



California

Forms & Instructions

565

2002

Partnership Tax Booklet

This booklet contains:

Form 565, Partnership Return of Income

FTB 3885P, Depreciation and Amortization

FTB 3538, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs

Schedule D (565), Capital Gain or Loss

Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.



**File 565 K-1s via Magmedia.
Put up to 12,000 K-1s on a diskette or
300,000+ K-1s on CD.**

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**STATE OF CALIFORNIA
FRANCHISE TAX BOARD**

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2002 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 2001, and to the California Revenue and Taxation Code (R&TC).

General Information

A What's New

- California law conforms to the existing federal law eliminating the deduction for contributions of appreciated property as an item of tax preference. As a result, taxpayers no longer need to include in their computation of Alternative Minimum Taxable Income the amount by which any allowable deduction for contributions of appreciated property exceeds the taxpayer's adjusted basis in the contributed property.
- California has not conformed to the federal Job Creation and Worker Assistance Act of 2002 that allows taxpayers to take an additional first-year depreciation deduction and Alternative Minimum Tax depreciation adjustment for property placed in service after September 10, 2001.
- For taxable years beginning on or after January 1, 2002, California law conforms to the federal law, relating to the denial of the deduction for lobbying activities, club dues, and employee remuneration in excess of one million dollars.
- Energy Conservation Rebates, Vouchers, or Other Financial Incentives are excluded from income.

Net Operating Loss (NOL)

For taxable years beginning in 2002 and 2003, California has suspended the Net Operating Loss carryover deduction. However, the deduction for disaster losses is not affected by the NOL suspension rules.

The carryover period for suspended losses is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003.

For more information see form FTB 3805V, Net Operating Computation and NOL and Disaster Loss Limitations, Individuals, Estates, and Trusts.

For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources.

Check Out Your CPA

The California Board of Accountancy (CBA) licenses and regulates individual Certified Public Accountants and Public Accountants, as well as accountancy firms and corporations, in California.

If you currently use or are thinking about using a Certified Public Accountant or Public Accountant for tax preparation or other services, the California Board of Accountancy can:

- Verify online or by telephone that the CPA, PA, or firm has a current license to Practice.
- Provide information about any disciplinary actions taken against the license.
- Answer your questions about whether a particular service or activity of a licensee is regulated by the CBA.
- Provide you with the information and forms to file a complaint against an individual or business regulated by the CBA. Complaints can be submitted online, by mail, facsimile, or at the Board office.

Web: www.cba.ca.gov
E-mail: enforcementinfo.cba.ca.gov
Telephone: (916) 263-3680
Fax: (916) 263-3675
Mail: California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

Natural Heritage Preservation Credit

The authority of the Wildlife Conservation Board to award Natural Heritage Preservation Tax Credit has been suspended between July 1, 2002, and June 30, 2003, inclusive. Thus, any credits that were allocated before June 30, 2002, may be claimed on the 2002 tax return. Any credits that could have been allocated, but were not allocated, or any new credits that are allocated on or after July 1, 2003, could be claimed on the 2003 tax return, or subsequent tax returns. Carryover is not affected for previously awarded credits, credits awarded before June 30, 2002, or any credits allocated on or after July 1, 2003.

Nonresidents or Part-year Residents

The laws guiding California's taxation of nonresidents, former nonresidents, and part-year residents changed for taxable years beginning in 2002. The new laws set rules for calculating loss carryovers, deferred deductions, and deferred income. The new laws also change the tax computation method to recognize those items. Get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

B Important Information

Federal/State Conformity

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. Therefore, California has conformed to the income tax changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206), the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Surface Transportation Revenue Act of 1998 (Public Law 105-178), the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369), the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and to technical corrections made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). However, there are continuing differences between California and Federal law. California has not conformed to some of the law changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) or the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

California Tax Information on the Internet

You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov

Federal Tax Information on the Internet

The Internal Revenue Service (IRS) also has federal forms and publications available to download, view, and print. The IRS's Website is at www.irs.gov

State Agencies' Websites

Access other state agencies' websites through the State Agency Index on California's Website at www.ca.gov

Joint Agency Website

For additional business tax information, visit the California Tax Information Center website, sponsored by the Board of Equalization (BOE), Employment Development Department (EDD), Franchise Tax Board (FTB), and Internal Revenue Service (IRS). The Joint Agency Website is located at: www.ca.taxes.gov.

Providing California and Federal Returns

The FTB may request a copy of California or federal returns that are subject to or related to a federal examination. Generally, the California statute of limitations is four years from the due date of the return or from the date filed, whichever is later. However, the statute is extended in situations in which an individual or a business entity is under

examination by the IRS. For additional information concerning extended statute of limitation due to a federal examination, see General Information K, Amended Return.

The FTB recommends keeping copies of returns and records that verify income, deductions, adjustments, or credits reported, for at least the minimum time required under the statute of limitations. However, some records should be kept much longer. For example, partners should keep records substantiating their basis in a partnership and property owners should keep records to figure the basis of property.

Save Paper and Reduce Costs

Generally, partnerships that file a computer generated return do not need to receive a Partnership Tax Booklet from the FTB. To reduce printing and postage costs, check the box beneath line 30 if the partnership does not need the tax forms mailed next year.

Substitute Schedule K-1 (565)

The FTB recommends filing **paperless** substitute Schedule K-1s (565), Partner's Share of Income, Deductions, Credits, etc. Since software is most often used to prepare Form 565 and Schedule K-1s (565), you may already have the information needed to prepare paperless Schedule K-1s (565). This is because once the information is in a database or spreadsheet, it's easy to transfer to the required record layout and then download it to a CD or diskette.

Get approval from the FTB to use substitute Schedule K-1s (565), if the partnership:

- Wants to use paperless Schedule K-1s (565);
- Does not use the official California Schedule K-1 (565) prepared by the FTB; or
- Does not use a software program with an FTB-approved Schedule K-1s (565).

Note: The FTB does not accept the federal Schedule K-1s (1065) as a substitute schedule.

For more information, see General Information T, Substitute Schedules.

Federal/State Differences

California tax law generally conforms to federal tax law in the area of partnerships (Internal Revenue Code, Subchapter K – Partners and Partnerships). However, there are some differences:

- An \$800 annual tax is generally imposed on limited partnerships (LPs), limited liability companies (LLCs), limited liability partnerships (LLPs), and real estate mortgage investment conduits (REMICs) that are partnerships or are classified as partnerships for tax purposes.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- Deduction for taxes paid to other states is not allowed.
- California follows federal law by requiring partnerships to use a required tax year. However, California does not conform to the federal required payment provision.
- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California law modifies the federal definitions for unrealized receivables and substantially appreciated inventory items.
- California does not conform to the electing large partnership provisions.
- Partnerships cannot electronically file their California partnership returns. (But can file Schedule K-1s (565) via magnetic media. See General Information T, Substitute Schedules, for more information.)
- California has not conformed to the provisions relating to the Tax Equity and Fiscal Responsibility Act (TEFRA).
- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

Note: This list is not intended to be all-inclusive for the federal and state differences. For additional information, consult California's R&TC.

Conversion to a Limited Liability Company

A partnership that converts to an LLC during the year must file two California returns. Even if the partners/members and the business operations remain the same, the partnership should file Form 565, Partnership Return of Income, for the beginning of the year to the date of change. For the remainder of the year, the newly converted LLC would file Form 568, Limited Liability Company Return of Income. See General Information J, Accounting Periods, for further instructions.

Revised Uniform Partnership Act (RUPA)

California has enacted RUPA which applies to partnerships formed after January 1, 1997. RUPA applies to all partnerships after January 1, 1999. RUPA governs the formation, operation, and liquidation of partnerships in California. However, the R&TC governs the taxation of partnerships doing business in California.

C Purpose

Form 565 is an information return for calendar year 2002 or fiscal years beginning in 2002. Use Form 565 to report income, deductions, gains, losses, etc., from the operation of a partnership.

D Definitions

Limited Partnership

A partnership formed by two or more persons under the laws of this state and having one or more general partners and one or more limited partners. Limited partnerships are required to register with the California Secretary of State (SOS).

Limited Liability Partnership (LLP)

California law authorizes the formation of LLPs with activities limited to either the practice of public accountancy, law, architecture, and related services. California also recognizes out-of-state LLPs doing business in California.

An LLP is a partnership, other than a limited partnership, that has a Certificate of Registration on file with the SOS as described in Corporation Code Section 15049.

Real Estate Mortgage Investment Conduit (REMIC)

A special tax vehicle for entities that issue multiple classes of investor interests backed by a fixed pool of mortgages.

For additional information get the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, and federal Pub. 938, Real Estate Investment Conduits (REMICs) Reporting Information, and Other Collateralized Debt Obligations (CDO).

Additional Definitions

For definitions of a partnership, general partner, limited partner, nonrecourse loans, apportionment, unitary, etc., see the Partner's Instructions for the Schedule K-1 (565) and the instructions for federal Form 1065, U.S. Partnership Return of Income.

E Who Must File

Every partnership (including REMICs classified as partnerships) that engages in a trade or business or has income from a California source must file Form 565. Regardless of where the trade or business of the partnership is conducted, a partnership is considered to be doing business in California if any of its partners (general or limited) or other agents are conducting business in California on behalf of the partnership. In such cases, the partnership is required to file Form 565.

An electing large partnership that completes federal Form 1065-B, U.S. Return of Income for Electing Large Partnerships, must still use Form 565. California does not conform to the electing large partnership provisions.

Limited partnerships and LLPs (both foreign and domestic) doing business in California or that have a certificate on file or are registered with the SOS (whether or not doing business in California) must file a return and pay the \$800 annual tax.

If a limited partnership is registered in California, but:

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

the limited partnership is still required to file. However, if the limited partnership meets both of the above provisions, then it may be eligible for the reduced filing program. The limited partnership's filing requirement will be satisfied by:

1. Completing Form 565 with all supplemental schedules;
2. Completing and attaching California Schedule K-1s (565) for partners with California addresses;
3. Writing "SB 1106 Filing" in red at the top of Form 565, Side 1; and
4. Entering the total number of partners in Question K, Side 2, of Form 565.

Religious and apostolic organizations that are exempt from income tax under R&TC Section 23701k are not required to file Form 565. However, Form 565 should be prepared and attached to Form 199, California Exempt Organization Annual Information Return.

LLCs may be classified for tax purposes as a partnership, a corporation, or a disregarded entity (See General Information S, Check-the-Box Regulations). The LLC must file the appropriate California return for its classification.

Every LLC classified as a partnership for tax purposes that is:

- Doing business in California;
- Organized in California;
- Organized in another state or foreign country, but registered with the SOS; or
- Has income from California sources;

must file Form 568. Nonregistered foreign LLCs that are not doing business, but are deriving income from California or filing to report an election on behalf of a California resident, file Form 565.

Note: Nonregistered foreign LLCs that are members of an LLC doing business in California or general partners in a limited partnership doing business in California are considered to be doing business in California and should file Form 568.

Certain publicly traded partnerships (PTP) treated as corporations under IRC Section 7704 must file Form 100, California Corporation Franchise or Income Tax Return.

A qualifying syndicate, pool, joint venture, or similar organization may elect under IRC Section 761(a) (which California follows) not to be treated as a partnership for state income tax purposes and will not be required to file Form 565 except for the year of election. If Form 565 is filed, a copy of the operating agreement and all amendments must be attached to the return, unless a copy has been previously filed with the FTB.

Partnerships, except limited partnerships and LLPs, that do not do business in California and that do not receive income from California sources are not required to file Form 565. However, resident partners of a nonresident partnership may be required to furnish a copy of federal Form 1065.

F When and Where to File

A partnership must file Form 565 and pay the \$800 annual tax (if required) by the 15th day of the 4th month (fiscal year) or April 15, 2003, (calendar year), following the close of its taxable year.

Mail Form 565 **with** payment (limited partnerships, LLPs, and REMICs only) to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0601

Make the check or money order payable to the "Franchise Tax Board." Write the partnership's federal employer identification number (FEIN), SOS file number, and "2002 Form 565" on the check or money order.

Mail Form 565 **without** payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0600

Extensions

California does not require the filing of written extensions. If a partnership needs more time to file Form 565 by the return's due date, the partnership is granted an automatic six month extension.

However, the automatic extension does not extend the time to pay the \$800 annual tax.

If the partnership is filing the return under extension, see form FTB 3538, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs included in this booklet. Form FTB 3538 and the tax payment should be sent to the FTB by the 15th day of the 4th month following the close of the taxable year.

Private Delivery Services

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

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

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

G Annual Tax

The \$800 annual tax applies to:

- Limited partnerships (both foreign and domestic) that do business in California;
- Limited partnerships that have a certificate on file with the SOS;
- LLPs that do business in California;
- LLPs registered with the SOS; and
- REMICs that are partnerships and do business in California at any time during the year.

