



## FTB Publication 1060

# Guide for Corporations Starting Business in California

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## General Information

This guide is intended to help you file your corporation's first:

- Form 100, *California Corporation Franchise or Income Tax Return*
- Form 100S, *California S Corporation Franchise or Income Tax Return*
- Form 100-ES, *Corporation Estimated Tax*

This guide will help you:

- Understand the basis of the tax.
- Request forms and instructions.
- File tax returns correctly.
- Avoid unnecessary penalties and interest.

**Water's-Edge Filers** — For information regarding filing a Water's-Edge tax return in California, refer to Form 100W, *California Corporation Franchise or Income Tax Return – Water's-Edge Filers*.

## Definitions

**Corporation** — A legal entity that exists separately from the people who own, manage, control, and operate it. It can make contracts, pay taxes, and is liable for debts. Contact the California Secretary of State (SOS) to incorporate or qualify your business at 916.657.5448, or go to [sos.ca.gov](http://sos.ca.gov).

**Calendar year** — An accounting period of 12 months or less ending on the last day of December.

**Fiscal year** — An accounting period of 12 months or less ending on the last day of any month other than December.

**Accounting period** — Calendar, fiscal, or short-period year used by the corporation to compute their net income.

**Tax year** — Calendar, fiscal, or short-period year used by the corporation to compute their net income. We require your California tax year to be the same as your federal tax year, unless we initiated or approved a different accounting period.

**Doing business** — Beginning with the 2011 tax year, a business is considered to be doing business in California during the year if it meets one of these tests:

- The entity is actively engaging in any transaction for the purpose of financial gain or profit.
- The entity is organized or commercially domiciled in this state. To be commercially domiciled in this state generally means that this state is the principal place from which the trade or business of the entity is directed or managed.
- The entity's California sales exceed either [the annual threshold amount](#) (annually adjusted for inflation) or 25 percent of their total sales. Sales include sales made by an agent or independent contractor of the entity.
- The entity's California real property and tangible personal property exceeds either [the annual threshold amount](#) (annually adjusted for inflation) or 25 percent of their total real property and tangible personal property.
- The entity's California compensation exceeds either [the annual threshold amount](#) (annually adjusted for inflation) or 25 percent of the total compensation paid by the entity.

For the above tests, the sales, property, and payroll of the entity include their pro rata or distributive share of pass-through entities. "Pass-through entities" means a partnership, a limited liability company (LLC) treated as a partnership, or an S corporation.

Before 2011, doing business was defined as actively engaging in any transaction for the purpose of financial gain or profit. For the current tax year's annual threshold amount, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **doing business in California**.

## Closing Your Business

If you cease business, you must file the necessary paperwork to properly end your corporation's existence with both the Secretary of State and the Franchise Tax Board. If you fail to close your corporation properly, the requirement to file tax returns and Statements of Information and to pay at least the minimum tax could run on indefinitely.

## Newly Incorporated or Qualified Corporations

To compute the tax for your corporation's first tax year, multiply your California net income by the appropriate tax rate. Your first tax year is not subject to the minimum franchise tax.

After the first year, your tax is the larger of your California net income multiplied by the appropriate tax rate or the minimum franchise tax.

### Tax Year of 15 Days or Less

We do not require a corporation to file a tax return for a tax year if **both** of the following are true:

- Tax year is 15 days or less.
- Corporation did **no** business during the 15 days.

Refer to **Election of Annual Accounting Period and Method**, which has more information on incorporating in the last 15 days of your tax year.

### First Year Estimated Tax Requirement

All corporations with a tax liability are required to pay estimated tax. Refer to **Estimated Tax** for more information.

## S Corporations

**Federal** — S corporations are pass-through entities. They do not pay tax at the S corporation level. They pass-through items of income, losses, deductions, and credits to their shareholders and the shareholders report these items on their tax returns. S corporations file Form IRS 1120S, *U.S. Income Tax Return for an S Corporation*.

