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Tax Amnesty
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California

Forms & Instructions

100

2004

Corporation Tax Booklet

Members of the Franchise Tax Board

Steve Westly, Chair
Carole Migden, Member
Tom Campbell, Member

This booklet contains:

Form 100, California Corporation Franchise or Income Tax Return

Schedule H (100), Dividend Income Deduction

Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations

FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations

FTB 3565, Small Business Stock Questionnaire

FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

FTB 3885, Corporation Depreciation and Amortization



STATE OF CALIFORNIA
FRANCHISE TAX BOARD

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Instructions for Form 100

California Corporation Franchise or Income Tax Return

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).

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2001. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and select "Law and Legislation." Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

What's New/Tax Law Changes

Tax amnesty – Recent legislation authorizes the Franchise Tax Board (FTB) and the Board of Equalization to administer a Tax Amnesty Program. Tax amnesty is a limited-time chance for individuals and businesses to pay past-due income, franchise, sales, or use taxes and the related interest penalty-free and without the fear of criminal prosecution. Amnesty runs from February 1, 2005, through March 31, 2005. Taxpayers eligible to participate in amnesty but choose not to do so will be subject to additional penalties. For more details, visit our Website at www.ftb.ca.gov or call (800) 852-5711.

Charitable Contributions for 2004 Tsunami Disaster – California conforms to the federal law which allows a 2004 charitable contribution deduction for cash contributions made during January, 2005 toward the relief of the Tsunami Disaster victims in the Indian Ocean. Corporations may claim the deduction in either the 2004 or 2005 tax year.

Abusive tax shelter – If the corporation was involved in a potentially abusive tax shelter, the corporation may have a disclosure, registration and list maintenance requirement. The FTB may impose several new and enhanced penalties if the corporation fails to file federal Forms 8886, 8264, 8271 or any required information. For more information, see Registration and Reporting Requirements under Abusive Tax Shelters on our Website at www.ftb.ca.gov.

Federal Schedule M-3 (Form 1120) – For taxable years beginning on or after January 1, 2004, the Internal Revenue Service (IRS) requires any domestic corporation or U.S. consolidated tax group with total assets of \$10 million or more on the last day of the tax year to complete Schedule M-3 (Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 Million or More, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income per Return.

For California purposes, the corporation **must still** complete the California Schedule M-1, and:

- Attach a copy of the Schedule M-3 (Form 1120) to the California Franchise or Income Tax Return; or
- Attach a complete copy of the federal return; or

- FTB will accept the Schedule M-3 (Form 1120) in a spreadsheet format if more convenient.

Built-in Gains Tax – For taxable years beginning on or after January 1, 2002, when determining the built-in gains tax, C corporations that were required to convert to S corporations as a result of the enactment of Chapter 35 of the Statutes of 2002, and as amended by Chapter 807 of the Statutes of 2002, for California purposes are deemed to have elected S corporation status on the effective date of their federal election regardless of the effective date for state purposes.

Cash/Accrual Method – For taxable years beginning on or after January 1, 2002, California conformed to federal, in part, that limits the use of a cash method of accounting for C corporations, partnerships that have a C corporation as partner, and a tax shelter, but provides an exemption, among others, for the amounts received by a person using an accrual method of accounting for the performance of services.

For taxable years beginning on or after January 1, 2003, California conformed to the federal Job Creation and Worker Assistance Act of 2002 with respect to the use of the accrual method of accounting.

Dividends Received Deduction – R&TC Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" of qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and ending on or before January 1, 2008, an 80% deduction is allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividends received deduction. See the Schedule H (100) instructions for additional information.

Punitive Damage Awards – For court actions filed after August 16, 2004, and finally adjudicated by June 30, 2006, 75% of punitive damage awards must be paid to the Director of the Department of Finance. The corporation may exclude from income the portion of a punitive damage award that is paid to the Department of Finance. In addition, during this period, the corporation may claim a deduction for attorney's fees incurred in connection with a punitive damage awards.

Net Operating Loss (NOL) – For taxable years beginning on or after January 1, 2004, California has reinstated the NOL carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations inside this booklet.

Contribution for computer technology – For taxable years beginning on or after January 1, 2004,

California no longer allows a deduction for enhanced charitable contribution for computer technology or equipment.

Natural Heritage Preservation Credits – Currently there is no funding to award Natural Heritage Preservation Credits; therefore no new credits may be claimed for 2004. However, carryover is not affected for previously awarded credits. Contact the Wildlife Conservation Board (WCB) to determine if funding has been restored, if they are accepting qualified contributions of property, and to see if they are awarding new Natural Heritage Preservation Credits. Complete FTB 3503 to claim the credit only if the WCB has resumed awarding the credits.

To get updated information regarding current funding, qualified contributions of property, or the awarding of credits, contact the Wildlife Conservation Board at (916) 445-8448, or go to their Website at www.wcb.ca.gov.

Important Information

- If the corporation made purchases from out-of-state or Internet sellers and owes California use tax, the corporation may report and pay the tax on the California Franchise or Income Tax Return. See General Information Z "California Use Tax" for more information.
- In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th, 134 Cal Rptr. 2nd 390, the California Court of Appeal found that the R&TC Section 24402 deductible dividend provision discriminated against interstate commerce in violation of the Commerce Clause of the United States Constitution. R&TC Section 24402 provided for a deduction to the extent that the dividend payer was taxable in California. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.
- For taxable years beginning on or after January 1, 2003, the provisions for making a water's-edge election have been substantially changed. The new procedures replace the contract with a statutory election that continues in effect for a minimum of seven years; see R&TC Section 25113.

To make a water's-edge election under the new rules, the corporation must:

- Compute the corporation's income on a water's-edge basis,
- Use Form 100W, California Corporation Franchise or Income Tax Return — Water's-Edge Filers, and
- Make the election on a timely filed original return for the year of the election.

Corporations that have a valid election for taxable years beginning before January 1, 2003, will continue to file on a water's-edge basis and will be deemed to have elected under the new rules (R&TC Section 25113) for taxable years beginning on or after January 1, 2003. However, the election start date under the new rules (R&TC Section 25113), will continue to be the start date as originally elected under the old rules (R&TC Section 25111). For more information, get 2003 Form 100W Booklet that contains California Water's-Edge Forms and Instructions.

- For taxable years beginning on or after January 1, 2003, corporate shareholders of a Regulated Investment Company (RIC) are

explicitly denied a dividend deduction for earnings from the RIC that are not from stock dividends.

R&TC Sections 17024.5 and 23051.5 have been amended to clarify that, unless otherwise expressly allowed, federal elections made before a taxpayer becomes a California taxpayer are binding for California tax purposes.

- For taxable years beginning on or after January 1, 2002, California no longer allows a federal S corporation to elect to be a California C corporation. Therefore, for the taxable year beginning in 2002, and thereafter, any corporation with a valid federal S corporation election is considered an S corporation for California purposes. The effective date of the election is the first day of the corporation's taxable year beginning in 2002.

Corporations that elect to be an S corporation for federal purposes on or after January 1, 2002, and have a California filing requirement are deemed to make the California S election on the same date as the federal election.

- R&TC Section 18662 requires buyers to withhold income taxes when purchasing California real property from corporate sellers with no permanent place of business in California immediately after the transfer. For more information, get FTB Pub. 1016.

Sellers of California real estate must attach copy B of Form 593-B, Real Estate Withholding Tax Statement, to their tax return as proof of withholding.

If the corporation needs to verify withholding payments, the corporation may call the Withholding Services and Compliance Section at (916) 845-4900 or toll-free (888) 792-4900.

California conforms to federal law for:

- Large banks' bad-debt losses deduction, which are limited to the actual losses rather than contributions to a reserve for bad debts.
- Alternative minimum tax (AMT) treatment of contributions of appreciated property.
- Disallowing the deduction for club membership fees and employee remuneration in excess of \$1 million.
- Disallowing of the deduction for lobbying expenses.
- Expensing of Environmental Remediation Costs. Certain environmental remediation expenditures that would otherwise be chargeable to capital accounts may be expensed and taken as a deduction in the year the expense was paid or incurred. An election to expense environmental remediation costs for federal purposes is considered an election for state purposes and a separate election is not allowed.
- Shrinkage Estimates for Inventory Accounting. For purposes of inventory accounting, an adjustment for shrinkage, based on an estimate, may be made. Taxpayers can voluntarily change their method of accounting if the method currently being used does not utilize estimates of inventory shrinkage and the taxpayer now wishes to use that method.
- Timeshare associations may qualify for tax-exempt status like other homeowners' associations.
- Required recognition of gain on certain appreciated financial positions in personal property.
- Election of mark-to-market for securities and commodities traders. Allows securities traders and commodities traders and dealers to elect to use mark-to-market accounting similar to what is currently required for securities dealers.

Commodities would include only commodities of a kind that are dealt with in the organized commodities exchange. An election to use the mark-to-market method for federal purposes is considered an election for state purposes and a separate election is not allowed.

- Limitation on exception for investment companies under IRC Section 351.
- Expansion of deduction for certain interest and premiums paid for company-owned life insurance.
- Modification of holding period applicable to dividends received deduction.
- Repeal of special installment sales rule for manufacturers of tangible personal property.
- Required registration for abusive tax shelters.
- Payment of estimated tax for closely held real estate investment trusts (REITs) and income and services provided by REIT subsidiaries.

California law does not conform to federal law for:

- The additional 30% or 50% first-year depreciation allowance for qualified property.
- The election to deduct up to \$102,000 under IRC Section 179.
- The first-year depreciation deduction allowed for luxury autos or certain passenger automobiles.
- Temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil or gas well property.
- Decreased capital gains tax rate.
- Exemption from AMT for small corporations.
- Accelerated depreciation for property on Indian Reservations.
- The treatment of Subpart F and IRC Section 936 income.
- The IRC passive activity loss rules for real estate activities.

Note: The above lists are not intended to be all-inclusive of the federal and state conformities and differences. For more information, please refer to the California Revenue and Taxation Code.

California Taxpayers that are 25% Foreign-Owned U.S. Corporations and Foreign Corporations

Corporations that are required to file federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, with the federal return must attach a copy(ies) to the California return. The penalty for failing to include Form(s) 5472 as required is \$10,000 per form. See General Information M, Penalties, for more information.

Information Return for U.S. Taxpayers Who Have Ownership (Directly or Indirectly) in a Foreign Corporation

For taxable years beginning on or after January 1, 1997, U.S. taxpayers who have an ownership interest (directly or indirectly) in a foreign corporation and are required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failing to include a copy of federal Form(s) 5471 as required is \$1,000 per form. See General Information M, Penalties, for more information.

Records Maintenance Requirements

Any taxpayer subject to the apportionment and allocation provisions of the Corporation Tax Law is required to keep and maintain records and make the following available upon request:

- Any records needed to determine the correct treatment of items reported on the combined

report for purposes of determining the income attributable to California;

- Any records needed to determine the treatment of items as nonbusiness or business income; and
- Any records needed to determine the apportionment factors.

See R&TC Section 19141.6 and the related regulations, for more information. A corporation may be required to authorize an agent, through a Power of Attorney, to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504.

Note: For information about the Power of Attorney, go to our Website at www.ftb.ca.gov.

The penalty for not maintaining the above required records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the corporation of the failure, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed. See General Information M, Penalties, for more information.

Small Business Stock Questionnaire

An information questionnaire, form FTB 3565, Small Business Stock Questionnaire, is included in this booklet. The purpose of this questionnaire is to provide information regarding an issuance of stock pursuant to R&TC Section 18152.5. For taxable years beginning on or after January 1, 1996, corporations that issue stock intended to be qualified small business stock are required to attach form FTB 3565 to Form 100. See the instructions for form FTB 3565.

Publicly Traded Partnerships

California publicly traded partnerships that are not eligible to make the special federal election under IRC Section 7704(g)(2), and that do not qualify for the exception for partnerships with passive-type income under IRC Section 7704(c), must file Form 100 for taxable years beginning on or after January 1, 1998. A federal election under IRC Section 7704(g)(2) is considered an election for state purposes. A separate election is not allowed.

Financial Asset Securitization Investment Trusts (FASITs)

The provisions of the IRC relating to FASITs apply for California with certain modifications. The FASIT is subject to the \$800 minimum tax. A separate Form 100 should be filed to report the \$800 minimum tax. Write "FASIT" in red in the top margin of the return. If a corporation holds an ownership interest in a FASIT, it should report all the items of income, gain, deductions, losses, and credits on the corporation's return and attach a schedule showing the breakdown of items from the FASIT.

Classification of Certain Business Trusts and Certain Foreign Single Member Limited Liability Companies (LLCs)

Normally, the classification of a business entity should be the same for California purposes as it is for federal purposes. However, an exception may apply for certain eligible business entities (business trusts and single member LLCs) existing prior to January 1, 1997, that were taxed as corporations for California purposes under former R&TC Section 23038. For taxable years beginning on or after January 1, 1997, a business trust or a previously existing foreign single member LLC may make an irrevocable election to be classified the same as federal for California purposes. To make the election the business trust or the single member LLC must have been classified as a corporation under California law, but classified as a partnership (for a business trust) or elected to be treated as a disregarded entity

(for foreign single member LLC) for federal tax purposes for taxable years beginning before January 1, 1997. If this election is not made, the existing eligible business entity will continue to be classified and taxed as a corporation for California purposes. Get form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, for more information.

General Information

Form 100 is California's tax return for corporations, banks, financial corporations, real estate mortgage investment conduits (REMICs), regulated investment companies (RICs), real estate investment trusts (REITs), Massachusetts or business trusts, publicly traded partnerships (PTPs), exempt homeowners' associations (HOAs), political action committees (PACs), FASITs and LLCs, or partnerships taxed as corporations.

For taxable years beginning on or after January 1, 2000, corporations filing on a water's-edge basis are required to use Form 100W to file their California tax return. Get the Form 100W, Corporation Tax Booklet — Water's-Edge Filers, for more information. REMICs that are partnerships must file Form 565, Partnership Return of Income. S corporations must file Form 100S, California S Corporation Franchise or Income Tax Return.

An LLC classified as a partnership for federal purposes should generally file Form 568, Limited Liability Company Return of Income. A limited partnership (LP) or limited liability partnership (LLP) classified as a partnership for federal purposes should generally file Form 565, Partnership Return of Income.

A Franchise or Income Tax

Corporation franchise tax

Entities subject to the corporation minimum franchise tax include all corporations (e.g. LLCs electing to be taxed as corporations) that are:

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

The measured franchise tax is imposed on corporations doing business in California and is measured by the income of the current taxable year for the privilege of doing business in that taxable year.

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

The minimum franchise tax must be paid whether the corporation is active, inactive, not doing business in California, or operates at a loss.

Note: A corporation incorporated in California, but not doing business in this state, is not subject to the measured franchise tax. In the case of a corporation incorporated in California or qualified with the California Secretary of State (SOS) but not doing business in this state, careful attention should be given to the term "doing business." It is not necessary that the corporation conducts business or engages in transactions within the state on a regular basis. Even an isolated transaction during the year may be enough to cause the corporation to be "doing business."

Also, when a corporation is either a general partner of a partnership or a member of an LLC that is "doing

business" in California, the corporation is considered to be "doing business" in California.

Corporation income tax

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

For purposes of the corporation income tax, the term "corporation" generally includes:

- Associations;
- Massachusetts or business trusts;
- REITs;
- LLCs electing to be taxed as corporations other than those subject to the corporate franchise tax; and
- Other business entities, including partnerships, electing to be taxed as corporations.

Get FTB Pub. 1063, California Corporation Tax Law — A Guide for Corporations, for more information.

Political organizations that are exempt under R&TC Section 23701r and have political taxable income in excess of \$100 must file Form 100. Political organization taxable income is the amount by which gross income (other than exempt function income) less deductions directly connected with production of such gross income exceeds \$100. See the instructions for Schedule F, Computation of Net Income, included in this booklet. Exempt function income includes amounts received as:

- Contributions of money or property;
- Membership fees, dues, or assessments; or
- Proceeds from the sale of political campaign material that are not received in the ordinary course of any trade or business.

Get FTB Pub. 1075, Exempt Organizations - Guide for Political Organizations, for more information.

Homeowners' associations that are exempt under R&TC Section 23701t and have homeowners' association taxable income must file Form 100. Homeowners' association taxable income is the amount by which gross income (other than exempt function income) less deductions directly connected with the production of such gross income exceeds \$100. See the instructions for Schedule F, Computation of Net Income, included in this booklet.

Exempt function income means amounts received as membership fees, dues, and assessments. Nonexempt gross income of a homeowners' association is defined as all income other than amounts received from membership fees, dues, or assessments.

Note: An exempt homeowners' association may also be required to file Form 199, California Exempt Organization Annual Information Return. Get FTB Pub. 1028, Guidelines for Homeowners' Associations, for more information.

B Tax Rates

The tax rates below apply to corporations subject to either the corporation franchise tax or the corporation income tax.

- Corporations other than banks and financial corporations 8.84%
- Banks and financial corporations 10.84%

C Minimum Franchise Tax

All corporations subject to the franchise tax, including banks, financial corporations, corporate general partners of partnerships, and corporate members of LLCs doing business in California, must file Form 100 and pay at least the minimum franchise tax as required by law. The minimum franchise tax, as indicated below, must be paid whether the corporation is active, inactive, operates at a loss, or

files a return for a short period of less than 12 months.

- Domestic qualified inactive gold or quicksilver mining corporations \$25
- All other corporations subject to franchise tax (see General Information A, Franchise or Income Tax, for definitions) \$800

A combined group filing a single return must pay at least the minimum franchise tax for each corporation in the group that is subject to franchise tax.

Note: For corporations that incorporate or qualify through the California SOS to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California SOS is no longer required. For the first taxable year the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to corporations that are not qualified by the California SOS, or reorganized solely to avoid payment of their minimum franchise tax.

There is no minimum franchise tax for:

- Corporations that derive income from sources within California but are subject to income tax only because they are not "doing business" in California, and are not incorporated or qualified under the laws of California. For more information regarding doing business, get FTB Pub. 1050, Application and Interpretation of Public Law 86-272; FTB Pub. 1060, Guide for Corporations Starting Business in California; or FTB Pub 1063, California Corporation Tax Law — A Guide for Corporations;
- Qualified non-profit farm cooperative associations;
- Credit unions;
- Exempt homeowners' associations;
- Exempt political organizations;
- Exempt organizations;
- Corporations that are not incorporated under the laws of California; whose sole activities in this state are engaging in convention and trade show activities for seven or fewer days during the taxable year; and that do not derive more than \$10,000 of gross income reportable to California during the taxable year. These corporations are not "doing business" in California. For more information, get FTB Pub. 1060, Guide for Corporations Starting Business in California; or FTB Pub. 1063, California Corporation Tax Law — A Guide for Corporations; and
- Newly formed or qualified corporations filing an initial return for a taxable year beginning on or after January 1, 2000.

D Accounting Period/Method

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

A change in accounting method requires consent from the FTB. However, a corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to change its accounting method without prior approval and does so, is deemed to have the FTB's approval if: (1) the corporation files a timely Form 100 consistent with the change for the first year the change becomes effective for federal purpose; and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal

consent to the change must be attached to Form 100 for the first year the change becomes effective. Get FTB Notice 2000-8 for more information. The FTB may modify a requested change if the change would distort income for California purposes.

Note: California is not following the automatic consent procedure for a change of accounting method involving previously unclaimed allowable depreciation or amortization of Federal Revenue Procedure 96-31. Get FTB Notice 96-3 for more information.

E When to File

File Form 100 on or before the 15th day of the 3rd month after the close of the taxable year unless the return is for a short-period as required under R&TC Section 24634. Generally, the due date of a short-period return is the same as the due date of the federal short-period return. See R&TC Section 18601(c) for the due date of a short period return. Farmers' cooperative associations must file Form 100 by the 15th day of the 9th month after the close of the taxable year. See General Information O, Dissolution/Withdrawal, and P, Ceasing Business, for information on final returns.