This tax cannot be deducted as an expense by the partnership nor can it be deducted from the partner's distributive share.

A limited partnership that is filing **ONLY** to report California source income and is **NOT**:

- Doing business in California;
- Registered with the SOS; or
- Organized in California;

is **NOT** subject to the annual tax.

H Penalties and Interest

Failure to File a Timely Return or Provide Information

A penalty is assessed against the partnership if it is required to file a partnership return and it:

- Fails to file the return on time, including extensions; or
- Files a return, including Schedule K-1s (565), that fails to show all the information required.

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

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

Failure to Pay Total Tax by Due Date

For limited partnerships, LLPs, and REMICs that must pay the \$800 annual tax with Form 565, a penalty for late payment of tax may be assessed. Any limited partnership, LLP, or REMIC that fails to pay the \$800 annual tax by the original due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month or part of a month (not to exceed 40 months) the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. Interest will be due and payable on the late payment.

Interest

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

Other Penalties/Fees

A penalty may also be charged if a check is returned for insufficient funds. In addition, fees may be charged for the cost of collections.

I Accounting Methods

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

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

Generally, a partnership may not use the cash method of accounting if the partnership has a corporate partner, average annual gross receipts of more than \$5 million, or is a tax shelter. For exceptions, see IRC Section 448.

The mark-to-market accounting method is required for securities dealers. The IRC Section 481 adjustment is taken into account ratably over five years beginning with the first income year.

Rounding to Whole-Dollar Amounts

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

J Accounting Periods

Partnership returns normally must be filed for an accounting period that includes 12 full months. A short period return must be filed if the partnership is created or terminated within the taxable year. In that case, please write "Short Period" in red ink at the top of Form 565, Side 1.

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

K Amended Return

If, after the partnership files its return, it becomes aware of changes it must make, the partnership should file an amended Form 565 and an amended paper Schedule K-1 (565) for each affected partner, if applicable. Check the "Amended Return" box on Form 565, Side 1, Item I(3) and on Schedule K-1 (565), Side 1, Item H(2). Give a corrected Schedule K-1 (565) labeled "Amended" to each affected partner. If the partnership originally filed a group nonresident partner Form 540NR, the partnership should file an amended Form 540NR.

Note: If the partnership wishes to file amended Schedule K-1s (565) via magnetic media see General Information T, Substitute Schedules.

If the partnership's federal return is changed for any reason, the federal change may affect the partnership's California return. This would include changes made because of an examination. The partnership must file an amended return within six months of the final federal adjustments. The partnership should attach a copy of the federal Revenue Agent's Report or other notice of the adjustments to the

return. The partnership should inform the partners that they may also be required to file amended returns based on any changes made by the IRS within six months from the date of the final federal adjustments.

L Required Information Returns

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

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

Payments of any amount by a broker, dealer, or barter exchange agent must also be reported.

Partnerships must report payments made to California residents by providing copies of federal Form 1099. Get FTB Pub. 4227A, A Guide to Information Returns Filed With California, for more information.

For nonresidents, see the reporting and withholding requirements on Form 592, Nonresident Withholding Annual Return; Form 592-A, Nonresident Withholding Remittance Statement; and Form 592-B, Nonresident Withholding Tax Statement.

Partnerships must submit a copy of federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

Partnerships must report interest paid on municipal bonds that are issued by a state other than California or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments totaling \$10 or more paid after January 1, 2002. Information returns will be due June 2, 2003. Get form FTB 4800, Federally Tax-Exempt Non-California Bond Interest and Interest-Dividend Payment, for more information.

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

Any information returns required for federal purposes under IRC Section 6038, IRC Section 6038A, and IRC Section 6038B are also required for California purposes. Attach the information returns to Form 565 when filed. If the information returns are not provided, penalties may be imposed.

Mail all information returns, unless otherwise noted, separately from Form 565. Information returns should be mailed to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

M Special Items

California law generally follows federal law in the areas of:

- IRC Section 702(a) items;
- Elections;
- Distributions of unrealized receivables and inventory items;
- Partners' dealings with the partnership;
- Contributions to the partnership;
- Income of foreign nonresident partners subject to withholding-at-source, Forms 592, 592-A, and 592-B;
- Basis and at-risk rules;
- Passive activity limitations;
- Net operating loss deductions by a partner (a partnership is not allowed the deduction);
- Publicly traded partnerships (PTP);
- Long-term contracts;
- Installment sales;

- Vacation pay;
- Amortization of past service costs;
- Distributions of contributed property by a partnership; and
- Recognition of precontribution gain in certain partnership distributions to contributing partners.

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

N Signatures

General Partner

Form 565 is not considered a valid return unless it is signed by a general partner. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that individual must sign the return.

Paid Preparer's Information

Anyone who is paid to prepare the partnership return must sign the return and complete the "Paid Preparer's Use Only" area of the return.

The paid preparer must:

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

An individual who prepares the return and does not charge the partnership should not sign the partnership return.

O Group Returns

Nonresident partners of a partnership doing business or deriving income from sources within California may elect to file a group nonresident return (R&TC Section 18535). Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

P Investment Partnerships

Income of nonresident partners, including banks or corporations, derived from "qualifying investment securities" of an "investment partnership" is considered income from sources other than California, except as noted below. Therefore, nonresident partners generally will not be taxed on this income. The partnership should inform its nonresident partners if all or a portion of their distributive share of income is from "qualifying investment securities" of an "investment partnership" and whether it is sourced to California. See Specific Instructions, Question V, for definitions of qualifying investment securities and investment partnership.

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

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

Investment partnerships that have California source income should fill out column (e) of the Schedule K-1 (565) showing each partner's distributive share of California source income.

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

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

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

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

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

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

Q Cancelling a Limited Partnership or Limited Liability Partnership

Limited partnerships and limited liability partnerships are required to pay the \$800 annual tax and file Form 565 until the appropriate papers are filed with the California Secretary of State (SOS).

Limited Partnerships

In order to terminate a limited partnership, the following steps must be taken:

1. File Form LP-4/7, Certificate of Cancellation, with the SOS. The SOS also requires a domestic limited partnership to file Form LP-3, Certificate of Dissolution. Please contact the SOS for more details;
2. Pay the \$800 annual tax to the FTB; and
3. File a final California return (Form 565) with the FTB.

Note: The Form LP-4/7's effective date will stop the assessment of the \$800 annual tax for future tax years. If Form LP-4/7 is filed after the tax year ending date, a subsequent year return and an additional \$800 tax may be required.

Limited Liability Partnerships

To cancel a limited liability partnership, the following steps must be taken:

1. File Form LLP-4, Notice of Change of Status, with the SOS. Please contact the SOS for more details;
2. File form FTB 3555L, Request for Tax Clearance Certificate-Limited Liability Company or Limited Liability Partnership, with the SOS;
3. Pay the \$800 annual tax to the FTB; and
4. File a final California return (Form 565) with the FTB.

Note: The effective date (Date Form LLP-4 and form FTB 3555L are received by the SOS) will stop the assessment of the \$800 annual tax for future tax years. If Form LLP-4 is filed after the tax year ending date, a subsequent year return and an additional \$800 tax may be required.

Additional Information

For more information on how to cancel your LP or LLP, contact:

By Mail: BUSINESS ENTITY
CALIFORNIA SECRETARY OF STATE
PO BOX 944225
SACRAMENTO CA 94244-2250

In Person: CALIFORNIA SECRETARY OF STATE
1500 11TH STREET SUITE 345
SACRAMENTO CA 95814

Phone Number: (916) 653-3365

Office hours are Monday through Friday, 8 a.m. to 5 p.m.

Website: www.ss.ca.gov

Email address: Partnership@ss.ca.gov

If the partnership is being terminated or cancelled to convert to another type of business entity, be sure to file the appropriate forms with the SOS.

Telephone: (888) 792-4900 (U.S. toll-free) or
(916) 845-4900

The withholding should be reported on and sent with Form 592, Form 592-A, and/or Form 592-B. For more information, get FTB Pub. 1017, Nonresident Withholding Partnership Guidelines.

The taxable income of nonresident partners is the distributive share of California sourced partnership income, not the distributed amount.

R Withholding Requirements

Foreign Nonresident Partners

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

State and Federal Differences Regarding Foreign Nonresident Partners

California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws in this area are:

- The California withholding rate is 8.84% for C corporations and 9.3% for individuals, partnerships, and fiduciaries.
- Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18662.

Domestic Nonresident Partners

A partnership is required to withhold funds for income or franchise taxes when it makes a distribution of income to a domestic nonresident partner (R&TC Section 18662). This includes prior year income that should have been, but was not, previously reported as income from California sources on the partner's California income tax return. However, withholding is not required if distributions of income from California sources to the partner are \$1,500 or less during the calendar year or if the FTB directs the payer not to withhold.

Domestic nonresident partners include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic nonresident partners also include nonresident estates and trusts, LLCs, and partnerships that do not have a permanent place of business in California. Foreign nonresident partners covered under R&TC Section 18666 are not domestic nonresident partners.

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

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

No withholding is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon examination the FTB determines that withholding was required, the partnership may be liable for the withholding and penalties.

Send waiver requests and inquiries to:

WITHHOLDING SERVICES and COMPLIANCE SECTION
FRANCHISE TAX BOARD
PO BOX 651
SACRAMENTO CA 95812-0651

S Check-the-Box Regulations

California generally conforms to the federal entity classification regulations (commonly known as "check-the-box" regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation, or an entity disregarded as separate from its owner (SB 1234, Stats. 1997, Ch. 608).

Generally, any elections made for federal purposes under the federal "check-the-box" regulations are considered California elections. No separate elections are allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California return for the year in which the election is effective. The entity should file the appropriate California return.

An "eligible entity" may choose its classification. An eligible entity is a business entity that is not a trust, a corporation organized under a federal or state statute, a foreign entity specifically listed as a per se corporation, or other special business entities. Other special business entities under the IRC include PTPs, REMICs, financial asset securitization investment trusts (FASITs), or regulated investment companies (RICs). An eligible entity with two or more owners will be a partnership (for tax purposes) unless it elects to be taxed as a corporation. An eligible entity with a single owner will be disregarded for tax purposes, unless the entity elects to be taxed as a corporation. If the separate existence of an entity is disregarded, its activities are treated as activities of the owner and are reported on the appropriate California return.

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

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

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

These entities are generally: 1) Business trusts that were classified as corporations under California law, but were classified as partnerships for federal tax purposes for taxable years beginning before January 1, 1997; and 2) Previously existing foreign single member limited liability companies (SMLLCs) that were classified as corporations under California law but claimed to be partnerships for federal tax purposes for taxable years beginning before January 1, 1997.

These business trusts and previously existing foreign SMLLCs will continue to be classified as corporations for California tax purposes and must continue to file Form 100, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, and Title 18, Cal. Code Reg. Sections 23038(a)-(b).

T Substitute Schedules

Partnerships or their tax professional must get approval from the FTB to use a substitute schedule, if the partnership:

- Wants to use **paperless** Schedule K-1s (565);
- Does not use the official California Schedule K-1 (565) prepared by the FTB; or
- Does not use a software program with an FTB-approved Schedule K-1 (565)

If you use computer software, please read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. All printing should be done to the standards specified in FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms.

Partnerships are subject to penalties for failure to file the appropriate Schedule K-1 (565). See General Information H, Penalties and Interest.

To participate in the FTB's substitute forms program, get FTB Pub. 1098, and form FTB 1096, Agreement to Comply with FTB Pub. 1098.

Paperless Schedule K-1 (565)

To help accomplish paperless Schedule K-1s (565) filing, the FTB has prepared FTB Pub. 1062, Guide for Filing Paperless Schedules K-1 (565 or 568).

For the procedures, formatting specifications, and record layouts needed to program paperless Schedule K-1s (565) get FTB Pub. 1062. FTB Pub. 1062 also includes form FTB 3604, Transmittal of Paperless K-1 (565 or 568) on Magnetic Media, the form the partnership needs to transmit paperless Schedule K-1s (565).

K-1 (565 or 568) TestWare is also available at no charge. K-1 (565 or 568) Testware will help identify and correct errors during programming and before submitting the paperless Schedule K-1s (565). K-1 (565 or 568) TestWare includes two programs:

- K-1 Verify, edits the Schedule K-1 (565) records to ensure the fields are the correct length and position the FTB requires, and it produces an edit report; and
- K-1 Convert, converts spreadsheet formats to standard fixed length formats so you can use them with K-1 Verify.

Once verification is made to ensure the partnership's paperless Schedule K-1s (565) pass the K-1 Verify program, send the schedules to the FTB using form FTB 3604. Multiple partnerships can be put on the same magnetic media. It is not necessary to provide a separate CD or diskette for each partnership. However, include each partnership's name, FEIN, and number of K-1s for that partnership in the space provided on form FTB 3604.

