business with income from sources within and outside the state is unitary, formula apportionment MUST be utilized.
- The United States Supreme Court found California's application of the unitary business principle to multiple corporations to be constitutional in *Container Corporation v. Franchise Tax Board*, (1983) 463 U.S. 159, aff'g 117 Cal. App.3d 988 (1981).
- Application of the unitary method is required whether the unitary business is carried on over state or international boundaries. Application of the unitary method to worldwide activities of a single corporation was first sanctioned by the United States Supreme Court in *Bass, Ratcliff & Gretton Ltd. v. State Tax Commission*, (1924) 266 U.S. 271. More recent decisions upholding the application of the unitary method to worldwide activities of multiple corporations are *Container Corporation v. Franchise Tax Board*, discussed above; *Barclays Bank Internat., LTD v. Franchise Tax Board*, (1994) 129 L. Ed 2d. 244 and *Colgate-Palmolive v. FTB*, (1994) 129 L. Ed 2d. 244.

Tests for Determining Unity

Both *Butler Bros.* and *Edison California Stores*, discussed above, set forth tests to be used in determining whether the activities of several divisions or corporations should be considered unitary. In *Butler Bros.*, the court held that a "unitary business" exists where there is: (1) unity of ownership; (2) unity of operation as evidenced by central divisions for functions such as purchasing, advertising, accounting and management; and (3) unity of use in its centralized executive force and centralized system of operations. In *Edison California Stores*, the court held that if the operation of the portion of the business done within the state is dependent upon or contributes to the operation of the business outside the state, the operations are unitary.

The three unities test and the contribution or dependency test have been applied by the

California courts in a variety of cases. (See, e.g., *Superior Oil Co. v. Franchise Tax Board* (1963) 60 Cal.2d 406, 411-412; *Honolulu Oil Corp. v. Franchise Tax Board* (1963) 60 Cal.2d 417, 423-424; *John Deere Plow Co. v. Franchise Tax Board* (1951) 38 Cal.2d 214, 221-222; *Container Corporation of America v. Franchise Tax Board* (1981) 117 Cal.App.3d 988, 994-1001, aff'd at 463 U.S. 159, (1983); *Chase Brass & Copper Co. v. Franchise Tax Board* (1970) 10 Cal.App.3d 496, 501-502.) If the three unities test or the contribution/dependency test is satisfied, the businesses are unitary (*A.M. Castle & Co. v. Franchise Tax Board* (1995) 36 Cal. App. 4th 1794.)

The United States Supreme Court has also referred to a unitary business as one that exhibits "contributions to income resulting from functional integration, centralization of management and economies of scale." (*Mobil Oil Corp. v. Comm'r of Taxes of Vt.* (1980) 445 U.S. 425, 438; *F. W. Woolworth Co. v. Taxation and Revenue Dep't of the State of N.M.* (1982) 458 U.S. 354, 366, *Allied Signal v. Director, Taxation Division* (1992), 504 U.S. 768.) That court further noted that, "[t]he prerequisite to a constitutionally acceptable finding of a unitary business is a flow of value, not a flow of goods." (*Container Corp. of America v. Franchise Tax Board* (1983) 463 U.S. 159, 178.) The Supreme Court has stated that for commonly controlled activities to be nonunitary, they must be part of "unrelated business activity which constitutes a 'discrete business enterprise.'" (*Mobil Oil Corp.*, supra, 445 U.S. at 439-440.)

18 Cal. Code Reg. Section 25120 provides additional rules and examples regarding what constitutes a unitary business. The regulation: (1) recognizes that a single taxpayer may have more than one "trade or business"; and (2) sets forth three factors, the presence of any one of which creates a "strong presumption" that the activities of the taxpayer constitute a single trade or business. 18 Cal. Code Reg. Section 25120 provides in pertinent part:

(b) Two or More Businesses of a Single Taxpayer. A taxpayer may have more than one "trade or business." In such cases, it is necessary to determine the business income attributable to each separate trade or business. The income of each business is then apportioned by an apportionment formula which takes into consideration the in-state and out-of-state factors which relate to the trade or business the income of which is being apportioned.

* * *

The determination of whether the activities of the taxpayer constitute a single trade or business or more than one trade or business will turn on the facts in each case. In general, the activities of the taxpayer will be considered a single business if there is evidence to indicate that the segments under consideration are integrated with, dependent upon or contribute to each other and the operations of the taxpayer as a whole. The following factors are considered to be good

indicia of a single trade or business, and the presence of any of these factors creates a strong presumption that the activities of the taxpayer constitute a single trade or business:

- (1) Same type of business. This factor applies when all of a taxpayer's activities are in the same general line, such as in the operation of a chain of retail grocery stores.
- (2) Steps in a vertical process. An example of this factor would be a taxpayer that explores for and mines copper ores; concentrates, smelts, and refines the copper ores, and fabricates the refined copper into consumer products.
- (3) Strong centralized management. A taxpayer that might otherwise be considered as engaged in more than one trade or business is properly considered as engaged in one trade or business when there is a strong central management, coupled with the existence of centralized departments for such functions as financing, advertising, research, or purchasing.

For recent court decisions that discuss strong centralized management and the application of the unitary concept to diverse businesses, see *Mole-Richardson Co. v. Franchise Tax Board* (1990) 220 Cal.App.3d 889, 894; *Tenneco West, Inc. v. Franchise Tax Board* (1991) 234 Cal.App.3d 1510 and *Dental Insurance Consultants, Inc. v. Franchise Tax Board* (1991) 1 Cal.App.4th 343. For application of the unitary tests to passive holding companies, get FTB Legal Rulings 95-7 and 95-8, dated November 29, 1995.

As noted above, the activities of a single corporation or group of commonly owned corporations do not always constitute a single unitary business. If a taxpayer has two or more trades or businesses that are not unitary with one another, separate combined report computations must be made to compute business income and apportionment factors for each trade or business and to apportion to California the business income of each.

California law classifies income as either "business" or "nonbusiness." Business income is income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. Business income is assigned through formula apportionment (R&TC Section 25120(a)). Nonbusiness income is all other income (R&TC Section 25120(d)) and is generally allocated to a particular jurisdiction (R&TC Sections 25123-25127). Regulations under R&TC Section 25120 also provide guidance for distinguishing between business and nonbusiness income. For further discussion and examples of business and nonbusiness income, refer to the instructions for Schedule R, Apportionment and Allocation of Income.

Unity of Ownership

A corporation may file a combined report with other members of a unitary group only if the corporations are members of a commonly

controlled group as defined by R&TC Section 25105. Generally, a commonly controlled group exists when stock possessing more than 50% of the voting power is owned, or constructively owned, by a common parent corporation (or chains of corporations connected through the common parent) or by members of the same family. A commonly controlled group also includes corporations that are stapled entities, see R&TC Section 25105(b)(3). Special rules are provided in R&TC Section 25105 for partnerships, trusts and transfers of voting power by proxy, voting trust, written shareholder agreement, etc.

The Use of a Combined Report

Two or more corporations conducting a unitary business within and outside California are required to use the combined reporting approach to determine California source income subject to tax by California.

R&TC Section 25101.15 allows corporations conducting a unitary business wholly within California to elect to use a combined report.

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

The combined report is a means by which the income of a unitary business is divided among the taxing jurisdictions in which the trade or business is conducted. A combined report is not a "return," but merely the name given to the calculations by which multi-entity unitary businesses apportion income on a geographic basis. There is no "combined report" form; tax is calculated on an attachment to Form 100 using the format described in this publication.

In a combined report, the entire amount of unitary business income of all corporations in the unitary group (including unitary members with no property, payroll, or sales within California) is aggregated in the combined report.

The combined business income of the unitary group is then apportioned to California and to the unitary members subject to tax in California. Details of this formula are discussed in the instructions to Schedule R, Apportionment and Allocation of Income. Refer to R&TC Section 25129 through 25137 and the corresponding regulations for guidelines on calculating the apportionment formula. (This is commonly referred to as "intrastate apportionment." The computations are explained in FTB Legal Ruling 234 and FTB Notice 90-3. (FTB Notice 90-3 is no longer applicable for income years beginning on or after April 22, 1999.)) The taxable income of each member is then computed, taking into account its share of apportioned business income or loss, California source nonbusiness income or loss, and allowable California source net operating loss. Credits are applied against the tax on a separate entity basis. Unless otherwise provided by statutory authority, specific credit(s) are only available to the taxpayer corporation that incurred the expense that generated the credit(s). Generally, each California taxpayer included in the combined

report must file its own tax return using Form 100. However, some unitary groups may elect to file a single group Form 100 and report the sum of the separate tax liabilities of the unitary members. See Schedule R-7 of Schedule R, Apportionment and Allocation of Income.

Unlike a consolidated return, in which the group is treated as a single taxpayer, members of a unitary business are taxed individually and each affiliate doing business, qualified to do business, or incorporated in California is subject to at least the minimum franchise tax.

Contents of a Combined Report

A combined report should contain the following:

- A list of subsidiaries/affiliates and their California corporation numbers and FEINs;
- A combined profit and loss statement in columnar format disclosing each corporation's statement of profit and loss;
- A schedule in columnar format disclosing the various adjustments for each corporation necessary to convert the combined profit and loss statement to the combined income subject to apportionment. This schedule includes any adjustments necessary to revise federal or foreign income to that reported for California purposes, as well as adjustments for nonbusiness income or loss;
- A combined apportionment formula in columnar format disclosing for each corporation the total amount of property, payroll, and sales, and the amount of California property, payroll, and sales;
- A schedule in columnar format disclosing for each corporation any items of nonbusiness income or expense allocated to California;
- Schedules disclosing the computations of the amount of the interest offset and the charitable contributions adjustment;
- A schedule in columnar format of the alternative minimum tax calculation for each corporation;
- Schedules in columnar format disclosing for each corporation all data required by Form 100. These schedules include:
 1. Balance sheets;
 2. Gains and losses from sale or exchange of assets;
 3. Taxes on or measured by income;
 4. Dividends and interest received;
 5. Income or loss from rentals, royalties, partnerships, and miscellaneous sources; and
 6. Net operating losses; and
- Schedules in columnar format showing the computation of income apportionable and allocable to this state for each member of the group, and the computation of each member's tax credits and tax liability.