A corporation that converts to another type of entity, such as a limited liability company or limited partnership, must file two California returns. The converted entity is required to file a short-period return for the taxable year ending on the date of cancellation. The new entity would then be subject to all of the filing requirements and tax due before the effective date of converting.

F Extension of Time to File

If the corporation cannot file its California tax return by the 15th day of the 3rd month after the close of the taxable year, it may file on or before the 15th day of the 10th month without filing a written request for an extension unless the corporation is suspended on the original due date. This does not extend the time for payment of tax; the full amount of tax must be paid by the original due date of Form 100. If there is an unpaid tax liability, complete form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations, included in this booklet, and send it with the payment by the original due date of the Form 100.

Note: If the corporation must pay its tax liability using electronic funds transfer (EFT), **all** payments **must** be remitted by EFT to avoid the EFT penalty. Do not send form FTB 3539.

G Electronic Funds Transfer (EFT)

Corporations that meet certain requirements must remit all of their payments through EFT rather than by paper checks to avoid the 10% non-compliance EFT penalty. Corporations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 must remit all of their payments through EFT. The FTB will notify corporations that are subject to this requirement. Those that do not meet these requirements and wish to participate on a voluntary basis may do so. If you are an EFT taxpayer, complete the form FTB 3539 worksheet for your records. **DO NOT SEND THE PAYMENT VOUCHER.** For more information, go to our Website at www.ftb.ca.gov, call (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

H Where to File

If tax is due, and the corporation is not required to use EFT, make the check or money order payable to the Franchise Tax Board. Write the California corporation number and "2004 Form 100" on the check or money order. Mail the return and payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0501

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

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

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 federal Form 1120, U.S. Corporation Income Tax Return, for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

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

Private Mailbox (PMB) Number

If the corporation leases a 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.

I Net Income Computation

The computation of net income from trade or business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100. There are two ways to complete Form 100, the federal reconciliation method or the California computation method:

1. Federal reconciliation method

- Attach a copy of federal Form 1120 or Form 1120A, Page 1, U.S. Corporation Income Tax Return, all pertinent supporting schedules, or transfer the information from federal Form 1120 or Form 1120A, Page 1, to Schedule F and attach all pertinent schedules;
- Enter the amount of federal ordinary income (loss) from trade or business activities before any NOL on Form 100, Side 1, line 1; and
- Enter state adjustments on line 2 through line 17 to arrive at net income after state adjustments, Side 1, line 18.

2. Schedule F – California computation method

If the corporation has no federal filing requirement or if the corporation maintains separate records for state purposes, complete Form 100, Schedule F, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 30, to Form 100, Side 1, line 1. Complete Form 100, Side 1, line 2 through line 17, only if applicable.

For more information, see the specific line instructions.

Note: Regardless of the net income computation method used, the corporation must attach any form, schedule, or supporting document referred to on the return, schedules, or forms filed with the FTB.

J Alternative Minimum Tax (AMT)

Corporations that claim certain types of deductions, exclusions, and credits may be subject to California AMT. Generally, corporations that complete federal Form 4626, Alternative Minimum Tax — Corporations, must also complete California Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations. See Schedule P (100), included in this booklet, for more information.

K Estimated Tax

Every corporation must pay estimated tax using Form 100-ES, Corporation Estimated Tax. Estimated tax is generally due and payable in four installments:

- The 1st payment is due by the 15th day of the 4th month of the taxable year (note that this payment may not be less than the minimum franchise tax, if applicable); and
- The 2nd, 3rd, and 4th installments are due and payable by the 15th day of the 6th, 9th, and 12th months respectively, of the taxable year.

Caution: If no amount is due, **DO NOT** mail Form 100-ES.

California law has conformed to the federal expanded annualization periods for the computation of estimate payments. For taxable years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

Get the instructions for Form 100-ES for more information.

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

L Commencing Corporations

For taxable years beginning on or after January 1, 2000, no minimum tax is required for the first taxable year if the corporation incorporated or registered through the California SOS. For more information, see General Information C, Minimum Franchise Tax, or get FTB Pub. 1060, Guide for Corporations Starting Business in California.

M Penalties

Failure to file a timely return

Any corporation that fails to file Form 100 on or before the extended due date is assessed a penalty. The penalty is 5% of the unpaid tax for each month, or part of the month, the return remains unfiled from the due date of the return until filed. The penalty may not exceed 25% of the unpaid tax. If a corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return. See R&TC Sections 19131 and 23772 for more information.

Failure to pay total tax by the due date

Any corporation that fails to pay the total tax shown on Form 100 by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months), the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax. See R&TC Section 19132 for more information.

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

Underpayment of estimated tax

Any corporation that fails to pay, pays late, or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment for the underpayment period. Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

See R&TC Sections 19142, 19144, 19145, 19147, 19148, 19149, 19150, 19151, and 19161 for more information.

Note: If the corporation uses Exception B or Exception C to compute or eliminate any of the four installments, form FTB 5806 must be attached to the front of Form 100 and the box on Side 1, line 42b should be checked.

EFT Penalty

If the corporation must pay its tax liability using EFT, all payments must be remitted by EFT to avoid the EFT penalty. The EFT penalty is 10% of the amount not paid by EFT. See R&TC Section 19011 and General Information G, Electronic Funds Transfer (EFT), for more information.

Information reporting penalties

For taxable years beginning on or after January 1, 1997, U. S. corporations that have an ownership interest (directly or indirectly) in a foreign corporation and were required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failure to include a copy of federal Form(s) 5471, as required, is \$1,000 per required form for each year the failure occurs. The penalty applies for taxable years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(ies) of federal Form 5471 to all returns filed for subsequent years.

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100. The penalty for failing to include Form(s) 5472, as required, is \$10,000 per required form for each year the failure occurs. See R&TC Section 19141.5 for more information.

If the corporation does not file its Form 100 by the due date or extended due date, whichever is later, copies of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copies indicating the taxpayer's name, California corporation number, and taxable year. Mail to the same address used for returns without payments. See General Information H, Where to File. When the corporation files Form 100, also attach copies of the federal Form(s) 5472.

Record maintenance penalty

The penalty for failure to maintain certain records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the corporation of the failure, in general, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed.

See "Important Information" starting on page 3 for a discussion of the records required to be maintained. See R&TC Section 19141.6 and the related regulations for more information.

Accuracy and fraud related penalties

California conforms to IRC Sections 6662 through 6665 that authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment, and the imposition of a fraud penalty equal to 75% of the related underpayment. See R&TC Section 19164 for more information.

California Secretary of State (SOS) penalty

The California Corporations Code requires the FTB to assess a penalty for failure to file an annual Statement of Information with the California SOS. For more information, see R&TC Section 19141 or contact:

STATEMENT OF INFORMATION UNIT
ATTENTION: PENALTY
CALIFORNIA SECRETARY OF STATE
PO BOX 944230
SACRAMENTO CA 94244-2300
Telephone: (916) 657-3537

Other penalties

Other penalties may be imposed for a check returned for insufficient funds, non-U.S. foreign corporations operating while forfeited or without qualifying to do business in California, and domestic corporations operating while suspended in California. See R&TC Sections 19134 and 19135 for more information.

N Interest

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

O Dissolution/Withdrawal

The corporation must fill in the applicable box on Form 100, Side 1, question A, if dissolving, merging, or withdrawing. The date should be the date the corporation filed with California SOS.

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

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

To claim this credit, add this amount to the value on line 35. Make a notation to the right of Side 1, line 35: "Dissolving/Withdrawing."

The return for the final taxable period is due on or before the 15th day of the 3rd full month after the month during which the corporation formally dissolved or withdrew.

To get [samples and/or forms](#) for filing a dissolution, surrender, or merger agreement address your request to:

LEGAL REVIEW
CALIFORNIA SECRETARY OF STATE
1500 11TH ST 3RD FLOOR
SACRAMENTO CA 95814-5701
Telephone: (916) 657-5448

P Ceasing Business

For taxable years beginning on or after January 1, 2000 (other than the first taxable year beginning on or after that date), the tax for the final year in which the corporation does business in California is determined according to or measured by its net income for the taxable year during which the corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum franchise tax.

For more information, see R&TC Section 23151.1.

The unreported income on installment obligations, the distribution of notes, and the distribution of corporate assets (land, buildings) at a gain must be included in income in the year of cessation. There is no federal law counterpart regarding this issue.

For more information, see R&TC Sections 24672 and 24451.

Note: A domestic or qualified corporation will remain subject to the minimum franchise tax for each year it is in existence until a certificate of dissolution (and certificate of winding up, if necessary), or certificate of withdrawal is filed with the California SOS. See General Information O, Dissolution/Withdrawal, and R&TC Sections 23331 through 23335 for more information.

Q Suspension/Forfeiture

If a corporation does not file Form 100 and/or does not pay any tax, penalty, or interest due, its powers, rights, and privileges may be suspended (in the case of a domestic corporation) or forfeited (in the case of a foreign corporation).

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

Such contracts will remain voidable and unenforceable unless the corporation applies for relief from contract voidability and the FTB grants relief.

See R&TC Sections 19135, 19719, 23301, 23305.1, and 23305.2 for more information.

R Apportionment of Income

Corporations with business income attributable to sources both within and outside of California are required to apportion such income. To calculate the apportionment percentage, use Schedule R, Apportionment and Allocation of Income. Be sure to answer Question M on Form 100, Side 2.

S Combined Report

If two or more corporations are engaged in a unitary business and derive income from sources within and outside of California, the members of the unitary group that are subject to California's franchise or income tax are required to apportion the combined income of the entire unitary group in order to compute the measure of the tax.

If the income of a unitary group is derived wholly from California sources, its members may either file returns on a separate accounting basis or file on a combined report basis.

Members of a unitary group may elect to file a group single return by filing Schedule R-7, Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations. For more information, get Schedule R.

A combined unitary group's single return must present the group's data by separate corporation, as well as totals for the combined group.

The total combined tax, which must include at least the applicable minimum franchise tax for each corporation subject to the franchise tax, must be shown on Form 100, Side 1, line 24.

For more information, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

T Preparer Tax Identification Number

Tax preparers have the option of providing their individual Social Security Number (SSN) or Preparer Tax Identification Number (PTIN) on returns they prepare. Preparers who want a PTIN must complete and submit federal Form W-7P, Application for Preparer Tax Identification Number, to the IRS.

U Amended Return

To correct or change a previously filed Form 100, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. File Form 100X within six months after the corporation filed an amended federal return or after the final federal determination, if the IRS examined and changed the corporation's federal return.

V Information Returns

Every corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns to report the amount of such payments. Payments that must be reported include, but are not limited to:

- Payments exceeding \$600 annually for compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties, legal services whether or not the payee is incorporated, interest (such as interest charged for late payment), and pensions;
- Payments exceeding \$10 annually for interest earned and dividends;
- All payment amounts made by a broker or barter exchange;
- All payment amounts for gross proceeds paid to an attorney whether or not the services are performed for the payer; and
- Cash payments over \$10,000 received in a trade or business.

See instructions for federal Forms 1099 (series), 1098, 5498, and W-2-G; federal Publication 1220, Specifications for Filing Forms 1098, 1099, 5498 and W-2-G Electronically or Magnetically; form FTB 4227, A Guide to Information Returns Filed With California; and form FTB 8305, Reporting Requirements for Forms 1098, 1099, 5498, and W-2-G.

Report payments to FTB and IRS using the appropriate federal form. Reports must be made for the calendar year. Federal Forms 1099 (series), 1098, and W-2-G's are due no later than February 28th and federal Form 5498 is due by May 30th of the year following payment. However, if the due date falls on a holiday or weekend, it is extended to the next business day. Federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, is due within 15 days after the date of the transaction.

California requires corporations to report to FTB interest paid on municipal bonds held by California taxpayers and issued by a state other than California,

or a municipality other than a California municipality. Entities paying interest to California residents on these types of bonds are required to report interest payments aggregating \$10 or more and paid after January 1, 2004. These information returns will be due June 1, 2005. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information, for more information.

California conforms to the information reporting requirements imposed under IRC Sections 6038 through 6038C. Any federal Forms 5471, 5472, or 926 required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. These federal information returns should be attached to the Form 100 when filed. If these information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

W Net Operating Loss (NOL)

For taxable years beginning on or after January 1, 2004, California has reinstated the NOL carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations inside this booklet.

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by corporations.

R&TC Sections 24416 through 24416.7 and R&TC Section 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area designated by the President of the United States or the Governor of California as a disaster area. Losses taken into account under the disaster provisions may not be included in computing regular NOL deductions.

For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations (included in this booklet), or get form FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation — Pierce's Disease; form FTB 3805Z, Enterprise Zone Business Booklet; form FTB 3806, Los Angeles Revitalization Zone Business Booklet; form FTB 3807, Local Agency Military Base Recovery Area Business Booklet; or form FTB 3809, Targeted Tax Area Business Booklet.

X Limited Liability Companies (LLCs)

California law authorizes the formation of LLCs and recognizes out-of-state LLCs registered or doing business in California. The taxation of an LLC in California depends upon its classification as a corporation, partnership, or "disregarded entity" for federal tax purposes.

If an LLC elects to be taxed as a corporation for federal tax purposes, it must file Form 100. LLCs electing to be taxed as corporations are subject to the applicable provisions of the Corporation Tax Law and should be considered a corporation for purpose of all

instructions unless otherwise indicated. Also, the Franchise Tax Board will assign an identification number to an LLC that files as a corporation. The LLC will be notified of this identification number upon receipt of the first estimated tax payment or the first tax return.

If an LLC elects to be taxed as a partnership for federal tax purposes, it must file Form 568. LLCs taxed as partnerships determine their income, deductions, and credits under the Personal Income Tax Law and are subject to an annual tax as well as an annual fee based on total income.

If a single member LLC is disregarded for federal tax purposes, it must file Side 1 and Side 3 of Form 568. A disregarded LLC reports its income, deductions, and credits on the return of its owner. However, an LLC that is disregarded is subject to the annual LLC tax as well as a fee based on total income. Form 568, Side 1, provides the FTB with information on the sole owner of the LLC, contains the owner's consent to be taxed on the income of the LLC, and provides for the computation of the LLC tax and fee.

Y New Corporations

New corporations, which begin business on or after January 1, 2000, are no longer required to prepay minimum franchise tax to the California SOS.

For taxable years beginning on or after January 1, 2000, no minimum franchise tax will be due with the initial return. However, the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rates.

Z California Use Tax

The use tax has been in effect in California since July 1, 1935. It applies to purchases from out-of-state sellers and is similar to the sales tax paid on purchases made in California.

In general, corporations must pay California use tax on purchases made from out of state (for example, by telephone, over the Internet, by mail, or in person) if

- The seller does not collect California sales or use tax, and
- The corporation uses, gives away, stores, or consumes the item in this state.

Example: The corporation purchases a conference table from a company in North Carolina. The company ships the table from North Carolina to the corporation's address in California for the corporation's use and does not charge California sales or use tax. The corporation owes use tax on the purchase.

Complete the Use Tax Worksheet on page 11 to calculate the amount due.

Extensions to file. If the corporation requests an extension to file the tax return, wait until the corporation files the return to report the purchases subject to use tax and to make the use tax payment.

Changes in use tax reported. Do not file an Amended Corporation Franchise or Income Tax Return to revise the use tax previously reported. If the corporation has changes to the amount of use tax previously reported on the original tax return, contact the State Board of Equalization.

For assistance, please visit the State Board of Equalization's website at www.boe.ca.gov or call their Information Center at (800) 400 7115 or TTY/TDD (800) 735-2929. Income tax information is not available at this number.

Specific Line Instructions

For taxable years beginning on or after January 1, 2000, C corporations filing on a water's-edge basis are required to use Form 100W to file their California tax return. Get Form 100W, Water's-Edge Booklet, for more information.

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

- California corporation number (seven digits);
- Federal employer identification number (FEIN) (nine digits); and
- Corporation name and address (include PMB no., if applicable).

File the 2004 Form 100 for calendar year 2004 and fiscal years that begin in 2004. Enter taxable year beginning and ending dates **only** if the return is for a short year or a fiscal year. If the corporation reports its income using a calendar year, leave the date area blank. If the return is being filed for a short period (less than 12 months), write "short year" in red in the top margin. Convert all foreign monetary amounts to U.S. dollars.

Note: The 2004 Form 100 may also be used if:

- The corporation has a taxable year of less than 12 months that begins and ends in 2005; and
- The 2005 Form 100 is not available at the time the corporation is required to file its return. The corporation must show its 2005 taxable year on the 2004 Form 100 and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2004.

Questions A through Z

Answer all applicable questions and attach additional sheets, if necessary. Be sure to answer Questions E through Z on Form 100, Side 2. Note the following instructions when answering:

Question E – Principal business activity (PBA) code
All corporations **must** answer Question E.

Include the six digit PBA code from the chart found on page 15 through page 17 of this booklet. The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California PBA code number may be different from the federal PBA code number.

If, as its principal business activity, the corporation: (1) Purchases raw material; (2) Subcontracts out for labor to make a finished product from the raw materials; and (3) Retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes under "Manufacturing." Also, write in the business activity and the principal product or service on the lines provided.

Question J – Transfer or acquisition of voting stock
All corporations **must** answer Question J. If the answer is "Yes," a Statement of Change in Control and Ownership of Legal Entities (BOE-100-B), must be filed with the California State Board of Equalization (BOE), or substantial penalties may result. Forms and information may be obtained from the BOE Website at www.boe.ca.gov or by calling (916) 323-5685.

Answer "Yes" if:

- The percentage of outstanding voting shares of this corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively exceeded 50% during this year; or
- The total of voting shares transferred to one irrevocable trust cumulatively exceeded 50% during this year; or

- One or more irrevocable proxies transferred voting rights to more than 50% of the outstanding shares to **one** person or **one** entity during this year; or
- This corporation's cumulative ownership or control of the stock or other ownership interest in any legal entity exceeded 50% during this year; or
- Cumulatively more than 50% of the total outstanding shares of this corporation have transferred, changed ownership or control during this year.

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

Question L – Reportable Transaction, Listed Transaction or Registered Tax Shelter

A Reportable Transaction is any transaction as defined in R&TC Section 18407 and Treas. Reg. Section 1.6011-4 and includes, but is not limited to:

- A Listed Transaction, or a transaction that is substantially similar to a listed transaction, which has been identified by the IRS or the FTB to be a tax avoidance transaction.
- A Confidential Transaction, which is offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which provides the taxpayer with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained.
- A loss transaction under Section 165 which is at least \$10 million in any one-year or \$20 million in any combination of tax years. (Those numbers would be reduced to \$2 million and \$4 million on the Form 100S.)
- A transaction with a significant book-tax difference.
- A transaction where the taxpayer is claiming a tax credit of greater than \$250,000 and held the asset for less than 45 days.

A Listed Transaction is a specific transaction, or one that is substantially similar, which has been identified by the IRS or the FTB to be a tax avoidance transaction.

A Registered Tax Shelter is any investment, which is required to be registered with the IRS under IRC Section 6111.

Question S – Regulated Investment Company (RIC)
California conforms to federal law for taxable years beginning on or after January 1, 1998, for the provisions related to the repeal of the 30% gross income test for RICs.

Question T – Real Estate Mortgage Investment Conduit (REMIC)

If a corporation is a REMIC for federal purposes, it is deemed to be a REMIC for California purposes. A REMIC is subject to the minimum franchise tax but is not subject to the income or franchise tax. The income of a REMIC is taxable to the holders of the REMIC interests. In order to qualify, substantially all of the assets of the entity must consist of "qualified mortgages" and "permitted investments." See the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return, to determine if the corporation qualifies. California law is the same as federal law, except California does not impose a tax on prohibited transactions, as defined in IRC Section 860F. The income or gain from such prohibited transactions remains includible in the California tax base. If the corporation is a REMIC for federal purposes, answer "Yes" to Question T, complete Form 100 and attach a copy of federal Form 1066.