If the partnership files paperless Schedule K-1s (565), file all Schedule K-1s (565) for that partnership using the paperless format. Do not file paper Schedule K-1s (565) with your Form 565 if the partnership has already filed or will file paperless Schedule K-1s (565).

Note: Do not file Schedule K-1s (565) on microfiche or file federal Schedule K-1s (1065) with the Form 565.

To get all the publications and the K-1 TestWare mentioned above, visit the e-Services page on our Website at www.ftb.ca.gov

Assistance is available from our e-file Help Desk at (916) 845-0353.

Specific Instructions

Form 565

Fill In All Applicable Lines and Schedules

Enter the total amounts on the applicable lines of Schedule K (565), Partners' Share of Income, Deductions, Credits, Etc. Do not enter these items directly on Form 565, Side 1, Schedule A or Schedule D. **Do not** apply the apportionment factor to the items on Schedule K (565). Enter any items specially allocated to the partners on the applicable line of the partner's Schedule K-1 (565).

Reminder: Whole numbers should be shown on the return and accompanying schedules.

Name, Address, FEIN, and SOS File Number

The partnership may use its legal or trade name on all California returns and other documents filed. Use the label from the booklet that was mailed to the partnership unless the label is incorrect. If the label information is incorrect or if the partnership does not have a label, print the partnership's legal or trade name, address, FEIN, and SOS file number.

If the partnership leases a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

Note: Limited partnerships and LLPs need to enter the SOS file number. General partnerships that have registered under RUPA should enter the prefix "GP" and the 12-digit file number.

Item C – Principal Business Code

California uses the 6-digit federal Principal Business Activity (PBA) Code based on the North American Industry Classification System (NAICS).

Common trust funds are required to use the PBA code 525920. Investment clubs are required to use PBA code 523910. For further information, see the instructions for federal Form 1065.

Item F – Total Assets at End of Taxable Year

See the instructions for Question O before completing this item.

If the partnership is required to complete this item, enter the total assets at the end of the partnership's taxable year. This is determined by the accounting method regularly used to maintain the partnership's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

Income

Line 1 through Line 8

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity income on line 1 through line 8. However, for California tax purposes, business income of the partnership is computed using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be business income for California sourcing purposes. Do not include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825 to Form 565. Use California numbers and attach a statement reconciling any differences between federal and California amounts.

Note: Use worldwide amounts determined under California law when completing these lines.

Line 5 – Net Farm Profit (Loss)

Enter the partnership's net profit (loss) from federal Schedule F (Form 1040), Profit or Loss From Farming. Attach federal Schedule F to Form 565. If the amount includable for California purposes is different from the amount on federal Schedule F, enter the California amount and attach a note explaining the difference.

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

Include only ordinary gains (losses) from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains (losses) from the sale, exchange, or involuntary conversion of rental activity assets must be reported separately on Schedule K (565) and Schedule K-1 (565).

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

Deductions

Line 9 through Line 21

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity deductions on

line 9 through line 20. Do not include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565).

Note: Use worldwide amounts determined under California law when completing these lines.

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

Line 16a – Depreciation and Amortization

Enter on line 16a the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885P, Depreciation and Amortization, included in this booklet, to figure depreciation and amortization. Transfer the total from form FTB 3885P, line 6, to Form 565, Side 1, line 16a, or federal Form 8825 as appropriate (use California amounts). See the instructions for form FTB 3885P for more information.

Do not include any expense deduction for recovery property (IRC Section 179; Enterprise Zones, R&TC Section 17267.2; Targeted Tax Area, R&TC Section 17267.6 and Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the partnership. Instead, it is passed through separately to the partners and is reported on line 9 of Schedule K (565) and Schedule K-1 (565).

Line 23 – Tax

Enter the \$800 annual tax required for limited partnerships, LLPs, and REMICs. See General Information G, Annual Tax, for further details on the annual tax requirements.

Line 24 – Nonresident Withholding Credit

If taxes were withheld from payment to the partnership, the partnership can either allocate the entire withholding credit to all its partners or claim a portion (not to exceed the total tax due) and allocate the remaining portion to all its partners. If the partnership claims any of the amount withheld, be sure to attach the Form 592-B from the withholding entity to the front lower portion of the partnership return. The partnership must file Forms 592 and 592-B to allocate any remaining withholding credit to its partners. For more information, get FTB Pub. 1017, Nonresident Withholding Partnership Guidelines.

Note: The above explanation does not apply to the nonconsenting nonresident member's tax paid by an LLC on behalf of the nonresident member. The nonconsenting nonresident member's tax is not related to the partnership withholding on nonresident partners. Therefore, the tax cannot be claimed using Forms 592 and 592-B; thus, not claimed by the partnership on this line. The partnership will allocate the entire amount paid by the LLC on its behalf to all of its partners on Schedule K and Schedule K-1 (565), line 13e.

Schedule A — Cost of Goods Sold

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

Questions

Question J

Check only one box for this question. The partnership checks the box that best describes its business type. For definitions of general partnership, limited partnership, REMIC, and LLP, see General Information D, Definitions, and the instructions for federal Form 1065. The term “*doing business*” means actively engaging in any transaction for the purpose of financial gain or profit (R&TC Section 23101).

Line Item 6 of Question J is for other types of entities not previously mentioned on line 1 through line 5. If your entity is not a general partnership, limited partnership, REMIC, or LLP, then check the box for

line Item 6 only. In the space provided, write in the type of entity.

Question K

Enter the maximum number of partners in the partnership during the taxable year. The number of Schedule K-1s (565) sent via magnetic media or attached to Form 565, must equal the number of partners entered in Question K. **Do not** use abbreviations or terms such as “**Various.**”

Question O

If the answers to Question 5a through Question 5c on federal Form 1065, Schedule B are all “Yes,” answer “Yes” to Question O on Form 565.

If Question O is answered “Yes,” the partnership is not required to complete Schedules L, M-1, M-2, or Item F, on Side 1 of Form 565 or Item J on Schedule K-1 (565).

Question T

Answer “Yes” to Question T if:

Under R&TC Section 64(c):

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

Under R&TC Section 64(d):

- Cumulatively more than 50% of the total interests including capital and profits interests, in this partnership have been transferred this year in one or more transactions that have occurred since March 1, 1975.

If the answer is “Yes,” a BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, must be filed with the State Board of Equalization, or substantial penalties may result. Get forms and information from the State Board of Equalization at (916) 323-5685.

Question U

California requires taxes to be withheld from certain payments or allocations of income and sent to the FTB (R&TC Section 18662 and Section 18666). If upon examination, the FTB determines that tax withholding was required, the partnership can be liable for the tax and penalties.

The reference to Form 592, Form 592-A, and Form 592-B relates to withholding done by the partnership. If you need additional information concerning partnership withholding, please see General Information L, Required Information Returns, and R, Withholding Requirements.

Question V – Investment Partnership.

An “*investment partnership*” is a partnership that meets the following two criteria:

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

qualifying investment securities defined in R&TC Section 17955 and Section 23040.1.

Qualifying investment securities include:

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

Qualifying investment securities do not include an interest in a partnership, unless the partnership qualifies as an investment partnership. See R&TC Section 17955 and Section 23040.1. Also, see General Information Q, Cancelling a Limited Partnership or Limited Liability Partnership.

Question X

Federal Form 8271, Investor Reporting of Tax Shelter Registration Number, is required to be attached to any return on which a deduction, loss, credit, or any other tax benefit is claimed or is reported, or any income the partnership's reported from an interest in a registration-required tax shelter. If the partnership is required to file this form with the federal return, attach a copy to the partnership's Form 565. **Do not** attach copies of federal Schedules K-1 (1065).

Schedule L — Balance Sheets

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

Note: Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question O for the specific requirements to qualify for this exception.

Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Partner's Capital Accounts

Domestic partnerships with 10 or fewer partners may not have to complete Schedule M-1, Schedule M-2, or Item J of Schedule K-1 (565). See the instructions for Question O for the specific requirements to qualify for this exception.

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

Note: Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should

equal the total of the amounts reported in Item J, column (c), of all the partners' Schedule K-1s (565).

Schedule K (565) and Schedule K-1 (565) — Partner's Shares of Income, Deductions, Credits, Etc.

Purpose of Schedules

Schedule K (565) is a summary schedule for the partnership's income, deductions, credits, etc. and the Schedule K-1 (565) shows each partner's distributive share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (565) must be sent via magnetic media or attached to Form 565 when it is filed with the FTB. For alternative methods of filing these Schedule K-1 (565), please see the General Information T, Substitute Schedules.

Be sure to give each partner a copy of their respective Schedule K-1s (565). Also include a copy of the Partner's Instructions for Schedule K-1 (565) or specific instructions for each item reported on the partner's Schedule K-1 (565). These items should be provided to the partner on or before the due date of the Form 565.

Schedule K (565) Only

In column (b), enter the amounts from federal Schedule K. In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments relating to California source income). In column (d) on Schedule K (565), enter the worldwide income computed under California law. For partners to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss), and portfolio income must be considered separately by the partners. Rental activity income (loss) and portfolio income are not reported on Form 565, Side 1 so that these amounts are not combined with trade or business activity income (loss). Schedule K (565) is used to report the totals of these (and other) amounts.

Note (for apportioning partnerships only): Once the Schedule K (565) has been completed, apportioning partnerships should also complete Schedule R before completing its partners' Schedules K-1 (565).

Compliance with Partnership Filing Requirements

To help ensure the accurate and timely processing of your Form 565, please verify the following:

- A California approved Schedule K-1 (565) has been sent via magnetic media or attached (to Form 565) for each partner identified on Form 565, Side 2, Question K. Partnerships eligible for the reduced filing program, see General Information E, Who Must File.
- The Schedule K-1 (565) contains the partner's correct name, address, and identifying number in the correct fields.
- Questions A through I are completed on Side 1 of Schedule K-1 (565).
- The appropriate entity type box (Schedule K-1 (565), Side 1, Question B) is checked for each partner.
- All Schedule K-1s (565) reconcile to Form 565, Schedule K (565).
- The partner's percentage (Schedule K-1 (565) Question D) is expressed in decimal form and carried to four decimal places (i.e., 33.5432). Do not print fractions, print the percentage symbol (%), or use terms such as "Various."
- Substitute computer-generated Schedule K-1 (565) forms **must** be approved by the FTB.

Note: For the highest rate of accuracy and rapid processing, file Schedules K-1 (565) on magnetic media. See General Information T, Substitute Schedules, for more details.

Schedule K-1 (565)

The partnership completes the entire Schedule K-1 (565) filling out the partner's and partnership's information (name, address, identifying numbers), Questions A through J, and the partner's distributive share of items.

Note: For partners with PMB addresses, include the designation number in the partner's address area. Precede the number (or letter) with "PMB."

If a husband and wife each held a separate interest in the partnership, prepare a separate Schedule K-1s (565) for each spouse. If a husband and wife held an interest together, prepare a single Schedule K-1 (565) since they are considered to be one partner.

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

The partnership files one California Schedule K-1 (565) for each partner either by magnetic media or by attaching a copy to the partnership return. Do not attach federal Schedule K-1s (1065). These forms are not California approved forms.

A copy of the California Schedule K-1 (565) should also be given to the appropriate partner. The partners should also be provided a copy of either the Partner's Instructions for Schedule K-1 (565) or specific instructions for each reported item.

Determining the Source of the Partnership's Income for a Resident Partner

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

Determining the Source of the Partnership's Income for a Nonresident Partner

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

- A trade or business wholly within California, the income from that trade or business is California source income;
- A business within and outside California, but the part within California is so separate and distinct that it can be separately accounted for, then only that separate income within California is California source income; or
- A single trade or business within and outside California;

then California source business income of that trade or business is determined by apportionment. The partnership should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Section 25120 through Section 25139). Special rules apply if the partnership has income that is not attributable to the trade or business of the partnership (nonbusiness income).

Nonbusiness Income: Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, gains, or losses) located in California is California source income (Title 18, Cal. Code Reg. Section 17951-3 and R&TC Section 25124 and Section 25125). Enter this information on the appropriate line of Schedule K-1 (565). If the partnership believes it may have a unitary partner, the information should also be entered on Side 2, Table 2, Part B, for that partner.

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

Note: Because the determination of the source of intangible nonbusiness income must be made at the partner level, this income is not entered on Schedule K-1 (565), column (e). It is entered only on Side 2, Table 1.

Completing Schedule K-1 (565)

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

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

1. Income from separate businesses, trades, or professions conducted wholly within California, Title 18, Cal. Code Reg. Section 17951-4(a).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for, Title 18, Cal. Code Reg. Section 17951-4(b).
3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income attributable to the business, trade, or profession, Title 18, Cal. Code Reg. Section 17951-4(c) and R&TC Sections 25128 through 25137. Generally, the partnership should apportion business income using a four-factor formula consisting of property, payroll, and a double-weighted sales factor. Use a three-factor formula consisting of payroll, property, and a single-weighted sales factor if more than 50% of the business receipts of the partnership are from agricultural, extractive, savings and loans, banks, and financial activities. Apportioning partnerships should complete Schedule R and attach it to Form 565.
4. Nonbusiness income from real and tangible property located in California. Enter the partner's share of nonbusiness income from real and tangible property located in California in column (e). If the partnership believes it may have a unitary partner, enter this income in Table 2, Part B.
5. California credits.