A comprehensive example illustrating the use of the above schedules begins on page 9.

Consolidated Return Distinguished From a Combined Report

Unless specifically stated otherwise, California does not follow the federal consolidated return regulations provided under Internal Revenue Code (IRC) Section 1502. With respect to earnings and profits (E&P) and stock basis,

California has no provisions similar to the investment adjustments allowed for federal purposes under Treas. Reg. Sections 1.1502-32 and -33. The E&P of each entity in the combined report are calculated on a separate accounting basis and do not reflect the earnings of any lower tier subsidiaries (see *Appeal of Young's Market Company*, Cal. St. Bd. of Equal., 11/19/86). Likewise, the cost basis of a unitary subsidiary's stock is not adjusted to reflect the earnings of that subsidiary (see *Appeal of Safeway Stores*, Cal. St. Bd. of Equal., 3/2/62 and *Appeal of Rapid American Corp.* Cal. St. Bd. of Equal., 10/10/96).

S Corporations

If an S corporation holds 100% of the stock of a subsidiary, and elects to treat that subsidiary as a qualified subchapter S subsidiary (QSub), then a combined return is not filed. Instead, the QSub is disregarded, and the activities, assets, liabilities, income, deductions, and credits of the QSub are treated as activities, assets, liabilities, income, deductions, and credits of the S corporation parent. If the QSub is not unitary with the S corporation, then it is treated as a separate division and separate computations must be made to compute business income and apportionment factors for the QSub and the S corporation, and to apportion to California the business income of each.

Corporations With Different Accounting Periods

Common Accounting Period Necessary

When filing a combined report, each member must align its income and apportionment data from its own accounting period to the accounting period of the "principal member." Where there is a parent-subsidiary relationship in the combined reporting group, the Parent Corporation will generally be the principal member. If there is no corporation in the combined reporting group which is a parent corporation to all the other members, the principal member will be the member that is expected to have, on a recurring basis, the largest value of real and tangible personal property in California as determined for property factor purposes. However, the taxpayer members of a combined reporting group may elect to treat any other member of the combined reporting group as the "principal member." But, unless the election is made in the first year that a combined report is required, the principal member may only be changed with the consent of the FTB.

Income Calculation

Each member of the group should generally use the actual figures taken from its books of account to determine the proper income and related computations corresponding to the accounting period of the principal member. This will usually require an interim closing of the books for members whose normal accounting period differs from the accounting period of the principal member. Alternatively, a pro-rata method of converting income to the principal member's accounting period will be accepted as long as the results do not produce a material misstatement of income apportioned to the state.

Pro-Rata Method

Under the pro-rata method, income of a member of the group is converted to the accounting period of the principal member on the basis of the number of months falling within the applicable income year. For example, if a parent corporation operates on a calendar year basis and a subsidiary includable in a combined report operates on a September 30 income year, it is necessary to assign 9/12 of the subsidiary's unitary income of one income year and 3/12 of the unitary income of the succeeding income year to arrive at a full twelve months' income to be included in the combined report. Where this procedure results in using the income of a corporation whose income year has not yet closed, it may be necessary to make an estimate based on available information and amend the return at a later date.

Apportionment of Combined Unitary Income Using a Common Accounting Period

The factors of the combined formula should be computed on the basis of the same accounting period as was used to compute the unitary income. If an interim closing of the books was done to determine income attributable to the accounting period of the principal member, then the actual figures from the interim closing should be used to determine the apportionment factors as well. If the pro-rata method is used to convert income, then a pro-rata method should also be used to convert the factors of a member of the group to the accounting period of the principal member.

Once income and apportionment factors have been placed on a common accounting period, combined unitary business income is apportioned to California and to each of the taxpayer member corporations filing returns in California. For each California reporting corporation with a normal accounting period which differs from the accounting period of the principal member, the California income apportioned to that corporation is then converted back to the corporation's normal accounting period. This conversion is made on the basis of the number of months falling within the common income year of the group.

The computations necessary to determine the combined income under the pro-rata method, when members of the group are on different accounting periods, are illustrated in the example beginning on page 9 of this publication.

Part-Year Members

A part-year member is a corporation that either becomes a member or ceases to be a member of the unitary group after the beginning of the income year. If the part-year member is required to file two short period returns for the income year, then the income for the period in which the member was unitary with the group must be determined on a combined basis. The income for the remaining short period will be determined on a separate basis (or on a combined basis with a different group if the taxpayer had a unitary relationship with one or more corporations in that short period).

If the part-year member is **not** required to file short period returns, then it must file a single return for the entire year. The income reported

on that return would be determined by combined reporting procedures for any period in which the part-year member was part of a unitary group, and by separate accounting for any period it was not part of a unitary group. Use the actual income and apportionment data from the common unitary period to apportion income for that period. See the interim closing discussion under "Apportionment of Combined Unitary Income Using a Common Accounting Period." However, the comprehensive example beginning on page 9 contains an acceptable alternative method for this computation, if that method does not cause income apportioned to this state to be materially misstated.

Note: R&TC Section 24632 provides that the income year of a taxpayer may not be different than the taxable year used for purposes of the IRC, unless initiated or approved by the FTB. Whenever a taxpayer is required to file a federal return for a period of less than 12 months, a California return for that period is also required. Federal due dates for these short period returns also apply for California.

Adjustments for Intercompany Transactions

The following guidelines reflect the FTB's current policy regarding adjustments necessary to properly reflect intercompany transactions among unitary affiliates included in the combined report.

Note: The FTB is presently reviewing the treatment of intercompany transactions between members of a combined group with the intention of promulgating regulations to provide more specific guidance. The following guidelines are subject to change and may be superseded by regulation.

Inventories

Income from intercompany sales of inventory is eliminated from unitary business income. The seller's basis in the inventory will carry over to the buyer in the intercompany sale. Intercompany profits in inventory shall be eliminated for property factor purposes.

Intangible Assets

Gain or loss from intercompany sales of intangible assets shall be eliminated from unitary business income. The seller's basis in the intangible assets will carry over to the buyer in the intercompany sale.

Fixed Assets and Capitalized Items

The gain or loss on intercompany sales of business fixed assets or capitalized intercompany charges and expenditures between members of a combined group are generally deferred. The exception to this rule occurs when an affiliated group that files a consolidated federal return elects not to defer gain or loss on intercompany transfers. In that case, the federal election will be allowed for the combined report.

Under the general rule, the gain or loss remains deferred as long as both the seller and the purchaser remain in the combined group and the asset is not sold to outsiders. When either the seller or purchaser is no longer a member of the combined group, or the group for any reason terminates combined reporting, the gain or loss is reportable by the seller at a time immediately preceding the date either corporation ceases to

be a member of the group. If the asset is sold to third parties, the deferred gain or loss is reportable by the combined group in the year of sale. A water's-edge election is also a restoration event which will cause previously deferred intercompany gains and losses to be included in income on a pro-rata basis over five years (refer to FTB Notice 89-601 for further details of this computation). The amount of gain recognized upon the occurrence of a restoration event is generally the same amount that would be reportable for federal purposes under similar circumstances in a consolidated return.

Where intercompany gain or loss is deferred, the basis of the asset for property factor purposes shall be the seller's cost.

Other Factor Adjustments

For factor purposes, intercompany sales and other intercompany revenue items are eliminated in computing the numerator and denominator of the sales factor. Intercompany rent charges are also eliminated from the property factor computation.

Dividends

To the extent that intercompany dividends are paid out of E&P derived from unitary business income, they are eliminated in computing the California measure of tax (R&TC Section 25106). In determining whether a dividend is paid out of unitary E&P, distributions are deemed to be paid first out of current E&P and then out of prior years' accumulation in reverse order of accumulation. Distributions paid out of nonbusiness E&P or distributions from E&P accumulated prior to the time the payer corporation became a member of the combined group are not eliminated from the income of the recipient corporation (although such dividends may be subject to deduction under R&TC Section 24402 or Section 24411).

An intercompany distribution which exceeds the payer's E&P and stock basis (described by IRC Section 301(c)(3)), is not treated as income from an intercompany sale of an asset, and is not subject to the treatment of income from intercompany sales between members of a unitary group described above. It is instead characterized as income from a distribution, and

is generally subject to tax under *Safeway Stores v. Franchise Tax Board* (1970) 3 Cal. 3d. 745, even if both distributor and distributee are members of a unitary group. However, the taxpayer members of the unitary group may request a closing agreement with the FTB which would allow income from such distributions to be deferred. After February 18, 1998, the request to enter into a closing agreement must be received by the extended due date of the applicable return for the income year of the distribution. For further information, get FTB Notice 97-2.

Unitary Partnerships

When a corporation is a partner in a partnership and the partnership's activities are unitary with the corporation's activities (disregarding ownership requirements), then the corporation's share of the partnership's trade or business is combined with the corporation's trade or business (see 18 Cal. Code Regs. Section 25137-1). For example, assume that Corporation A has a 20% partnership interest in Partnership P and that the activities of Corporation A and Partnership P are unitary. The apportionment factors for A and P are as follows:

Apportionment Factor of a Corporation and a Unitary Partnership

| | EVERYWHERE | | CALIFORNIA | |
|----------|---------------|---------------|---------------|---------------|
| | Corporation A | Partnership P | Corporation A | Partnership P |
| Property | 400,000 | 250,000 | 300,000 | 75,000 |
| Payroll | 100,000 | 50,000 | 50,000 | 25,000 |
| Sales | 500,000 | 300,000 | 400,000 | 100,000 |

Corporation A's 20% share of Partnership P's property, payroll, and sales is included in the combined apportionment factor:

| | | EVERYWHERE | CALIFORNIA | FACTOR |
|-------------------------------------|---------------------|----------------|----------------|--------------|
| Combined Property: | Corporation A | 400,000 | 300,000 | 70% |
| | Partnership P (20%) | 50,000 | 15,000 | |
| | Combined | 450,000 | 315,000 | |
| Combined Payroll: | Corporation A | 100,000 | 50,000 | 50% |
| | Partnership P (20%) | 10,000 | 5,000 | |
| | Combined | 110,000 | 55,000 | |
| Combined Sales: | Corporation A | 500,000 | 400,000 | 75% |
| | Partnership P (20%) | 60,000 | 20,000 | |
| | Combined | 560,000 | 420,000 | |
| Combined x 2 | | | | 150% |
| Average Apportionment Factor | | | | 67.5% |

Net business income for Corporation A and Partnership P was \$300,000 and \$100,000 respectively. Assuming that Corporation A's distributive share of Partnership P's profits and losses was also 20%, Corporation A's net income apportioned to California would be:

| | |
|---|-----------|
| Corporation A net business income | \$300,000 |
| Corporation A's distributive share of Partnership P's net business income (\$100,000 x 20%) | 20,000 |
| | <hr/> |
| | 320,000 |
| Multiplied by combined apportionment factor | x 67.5% |
| Corporation A's net income apportioned to California | \$216,000 |

Net Operating Losses (NOLs)

California incorporates, with specific modifications, the provisions of IRC Section 172, concerning carryovers of NOLs incurred in the conduct of a trade or business. In general, California law allows 50% of the NOLs incurred in income years beginning on or after January 1, 1987, to be carried forward for up to five years.