**California** — We require S corporations to pay tax. In addition, they pass-through items of income, losses, deductions, and credits to their shareholders and the shareholders report these items on their tax returns. S corporations file FTB 100S, *California S Corporation Franchise or Income Tax Return*.

Corporations that elect federal S corporation status and have a California filing requirement are deemed to have made a California S election effective on the same date as the federal S election.

### Terminations

Terminating the taxpayer's federal S election simultaneously terminates its California S election. If the taxpayer terminates its S corporation status, short-period tax returns are required for the S corporation short year and the C corporation short year, if applicable.

## Franchise Tax

Corporations pay franchise tax if they meet **any** of the following:

- Incorporated or organized in California
- Qualified or registered to do business in California
- Doing business in California, whether or not incorporated, organized, qualified, or registered under California law

The franchise tax is equal to the larger of your California net income multiplied by the appropriate tax rate **or** the \$800 minimum franchise tax.

### Partner or Member in a Pass-Through Entity

Corporations pay franchise tax if they are:

- A general partner of a partnership that is doing business in California.
- A member of an LLC that is doing business in California with certain exceptions.
- For tax year 2011 and after, a member of an LLC taxed as a partnership that is doing business in California, if the corporation's pro rata or distributive share of the LLC's sales, property, and payroll meets one of the tests for doing business.

### Minimum Franchise Tax

All corporations are required to pay at least the \$800 minimum franchise tax if they are:

- Incorporated or organized in California.
- Qualified or registered to do business in California.
- Doing business in California, whether or not incorporated, organized, qualified, or registered under California law.

Corporations are required to pay the minimum franchise tax if they are:

- Active.
- Inactive.
- Operating at a loss.
- Filing a short-period tax return (less than 12 months).

## Minimum Tax Exemptions

Newly incorporated or qualified corporations are not required to pay the minimum franchise tax in their first tax year.

### Deployed Military Exemption

For tax years beginning on or after January 1, 2020, and before January 1, 2030, a corporation will not be subject to the minimum franchise tax if it meets **all** the following:

- The corporation is a small business solely owned by a deployed member of the United States Armed Forces.
- The owner is deployed during the tax year.
- The corporation operates at a loss, or ceases operation.

For the purpose of this exemption:

- “Deployed” means being called to active duty or active service during a period when the United States is engaged in combat or homeland defense. “Deployed” does not include temporary duty for the sole purpose of training, processing, or a permanent change of station.
- “Operates at a loss” means negative net income as defined in Revenue and Taxation Code (R&TC) Section 24341.
- “Small business” means a corporation with \$250,000 or less of total income from all sources derived from, or attributable to, California.

## Income Tax

Corporations are subject to the income tax if they receive income from California sources but are not doing business in the state. To compute the income tax, multiply your California net income by the appropriate tax rate.

### Partner or Member in a Pass-Through Entity

For tax year 2011 and after, corporations pay income tax if they are a limited partner in a limited partnership that is doing business in California if the corporations pro rata or distributive share of the limited partnership’s sales, property, and payroll does not meet one of the tests for doing business.

Before tax year 2011, corporations pay income tax if they are a limited partner in a limited partnership that is doing business in California.

### No Minimum Franchise Tax

There is no minimum franchise tax for income tax filers.

## Apportionment of Income

Corporations that conduct business inside and outside California must apportion their income. Refer to Schedule R, *Apportionment and Allocation of Income*.

## Convention and Trade Shows

Corporations in California for conventions and trade shows are considered deriving income from the state if they meet **all** of the following requirements:

- Not incorporated in California.
- Sole activity in California is engaging in convention and trade show activities.
- Were in California for seven or fewer calendar days during the tax year.
- Did not make more than \$10,000 gross California income from those activities.

These corporations are required to file a tax return and pay income tax.

**Not meeting the requirements:** If all of the requirements are not met, corporations are considered doing business in California and are subject to the minimum franchise tax.