Question U – Real Estate Investment Trust (REIT)

California tax law has partially conformed to the REIT provisions of the Ticket to Work and Work Incentives improvement Act of 1999 (Public Law 106-170) for taxable years beginning on or after January 1, 2001, except for the provisions relating to income from redetermined rents, redetermined deductions, and excess interest. Additionally, a federal election to treat property as foreclosure property under IRC Section 856(e)(5) is considered to be an election for California as well. No separate elections are allowed.

Question V – Limited Liability Company (LLC) or Limited Partnership

Answer "Yes" only if the business entity for which the Form 100 is being filed is organized as an LLC or limited partnership but is classified as a corporation for federal tax purposes. An LLC classified as a partnership for federal purposes should generally file Form 568. A limited partnership should file Form 565.

Question Z - Corporations That Own 80% of Insurance Company

One of the provisions of AB 263 (Stats.2004 ch.868) includes a reporting requirement to the Legislature. To meet this requirement, FTB may contact any corporation who answers, "yes" for additional information.

Line 1 through Line 42

Line 1 – Net income (loss) before state adjustments
Corporations using the federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120, line 28; or federal Form 1120A, line 24, to Form 100, Side 1, line 1; and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120 or Form 1120A, Page 1, onto Schedule F and transfer the amount from Schedule F, line 30, to Form 100, Side 1, line 1.
- Then, complete Form 100, Side 1, line 2 through line 17, State Adjustments.

Corporations using the California computation method to figure net income (see General Information I) must transfer the amount from Side 3, Schedule F, line 30, to Side 1, line 1. Complete Form 100, Side 1, line 2 through line 17, only if applicable.

Line 2 through Line 17 – State adjustments

To figure net income for California purposes, corporations using the federal reconciliation method must enter California adjustments to the federal net income on line 2 through line 17. If a specific line for the adjustment is not on Form 100, corporations must enter the adjustment on line 8, Other additions, or line 16, Other deductions, and attach a schedule that explains the adjustment.

Line 2 and Line 3 – Taxes not deductible

California does not permit a deduction of California corporation franchise or income taxes or any other taxes on, according to, or measured by net income or profits. Such taxes that are shown on Form 100, Schedule A, must be added to income by entering the amount on Side 1, line 2 or line 3 (see Schedule A, column (d) for the amount to be added to income). California does not permit a deduction for environmental taxes imposed by IRC Section 59A.

The LLC fee is not a tax, R&TC Section 17942; therefore, it is deductible. Do not include any part of an LLC fee on line 2 or line 3.

Line 4 – Interest on government obligations

Corporations subject to California franchise tax must report all interest received on government obligations

(such as federal, state, or municipal bonds). On line 4, enter all interest on government obligations that is not included in federal ordinary income (loss).

Corporations subject to California corporation income tax, see instructions for line 16.

Line 5 – Net California capital gain

Complete Schedule D on Side 2 of Form 100 and enter the California net capital gain from Schedule D, line 11.

See FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for instructions on determining the net capital gain when a combined report is filed.

Line 6 and line 12 – Depreciation and amortization

California law is substantially different from federal law for corporations.

Complete form FTB 3885, Corporation Depreciation and Amortization (included in this booklet), to determine the amounts to enter on line 6 or line 12.

Line 7 – Net income not included in federal consolidated return

Use this line to report the net income from corporations included in the combined report but not included in the federal consolidated return.

Line 8 – Other additions

Any miscellaneous items that must be added to arrive at net income after state adjustments (line 18) should be shown on this line. Attach a schedule to itemize amounts.

If any federal contribution deduction was taken in arriving at the amount entered on Form 100, Side 1, line 1, include that amount on line 8.

California ordinary net gain or loss. Enter any California ordinary net gain or loss from Schedule D-1, Sales of Business Property. Attach Schedule D-1.

Line 10 – Dividend deduction

Complete Schedule H (100), Dividend Income Deduction, included in this booklet. Enter the total amount from Part I, line 7, column d on Form 100, line 10.

Line 13 – Federal capital gain net income

Enter the federal capital gain net income from federal Form 1120 or Form 1120A, line 8. The California net capital gain should have been added to income on line 5.

Line 14 – Contributions

The contribution deduction for a California corporation is limited to the adjusted basis of the assets being contributed.

For taxable years beginning on or after January 1, 1996, the contribution deduction is limited to 10% of California net income. Carryover provisions per IRC Section 170(d)(2) apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100 format, complete Form 100, Side 1, line 1 through line 18 without regard to line 14, Contributions. If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as a positive number on line 8 of the Form 100 formatted worksheet. Enter the adjusted basis of the assets contributed on line 5 of the following worksheet. Then complete the worksheet that follows to determine the contributions to enter on line 14.

1. Net income after state adjustments from Side 1, line 18
2. Deduction for dividends received
3. Net income for contribution calculation purposes. Add line 1 and line 2

4. Contributions. Multiply line 3 by 10% (.10)
5. Enter the amount actually contributed
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 14

Get Schedule R to figure the contribution computation for apportioning corporations.

Line 15 – EZ, LAMBRA, or TTA, business expense and EZ net interest deduction

Businesses conducting a trade or business within an Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), or Target Tax Area (TTA), may elect to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z; form FTB 3807; or form FTB 3809.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business within an EZ. For more information, get form FTB 3805Z.

Be sure to attach form FTB 3805Z; form FTB 3807; or form FTB 3809 if any of these benefits are claimed. If the proper form is not attached, these tax benefits may be disallowed.

Line 16 – Other deductions

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

For corporations subject to income tax (instead of the franchise tax), interest received on obligations of the federal government and on obligations of the state of California and its political subdivisions is exempt from income tax. If such interest is reported on line 4, it must be deducted on line 16.

Federal ordinary net gain or loss. Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property.

Line 19 – Net income (loss) for state purposes

If all corporate income is derived from California sources, transfer the amount on line 18 directly to line 19.

If only a portion of income is derived from California sources, complete Schedule R before entering any amount on line 19. Transfer the amount from Schedule R, line 35, to Form 100, line 19. Be sure to answer "Yes" to Question M on Form 100, Side 2.

If this line is a net loss, complete and attach the 2004 form FTB 3805Q to Form 100.

Line 20, Line 21, and Line 22

Note: The order in which line 20, line 21, and line 22 appear is not meant to imply the order in which any NOL carryover deduction or disaster loss deduction should be taken if more than one type of deduction is available.

Line 20 – Net operating loss (NOL) carryover deduction

The NOL carryover deduction is the amount of the NOL carryover from prior years that may be deducted from income in the current taxable year.

If line 19 is a positive amount, enter the NOL carryover deduction from the 2004 form FTB 3805Q, Part III, line 3 on Form 100, line 20. The loss may not reduce current year income below zero. Any excess loss must be carried forward. Attach a copy of the 2004 form FTB 3805Q to Form 100.

If the full amount of the NOL carryover may not be deducted this year, complete and attach a 2004 form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 19 is a negative amount, corporations may not claim an NOL carryover deduction.

Enter -0- on line 20. See the 2004 form FTB 3805Q instructions to compute the NOL carryover to future years.

If the corporation terminates its election to be taxed as an S corporation, thus becoming a C corporation, then only that portion of the prior NOL carryover incurred while it had C corporation status may be used to the extent it has not expired.

Line 21 – Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction

An NOL generated by a farming business due to Pierce's disease or a business that operates (operated) or invests (invested) within an EZ, the former LARZ, the TTA, or a LAMBRA receives special tax treatment. The loss may not reduce the corporation's current year income below zero. Any excess loss must be carried forward. Compute the corporation's Pierce's disease, EZ, TTA, or LAMBRA NOL using form FTB 3805D; form FTB 3805Z; form FTB 3809; or form FTB 3807, respectively.

Enter the Pierce's disease, EZ, TTA, LAMBRA, or former LARZ NOL carryover deduction from the corporation's form FTB 3805D; form FTB 3805Z; form FTB 3809; form FTB 3807; or form FTB 3806; on Form 100, line 21. Attach a copy of the appropriate NOL form to the Form 100.

Line 22 – Disaster loss carryover deduction

If you have a disaster loss carryover deduction, enter the total amount from the 2004 form FTB 3805Q, Part III, line 1, only if you have income in the current year. The loss may not reduce current year income below zero. Any excess loss must be carried forward.

Line 24 – Tax

Use rates listed in General Information B, Tax Rates, and C, Minimum Franchise Tax.

Line 25 through Line 27 – Tax credits

A variety of tax credits are available to California corporations to reduce tax. However, corporations may not reduce the tax (line 24) below the minimum franchise tax, if applicable.

Also, the amount of the credit that a corporation is allowed to claim may be limited. Generally, if the corporation completed federal Form 4626, Alternative Minimum Tax – Corporations, the corporation may have limited credits. Complete Schedule P (100) (included in this booklet) to compute this limitation.

Corporations claiming the following credits are not subject to the tentative minimum tax limitation.

- Enterprise zone hiring & sales or use tax credit;
- LARZ construction hiring & sales or use tax credit carryover;
- Solar energy credit carryover (Code 180);
- Commercial solar energy credit carryover;
- Commercial solar electric system credit;
- Research credit;
- Orphan drug credit carryover;
- Low-income housing credit;
- Manufacturers' investment credit carryover;
- Targeted tax area hiring and sales or use tax credit;
- Natural heritage preservation tax credit;
- Program area sales and use tax and hiring credit carryover; and
- Clinical testing expense credit carryover.

Each credit is identified by a code number. See the credit code chart on page 14. To claim one or two credits, enter the credit name, code number, and the amount of the credit on line 25 and line 26. To claim more than two credits, use Schedule P (100). List two of the credits on line 25 and line 26. Enter the total of any remaining credits from Schedule P (100)

on line 27. Do not make an entry on line 27 unless line 25 and line 26 are complete.

To figure tax credits, use the appropriate form or schedule. If the corporation claims a credit carryover for an expired credit, use form FTB 3540, Credit Carryover Summary, to figure the amount of credit, unless the corporation is required to complete Schedule P (100). In that case, enter the amount of the credit on Schedule P (100) and complete Schedule P (100). Do not attach form FTB 3540.

Attach the credit form or schedule and Schedule P (100), if applicable, to Form 100.

Line 29 – Balance

Subtract line 28 from line 24. Enter the result or the applicable minimum franchise tax, whichever is more. See General Information C, Minimum Franchise Tax.

Line 30 – Alternative minimum tax (AMT)

Enter on this line the AMT from Schedule P (100), Part I, line 19, or Part II, line 18, whichever is applicable.

Line 33 – 2004 Estimated tax payments

Enter the total amount of estimated tax payments made during the 2004 taxable year on this line.

Line 34 – 2004 Nonresident or real estate withholding

Enter the 2004 nonresident or real estate withholding credit from Form(s) 592-B, 593-B, or 594. Attach a copy of the form(s) to the lower front of Form 100, Side 1.

Line 37 and Line 38 – Tax due or overpayment

Revise the amount of tax due or overpayment, if applicable, by the amount on Side 2, Schedule J, line 6. See instructions for Schedule J.

Line 39 – Amount to be credited to 2005 estimated tax

If the corporation chooses to have the overpayment credited to next year's estimated tax payment, the corporation cannot later request that the overpayment be applied to the prior year to offset any tax due.

Line 40 – Use Tax

As explained under General Information Z, the corporation may owe California use tax on purchases from out-of-state sellers (for example, purchases made by telephone, over the Internet, by mail, or in person). If the corporation has questions on whether a purchase is taxable, visit the State Board of Equalization's website at www.boe.ca.gov, or call the Board's Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929.

The corporation may report use tax on the Corporation Franchise or Income Tax Return instead of filing a use tax return with the State Board of Equalization. To report use tax on the corporation tax return, complete the Use Tax Worksheet on this page.

If the corporation owes use tax but chooses not to report it on the tax return, the corporation must report and pay the tax to the State Board of Equalization. To do so, download a copy of Publication 79-B, California Use Tax, from www.boe.ca.gov. The corporation can also request a copy by calling the Board's Information Center.

Note: Businesses that have a California seller's permit must continue to report business purchases subject to use tax on their sales and use tax returns.

| Use Tax Worksheet | |
|---|--------------|
| Round all amounts to the nearest whole dollar. | |
| 1. Enter purchases from out-of-state or Internet sellers made without payment of California sales/use tax. See worksheet instructions below | \$ _____ .00 |
| 2. Enter the decimal equivalent of the applicable sales and use tax rate. See worksheet instructions below. | _____ |
| 3. Multiply line 1 by the tax rate on line 2. Enter result here. | \$ _____ .00 |
| 4. Enter any sales or use tax you paid to another state for purchases included on line 1. See worksheet instructions below | \$ _____ .00 |
| 5. Total use Tax Due. Subtract line 4 from line 3. Enter the amount here and on Form 100, line 40. If the amount is less than zero, enter -0- | \$ _____ .00 |

Worksheet, Line 1, Purchases Subject to Use Tax

- Report items that would have been taxable in a California store, such as office equipment and supplies.
- Include handling charges.
- Do not include any other state's sales or use tax paid on the purchases.
- Enter only purchases made during the year that corresponds with the tax return you are filing.

Note: Do not report the following on your income tax return:

- Vehicles, vessels, and trailers that must be registered with the Department of Motor Vehicles.
- Mobile homes or commercial coaches that must be registered annually as required by the Health and Safety Code.
- Vessels documented with the U.S. Coast Guard.
- Aircraft.
- Leases of machinery, equipment, vehicles, and other tangible personal property.

Worksheet, Line 2, Sales and Use Tax Rate

- Enter the decimal equivalent of the sales and use tax rate applicable to the place in California where the property is used, stored, or otherwise consumed. For example, the decimal equivalent of 7.25% is 0.0725, and the decimal equivalent of 7.375% is 0.07375.
- If the organization does not know the applicable rate, see the table below, "Sales and Use Tax Rates by County." If the organization has questions regarding the use tax rate in effect in your area, please visit the State Board of Equalization's Website at www.boe.ca.gov or call the Board's Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929.

Worksheet, Line 4, Credit for Tax Paid to Another State

- This is a credit for tax paid to other states. The organization cannot claim a credit greater than the amount of tax that would have been due if the purchase had been made in California. For example, if the organization paid \$8.00 sales tax to another state for a purchase, and would have paid \$6.00 in California, it can claim a credit of only \$6.00 for that purchase.

Sales and Use Tax Rates by County
(includes state, local, and district taxes)
As of December 31, 2004

| County | Rate | County | Rate |
|--------------------------|--------|-------------------------|--------|
| Alameda ¹ | 8.75% | Orange | 7.75% |
| Alpine | 7.25% | Placer | 7.25% |
| Amador | 7.25% | Plumas | 7.25% |
| Butte | 7.25% | Riverside | 7.75% |
| Calaveras | 7.25% | Sacramento | 7.75% |
| Colusa | 7.25% | San Benito | 7.25% |
| Contra Costa | 8.25% | San Bernardino | 7.75% |
| Del Norte | 7.25% | San Diego | 7.75% |
| El Dorado ³ | 7.25% | San Francisco | 8.50% |
| Fresno ³ | 7.875% | San Joaquin | 7.75% |
| Glenn | 7.25% | San Luis Obispo | 7.25% |
| Humboldt ³ | 7.25% | San Mateo | 8.25% |
| Imperial ³ | 7.75% | Santa Barbara | 7.75% |
| Inyo | 7.75% | Santa Clara | 8.25% |
| Kern | 7.25% | Santa Cruz ³ | 8.00% |
| Kings | 7.25% | Shasta | 7.25% |
| Lake ³ | 7.25% | Sierra | 7.25% |
| Lassen | 7.25% | Siskiyou | 7.25% |
| Los Angeles ³ | 8.25% | Solano | 7.375% |
| Madera | 7.75% | Sonoma ³ | 7.50% |
| Marin | 7.25% | Stanislaus | 7.375% |
| Mariposa ² | 7.25% | Sutter | 7.25% |
| Mendocino ³ | 7.25% | Tehama | 7.25% |
| Merced | 7.25% | Trinity | 7.25% |
| Modoc | 7.25% | Tulare ³ | 7.25% |
| Mono | 7.25% | Tuolumne | 7.25% |
| Monterey | 7.25% | Ventura | 7.25% |
| Napa | 7.75% | Yolo ³ | 7.25% |
| Nevada ³ | 7.375% | Yuba | 7.25% |

- 1 The tax rate in the county of Alameda prior to July 1, 2004, was 8.25%.
- 2 The tax rate in the county of Mariposa prior to July 1, 2004, was 7.75%.
- 3 Many cities in California impose a district tax, which results in a higher sales and use tax rate than in other parts of the county. If the organization is reporting an item that was purchased for use in any of the following cities, please use the appropriate tax rates for those areas. The following tax rates apply within the city limits of the listed community.

| County | City | Citywide Rate |
|-------------|---|---------------|
| El Dorado | Placerville | 7.50% |
| Fresno | Clovis | 8.175% |
| Humboldt | Trinidad (effective 10/01/2004) ^a | 8.25% |
| Imperial | Calexico | 8.25% |
| Lake | Clearlake | 7.75% |
| Los Angeles | Avalon | 8.75% |
| Mendocino | Pont Arena (effective 4/01/2004) ^b | 7.75% |
| Mendocino | Willits | 7.75% |
| Nevada | Town of Truckee | 7.875% |
| Santa Cruz | Santa Cruz (effective 7/01/2004) ^c | 8.25% |
| Sonoma | Sebastopol | 7.625% |
| Tulare | Visalia (effective 7/01/2004) ^d | 7.50% |
| Yolo | Davis (effective 7/01/2004) ^e | 7.75% |
| Yolo | West Sacramento | 7.75% |
| Yolo | Woodland | 7.75% |

- a) The tax rate in Trinidad prior to October 1, 2004, was 7.25%.
- b) The tax rate in Point Arena prior to April 1, 2004, was 7.25%.
- c) The tax rate in Santa Cruz prior to July 1, 2004, was 8.00%.
- d) The tax rate in Visalia prior to July 1, 2004, was 7.25%.
- e) The tax rate in Davis prior to July 1, 2004, was 7.25%. April 1, 2003 is 7.25%.

Line 41 – Refund

Direct Deposit of Refund (DDR)

Direct deposit is fast, safe, and convenient. To have the refund directly deposited into the corporation's bank account, enter the account information on Form 100, Side 1, line 41a, 41b, and 41c. Please be sure to fill in **all** the information.

Do not attach a voided check or deposit slip. The illustration on page 13 shows which bank numbers to transfer to Form 100, Side 1, line 41a and line 41c.

To cancel the direct deposit of refund, call FTB at (916) 845-0353. FTB is not responsible when a financial institution rejects a direct deposit. If FTB, the bank, or financial institution rejects the direct deposit due to an error in the routing number or account number, FTB will issue a paper check.

Line 42 – Penalties and interest

Enter on line 42a the amount of any penalties and interest due. Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, to the front of Form 100, if Exception B or Exception C is used in computing or eliminating the penalty. Be sure to check the box on line 42b.

Schedules

Schedule A – Taxes Deducted

Enter the nature of the tax, the taxing authority, the total tax, and the amount of the tax that is not deductible for California purposes on Form 100, Side 3, Schedule A.

Schedule D – Capital Gain or Loss

California law does not conform to the federal reduced capital gains tax rates. California taxes capital gains at the same rate as other types of income. California does not allow a three-year carryback of capital losses.

Enter any unused capital loss carryover from 2003 on Schedule D, line 3.

For information regarding the application of the capital loss limitation and the capital loss carryover in a combined report, see Cal. Code Regs., tit. 18 section 25106.5-2 and FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Schedule F – Computation of Net Income

See General Information I, Net Income Computation, for information on net income computation methods.

Line 13 – Salaries and Wages

Gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised on or after January 1, 1997, and before January 1, 2001, can be excluded from gross income if the individual's earned income is \$40,000 or less. The exclusion from gross income is subject to AMT and the corporation is not allowed a deduction for the compensation excluded from the employee's gross income. For more information, see R&TC Section 24602.