For income years beginning on or after January 1, 1994, new businesses may carry over 100% of the NOL incurred during the first three years of operation. The carryover period is eight years for losses incurred in the first income year of business, seven years for losses incurred in the second year of business, and six years for losses incurred in the third year.

In addition, small businesses may carry over 100% of a NOL incurred in income years beginning on or after January 1, 1994. The carryover period is five years. A small business is a business with total receipts of less than \$1 million during the income year.

For more information regarding "eligible small business" and "new business" NOLs, get FTB Legal Ruling 96-5.

California does not have a provision that allows NOL carrybacks.

For income years where the taxpayer has a water's-edge election in effect, the deduction of an NOL carryover is not allowed to the extent that such NOL was determined by taking into account the income and factors of a bank or corporation that would not have been included in the combined report if a water's-edge election had been in effect in the year in which the loss was incurred.

Further information regarding the general NOL carryover can be found in form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations. California also has special NOL provisions for losses incurred in enterprise zones, the Los Angeles Revitalization Zone, Targeted Tax Areas and Local Agency Military Base Recovery Areas. For further information regarding these NOLs, see R&TC Sections 24416 through 24416.6, and form FTB 3805Z, Enterprise Zone Business Booklet, form FTB 3806, Los Angeles Revitalization Zone Business Booklet, form FTB 3807, Local Agency Military Base Recovery

Area Business Booklet and form FTB 3809, Targeted Tax Area Business Booklet.

Application of NOL Carryovers in a Combined Report

The NOL for each taxpayer in the combined group is determined by adjusting each taxpayer's share of the unitary business income or loss by any nonbusiness income or loss. In a subsequent year when a member of the group has positive net income, only the amount of NOL attributable to that particular taxpayer may be deducted. The example below shows the computations involved in determining and applying an NOL in a combined report.

Another example of an NOL is shown in Schedule 4-E in the comprehensive example on page 18 of this booklet. Although unitary business income apportioned to each taxpayer in that example was positive, a nonbusiness loss caused Corporation C to have a net loss for California. Fifty percent of that loss will be available to be carried forward to subsequent years, although a deduction will be allowed only from California net income apportioned or allocated to Corporation C.

Applying an NOL in a Combined Report

| YEAR 1: | Corp. X | Corp. Y | Corp. Z | Combined |
|---|-----------|----------|----------|-----------|
| Unitary business income (loss) subject to apportionment | (400,000) | (10,000) | 60,000 | (350,000) |
| Apportionment percentages | 5% | 1% | 3% | 9% |
| Loss apportioned to California (Combined loss x %) | (17,500) | (3,500) | (10,500) | (31,500) |
| Nonbusiness items wholly attributable to California | 50,000 | (2,500) | 0 | |
| California net income (loss) | 32,500 | (6,000) | (10,500) | |
| NOL available to be carried forward (50% of loss) | 0 | (3,000) | (5,250) | |

| YEAR 2: | Corp. X | Corp. Y | Corp. Z | Combined |
|---|---------|----------|---------|----------|
| Unitary business income (loss) subject to apportionment | 50,000 | 80,000 | (5,000) | 125,000 |
| Apportionment percentages | 6% | 4% | 4% | 14% |
| Income apportioned to California (Combined income x %) | 7,500 | 5,000 | 5,000 | 17,500 |
| Nonbusiness items wholly attributable to California | 2,500 | (10,000) | 0 | |
| California net income (loss) before carryover | 10,000 | (5,000) | 5,000 | |
| Application of NOL carryover from Year 1 | 0 | 0 | (5,000) | |
| California net income (loss) | 10,000 | (5,000) | 0 | |

| | Corp. X | Corp. Y | Corp. Z |
|-------------------------------------|---------|---------|---------|
| Remaining NOL from Year 1 | | (3,000) | (250) |
| 50% of loss in Year 2 | | (2,500) | |
| NOL available to be carried forward | 0 | (5,500) | (250) |

Capital Loss Limitation

California conforms to the federal provisions for netting gains and losses from involuntary conversions, Section 1231 assets and capital assets. If the netting process results in net capital losses, the losses are not deductible in the current year, but may be carried over to subsequent years. In a combined reporting group, the members' business gains and losses in each class (i.e., the classes are involuntary conversion, 1231, short-term capital or long-term capital) are combined, and each taxpayer member determines its share of the business

gain/loss items based on its apportionment percentage. Then, each taxpayer member applies the federal netting rules to its post-apportioned share of business gain/loss items and its California-source nonbusiness gain/loss items. If a net loss results for any taxpayer member, it may be carried forward for up to five years. For more information regarding the application of the capital loss limitation in a combined report, see 18 Cal. Code Reg. Section 25106.5-2. Regulations that will provide rules for applying capital loss carryovers in subsequent years are pending.

The forms used to compute gains and losses from involuntary conversions, Section 1231 assets and capital assets are the federal Form 4684, Casualties and Thefts; California Schedule D-1, Sales of Business Property; and California Form 100 Schedule D, Capital Gains and Losses. Members of a combined reporting group should complete those forms as follows:

Note: After computing apportioned gains and losses in accordance with the below instructions, to the extent that the same gains/losses are included in the federal net income (loss) before state adjustments on Form 100, Side 1, line 1,

those federal gains/losses should be reversed on line 7, 12, or 15 of that form.

Federal Form 4684, *Casualties and Thefts*, Section B:

Lines 19 – 34: Complete for each corporation included in a combined reporting group, and identify whether the items relate to business or nonbusiness income. Any amounts entered on line 31 should be carried to that corporation's Schedule D-1, line 14.

Lines 35 – 37: Combine business income items reported on lines 33 and 34 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to that combined business gain/loss to determine each taxpayer member's apportioned share, then add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss (if any) reported on lines 33 and 34.

Line 38a: Add (or net) any loss from the preceding step to that taxpayer member's post-apportionment amounts from capital gain/loss netting, Schedule R, Side 1, line 22b.

Line 39: Enter this gain amount on Schedule D-1, line 3.

California Schedule D-1, *Sales of Business Property*:

Lines 1, 2, 4, 5, 6: Complete for each corporation included in a combined reporting group, and identify whether the items relate to business or nonbusiness income.

Line 7: Combine business income items reported on lines 2,4,5, and 6 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to the combined business gain/loss to determine its apportioned share; then add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss (if any) reported on lines 2,4,5, and 6; and gain reported on line 3.

Lines 8 – 9: If applicable, complete for each taxpayer member based on nonrecaptured line 7 losses reported by that member in prior years.

Lines 11 – 12: Instead of entering amounts from lines 7 or 8 here, carry those amounts to the Schedule R, and add (or net) with the taxpayer member's post-apportionment amounts from capital gain/loss netting, Schedule R, Side 1, line 22b. Complete the remainder of Parts II and III of the Schedule D-1 separately for each corporation in the combined report.

California Form 100, Schedule D, *Capital Gains and Losses*:

Lines 1, 2, 5, 7: Complete for each corporation included in a combined reporting group, and identify whether the items relate to business or nonbusiness income.

Lines 3 – 4: Combine business income items reported on lines 1 and 2 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to the combined business gain/loss to determine its apportioned share, then add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss reported on lines 1 and 2 and with its unused capital loss carryover from 1998.

Line 6: For each taxpayer member, enter amount determined on Schedule D-1, line 7 or line 9.

Line 8: Combine business income items reported on lines 5 and 7 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to the combined business gain/loss to determine its apportioned share. Add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss reported on lines 5 and 7 and with the amount that taxpayer member entered on line 6.

Lines 9 –11: Complete for each taxpayer member of the combined reporting group. Instead of entering the amount from line 11 on Side 1 of the Form 100, add it to the taxpayer member's post-apportionment amounts from capital gain/loss netting, Schedule R, Side 1, line 22b.

Alternative Minimum Tax (AMT)

Generally, the calculation of alternative minimum taxable income (AMTI) must incorporate the same concepts used in the calculation of regular California taxable income. The AMTI of the members of a combined group must therefore be allocated or apportioned to California and to each member in the same manner as is regular taxable income. The AMT NOL is computed based upon AMTI and is determined for each member of the combined group using the computations described on page 7.

The calculation of AMTI includes an adjustment that represents 75% of the difference between the adjusted current earnings (ACE) of the corporation over the AMTI determined without regard to the ACE adjustment or the AMT NOL deduction (pre-adjustment AMTI). To compute this adjustment, the ACE of the members of a combined group must be allocated or apportioned in the same manner as regular taxable income and AMTI. Each taxpayer member must compare the ACE, after apportionment and allocation to California (California source ACE), with its pre-ACE adjusted AMTI, after apportionment and allocation to California (California source pre-adjusted AMTI).