Note: Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Partner's Instructions for Schedule K-1 (565).

Completing Column (d) and Column (e)

Schedule K-1 (565), column (d), includes the partner's distributive share of total partnership income, deductions, gains, or losses under California law. Column (e) includes only income, deductions, gains, or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the partner is not a factor in the computation of amounts to be included in column (d) and column (e).

For a partnership that is doing business only in California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, gains, or losses from sales of securities).

For a partnership that is doing business within and outside California, the amounts in column (d) and column (e) may be different.

If the partnership knows the partner is a resident individual, then the partnership answers "No" to Question I on Schedule K-1 (565), and completes column (d) only. Otherwise the partnership should complete column (e) for all other partners.

Completing Table 1

Complete Table 1 only if the partnership has nonbusiness intangible income. If the partnership has nonbusiness intangible income, but knows that the partner is a resident individual, then the partnership does not need to complete Table 1 for the partners.

Completing Table 2

The partnership does not need to complete Table 2 for a partner, if the partnership knows that the partner is not unitary with its trade or business or any other trade or business.

Special Rules for Partners and Partnerships in a Single Unitary Business

Special rules apply if the partnership and a partner are engaged in a single unitary business. In that case, a unitary partner will not use the income information shown in column (e). Instead, the partner's distributive share of business income is combined with the partner's own business income. The combined business income is apportioned using an apportionment formula that consists of an aggregate of the partner's share of the apportionment factors from the partnership and the partner's apportionment factors, Title 18, Cal. Code Reg. Section 25127-1(f). The determination of whether a three-factor or four-factor apportionment formula applies to the combined income will be made at the partner level. The partner's distributive share of business income and property, payroll, and sales factors are entered in Table 2.

If the partnership knows that all of the partners are unitary with the partnership, the partnership need not complete column (e) for any of the Schedule K-1s (565) or attach a Schedule R. For further information, see Partner's Instructions for Schedule K-1 (565).

Special Reporting Requirements for Passive Activities

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (565), the partnership must attach a statement to Schedule K-1 (565) for each activity that is a passive activity to the partner. Rental activities are passive activities to all partners; trade or business activities are passive activities to limited partners and to general partners who do not materially participate in the activity. The statement must include all the information explained in the instructions for federal Schedule K-1 (1065).

Questions A and E, Schedule K-1 (565)

See the federal instructions for Questions A and E on Schedule K-1 (1065).

Question B, Schedule K-1 (565)

Check the box for the partner's entity type. An exempt organization should check box 10 regardless of its legal form.

Question D, Schedule K-1 (565)

Percentages must be four to seven characters in length and have a decimal point before the four final characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000. Do not enter fractions, the percentage symbol (%), or use terms such as "Various."

Questions C and I, Schedule K-1 (565)

Check the boxes at Questions C and I for the partner's California residency status.

Specific Line Instructions

The California Schedule K (565) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (565) refer to the instructions for federal Schedule K (1065).

Income

Line 1 through Line 7

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

Note: Schedule K (565) must include all income and losses from the partnership activities as determined under California laws and

regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K (565).

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

If the partnership has more than one activity and the amount on line 6 is a passive activity amount to the partner, attach a statement to Schedule K-1 (565) that identifies to which activity the IRC Section 1231 gain (loss) relates.

Deductions

Line 8 – Charitable Contributions

Enter the total amount of charitable contributions made by the partnership during its taxable year on Schedule K (565) and each partner's distributive share on Schedule K-1 (565). Attach an itemized list to both schedules showing the amount subject to the 50%, 30%, and 20% limitations.

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

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

Line 9 through Line 11

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

IRC Section 179 expense deductions are subject to different rules for California. See instructions for form FTB 3885P, Depreciation and Amortization.

Investment Interest

Line 12a through Line 12b(2)

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

Line 12a – Interest Expense on Investment Debts: Enter the interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 12a of Schedule K (565) and Schedule K-1 (565), rather than line 10 of Schedule K (565) and Schedule K-1 (565).

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

Line 12b(1) and Line 12b(2) – Investment Interest Income and Expenses: Enter on line 12b(1) only the investment income included on line 4a, line 4b, line 4c, and line 4e of Schedule K (565) and Schedule K-1 (565). Enter on line 12b(2) only investment expense included on line 10 of Schedule K (565) and Schedule K-1 (565).

If items of investment income or expense are included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (565), items other than the amounts included on line 4 and line 10 of Schedule K-1 (565), give each partner a statement identifying these amounts.

Investment income includes gross income from property held for

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

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

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

Credits

Line 13a(1) – Withholding on Payments to the Partnership Allocated to All Partners

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

Line 13a(2) – Partnership Withholding on Nonresident Partners, Schedule K-1 (565) only

If taxes were withheld-at-source on domestic or foreign nonresident partners, the withheld amount is entered on the partner's Schedule K-1 (565), line 13a(2). This is not a distributable item.

Line 13a(3) – Total Withholding, Schedule K-1 (565) only

The amounts on a partner's Schedule K-1 (565), line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit for that partner for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide each affected partner (including California residents) a completed Form 592-B. Partners must attach Form 592-B to the front of their California return to claim withheld amounts. Schedule K-1 (565) may **not** be used to claim this withholding credit.

Line 13b through Line 13d

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

Note: California line numbers are different from federal line numbers in this section.

Line 13b – Low-Income Housing Credit

A credit may be claimed by owners of residential rental projects providing low-income housing (IRC Section 42). Generally, the credit is effective for buildings placed in service after 1986. Get form FTB 3521, Low-Income Housing Credit, for more information.

Line 13c – Credits Related to Rental Real Estate Activities other than Line 13b

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

Line 13d – Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

Line 13e – Nonconsenting Nonresident Member's Tax Allocated to All Partners

If income tax was paid by an LLC on behalf of a member that is a partnership because the general partner in the partnership did not sign form FTB 3832, the amount paid is entered on the member's Schedule K-1 (568), line 13e. This credit is allocated to all partners according to their partnership interest. Partners must attach a copy of

the Schedule K-1 (568), previously issued to their partnership by the LLC as well as the Schedule K-1 (565) issued by their partnership, to their California tax return to claim their share of the tax paid by the LLC on their partnership's behalf.

Line 14 – Other Credits

Attach a statement showing each partner's allocable share of any credit or credit information that is related to a trade or business activity.

Credits that can be reported on line 14 are:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Farmworker Housing Credit – Construction. Use credit code 207.
- Joint-Strike Fighter Credits. Get form FTB 3534
- Farmworker Housing Credit – Loan. Use credit code 208.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturers' Investment Credit. Get form FTB 3535.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3503. (Suspended from 07/01/02-6/30/03)
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Rice Straw Credit. Use credit code 206.
- Solar Energy System Credit. Get form FTB 3508
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax credit. Get form FTB 3809.

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

Reminder: All of these credit forms and many other forms are available from our Website at www.ftb.ca.gov

Adjustments and Tax Preference Items

Line 15a through Line 15e

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

For additional information, see instructions for federal Schedule K (1065), Adjustments and Tax Preference Items, line 16a through line 16e. For differences between federal and California law for alternative minimum tax (AMT), see R&TC Section 17062.

Other

Line 16 through Line 21

See the instructions for federal Schedule K-1 (1065), "Other," line 18 through line 24.

Line 22 – Schedule K-1 (565) only

The partnership may need to report supplemental information that is not specifically requested on the Schedule K-1 (565) separately to each partner.

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

Alternative minimum taxable income does not include income, positive and negative adjustments, and preference items attributed to any trade or business of a qualified taxpayer who has aggregate gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The partnership should provide the partner's proportionate interest of aggregate gross receipts on Schedule K-1 (565), line 22.

For purposes of R&TC Section 17062(b)(4), "*aggregate gross receipts, less returns and allowances*" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of the pass-through entity's gross receipts in which the taxpayer holds an interest.

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

For purposes of this section, "*pass-through entity*" means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), and a REMIC.

See R&TC Section 17062 for more information.

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

1. Each partner's distributive share of business income apportioned to an EZ, LAMBRA, MEA, or TTA; and
2. Each partner's distributive share of business capital gain or loss included in 1 above.

Analysis — Schedule K (565) only**Line 23a through Line 23b(2)**

For the instructions for line 23a through line 23b(2) of Schedule K (565), see the instructions for federal Schedule K (1065), Analysis of Net Income (Loss).

Tables — Schedule K-1 (565) only**Table 1**

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

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

Table 2

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

Part A. Enter the partner's distributive share of the partnership's business income. The partner will then add that income to its own business income and apportion the combined business income.

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

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

Nonbusiness income is all income other than business income.

Part C. Enter the partner's distributive share of the partnership's payroll, property, and sales factors.

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2002 Partnership Return of Income

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For calendar year 2002 or fiscal year beginning month _____ day _____ year 2002, and ending month _____ day _____ year _____.

A Principal business activity name <i>(same as federal)</i>	Partnership name (place label within block or type or print) _____ Check box if name changed <input type="checkbox"/>	D FEIN ● _____
B Principal product or service <i>(same as federal)</i>	DBA _____	E Date business started ● _____
C Principal business code <i>(same as federal)</i>	Number and street (or PO Box number if mail is not delivered to street address) _____ PMB no. _____	F Enter total assets at end of year. See instructions. ● \$ _____
G Check accounting method: ● (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)	City or town _____ State _____ ZIP Code _____	I Check applicable box (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Amended return
	H Secretary of State file number ● _____	

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

Income	1 a Gross receipts or sales \$ _____ b Less returns and allowances \$ _____ c Balance ●	1c	
	2 Cost of goods sold (Schedule A, line 8) _____	2	
	3 GROSS PROFIT. Subtract line 2 from line 1c _____	3	
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule _____	4	
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040) _____	5	
	6 Net gain (loss) from Schedule D-1, Part II, line 18 _____	6	
	7 Other income (loss). Attach schedule _____	7	
	8 Total income (loss). Combine line 3 through line 7 _____	8	
Deductions	9 Salaries and wages (other than to partners) _____	9	
	10 Guaranteed payments to partners _____	10	
	11 Repairs _____	11	
	12 Bad debts _____ ●	12	
	13 Rent _____	13	
	14 Taxes _____	14	
	15 Deductible interest expense not claimed elsewhere on return _____	15	
	16 a Depreciation and amortization. Attach form FTB 3885P \$ _____	16c	
	b Less depreciation reported on Schedule A and elsewhere on return \$ _____ c Balance ●		
	17 Depletion. Do not deduct oil and gas depletion _____	17	
	18 Retirement plans, etc. _____	18	
19 Employee benefit programs _____	19		
20 Other deductions. Attach schedule _____ ●	20		
21 Total deductions. Add line 9 through line 20 _____ ●	21		
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 _____ ●	22		
23 Tax — \$800.00 (limited partnerships, LLPs, and REMICs only). See instructions. _____ ●	23		
Payments	24 Nonresident withholding credit (\$800 maximum). See instructions _____ 24		
	25 Amount paid with extension of time to file return _____ 25		
	26 Total payments. Add line 24 and line 25 _____	26	
Amount Due or Refund	27 Tax due. If line 23 is more than line 26, subtract line 26 from line 23 _____	27	
	28 Refund. If line 26 is more than line 23, subtract line 23 from line 26 _____ 28		
	29 Penalties and interest _____	29	
	30 Total amount due. Add line 27 and line 29. Make the check or money order payable to the Franchise Tax Board _____ 30 Check here if the partnership does not need tax forms mailed next year _____ ● <input type="checkbox"/>		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of general partner _____	Date _____	Telephone () _____
Preparer's signature _____	Date _____	Preparer's SSN/PTIN _____
Firm's name (or yours if self-employed) and address _____	Telephone () _____	FEIN _____

Schedule A Cost of Goods Sold

1 Inventory at beginning of year	1		
2 Purchases less cost of items withdrawn for personal use	2		
3 Cost of labor	3		
4 Additional IRC Section 263A costs. Attach schedule	4		
5 Other costs. Attach schedule	5		
6 Total. Add line 1 through line 5	6		
7 Inventory at end of year	7		
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

- 9 a** Check all methods used for valuing closing inventory:
(1) Cost **(2)** Lower of cost or market as described in Treas. Reg. Section 1.471-4 **(3)** Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) **(4)** Other. Specify method used and attach explanation _____
- b** Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970
- c** Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? Yes No
- d** Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation Yes No

