

2011 Instructions for Form 541-QFT

California Income Tax Return for Qualified Funeral Trusts (QFTs)

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2009**, and to the California Revenue and Taxation Code (R&TC).

What's New

Tax Decrease – Beginning on January 1, 2011, the tax rate decreased by 0.25%.

General Information

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. 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, go to ftb.ca.gov and search for **conformity**.

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.

Contribution Limits

For taxable years beginning on or after January 1, 2010, California conforms to the federal law which repealed contribution limits. Qualified Funeral Trusts (QFTs) are no longer limited to a defined contribution amount.

Internet Access

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

Access other state agencies' websites at ca.gov.

Estimated Tax Payments

Estimated tax payments shall be paid in the following percentages of the required annual payment:

- 1st Payment – 30 percent
- 2nd Payment – 40 percent
- 3rd Payment – 0 percent
- 4th Payment – 30 percent

QFTs with a tax liability less than \$500 do not need to make estimated tax payments.

QFTs with an adjusted gross income equal to or greater than \$1,000,000 must compute the annual estimated tax requirement based on the current year income. Get Form 541-ES, Estimated Tax for Fiduciaries, for more information.

Third Party Designee

The trustee can designate a third party to discuss the tax return with the Franchise Tax Board (FTB). For more information, see General Information G, Who Must Sign.

A Purpose

The trustee of a trust that has elected to be taxed as a QFT can use Form 541-QFT,

California Income Tax Return for Qualified Funeral Trusts, to file for a single QFT or for multiple QFTs having the same trustee, following the rules discussed under General Information C, Composite Tax Return.

An election to file as a QFT for federal purposes is considered an election for California purposes. A separate election is not allowed.

Trustees must use Form 541-QFT to:

- Report income received by a QFT.
- Report income that is either accumulated or distributed currently to the beneficiaries.
- Report any applicable tax liability of the fiduciary.
- File an amended tax return for the QFT.

Pre-need funeral trusts that do not qualify as QFTs should get the instructions for Form 541, California Fiduciary Income Tax Return, for their filing requirements.

For tax purposes, a trust will generally be regarded as a separate entity. However, if there is an unlawful shifting of income from the individual who has earned that income to a trust, the trust will no longer be treated as a separate entity and the income will be taxed to the individual who earned the income. If the individual who established the trust has a substantial ability to control the assets, all of the income will be taxed to that individual. Unless specifically allowed by the California R&TC and the IRC, deduction of personal living expenses by an individual or trust is not allowed.

B Qualified Funeral Trust

A QFT is a domestic trust that meets all of the following requirements:

- Arises as a result of a contract with a person engaged in the trade or business of providing funeral or burial services or property to provide such services.
- The sole purpose of the trust is to hold, invest, and reinvest funds in the trust and to use those funds solely to pay for funeral or burial services or property to provide such services for the benefit of the beneficiaries of the trust.
- The only beneficiaries are individuals for whom such services or property are to be provided at their death under the contracts described above.
- The only contributions to the trust are made by or for the beneficiaries' benefit.
- The trustee makes the election to treat the trust as a QFT.
- If the QFT election had not been made, the trust would have been treated as owned by the purchasers of the contracts under the grantor trust provisions of the IRC.

If a QFT has multiple beneficiaries, each beneficiary's separate interest under a contract is treated as a separate QFT for the purpose of figuring the tax and filing this tax return. Each

beneficiary's share of the trust's income is determined in accordance with the beneficiary's interest in the trust. A beneficiary's interest in a trust may be determined under any reasonable method.

Whenever these instructions refer to a trust or QFT, it includes such separate interests that are treated as separate QFTs.

C Composite Tax Return

A trustee may file a composite Form 541-QFT for all QFTs of which he or she is the trustee including QFTs that have short taxable years. Get federal Form 1041-QFT, U.S. Income Tax Return for Qualified Funeral Trusts, for more information.

D When to File

For calendar year estates and trusts, file Form 541-QFT by April 17, 2012. The due date for a composite tax return is also April 17, 2012, even if the tax return includes QFTs that terminated during the year.