If California source ACE exceeds California source pre-adjusted AMTI (a positive ACE adjustment), 75% of the difference must be added to California source pre-adjusted AMTI. On the other hand, if California source pre-adjusted AMTI exceeds the ACE (a negative ACE adjustment), the negative adjustment may be applied to reduce California source pre-adjusted AMTI only to the extent that the aggregate positive California source ACE adjustments in prior years for that particular taxpayer member exceeded its aggregate negative ACE California source adjustments. See FTB Legal Ruling 94-3.

The computations necessary to calculate AMT for taxpayers in a combined report are shown in Schedule 5 of the comprehensive example beginning on page 19 of this publication.

Election to File a Group Return

As a convenience, the FTB has adopted procedures under which some or all of the

taxpayer members of a combined reporting group may elect to file a group return. The group return satisfies the requirement of each electing member to file its own return. The tax liability of each member of the unitary group must be computed using the combined reporting procedures described in this booklet. A separate computation for each member of the group should be included with the group return. Each member incorporated, qualified to do business, or doing business in this state must pay at least the minimum franchise tax set forth in R&TC Sections 23153 and 23181. The tax liabilities of the electing group members are then aggregated and reported on the group return. Filing a group return does not change the tax liabilities of the taxpayer members.

The designated "key corporation" makes the election on behalf of itself and the electing members by completing Schedule R-7, Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations and attaching the schedule to the return. By filing a group return and the completed Schedule R-7, each electing member indicates acceptance of all terms and conditions set forth in the Schedule R-7 and instructions. The election is binding for the income year of the election and for all matters pertaining to the income year of the election. If estimated payments are made by the key corporation on behalf of the electing members prior to the initial filing of the Schedule R-7 (or prior to the filing of a Schedule R-7 which reflects a change in the electing members), the key corporation should, at the time of payment, provide the name and corporation number of all members intending to make the election.

To be eligible to make the election to file a group return, each corporation must: 1) be a member of a single unitary group for the entire income year; 2) have the same income year as the key corporation or the income year is wholly included within the income year of the key corporation; and 3) have the same statutory filing date as the key corporation for the income year.

Identify each corporation in the group return by providing the complete legal name as registered with the California Secretary of State (SOS) for each corporation qualified to do business or incorporated in California and the California corporation number and federal employer identification number (FEIN). Do not use abbreviations unless the abbreviation is part of the corporation's legal name. This information should be provided on the Schedule R-7.

Exceptions — When A Group Return Is Not Allowed

Due to statutory filing requirements, California taxpayer corporations that have different accounting periods may not be included in a group return except as provided above. The business income of such corporations must be apportioned in accordance with the instructions for corporations that have different accounting periods (see page 5) and reported on a separate return.

Corporations may not file a group return if more than one unitary business is being conducted by any one taxpayer. For further information, get Schedule R, Schedule R-7, and their instructions.

Example of Combined Report Computations and Schedules

The following is an example of how the combined report approach is applied:

Corporation A, the parent corporation, and its subsidiaries B, C, D, and E engage in a unitary business of manufacturing and selling items of tangible personal property. Corporations A, B, C, and E compute their income on a calendar year basis and Corporation D computes its income on the basis of a September 30 fiscal year end. Corporation A is the principal member, so Corporation D must align its income to Corporation A's calendar year accounting period for apportionment purposes. Since the income of the members of the group was earned evenly throughout the year, interim closings of the books were unnecessary in this example.

Corporation A, a California domiciliary, manufactures a product, some of which it sells to its subsidiaries. Intercompany sales of inventory to the subsidiaries during the income year were \$500,000. For purposes of this example, none of the inventory acquired from Corporation A remained in the inventory of the subsidiaries at the end of the year. Corporation A has \$100,000 interest income from its outstanding accounts receivable, \$60,000 of which was attributable to California receivables. Losses of \$100,000 were attributable to sales of obsolete equipment. The total gross receipts from the sales were \$170,000, \$68,000 of which were attributable to California. In addition to income from its unitary business activity, Corporation A had dividend income of \$100,000 from nonbusiness investments and a \$30,000 nonbusiness partnership loss from an oil and gas limited partnership operating entirely within California. The partnership had tax preference items for depletion and intangible drilling costs, of which Corporation A's distributive share was \$40,000 and \$10,000, respectively. After the tax preference items were applied, Corporation A's net nonbusiness AMTI attributable to the partnership was a positive \$20,000.

Corporation B operates outside California but has some mail order sales to California customers. This example assumes that Corporation B is not taxable in California. (For further discussion of taxability within the state, refer to FTB Pub. 1050, Application and Interpretation of Public Law 86-272). Corporation B also derives interest income from its outstanding accounts receivable. During the year, Corporation B sold a fixed asset to Corporation D for a sales price of \$210,000 and a gain of \$150,000. As explained in the section entitled "Adjustments for Intercompany Transactions" on page 5, the gain was deferred. Corporation B paid \$10,000 of intercompany interest to Corporation C.

Sixty percent of the stock of Corporation C, a retailer of goods manufactured by Corporation A, was acquired by Corporation A on July 1 from an unrelated individual. Because of the economic relationship that existed prior to the acquisition, Corporation C became a member of the unitary group immediately upon acquisition. Because a short period federal return was not required, Corporation C was not required to file a short period return for California as a result of the

acquisition but did an interim closing of its books on July 1. Corporation C also has business rental income from leasing a portion of the ground floor of its headquarters to unrelated third parties. Corporation C was a limited partner in an oil and gas partnership operated within California and incurred a \$150,000 partnership loss. The partnership had a December 31 year end. The partnership had tax preference items for depletion and intangible drilling costs, of which Corporation C's distributive share was \$200,000 and \$15,000, respectively. After the tax preference items were applied, Corporation C's net nonbusiness AMTI attributable to the partnership was a positive \$65,000.

The following schedules show the income computations for Corporations A, B, C, D, and E under the combined report approach:

Schedule 1: Combined income subject to apportionment. For Corporations A, B, and E, this schedule reflects items of income and deduction for the calendar year ending 12/31/99. For Corporation C, only income and deductions incurred during the post-acquisition period of 7/1/99 through 12/31/99 are included. If the interim closing of the books method had been used to determine Corporations D's income for the 12/31/99 income year, then Corporation D's actual income for the calendar year would have been included in this schedule. In this example, however, Corporation D is using the pro-rata method of combining corporations with different accounting periods. Adjustments to convert Corporation D's income to the common year end are shown on Schedule 2.

Schedule 2: Computations to place Corporation D income and apportionment factors on a calendar year basis. The schedule calculates 9/12 of the income and deductions from the period ending 9/30/99, and 3/12 of the income and deductions from the period ending 9/30/00 to derive the income and deductions assigned to the 12/31/99 calendar year. The property, payroll, and sales are calculated and included in the same manner.

Schedule 3: Calculation of combined interest offset.

Schedule 4: Combined apportionment formula and entity income assignment. This schedule first computes the combined property, payroll, and sales within and outside California (Schedule 4-A through 4-C). For Corporation D, the property, payroll, and sales figures are from Schedule 2. On Schedule 4-D, the combined California apportionment percent is computed and is then multiplied by the combined unitary business income (from Schedule 1-A) to arrive at the group's combined business income apportioned to California. The relative apportionment percent is then computed for each California taxpayer corporation and each taxpayer is assigned its relative share of the group's California business income.

Note: This computation reflects the apportionment methodology applicable for income years beginning before April 22, 1999. For income years beginning on or after April 22, 1999, each taxpayer

would divide its own California property, payroll, and sales by the total property, payroll, and sales of the combined reporting group to compute its own California apportionment percentage. The "relative apportionment percentage" computation (see FTB Notice 90-3) is no longer necessary. See FTB Legal Ruling 234 for more information regarding the computations.

On Schedule 4-E, corporation A's share of California business income is adjusted by nonbusiness income attributable to California, and the interest offset is applied.

The California business income of Corporation C is adjusted by its nonbusiness loss to derive its net income for state purposes for the period 7/1/99 through 12/31/99. This figure is combined with Corporation C's separate income for the period 1/1/99 through 6/30/99 to arrive at Corporation C's net income for the entire calendar year. In this example, Corporation C has a net loss, 50% of which will be available to be carried forward and applied against Corporation C's net income in subsequent years.

The California business income assigned to Corporation D for the 1999 calendar year period is adjusted by 9/12 and is combined with 3/12 of the 1998 calendar year income (from the prior year calculation) to arrive at Corporation D's net income for its 9/30/99 fiscal period.

Schedule 5: Combined alternative minimum tax (Schedule 5-A), the ACE adjustment (Schedule 5-B), and alternative minimum tax (Schedule 5-C) for each taxpayer corporation.

The total tax is shown on Schedule 4-E. In this example, Corporation A and Corporation E may elect to file a group return. The aggregate tax amount that would be reported on the group return would be \$29,707 (\$20,927 for Corporation A, \$8,780 for Corporation E). Neither Corporation C nor Corporation D is eligible to be included in a group return (Corporation C is a part-year member with net income including separate income from the pre-acquisition period, and Corporation D files its returns on a different year end from the remainder of the group). Corporation C and Corporation D must therefore file their own returns and include a copy of the combined report computations.

The computations involved in the above steps are shown on the following pages.