## Tax Rates

The following tax rates apply to both the corporation franchise tax and income tax filers:

|                |       |
|----------------|-------|
| C corporations | 8.84% |
| S corporations | 1.5%  |

## Accounting Periods and Methods

### Federal Accounting Periods and Methods

Corporations must figure taxable income on an annual accounting period called a tax year. The calendar year is the most common tax year.

Corporations are required to use a consistent accounting method. An accounting method is a set of rules to determine when to report income and expenses. The most common accounting methods are the cash or accrual method. For more information, refer to IRS Publication 538, *Accounting Periods and Methods*.

### California Accounting Periods and Methods

The corporation’s accounting period and method is generally the same as the federal, unless we initiate, approve, or allow change. The first accounting period cannot end more than 12 months after the date of incorporation or qualification in California.

## Change in Accounting Period or Method

A change in accounting period or method may require our consent. However, if a corporation obtains federal approval to change its accounting period or method, or is permitted or required by federal law to make a change in its accounting period or method without prior approval and does so, it is deemed to have the Franchise Tax Board’s approval. For additional information go to [ftb.ca.gov](http://ftb.ca.gov) and search for **ftb notice 2020-4**.

## When Your Tax Year is Less Than 15 Days (15-Day Rule)

Corporations with a first tax year of 15 days or less will not have a filing requirement if they meet **both** of the following:

- Incorporates within the last 15 days of their tax year.
- Conducts **no** business during those 15 days.

The corporation's **Articles of Incorporation** must be filed with the California Secretary of State on or after one of the following dates:

| Month Incorporated and Tax Year Ending                                  | Day of the Month |
|-------------------------------------------------------------------------|------------------|
| January, March, May, July, August, October, and December (31-day month) | 17th or after    |
| April, June, September, and November (30-day month)                     | 16th or after    |
| February (29-day month)                                                 | 15th or after    |
| February (28-day month)                                                 | 14th or after    |

Since a corporation that meets the 15-day rule is not required to file a tax return, this time period is not considered the first tax year. The following tax year will be considered the first tax year and will not be subject to the minimum franchise tax.

**Example:** ABC Corp. incorporates on December 20, 2016. The corporation is a calendar year taxpayer and did no business from December 20, 2016, to December 31, 2016. The corporation meets the 15-day rule and does not need to file a 2016 tax return. The corporation's first tax year starts on January 1, 2017.

## Filing Tax Returns

**For tax years beginning on or after January 1, 2016,** Form 100, *California Corporation Franchise or Income Tax Return*, is due on the 15th day of the 4th month after the close of the corporation's tax year. Form 100S, *California S Corporation Franchise or Income Tax Return*, is due on the 15th day of the 3rd month after the close of the corporation's tax year.

**For tax years before January 1, 2016,** Form 100 or Form 100S are due on the 15th day of the 3rd month after the close of the corporation's tax year.

### Farmer's Cooperatives

Tax returns are due on the 15th day of the 9th month after the close of the tax year.

### Extension to File

**For tax years beginning on or after January 1, 2019,** Form 100 filers that are in good standing with FTB and SOS are allowed an additional seven-month automatic extension beyond the original due date of the tax return.

**For tax years before January 1, 2019,** Form 100 filers had a six-month automatic extension beyond the due date of the return. For additional information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **ftb notice 2019-07**.

**For tax years on or after January 1, 2016,** Form 100 S filers had a six-month automatic extension beyond the due date of the return to file a tax return.

The extension to file is not an extension to pay. Tax is due on or before the original due date of the tax return regardless of an extension to file.

**For tax years before January 1, 2016,** California allows an additional seven-month filing extension beyond the original due date of the tax return. The extension is automatic; it requires no action on the corporation's part. An extension to file is **not** an extension to pay. Tax is due on or before the original due date of the tax return regardless of an extension to file.

## Short-Period Tax Returns

Generally, the due date of a short-period tax return is the same as the due date of the federal short-period tax return. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **FTB Notice 2016-04**.