Line 28 – Specific deduction for 23701r or 23701t organizations

Political organizations

A political organization exempt under R&TC Section 23701r must file Form 100 and report "political taxable income" in excess of \$100.

"Political taxable income" means all amounts received during the taxable year other than:

- Contributions of money or other property;
- Membership fees, dues, or assessments; and
- Proceeds from political fundraising or entertainment events, or proceeds from the sale of political campaign material not received in the ordinary course of any trade or business.

Political organizations are not subject to the minimum franchise tax nor are they required to make estimate payments. The tax is computed under Chapter 3 of the Corporation Tax Law.

Enter the \$100 limit on Schedule F, line 28, as a qualified "specific deduction."

Exempt homeowners' associations

A homeowners' association exempt under R&TC Section 23701t must file Form 100 if it received nonexempt function gross income in excess of \$100. Form 100 may be required in addition to Form 199, California Exempt Organization Annual Information Return.

Nonexempt function gross income means gross income received during the taxable year other than amounts received from membership fees, dues, or assessments. Nonexempt function gross income includes the gross amount of such items as, but not limited to: interest, dividends, rents, royalties, sale of assets, and income from nonmembers.

Exempt homeowners' associations are not subject to the minimum franchise tax. The tax is computed under Chapter 3 of the Corporation Tax Law. Under Chapter 3, estimated tax payments may be required. Form 100 is due within 2 months and 15 days after the close of the taxable year.

Enter the \$100 limit on Schedule F, line 28, as a qualified "specific deduction."

Schedule G – Bad Debts Reserve Method

For taxable years beginning on or after January 1, 2002, only banks that are not a large bank, as defined in the IRC Section 585 (c) (2), may use the bad debt reserve method. For the purpose of the bad debt reserve method, banks include savings and loan associations, and other financial institutions. For more information, see IRC Sections 581 and 585. Complete Schedule G on next page and attach it to Form 100.

Schedule J – Add-On Taxes and Recapture of Tax Credits

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

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

Revise the amount of tax due or overpayment on Form 100, line 37 or line 38, as applicable by the amount from Schedule J, line 6.

Installment payment of tax attributable to last-in, first-out (LIFO) recapture for corporations making an S corporation election. A corporation that uses the LIFO inventory pricing method and makes an S corporation election must include a "LIFO recapture amount" in income for its last year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the first-in, first-out (FIFO) method, over the inventory amount using the LIFO method, at the close of the corporation's last taxable year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture in income is payable in four equal installments. The first installment is due on the original due date of Form 100 of the electing corporation's last year as a C corporation.

To determine the additional tax due to LIFO recapture, the corporation must complete Form 100, Side 1, line 19 through line 31, based on income that does not include the LIFO recapture amount.

On a separate worksheet using the Form 100 format, the corporation must complete the equivalent of Form 100, Side 1, line 19 through line 31, based on taxable income including the LIFO recapture amount. Form 100, Side 1, line 31, must then be compared to line 31 of the worksheet. The difference is the additional tax due to LIFO recapture.

Since Form 100, Side 1, line 33, does not include the additional tax due to LIFO recapture, corporations must include 1/4 of the additional tax on Schedule J, line 1 and adjust line 37 or line 38 accordingly. Attach the worksheet showing the computation.

Note: The electing S corporations must pay the remaining three installments of deferred tax with Form 100S.

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

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

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

IRC Section 197(f)(9)(B)(ii) election. Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

Credit recapture.

Complete Schedule J, line 5, if the corporation completed the credit recapture portion of form:

- FTB 3501, Employer Child Care Program/Contribution Credit;
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary;
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit;
- FTB 3808, Manufacturing Enhancement Area Credit Summary;
- FTB 3809, Targeted Tax Area Deduction and Credit Summary;
- FTB 3535, Manufacturers' Investment Credit;
- FTB 3534, Joint Strike Fighter Credits; or
- FTB 3508, Solar or Wind Energy System Credit.

Also complete Schedule J, line 5, if the corporation is subject to recapture of:

- The Farmworker Housing Credits; or
- The Community Development Financial Institution Deposits Credit.

Schedule M-1 – Reconciliation of income (loss) per books with income (loss) per return.

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. The federal and state Schedule M-1 may be the same when you use the federal reconciliation method for net income computation. See General Information I, Net Income Computation, for more information. The Schedule M-1 will be different from the federal Form 1120, Schedule M-1, if using the California computation method for net income. The California computation method is generally used when the corporation has no federal filing requirement, or if the corporation maintains separate records for state purposes.

Reporting requirements: If the corporation's total receipts (see top of page 15 for definition of total receipts) for the taxable year **and** total assets at the end of the taxable year are less than \$250,000, the corporation is not required to complete Schedule L, Schedule M-1, and Schedule M-2. However, this information must be available in the future upon request.

Corporations with total assets of \$10 million or more. For taxable years beginning on or after January 1, 2004, the IRS requires any domestic corporation or U.S. consolidated tax group with total assets of \$10 million or more on the last day of the tax year to complete Schedule M-3 (Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 million or More, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income per Return.

For California purposes, the corporation **must still** complete the California Schedule M-1, and:

- Attach a copy of the Schedule M-3 (Form 1120) to the California Franchise or Income Tax Return; or
- Attach a complete copy of the federal return; or
- FTB will accept the Schedule M-3 (Form 1120) in a spreadsheet format if more convenient.



Do not use a deposit slip to find the bank numbers. Contact your financial institution for assistance in getting the correct routing number.

The diagram shows a check from John Doe and Mary Doe, 1234 Main Street, Anytown, CA 99999. The check is dated 19__ and payable to the order of \$ [] DOLLARS. The bank is ANYTOWN BANK, Anytown, CA 99999. The routing number is 1250250025 and the account number is 2020201234. Annotations include: 'Routing number' pointing to 1250250025, 'Account number' pointing to 2020201234, and 'Do not include the check number' pointing to the check number 1234. A note '1234 15-0000/0000' is also present.

Schedule G Bad Debts — Reserve Method. See instructions

| (a) Taxable year | (b) Accounts outstanding at the end of the year | Amount added to reserve | | (e) Amount charged against reserve | (f) Reserve for bad debts at end of year |
|---------------------|--|----------------------------------|-------------------|---------------------------------------|---|
| | | (c) Current year's provisions | (d) Recoveries | | |
| 1999 | | | | | |
| 2000 | | | | | |
| 2001 | | | | | |
| 2002 | | | | | |
| 2003 | | | | | |
| 2004 | | | | | |

| CREDIT NAME | CODE | DESCRIPTION |
|---|------|--|
| Current Credits | | |
| Community Development Financial Institution Deposits – Obtain certification from: CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, SUITE 1600 SACRAMENTO CA 95814 www.insurance.ca.gov | 209 | 20% of qualified investments made into a community development financial institution |
| Disabled Access for Eligible Small Businesses – FTB 3548 | 205 | Similar to the federal credit, but limited to \$125 per eligible small business, and based on 50% of qualified expenditures that do not exceed \$250 |
| Donated Agricultural Products Transportation – FTB 3547 | 204 | 50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations |
| Employer Child Care Contribution – FTB 3501 | 190 | Employer: 30% of contributions to a qualified plan |
| Employer Child Care Program – FTB 3501 | 189 | Employer: 30% of the cost of establishing a child care program or constructing a child care facility |
| Enhanced Oil Recovery – FTB 3546 | 203 | 1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California |
| Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z | 176 | Business incentives for trade or business activities conducted within an enterprise zone. |
| Farmworker Housing – Construction | 207 | 50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing |
| Farmworker Housing – Loan | 208 | Banks and financial corporations: 50% of foregone interest income on qualified farmworker housing loans |
| Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM, CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 915 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814 www.treasurer.ca.gov | | |
| Joint Strike Fighter Wage – FTB 3534 | 215 | A percentage of qualified wages paid or incurred in California in connection with the construction of a joint strike fighter. |
| Joint Strike Fighter Property – FTB 3534 | 216 | 10% of the cost of property placed in service in California for ultimate use in a joint strike fighter |
| Local Agency Military Base Recovery Area Hiring & Sales or Use Tax – FTB 3807 | 198 | Business incentives for trade or business activities conducted within a local agency military base recovery area. |
| Low-Income Housing – FTB 3521 | 172 | Similar to the federal credit but limited to low-income housing in California |
| Manufacturing Enhancement Area – FTB 3808 | 211 | Hiring Credit for Manufacturing Enhancement Area |
| Natural Heritage Preservation – FTB 3503 | 213 | 55% of the fair market value of the qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government. |
| Prior Year Alternative Minimum Tax – FTB 3510 | 188 | Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in the current year |
| Prison Inmate Labor – FTB 3507 | 162 | 10% of wages paid to prison inmates |
| Research – FTB 3523 | 183 | Similar to the federal credit but limited to costs for research activities in California |
| Rice Straw | 206 | \$15 per ton of rice straw grown in California |
| Obtain certification from: DEPARTMENT OF FOOD AND AGRICULTURE 1220 N STREET, ROOM A-244 SACRAMENTO CA 95814 www.cdfa.ca.gov | | |
| Solar or Wind Energy System – FTB 3508 | 217 | A credit equal to the lesser of 7.5% of the net cost paid to purchase and install a solar or wind energy system for the production of electricity, or the \$4.50 per rated watt of generating capacity of that system. |
| Targeted Tax Area Hiring & Sales or Use Tax – FTB 3809 | 210 | Business incentives for trade or business activities conducted within a targeted tax area. |

Repealed Credits with Carryover Provisions: The expiration dates for these credits have passed. However, these credits had carryover provisions. You may claim these credits if there is a carryover available from prior years. If you are not required to complete Schedule P (100) or P (100W), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.

| | | | | | |
|---------------------------------------|-----|--|-----|--|-----|
| Agricultural Products | 175 | Los Angeles Revitalization Zone Hiring | | Salmon & Steelhead Trout Habitat Restoration | 200 |
| Commercial Solar Electric System | 196 | & Sales or Use Tax | 159 | Solar Energy | 180 |
| Commercial Solar Energy | 181 | Low-Emission Vehicles | 160 | Solar Pump | 179 |
| Contribution of computer software | 202 | Manufacturers' Investment | 199 | Technology Property Contributions | 201 |
| Employee Ridesharing – Large employer | 191 | Orphan Drug | 185 | | |
| Employer Ridesharing – Small employer | 192 | Recycling Equipment | 174 | | |
| Employer Rideshare – Transit | 193 | Ridesharing | 171 | | |
| Energy Conservation | 182 | | | | |

Principal Business Activity Codes

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 company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (Side 3, Schedule F, line 1a) plus all other income (Side 3, Schedule F, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on Form 100W, Question E. 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 company's business activity. Finally, enter a description of the principal product or service of the company 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
- 237210 Land 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) |

| <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) |

| | |
|---------------------------|--|
| Nonstore Retailers | |
| 454110 | Electronic Shopping & Mail-Order Houses |
| 454210 | Vending Machine Operators |
| 454311 | Heating Oil Dealers |
| 454312 | Liquefied Petroleum Gas (Bottled Gas) Dealers |
| 454319 | Other Fuel Dealers |
| 454390 | Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers) |

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 | |
| 487000 | Scenic & Sightseeing Transportation |

| <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) |

Information

| | |
|--|-------------------------------------|
| Publishing Industries (except Internet) | |
| 511110 | Newspaper Publishers |
| 511120 | Periodical Publishers |
| 511130 | Book Publishers |
| 511140 | Directory & Mailing List 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 |

| | |
|---------------------------|---|
| Telecommunications | |
| 517000 | Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications) |

| | |
|---|--|
| 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) |

| | |
|---|--|
| 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, check clearing, & money transmitting) |

| <i>Code</i> | |
|--|--|
| 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 (including third-party administration of insurance and pension funds) |

| | |
|---|--|
| 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 (including closed-end investment funds) |
| "Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under Management of Companies (Holding Companies) on next page. | |

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) |

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 Beverages

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 (including condominium and homeowners associations)

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www.ftb.ca.gov

California Corporation Franchise or Income Tax Return

2004

100

For calendar year 2004 or fiscal year beginning month day year 2004, and ending month day year 20. California corporation number Federal employer identification number (FEIN) Corporation name Address including Suite or Room no. PMB no. City State ZIP Code

Table with columns for State Adjustments, CA Net Income, Taxes, Payments, and Refund - Direct Deposit of Refund (DDR) - or Amount Due. Rows include items 1 through 43 with corresponding line numbers and amounts.

Schedule A Taxes Deducted. Use additional sheet(s) if necessary.

| (a) Nature of tax | (b) Taxing authority | (c) Total amount | (d) Nondeductible amount |
|----------------------|-------------------------|---------------------|-----------------------------|
| | | | |
| | | | |

Total. Enter total of column (c) on Schedule F, line 17, and amounts in column (d) on Side 1, line 2 or line 3

Schedule F Computation of Net Income. See instructions.

| | (a) Gross receipts or gross sales | (b) Less returns and allowance | (c) Balance | ● | 1c | |
|-------------------|---|--|-------------|------------|-----------|--|
| Income | 1 | | | ● | 1c | |
| | 2 | Cost of goods sold. Attach federal Schedule A (California Schedule V) | | ● | 2 | |
| | 3 | Gross profit. Subtract line 2 from line 1c | | ● | 3 | |
| | 4 | Dividends. Attach federal Schedule C, California Schedule H (100) | | ● | 4 | |
| | 5 a | Interest on obligations of the United States and U.S. instrumentalities | | ● | 5a | |
| | b | Other interest. Attach schedule | | ● | 5b | |
| | 6 | Gross rents | | ● | 6 | |
| | 7 | Gross royalties | | ● | 7 | |
| | 8 | Capital gain net income. Attach federal Schedule D (California Schedule D) | | ● | 8 | |
| | 9 | Ordinary gain (loss). Attach federal Form 4797 (California Schedule D-1) | | ● | 9 | |
| | 10 | Other income (loss). Attach schedule | | ● | 10 | |
| 11 | Total income. Add line 3 through line 10 | | ● | 11 | | |
| Deductions | 12 | Compensation of officers. Attach federal Schedule E or equivalent schedule | ● | 12 | | |
| | 13 | Salaries and wages (not deducted elsewhere) | ● | 13 | | |
| | 14 | Repairs | ● | 14 | | |
| | 15 | Bad debts | ● | 15 | | |
| | 16 | Rents | ● | 16 | | |
| | 17 | Taxes (California Schedule A) | ● | 17 | | |
| | 18 | Interest. Attach schedule | ● | 18 | | |
| | 19 | Contributions. Attach schedule | ● | 19 | | |
| | 20 | Depreciation. Attach federal Form 4562 and FTB 3885 | ● | 20 | | |
| | 21 | Less depreciation claimed elsewhere on return | ● | 21a | | |
| | 21b | | ● | 21b | | |
| | 22 | Depletion. Attach schedule | ● | 22 | | |
| | 23 | Advertising | ● | 23 | | |
| | 24 | Pension, profit-sharing, etc., plans | ● | 24 | | |
| | 25 | Employee benefit plans | ● | 25 | | |
| | 26 a | Total travel and entertainment | ● | 26a | | |
| | b | Deductible amounts | ● | 26b | | |
| | 27 | Other deductions. Attach schedule | ● | 27 | | |
| | 28 | Specific deduction for 23701r or 23701t organizations. See instructions | ● | 28 | | |
| 29 | Total deductions. Add line 12 through line 28 | ● | 29 | | | |
| 30 | Net income before state adjustments. Subtract line 29 from line 11. Enter here and on Side 1, line 1 | ● | 30 | | | |

Schedule V Cost of Goods Sold

| | | | | |
|------------|---|---|-----------|--|
| 1 | Inventory at beginning of year | ● | 1 | |
| 2 | Purchases | ● | 2 | |
| 3 | Cost of labor | ● | 3 | |
| 4 a | Additional IRC Section 263A costs. Attach schedule | ● | 4a | |
| b | Other costs. Attach schedule | ● | 4b | |
| 5 | Total. Add line 1 through line 4b | ● | 5 | |
| 6 | Inventory at end of year | ● | 6 | |
| 7 | Cost of goods sold. Subtract line 6 from line 5. Enter here and on Schedule F, line 2 | ● | 7 | |

Method of inventory valuation ▶ _____

Was there any change in determining quantities, costs of valuations between opening and closing inventory? If "Yes," attach an explanation ... Yes No
 Enter California seller's permit number, if any ▶ _____

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

If the LIFO inventory method was used for this taxable year, enter the amount of closing inventory under LIFO _____

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

The corporation may not be required to complete Schedules L, M-1 and M-2. See Schedule M-1 instructions for reporting requirements.

| Schedule L Balance Sheets | Beginning of taxable year | | End of taxable year | |
|--|---------------------------|-----|---------------------|-----|
| | (a) | (b) | (c) | (d) |
| Assets | | | | |
| 1 Cash | | | | • |
| 2 a Trade notes and accounts receivable | | | • | |
| b Less allowance for bad debts | () | | • () | • |
| 3 Inventories | | | | • |
| 4 Federal and state government obligations | | | | • |
| 5 Other current assets. Attach schedule(s) | | | | • |
| 6 Loans to stockholders/officers. Attach schedule | | | | • |
| 7 Mortgage and real estate loans | | | | • |
| 8 Other investments. Attach schedule(s) | | | | • |
| 9 a Buildings and other fixed depreciable assets | | | • | |
| b Less accumulated depreciation | () | | • () | • |
| 10 a Depletable assets | | | | • |
| b Less accumulated depletion | () | | () | |
| 11 Land (net of any amortization) | | | | • |
| 12 a Intangible assets (amortizable only) | | | • | |
| b Less accumulated amortization | () | | () | |
| 13 Other assets. Attach schedule(s) | | | | • |
| 14 Total assets. | | | | • |
| Liabilities and stockholders' equity | | | | |
| 15 Accounts payable | | | | • |
| 16 Mortgages, notes, bonds payable in less than 1 year | | | | • |
| 17 Other current liabilities. Attach schedule(s) | | | | • |
| 18 Loans from stockholders | | | | • |
| 19 Mortgages, notes, bonds payable in 1 year or more | | | | • |
| 20 Other liabilities. Attach schedule(s) | | | | • |
| 21 Capital stock: a Preferred stock | | | • | |
| b Common stock | | | • | • |
| 22 Paid-in or capital surplus. Attach reconciliation | | | | • |
| 23 Retained earnings – Appropriated. Attach schedule | | | | |
| 24 Retained earnings – Unappropriated | | | | |
| 25 Adjustments to shareholders' equity (attach schedule) | | | | |
| 26 Less cost of treasury stock | | () | | () |
| 27 Total liabilities and stockholders' equity. | | | | |

Schedule M-1 Reconciliation of income (loss) per books with income (loss) per return.
If the corporation completed federal Schedule M-3 (Form 1120), see instructions.

| | | | | |
|--|---|--|---|---|
| 1 Net income per books | • | | 7 Income recorded on books this year not included in this return (itemize) | |
| 2 Federal income tax | • | | a Tax-exempt interest \$ | |
| 3 Excess of capital losses over capital gains | • | | | • |
| 4 Taxable income not recorded on books this year (itemize) | • | | 8 Deductions in this return not charged against book income this year (itemize) | |
| 5 Expenses recorded on books this year not deducted in this return (itemize) | | | a Depreciation \$ | |
| a Depreciation \$ | | | b State tax refunds \$ | |
| b State taxes \$ | | | | • |
| c Travel and entertainment \$ | | | 9 Total. Add line 7 and line 8 | |
| 6 Total. Add line 1 through line 5 | • | | 10 Net income per return. Subtract line 9 from line 6 | |

Schedule M-2 Analysis of unappropriated retained earnings per books (Schedule L, line 24)

| | | | | |
|------------------------------------|---|--|---|---|
| 1 Balance at beginning of year | • | | 5 Distributions: a Cash | • |
| 2 Net income per books | • | | b Stock | • |
| 3 Other increases (itemize) | | | c Property | • |
| | | | 6 Other decreases (itemize) | |
| | | | | • |
| 4 Total. Add line 1 through line 3 | • | | 7 Total. Add line 5 and line 6 | |
| | | | 8 Balance at end of year. Subtract line 7 from line 4 | |

2004 Dividend Income Deduction

H (100)

See instructions for Schedule H (100). Use and attach additional sheets if necessary.

