

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
Water's Edge Manual

Rev.: September 2001

EXHIBIT 15B-2 Residency and Sourcing Technical Manual

Proposed Regulation §1.163(j)-2(f) provides for the following adjustments:

Additions:

1. Charitable contribution carryovers [**Not** added back for California purposes since carryovers are not allowed]
2. An increase during the year in accounts payable (other than interest payable) included in the computation of taxable income
3. A decrease during the year in accounts receivable (other than interest receivable) included in the computation of taxable income
4. Municipal bond interest excluded from gross income [**Not** added back for California purposes unless the corporation is subject to the income tax instead of the franchise tax]
5. Dividend received deductions per §243 [For California purposes, substitute Sections 24402, 24410, 24411, and 25106]
6. Any increase in the LIFO recapture amount during the year
7. Any current-year deduction for capital loss carryovers and carrybacks [Carrybacks are not applicable for California]

Subtractions:

1. On the sale or disposition of property, depreciation, amortization, or depletion allowed or allowable for tax years beginning after July 10, 1986, on such property.
2. Investment adjustments for depreciation, amortization, or depletion with respect to the sale or disposition of stock of a member of a consolidated group. [**Not** applicable for California]
3. On the sale or disposition of a partnership interest, the taxpayer's share of depreciation, amortization, or depletion for tax years beginning after July 10, 1986, on partnership property at the time of sale or disposition.
4. A decrease during the year in accounts payable (other than interest payable) included in the computation of taxable income.
5. An increase during the year in accounts receivable (other than interest receivable) included in the computation of taxable income.
6. Nondeductible expenses and interest under IRC §265 (related to tax-exempt income), and nondeductible interest-expense under IRC §279 to acquire stock or assets of another corporation.

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7. Current-year charitable contributions that exceeds 10% limitation [5% for California purposes]
8. A decrease in the LIFO recapture amount during the year.
9. Net capital loss for the current year. [California amounts could be different due to basis differences.]

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