## When a Federal Short-Period Tax Return is Required

Corporations that file a short-period federal tax return must also file a short-period tax return with California.

The original due date of the California tax return is the same due date as the federal tax return. In addition, the automatic paperless extension also applies to this type of short-period tax return.

## Estimated Tax

All corporations must make estimated tax payments if they are:

- Incorporated in California.
- Qualified to do business in California.
- Doing business in California.
- Inactive.
- Deriving income in California.

Corporations use Form 100-ES, *Corporation Estimated Tax and Instructions* to:

- Compute their estimated tax payment requirements.
- Determine the due dates for those payments.

You can access and download Form 100-ES at [ftb.ca.gov](http://ftb.ca.gov).

## Minimum Franchise Tax

Corporations subject to the franchise tax must pay at least the minimum franchise tax by the first installment due date, unless this is the corporation's first tax year.

## Newly Incorporated or Qualified Corporations

Newly incorporated or qualified corporations must pay estimated tax. Your estimated tax payments are based on the corporation's estimated tax liability after credits for its first tax year. In the corporation's second tax year, the corporation pays at least the minimum franchise tax by the first estimated tax installment due date.



**Example 1: No tax in first year:** Corporation A incorporates in California on February 1, 2012, and selects a calendar tax year. It did not make an estimated tax payment on April 15, 2012 (first installment due date). On March 15, 2013, it files the 2012 tax return showing a net loss of \$8,500 and no tax liability. Since it had no tax liability, it is not assessed an estimated tax penalty.

Corporation A makes an \$800 estimated tax payment on April 15, 2013 (first installment due date). On March 15, 2014, the corporation files its 2013 tax return showing a net loss of \$5,000 and tax of \$800 (minimum franchise tax). Since it made an \$800 estimated tax payment on April 15, 2013, it is not assessed an estimated tax penalty.

**Example 2: First year tax liability:** Corporation B incorporates in California on January 11, 2012, and selects a calendar tax year. The corporation did not make an estimated tax payment on April 15, 2012 (first installment due date). On March 15, 2013, it files its 2012 tax return showing net income of \$6,300 and tax of \$557 (\$6,300 x 8.84 percent). The corporation pays the \$557 tax when it files its tax return. Since the corporation did not make any estimated tax payments, an estimated tax penalty is due, based on the tax of \$557.

Corporation B makes an \$800 estimated tax payment on April 15, 2013 (first installment due date). On March 15, 2014, it files its 2013 tax return showing a net loss of \$14,000 and tax of \$800 (minimum franchise tax). Since the corporation made an \$800 estimated tax payment on April 15, 2013, it is not assessed an estimated tax penalty.

## Penalties

### Estimated Tax Penalty

We impose a penalty if your entity does not pay, pays late, or underpays an estimated tax installment. We calculate the penalty on the unpaid amount from the due date of the estimated tax installment to the date we receive your payment or to the due date of the return, whichever is earlier. To locate both past and current interest rates, go to **ftb.ca.gov** and search for **interest rates**. (R&TC Sections 19142 and 19161)

### Underpayment and Monthly Penalty

We impose a penalty if you do not pay the total amount due shown on your entity's tax return by the original due date. The penalty is 5 percent of the unpaid tax, plus 0.5 percent of the unpaid tax for each month or part of a month it remains unpaid—not to exceed 40 months. The maximum penalty is 25 percent of the unpaid tax. (R&TC Section 19132)

If a corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of, or the greater of the two penalties may be assessed, but the total penalty may not exceed 25 percent of the unpaid tax.