- J** What type of entity is filing this return? Check one only:
- **1** General partnership
 - **2** Limited partnership required to pay annual tax
(is doing business in California, is registered with SOS, or is organized in California)
 - **3** Limited partnership, Limited Liability Company, or other entity NOT required to pay annual tax
(is not doing business in California, is not registered with SOS, and is not organized in California)
 - **4** REMIC
 - **5** Limited liability partnership
 - **6** Other (See instructions)

K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner) ●

	Yes	No
L Is any partner of the partnership related by blood or marriage to any other partner? ●		
M Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner? ●		
N Are any partners in this partnership also partnerships or LLCs?		
O Does the partnership meet all the requirements shown in the instructions for Question O?		
P Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity ..		
Q Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754 .. ●		
R Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)?		
S Is this partnership under audit by the IRS or has it been audited in a prior year?		
T Did this partnership or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership? (See instructions – Penalties May Apply) ●		
U (1) Does the partnership have any foreign nonresident partners? ●		
(2) Does the partnership have any nonresident partners? ●		
(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners? ●		
V Is this an investment partnership? (See instructions) ●		
W Is the partnership apportioning income to California using Schedule R? ●		
X Is the partnership required to complete federal Form 8271? If "Yes," see instructions		

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

		(a) Distributive share items	(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law	
Income (Loss)	1	Ordinary income (loss) from trade or business activities (Side 1, line 22) . . .	1	●		
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825	2			
	3 a	Gross income from other rental activities	3a			
	b	Less expenses. Attach schedule	3b			
	c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●	
	4	Portfolio income (loss). See instructions:				
	a	Interest income	4a		●	
b	Dividend income	4b		●		
c	Royalty income	4c		●		
d	Net capital gain (loss) (Schedule D (565))	4d				
e	Other portfolio income (loss). Attach schedule	4e		●		
5	Guaranteed payments to partners	5		●		
6	Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1	6		●		
7	Other income (loss). Attach schedule	7				
Deductions	8	Charitable contributions. See instructions. Attach schedule	8			
	9	Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions	9			
	10	Deductions related to portfolio income	10			
11	Other deductions. Attach schedule	11				
Investment Interest	12 a	Interest expense on investment debts	12a		●	
	b (1)	Investment income included on lines 4a, 4b, 4c, and line 4e above	12b(1)			
	(2)	Investment expenses included on line 10 above	12b(2)			
Credits	13 a (1)	Withholding on partnership allocated to all partners	13a(1)	[Hatched Area]		
	b	Low-income housing credit	13b			
	c	Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c			
	d	Credit(s) related to other rental activities. Attach schedule	13d			
	e	Nonconsenting nonresident member's tax allocated to all partners	13e			
14	Other credits. See instructions. Attach schedule	14		●		
Adjustments and Tax Preference Items	15 a	Depreciation adjustment on property placed in service after 1986	15a			
	b	Adjusted gain or loss	15b			
	c	Depletion (other than oil and gas)	15c			
	d (1)	Gross income from oil, gas, and geothermal properties	15d(1)			
	(2)	Deductions allocable to oil, gas, and geothermal properties	15d(2)			
e	Other adjustments and tax preference items. Attach schedule	15e				
Other	16 a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a			
	b	Type of expenditures _____	16b	[Hatched Area]		
	17	Tax-exempt interest income	17			
	18	Other tax-exempt income	18		●	
	19	Nondeductible expenses	19			
	20	Distributions of money (cash and marketable securities)	20			
	21	Distribution of property other than money	21			
22	Other items and amounts reported separately to partners. See instructions. Attach schedule	22				
Analysis	23 a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a	23		●	
	b	Analysis by type of partner:				
		(a) Corporate	(b) Individual i. Active ii. Passive	(c) Partnership	(d) Exempt Organization	(e) Nominee/Other
	(1) General partners					
	(2) Limited partners					

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

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law.

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

Schedule M-2 Analysis of Partners' Capital Accounts

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

2002 Partnership Return of Income

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For calendar year 2002 or fiscal year beginning month _____ day _____ year 2002, and ending month _____ day _____ year _____.

A Principal business activity name <i>(same as federal)</i>	Partnership name (place label within block or type or print) _____ DBA _____	Check box if name changed <input type="checkbox"/>	D FEIN _____
B Principal product or service <i>(same as federal)</i>	Number and street (or PO Box number if mail is not delivered to street address) _____ PMB no. _____	E Date business started _____	
C Principal business code <i>(same as federal)</i>	City or town _____ State _____ ZIP Code _____	F Enter total assets at end of year. See instructions. \$ _____	
G Check accounting method: <input type="radio"/> (1) Cash <input type="radio"/> (2) Accrual <input type="radio"/> (3) Other (attach explanation)	H Secretary of State file number _____	I Check applicable box <input type="checkbox"/> (1) Initial return <input type="radio"/> (2) Final return <input type="checkbox"/> (3) Amended return	

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

Income	1 a Gross receipts or sales \$ _____ b Less returns and allowances \$ _____ c Balance ●	1c	
	2 Cost of goods sold (Schedule A, line 8) _____	2	
	3 GROSS PROFIT. Subtract line 2 from line 1c _____ ●	3	
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule _____ ●	4	
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040) _____ ●	5	
	6 Net gain (loss) from Schedule D-1, Part II, line 18 _____ ●	6	
	7 Other income (loss). Attach schedule _____ ●	7	
	8 Total income (loss). Combine line 3 through line 7 _____ ●	8	
Deductions Attach check or money order here.	9 Salaries and wages (other than to partners) _____	9	
	10 Guaranteed payments to partners _____	10	
	11 Repairs _____	11	
	12 Bad debts _____ ●	12	
	13 Rent _____	13	
	14 Taxes _____	14	
	15 Deductible interest expense not claimed elsewhere on return _____	15	
	16 a Depreciation and amortization. Attach form FTB 3885P \$ _____ b Less depreciation reported on Schedule A and elsewhere on return \$ _____ c Balance ●	16c	
	17 Depletion. Do not deduct oil and gas depletion _____	17	
	18 Retirement plans, etc. _____	18	
	19 Employee benefit programs _____	19	
20 Other deductions. Attach schedule _____ ●	20		
21 Total deductions. Add line 9 through line 20 _____ ●	21		
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 _____ ●	22		
23 Tax — \$800.00 (limited partnerships, LLPs, and REMICs only). See instructions. _____ ●	23		
Payments	24 Nonresident withholding credit (\$800 maximum). See instructions _____	24	
	25 Amount paid with extension of time to file return _____	25	
26 Total payments. Add line 24 and line 25 _____	26		
Amount Due or Refund	27 Tax due. If line 23 is more than line 26, subtract line 26 from line 23 _____	27	
	28 Refund. If line 26 is more than line 23, subtract line 23 from line 26 _____ 28	28	
	29 Penalties and interest _____	29	
	30 Total amount due. Add line 27 and line 29. Make the check or money order payable to the Franchise Tax Board _____ 30 Check here if the partnership does not need tax forms mailed next year <input type="checkbox"/>	30	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of general partner _____	Date _____	Telephone () _____
Preparer's signature _____	Date _____	Preparer's SSN/PTIN _____
Firm's name (or yours if self-employed) and address _____	Telephone () _____	FEIN _____

Schedule A Cost of Goods Sold

1 Inventory at beginning of year	1		
2 Purchases less cost of items withdrawn for personal use	2		
3 Cost of labor	3		
4 Additional IRC Section 263A costs. Attach schedule	4		
5 Other costs. Attach schedule	5		
6 Total. Add line 1 through line 5	6		
7 Inventory at end of year	7		
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

- 9 a** Check all methods used for valuing closing inventory:
(1) Cost **(2)** Lower of cost or market as described in Treas. Reg. Section 1.471-4 **(3)** Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) **(4)** Other. Specify method used and attach explanation _____
- b** Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970
- c** Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? Yes No
- d** Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation Yes No

- J** What type of entity is filing this return? Check one only:
- **1** General partnership
 - **2** Limited partnership required to pay annual tax
(is doing business in California, is registered with SOS, or is organized in California)
 - **3** Limited partnership, Limited Liability Company, or other entity NOT required to pay annual tax
(is not doing business in California, is not registered with SOS, and is not organized in California)
 - **4** REMIC
 - **5** Limited liability partnership
 - **6** Other (See instructions)

K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner) ●

--

	Yes	No
L Is any partner of the partnership related by blood or marriage to any other partner? ●		
M Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner? ●		
N Are any partners in this partnership also partnerships or LLCs?		
O Does the partnership meet all the requirements shown in the instructions for Question O?		
P Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity ..		
Q Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754 .. ●		
R Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)?		
S Is this partnership under audit by the IRS or has it been audited in a prior year?		
T Did this partnership or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership? (See instructions – Penalties May Apply) ●		
U (1) Does the partnership have any foreign nonresident partners? ●		
(2) Does the partnership have any nonresident partners? ●		
(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners? ●		
V Is this an investment partnership? (See instructions) ●		
W Is the partnership apportioning income to California using Schedule R? ●		
X Is the partnership required to complete federal Form 8271? If "Yes," see instructions		

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

		(a) Distributive share items	(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law	
Income (Loss)	1	Ordinary income (loss) from trade or business activities (Side 1, line 22) . . .	1	●		
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825	2			
	3 a	Gross income from other rental activities	3a			
	b	Less expenses. Attach schedule	3b			
	c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●	
	4	Portfolio income (loss). See instructions:				
	a	Interest income	4a		●	
b	Dividend income	4b		●		
c	Royalty income	4c		●		
d	Net capital gain (loss) (Schedule D (565))	4d				
e	Other portfolio income (loss). Attach schedule	4e		●		
5	Guaranteed payments to partners	5		●		
6	Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1	6		●		
7	Other income (loss). Attach schedule	7				
Deductions	8	Charitable contributions. See instructions. Attach schedule	8			
	9	Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions	9			
	10	Deductions related to portfolio income	10			
11	Other deductions. Attach schedule	11				
Investment Interest	12 a	Interest expense on investment debts	12a		●	
	b (1)	Investment income included on lines 4a, 4b, 4c, and line 4e above	12b(1)			
	(2)	Investment expenses included on line 10 above	12b(2)			
Credits	13 a (1)	Withholding on partnership allocated to all partners	13a(1)	[Hatched Area]		
	b	Low-income housing credit	13b			
	c	Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c			
	d	Credit(s) related to other rental activities. Attach schedule	13d			
	e	Nonconsenting nonresident member's tax allocated to all partners	13e			
14	Other credits. See instructions. Attach schedule	14		●		
Adjustments and Tax Preference Items	15 a	Depreciation adjustment on property placed in service after 1986	15a			
	b	Adjusted gain or loss	15b			
	c	Depletion (other than oil and gas)	15c			
	d (1)	Gross income from oil, gas, and geothermal properties	15d(1)			
	(2)	Deductions allocable to oil, gas, and geothermal properties	15d(2)			
e	Other adjustments and tax preference items. Attach schedule	15e				
Other	16 a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a			
	b	Type of expenditures _____	16b	[Hatched Area]		
	17	Tax-exempt interest income	17			
	18	Other tax-exempt income	18			●
	19	Nondeductible expenses	19			
	20	Distributions of money (cash and marketable securities)	20			
	21	Distribution of property other than money	21			
22	Other items and amounts reported separately to partners. See instructions. Attach schedule	22				
Analysis	23 a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a	23		●	
	b	Analysis by type of partner:				
		(a) Corporate	(b) Individual i. Active ii. Passive	(c) Partnership	(d) Exempt Organization	(e) Nominee/Other
	(1) General partners					
	(2) Limited partners					

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

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law.

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

Schedule M-2 Analysis of Partners' Capital Accounts

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

2002 Partner's Share of Income, Deductions, Credits, etc.

K-1 (565)

For calendar year 2002 or fiscal year beginning month day year 2002, and ending month day year

Partner's identifying number, Partnership's FEIN, Secretary of State file number, Partner's name, address, state, and ZIP Code

A Is this partner a: (1) general partner; or (2) limited partner?
B What type of entity is this partner?
C Is this partner a foreign partner?
D Enter partner's percentage (without regard to special allocations) of:
E Partner's share of liabilities:
F Tax shelter registration number
G (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2)
(2) Check here if this is an investment partnership (R&TC Sections 17955 and 23040.1)
H Check here if this is:
(1) A final Schedule K-1 (565) (2) An amended Schedule K-1 (565)
I Is this partner a nonresident of California?

J Analysis of partner's capital account: Table with columns (a) Capital account at beginning of year, (b) Capital contributed during year, (c) Partner's share of line 3, line 4, and line 7, Form 565, Schedule M-2, (d) Withdrawals and distributions, (e) Capital account at end of year, combine column (a) through column (d)

Caution: Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your California return.

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

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

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

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

FOR USE BY APPORTIONING UNITARY PARTNERS ONLY – See instructions.

Table 2 — Partner's share of distributive items.

