

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 350

August 1, 1972

FINANCIAL CORPORATIONS: OFFSETS AGAINST TAX

Syllabus:

The tax on a financial corporation for purposes of determining the amount of its allowable offsets pursuant to Revenue and Taxation Code § 23184(c) and (d) includes the additions to tax required by § 23185a on account of those offsets.

Advice has been requested as to the proper computation of the tax liability of a financial corporation which has available offsets under Revenue and Taxation Code § 23184 which are in excess of the amounts allowable under subsections (c) and (d) of that section.

Section 23184 permits a financial corporation to claim offsets against its franchise tax for certain itemized taxes and license fees subject to the limitation of parts (c) and (d) that those offsets must not reduce the tax on the financial corporation below the general rate nor below the applicable minimum tax. If the corporation claims such offsets then § 23185a requires that its tax rate (11% or 11.6%) be applied to the offsets and that the amount so computed shall be added to and included in the tax of the financial corporation. Since § 23185a takes effect once the offsets provided by § 23184 are claimed, the tax on a financial corporation for purposes of the application of § 23184(c) and (d) must include the additional amounts computed pursuant to § 23185a. Whereas it is that resulting tax which must never be less than the limitations of subsections (c) and (d) the financial corporation's tax will also never exceed those limits in cases where excessive offsets are present.

As an example of the operation of these sections assume a financial corporation with a net income of \$ 40,000 for the income year ending December 31, 1971, which has \$ 3,000 in available offsets also deducted in arriving at its net income. Its tax will be:

1. Net Income	\$ 40,000
2. Tax at 11%	4,400
3. Less Offset	<u>1,798 1/</u>
4. Subtotal	\$ 2,602
5. Addition to tax (§ 23185a)	<u>198 2/</u>
6. Total Tax	<u><u>\$ 2,800</u></u>
Carryover (§ 23184(b))	<u><u>\$ 1,202 3/</u></u>