Due to the Emancipation Day holiday on April 16, 2012, tax returns filed and payments mailed or submitted on April 17, 2012, will be considered timely.

If the QFT needs an extension of time to file and owes an unpaid tax liability, get form FTB 3563, Payment for Automatic Extension for Fiduciaries. If you are filing for a short taxable year, file Form 541-QFT by the 15th day of the 4th month following the close of the short taxable year. The QFT has an additional six months to file without filing a written request for extension. However, to avoid late payment penalties, 100% of the tax liability must be paid by the original due date of the tax return.

If the QFT does not file the tax return by the extended due date, we will impose late filing penalties and interest on any tax due from the original due date of the tax return.

E Where to File

If an **amount is due** with the tax return, mail the tax return and payment to:

FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0001

Using black or blue ink, make the check or money order payable to the "Franchise Tax Board." Write the QFT's federal employer identification number (FEIN) and "2011 541-QFT" on the check or money order. **Do not** mail cash.

All checks or money orders must be payable in U.S. dollars and drawn against a U.S. financial institution.

If there is a **refund or no amount is due**, mail the tax return to:

FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO CA 94240-0002

F Private Delivery Services

California 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 1041-QFT, for a list of designated delivery services. If a private delivery service is used, send the tax return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

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.

G Who Must Sign

Trustee

The trustee or an authorized representative must sign Form 541-QFT.

Paid Preparer

Generally, anyone who is paid to prepare a tax return must sign the tax return and fill in the required information in the “Paid Preparer’s Use Only” area of the tax return. The person required to sign the tax return must apply all of the following:

- Complete the required paid preparer information.
- Sign it in the space provided for the preparer’s signature.
- Give the trustee or authorized representative a copy of the tax return in addition to the copy to be filed with the FTB.

Third Party Designee

If the trustee wants to allow the FTB to discuss its 2011 tax return with the paid preparer who signed it, check the “Yes” box in the signature area of the tax return. This authorization applies only to the individual whose signature appears in the “Paid Preparer’s Use Only” section of the tax return. It does not apply to the firm, if any, shown in that section.

If the “Yes” box is checked, the trustee is authorizing the FTB to call the paid preparer to answer any questions that may arise during the processing of its tax return. The trustee is also authorizing the paid preparer to:

- Give the FTB any information that is missing from the tax return.
- Call the FTB for information about the processing of the tax return or the status of any related refund or payments.
- Respond to certain FTB notices about math errors, offsets, and tax return preparation.

The trustee is not authorizing the paid preparer to receive any refund check, bind the trustee to anything (including any additional tax liability), or otherwise represent the trust before the FTB.

The authorization will automatically end no later than the due date (without regard to extensions) for filing the trust’s 2012 tax return. If the trust wants to expand the paid preparer’s authorization, see form FTB 3520, Power of Attorney Declaration for the Franchise Tax Board. If the trust wants to revoke the authorization before it ends, notify the FTB in writing or call 800.852.5711.

H Accounting Period

All QFTs must adopt a calendar year, even if the trust was on a fiscal year when it was a grantor trust.

I Estimated Tax Payments

Generally, QFTs must make quarterly estimated tax payments. If they expect to owe more than \$500, get the 2012 Instructions for Form 541-ES, Estimated Tax for Fiduciaries. Use Form 541-ES to figure and pay estimated tax for the trust. Estimated tax is the amount of tax the trustee expects to owe for the year after subtracting the amount of any tax withheld and the amount of any credits.

Estimated tax liability is figured for the individual QFT, and not for a composite tax return taken as a whole.

J Interest and Penalties

Interest

Interest will be charged on tax not paid by the due date, even if the tax return is filed by the extended due date.

Late filing of tax return

A penalty is assessed if the tax return is filed after the due date (including extensions), unless there was reasonable cause for filing late. The penalty is 25% if the tax return is filed after the extended due date. If the tax return is filed more than 60 days after the extended due date, the minimum penalty is \$135 or 100% of tax due on the tax return, whichever is less.