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

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

2002 Partner's Share of Income, Deductions, Credits, etc.

K-1 (565)

For calendar year 2002 or fiscal year beginning month day year 2002, and ending month day year

Partner's identifying number, Partnership's FEIN, Secretary of State file number, Partner's name, address, state, and ZIP Code

A Is this partner a: (1) general partner; or (2) limited partner? B What type of entity is this partner? C Is this partner a foreign partner? D Enter partner's percentage (without regard to special allocations) of: Profit sharing, Loss sharing, Ownership of capital. E Partner's share of liabilities: Nonrecourse, Qualified nonrecourse financing, Other. F Tax shelter registration number. G (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2). (2) Check here if this is an investment partnership (R&TC Sections 17955 and 23040.1). H Check here if this is: (1) A final Schedule K-1 (565) (2) An amended Schedule K-1 (565). I Is this partner a nonresident of California?

J Analysis of partner's capital account: Table with columns (a) Capital account at beginning of year, (b) Capital contributed during year, (c) Partner's share of line 3, line 4, and line 7, Form 565, Schedule M-2, (d) Withdrawals and distributions, (e) Capital account at end of year, combine column (a) through column (d).

Caution: Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your California return.

Main table with columns (a) Distributive share items, (b) Amounts from federal Schedule K-1 (1065), (c) California adjustments, (d) Total amounts using California law. Combine col. (b) and col. (c), (e) California source amounts and credits. Rows include Income (Loss) items 1-7 and Deductions items 8-11.

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

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

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

FOR USE BY APPORTIONING UNITARY PARTNERS ONLY – See instructions.

Table 2 — Partner's share of distributive items.

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

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

2002 Depreciation and Amortization

3885P

Name as shown on return FEIN

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

1 Enter line 1, column (f) and column (i) totals here 1

Depreciation

2 California depreciation for assets placed in service before January 1, 2002 2

Note: Be sure to make adjustments for any basis differences.

3 Total California depreciation. Add line 1(f) and line 2 3

Amortization

4 California amortization for intangibles placed in service before January 1, 2002 4

Note: Be sure to make adjustments for any basis differences.

5 Total California amortization. Add line 1(i) and line 4 5

6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities 6

7 IRC Section 179 expense election from worksheet line 12 7

8 Carryover of disallowed deduction to 2003. Enter line 13 from worksheet here 8

2002 Capital Gain or Loss

D (565)

Name as shown on return FEIN

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

1 Enter line 1, column (f) total here 1

2 Capital gain from installment sales, form FTB 3805E, line 26 or line 37 2

3 Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations 3

4 Capital gain distributions 4

5 Net capital gain (loss). Add line 1, line 2, line 3, and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d 5

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Instructions for Form FTB 3885P

Depreciation and Amortization

General Information

Federal/State Conformity

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. Therefore, California has conformed to the income tax changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206), the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), Surface Transportation Revenue Act of 1998 (Public Law 105-178), the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369), the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and to technical corrections made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). However, there are continuing differences between California and Federal law. California has not conformed to some of the law changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) or the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

Internet Access

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A Purpose

Use form FTB 3885P, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 565, Partnership Return of Income. Attach form FTB 3885P to Form 565.

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

Amortization is an amount deducted to recover the cost of certain capital expenses over a fixed period.

In general, California conforms to federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Federal/State Calculation Differences

California law has not always conformed to federal law with regard to depreciation methods, special credits, or accelerated write-offs. Consequently, the recovery periods and the basis on which the depreciation is calculated may be different from the amounts used for federal purposes. Reportable differences may occur if all or part of your assets were placed in service:

- **Before January 1, 1987:** California did not allow depreciation under the federal Accelerated Cost Recovery System (ACRS). Continue to calculate California depreciation in the same manner as in prior years for those assets.
- **On or after January 1, 1987:** California provides special credits and accelerated write-offs that affect the California basis for qualifying assets. California does not conform to all the changes to federal law enacted in 1993. Therefore, the California basis or recovery periods may be different for some assets.

Additional differences may occur for the following:

- **Amortization of certain intangibles** (IRC Section 197): Property classified as Section 197 property under federal law is also Section 197 property for California purposes. There is no separate

California election required or allowed. However, for Section 197 property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period.

- **Qualified Indian reservation property:** California has not conformed to the accelerated recovery periods available under the Alternative Depreciation System (ADS) for such property.
- **Grapevines subject to Phylloxera or Pierce's Disease:** For California purposes, replacement grapevines may be depreciated using a recovery period of five years instead of ten years.

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

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 2001 and amortization for intangibles placed in service after December 31, 2001.

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 2001. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 2002

Enter total California depreciation for assets placed in service prior to January 1, 2002, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for intangibles placed in service before January 1, 2002

Enter total California amortization for intangibles placed in service prior to January 1, 2002, taking into account any differences in asset basis or differences in California and federal tax law.

Assets with a Federal Basis Different from California Basis

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

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, Side 1, line 16a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the partnership should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., for purposes of passive activity reporting requirements. Use California amounts to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of Partnership or an S Corporation.

Line 7 – Enter the Internal Revenue Code (IRC) Section 179 expense election amount from line 12 of the following worksheet.

These limitations apply to the partnership and each partner.

Election to Expense Certain Tangible Property (IRC Section 179)

Note: Follow the instructions on federal Form 4562 for listed property.

1	Maximum dollar limitation	1	\$ 24,000
2	Total cost of IRC Section 179 property placed in service during the tax year	2	
3	Threshold cost of IRC Section 179 property placed in service during the tax year	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-	5	

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

7	Listed property. Use federal Form 4562, Part V, line 28. Make any adjustments for California law and basis differences	7	
8	Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 2001. See instructions for line 9 through line 12 on federal Form 4562	10	
11	Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership, other than credits, tax-exempt IRC Section 179 expense deduction, and guaranteed payments under IRC Section 707(c)	11	
12	IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (565), line 9 and on form FTB 3885P, line 7	12	
13	Carryover of disallowed deduction to 2003. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P	13	

Instructions for Schedule D (565) Capital Gain or Loss

Purpose

Use Schedule D (565), Capital Gain or Loss, to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners. Do not use this form to report the sale of business property. For sales of business properties, use California Schedule D-1, Sale of Business Property.

Enter specially allocated capital gains (losses) received from limited liability companies (LLCs) classified as partnerships, partnerships, S corporations, and fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line 4d. Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).

Note: With the enactment of AB 1115 (Stats. 2001, Ch 920) capital loss carryover and capital loss limitations for nonresident partners and part-year resident partners, for the portion of the year they were nonresidents, are determined based upon California source income and loss items only for the computation of their California taxable income. Moreover, the character of their gains and losses on the sale or exchange of property used in trade or business or certain involuntary conversions (Internal Revenue Code Section 1231) are determined for

purposes of calculating their California taxable income by netting California sources Section 1231 gains and losses only. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

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

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

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

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

Instructions for Form FTB 3538

Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs

General Information

California does not require the filing of written extensions. If a partnership cannot file Form 565, Partnership Return of Income, by the return's due date, the partnership is granted an automatic six month extension.

If the tax return is filed by the 15th day of the 10th month following the close of the taxable year (fiscal year) or by October 15, 2003 (calendar year), the extension will apply.

However, an extension of time to **file** the limited partnership, limited liability partnership (LLP), or real estate mortgage investment conduit (REMIC) return is **not** an extension of time to **pay** the \$800 annual tax.

Only use form FTB 3538 if:

- The limited partnership, LLP, or REMIC cannot file Form 565 by the due date; and
- Tax is owed for 2002.

If tax is not owed, there is nothing to file at this time. **Do not** complete or mail this voucher.

If tax is owed, complete the voucher below. Mail the voucher along with the check or money order to the Franchise Tax Board by the 15th day of the 4th month (fiscal year) or April 15, 2003 (calendar year), to avoid a late payment penalty.

Use the payment voucher below to mail the \$800 annual tax payment by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 2003 (calendar year).

How to Complete Form FTB 3538

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

Note: If you lease a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

Where to File

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

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0651

Penalties and Interest

An extension of time to file a return is not an extension of time to pay the tax. If the entity fails to pay its total tax liability by the due date of the tax return, a late payment penalty and interest will be added to the tax due. To avoid late payment penalties and interest, 100% of the tax liability must be paid by the 15th day of the 4th month, following the close of the taxable year.

Internet Access

You can download, view, and print California tax forms and publications from our Website at: www.ftb.ca.gov

Access other state agencies' websites through the State Agency Index on California's Website at: www.ca.gov

✂ DETACH HERE — — — — — IF NO PAYMENT IS DUE, DO NOT MAIL — — — — — DETACH HERE ✂

DUE 15TH DAY OF 4TH MONTH OF TAXABLE YEAR (fiscal year) OR APRIL 15, 2003 (calendar year).

TAXABLE YEAR	Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs	CALIFORNIA FORM
2002		3538 (565)

For calendar year 2002 or fiscal year beginning month _____ day _____ year 2002, and ending month _____ day _____ year _____.	
Partnership/LLP/REMIC name	Federal employer identification number (FEIN)
DBA/Attention	Secretary of State file number
Delivery address	STE. no. PMB no.
City, town, or post office	State ZIP Code

Make your check or money order payable to "Franchise Tax Board." Write the FEIN and "FTB 3538 2002" on the check or money order. Mail this voucher and the check or money order to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0651

If amount of payment is zero, do not mail form } ▶

Amount of payment

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Visit our Website:

www.ftb.ca.gov

Partner's Instructions for Schedule K-1 (565)

General Information

A Purpose

The partnership uses Schedule K-1 (565) to report your distributive share of the partnership's income, deductions, credits, etc. Please keep the Schedule K-1 (565) for your records. Information from the Schedule K-1 (565) should be used to complete your California return. However, do not file the schedule with your California return. The partnership has filed a copy with the Franchise Tax Board (FTB).

As a partner of the partnership, you are subject to tax on your distributive share of the partnership income, whether or not distributed.

The amount of loss and deduction you are allowed to claim on your California return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity loss and credit rules. It is the partner's responsibility to consider and apply any applicable limitations. See Specific Instructions C, Loss Limitations.

You should also read the federal Schedule K-1 (1065) instructions before completing your California return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications:

- Publication 541, Tax Information on Partnerships, and
- Publication 535, Business Expenses.

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

Internet Access.

You can download, view, and print California tax forms and publications from our Website at: www.ftb.ca.gov

Access other state agencies' websites through the State agency Index on California's Website at: www.ca.gov

B Definitions

General Partner

An individual or entity owning interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

Limited Partner

An individual or entity owning interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans

Liabilities of the partnership for which none of the partners have assumed any personal liability.

Qualified Nonrecourse Financing

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

California Business Situs

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

Apportionment

The process by which business income from a trade or business conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the property (including rent), payroll, and sales factors of the apportioning trade or business.

Unitary

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

Election

The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to compute taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California return and not by the partnership. These elections are made under the following IRC Sections, to which the R&TC conforms:

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

Additional Definitions

For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, or the instructions for federal Form 1065, U.S. Partnership Return of Income.

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

If the partnership derives income from activities conducted both within and outside California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss.

Nonresident, corporate, and other entity partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Title 18, Cal. Code Reg. Sections 17951 and 25137-1 for more information. Also see General Information E, Unitary Partners. Nonresident, corporate, and other entity partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d), and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information get Schedule S, Other State Tax Credit.

Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the "No" box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

D Income Not from a Trade Or Business of the Partnership (Nonbusiness Income)

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that nonbusiness intangible income will be determined at the partner level. However, nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income

(Title 18, Cal. Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

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

However, for individuals, estates, and trusts that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Title 18, Cal. Code Reg. Section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

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

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

E Unitary Partners

Note: The following rules apply not only to corporations, but also to individuals and other entities that conduct a trade or business that is unitary with the partnership's trade or business (see Title 18, Cal. Code Reg. Section 17951, incorporating the provisions of Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described below and in Specific Line Instruction G and Specific Line Instruction H.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or that is includable in the partner's business income subject to apportionment is made in accordance with Title 18, Cal. Code Reg. Section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business

If the partnership's activities and the partner's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors with the factors of the partner for any partnership year ending within the partner's tax accounting period. Combined business income is then apportioned by using a 3- or 4-factor formula consisting of the combined property, payroll, and a single or double-weighted sales factor. Use of a 3-factor formula depends upon whether combined

gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are more than 50% from agricultural, extractive, savings and loans, banking, or financial business activities.

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

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

1. Unitary Partner's Computation of Property Factor

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

- A. Include in the denominator of your property factor your distributive share of the partnership's beginning and ending balances of real and tangible personal property owned (if rented, multiply by 8) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of your property factor the value of such property that is described in 1A (above) that is located in California. See Table 2, Part C.
- C. See Title 18, Cal. Code Reg. Section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

2. Unitary Partner's Computation of Payroll Factor

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

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

3. Unitary Partner's Computation of the Sales Factor

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

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

Distributive Items of Nonbusiness Income for a Unitary Partner

Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (565), column (e) data is not utilized by a unitary partner, unitary partners must make certain to separately include such items as California source income.