## Delinquent Filing Penalty

If you do not file your entity's income tax return by the due date, we impose a penalty of 5 percent of the tax due, after applying any payments and credits made on or before the original return due date, for each month or part of a month the return is late. The maximum penalty is 25 percent. We impose the penalty from the original due date of the return. (R&TC Section 19131)

## Late Filing Penalty – S Corps

We impose a late filing penalty if an S corporation fails to file a return by the original or extended due date for returns with original due dates on or after January 1, 2011, for tax years beginning on or after January 1, 2010. (This penalty is also known as the per shareholder penalty.) We also impose the late filing penalty for incomplete returns. The late filing penalty is \$18 per shareholder, for each month or fraction of the month the return is late (or incomplete), to a maximum of 12 months. We impose the late filing penalty in addition to the delinquent penalty. (Revenue & Taxation Code Section 19172.5)

## Where to Get Tax Forms and Publications

**By Internet** – You can download, access, and print California tax forms and publications at **ftb.ca.gov/forms**.

Our California Tax Service Center website offers California business tax information and forms for the California Department of Tax and Fee Administration (CDTFA), Employment Development Department (EDD), FTB, and IRS at **taxes.ca.gov**.

You can also download, access, and print federal forms and publications at **irs.gov**.

**By phone** – Call 800.338.0505 and follow the recorded instructions.

**By mail** – Allow two weeks to receive your order. If you live outside California, allow three weeks to receive your order.

Write to:

TAX FORMS REQUEST UNIT  
FRANCHISE TAX BOARD  
PO BOX 307  
RANCHO CORDOVA CA 95741-0307

**In person** – Free California tax booklets are provided at many libraries and post offices during the filing season.

Employees at libraries and post offices cannot provide tax information or assistance.

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## Letters

If you write to us, be sure your letter includes your California SOS file number, your federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice.

Mail your letter to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0500

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. **Do not** attach your letter to your California tax return.

## Other Agencies

### California Secretary of State

Website: [sos.ca.gov](http://sos.ca.gov)  
Telephone: 916.653.6814

### California Department of Tax and Fee Administration

Website: [cdtfa.ca.gov](http://cdtfa.ca.gov)  
Telephone: 800.400.7115 from within the United States  
916.445-6362 from outside the United States

### California Employment Development Department

Website: [edd.ca.gov](http://edd.ca.gov)  
Telephone: 888.745.3886 from within the United States  
916.464.3502 from outside the United States

### Internal Revenue Service

Website: [irs.gov](http://irs.gov)  
Telephone: 800.829.1040 Individuals  
800.829.4933 Businesses

## Frequently Asked Questions

Use our automated phone service to get recorded answers to many of your questions about California taxes and to order current year California business entity tax forms and publications. This service is available in English and Spanish to callers with touch-tone telephones. Have paper and pencil ready to take notes.

Phone: 800.338.0505 from within the United States  
916.845.6500 from outside the United States

## Connect With Us

Web: [ftb.ca.gov](http://ftb.ca.gov)  
Phone: 800.852.5711 from 7a.m. to 5p.m. weekdays, except state holidays.  
916.845.6500 from outside the United States

California  
Relay  
Service: 711 or 800.735.2929 for persons with hearing or speaking limitations

## Code Filing Assistance

**715** If my actual tax is less than the minimum franchise tax, what figure do I put on the **Tax** line of Form 100?

**717** What are the tax rates for corporations?

**718** How do I get an extension of time to file?

**722** When does my corporation have to file a short-period tax return?

**734** Is my corporation subject to franchise tax or income tax?

### S Corporations

**704** Is an S corporation subject to the minimum franchise tax?

**705** Are S corporations required to make estimated payments?

**706** What forms do S corporations file?

**707** The tax for my S corporation is less than the minimum franchise tax. What figure do I put on the **Tax** line of Form 100S?

### Exempt Organizations

**709** How do I get tax-exempt status?

### Minimum Tax and Estimate Tax

**712** What is the minimum franchise tax?

**714** My corporation is not doing business; does it have to pay the minimum franchise tax?

### Billings and Miscellaneous Notices

**723** I received a bill for \$250. What is this for?

### Corporate Dissolution

**724** How do I dissolve my corporation?

### Miscellaneous

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**701** I need a state Employer ID number for my business. Who do I contact?

**703** How do I incorporate?

**737** Where do I send my payment?