SCHEDULE 1 — COMBINED INCOME SUBJECT TO APPORTIONMENT

1-A: COMBINED PROFIT & LOSS STATEMENT AS OF 12/31/99

| | CORP A | CORP B | CORP C <i>(7/1/99-12/31/99)</i> | CORP D <i>(from Sch. 2)</i> | CORP E | TOTAL BEFORE ADJUSTMENT | INTRA-GROUP ADJUSTMENTS | COMBINED |
|--|--------------------|--------------------|---|---------------------------------------|--------------------|------------------------------------|------------------------------------|--------------------|
| California ID number | 9512345 | | 1234567 | 7654321 | 1111111 | | | |
| Federal ID number | 12-3456789 | 98-7654321 | 11-2233445 | 22-1133445 | 99-9999999 | | | |
| Net sales | \$7,000,000 | \$4,000,000 | \$1,900,000 | \$2,600,000 | \$3,000,000 | \$18,500,000 | (\$500,000) | \$18,000,000 |
| Cost of goods sold | (5,900,000) | (2,500,000) | (1,000,000) | (1,500,000) | (2,000,000) | (12,900,000) | 500,000 | (12,400,000) |
| Gross profit | \$1,100,000 | \$1,500,000 | \$900,000 | \$1,100,000 | \$1,000,000 | \$5,600,000 | \$0 | \$5,600,000 |
| Dividends | 350,000 | | | | | 350,000 | | 350,000 |
| Interest on U.S. obligations | | | | | | 0 | | |
| Other interest | 100,000 | 70,000 | 10,000 | | | 180,000 | | 180,000 |
| Gross rents | | | 60,000 | | | 60,000 | | 60,000 |
| Gross royalties | | | | | | 0 | | |
| Net gains and losses | (100,000) | 150,000 | | | | 50,000 | (150,000) | (100,000) |
| Other income (partnership loss) | (30,000) | | (150,000) | | | (180,000) | | (180,000) |
| Total Income | \$1,420,000 | \$1,720,000 | \$820,000 | \$1,100,000 | \$1,000,000 | \$6,060,000 | (\$150,000) | \$5,910,000 |
| Compensation of officers | 300,000 | | | | | 300,000 | | 300,000 |
| Salaries & wages | 430,000 | 1,000,000 | 350,000 | 570,000 | 600,000 | 2,950,000 | | 2,950,000 |
| Repairs | | | | | | 0 | | |
| Bad debts | | | | | | 0 | | |
| Rents | 4,800 | 30,000 | 8,000 | 7,200 | | 50,000 | | 50,000 |
| Taxes | 99,000 | 20,000 | 5,000 | 26,000 | 22,000 | 172,000 | | 172,000 |
| Interest | 250,000 | 10,000 | | | | 260,000 | | 260,000 |
| Contributions | | | | | | 0 | | 0 |
| Depreciation | 150,000 | 50,000 | 37,000 | 63,000 | 23,000 | 323,000 | | 323,000 |
| Depletion | | | | | | 0 | | |
| Advertising | | | | | | 0 | | |
| Pension, profit-sharing, etc., plans | 25,000 | | | | | 25,000 | | 25,000 |
| Employee benefit plans | 75,000 | | | | | 75,000 | | 75,000 |
| Other deductions | | | | | | 0 | | |
| Total Deductions | \$1,333,800 | \$1,110,000 | \$400,000 | \$666,200 | \$645,000 | \$4,155,000 | | \$4,155,000 |
| NET INCOME BEFORE STATE ADJUSTMENTS | \$86,200 | \$610,000 | \$420,000 | \$433,800 | \$355,000 | \$1,905,000 | (\$150,000) | \$1,755,000 |

SCHEDULE 1 — COMBINED INCOME SUBJECT TO APPORTIONMENT

1-B: STATE ADJUSTMENTS, NONBUSINESS INCOME, AND BUSINESS INCOME SUBJECT TO APPORTIONMENT

| | CORP A | CORP B | CORP C | CORP D | CORP E | TOTAL BEFORE ADJUSTMENT | INTRA-GROUP ADJUSTMENTS | COMBINED |
|---|-------------|-----------|-----------|-----------|-----------|----------------------------|----------------------------|--------------------|
| NET INCOME BEFORE | | | | | | | | |
| STATE ADJUSTMENTS | \$86,200 | \$610,000 | \$420,000 | \$433,800 | \$355,000 | \$1,905,000 | (\$150,000) | \$1,755,000 |
| ADD: | | | | | | | | |
| Taxes measured by income | \$5,000 | \$1,000 | \$4,000 | | \$2,000 | \$12,000 | | \$12,000 |
| California bank & corporation tax | 12,000 | | 1,000 | 23,000 | 19,000 | 55,000 | | 55,000 |
| Interest on government obligations | | | | | | 0 | | 0 |
| Capital gain/loss adjustments | 10,000 | | | | | 10,000 | | 10,000 |
| Excess depreciation | 5,000 | 3,000 | 6,000 | 5,000 | (1,000) | 18,000 | | 18,000 |
| Excess amortization | | | | | | 0 | | 0 |
| Other additions | | | | | | 0 | | 0 |
| Total Additions | \$32,000 | \$4,000 | \$11,000 | \$28,000 | \$20,000 | \$95,000 | \$0 | \$95,000 |
| DEDUCT: | | | | | | | | |
| Intercompany dividends (Sec. 25106) | \$200,000 | | | | | \$200,000 | | \$200,000 |
| Other dividends (Sec. 24402, 24410) | 50,000 | | | | | 50,000 | | 50,000 |
| Water's-edge dividend deduction | | | | | | 0 | | 0 |
| Capital gain/loss adjustments | | | | | | 0 | | 0 |
| Additional contributions | | | | | | 0 | | 0 |
| Net interest deduction (enterprise zones) | | | | | | 0 | | 0 |
| Other deductions | | | | | | 0 | | 0 |
| Total Deductions | \$250,000 | \$0 | \$0 | \$0 | \$0 | \$250,000 | \$0 | \$250,000 |
| NET INCOME AFTER | | | | | | | | |
| STATE ADJUSTMENTS | (\$131,800) | \$614,000 | \$431,000 | \$461,800 | \$375,000 | \$1,750,000 | (\$150,000) | \$1,600,000 |
| REVERSE NONBUSINESS ITEMS | | | | | | | | |
| Show as: (INCOME)/LOSS: | | | | | | | | |
| Dividends not deducted above | (100,000) | | | | | (100,000) | | (100,000) |
| Interest | | | | | | 0 | | 0 |
| Net rental (income)/loss | | | | | | 0 | | 0 |
| Royalties | | | | | | 0 | | 0 |
| (Gain)/loss from sale of assets | | | | | | 0 | | 0 |
| Partnership (income)/loss | 30,000 | | 150,000 | | | 180,000 | | 180,000 |
| Miscellaneous (income)/loss | | | | | | 0 | | 0 |
| | (\$201,800) | \$614,000 | \$581,000 | \$461,800 | \$375,000 | \$1,830,000 | (\$150,000) | \$1,680,000 |
| Interest Offset from Schedule 3 | | | | | | | | 80,000 |
| UNITARY BUSINESS INCOME SUBJECT TO APPORTIONMENT | | | | | | | | <u>\$1,760,000</u> |

**SCHEDULE 2 — COMPUTATIONS TO PLACE A CORPORATION'S INCOME AND
APPORTIONMENT FACTORS ON A CALENDAR YEAR BASIS**

| Year Ended: | 9/30/99 | 9/12 of | 9/30/00 | 3/12 of | TOTAL |
|-----------------------------------|----------------|----------------|----------------|----------------|-----------------|
| | ACTUAL | 9/30/99 | ACTUAL | 9/30/00 | 12/31/99 |
| Net sales | \$2,800,000 | \$2,100,000 | \$2,000,000 | \$500,000 | \$2,600,000 |
| Cost of goods sold | (\$1,600,000) | (\$1,200,000) | (\$1,200,000) | (\$300,000) | (\$1,500,000) |
| Gross profit | \$1,200,000 | \$900,000 | \$800,000 | \$200,000 | \$1,100,000 |
| Salaries & wages | \$600,000 | \$450,000 | \$480,000 | \$120,000 | \$570,000 |
| Rents | \$7,200 | \$5,400 | \$7,200 | \$1,800 | \$7,200 |
| Taxes | \$28,000 | \$21,000 | \$20,000 | \$5,000 | \$26,000 |
| Depreciation | \$60,000 | \$45,000 | \$72,000 | \$18,000 | \$63,000 |
| California bank & corporation tax | \$24,000 | \$18,000 | \$20,000 | \$5,000 | \$23,000 |
| Excess depreciation | \$4,000 | \$3,000 | \$8,000 | \$2,000 | \$5,000 |
| Nonbusiness income items | \$0 | \$0 | \$0 | \$0 | \$0 |
| Property everywhere (year end) | | | | | |
| Inventory | \$128,000 | \$96,000 | \$176,000 | \$44,000 | \$140,000 |
| Fixed depreciable assets | \$420,000 | \$315,000 | \$500,000 | \$125,000 | \$440,000 |
| Land | \$10,000 | \$7,500 | \$10,000 | \$2,500 | \$10,000 |
| California property (year end) | | | | | |
| Inventory | \$12,000 | \$9,000 | \$20,000 | \$5,000 | \$14,000 |
| Fixed depreciable assets | \$24,000 | \$18,000 | \$28,000 | \$7,000 | \$25,000 |
| Rent expense | \$1,800 | \$1,350 | \$1,800 | \$450 | \$1,800 |
| Payroll everywhere | \$696,000 | \$522,000 | \$540,000 | \$135,000 | \$657,000 |
| California payroll | \$16,000 | \$12,000 | \$100,000 | \$25,000 | \$37,000 |
| Sales everywhere | \$2,800,000 | \$2,100,000 | \$2,000,000 | \$500,000 | \$2,600,000 |
| California sales | \$716,000 | \$537,000 | \$1,000,000 | \$250,000 | \$787,000 |

Note: The Total column is the sum of the 9/12 column and the 3/12 column.

SCHEDULE 3 — CALCULATION OF COMBINED INTEREST OFFSET

| | COMBINED TOTALS | |
|--|-----------------|-----------|
| 1 Total interest expense deducted | \$260,000 | |
| 2 Water's-edge offset (from form FTB 2424) | 0 | |
| 3 Net interest expense (amount on line 1 less amount on line 2.) | | \$260,000 |
| 4 Total interest income | \$180,000 | |
| 5 Less nonbusiness interest income | 0 | |
| 6 Business interest income | | \$180,000 |
| 7 Balance: line 3 minus line 6, but not less than zero | | \$80,000 |
| 8 Total dividend income | \$350,000 | |
| 9a Less water's-edge dividends deducted | 0 | |
| b Less intercompany dividends deducted | (200,000) | |
| c Other dividends deducted (R&TC Secs. 24402 and 24410) | (50,000) | |
| 10 Balance | \$100,000 | |
| 11 Business dividend income | 0 | |
| 12 Net nonbusiness dividend income (line 10 minus line 11) | | \$100,000 |
| 13 Total nonbusiness interest and dividends (line 5 plus line 12) | | \$100,000 |
| 14 Interest offset (assignable 100% to Corp A) (enter lesser of line 7 or line 13) | | \$80,000 |

In the example only one entity has nonbusiness dividend income. If more than one entity had nonbusiness interest and/or nonbusiness dividend income, the interest offset would be prorated between entities by the ratio of each entity's nonbusiness interest and/or nonbusiness dividends to the total nonbusiness interest and nonbusiness dividends.