Specific Instructions

A Questions and Items

The partnership completes the questions and items on the Schedule K-1 (565) for all partners. For more information, see the instructions for federal Schedule K-1 (1065).

B Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk, and the passive activity loss limitations before such losses/deductions can be deducted on your California return. See Specific Instructions C, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis.

Note: If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), Adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. See the instructions for federal Schedule K-1 (1065) for more information.

C Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income or loss from the partnership's business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses before you may deduct losses on your tax return. These limitations and the order in which they must be applied are:

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

Each of these limitations are discussed separately below.

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

Basis Rules

Generally, California tax law conforms to federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provide you with an analysis of the changes to your capital account on your Schedule K-1 (565), Item J, that information is based on the partnership's books and records and should not be used to compute your basis.

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

Items that increase your basis may include:

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

Items that decrease your basis, but not below zero, may include:

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

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

At-Risk Rules

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

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

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

Passive Activity Loss and Credit Rules

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

For California purposes, the passive loss limitations apply to:

1. Individuals;
2. Estates;
3. Trusts (other than grantor trusts);
4. Closely held corporations; and
5. S Corporations.

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

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates and trusts, and S corporations must complete form FTB 3801 to calculate the allowable passive losses, and form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 14 are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a

general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3, and line 13b are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

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

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

D Investment Partnership Income

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

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

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

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

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&TC Section 23040.1 for more information.

Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

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

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

Note to Nonresident Partners: The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

A Income (Loss)

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

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where this amount is reported depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

Note: If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their California returns is a function of the partnership's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 for more information. In addition, see General Information E.

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

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

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

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

See the federal Schedule K-1 (1065) Specific Instructions for line 2, item 1, and item 2 for more information.

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

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

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

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

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

Line 4a through Line 4e – Portfolio Income (Loss)

Portfolio income (loss) referred to as "portfolio" in these instructions is generally not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend, royalty income and gain or loss on the sale of property held for investment. If you have amounts on Schedule K-1 (565), line 4a through line 4e, report these amounts as follows:

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

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

The partnership uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

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

Line 5 – Guaranteed Payments to Partners

Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable.

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

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount, report it on Schedule D-1, line 2, column (g). You do not have to complete column (b) through column (g). Write “From Schedule K-1 (565)” across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (g), and be sure to see “Passive Loss Limitations” in the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount, see “Passive Loss Limitations” in the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 7 – Other Income (Loss)

Amounts reported on this line are other items of income (loss) not included on line 1 through line 6. The partnership should give you a description for each of these items.

Use the instructions below to:

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

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

Line 7 items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable;
- Gains and losses from wagering, IRC Section 165(d). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable;
- Any income, gain, or loss to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10;
- Net gain or loss from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii), and column (c); and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5 and issued after August 10, 1993). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedule K (565) and Schedule K-1 (565). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 7, column (c).

B Deductions

Line 8 – Charitable Contributions

The partnership will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040 for more information.

If there is an amount on Schedule K-1 (565), line 8, column (c), enter this amount on Schedule CA (540 or 540NR), line 39.

Line 9 – Expense Deduction for Recovery Property

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is \$24,000. The \$24,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership’s IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.

Refer to R&TC Sections 17267.2, 17267.6, and 17268 on how to figure the expense deduction for recovery property in an economic development area.

Line 10 – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify these amounts.

Line 11 – Other Deductions

Amounts on this line are deductions not included on line 8 through line 10. If there is an amount on Schedule K-1 (565), line 11,

column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

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

C Investment Interest

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

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

Line 12a – Interest Expense on Investment Debts

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

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

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

Caution: The amounts shown on line 12b(1) and line 12b(2) include only investment income and expenses included on lines 4a, 4b, 4c, 4e, and line 10 of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this partnership.

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

D Credits

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

Line 13a(1) – Withholding on Partnership Allocated to All Partners

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

Line 13a(2) – Partnership Withholding on Nonresident Partners

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

Line 13a(3) – Total Withholding

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

- Form 540, California Resident Income Tax Return, line 38; or
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return (Long Form), line 48; or
- Form 541, California Fiduciary Income Tax Return, line 28; or
- Form 109, California Exempt Organization Business Income Tax Return, line 22; or

- Form 100, California Corporation Franchise or Income Tax Return, line 34; or
- Form 100S, California S Corporation Franchise or Income Tax Return, line 33.

Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 13a(3) may not match the amount on Form 592-B because of the difference in accounting periods.

Line 13b – Low-Income Housing Credit

Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

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

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

The information you need to compute credits related to rental real estate activities other than the low-income housing credit is provided on this line with an attached schedule.

Line 13d – Credits Related to Other Rental Activities

Any information you need to compute credits related to rental activities other than rental real estate activities is provided on this line.

Line 13e – Nonconsenting Nonresident Member's Tax Paid by LLC on behalf of your partnership.

This line shows any income tax paid on your partnership's behalf by an LLC if, the general partner in the partnership did not sign form FTB 3832, Limited Liability Company's Nonresident Members' Consent, consenting to California's jurisdiction to tax the partnership's distributive share of the LLC income attributable to California sources.

Note: You must attach a copy of the Schedule K-1 (568), previously issued to your partnership by the LLC as well as the Schedule K-1 (565) issued by your partnership, to your California tax return to claim your share of the tax paid by the LLC on your partnership's behalf.

Line 14 – Other Credits

This line is used to report information you need to compute pass-through credits and other items that are not includable on 13(a) through 13(d) but are related to the trade or business activity. The partnership should provide a schedule and/or statement explaining any items.

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

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Farmworker Housing Credit-Construction Credit. Use credit code 207.
- Farmworker Housing Credit-Loan Credit. Use credit code 208.
- Joint-Strike Fighters Credits. Get form FTB 3534.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturers' Investment Credit. Get form FTB 3535.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Tax Credit. Get form FTB 3503.
Note: California has suspended the allocation of the Natural Heritage Preservation Tax credit beginning July 1, 2002, and ending June 30, 2003.

- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Rice Straw Credit. Use credit code 206.
- Solar or Wind Energy System Credit. Get form FTB 3508.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

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

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

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

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

Reminder: All of these forms and many others are available from our Website at: www.ftb.ca.gov

E Adjustments and Tax Preference Items

Line 15a through Line 15e col. (d)

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

F Other

Line 16 through Line 19

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

Line 22 – Supplemental Information

The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits from an EZ, LARZ, LAMBRA, MEA, or TTA it will give you the business income and business capital gains and losses apportioned to the EZ, LARZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit.

The partnership may have provided an amount showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances on this line. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income. "Qualified taxpayer" means a taxpayer that meets both of the following:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 during the taxable year from all trades or busi-

nesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, limited liability company (LLC), S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

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

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; or
- The proportional interest of pass-through entities gross receipts in which the taxpayer holds an interest. "Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120.

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

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

G Table 1

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

For apportioning partners, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California. For information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 25126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (565). For additional information, see General Information E.

H Table 2

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

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

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

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

The partner's share of the partnership's property, payroll, and sales factors is in Table 2, Part C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For further information, see General Information E.

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Form 565

Codes for Principal Business Activity

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the partnership derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales plus all other income. If the partnership purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the partnership is considered a manufacturer and must use one of the manufacturing codes (31110-339900).

Once the principal business activity is determined, entries must be made on Form 565, Question C. For the business activity code number, enter the six-digit code selected from the list below. On the next line enter a brief description of the partnership's business activity. Finally, enter a description of the principal product or service of the partnership on the next line.

Agriculture, Forestry, Fishing, and Hunting

Code

Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems

Construction

Code

Construction of Buildings

- 236110 Residential Building Construction
- 236200 Nonresidential Building Construction

Heavy and Civil Engineering Construction

- 237100 Utility System Construction (Subdivision)
- 237310 Highway, Street, & Bridge Construction
- 237990 Other Heavy & Civil Engineering Construction

Specialty Trade Contractors

- 238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)
- 238210 Electrical Contractors
- 238220 Plumbing, Heating, & Air-Conditioning Contractors
- 238290 Other Building Equipment Contractors
- 238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)
- 238900 Other Specialty Trade Contractors (including site preparation)

Manufacturing

Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills
- Apparel Manufacturing
- 315100 Apparel Knitting Mills

Code

- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg
- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

Printing and Related Support Activities

- 323100 Printing & Related Support Activities

Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg

Code

- 332810 Coating, Engraving, Heat Treating, & Allied Activities
- 332900 Other Fabricated Metal Product Mfg

Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine, & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

Wholesale Trade

Merchant Wholesalers, Durable Goods

- 423100 Motor Vehicle & Motor Vehicle Parts & Supplies
- 423200 Furniture & Home Furnishings
- 423300 Lumber & Other Construction Materials
- 423400 Professional & Commercial Equipment & Supplies
- 423500 Metal & Mineral (except Petroleum)
- 423600 Electrical & Electronic Goods
- 423700 Hardware, & Plumbing & Heating Equipment & Supplies
- 423800 Machinery, Equipment, & Supplies
- 423910 Sporting & Recreational Goods & Supplies
- 423920 Toy & Hobby Goods & Supplies
- 423930 Recyclable Materials
- 423940 Jewelry, Watch, Precious Stone, & Precious Metals
- 423990 Other Miscellaneous Durable Goods

<i>Code</i>	
Merchant Wholesalers, Nondurable Goods	
424100	Paper & Paper Products
424210	Drugs & Druggists' Sundries
424300	Apparel, Piece Goods, & Notions
424400	Grocery & Related Products
424500	Farm Product Raw Materials
424600	Chemical & Allied Products
424700	Petroleum & Petroleum Products
424800	Beer, Wine, & Distilled Alcoholic Beverages
424910	Farm Supplies
424920	Book, Periodical, & Newspapers
424930	Flower, Nursery Stock, & Florists' Supplies
424940	Tobacco & Tobacco Products
424950	Paint, Varnish, & Supplies
424990	Other Miscellaneous Nondurable Goods
Wholesale Electronic Markets and Agents and Brokers	
425110	Business to Business Electronic Markets
425120	Wholesale Trade Agents & Brokers

Retail Trade

Motor Vehicle and Parts Dealers	
441110	New Car Dealers
441120	Used Car Dealers
441210	Recreational Vehicle Dealers
441221	Motorcycle Dealers
441222	Boat Dealers
441229	All Other Motor Vehicle Dealers
441300	Automotive Parts, Accessories, & Tire Stores

Furniture and Home Furnishings Stores

442110	Furniture Stores
442210	Floor Covering Stores
442291	Window Treatment Stores
442299	All Other Home Furnishings Stores

Electronics and Appliance Stores

443111	Household Appliance Stores
443112	Radio, Television, & Other Electronics Stores
443120	Computer & Software Stores
443130	Camera & Photographic Supplies Stores

Building Material and Garden Equipment and Supplies Dealers

444110	Home Centers
444120	Paint & Wallpaper Stores
444130	Hardware Stores
444190	Other Building Material Dealers
444200	Lawn & Garden Equipment & Supplies Stores

Food and Beverage Stores

445110	Supermarkets and Other Grocery (except Convenience) Stores
445120	Convenience Stores
445210	Meat Markets
445220	Fish & Seafood Markets
445230	Fruit & Vegetable Markets
445291	Baked Goods Stores
445292	Confectionery & Nut Stores
445299	All Other Specialty Food Stores
445310	Beer, Wine, & Liquor Stores

Health and Personal Care Stores

446110	Pharmacies & Drug Stores
446120	Cosmetics, Beauty Supplies, & Perfume Stores
446130	Optical Goods Stores
446190	Other Health & Personal Care Stores

Gasoline Stations

447100	Gasoline Stations (including convenience stores with gas)
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<i>Code</i>	
Clothing and Clothing Accessories Stores	
448110	Men's Clothing Stores
448120	Women's Clothing Stores
448130	Children's & Infants' Clothing Stores
448140	Family Clothing Stores
448150	Clothing Accessories Stores
448190	Other Clothing Stores
448210	Shoe Stores
448310	Jewelry Stores
448320	Luggage & Leather Goods Stores

Sporting Goods, Hobby, Book, and Music Stores

451110	Sporting Goods Stores
451120	Hobby, Toy, & Game Stores
451130	Sewing, Needlework, & Piece Goods Stores
451140	Musical Instrument & Supplies Stores
451211	Book Stores
451212	News Dealers & Newsstands
451220	Prerecorded Tape, Compact Disc, & Record Stores

General Merchandise Stores

452110	Department stores
452900	Other General Merchandise Stores

Miscellaneous Store Retailers

453110	Florists
453210	Office Supplies & Stationery Stores
453220	Gift, Novelty, & Souvenir Stores
453310	Used Merchandise Stores
453910	Pet & Pet Supplies Stores
453920	Art Dealers
453930	Manufactured (Mobile) Home Dealers
453990	All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)

