

2020 Instructions for Form FTB 4197

Information on Tax Expenditure Items

What's New

Beginning on or after January 1, 2020, taxpayers should file form FTB 4197, Information on Tax Expenditure Items, with the Franchise Tax Board (FTB) to report tax expenditure items as part of the FTB's annual reporting requirements under California Revenue and Taxation Code (R&TC) Section 41. Tax expenditure means a credit, deduction, exclusion, exemption, or any other tax benefit.

General Information

For taxable years beginning on or after January 1, 2020, and before January 1, 2025, California allows individuals and other taxpayers operating under the personal income tax law to claim credits and deduction of business expenses paid or incurred during the taxable year in conducting commercial cannabis activity (R&TC Section 17209).

Note: Commercial cannabis activities mean businesses licensed under California Medicinal and Adult-Use Cannabis Regulation and Safety Act (CA MAUCRSA).

Purpose

Use form FTB 4197 to report the total amount of deductions, credits, exclusions, and exemptions related to certain trade or business activity for the taxable year. FTB is required to compile deduction and credit information to report to the California Legislature.

Filing this form is in addition to any other credit forms or expense schedules that are required to be filed with your tax return. Refer to the applicable booklet instructions for more information.

Who Should File

Taxpayers that should file form FTB 4197 include the following:

- Individuals operating a commercial cannabis activity licensed under CA MAUCRSA.
- Individual owners of single member limited liability companies (SMLLCs) operating a commercial cannabis activity licensed under CA MAUCRSA.
- Individual shareholders, beneficiaries, partners, or members that received Schedules K-1 (100S, 541, 565, or 568), Share of Income, Deductions, Credits, etc., from an S corporation, an estate or trust, a partnership, or a limited liability company taxed as a partnership, that are operating commercial cannabis activities licensed under CA MAUCRSA.
- C corporation partners (including corporation filing a combined report) and S corporation partners that received Schedule K-1 from a partnership that is operating a commercial cannabis activity licensed under CA MAUCRSA.

Complete form FTB 4197 and attach to Form 540, California Resident Income Tax Return; 540NR, California Nonresident or Part-Year Resident Income Tax Return; 100, California Corporation Franchise or Income Tax Return; 100S, California S Corporation Franchise or Income Tax Return; or 100W, California Corporation Franchise or Income Tax Return - Water's-Edge Filers (as applicable).

Specific Line Instructions

Part I — Deductions, Credits, Exemptions, and Exclusions

The following taxpayers should complete Part I, columns (a) through (d); do not complete columns (e) and (f):

- Sole proprietors conducting a commercial cannabis activity.
- Individual owners of SMLLCs conducting a commercial cannabis activity.

Enter all amounts as positive numbers.

Column (a) – Business code

Use the chart below to enter the applicable business code for your business:

Business Activity	Business code
Cannabis	CBIS

Column (b) – Deductions claimed this year

Enter in column (b) the total deductions claimed this year for the trade or business listed in column (a), including any deductions for your SMLLCs. Total deductions do not include cost of goods sold (COGS). The total amount of deductions claimed should come from the following schedules:

- Federal Schedule C (Form 1040), Profit or Loss From Business, line 28 plus line 30, using California amounts.
- Federal Schedule F (Form 1040), Profit or Loss From Farming, line 33 or line 49, using California amounts.

Column (c) – Credits generated this year

Enter in column (c) the total credits generated this year from the trade or business listed in column (a). Refer to the specific credit form for more information. If you generate more than one credit, attach a schedule to this form with a break down of the credits from the trade or business activity listed in column (a):

- Credit name and code of each specific credit
- Amount generated for each specific credit
- Total amount of all credits generated

Enter the total amount of credits generated in column (c).

Column (d) – Credits claimed/used this year

Enter in column (d) the total credits claimed/used this year from the trade or business listed in column (a). Refer to the specific credit form for more information. If you claim/use more than one credit, attach a schedule to this form with a break down of the credits from the trade or business activity listed in column (a):

- Credit name and code of each specific credit
- Amount claimed/used for each specific credit
- Total amount of all credits claimed/used

Enter the total amount of credits claimed/used in column (d).

Part II — Deductions, Credits, Exemptions, and Exclusions from Pass-Through Entities (PTE)

The following taxpayers should complete Part II, columns (a) through (e); do not complete columns (f) and (g):

- Individual shareholders, beneficiaries, partners, or members of a PTE.
- C corporation partners and S corporation partners of a PTE.

Enter all amounts as positive numbers.

Column (a) – PTE business code

See the Business Code chart in the instructions for Part I, column (a), to enter the applicable business code for the PTE.

Column (b) – Deductions from PTE

Enter in column (b) the deductions that you received from the PTE that is conducting the trade or business listed in column (a). The S corporation, estate or trust, partnership, or LLC should provide you a schedule showing your share of total deductions pertaining to the PTE trade or business listed in column (a).

Column (c) – Deductions claimed this year

Enter in column (c) the deductions claimed this year for the deductions that you received from the PTE that is conducting the trade or business listed in column (a).

If your cannabis business operated at a loss, and this loss is suspended because of passive activity loss rules, complete the following worksheet:

Worksheet I	
Enter all amounts as positive numbers.	
1. Gross receipts from cannabis business	1. _____
2. Cost of goods sold	2. _____
3. Gross income. Subtract line 2 from line 1	3. _____
4. Total expenses	4. _____
5. Net loss from cannabis business. Subtract line 4 from line 3	5. _____
6. Enter the portion of total expenses from line 4 above that reduced gross income to \$0. See example below	6. _____
7. Enter the allowed passive loss for cannabis business, from form FTB 3801, Worksheet 5, column (c)	7. _____
8. Deductions claimed this year. Add line 6 and line 7. Enter the total amount here and on form FTB 4197, Part II, column (c)	8. _____

Example: The gross receipts, COGS, gross income, expenses and net loss from cannabis business for this taxable year is as follows:

- 1. Gross receipts \$1,000
- 2. COGS 100
- 3. Gross income. Subtract line 2 from line 1 900
- 4. Total expenses 1,500 (The expenses amount that reduced your gross income to zero is \$900.)
- 5. Net loss from cannabis business. Subtract line 4 from line 3 . . . \$600

Column (d) – Credits from PTE

Enter in column (d) the credits that you received this year from the PTE that is conducting the trade or business listed in column (a). The S corporation, estate or trust, partnership, or LLC should provide you a schedule showing your share of total credits pertaining to the trade or business listed in column (a).

Column (e) – Credits claimed/used this year

Enter in column (e) the total credits claimed/used this year for the credits that you received from the PTE that is in the trade or business listed in column (a).