Note: A contributions adjustment applicable to nonbusiness income of multiple entities may also require such computations.

SCHEDULE 4 — COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT

4-A: COMBINED APPORTIONMENT DATA

| PROPERTY FACTOR | CORP A | CORP B | CORP C | CORP D | CORP E | COMBINED |
|---|-----------|-----------|-------------|-----------|-----------|-----------|
| Property everywhere | | | | | | |
| Inventory – 12/31/99 | 100,000 | 150,000 | | 140,000 | 120,000 | |
| Fixed depreciable assets – 12/31/99 | 1,100,000 | 310,000 | See Monthly | 440,000 | 400,000 | |
| Land – 12/31/99 | 50,000 | 0 | Average | 10,000 | 100,000 | |
| Less intercompany profit included above | 0 | 0 | Computation | (150,000) | 0 | |
| Total – end of year | 1,250,000 | 460,000 | (Sch. 4-B) | 440,000 | 620,000 | |
| Total – beginning of year (from 1998 report) | 1,370,000 | 575,000 | | 755,000 | 580,000 | |
| Total beginning and ending | 2,620,000 | 1,035,000 | | 1,195,000 | 1,200,000 | |
| Average owned property (divide by 2) | 1,310,000 | 517,500 | 175,000 | 597,500 | 600,000 | 3,200,000 |
| Rent expense (excluding intercompany and nonbusiness) | 4,800 | 30,000 | 8,000 | 7,200 | 0 | 50,000 |
| Capitalize (times 8) | 38,400 | 240,000 | 64,000 | 57,600 | | 400,000 |
| Combined property everywhere | 1,348,400 | 757,500 | 239,000 | 655,100 | 600,000 | 3,600,000 |
| California property | | | | | | |
| Inventory – 12/31/99 | 41,000 | 0 | | 14,000 | 95,000 | |
| Fixed depreciable assets – 12/31/99 | 400,000 | 0 | See Monthly | 25,000 | 330,000 | |
| Land – 12/31/99 | 20,000 | 0 | Average | 0 | 70,000 | |
| Less intercompany profit included above | 0 | 0 | Computation | 0 | 0 | |
| Total – end of year | 461,000 | 0 | (Sch. 4-B) | 39,000 | 495,000 | |
| Total – beginning of year (from 1998 report) | 427,000 | 0 | | 47,000 | 453,000 | |
| Total beginning and ending | 888,000 | 0 | | 86,000 | 948,000 | |
| Average owned property (divide by 2) | 444,000 | 0 | 175,000 | 43,000 | 474,000 | 1,136,000 |
| Rent expense (excluding intercompany and nonbusiness) | 1,200 | 0 | 8,000 | 1,800 | 0 | 11,000 |
| Capitalize (times 8) | 9,600 | 0 | 64,000 | 14,400 | 0 | 88,000 |
| Combined California property | 453,600 | 0 | 239,000 | 57,400 | 474,000 | 1,224,000 |

SCHEDULE 4 — COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT

**4-B: COMPUTATION OF AVERAGE PROPERTY VALUES FOR CORP C
(PARTIAL YEAR COMBINATION)**

| MONTHLY AMOUNTS TO BE INCLUDED IN THE COMBINED PROPERTY FACTOR | INVENTORY | FIXED DEPRECIABLE | LAND | TOTAL |
|---|------------------|----------------------|------------------|--------------------|
| | January | \$0 | \$0 | \$0 |
| February | 0 | 0 | 0 | \$0 |
| March | 0 | 0 | 0 | \$0 |
| April | 0 | 0 | 0 | \$0 |
| May | 0 | 0 | 0 | \$0 |
| June | 0 | 0 | 0 | \$0 |
| July | 10,000 | 260,000 | 30,000 | \$300,000 |
| August | 50,000 | 260,000 | 30,000 | \$340,000 |
| September | 60,000 | 260,000 | 30,000 | \$350,000 |
| October | 70,000 | 260,000 | 30,000 | \$360,000 |
| November | 80,000 | 260,000 | 30,000 | \$370,000 |
| December | 90,000 | 260,000 | 30,000 | \$380,000 |
| TOTAL | \$360,000 | \$1,560,000 | \$180,000 | \$2,100,000 |
| AVERAGE | \$30,000 | \$130,000 | \$15,000 | \$175,000 |

NOTE: All of Corporation C's owned tangible property is located in California, so the same amounts will be included in both the numerator and denominator of the property factor (see Schedule 4-A).

SCHEDULE 4 — COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT

4-C: COMBINED APPORTIONMENT DATA

| PAYROLL FACTOR | CORP A | CORP B | CORP C | CORP D | CORP E | COMBINED |
|---|------------------------|------------------------|-------------------------|-----------|-----------|------------|
| Payroll everywhere | 1,630,000 | 1,293,000 | 420,000 | 657,000 | 750,000 | 4,750,000 |
| California payroll | 553,000 | 0 | 210,000 | 37,000 | 530,000 | 1,330,000 |
| | | | | | | |
| SALES FACTOR | | | | | | |
| Sales everywhere | | | | | | |
| Gross receipts, less returns and allowances | 7,000,000 | 4,000,000 | 1,900,000 | 2,600,000 | 3,000,000 | 18,500,000 |
| Other gross receipts (rents, royalties, etc.) | 270,000 ⁽²⁾ | 280,000 ⁽³⁾ | 70,000 ⁽⁴⁾ | 0 | 0 | 620,000 |
| Less intercompany receipts | (500,000) | (210,000) | (10,000) ⁽¹⁾ | 0 | 0 | (720,000) |
| Total sales everywhere | 6,770,000 | 4,070,000 | 1,960,000 | 2,600,000 | 3,000,000 | 18,400,000 |
| | | | | | | |
| California sales | | | | | | |
| Sales delivered or shipped to California purchasers: | | | | | | |
| i) Shipped from outside California | | 1,203,000 | | | | 1,203,000 |
| ii) Shipped from within California | 3,000,000 | | 1,190,000 | 787,000 | 1,292,000 | 6,269,000 |
| Sales shipped from California by a unitary member to: | | | | | | 0 |
| i) The United States Government | | | | | | 0 |
| ii) Purchasers in a state where the corporation and all of its unitary affiliates are immune under Public Law 86-272 | 100,000 | | | | | 100,000 |
| Other gross receipts (rents, royalties, etc.) | 128,000 | | 70,000 | | | 198,000 |
| Less intercompany receipts *Intercompany interest income | (400,000) | | (10,000) ⁽¹⁾ | | | (410,000) |
| Total California sales | 2,828,000 | 1,203,000 | 1,250,000 | 787,000 | 1,292,000 | 7,360,000 |

Notes:

- (1) Intercompany interest income
- (2) Equipment Sale = \$170,000
Interest = 100,000
- (3) Equipment Sale = \$210,000
Interest = 70,000
- (4) Interest = \$ 10,000
Rents = 60,000

SCHEDULE 4 — COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT

4-D: COMBINED APPORTIONMENT FACTORS AND ENTITY INCOME ASSIGNMENT

| | CORP A | CORP B | CORP C | CORP D | CORP E | COMBINED |
|--|-----------|-----------|-----------|----------|-----------|-------------|
| 1 EVERYWHERE: Property | | | | | | 3,600,000 |
| 2 Payroll | | | | | | 4,750,000 |
| 3 Sales | | | | | | 18,400,000 |
| 4 CALIFORNIA: Property | 453,600 | 0 | 239,000 | 57,400 | 474,000 | 1,224,000 |
| 5 Payroll | 553,000 | 0 | 210,000 | 37,000 | 530,000 | 1,330,000 |
| 6 Sales | 2,828,000 | 1,203,000 | 1,250,000 | 787,000 | 1,292,000 | 7,360,000 |
| COMBINED CALIFORNIA APPORTIONMENT PERCENT (California property, payroll, sales divided by combined property, payroll, sales) | | | | | | |
| 7 Property | 12.6000% | 0.0000% | 6.6389% | 1.5944% | 13.1667% | 34.0000% |
| 8 Payroll | 11.6421% | 0.0000% | 4.4211% | 0.7789% | 11.1579% | 28.0000% |
| 9 Sales | 15.3696% | 6.5380% | 6.7935% | 4.2772% | 7.0127% | |
| 9a Sales percentage (line 9) multiplied by 2 | 30.7391% | 13.0761% | 13.5870% | 8.5543% | 14.0435% | 80.0000% |
| 10 Total | | | | | | 142.0000% |
| 11 AVERAGE CALIFORNIA APPORTIONMENT PERCENT (divide by 4) | | | | | | 35.5000% |
| 12 UNITARY BUSINESS INCOME TO BE APPORTIONED (from Schedule 1-B) | | | | | | \$1,760,000 |
| 13 COMBINED INCOME APPORTIONED TO CALIFORNIA (multiply line 11 by line 12) | | | | | | \$624,800 |
| ENTITY INCOME ASSIGNMENT (excluding Corp B – not subject to tax) | | | | | | |
| 14 Property factor (line 7) | 12.6000% | | 6.6389% | 1.5944% | 13.1667% | 34.0000% |
| 15 Payroll factor (line 8) | 11.6421% | | 4.4211% | 0.7789% | 11.1579% | 28.0000% |
| 16 Sales factor (line 9a) | 30.7391% | | 13.5870% | 8.5543% | 14.0435% | 66.9239% |
| 17 Total | 54.9812% | | 24.6469% | 10.9277% | 38.3680% | 128.9239% |
| 18 Average percent (divide by 4) | 13.7453% | 0.0000% | 6.1617% | 2.7319% | 9.5920% | 32.2310% |
| 19 Relative percent (line 18 average factor for each entity divided by line 18 combined average) | 42.6463% | 0.0000% | 19.1174% | 8.4761% | 29.7602% | 100.0000% |
| 20 BUSINESS INCOME ASSIGNED TO CALIFORNIA (Line 13 x line 19) | \$266,454 | \$0 | \$119,446 | \$52,958 | \$185,942 | \$624,800 |