Transportation and Warehousing

Air, Rail, and Water Transportation

481000	Air Transportation
482110	Rail Transportation
483000	Water Transportation

Truck Transportation

484110	General Freight Trucking, Local
484120	General Freight Trucking, Long-distance
484200	Specialized Freight Trucking

Transit and Ground Passenger Transportation

485110	Urban Transit Systems
485210	Interurban & Rural Bus Transportation
485310	Taxi Service
485320	Limousine Service
485410	School & Employee Bus Transportation
485510	Charter Bus Industry
485990	Other Transit & Ground Passenger Transportation

Pipeline Transportation

486000	Pipeline Transportation Scenic & Sightseeing Transportation
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Scenic & Sightseeing Transportation

487000	Scenic & Sightseeing Transportation
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<i>Code</i>	
Support Activities for Transportation	
488100	Support Activities for Air Transportation
488210	Support Activities for Rail Transportation
488300	Support Activities for Water Transportation
488410	Motor Vehicle Towing
488490	Other Support Activities for Road Transportation
488510	Freight Transportation Arrangement
488990	Other Support Activities for Transportation

Couriers and Messengers

492110	Couriers
492210	Local Messengers & Local Delivery

Warehousing and Storage

493100	Warehousing & Storage (except lessors of miniwarehouses & self-storage units)
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Information

Publishing Industries

511110	Newspaper Publishers
511120	Periodical Publishers
511130	Book Publishers
511140	Database & Directory Publishers
511190	Other Publishers
511210	Software Publishers

Motion Picture and Sound Recording Industries

512100	Motion Picture & Video Industries (except video rental)
512200	Sound Recording Industries

Broadcasting (except Internet)

515100	Radio & Television Broadcasting
515210	Cable & Other Subscription Programming

Internet Publishing and Broadcasting

516110	Internet Publishing & Broadcasting
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Telecommunications

517000	Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications)
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Internet Service Providers, Web Search Portals, and Data Processing Services

518111	Internet Service Providers
518112	Web Search Portals
518210	Data Processing, Hosting, & Related Services

Other Information Services

519100	Other Information Services (including news syndicates & libraries)
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Finance and Insurance

Depository Credit Intermediation

522110	Commercial Banking
522120	Savings Institutions
522130	Credit Unions
522190	Other Depository Credit Intermediation

Nondepository Credit Intermediation

522210	Credit Card Issuing
522220	Sales Financing
522291	Consumer Lending
522292	Real Estate Credit (including mortgage bankers & originators)
522293	International Trade Financing
522294	Secondary Market Financing
522298	All Other Nondepository Credit Intermediation

Activities Related to Credit Intermediation

522300	Activities Related to Credit Intermediation (including loan brokers)
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Securities, Commodity Contracts, and Other Financial Investments and Related Activities

523110	Investment Banking & Securities Dealing
523120	Securities Brokerage
523130	Commodity Contracts Dealing
523140	Commodity Contracts Brokerage
523210	Securities & Commodity Exchanges
523900	Other Financial Investment Activities (including portfolio management & investment advice)

Insurance Carriers and Related Activities

524140	Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150	Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
524210	Insurance Agencies & Brokerages
524290	Other Insurance Related Activities

Funds, Trusts, and Other Financial Vehicles

525100	Insurance & Employee Benefit Funds
525910	Open-End Investment Funds (Form 1120-RIC)
525920	Trusts, Estates, & Agency Accounts
525930	Real Estate Investment Trusts (Form 1120-REIT)
525990	Other Financial Vehicles "Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under Management of Companies (Holding Companies) below.

Real Estate and Rental and Leasing

Real Estate

531110	Lessors of Residential Buildings & Dwellings
531114	Cooperative Housing
531120	Lessors of Nonresidential Buildings (except Miniwarehouses)
531130	Lessors of Miniwarehouses & Self-Storage Units
531190	Lessors of Other Real Estate Property
531210	Offices of Real Estate Agents & Brokers
531310	Real Estate Property Managers
531320	Offices of Real Estate Appraisers
531390	Other Activities Related to Real Estate

Rental and Leasing Services

532100	Automotive Equipment Rental & Leasing
532210	Consumer Electronics & Appliances Rental
532220	Formal Wear & Costume Rental
532230	Video Tape & Disc Rental
532290	Other Consumer Goods Rental
532310	General Rental Centers
532400	Commercial & Industrial Machinery & Equipment Rental & Leasing

Lessors of Nonfinancial Intangible Assets (except copyrighted works)

533110	Lessors of Nonfinancial Intangible Assets (except copyrighted works)
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Professional, Scientific, and Technical Services

Legal Services

541110	Offices of Lawyers
541190	Other Legal Services

Code

Accounting, Tax Preparation, Bookkeeping, and Payroll Services

- 541211 Offices of Certified Public Accountants
- 541213 Tax Preparation Services
- 541214 Payroll Services
- 541219 Other Accounting Services

Architectural, Engineering, and Related Services

- 541310 Architectural Services
- 541320 Landscape Architecture Services
- 541330 Engineering Services
- 541340 Drafting Services
- 541350 Building Inspection Services
- 541360 Geophysical Surveying & Mapping Services
- 541370 Surveying & Mapping (except Geophysical) Services
- 541380 Testing Laboratories

Specialized Design Services

- 541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)

Computer Systems Design and Related Services

- 541511 Custom Computer Programming Services
- 541512 Computer Systems Design Services
- 541513 Computer Facilities Management Services
- 541519 Other Computer Related Services

Other Professional, Scientific, and Technical Services

- 541600 Management, Scientific, & Technical Consulting Services
- 541700 Scientific Research & Development Services
- 541800 Advertising & Related Services
- 541910 Marketing Research & Public Opinion Polling
- 541920 Photographic Services
- 541930 Translation & Interpretation Services
- 541940 Veterinary Services
- 541990 All Other Professional, Scientific, & Technical Services

Management of Companies (Holding Companies)

- 551111 Offices of Bank Holding Companies
- 551112 Offices of Other Holding Companies

Administrative and Support and Waste Management and Remediation Services

Administrative and Support Services

- 561110 Office Administrative Services
- 561210 Facilities Support Services
- 561300 Employment Services
- 561410 Document Preparation Services
- 561420 Telephone Call Centers
- 561430 Business Service Centers (including private mail centers & copy shops)
- 561440 Collection Agencies
- 561450 Credit Bureaus
- 561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)

Code

- 561500 Travel Arrangement & Reservation Services
- 561600 Investigation & Security Services
- 561710 Exterminating & Pest Control Services
- 561720 Janitorial Services
- 561730 Landscaping Services
- 561740 Carpet & Upholstery Cleaning Services
- 561790 Other Services to Buildings & Dwellings
- 561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)

Waste Management and Remediation Services

- 562000 Waste Management & Remediation Services

Educational Services

- 611000 Educational Services (including schools, colleges, & universities)

Health Care and Social Assistance

Offices of Physicians and Dentists

- 621111 Offices of Physicians (except mental health specialists)
- 621112 Offices of Physicians, Mental Health Specialists
- 621210 Offices of Dentists

Offices of Other Health Practitioners

- 621310 Offices of Chiropractors
- 621320 Offices of Optometrists
- 621330 Offices of Mental Health Practitioners (except Physicians)
- 621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists
- 621391 Offices of Podiatrists
- 621399 Offices of All Other Miscellaneous Health Practitioners

Outpatient Care Centers

- 621410 Family Planning Centers
- 621420 Outpatient Mental Health & Substance Abuse Centers
- 621491 HMO Medical Centers
- 621492 Kidney Dialysis Centers
- 621493 Freestanding Ambulatory Surgical & Emergency Centers
- 621498 All Other Outpatient Care Centers

Medical and Diagnostic Laboratories

- 621510 Medical & Diagnostic Laboratories

Home Health Care Services

- 621610 Home Health Care Services

Code

Other Ambulatory Health Care Services

- 621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)

Hospitals

- 622000 Hospitals

Nursing and Residential Care Facilities

- 623000 Nursing & Residential Care Facilities

Social Assistance

- 624100 Individual & Family Services
- 624200 Community Food & Housing, & Emergency & Other Relief Services
- 624310 Vocational Rehabilitation Services
- 624410 Child Day Care Services

Arts, Entertainment, and Recreation

Performing Arts, Spectator Sports, and Related Industries

- 711100 Performing Arts Companies
- 711210 Spectator Sports (including sports clubs & racetracks)
- 711300 Promoters of Performing Arts, Sports, & Similar Events
- 711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures
- 711510 Independent Artists, Writers, & Performers

Museums, Historical Sites, and Similar Institutions

- 712100 Museums, Historical Sites, & Similar Institutions

Amusement, Gambling, and Recreation Industries

- 713100 Amusement Parks & Arcades
- 713200 Gambling Industries
- 713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

Accommodation and Food Services

Accommodation

- 721110 Hotels (except casino hotels) & Motels
- 721120 Casino Hotels
- 721191 Bed & Breakfast Inns
- 721199 All Other Traveler Accommodation
- 721210 RV (Recreational Vehicle) Parks & Recreational Camps
- 721310 Rooming & Boarding Houses

Code

Food Services and Drinking Places

- 722110 Full-Service Restaurants
- 722210 Limited-Service Eating Places
- 722300 Special Food Services (including food service contractors & caterers)
- 722410 Drinking Places (Alcoholic Beverages)

Other Services

Repair and Maintenance

- 811110 Automotive Mechanical & Electrical Repair & Maintenance
- 811120 Automotive Body, Paint, Interior, & Glass Repair
- 811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
- 811210 Electronic & Precision Equipment Repair & Maintenance
- 811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
- 811410 Home & Garden Equipment & Appliance Repair & Maintenance
- 811420 Reupholstery & Furniture Repair
- 811430 Footwear & Leather Goods Repair
- 811490 Other Personal & Household Goods Repair & Maintenance

Personal and Laundry Services

- 812111 Barber Shops
- 812112 Beauty Salons
- 812113 Nail Salons
- 812190 Other Personal Care Services (including diet & weight reducing centers)
- 812210 Funeral Homes & Funeral Services
- 812220 Cemeteries & Crematories
- 812310 Coin-Operated Laundries & Drycleaners
- 812320 Drycleaning & Laundry Services (except Coin-Operated)
- 812330 Linen & Uniform Supply
- 812910 Pet Care (except Veterinary) Services
- 812920 Photofinishing
- 812930 Parking Lots & Garages
- 812990 All Other Personal Services
- Religious, Grantmaking, Civic, Professional, and Similar Organizations**
- 813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations

How to Get California Tax Information

Automated Toll-Free Phone Service

Call the FTB automated toll-free phone service to order tax forms and publications. The automated toll-free phone service is available 24 hours a day, seven days a week, in English or Spanish to callers with touch tone telephones.

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

General Toll-Free Phone Service

Our general toll-free phone service is available:

Monday - Friday, 7 a. m. until 8 p. m.
Saturdays, 8 a. m. until 5 p. m. (January through June only)

We may modify these hours without notice to meet operational needs.

From within the United States (800) 852-5711
From outside the United States (916) 845-6500
(not toll-free)

For federal tax questions

Call the IRS at (800) 829-1040

Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments please call:

TTY/TDD (800) 822-6268

Asistencia bilingüe en español

Nuestro servicio telefónico gratuito esta disponible de lunes a viernes de 7 a.m. a 8 p.m., y los sábados de 8 a.m. a 5 p.m. de enero a junio. Podemos modificar este horario sin aviso previo de acuerdo a la demanda operativa.

Dentro de los Estados Unidos llame al: (800) 852-5711 (libre de cargos)
Fuera de los Estados Unidos llame al: (916) 845-6500 (cargos aplican)

Página Electrónica:
www.ftb.ca.gov

Asistencia para personas discapacitadas: Nosotros estamos en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos o de habla, pueden llamar al (800) 822-6268 con un aparato de telecomunicación TTY/TTD.

Letters

If you write to us, be sure your letter includes your federal employer identification number (FEIN), SOS number, your daytime and evening telephone numbers, and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0640

We will respond to your letter within six weeks. In some cases, we may need to call you for additional information. Please do not attach your letter to your California return.

Where to Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov

Our Joint Agency Website offers California business tax information and forms for BOE, EDD, FTB and IRS at www.ca.taxes.gov.

You can also download, view, and print federal forms and publications from the IRS Website at www.irs.gov.

By phone – Call our automated toll-free phone number, listed above, and follow the recorded instructions.

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

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

In person – Free California tax booklets are provided at many libraries, post offices, and banks during the filing season. Most libraries and some quick print businesses have forms and schedules to photocopy (a nominal fee may apply).

Note: Employees at libraries, post offices, banks, and quick print businesses cannot provide tax information or assistance.

Your Rights As A Taxpayer

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