Part I Elimination of Intercompany Dividends (R&TC Section 25106)

| (a) Dividend payer | (b) Dividend payee | (c) Total amount of dividends received | (d) Amount that qualifies for 100% elimination | (e) Amount from column (d) paid out of current year E&P | (f) Amount from column (d) paid out of prior year E&P | (g) Balance column (c) minus column (d) |
|--|-----------------------|--|--|--|--|---|
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 Total amounts in each column. Enter amount from Part I, column (d) on Form 100, Side 1, line 10 | | | | | | |

Part II Deduction for Dividends Paid to a California Corporation by an Insurance Company (R&TC Section 24410)

| (a) Dividend payer | (b) Dividend payee | (c) Percentage of ownership of dividend payer (must be at least 80%) | (d) Total insurance dividends received | (e) Qualified dividend percentage (see instructions) | (f) Amount of qualified insurance dividends | (g) Deductible dividends 80% of column (f) |
|---|-----------------------|---|--|---|---|--|
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 Total amounts in column (g). Enter amount from Part II, column (g) on Form 100, Side 1, line 11 | | | | | | |

Instructions for Schedule H (100)

Dividend Income Deduction

What's Changed

Revenue and Taxation Code (R&TC) Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" of qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment, at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and ending on or before January 1, 2008, an 80% deduction is allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividends received deduction. See the Schedule H (100), Specific Line Instructions, Part II, for more information.

Important Information

In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th, 134 Cal Rptr. 2d 390, the California Court of Appeal found that the R&TC Section 24402 deductible dividend provision discriminated against interstate commerce in violation of the Commerce Clause of the United States Constitution. R&TC Section 24402 provided for a deduction to the extent that the dividend payer was taxable in California. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.

Specific Instructions

A corporation may eliminate or deduct dividend income when certain requirements are met. The available eliminations or deductions are described below.

Part I – Intercompany Dividends

A corporation may eliminate dividends received from unitary subsidiaries but only to the extent that the dividends are paid from unitary earnings and profits accumulated while both the payee and payer were members of the combined report, R&TC Section 25106.

Complete Schedule H (100), Part I and enter the total of column (d) on Form 100, Side 1, line 10.

Part II – Dividends Received Deduction

R&TC Section 24410 provides that a corporation that owns 80% or more of each class of stock of an insurer is entitled to 80% dividends received deduction for qualified dividends received from that insurer. The deduction would be allowed regardless of whether the insurer does business in California. The 80% deduction applies to taxable years beginning on or after January 1, 2004, and increases to 85% for taxable years beginning on or after January 1, 2008.

The amount of the dividends that qualify for the dividends received deduction is the total amount of dividends received from that insurer, multiplied by the insurer's qualified dividend percentage. The qualified dividend percentage is determined under R&TC Section 24410(c).

To complete Part II:

1. Fill in columns (a) through (c).
2. Enter in column (d) the total amount of insurance dividends received.
3. Enter the qualified dividend percentage in column (e).
4. Multiply the amount in column (d) by the qualified dividend percentage in column (e) and enter that amount in column (f).
5. Multiply the amount in column (f) by 80% and enter the result in column (g).
6. Total the amounts on Schedule H (100), Part II, column (g), line 7. Enter the amount from Part II, column (g), line 7 on Form 100, Side 1, line 11.

The calculation of the qualified dividend percentage should be presented in a supplemental schedule that is attached to the taxpayer's return. That schedule should identify the amount of the net written premiums for all the insurance companies in the commonly controlled group for the preceding five years (including an identification of property/casualty premiums, life insurance premiums, and financial guarantee premiums), the relative weight given to each class of net written premiums, and the total income of the insurance companies in the commonly controlled group (including premium and investment income for the preceding five years). For further information, see R&TC Section 24410.

Note: Be sure to include a state adjustment on the Form 100 for the dividend deduction taken for federal purposes.

Alternative Minimum Tax and Credit Limitations — Corporations

Attach to Form 100.

Corporation name

California corporation number

Part I Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

1 Net income (loss) after state adjustments. Enter the amount from Form 100, line 18; Schedule R, line 1c; or Form 109, line 6 1
2 Adjustments. See instructions
a Depreciation of tangible property placed in service after 1986 2a
b Amortization of certified pollution control facilities placed in service after 1986 2b
c Amortization of mining exploration and development costs incurred after 1987 2c
d Basis adjustments in determining gain or loss from sale or exchange of property 2d
e Long-term contracts entered into after February 28, 1986 2e
f Installment sales of certain property 2f
g Tax shelter farm activities (personal service corporations only) 2g
h Passive activities (closely held corporations and personal service corporations only) 2h
i Certain loss limitations 2i
j Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 8 2j
k Merchant marine capital construction funds 2k
l Combine line 2a through line 2k 2l
3 Tax preference items. See instructions
a Depletion 3a
b Intangible drilling costs 3b
c Accelerated depreciation of real property placed in service before 1987 3c
d Amortization of certified pollution control facilities placed in service before 1987 3d
e Charitable contributions including appreciated property. See instructions 3e
f Add line 3a through line 3e 3f
4 Pre-adjustment alternative minimum taxable income (AMTI):
a Combine line 1, line 2l, and line 3f 4a
b Apportioned pre-adjustment AMTI. If income is derived from sources both within and outside of California, see instructions. Otherwise, enter amount from line 4a 4b
5 Adjusted current earnings (ACE) adjustment:
a Enter ACE. See instructions 5a
b Apportioned ACE. If income is derived from sources both within and outside of California, see instructions. Otherwise, enter amount from line 5a 5b
c Subtract line 4b from line 5b (even if one or both of the figures are negative). If negative, use brackets 5c
d Multiply line 5c by 75% (.75) and enter the result as a positive number 5d
e Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments. Note: Enter an amount on line 5e (even if line 5c is positive) 5e
f ACE adjustment:
• If line 5c is a positive amount or zero, enter the amount from line 5d on line 5f as a positive amount.
• If line 5c is a negative amount, enter the smaller of line 5d or line 5e on line 5f as a negative amount 5f
6 Combine line 4b and line 5f. If zero or less, enter -0- 6
7 a Reduction for disaster loss carryover deduction, if any, from Form 100, line 22 7a
b AMT net operating loss (NOL) deduction. See instructions 7b
c Combine line 7a and line 7b 7c
8 AMTI. Subtract line 7c from line 6 8
9 Enter \$40,000 exemption. See instructions 9
10 Enter \$150,000 limitation. See instructions 10
11 Subtract line 10 from line 8. If zero or less, enter -0- 11
12 Multiply line 11 by 25% (.25) 12
13 Exemption. Subtract line 12 from line 9. If zero or less, enter -0- 13
14 Subtract line 13 from line 8. If zero or less, enter -0- 14
15 Multiply line 14 by 6.65% (.0665) 15
16 Banks and financial corps. Multiply Form 100, line 23, by 2.00% (.0200). See instructions 16

Part I Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation (continued)

| | | |
|--|----|--|
| 17 TMT. Add line 15 and line 16 from Side 1 | 17 | |
| 18 Regular tax before credits. Enter amount from Form 100, line 24 or Form 109, line 7. See instructions | 18 | |
| 19 AMT. Subtract line 18 from line 17. If zero or less, enter -0-. See instructions | 19 | |

Part II Credits that Reduce Tax

| | | |
|--|---|--|
| 1 Regular tax from Form 100, line 24 or Form 109, line 7 | 1 | |
| 2 Tentative minimum tax (before credits) from Part I, line 17 (but not less than the minimum franchise tax, if applicable) | 2 | |

| | | (a) Credit amount | (b) Credit used this year | (c) Tax balance that may be offset by credits | (d) Credit carryover |
|--|----|----------------------|------------------------------|--|-------------------------|
| Section A – Credits that reduce excess regular tax. | | | | | |
| 3 Subtract line 2 from line 1. If zero or less, enter -0- and see instructions. This is your excess regular tax which may be offset by credits | 3 | | | | |
| A1 Credits that reduce excess regular tax and have no carryover provisions. | | | | | |
| 4 Code: 162 Prison inmate labor credit | 4 | | | | |
| A2 Credits that reduce excess regular tax and have carryover provisions. See instructions. | | | | | |
| 5 Code: _____ Credit Name: _____ | 5 | | | | |
| 6 Code: _____ Credit Name: _____ | 6 | | | | |
| 7 Code: _____ Credit Name: _____ | 7 | | | | |
| 8 Code: _____ Credit Name: _____ | 8 | | | | |
| 9 Code: 188 Credit for prior year alternative minimum tax from Part III, line 3 | 9 | | | | |
| Section B – Credits that may reduce regular tax below tentative minimum tax. | | | | | |
| 10 If Part II, line 3 is zero, enter the amount from line 1 minus the minimum franchise tax, if applicable. If line 3 is more than zero, enter the total of Part II, line 2, minus the minimum franchise tax, if applicable, plus line 9, column (c) or the last entry in column (c) | 10 | | | | |
| B Credits that reduce net tax and have carryover provisions. See instructions. | | | | | |
| 11 Code: _____ Credit Name: _____ | 11 | | | | |
| 12 Code: _____ Credit Name: _____ | 12 | | | | |
| 13 Code: _____ Credit Name: _____ | 13 | | | | |
| 14 Code: _____ Credit Name: _____ | 14 | | | | |
| Section C – Credits that may reduce alternative minimum tax. | | | | | |
| 15 Enter your alternative minimum tax from Side 1, Part I, line 19 | 15 | | | | |
| 16 Code: 180 Solar energy credit carryover from Section B, column (d) | 16 | | | | |
| 17 Code: 181 Commercial solar energy credit carryover from Section B, column (d) | 17 | | | | |
| 18 Adjusted AMT. Enter the balance from line 17, column (c) here and on Form 100, line 30 or Form 109, Side 1, line 19 | 18 | | | | |

Part III Credit for Prior Year AMT

| | | |
|---|---|--|
| 1 Enter the alternative minimum tax from the 2003 Schedule P (100), Part I, line 19. See instructions | 1 | |
| 2 Carryover of unused credit for prior year alternative minimum tax. See instructions | 2 | |
| 3 Total available credit. Add line 1 and line 2. See instructions | 3 | |

Instructions for Schedule P (100)

Alternative Minimum Tax and Credit Limitations — Corporations

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).

What's New

For taxable years beginning on or after January 1, 2004, California has reinstated the Net Operating Loss (NOL) carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations.

Natural Heritage Preservation Credit –

Currently there is no funding to award Natural Heritage Preservation Credits; therefore no new credits may be claimed for 2004. However, carryover is not affected for previously awarded credits. Contact the Wildlife Conservation Board (WCB) to determine if funding has been restored, if they are accepting qualified contributions of property, and to see if they are awarding new Natural Heritage Preservation Credits. Complete FTB 3503 to claim the credit only if the WCB has resumed awarding the credits.

To get updated information regarding current funding, qualified contributions of property, or the awarding of credits, contact the Wildlife Conservation Board at (916) 445-8448. Or go to their Website at www.wcb.ca.gov.

Important Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2001. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and select “Law and Legislation.” Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years beginning on or after January 1, 2002, the credit for prior year alternative minimum tax (AMT) has to be applied before any credits that can reduce the regular tax below the tentative minimum tax (TMT) in accordance with California Revenue and Taxation Code (R&TC) Section 23036 (c).

California law conforms to federal law regarding:

- The contribution deduction in excess of adjusted basis for appreciated property.
- Large banks' bad-debt losses deduction, which is limited to the actual losses rather than contributions to a reserve for bad debts.
- The removal of the adjusted current earnings (ACE) depreciation adjustment.
- The use of the same depreciation recovery periods for regular tax and AMT for property placed in service after December 31, 1998.
- The repeal of the installment method AMT adjustment for farmers. Farmers are allowed to use the installment method of accounting for purposes of AMT for payments received in taxable years beginning on or after January 1, 1997, for installment sales related to the sale or disposition of farm property made in taxable years beginning on or after January 1, 1988.
- The treatment of merchant marine capital construction account funds as an adjustment item for AMT.

California does not conform to the following federal AMT provisions:

- The elimination of AMT for small businesses.

Note: These lists are not intended to be all-inclusive of the federal and state conformities and differences. For more information, please refer to California R&TC.

General Information

Unless stated otherwise, the term “corporation” as used in Schedule P (100) and in these instructions, includes banks, financial corporations, limited liability companies (LLCs) classified as corporations, and exempt organizations other than exempt trusts, but not S corporations.

California tax laws give special treatment to some types of income and allow special deductions and credits for some types of expenses. Corporations that benefit from these laws may have to pay AMT in addition to the minimum franchise tax.

Use this schedule to calculate AMT and to figure credits that are limited by the TMT or that may reduce AMT.

See IRC Sections 55 through 59 for more information on figuring AMT. But note that R&TC Sections 23455, 23456, 23457, and 23459 modify IRC Sections 55 through 59.

Who Must File. Corporations should file Schedule P (100) if the sum of: AMT adjustments, preference items, loss denials, other items as specified under IRC Section 59, and state net income exceeds \$40,000. Exempt organizations, other than exempt trusts with unrelated business income, should file Schedule P (100) if the sum of: AMT adjustments, preference items, loss denials, items specified under IRC Section 59, and state net unrelated business taxable income exceeds \$40,000. Exempt trusts should use Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries.

In addition, if the corporation claims credits that are limited by TMT (Part I, line 17), or if the corporation claims credits that reduce the AMT (Part I, line 19), the corporation must file Schedule P (100).

Members of a Combined Report. Alternative minimum taxable income (AMTI) and ACE are apportioned and allocated to California and to each taxpayer in the same manner as net income for purposes of regular tax. A separate AMT calculation is required for each member of a combined report. Complete a separate Schedule P (100), Side 1 and Side 2, for each taxpayer included in the combined report. Attach the Schedule P (100) for each taxpayer member in the combined report behind the combined Schedule P (100) for all members. See instructions for Part I, line 4b, line 5a, line 5b, line 5e, line 7b, line 9, and line 10.

Short Period Return. For a short-period return, use the formula in IRC Section 443(d) to determine AMTI and AMT.

Credit for Prior Year AMT. If the corporation paid AMT for 2003 or has a carryover of credit for prior year AMT and has no AMT liability for 2004, the corporation may use this credit in 2004 to reduce its regular tax liability. Complete Part III to figure this credit.

Specific Line Instructions

Part I — Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

Line 1- Net income (loss) after state adjustments

Enter the amount from Form 100, line 18 or Form 109, line 6. If the corporation filed a Schedule R with the return, enter the amount from line 1c of Schedule R.

Line 2a – Depreciation of tangible property placed in service after 1986 and before 1999
Do not include depreciation adjustments attributable to a tax shelter farm activity or a passive activity on this line. Instead, include the adjustment on line 2g or line 2h.

Refigure the depreciation as follows: For property other than real property and property on which the straight-line method was used, use the 150% declining balance method,

switching to straight-line for the first taxable year in which that method will give a higher depreciation deduction. Use the same life classes as used on the federal Form 4626, Alternative Minimum Tax – Corporations. For personal property having no asset depreciation range (ADR) class life, use 12 years. For residential rental and nonresidential real property, use the straight-line method over 40 years. Determine the depreciation adjustment by subtracting the recomputed depreciation from the California depreciation on form FTB 3885, Corporation Depreciation and Amortization. Enter the difference on this line.

If the corporation elected to depreciate a grapevine that was replanted in a vineyard as a result of phylloxera or Pierce's disease infestation over 5 years instead of 20 years for regular tax, it must depreciate the grapevine over 10 years for AMT.

Note: Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.

Line 2b – Amortization of certified pollution control facilities

For any certified pollution control facility placed in service in California after 1986 and before 1999, the five-year depreciation method available for such facilities for regular tax purposes must be replaced for AMT purposes by the alternative depreciation system specified under IRC Section 168(g) (straight-line method, without regard to salvage value.) A facility placed in service after 1998 is depreciated using the IRC Section 168 straight-line method.

Line 2c – Amortization of mining exploration and development costs incurred after 1987

If the corporation elected the optional ten-year write-off under IRC Section 59(e) for all assets in this category, skip this line.

With respect to each mine or other natural deposit, (other than an oil, gas, or geothermal well) refigure the expenses before the 30% reduction under IRC Section 291(b) by amortizing them over ten years beginning with the year in which the expenses were paid or incurred. Figure the adjustment by subtracting the refigured amount from the deduction taken under IRC Section 616(a) or 617(a) after the 30% reduction. Enter the amount on this line. If a loss resulted with respect to those expenses, see IRC Section 56(a)(2)(B).

Line 2d – Basis adjustments in determining gain or loss from sale or exchange of property

If the corporation disposed of property during the year, refigure the gain or loss from such sale taking into account the AMT adjustments on line 2a through line 2c. Enter the difference between the gain or loss reported for regular tax and the recomputed gain or loss. If the recomputed gain is less, or the loss is more, enter the difference as a negative amount. Otherwise, enter a positive amount.

Line 2e – Long-term contracts entered into after February 28, 1986

If the corporation entered into a long-term contract after February 28, 1986, determine

the taxable income from the contract under the percentage of completion method of accounting as modified by IRC Section 460(b) and R&TC Section 24673.2 using AMT adjustments and tax preference items.

Determine the difference between that result and the amount determined for the contract in figuring the regular tax and enter the difference on this line. If the refigured taxable income is less than the result when determining the regular tax, enter the difference as a negative amount.

California has conformed to IRC Section 460(b)(2). This section requires the taxpayer to "look-back" to previous years during which the contract work for certain contracts was in progress. The taxpayer must compute interest on the difference between the tax that was actually paid and the tax that would have been paid if the taxpayer had known the actual contract prices and costs that would finally result.

Get form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to figure the interest due or to be refunded under the "look-back method."

Line 2f – Installment sales of certain property

For regular tax purposes, corporations may use the installment method of accounting for sales of certain property. For AMT, corporations may not determine income from dispositions of inventory or other property described in IRC Section 1221(1) using the installment method, except for certain dispositions of timeshares or residential lots, if the corporation elected to pay interest under IRC Section 453(l)(2)(B) (R&TC Section 24667).

If the corporation used the installment method for regular tax purposes, but was required for AMT purposes to report the entire gain in the year of disposition, the corporation may have adjustments with respect to those dispositions. Enter on this line as a negative amount the current year income the corporation reported for regular tax.

Farmers that received payments for a taxable year beginning on or after January 1, 1997, for qualified installment sales made in taxable years beginning on or after January 1, 1988, do not need to make an adjustment on this line.

Line 2g – Tax shelter farm activities (personal service corporations only)

Caution: To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Complete this line only if the corporation has a gain or loss from a tax shelter farm activity, as defined in IRC Section 58(a)(2), that is not a passive activity. If the tax shelter farm activity is a passive activity, the corporation must include the gain or loss with its other passive activities on line 2h.

Refigure all gains and losses reported for regular tax purposes from tax shelter farm activities using the AMT adjustments and tax preference items.

Figure the tax shelter farm activity gain or loss for AMT using the same rules the corporation used for regular tax except:

- Do not take any refigured loss unless the corporation is insolvent. See IRC Section 58(c)(1); and
- Do not offset gains from other tax shelter activities with any refigured loss.

Instead, suspend and carry over the loss to future taxable years until:

- The corporation has a gain in a future taxable year from that same tax shelter farm activity; or
- The corporation disposes of the activity.

Enter on this line the difference between the AMT tax shelter farm loss and the regular tax shelter farm loss.