SCHEDULE 4 — COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT

4-E: CALIFORNIA NET INCOME

| | CORP A | CORP B | CORP C | CORP D | CORP E |
|---|-----------------|--------|-----------------|-----------------|-----------------|
| Period for which California return is to be filed | 1/1/99-12/31/99 | None | 7/1/99-12/31/99 | 10/1/98-9/31/99 | 1/1/99-12/31/99 |
| BUSINESS INCOME APPORTIONED TO CALIFORNIA | | | | | |
| CORP A (from Schedule 4-D) | \$266,454 | | | | |
| CORP C (from Schedule 4-D) | | | \$119,446 | | |
| CORP D: | | | | | |
| For 12 months ended 12/99 (from Schedule 4-D) | | | | \$52,958 | |
| Portion reportable in current year (9/12) | | | | | \$39,719 |
| For 12 months ended 12/98 (prior year calculation) | | | | \$50,000 | |
| Portion reportable in current year (3/12) | | | | | \$12,500 |
| CORP D total for year ended 9/31/99 | | | | \$52,219 | |
| CORP E (from Schedule 4-D): | | | | | \$185,942 |
| Nonbusiness income or losses wholly | | | | | |
| Attributable to California | | | | | |
| Dividends | 100,000 | | | | |
| Net rental income/(loss) | | | | | |
| Gain/(loss) on sale of assets | | | | | |
| Partnership income (loss) | (30,000) | | (150,000) | | |
| Total | \$336,454 | \$0 | (\$30,554) | \$52,219 | \$185,942 |
| Interest offset (from Schedule 3) | \$80,000 | | | | |
| Net income before contributions adjustment | \$256,454 | \$0 | (\$30,554) | \$52,219 | \$185,942 |
| Contributions adjustment | | | | | |
| Add California separate net income for pre-acquisition period | | | | | |
| 1/1/99-6/30/99 (cannot be included in the combined report) | | | 25,000 | | |
| Net income (loss) for state purposes | \$256,454 | \$0 | (\$5,554) | \$52,219 | \$185,942 |
| Net Operating Losses | | | | | |
| Net Operating Loss (NOL) carryover deduction | (25,000) | | | | |
| EZ, LARZ, or LAMBRA NOL carryover deduction | (50,000) | | | | |
| Disaster Loss carryover deduction | | | | | (100,000) |
| Net income for tax purposes | \$181,454 | | (\$5,554) | \$52,219 | \$85,942 |
| Franchise Tax (8.84% tax rate), or \$800 minimum tax | \$16,041 | \$0 | \$800 | \$4,616 | \$7,597 |
| Credits | | | | | |
| Credit Name <u>Salmon/Trout</u> code no.200 | | | | (500) | |
| Credit Name <u>Research</u> code no.183 | | | | | (2,000) |
| Credit Name <u>Disabled Access</u> code no.205 | | | | (125) | |
| Alternative Minimum Tax (from Schedule 5-C) | \$4,886 | \$0 | \$12,179 | \$0 | \$3,183 |
| TOTAL TAX | \$20,927 | \$0 | \$12,979 | \$3,991 | \$8,780 |

SCHEDULE 5 — COMBINED ALTERNATIVE MINIMUM TAX

5-A: ALTERNATIVE MINIMUM TAXABLE INCOME

| | CORP A | CORP B | CORP C | CORP D | CORP E | TOTAL BEFORE ADJUSTMENT | INTRA-GROUP ADJUSTMENTS | COMBINED |
|--|----------------------|------------------|------------------|------------------|------------------|------------------------------------|------------------------------------|--------------------|
| 1 NET INCOME AFTER STATE ADJUSTMENTS (from Schedule 1-B) AMT ADJUSTMENTS & PREFERENCES: | (\$131,800) | \$614,000 | \$431,000 | \$461,800 | \$375,000 | \$1,750,000 | (\$150,000) | \$1,600,000 |
| 2a Depreciation | \$40,000 | \$4,000 | \$3,000 | \$6,000 | (\$1,000) | \$52,000 | | \$52,000 |
| 2b Basis adjustment in determining gain or loss from sale/exchange | 2,000 | | | | | 0 | | 0 |
| 2c Depletion | 40,000 | | 200,000 | | | 240,000 | | 240,000 |
| 2d Intangible drilling costs | 10,000 | | 15,000 | | | 25,000 | | 25,000 |
| 3 TOTAL AMTI | (\$39,800) | \$618,000 | \$649,000 | \$467,800 | \$374,000 | \$2,069,000 | (\$150,000) | \$1,919,000 |
| LESS NONBUSINESS ITEMS (adjusted for AMTI) | | | | | | 0 | | 0 |
| 4a Dividends | (100,000) | | | | | (100,000) | | (100,000) |
| 4b Partnership (income)/loss Add: Interest offset | (20,000) 80,000 | | (65,000) | | | (85,000) 80,000 | | (85,000) 80,000 |
| 5 Unitary business AMTI | (\$79,800) | \$618,000 | \$584,000 | \$467,800 | \$374,000 | \$1,964,000 | (\$150,000) | \$1,814,000 |
| 6 Average apportionment percentage (from Schedule 4-D, line 11) | | | | | | | | 35.5000% |
| 7 COMBINED BUSINESS AMTI APPORTIONED TO CALIFORNIA | | | | | | | | \$643,970 |
| 8 Relative percentage (from Schedule 4-D, line 19) | 42.6463% | 0.0000% | 19.1174% | 8.4761% | 29.7602% | | | 100.0000% |
| 9 Business AMTI assigned to California Nonbusiness items assigned to California (adjusted for AMTI) | \$274,629 | \$0 | \$123,110 | \$54,584 | \$191,647 | | | \$643,970 |
| 10a Dividends | 100,000 | | | | | | | |
| 10b Partnership income/(loss) Less: Interest offset | 20,000 (\$80,000) | | 65,000 | | | | | |
| 11 PRE-ADJUSTMENT AMTI | \$314,629 | \$0 | \$188,110 | \$54,584 | \$191,647 | | | |
| 12 ACE adjustment (from Schedule 5-B) | 57 | 0 | 26 | 86 | 40 | | | |
| 13 ALTERNATIVE MINIMUM TAXABLE INCOME | \$314,686 | \$0 | \$188,136 | \$54,670 | \$191,687 | | | |

SCHEDULE 5 — COMBINED ALTERNATIVE MINIMUM TAX

5-B: ACE ADJUSTMENT

| | CORP A | CORP B | CORP C | CORP D | CORP E | TOTAL BEFORE ADJUSTMENT | INTRA-GROUP ADJUSTMENTS | COMBINED |
|--|------------|-----------|-----------|-----------|-----------|----------------------------|----------------------------|-------------|
| 1 TOTAL AMTI (from Schedule 5-A, line 3) | (\$39,800) | \$618,000 | \$649,000 | \$467,800 | \$374,000 | \$2,069,000 | (\$150,000) | \$1,919,000 |
| ADJUSTMENT FOR ACE: | | | | | | | | |
| 2 Basis adjustment in determining gain or loss from sale/exchange | 500 | | | | | 500 | | 500 |
| 3 Pre-apport. adjusted current earnings LESS NONBUSINESS ITEMS (adjusted for ACE): | (\$39,300) | \$618,000 | \$649,000 | \$467,800 | \$374,000 | \$2,069,500 | (\$150,000) | \$1,919,500 |
| 4a Dividends | (100,000) | | | | | (100,000) | | (100,000) |
| 4b Partnership (income)/loss | (20,000) | | (65,000) | | | (85,000) | | (85,000) |
| Add: interest offset | \$80,000 | | | | | \$80,000 | | \$80,000 |
| 5 Preapportionment business ACE | | | | | | \$1,964,500 | (\$150,000) | \$1,814,500 |
| 6 Average apportionment percentage (from Schedule 4-D, line 11) | | | | | | | | 35.5000% |
| 7 COMBINED BUSINESS ACE APPORTIONED TO CALIFORNIA | | | | | | | | \$644,148 |
| 8 Relative percentage (from Schedule 4-D, line 19) | 42.6463% | 0.0000% | 19.1174% | 8.4761% | 29.7602% | | | 100.0000% |
| 9 Business ACE assigned to California | \$274,705 | \$0 | \$123,144 | \$54,599 | \$191,700 | | | \$644,148 |
| Nonbusiness items assigned to California (adjusted for ACE) | | | | | | | | |
| 10a Dividends | 100,000 | | | | | | | |
| 10b Partnership income/(loss) | 20,000 | | 65,000 | | | | | |
| Less: interest offset | (\$80,000) | | | | | | | |
| 11 ADJUSTED CURRENT EARNINGS | \$314,705 | \$0 | \$188,144 | \$54,599 | \$191,700 | | | |
| 12 Pre-adjustment AMTI (Schedule 5-A, line 11) | \$314,629 | 0 | \$188,110 | \$54,484 | \$191,647 | | | |
| 13 Difference | \$76 | \$0 | \$34 | \$115 | \$53 | | | |
| 14 75% of Difference | 57 | 0 | 26 | 86 | 40 | | | |
| 15 Negative ACE limitation: for each taxpayer excess of aggregate prior year positive line 16 ACE adjustments over aggregate prior year negative line 16 ACE adjustments: | 0 | 0 | 0 | 0 | 0 | | | |
| 16 ACE ADJUSTMENT* | \$57 | \$0 | \$26 | \$86 | \$40 | | | |

*If line 14 is negative, it is allowed as a negative ACE adjustment only to the extent of that taxpayer's total increases in AMTI from prior year California ACE adjustments exceed its total reductions in AMTI from prior year California ACE adjustments.