Late payment of tax

A penalty is assessed for not paying tax by the due date unless there was reasonable cause for not paying on time. The penalty is 5% of the unpaid tax plus one-half of 1% for each month, or part of a month, that the tax is late, up to a maximum of 25%.

If a QFT is subject to both the penalty for failure to file a timely tax 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 will not exceed 25% of the unpaid tax. The late payment penalty may be waived where 90% of the tax shown on the tax return is paid by the original due date of the tax return.

If the QFT includes interest or any of these penalties with the payment, identify and enter these amounts in the bottom margin of Form 541-QFT. **Do not** increase the tax due on line 34 or reduce the overpaid tax on line 35 by the amount of the interest or penalty.

Other penalties

Other penalties may be imposed for a payment returned by the QFT’s bank for insufficient funds, accuracy-related matters, or fraud.

K Attachments

If the QFT needs more space on the form or schedules, attach separate sheets showing the information in the same order as on the printed form.

Enter the QFT’s FEIN on each sheet. Also, use sheets that are the same size as the forms and schedules and indicate clearly the line number of the printed form to which the information relates. Show the totals on the printed forms.

L Miscellaneous Items

California law follows federal law in the area of accounting methods.

Liability for tax

The trustee is liable for payment of the tax. Failure to pay the tax may result in the trustee being held personally liable. See R&TC Sections 19071 and 19516.

Tax-exempt income

California does not tax:

- **Interest on governmental obligations.** Interest derived from bonds issued by California or its political subdivisions, the federal government, the District of Columbia (issued before December 24, 1973), or territories of the United States is not taxable by California.
- **Proceeds of insurance policies.** In general, a lump sum payable at the death of the insured under a life insurance policy is excludable from gross income of the recipient.
- **Miscellaneous items wholly exempt from tax.** (1) Gifts (not received as a consideration for services rendered) and money or property acquired by bequest, devise, or inheritance (but the income derived therefrom is taxable); and (2) income, other than rent, derived by a lessor of real property upon the termination of a lease, representing the value of such property attributable to buildings erected or other improvements made by the lessee.

M General Summary of Treatment for Sourcing Income Items

Nonbusiness

- Interest and dividends generally have a source at the taxpayer’s state of residence.
- Gains or losses from sale/exchange of real property and tangible personal property generally have a source where the property is located.
- Income from intangible personal property generally has a source at the taxpayer’s state of residence.
- Rents and royalties generally have a source where the property is located.

Business

- If the business, trade, or profession is conducted wholly within California, it is California source income.
- If the operations within California are so separate and distinct from the operations outside of California that taxable income can be separately accounted for, only the income from within California must be included in California source income.
- If the trade or business carried on within California is an integral part of a unitary business carried on outside of California, the entire net income must be reported and apportioned or allocated in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act (R&TC Sections 25120 through 25139).

Partnership, limited liability company (LLC), and S corporation income/loss is apportioned or allocated the same as any other business. If the trust is a partner, member, or shareholder of a partnership, LLC, or S corporation, income sourced to California is generally included in column (e) of Schedules K-1 (565, 568, or 100S, Share of Income, Deductions, Credits, etc.) For more information, refer to Cal. Code Regs., tit. 18 section 17951-4 and related tax code.

Income retained by a trust is taxable to the trust. Income from California sources is taxable regardless of the residence of the fiduciaries and beneficiaries. The taxability of non-California source income retained by a trust and allocated to principal depends on the residence of the fiduciaries and noncontingent beneficiaries, not the person who established the trust (R&TC Sections 17742 through 17745). Contingent beneficiaries are not relevant in determining the taxability of a trust. For QFT purposes, all beneficiaries are considered noncontingent beneficiaries.

Four different situations can occur when determining the taxability of a QFT.