Line 2h – Passive activities (closely held corporations and personal service corporations only)

Caution: To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Corporations may enter two kinds of adjustments on this line:

Regular passive activities. Refigure passive activity gains and losses for AMT by taking into account all AMT adjustments, tax preference items and AMT prior year unallowed losses that apply to the passive activity.

Tax shelter passive farm activities. Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments, tax preference items, and AMT prior year unallowed losses. If the amount is a gain, it may be included on form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, but if it is a loss, the adjustment for tax shelter passive farm activity is the loss the corporation reported for regular tax. The AMT loss carryover is the refigured AMT loss.

Note: If, at the end of the taxable year, the corporation's liabilities exceed the fair market value of the corporation's assets (insolvency), increase the passive activity loss allowed by that excess (but not more than the total loss). See IRC Section 58(c)(1).

Line 2i – Certain loss limitations

Refigure the allowable losses from at-risk activities and basis limitations applicable to partnerships, taking into account the AMT adjustments and tax preference items. See IRC Sections 59(h), 465, and 704(d). If the refigured loss is more than the loss reported for purposes of the regular tax, enter on this line as a negative amount the difference between the loss reported on the tax return for purposes of the regular tax and the refigured loss.

Line 2k – Merchant marine capital construction funds

Amounts deposited in these funds are not deductible for AMT. Earnings on these funds are not excludable from gross income for AMT. If the corporation deducted these amounts or excluded them from income for regular tax, add them back on line 2k.

Tax Preference Items

Line 3a – Depletion

In the case of mines, wells, and other natural deposits, enter the amount by which the deduction for depletion under IRC Section 611 is more than the adjusted basis of the property at the end of the corporation's taxable year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 4626, Alternative Minimum Tax, Corporations. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and differences in basis.

See IRC Section 291(a)(2) for reduction in the amount allowable as a deduction in the case of iron ore and coal.

Line 3b – Intangible drilling costs

If the corporation elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

Enter the amount by which excess intangible drilling costs exceed 65% of net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs as follows: From the intangible drilling and development costs allowable under IRC Section 263(c) or 291(b) (except costs in drilling a nonproductive well), subtract the amount that would have been allowable if these costs had been capitalized and either amortized over 120 months starting when production began or treated according to an election made under IRC Section 57(b)(2).

Net income from oil, gas, and geothermal properties is gross income from them, minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure the line 3b amount separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

Note: California conformed in 1993 to the limited federal repeal of intangible drilling costs preferences for independent producers. California now conforms to the limit on the benefit of the exclusion of the preference for intangible drilling costs of 40% of AMTI. See the instructions for federal Form 4626. Also, note that your intangible drilling costs amounts may differ from federal amounts because of prior differences in the law.

Line 3c – Accelerated depreciation of real property placed in service before 1987

Enter on this line, but not less than zero, the difference between the depreciation taken for this property in determining the regular tax and depreciation as figured using the straight-line method. Figure this amount separately for each property and include only positive adjustments. Use the straight-line method over the life of the property using the half-year convention and no salvage value.

Line 3d – Amortization of certified pollution control facilities placed in service before 1987

For any certified pollution control facility in California placed in service before 1987 (or before August 1, 1986, if an election was made), figure the amount by which the amortization allowable under IRC Section 169 is more than the depreciation deduction otherwise allowable. Before figuring this tax preference item, reduce the amortizable basis by 20% (15% if the facility was placed in service in 1983 or 1984, 0% if placed in service before 1983), as required under IRC Section 291. Multiply the difference above by 59.6% (71.6% if the facility was placed in service in 1983 or 1984, 100% if placed in service before 1983). Enter only positive amounts.

Line 3e – Charitable contributions including appreciated property

Enter on this line the difference between the charitable contributions deduction allowed for AMT purpose and the deduction allowed for regular tax purpose. Use only income and deductions allowed for AMT purposes when refiguring the limit based on taxable income under IRC Section 170(b)(2).

Also, for taxable years prior to January 1, 2002, California did not conform to the federal treatment of contributions of appreciated property for AMT. As a result, all carryovers from these contributions are still:

- Limited to the cost or other basis for any contribution in excess of adjusted basis, and
- Treated as an AMT preference item.

Line 4b – Apportioned pre-adjustment AMTI

For taxpayers required to apportion their income, pre-adjustment AMTI is apportioned and allocated to California in the same manner as net income for purposes of the regular tax. This may be done by transferring the amount from line 4a to Schedule R, Apportionment and Allocation of Income, line 1c. Refigure the Schedule R taking into account any AMT adjustments, then transfer the refigured net income from Schedule R, line 35 to Schedule P (100), line 4b.

For combined reports, each taxpayer's pre-adjustment AMTI is the sum of (1) that corporation's apportioned share of combined business pre-adjustment AMTI and (2) any of that corporation's nonbusiness California source pre-adjustment AMTI. For additional guidance in making these computations, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Line 5a – ACE

If this schedule is for a regulated investment company or a real estate investment trust, skip this line.

The ACE is the pre-adjustment AMTI from line 4a with additional adjustments. California's ACE adjustment generally follows the federal ACE adjustment rules in IRC Section 56(g). To compute the California ACE, the federal ACE worksheet included in the instructions for the federal Form 4626 can be used by taking into account the modifications of R&TC Sections 23456 (e) and (f), if applicable. For example:

Taxes. Taxes on, according to, or measured by income are not deductible from earnings and profits (E&P). Foreign taxes on, according to, or measured by income are not deductible even though a foreign tax credit is not taken for federal purposes. Environmental taxes imposed by IRC Section 59A are not deductible from E&P.

Depreciation and amortization. For property placed in service on or after January 1, 1981, and before January 1, 1987, the amount allowable as depreciation or amortization must be determined using the straight-line method for each taxable year of useful life (determined without regard to R&TC Section 24354.2) that the corporation has held the property.

For property placed in service on or after January 1, 1987, and before January 1, 1990, the amount allowable as depreciation or amortization must be determined by using the state AMTI depreciable basis as of the close of the taxable year beginning before January 1, 1990, and applying IRC Section 168(g). For property placed in service in taxable years beginning on or after January 1, 1990, and before January 1, 1998, use the ADS described in IRC Section 168(g). For property placed in service in taxable years beginning on or after January 1, 1998, the ACE depreciation is the same as the AMT depreciation. Therefore, no ACE depreciation adjustment is necessary for those assets.

Dividends. Dividends deductible for regular California tax purposes are deductible from E&P.

The provision of IRC Section 56(g)(4)(C)(ii), for 100% dividend, does not apply.

The provisions of IRC Sections 56(g)(4)(C)(iii) and (iv), for dividends from IRC Section 936 companies and certain dividends received by certain cooperatives, do not apply.

Certain amortization provisions. IRC Section 56(g)(4)(D)(ii) was modified to specify that circulation expenditures under R&TC Section 24364 and organizational expenditures under R&TC Section 24407 do not apply to expenditures paid or incurred in taxable years beginning on or after January 1, 1990, for E&P calculations.

Interest income. For entities not subject to the minimum franchise tax, interest income included in E&P must not exceed the amount of interest income included for regular tax purposes.

Appropriate adjustments must be made to limit deductions from ACE for interest expense in accordance with the provisions of R&TC Sections 24344 and 24425.

Line 5b – Apportioned ACE

For apportioning taxpayers and members of a combined report, ACE is apportioned and allocated to California in the same manner as net income for purposes of the regular tax and AMTI (FTB Legal Ruling 94-3). The method described in the instructions for line 4b may be used to compute the California ACE.

Line 5e – Excess of AMTI increases over AMTI reductions from prior year ACE adjustments

For combined reports, each taxpayer corporation enters the excess of its prior year

accumulated positive California ACE adjustments over its prior years accumulated negative California ACE adjustments.

Line 7a – If a disaster loss carryover is claimed in 2004, enter the amount on this line.

Line 7b – AMT net operating loss (NOL) deduction.

For taxable years beginning on or after January 1, 2004, California has reinstated the NOL carryover deductions. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations.

The AMT Net Operating Loss is the NOL determined for regular tax except:

1. For any taxable year beginning before 1988, reduce the NOL amount by any preference items attributable to the deferred tax that has not been paid;
2. In the case of a loss year beginning after 1987, the NOL determined for regular tax for such year must be:
 - (a) Reduced by the positive AMT adjustments and increased by the negative AMT adjustments; and
 - (b) Reduced by the tax preference items (but only to the extent they increased the NOL as determined for regular tax);
3. Reduce the AMT NOL by any expired losses; and
4. The AMT NOL may not offset more than 90% of the AMTI, Part I, line 6. Enter on line 7b the smaller of the AMT NOL or 90% of the amount on line 6.

Taxpayers that are members of a unitary group filing a combined report must separately compute the NOL carryover and application of the NOL carryover for each corporation in the group (R&TC Section 25108). The amount carried over for AMT is likely to differ from the amount (if any) that is carried over for regular tax; therefore, it is essential that the corporation retain adequate records for both AMT and regular tax.

If the corporation had a loss from a farming business due to Pierce's Disease or from a business activity within an enterprise zone, the former Los Angeles Revitalization Zone (LARZ), a Local Agency Military Base Recovery area (LAMBRA), or the Targeted Tax Area (TTA), get FTB 3805D, Pierce's Disease, FTB 3805Z, Enterprise Zone Business Booklet; FTB 3806, Los Angeles Revitalization Zone Booklet; FTB 3807, Local Agency Military Base Recovery Area Booklet; or FTB 3809, Targeted Tax Area Booklet.

Line 9 and Line 10 – The \$40,000 exemption and the \$150,000 limitation apply to each bank or corporation included in the combined report that has a filing requirement in California, to the extent that each bank or corporation has AMTI.

Line 16 – Banks and financial corporations

Corporations with negative or zero taxable income on Form 100, line 23, enter -0-.

Line 18 – Regular tax before credits

For installment obligations subject to IRC Section 453(l)(2)(B) (Timeshares and Residential Lots) and IRC Section 453A (Nondealer dispositions greater than

\$150,000), do not include tax increases for interest on the deferred tax liability.

Line 19 – AMT

If line 17 is more than zero and if the corporation has credits or credit carryovers, continue to Part II. Otherwise, stop here and enter the amount from line 19 on Form 100, line 30 or Form 109, line 19.

Part II — Credits that Reduce Tax

Complete Part II only if the corporation has tax credits.

Use Part II to determine:

- The amount of credit that may be used to offset tax;
- The tax that may be offset;
- The amount of credit, if any, that may be carried over to future years; and
- The order in which to claim credits, if the corporation has more than one credit to claim.

Note: Credits are applied against the tax on a separate entity basis. Unless otherwise provided by statutory authority, specific credit(s) are only available to the corporation that incurred the expense that generated the credits.

Before you begin Part II:

- Complete Form 100 through line 24.
- Figure the amount of credit(s) using a schedule or the credit form identified in the Credit Table on the next page. Be sure to attach the credit form or schedule to the tax return, if applicable.

To complete Part II:

- Complete line 1 through line 3 to figure the amount of excess tax the corporation may offset by credits.
- Identify in which section(s) of Part II the corporation may take tax credit(s). Credits without carryover provisions are listed on Schedule P (100) in Section A1 and may be taken only in that section. Credits with carryover provisions are listed on the Credit Table on the next page. The table identifies the section(s) of Part II in which the corporation may take these tax credits.
- If the corporation has credit(s) in Section B, be sure to complete line 10 in addition to the line(s) for the corporation's credit(s).
- Complete column (a) through column (d) for each line on which the corporation is taking a credit. Refer to "column instructions."
- Once the corporation has completed Part II, see "How to Claim Credits" on next page.

Column Instructions – In column:

- (a) Enter the amount of credit available to offset tax;
- (b) Figure the amount of credit the corporation is able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line;
- (c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line; and
- (d) Enter the amount of credit carryover available to use in future years by

subtracting the amount in column (b) from the amount in column (a).

Section A — Credits that reduce excess regular tax

Section A Instructions

Line 3 – Subtract line 2 from line 1. If the amount is zero or less than zero, continue to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

1. Does the Credit Table show that the corporation may take the credit ONLY in Section A1 or A2?

Yes. Do not take the credit this year. Go to question 2.

No. Go to Section B to figure the amount of credit the corporation may take this year. Then continue to Section C if the corporation's credit is listed in that section.
2. Does the credit have carryover provisions?

Yes. Enter the credit code, credit name, and credit amount in column (a) in the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit the corporation may carry over and use in future years.

No. Do not take the credit this year or in future years.

Section A1 Instructions

Line 4 – If the corporation has the credit listed in this section, complete column (a) through column (c).

Section A2 Instructions

For taxable years beginning on or after January 1, 2002, the credit for prior year AMT has to be applied before any credits that can reduce the regular tax below the TMT in accordance with R&TC Section 23036 (c).

Line 5 through Line 9 – Follow the Credit Table Instructions on this page to find out in which section to claim the credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Note: Generally, it is to the corporation's advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, the corporation may want to apply credits with no limitation on the carryover first if that is more advantageous.

Corporations may use these credits to reduce regular tax but not below TMT. The corporation may be able to, if applicable, carry them over to future years. The credits that do not have shading in column (d) can be carried over to future years, if applicable, after reducing the regular tax down to TMT.

Section B — Credits that may reduce regular tax below tentative minimum tax

Corporations may use these credits to reduce the regular tax below TMT. And corporations may carry over to future taxable years any credits remaining after reducing the regular tax down to the minimum franchise tax, if applicable. But, if the corporation has a tax balance and can continue to use the credit in Section C, apply the carryover in Section C.

Section B Instructions

Line 11 through Line 14 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Section C — Credits that may reduce alternative minimum tax

If the corporation has AMT and remaining solar energy credit carryover and commercial solar energy credit carryover after reducing the regular tax down to the minimum franchise tax, if applicable, the corporation may reduce AMT using these credits. Also, corporations may carry over to future taxable years any credits remaining after reducing the AMT to zero.

Section C Instructions

Line 16 and Line 17 – If the corporation has any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

How to Claim Credits

Claim credits by transferring them to Form 100 or Form 109 as follows:

Credits on line 4 through line 17

Form 100 – If the corporation claims only one or two credits, enter the name, code number, and amount of the credit from column (b) on Form 100, line 25 and line 26.

If the corporation has any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 100, line 27.

Form 109 – If the organization claims only one to six credits, enter the name, code number, and amount of the credit from column (b) on Form 109, Schedule B, line 1 through line 6.

If the organization has any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 109, Schedule B, line 7.

Credit Table Instructions. To use the table:

1. Find the corporation's credit(s) listed in the table.
2. See which sections are identified in the columns under "Offset Tax in Section."
3. Take the credit only in sections the table identifies for the corporation's credit.
4. Complete each section before going to the next section.

Part III — Credit for Prior Year AMT

Use this part to figure the 2004 credit for prior year AMT if the corporation paid AMT for 2003 or had an alternative minimum tax credit carryover from 2003.

For members of a unitary group filing a combined report, compute the credit for prior year AMT for each entity in the current year's group.

Line 1 – Enter the AMT from the 2003 Schedule P (100), Part I, line 19. If this amount was reduced by any commercial solar

energy credit carryover or solar energy credit carryover, use the AMT from Section C, line 18 of the 2003 Schedule P (100.)

Line 2 – Enter the credit for prior year carryover from the 2003 Schedule P (100), Part II, line 9, column (d).

Line 3 – Enter this amount on Part II, line 9, column (a).

Credit Table

| Code | Current Credits | Form | Offset Tax in Section | | |
|------|---|-----------|-----------------------|----------------------------------|---|
| 209 | Community Development Financial Institution Deposits | N/A | A2 | | |
| 205 | Disabled Access for Eligible Small Businesses | FTB 3548 | A2 | | |
| 204 | Donated Agricultural Products Transportation | FTB 3547 | A2 | | |
| 190 | Employer Child Care Contribution | FTB 3501 | A2 | | |
| 189 | Employer Child Care Program | FTB 3501 | A2 | | |
| 203 | Enhanced Oil Recovery | FTB 3546 | A2 | | |
| 176 | Enterprise Zone Hiring & Sales or Use Tax 1 = hiring 2 = sales or use tax | FTB 3805Z | | B ₁ B ₂ | |
| 207 | Farmworker Housing – Construction | N/A | A2 | | |
| 208 | Farmworker Housing – Loan | N/A | A2 | | |
| 215 | Joint Strike Fighter Wage | FTB 3534 | A2 | | |
| 216 | Joint Strike Fighter Property | FTB 3534 | A2 | | |
| 198 | Local Agency Military Base Recovery Area Hiring & Sales or Use Tax | FTB 3807 | A2 | | |
| 172 | Low-Income Housing | FTB 3521 | | B | |
| 211 | Manufacturing Enhancement Area Hiring | FTB 3808 | A2 | | |
| 213 | Natural Heritage Preservation | FTB 3503 | | B | |
| 188 | Prior Year Alternative Minimum Tax | FTB 3510 | A2 | | |
| 162 | Prison Inmate Labor | FTB 3507 | A1 | | |
| 183 | Research | FTB 3523 | | B | |
| 206 | Rice Straw | N/A | A2 | | |
| 217 | Solar and Wind Energy System | FTB 3508 | A2 | | |
| 210 | Targeted Tax Area Hiring & Sales or Use Tax | FTB 3809 | | B | |
| Code | Repealed Credits with Carryover Provisions | Form | Offset Tax in Section | | |
| 175 | Agricultural Products | FTB 3540 | A2 | | |
| 196 | Commercial Solar Electric System | FTB 3540 | | B | |
| 181 | Commercial Solar Energy | FTB 3540 | | B | C |
| 202 | Contribution of Computer Software | FTB 3540 | A2 | | |
| 191 | Employer Ridesharing | | | | |
| 192 | Large Employer | FTB 3540 | A2 | | |
| 193 | Small Employer | | | | |
| 193 | Transit | | | | |
| 182 | Energy Conservation | FTB 3540 | A2 | | |
| 159 | Los Angeles Revitalization Zone Hiring & Sales or Use Tax | FTB 3806 | | B | |
| 160 | Low-Emission Vehicles | FTB 3540 | A2 | | |
| 199 | Manufacturers' Investment | FTB 3535 | | B | |
| 185 | Orphan Drug | FTB 3540 | | B | |
| 184 | Political Contributions | FTB 3540 | A2 | | |
| 174 | Recycling Equipment | FTB 3540 | A2 | | |
| 171 | Ridesharing | FTB 3540 | A2 | | |
| 200 | Salmon & Steelhead Trout Habitat Restoration | FTB 3540 | A2 | | |
| 180 | Solar Energy | FTB 3540 | | B | C |
| 179 | Solar Pump | FTB 3540 | A2 | | |
| 201 | Technological Property Contribution | FTB 3540 | A2 | | |

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visit our Website:

www.ftb.ca.gov

Instructions for Form FTB 3539

Automatic Extension for Corporations and Exempt Organizations

General Information

Use form FTB 3539 **only** if:

- You cannot file your 2004 California (CA) tax return by the original due date; and
- You owe tax for the 2004 taxable year.

Use the worksheet on the following page to determine if you owe tax.

- If you do not owe tax, there is nothing to file at this time. **Do not** complete this voucher. However, you must file your return by the extended due date listed below.
- If you owe tax, complete the voucher and mail it along with your check or money order to the Franchise Tax Board (FTB) by the original due date to avoid penalties and interest. See Penalties and Interest on next page for more information.

