

STATE OF CALIFORNIA
Franchise Tax Board

Minimum Tax and Annual Tax Exemption for Deployed Military

Economic and Statistical Research Bureau

Summary of Reporting Requirement

This report is intended to fulfill the Franchise Tax Board's (FTB) obligation under Assembly Bill 308 (Chapter 421, Statutes of 2019) which amended Revenue & Taxation Code (RTC) sections 17941 and 23153 and included language requiring the FTB annually report by January 1, beginning in 2021 and ending in 2031, to the Legislature, the number of corporations and limited liability companies (LLCs) that are small businesses solely owned by a deployed member of the United States Armed Forces in the state that is not required to pay the annual tax or the minimum franchise tax, the number of individuals employed by those businesses, and the number of these businesses that closed. This report is intended to fulfill the reporting requirements for the January 1, 2027, report year.

Prepared by the Staff of the
Franchise Tax Board
STATE OF CALIFORNIA

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Background

Under Chapter 421 of the Statutes of 2019 (AB 308), for taxable years beginning on or after January 1, 2020, and before January 1, 2030, a deployed member of the United States Armed Forces is not required to pay the annual tax or the minimum franchise tax if their small business meets all the following requirements:

- The business is solely owned by a deployed member of the United States Armed Forces who has been called to active duty or active service during a period when a Presidential Executive order specifies that the United States is engaged in combat or homeland defense. This does not include temporary duty for the sole purpose of training or processing or a permanent change of station.
- The business is a corporation or a LLC with total income from all sources derived from or attributable to California of two hundred fifty thousand dollars ($250,000) or less.
- The business is a corporation or an LLC that operates at a loss or has ceased operations.

Under state law, all corporations doing business in California are required to pay a franchise tax equal to 8.84 percent of the corporation's taxable income apportioned to California. In addition, a minimum franchise tax of $800 is imposed on every corporation that is incorporated in this state, qualified to transact intrastate business in this state, or doing business in this state. The corporation must pay the greater of the franchise tax or the minimum franchise tax. Every LLC that is organized or doing business in this state is required to pay an annual tax and LLC fee in the amount equal to the minimum franchise tax.

For taxable years that began on or after January 1, 2021, and before January 1, 2024, every LLC doing business in the state qualified for a first-year exemption from the annual tax (AB 85, Statues of 2020). Furthermore, Chapter 64, Statutes of 1999 (AB10) states, every corporation incorporated or doing business in this state qualifies for a first-year exemption from the minimum franchise tax (AB 10, Statutes of 1998).

Most recently, under Chapter 85 of the Statutes of 2026 (SB 180), for taxable years beginning on or after January 1, 2027, and before January 1, 2030, the amount of the annual tax imposed on a limited liability company doing business in this state is reduced from $800 to $400 for the company's first taxable year.

Franchise Tax Board Statutory Reporting Requirements

In accordance with Section 41 of the RTC, the FTB is required to report to the Legislature, beginning no later than January 1, 2021, and each year thereafter through and including January 1, 2031. The report shall include annual data on:

- The number of qualifying corporations and LLCs that are small businesses solely owned by a deployed member of the United States Armed Forces in this state.
- The number of individuals employed by those businesses.
- The number of these businesses that closed.

Data

This report includes data for corporations and LLCs where the tax return indicated the taxpayer owned a qualified small business and was deployed for combat or homeland defense under a Presidential Executive order.

The table below displays data from taxable years 2024 and 2025, as available on September 30, 2026. For the 2024 taxable year, 39 qualified corporations and LLCs elected to report that the owner of the small business was a deployed member of the United States Armed Forces. Of the 39 returns, 22 were initial or first year returns that may have also qualified for the first-year exemption from annual or minimum tax. The number of businesses that closed is too small to be disclosed under state privacy rules. Beginning in taxable year 2022, taxpayers can report the number of employees on Form 4197 but the number of forms filed and employees reported cannot be disclosed due to state privacy rules.

	Tax Year 2024	Tax Year 2025
Number of Qualified Corporations and LLCs	39	**
Number of Individuals Employed by Qualified Corporations or LLCs	*	**
Number of Qualified Corporations or LLCs Indicating their Business Closed	*	**

* Data for statistical tabulations prepared at the state level may not be released for cells containing data for fewer than 10 returns.
** Data for the 2025 taxable year is incomplete and will be revised in next year's report.

The information processed to date indicates that very few taxpayers have reported use of the annual tax exemption or minimum franchise tax exclusion for deployed military members.