1. If the trustee (or all the trustees, if more than one) is a California resident, the trust is taxable on all income from all sources (R&TC Section 17742).
2. If the noncontingent beneficiary (or all the noncontingent beneficiaries, if more than one) is a California resident, the trust is taxable on all income from all sources (R&TC Section 17742).
3. If the trustee is a nonresident and at least one noncontingent beneficiary is a California resident and at least one noncontingent beneficiary is a nonresident, the trust is taxable on all California source income plus the proportion of all other income that the number of California resident noncontingent beneficiaries bear to the total number of noncontingent beneficiaries (R&TC Section 17744).
4. If at least one trustee is a California resident, at least one trustee is not a California resident, and all of the trust's

noncontingent beneficiaries are not California residents, the trust is taxable on all California source income plus the proportion of all other income that the number of California trustees bears to the total number of trustees.

The residence of a corporate fiduciary (trustee) of a trust means the place where the corporation transacts the major portion of its administration of the trust, R&TC Section 17742(b).

Specific Line Instructions

Identification Area

Complete the identification area with the same information used on federal Form 1041-QFT. California law is generally the same as federal law in the following areas:

- Simplified filing requirements
- Method of reporting
- Amended tax returns
- Final tax returns

If the trust is filing an amended Form 541-QFT, check the box labeled "Amended return." Complete the entire tax return, correct the appropriate lines with the new information and refigure the tax liability. On an attached sheet, explain the reason for the amendments and identify the lines and amounts being changed on the amended tax return. Include the fiduciary's name and FEIN on each attachment.

Private Mail Box (PMB)

Include the PMB in the address field. Write "PMB" first, then the box number. Example: 111 Main Street PMB 123.

Tax Computation

Line 13 – Tax

Determine the tax on the taxable income (line 12) using the Tax Rate Schedule on page 4 of these instructions and enter the tax on line 13.

Line 14 – Credits

The following California tax credits are available to reduce the tax. For most credits, a separate form or certification statement must be attached to Form 541-QFT.

Credit Name and Form Number (if any)

- California Motion Picture and Television Production – FTB 3541
- Community Development Financial Institutions Investment — obtain certification from: California Organized Investment Network (COIN), Department of Insurance, 300 Capitol Mall, Suite 1600, Sacramento CA 95814
- Disabled Access for Eligible Small Businesses – FTB 3548
- Donated Agricultural Products Transportation – FTB 3547
- Employer Childcare Contribution – FTB 3501
- Employer Childcare Program – FTB 3501
- Enhanced Oil Recovery – FTB 3546

- Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z
- Local Agency Military Base Recovery Area Hiring & Sales or Use Tax – FTB 3807
- Low-Income Housing – FTB 3521
- Manufacturing Enhancement Area Hiring – FTB 3808
- Natural Heritage Preservation – FTB 3503
- New Jobs – FTB 3527
- Other State Tax – Schedule S
- Prior Year Alternative Minimum Tax – Individuals or Fiduciaries – FTB 3510
- Prison Inmate Labor – FTB 3507
- Research – FTB 3523
- Targeted Tax Area Hiring & Sales or Use Tax – FTB 3809

Repealed Credits

- Farmworker Housing Credit – FTB 3540
- Joint Strike Fighter Wages – FTB 3540
- Joint Strike Fighter Property Costs – FTB 3540
- Los Angeles Revitalization Zone (LARZ) Hiring or Sales & Use Tax – FTB 3806
- Rice Straw – FTB 3540
- Salmon & Steelhead Trout Habitat Restoration – FTB 3540
- Solar or Wind Energy System – FTB 3540

Tax and Payments

Line 28 – Tax Liability

If the QFT owes any additional taxes (e.g. alternative minimum tax, recapture taxes, etc.), include these taxes on line 28. To the left of line 28, write the type and amount of tax. Also attach to Form 541-QFT any forms required to figure these taxes (e.g., Schedule P (541), Alternative Minimum Tax and Credit Limitations - Fiduciaries.)