If a corporation (including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs), limited liability companies (LLCs) electing to be treated as corporations, or an exempt organization in good standing) cannot file its CA tax return by the original due date, a seven-month extension to file will be allowed automatically without submitting a

Payment of Tax Due Dates:

To avoid late payment penalties and interest, 100% of the tax liability must be paid by the following due dates:

Form Filed

- Form 100, 100S, or 100W
- Form 100 for farmers' cooperative
- Form 199 or 109, generally
- Form 109 for employee's trust (IRC 401(a)), or IRA

Calendar Year Filers

- March 15, 2005
- September 15, 2005
- May 16, 2005
- April 15, 2005

Fiscal Year Filers: 15th day of the

- 3rd month following the close of the taxable year
- 9th month following the close of the taxable year
- 5th month following the close of the taxable year
- 4th month following the close of the taxable year

Extended Due Dates:

The extended due date for filing is as follows:

Form Filed

- Form 100, 100S, or 100W
- Form 100 for farmers' cooperative
- Form 199 or 109, generally
- Form 109 for employee's trust (IRC 401(a)) or IRA

Calendar Year Filers

- October 17, 2005
- April 17, 2006
- December 15, 2005
- November 15, 2005

Fiscal Year Filers: 15th day of the

- 10th month following the close of the taxable year
- 16th month following the close of the taxable year
- 12th month following the close of the taxable year
- 11th month following the close of the taxable year

Notes:

- An extension of time to file the CA tax return is **not** an extension of time to pay the tax.
- Save the completed worksheet as a permanent part of the corporation's or exempt organization's tax records along with a copy of the CA tax return.

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

(Calendar year corporations — Due March 15, 2005) (Fiscal year filers — see instructions)

(Employees' trust and IRA — Due April 15, 2005)

(Calendar year exempt organizations — Due May 16, 2005)

TAXABLE YEAR **2004** **Payment Voucher for Automatic Extension for Corporations and Exempt Organizations** CALIFORNIA FORM **3539 (CORP)**

For calendar year 2004 or fiscal year beginning month _____ day _____ year 2004, and ending month _____ day _____ year _____ .

| | | |
|--------------------------------------|--|---------|
| California corporation number | Federal employer identification number | Tax Due |
| | | |
| Corporation/exempt organization name | | |

| | | | |
|---------|--|----------|--|
| Address | | PMB no. | Entity will file. |
| City | | State | <input type="radio"/> Form 100/100W <input type="radio"/> Form 100S <input type="radio"/> Form 109 <input type="radio"/> Form 199 |
| | | ZIP Code | |

IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM

Where to File

If tax is due and the corporation or exempt organization is not paying through EFT, make a check or money order payable to "Franchise Tax Board" for the amount of the tax due. Write the California corporation number or FEIN and 2004 FTB 3539 on the check or money order. Enclose, but do **not** staple, the payment with the voucher and mail to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0551

Private Mailbox (PMB) Number

If the corporation or exempt organization 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.

Penalties and Interest

- If the corporation or exempt organization fails to pay its total tax liability by the original due date, a late payment penalty plus interest will be added to the tax due.
- If the corporation or exempt organization does not file its CA tax return by the extended due date, or the corporation's powers, rights, and privileges have been suspended or forfeited by the FTB or the California SOS, as of the original due date, the automatic extension will not apply and a delinquency penalty plus interest will be assessed from the original due date of the CA tax return.
- If the corporation or exempt organization is required to remit all of its payments through EFT and pays by another method, a 10% non-compliance penalty will be assessed.

Combined Reports

- If members of a combined unitary group have made or intend to make an election to file a combined unitary group single return, only the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the

minimum franchise tax for each corporation of the combined unitary group that is subject to the franchise tax in California.

- If members of a combined unitary group intend to file separate returns with the FTB, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the Tax Payment Worksheet.
- If any member of a combined unitary group meets the requirements for mandatory EFT, all members must remit their payments through EFT, regardless of their filing election.

Exempt Organizations

- **Form 100 filers:**
The due dates for corporations also apply to the filing of Form 100, California Corporation Franchise or Income Tax Return, by political action committees and exempt homeowners' associations.
Political action committees and exempt homeowners' associations that file Form 100 should not enter the minimum franchise tax on line 1 of the Tax Payment Worksheet.
- **Form 199 Filers:**
Generally, Form 199, California Exempt Organization Annual Information Return, requires a \$10 filing fee to be paid with the return on the original or extended due date.
Use form FTB 3539 only if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet.
- **Form 109 Filers:**
The due dates for filing Form 109, California Exempt Organization Business Income Return, depend on the type of organization filing the return. Employees' pension trusts and IRAs (including education IRAs) must file on or before the 15th day of the 4th month after the close of their taxable year. All other exempt organizations (except homeowners' associations and political organizations) must file on or before the 15th day of the 5th month after the close of their taxable year.

TAX PAYMENT WORKSHEET FOR YOUR RECORDS

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

How to Complete the Tax Payment Worksheet

Line 1

Enter the total tentative tax, including the alternative minimum tax, if applicable, for the taxable year.

- If filing Form 100, Form 100W, or Form 100S, and subject to franchise tax, the tentative tax may not be less than the minimum franchise tax and Qualified Subchapter S Subsidiary (QSub) annual tax (S corporations only).
- If filing Form 100, Form 100W, or Form 100S, and subject to income tax, enter the amount of tax. Corporations subject to the income tax do not pay the minimum franchise tax.
- If a corporation incorporates or qualifies to do business in California on or after January 1, 2000, the corporation will compute its tax liability for the first taxable year by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year.
- If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.

Line 2

Enter the estimated tax payments, including prior year overpayment applied as a credit. S corporations include any QSub annual tax payments.

Line 3

Tax due. If the amount on line 1 is more than the amount on line 2, then the corporation's or exempt organization's tentative tax is more than its payments and credits. The corporation or exempt organization has tax due.

Subtract line 2 from line 1. Enter this amount on line 3 and on form FTB 3539.

If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tentative tax. The corporation or exempt organization has no tax due. **DO NOT SEND THE PAYMENT VOUCHER.** The corporation or exempt organization will automatically qualify for an extension if the California tax return is filed by the extended due date and the corporation and or exempt organization is in good standing with the FTB and California SOS.

2004 Small Business Stock Questionnaire

3565

| | | |
|--|--------------------------------|--|
| Corporation name | | California corporation number |
| Address | PMB no. | Federal employer identification no. (FEIN) |
| City | State | ZIP Code |
| A. Taxable year (beginning and ending) | B. Date of incorporation | C. State of incorporation |
| D. Date of qualification in California | E. Principal business activity | F. Principal business activity code (Do not leave blank) |

If the answer to any of the questions G through L is NO, STOP; do not complete this form because the stock issuance does not qualify under California Revenue and Taxation Code Section 18152.5.

- G.** Did the corporation issue non-treasury stock during the current taxable year? Yes No
Date of stock issuance for which this information applies: _____ / _____ / _____
Month Day Year
- H.** Was the non-treasury stock issued, in whole or in part, for money, for property other than stock, or for services provided to the corporation? Yes No
- I.** Were the corporation's aggregate gross assets less than or equal to \$50,000,000 from the period beginning July 1, 1993, to the date of issuance of the non-treasury stock? See instructions Yes No
- J.** Was at least 80% of the corporation's payroll in California at the date of issuance of the non-treasury stock? Yes No
- K.** Was the corporation a domestic corporation at the date of issuance of the non-treasury stock? Yes No
- L.** Since the issuance of non-treasury stock, was this a corporation with a classification **other than a:**
- RIC, REIT, or REMIC? Yes No
 - DISC or former DISC? Yes No
 - Corporation with an IRC Section 936 election in effect or a direct or indirect subsidiary with an election? Yes No
 - Cooperative? Yes No
- M.** Did the corporation's assets (in excess of liabilities) consist of 10% or less of stocks or securities of a non-subsidiary corporation(s)? Yes No
- N.** Since the issuance of non-treasury stock, was this corporation a C corporation for California purposes? Yes No
- O.** Since the issuance of non-treasury stock, were at least 80% (by value) of the corporation's assets used in the active conduct of one or more qualified trades or businesses in California? See instructions Yes No
- P.** What percentage of the total value of assets consisted of real property that was not used in the active conduct of the trade or business? See instructions _____%
- Q.** What was the aggregate subscription amount for all non-treasury stock issuances during the corporation's existence prior to the current issuance? \$ _____
- R.** What was the aggregate subscription amount of non-treasury stock issued during the current taxable year? \$ _____
- S.** Of the amount in Question R, how much was **received for** qualified small business stock? \$ _____
- T.** What was the date of the first non-treasury stock issuance during the current taxable year? _____ / _____ / _____
Month Day Year
- U.** What was the date of the last non-treasury stock issuance during the current taxable year? _____ / _____ / _____
Month Day Year
- V.** What was the aggregate percentage of the total purchases of this corporation's own stock (relative to the aggregate value of the corporation's total stock for a two-year period beginning on the date one year before the issuance of this stock)? _____%
(If the aggregate percentage is more than 5%, the stock does not qualify as small business stock.)

Under penalties of perjury, I declare that I have examined this form, and to the best of my knowledge and belief, it is true, correct, and complete.

| | | |
|------------------------|----------------------|------|
| Signature of officer ► | Print name and title | Date |
|------------------------|----------------------|------|

2004 Instructions for Form FTB 3565

Small Business Stock Questionnaire

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

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2001. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and select "Law and Legislation." Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets. Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

A Purpose

Use form FTB 3565, Small Business Stock Questionnaire, to provide information regarding issuance of stock pursuant to R&TC Section 18152.5.

B Who Must File

A corporation must file form FTB 3565 if it qualifies as a "qualified small business" and issued stock pursuant to R&TC Section 18152.5 during the current taxable year.

Note: If there was more than one issuance of small business stock during the taxable year, fill out a separate form FTB 3565 for each issuance. For purposes of this form, all corporations which are members of the same parent-subsidiary controlled group shall be treated as one corporation. A parent-subsidiary controlled group is defined in IRC Section 1563(a)(1), except that for California tax purposes "more than 50%" shall be substituted for "at least 80%."

C When and Where to File

For taxable years beginning on or after January 1, 1996, a corporation is required to file form FTB 3565 along with Form 100, Corporation Franchise or Income Tax Return, or Form 100W, California Corporation Franchise or Income Tax Return –

Water's-Edge Filers. Attach form FTB 3565 to Form 100 or Form 100W and file on or before the due date of the corporate tax return, including extensions.

Under authority granted in R&TC Section 18152.5, the Franchise Tax Board (FTB) requires the corporation to provide a copy of any completed form FTB 3565 to each shareholder that acquired qualified small business stock as part of the stock issuance that is reported on the completed form FTB 3565 during the current taxable year.

Failure to file this form by the corporation's original or extended return due date for the current taxable year may result in a penalty being assessed to the corporation pursuant to R&TC Section 19133.5. The penalty amount is \$50 per failure to file unless the failure is due to negligence or intentional disregard, then the penalty amount is \$100 per failure to file the form.

Failure of the corporation to file form FTB 3565 will not disqualify the stockholder from excluding gain from the sale or exchange of stock. However, the stockholder bears the burden of proving that the gain from the sale or exchange qualifies for exclusion pursuant to R&TC Section 18152.5 whether or not the corporation files/provides form FTB 3565.

Private Mailbox (PMB) Number

If the corporation leases a 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.

Specific Instructions

Item F – Principal business activity (PBA) code – Do not leave blank. Enter the six-digit PBA code from the chart included in the 2004 Form 100, Corporation Tax Booklet or Form 100W, Water's-Edge Booklet. The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California PBA code number may be different than the federal PBA code number.

Questions G through L – If the answer to any of these questions is "No," stop. The stock issuance does not qualify under R&TC Section 18152.5. You do not need to complete the rest of this form and do not attach this form to the Form 100 or Form 100W.

Question K – A domestic corporation is defined in IRC Section 7701(a)(4) as any corporation created or organized in any state in the United States.

Question O – A qualified trade or business is defined as any trade or business **other than:**

- Any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of the trade or business is the reputation or skill of one or more of its employees;
- Any banking, insurance, financing, leasing, investing, or similar business;
- Any farming business (including the business of raising or harvesting trees);
- Any business involving the production or extraction of products of a character with respect to which a percentage depletion deduction is allowable under IRC Section 613 or 613A; and
- Any business of operating a hotel, motel, restaurant, or similar business.

Question P – For the purpose of calculating the total value of the assets, any ownership of, dealing in, or renting of, real property shall not be treated as the active conduct of a qualified trade or business.

Question R – Enter the aggregate subscription amount of non-treasury stock issued by the corporation during the entire taxable year.

Question S – Enter the amount included in Question R that was received for that part of the stock issuance that qualifies as small business stock under the provisions of R&TC Section 18152.5.

The amounts that are entered in Question R and Question S should not include the value of stock issued in exchange for stock.

Note: Records should be maintained showing that the stock issuance met the requirements of R&TC Section 18152.5.

Question T – If there was more than one issuance of small business stock during the current taxable year, enter the date of the first issuance here.

Question U – If there was more than one issuance of small business stock during the current taxable year, enter the date of the last issuance here.

2004

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

3805Q

Attach to your California tax return (Form 100, Form 100S, Form 100W, or Form 109).

| | |
|--|---|
| Corporation name _____ | California corporation number _____ FEIN _____ |
| During the year the corporation incurred the NOL, the corporation was a(n): <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Exempt Organization <input type="checkbox"/> Limited Liability Company (electing to be taxed as a corporation) | |
| If the corporation previously filed California tax returns under another corporate name, enter the corporation name and California corporation number: _____ | |

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

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

| | | |
|---|-----------|--|
| 1 Net loss from Form 100, line 19; Form 100W, line 19; Form 100S, line 16; or Form 109, line 2. Enter as a positive number | 1 | |
| 2 2004 disaster loss from line 1. Enter as a positive number | 2 | |
| 3 Subtract line 2 from line 1. If zero or less, enter -0- and see instructions | 3 | |
| 4 a Enter the amount of the loss incurred by a new business included in line 3 | 4a | |
| b Enter the amount of the loss incurred by an eligible small business included in line 3 | 4b | |
| c Add line 4a and line 4b | 4c | |
| 5 General NOL. Subtract line 4c from line 3 | 5 | |
| 6 2004 NOL carryover. Add line 2, line 4c, and line 5. See instructions | 6 | |

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

| | | |
|---|---------------------------------|--|
| 1 Net income (loss) – Enter the amount from Form 100, line 19; Form 100W, line 19; Form 100S, line 16 less line 17 (but not less than -0-); or Form 109, line 2 | (g) Available balance | |
|---|---------------------------------|--|

Prior Year NOLs

| (a) Year of loss | (b) Code – See instructions for Part II, column (b) | (c) Type of NOL – See below | (d) Initial loss | (e) Carryover from 2003 | (f) Amount used in 2004 | | (h) Carryover to 2005 col. (e) - col. (f) |
|---------------------|--|--------------------------------|---------------------|----------------------------|----------------------------|--|---|
| 2 | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

Current Year NOLs

| | | | | | | | |
|---|------|-----|--|--|--|--|---------------------|
| 3 | 2004 | DIS | | | | | col. (d) - col. (f) |
| 4 | 2004 | | | | | | |
| | 2004 | | | | | | |
| | 2004 | | | | | | |
| | 2004 | | | | | | |

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

PART III 2004 NOL deduction

| | | |
|--|----------|--|
| 1 Total the amounts in Part II, line 2, column (f) | 1 | |
| 2 Enter the total amount from line 1 that represents disaster loss carryover deduction here and on Form 100, line 22; Form 100W, line 22; or Form 100S, line 20. Form 109 filers enter -0- | 2 | |
| 3 Subtract line 2 from line 1. Enter this amount on Form 100, line 20; Form 100W, line 20; Form 100S, line 18; or Form 109, line 4 | 3 | |

2004 Instructions for Form FTB 3805Q

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

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

What's New

For taxable years beginning on or after January 1, 2004:

- California has reinstated the Net Operating Loss (NOL) carryover deduction.
- 100% of the NOL may be carried forward for ten years.

The carryover period for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2001. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and select "Law and Legislation." Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years that began in 2002 and 2003, California had suspended the NOL carryover deduction. Taxpayers continued to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses was not affected by the NOL suspension rules.

The general NOL carryover percentage varies. For taxable years beginning on or after:

- January 1, 2004, 100% of the NOL may be carried forward;
- January 1, 2002, and before January 1, 2004, 60% of the NOL may be carried forward; and
- January 1, 2000, and before January 1, 2002, 55% of the NOL may be carried forward.

Also, any NOL incurred in any taxable year beginning on or after January 1, 2000, may be carried forward for 10 years.

In 1998, the Franchise Tax Board (FTB) implemented the new principal business activity (PBA) code chart that is based on the North American Industry Classification System (NAICS) in the corporate tax booklets. However, the California R&TC still uses the Standard Industrial Codes (SIC) for purposes of the new business and eligible small business NOL.

A Purpose

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

Note: Exempt trusts should use form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

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

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

Only a portion of the NOL may be eligible for carryover to future years because California has established different categories of NOL. See General Information F, Types of NOLs, for more information.

Note: If the corporation has a current year NOL under R&TC Section 24416.2, 24416.5, 24416.6, and 24416.7 (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation **must elect** on its return for the taxable year in which the loss is incurred to carryover the loss either under that section or the loss under R&TC Section 24416 (relating to general NOLs). If the corporation elects to compute the NOL under R&TC Section 24416.1(c) (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation must:

- Make the election in a statement attached to the original return; and
- Use the applicable Pierce's disease form or economic development area (EDA) form to calculate the NOL.

The election is irrevocable. Get form FTB 3805D, form FTB 3805Z, form FTB 3807, or form FTB 3809 for more information.

B Apportioning Corporations

The loss carryover for a corporation that apportions income is the amount of the corporation's loss, if any, after adding income or loss apportioned to California with income or loss allocable to California under Chapter 17 of the Corporation Tax Law. The

loss carryover may be deducted from income of that corporation apportioned and allocable to California in subsequent years.

C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using its individual apportionment factors (R&TC Section 25108). Complete a separate form FTB 3805Q for **each** taxpayer included in the combined report. Attach the separate forms for each taxpayer member **behind** the combined form FTB 3805Q for all members.

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

D Water's-Edge

For Water's-Edge taxpayers, R&TC Section 24416(c) imposes a limitation on the NOL deduction if the NOL is generated during a non-Water's-Edge tax year. The NOL carryover is limited to the lesser amount as re-determined by computing the income and factors of the original worldwide combined reporting group as if the Water's-Edge election had been in force for the year of the loss. If R&TC Section 24416(c) applies; the NOL carryover for each corporation may be decreased, but not increased.

E S Corporations

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

If a corporation changes from a C corporation to an S corporation, the loss incurred while the corporation was a C corporation may not be applied to offset income subject to the 1.5% tax imposed on an S corporation. However, losses incurred while the corporation was a C corporation may be applied against the built-in gains which are subject to tax. If the corporation incurred losses while it was a C corporation and an S corporation, and the S corporation is using C corporation losses to offset its built-in gains, the corporation must complete two forms FTB 3805Q and attach them to Form 100S, California

S Corporation Franchise or Income Tax Return. The unused losses incurred while the corporation was a C corporation are "unavailable" except as provided for above unless and

until the S corporation reverts back to a C corporation or the carryover period expires. However, if an S corporation changes to a C corporation, any S corporation NOLs are lost.

F Types of NOLs

The table below shows the types of NOLs available, a description, and the percentages and carryover periods for each type of loss.