SCHEDULE 5 — COMBINED ALTERNATIVE MINIMUM TAX

5-C: ALTERNATIVE MINIMUM TAX

| | CORP A | CORP B | CORP C | CORP D | CORP E |
|---|-----------------|---------------|-----------------|-----------------|-----------------|
| Period for which California return is to be filed | 1/1/99-12/31/99 | None | 1/1/99-12/31/99 | 10/1/98-9/31/99 | 1/1/99-12/31/99 |
| AMTI APPORTIONED TO CALIFORNIA (from Schedule 5-A) | | | | | |
| CORP A | \$314,686 | | | | |
| CORP C | | | \$188,136 | | |
| Add California separate AMTI for pre-acquisition period 1/1/99-6/30/99 (computation not shown) | | | \$30,000 | | |
| CORP D | | | | | |
| For 12 months ended 12/99 | | | | \$54,670 | |
| Portion reportable in current year (9/12) | | | | | \$41,003 |
| For 12 months ended 12/98 (from prior year calculation) | | | | \$53,000 | |
| Portion reportable in current year (3/12) | | | | | \$13,250 |
| CORP D Total | | | | \$54,253 | |
| CORP E | | | | | \$191,687 |
| AMTI ADJUSTED FOR EACH CORPORATION'S INCOME YEAR | \$314,686 | 0 | \$218,136 | \$54,253 | \$191,687 |
| Less exemption (subject to phaseout when AMTI exceeds \$150,000) | 0 | | (22,966) | (40,000) | (29,578) |
| AMTI subject to tax | \$314,686 | \$0 | \$195,170 | \$14,253 | \$162,109 |
| Tentative minimum tax (6.65% tax rate) | \$20,927 | \$0 | \$12,979 | \$948 | \$10,780 |
| Less regular franchise or income tax (from Schedule 4-E) | \$16,041 | 0 | 800 | \$4,616 | \$7,597 |
| ALTERNATIVE MINIMUM TAX | \$4,886 | \$0 | \$12,179 | \$0 | \$3,183 |

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visit our website:

www.ftb.ca.gov

How To Get California Tax Information

Where To Get Income Tax Forms

By Internet—If you have Internet access, you may download, view, and print 1999 California income tax forms, instructions, and publications. Legal Notices and Rulings dated 96-1 and later are also available. Go to our website at: www.ftb.ca.gov

By phone—To order 1999 California tax forms:

- Refer to the list in the right column and find the code number for the form you want to order.
- Call (800) 338-0505 from within the U.S.
- Call (916) 845-6600 from outside the U.S. (not toll-free).
- Select business entity tax information.
- Select order tax forms.
- Enter the three-digit code shown to the left of the form title when you are instructed to do so.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

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

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). Note that employees at libraries, post offices, banks, and quick print businesses cannot provide tax information or assistance.

By mail—Write to: TAX FORMS REQUEST UNIT, FRANCHISE TAX BOARD, PO BOX 307, RANCHO CORDOVA CA 95741-0307.

Letters

You may want to write to us to get a written reply to your questions or to reply to a notice we sent you. If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will respond to your letter within six to eight weeks. In some cases, we may need to call you for additional information. Do not attach correspondence to your tax return unless the correspondence relates to an item on the return.

General Toll-Free Phone Service

Between January 3—April 17, 2000, our general toll-free phone service is available:

- Monday—Friday, 6 a.m. until midnight; and
- Saturdays and holidays, 7 a.m. until 4 p.m.

After April 17, 2000, our general toll-free phone service is available:

- Monday—Friday, 7 a.m. until 8 p.m.
- Saturday, 7 a.m. until 4 p.m.

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

From within the United States (800) 852-5711
From outside the United States (not toll-free) (916) 845-6500
For federal tax questions, call the IRS at (800) 829-1040

Assistance for persons with disabilities

The FTB complies with provisions of the Americans with Disabilities Act. Persons with hearing or speech impairment call:
From voice phone (California Relay Service) (800) 735-2922
From TTY/TDD (Direct line to FTB customer service) (800) 822-6268
For all other assistance or special accommodations (800) 852-5711

Asistencia Bilingue en español

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

California Tax Forms and Publications

- 817 California Corporation Tax Forms and Instructions. This booklet contains: Form 100, California Corporation Franchise or Income Tax Return; and the following forms which are also available separately:
- 821 Schedule P (100), Alternative Minimum Tax and Credit Limitations—Corporations
 - 822 FTB 3885, Corporation Depreciation and Amortization
 - 807 FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations—Corporations
 - 808 FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
- 816 California S Corporation Tax Forms and Instructions. This booklet contains: Form 100S, California S Corporation Franchise or Income Tax Return; Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet; and the following forms which are also available separately:
- 823 Schedule B (100S), S Corporation Depreciation and Amortization
 - Schedule C (100S), S Corporation Tax Credits
 - Schedule H (100S), Dividend Income
 - Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains
 - 825 Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.
 - 826 FTB 3830, S Corporation's List of Shareholders and Consents
 - 808 FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
- 814 Form 109, Exempt Organization Business Income Tax Return
 - 818 Form 100-ES, Corporation Estimated Tax
 - 813 Form 100X, Amended Corporation Franchise or Income Tax Return
 - 815 Form 199, Exempt Organization Annual Information Return
 - 819 Schedule R, Apportionment and Allocation of Income
 - 812 FTB Pub. 1038, Guide for Corporations Dissolving, Withdrawing or Merging
 - 805 FTB Pub. 1038A, Instructions for Exempt Organizations Requesting a Tax Clearance Certificate
 - 809 FTB Pub. 1060, Guide for Corporations Starting Business in California
 - 810 FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report
 - 827 Form 100-WE, Water's-Edge Booklet
 - 829 FTB 3564, Authorization of Agent Under Revenue and Taxation Code Section 19141.6
 - 820 FTB Pub. 1068, Exempt Organizations Requirements for Filing Returns and Paying Filing Fees
 - 802 FTB 3500, Exemption Application
 - 803 FTB 3555, Request for Tax Clearance
 - 804 FTB 3557, Application for Revivor
 - 811 FTB 3560, S Corporation Election or Termination/Revocation
 - 806 FTB 5806, Underpayment of Estimated Tax by Corporations
 - 800 FTB Pub. 1028, Guidelines for Homeowners' Associations
 - 801 FTB Pub. 1075, Exempt Organizations—Guide for Political Organizations
 - 832 FTB 3555A, Request for Tax Clearance for Exempt Organizations

Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable.

See "Where to Get Income Tax Forms" on this page.

Our automated toll-free phone service is available 24 hours a day, 7 days a week, in English and Spanish to callers with touch-tone telephones. To order business entity forms, the automated service is available from 6 a.m. to 8 p.m. Monday through Friday, except state holidays. You can:

- Order California current year income tax forms, and
- Hear recorded answers to many of your questions about California taxes.

Have paper and pencil ready to take notes.

Call from within the United States (800) 338-0505
Call from outside the United States (not toll-free) . . . (916) 845-6600

To Order Forms

See "Where to Get Income Tax Forms" on the previous page.

To Get Information

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

Code Filing Assistance

- 715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 23 of Form 100?
- 717 What are the current tax rates for corporations?
- 718 How do I get an extension of time to file?
- 722 When do I have to file a short-period return?
- 734 Is my corporation subject to franchise tax or income tax?

S Corporations

- 704 Is an S corporation subject to the minimum franchise tax?
- 705 Are S corporations required to file estimate payments?
- 706 What forms do S corporations file?
- 707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?
- 708 Where do S corporations make adjustment for state and federal law differences on Schedule K-1 (100S) and where do nonresident shareholders find their California source income on their Schedule K-1 (100S)?

Exempt Organizations

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

Minimum Tax and Estimate Tax

- 712 What is the minimum franchise tax?
- 714 My corporation is not doing business; does it have to pay the minimum franchise tax?
- 716 When are my estimate payments due?

Billings and Miscellaneous Notices

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

Tax Clearance

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

Miscellaneous

- 700 Who do I need to contact to start a business?
- 701 I need a state ID number for my business. Who do I contact?
- 702 Can you send me an employer's tax guide?
- 703 How do I incorporate?
- 719 How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 How do I obtain information about changing my corporation's name?
- 721 How do I change my accounting period?
- 737 Where do I send my payment?
- 738 What is electronic funds transfer?
- 739 How do I get a copy of my state corporate tax return?
- 740 What requirements do I have to report municipal bond interest paid by a state other than California?
- 750 How do I organize or register an LLC?
- 751 How do I cancel my registration as an LLC?
- 752 What tax forms do I use to file as an LLC?
- 758 If a corporation converted to an LLC during the current year, is the corporation liable for tax as a corporation and an LLC tax/fee in the same year?

Field Offices

You can get information, pick up California tax forms, and resolve problems on your account if you visit one of our field offices. FTB field office locations are open Monday through Friday from 8 a.m. to 5 p.m. The offices will remain open additional hours and days January 15 through April 17, 2000. For the extended hours of the office nearest you, call (800) 338-0505, select personal income tax information, then select general information, and enter code 110 when instructed.

| Field Office | Address |
|----------------|------------------------------------|
| Bakersfield | 1800 30th St., Ste. 370 |
| Burbank | 333 N. Glenoaks Blvd., Ste. 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. 305 |
| Sacramento | 3321 Power Inn Road, Ste. 250 |
| San Bernardino | 464 W. 4th St., Ste. 454 |
| San Diego | 5353 Mission Center Road, Ste. 314 |
| San Francisco | 455 Golden Gate Avenue, Ste. 7400 |
| San Jose | 96 N. Third St., 4th Floor |
| Santa Ana | 600 W. Santa Ana Blvd., Ste. 300 |
| Santa Rosa | 50 D St., Rm. 130 |
| Stockton | 31 East Channel St., Ste. 219 |
| Ventura | 4820 McGrath St., Ste. 270 |
| West Covina | 100 N. Barranca St., Ste. 600 |

Out of State Offices

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|-------------|---|
| Chicago | 1 N. Franklin, Ste. 400 Chicago, IL 60606-3401 |
| Houston | 1415 Louisiana, Ste. 1515 Houston, TX 77002-7351 |
| Long Island | 1325 Franklin Avenue, Ste. 560 Garden City, NY 11530 |
| Manhattan | 1212 Avenue of the Americas, 4th Floor New York, NY 10036-1601 |