Line 29 – 2011 Withholding (Form 592-B and/or Form 593)

Enter the 2011 resident and nonresident or real estate withholding credit from Form 592-B, Resident and Nonresident Withholding Tax Statement and/or Form 593, Real Estate Withholding Tax Statement. Attach a copy of the form(s) to the lower front of Form 541QFT.

Line 30 – California income tax previously paid

Use this line only if you are filing an amended tax return. Enter payments made with the original tax return plus additional tax paid after the original tax return was filed. Enter the serial numbers that the FTB stamped on the face of the canceled checks, for each previous payment if available, in the space provided at line 30. If you did not receive a canceled check or if you made any payments with a credit card, attach a statement showing the check number, the amount of the check or charge, the date posted to your account, and the name of the payee.

Line 32 – 2011 CA estimated tax, amount applied from 2010 tax return, and payment with form FTB 3563

Enter the amount of any 2011 California estimated tax payment the estate or trust made. Also, enter the amount of any overpayment from the 2010 tax return that was applied to the 2011 estimated tax. Include payments made with form FTB 3563.

Line 34 – Tax due

If the amount on line 28 is larger than the amount on line 33, your tax is larger than your payments and credits. Subtract line 33 from line 28. This is the amount of tax due with the tax return.

Using black or blue ink, make your check or money order payable to the “Franchise Tax Board” for the full amount you owe.

Do not send cash. Write the FEIN and “2011 Form 541-QFT” on the check or money order. Enclose, but **do not** attach your payment to your tax return.

Line 35 – Overpaid tax

If the amount on line 28 is less than the amount on line 33, your payments and credits are larger than your tax. Subtract line 28 from line 33. This is the amount of your overpaid tax.

If the trustee completed the credit recapture portion of any of the following forms:

- Form FTB 3501, Employer Childcare Program/Contribution Credit.
- Form FTB 3805Z, Enterprise Zone (EZ) Deduction and Credit Summary.
- Form FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Deduction and Credit Summary.

Include the recapture amount on line 34. Write the form number and the recaptured amount to the left of line 34.

Line 36 – Credit to your 2012 estimated tax

Enter the amount from line 35 that you want applied to your 2012 estimated tax.

Line 37 – Refund or no amount due

If no amount is entered on line 36, enter the amount from line 35 on line 37. This is the amount that will be refunded. If this amount is less than \$1, attach a written request to Form 541-QFT to request the refund.

Line 42 – Underpayment of estimated tax penalty

The QFT may owe an estimated tax penalty if:

- It underpaid its estimated tax liability for any payment period, or
- The amount on Line 34 is more than \$500 and the QFT did not pay either:

	2010 Tax	2011 Tax
AGI less than \$150,000	100%	90%
AGI between \$150,000 and \$999,999	110%	90%
AGI \$1,000,000 or greater		90%

The FTB will figure the penalty and send a bill. However, the QFT may use form FTB 5805, Underpayment of Estimated Tax by Individuals and Fiduciaries, or form FTB 5805F, Underpayment of Estimated Tax by Farmers and Fishermen to:

- See if it owes a penalty.
- Figure the amount of the penalty.
- Claim a waiver of estimated tax penalty.
- Use the annualized income installment method.

If the QFT completes form FTB 5805 or form FTB 5805F, enter the amount of the penalty (if any) and fill in the appropriate circle on line 42. Attach the form to the back of Form 541-QFT.

2011 Tax Rate Schedule

Use this schedule to figure the tax on the QFT's taxable income (Form 541-QFT, line 12). Enter the tax on Form 541-QFT, line 13.

If the amount on Form 541-QFT, line 12 is:

Enter on Form 541-QFT, line 13:

over —	but not over —			of the amount over —
\$ 0	\$ 7,316	\$	0.00 + 1.00%	\$ 0
7,316	17,346	73.16	+ 2.00%	7,316
17,346	27,377	273.76	+ 4.00%	17,346
27,377	38,004	675.00	+ 6.00%	27,377
38,004	48,029	1,312.62	+ 8.00%	38,004
48,029	and over	2,114.62	+ 9.30%	48,029