***Note:** For NOL carryovers suspended during 2002 and 2003 tax year, the carryover period 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.

| Type of NOL and Description | Taxable Year NOL Incurred | NOL Carried Over | Carryover* Period |
|--|--|--|--|
| <p>General NOL (GEN) Available as a result of a loss incurred in years after 1986 and allowed under R&TC Section 24416. Does not include losses incurred from activities that qualify as a new business, an eligible small business, EZ, LARZ, LAMBRA, TTA, disaster loss, or Pierce's disease.</p> | <p>On or after 01/01/2004 2002-2003 2000-2001 1997-1999 1987-1996</p> | <p>100% 60% 55% 50% None</p> | <p>10 Years 10 Years 10 Years 5 Years Expired</p> |
| <p>Disaster Losses (DIS) Casualty losses in areas of California declared by the President of the United States or the Governor of California to be in a state of disaster. An election may be made under IRC Section 165(i) permitting the disaster loss to be taken against the previous year's income. If you made this election, see current year NOLs, Part II, line 3 and federal Form 4684 instructions for when the election must be filed. If special legislation is enacted under R&TC Section 24347.5 and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to five taxable years. If any excess loss remains after the five-year period, 50% of that remaining loss may be carried over for up to 10 additional taxable years for losses occurred in any taxable year beginning before January 1, 2000; 55% for losses incurred in any taxable year beginning on or after January 1, 2000, and before January 1, 2002; 60% for losses incurred in any taxable year beginning on or after January 1, 2002, and before January 1, 2004; or 100% for losses incurred in any taxable year beginning on or after January 1, 2004.</p> | <p>See "List of events that declared as disasters on next page.</p> | <p>100% See instructions</p> | <p>First 5 Years 10 Years Thereafter</p> |
| <p>New Business NOL (NB) Get FTB Legal Ruling 96-5 for more information. Incurred by a trade or business that first commenced in California on or after January 1, 1994, during the first three years of business, 100% of an NOL may be carried over for 10 years, but only to the extent of the net loss from the new business. The term "new business" also includes any taxpayer engaged in biopharmaceutical activities or other biotechnology activities described in Codes 2833 to 2836 of the SIC Manual. It also includes any taxpayer that has not received regulatory approval for any product from the United States Food and Drug Administration. See R&TC Section 24416(g)(7)(A) for more information. If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over as a general NOL. If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business conducted by the taxpayer or related person is not a new business if the fair market value (FMV) of the acquired assets exceeds 20% of the FMV of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as were used immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the SIC Manual. If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and then starts an additional trade or business in California, the additional trade or business qualifies as a new business only if the activity is classified under a different division classification of the SIC Manual. Business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Sections 267 or 318.</p> | <p>On or after 01/01/2000 Before 01/01/2000 Year of business Year 1 Year 2 Year 3</p> | <p>100% For the first three years of business 100% 100% 100%</p> | <p>10 Years 8 Years 7 Years 6 Years</p> |
| <p>Eligible Small Business (ESB) Get Legal Ruling 96-5 for more information. Incurred in a trade or business activity that has gross receipts, less returns and allowances, of less than \$1 million during the taxable year. 100% of an NOL may be carried over, but only to the extent of the net loss from the eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business, the excess may be carried over as a general NOL. The corporation should use the same SIC Code division classifications described in the new business NOL section to determine what constitutes a trade or business activity.</p> | <p>On or after 01/01/2000 On or after 01/01/1994 and before 01/01/2000</p> | <p>100% 100%</p> | <p>10 Years 5 Years</p> |
| <p>Title 11 Bankruptcy (T11) If the corporation is claiming an NOL carryover deduction under the provisions of R&TC Section 24416(e)(4)(A), enter the carryover amount on Part II, line 2.</p> | <p>1987-1993</p> | <p>50%</p> | <p>10 Years</p> |

Specific Line Instructions

Part I

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

Line 2 – If the corporation incurred a disaster loss during 2004, enter the amount of the loss on this line. Enter as a positive number.

Line 3 – If the amount is zero or less, the corporation does not have a current year general NOL. Go to Part II for computation of general NOL carryovers, the current year disaster loss, and carryover from disaster losses.

Line 6 – Go to Part II, Current Year NOLs, to record your 2004 NOL carryover to 2005. Complete columns (b), (c), (d), and (h) only, for each type of loss that you incurred.

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

Part II

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

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

When to use an NOL carryover

Use your NOLs and disaster losses in the order the losses were incurred. There is no requirement to deduct NOL carryovers before disaster loss carryovers.

Prior Year NOLs

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

Column (b) – If the loss is due to a disaster, enter the disaster code from the list below. If the loss is from a new business or eligible small business, enter the SIC Code for the new business or eligible small business from the Standard Industrial Classification Manual. DO NOT enter the code from the PBA chart available in the 2004 Form 100, Form 100W, or Form 100S booklets. If the loss was from an S corporation, enter the entity's federal employer identification number from Schedule K-1 (100S).

List of events that have been declared disasters:

| Year | Code | Event |
|--------------|------|---|
| 2005 2004 | 25 | Southern California flooding, debris flows, and mudslides* |
| 2004 | 24 | San Joaquin Levee Break |
| 2003 | 23 | San Simeon earthquake |
| 2003 | 22 | Southern California fires and other related casualties |
| 2000 | 21 | Napa County earthquake |
| 1999 | 20 | Wildfires and other related casualties* |
| 1999 1998 | 19 | Winter Freeze 98/99 |
| 1998 | 18 | El Niño 98 |
| 1997 1996 | 17 | Disaster floods 96/97 |
| 1996 | 16 | Firestorms 96* |
| 1995 | 15 | Storms, flooding, and other related casualties |
| 1994 | 14 | San Luis Obispo fire and other related casualties |
| 1994 | 13 | Los Angeles, Orange, and Ventura County earthquake and other related casualties |
| 1993 | 12 | Storms, floods, and other related casualties |
| 1992 | 11 | Wildfires and other related casualties in Calaveras and Shasta Counties |
| 1992 | 10 | San Bernardino County earthquake and other related casualties |
| 1992 | 9 | Riots, arson, and related casualties in California during April and May |
| 1992 | 8 | Humboldt County earthquake and related casualties |
| 1992 | 7 | Storms, floods, and other related casualties |
| 1991 | 6 | Oakland/Berkeley fire and other related casualties |
| 1990 | 5 | Santa Barbara fires and other related casualties |
| 1989 | 4 | Bay Area earthquake and other related casualties |
| 1987 | 3 | Forest fires, October earthquake, and other related casualties |
| 1986 | 2 | Storms, floods, and other related casualties |
| 1985 | 1 | Forest fires and related casualties occurring in California |

*Carryover period and percentage are limited to the NOL rules. No special legislation was enacted.

Column (c) – Enter the type of NOL from the table in General Information F, Types of NOLs. If using a Pierce's disease, or an EDA NOL, get the applicable form for the NOL type.

Column (d) – Enter 100% of the initial loss for the year given in column (a).

Column (e) – Enter the NOL carryover amount from the 2003 form FTB 3805Q, Part II, column (h).

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

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

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

Current Year NOLs

Note: If a disaster loss occurs between the date of the publication and the end of the taxable year, please go to our Website: www.ftb.ca.gov for an updated version of this form, which will include information for any subsequent disaster loss. Then follow the line 3 instructions.

Line 3 – Current year Disaster Loss

If you did not elect to deduct your current year disaster loss in the prior year:

- In column (d), enter your 2004 disaster loss from Part I, line 2.
- In column (f), enter the disaster loss used in 2004.
- In column (h), enter column (d) less column (f).

If you elected to deduct your 2004 disaster loss on your 2003 tax return, and you have an excess amount to be carried over to 2004, enter the carryover amount in Part II, line 2, column (e). Use the Prior Year NOL instructions for column (a) through column (h) except:

- In column (a), enter 2004;
- In column (b), enter the new disaster code; and
- In column (d), enter the total disaster loss incurred in 2004.

2004 Corporation Depreciation and Amortization

3885

Attach to Form 100 or Form 100W.

Corporation name California corporation number

Part I Depreciation

Table with 8 columns: (a) Description of property, (b) Date acquired, (c) Cost or other basis, (d) Depreciation allowed or allowable in earlier years, (e) Method of figuring depreciation, (f) Life or rate, (g) Depreciation for this year, (h) Additional first year depreciation. Includes summary rows 2-5.

Part II Amortization

Table with 7 columns: (a) Description of property, (b) Date acquired, (c) Cost or other basis, (d) Amortization allowed or allowable in earlier years, (e) R&TC section, (f) Period or percentage, (g) Amortization for this year. Includes summary rows 2-4.

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2001. However, there are continuing differences between California and federal law.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns.

Taxpayers should not consider the tax booklets as authoritative law.

A Purpose

Use form FTB 3885 to calculate California depreciation and amortization deduction for corporations, including partnerships and limited liability companies (LLCs) classified as corporations only.

S corporations must use Schedule B (100S). Individuals must use form FTB 3885A, Depreciation and Amortization - Individuals. Fiduciaries and exempt trusts must use form FTB 3885F, Depreciation and Amortization - Fiduciaries.

Depreciation and amortization are deductions corporations claim for reasonable exhaustion, wear and tear, and normal obsolescence of property used in a trade or business or held for the production of income.

For purposes of this form, depreciation is used in connection with tangible property, while amortization is used for intangible assets.

Note: For amortizing the cost of certified pollution control facilities, use form FTB 3580, Application to Amortize Certified Pollution Control Facility.

B Federal/State Calculation Differences

Important differences between federal and California laws affect the calculation of depreciation and amortization. Some of the major differences are briefly described, as follows:

- California conforms to 2003 increase for the limitation on luxury automobile depreciation, with modifications. In addition, SUVs and minivans that are built on a truck chassis are now included in the definition of trucks and vans when applying the 6,000 pound gross weight limit.

- California law has not conformed to the additional 30% or 50% first-year depreciation allowance for qualified property;
- California law allows additional first-year depreciation under Revenue and Taxation Code (R&TC) Section 24356, rather than an election to expense the cost of the property as provided in IRC Section 179;
- California law has not conformed to federal statutes allowing accelerated depreciation for property on Indian Reservations;
- California law allows a useful life of five years, instead of ten years, for grapevines planted as replacements for vines subject to Phylloxera or Pierce's disease;
- California corporation tax law has not conformed to the federal special class life for gas station convenience stores and similar structures;
- California has not conformed to federal statutes allowing depreciation under Modified Accelerated Cost Recovery System (MACRS) for corporations, except to the extent such depreciation is passed through from a partnership or LLC classified as a partnership;
- California has adopted provisions of the federal Class Life Asset Depreciation Range System (ADR), which specifies a useful life for various types of property. However, California law does not allow the corporation to choose a depreciation period that varies from the specified asset guideline system.

C Depreciation Calculation Methods

Depreciation methods are defined in R&TC Sections 24349 through 24354. Depreciation calculation methods, described in R&TC Section 24349, are as follows:

Straight-Line. The straight-line method divides the cost or other basis of property, less its estimated salvage value, into equal amounts over the estimated useful life of the property. An asset may not be depreciated below a reasonable salvage value.

Declining Balance. Under this method, depreciation is greatest in the first year and smaller in each succeeding year. The property must have a useful life of at least three years. Salvage value is not taken into account in determining the basis of the property, but the property may not be depreciated below a reasonable salvage value.

The amount of depreciation for each year is subtracted from the basis of the property and a uniform rate of up to 200% of the straight-line rate is applied to the remaining balance.

For example, the annual depreciation allowances for property with an original basis of \$100,000 are:

| Year | Remaining basis | Declining balance rate | Depreciation allowance |
|--------|-----------------|------------------------|------------------------|
| First | \$100,000 | 20% | \$20,000 |
| Second | 80,000 | 20% | 16,000 |
| Third | 64,000 | 20% | 12,800 |
| Fourth | 51,200 | 20% | 10,240 |

Sum-of-the-years-digits method. This method may be used whenever the declining balance method is allowed. The depreciation deduction is figured by subtracting the salvage value from the cost of the property and multiplying the result by a fraction. The numerator of the fraction is the number of years remaining in the useful life of the property. Therefore, the numerator changes each year as the life of the property decreases. The denominator of the fraction is the sum of the digits representing the years of useful life. The denominator remains constant every year.

Other consistent methods. Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

D Period of Depreciation

Under CA Reg. 24349 (I), California conforms to the federal useful lives of property.

Use the following information as a guide to determine reasonable periods of useful life for purposes of calculating depreciation. Actual facts and circumstances will determine useful life. Note, however, that the figures listed below represent the normal periods of useful life for the types of property listed as shown in IRS Rev. Proc. 83-35.

- Office furniture, fixtures, machines, and equipment 10 yrs.

This category includes furniture and fixtures (that are not structural components of a building) and machines and equipment used in the preparation of paper or data.

Examples include: desks; files; safes; typewriters, accounting, calculating, and data processing machines; communications equipment; and duplicating and copying equipment.

- Computers and peripheral equipment (printers, etc.) 6 yrs.
- Transportation equipment and automobiles (including taxis) 3 yrs.
- General-purpose trucks:
 - Light (unloaded weight less than 13,000 lbs.) 4 yrs.
 - Heavy (unloaded weight 13,000 lbs. or more) 6 yrs.
- Buildings

This category includes the structural shell of a building and all of its integral parts that service normal heating, plumbing, air conditioning, fire prevention and power requirements, and equipment such as elevators and escalators.

| Type of building: | |
|---|---------|
| Apartments | 40 yrs. |
| Dwellings (including rental residences) | 45 yrs. |
| Office buildings | 45 yrs. |
| Warehouses | 60 yrs. |

E Depreciation Methods to Use

Corporations may use the straight-line method for any depreciable property. Before using other methods, consider the kind of property, its useful life, whether it is new or used, and the date it was acquired. Use the following chart as a general guide to determine which method to use:

| Property description | Maximum depreciation method |
|--|-----------------------------|
| Real estate acquired 12/31/70 or earlier | |
| New (useful life 3 yrs. or more) | 200% Declining balance |
| Used (useful life 3 yrs. or more) | 150% Declining balance |
| Real estate acquired 1/1/71 or later | |
| Residential Rental: | |
| New | 200% Declining balance |
| Used (useful life 20 yrs. or more) | 125% Declining balance |
| Used (useful life less than 20 yrs.) | Straight-line |
| Commercial and industrial: | |
| New (useful life 3 yrs. or more) | 150% Declining balance* |
| Used | Straight-line |
| Personal property | |
| New (useful life 3 yrs. or more) | 200% Declining balance* |
| Used (useful life 3 yrs. or more) | 150% Declining balance |

*Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would

have resulted from using the declining balance method.

The Guideline Class Life System of depreciation may be used for certain classes of assets placed in service before 1971.

The Class Life ADR System of depreciation may be used for designated classes of assets placed in service after 1970.

F Amortization

California conformed to the 1993 federal Revenue Reconciliation Act (Public Law 103-66) for the IRC Section 197 amortization of intangibles for taxable years beginning on or after January 1, 1994. Generally, assets that meet the definition under IRC Section 197 are amortized on a straight-line basis over 15 years. There may be differences in the federal and California amounts for intangible assets acquired in taxable years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

Amortization of the following assets is governed by California law:

| | |
|-----------------------------|----------------------|
| Bond premiums | R&TC 24360 – 24363.5 |
| Research expenditures | R&TC 24365 |
| Reforestation expenses | R&TC 24372.5 |
| Organizational expenditures | R&TC 24407 – 24409 |
| Start-up expenses | R&TC 24414 |

Other intangible assets may be amortized if it is proved with reasonable accuracy that the asset has an ascertainable value that diminishes over time and has a limited useful life.

Specific Line Instructions

Line 1

Corporations may enter each asset separately or group assets into depreciation accounts. Figure the depreciation separately for each asset or group of assets. The basis for depreciation is the cost or other basis reduced by a reasonable salvage value (except when using the declining balance method), additional first-year depreciation (if it applies), and tax credits claimed on depreciable property (where specified). This may cause the California basis to be different from the federal basis.

If the Guideline Class Life System or Class Life ADR System is used, enter the amount, from a schedule showing the computation, on form FTB 3885, column (g), and identify as such.

Line 1, Column (h), Additional first-year depreciation

Corporations may deduct up to 20% of the cost of "qualifying property" in the year acquired in addition to the regular depreciation deduction. The maximum additional first-year depreciation deduction is \$2,000. Corporations must reduce the basis used for regular depreciation by the amount of additional first-year depreciation claimed.

"Qualifying property" is tangible personal property used in business and having a useful life of at least six years. Land, buildings, and structural components do not qualify. Property converted from personal use, acquired by gift, inheritance, or from related parties also does not qualify.

See R&TC Section 24356 and the applicable regulations for more information.

Note: An election may be made to expense up to 40% of the cost of property described in R&TC Sections 24356.6, 24356.7, and 24356.8. For more information, get form FTB 3809, Targeted Tax Area Deduction and Credit Summary; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; or form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary.

How To Get California Tax Information

Where To Get Tax Forms and Publications

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

By phone – To order current-year California tax forms:

- Refer to the list in the right column and find the code number for the form you want to order.
- Call (800) 338-0505.
- Select “Business Entity Information.”
- Select “Order Forms and Publications.”
- Enter the three-digit code shown to the left of the form title when instructed.

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

In person – Many libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

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

By mail – Write to:

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

Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

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

General Toll-Free Phone Service

Telephone assistance is available year-round from 7 a.m. until 7 p.m. Monday through Friday, except state holidays. We may modify these hours without notice to meet operational needs.

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

Assistance for persons with disabilities

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

TTY/TDD (800) 822-6268

Asistencia bilingüe en español:

Asistencia telefónica esta disponible todo el año durante las 7 a.m. y las 7 p.m. lunes a viernes, excepto días festivos estatales. Sin embargo, podríamos modificar este horario sin aviso previo para cumplir necesidades de operación.

Dentro de los Estados Unidos, llame al (800) 852-5711
Fuera de los Estados Unidos, llame al
(cargos aplican) (916) 845-6500
Para preguntas sobre impuestos federales,
llame el IRS al (800) 829-1040

California Tax Forms and Publications

- 817 California Corporation Tax Forms and Instructions.
This booklet contains:
Form 100, California Corporation Franchise or Income Tax Return;
Schedule H (100), Dividend Income Deductions
Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
FTB 3565, Small Business Stock Questionnaire
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations
FTB 3885, Corporation Depreciation and Amortization
- 816 California S Corporation Tax Forms and Instructions.
This booklet contains:
Form 100S, California S Corporation Franchise or Income Tax Return;
Schedule B (100S), S Corporation Depreciation and Amortization
Schedule C (100S), S Corporation Tax Credits
Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains
Schedule H (100S), Dividend Income Deduction
Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.
Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL Disaster Loss – Corporations
- 814 Form 109 Booklet, California Exempt Organization Business Income Tax Return
- 818 Form 100-ES, Corporation Estimated Tax
- 815 Form 199, California Exempt Organization Annual Information Return and Instructions
- 820 FTB Pub. 1068, Exempt Organizations — Requirements for Filing Returns and Paying Filing Fees
- 802 FTB 3500, Exemption Application
- 803 FTB 3555, Request for Tax Clearance Certificate — Corporations
- 831 FTB 3534, Joint Strike Fighter Credits
- 835 FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation – Pierce's Disease

Your Rights As A Taxpayer

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

See “Where to Get Tax Forms and Publications” on this page.

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

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

Have paper and pencil ready to take notes.

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

To Order Forms

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

To Get Information

If you need an answer to any of the following questions, call (800) 338-0505, select "Business Entity Information," then "General Tax Information," follow the recorded instructions, and enter the three-digit code when instructed.

Code Filing Assistance

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

S Corporations

- 704 Is an S corporation subject to the minimum franchise tax?
- 705 Are S corporations required to file estimated payments?
- 706 What forms do S corporations file?
- 707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?

Exempt Organizations

- 709 How do I get tax-exempt status?
- 710 Does an exempt organization have to file Form 199?
- 736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

Minimum Tax and Estimate Tax

- 712 What is the minimum franchise tax?
- 714 My corporation is not doing business; does it have to pay the minimum franchise tax?

Billings and Miscellaneous Notices

- 503 How do I file a protest against a Notice of Proposed Assessment?
- 723 I received a bill for \$250. What is this for?

Tax Clearance

- 724 How do I dissolve my corporation?
- 725 What do I have to do to get a tax clearance?

Limited Liability Companies (LLC)

- 750 How do I organize or register an LLC?
- 752 What tax forms do I use to file as an LLC?
- 753 When is the annual tax payment due?

Miscellaneous

- 700 Who do I need to contact to start a business?
- 701 I need a state Employer ID number for my business. Who do I contact?
- 703 How do I incorporate?
- 721 How does my corporation change its accounting period?
- 737 Where do I send my payment?

