

# 2025 Instructions for Form FTB 4197

## Information on Tax Expenditure Items

### General Information

Taxpayers should file form FTB 4197, Information on Tax Expenditure Items, with the tax return to report tax expenditure items as part of the Franchise Tax Board's (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 provided for by the state. The FTB uses information from form FTB 4197 for reports required by the California Legislature. Taxpayers that have a reporting requirement for any of the following should file form FTB 4197:

**Wildfire Mitigation Payment** – For taxable years beginning on or after January 1, 2024, and before January 1, 2029, California law allows a qualified taxpayer an exclusion from gross income for any amount received as a California qualified wildfire loss mitigation payment through the California Wildfire Mitigation Financial Assistance Program. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Sections 17138.8 and 24308.10.

**Emergency Financial Aid Grants** – For taxable years beginning on or after January 1, 2020, and before January 1, 2028, California law conforms to the federal law that allows an exclusion from gross income for amounts from certain emergency financial aid grants received by a student in postsecondary education pursuant to the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Consolidated Appropriations Act (CAA), 2021, or the American Rescue Plan Act (ARPA) of 2021. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Section 17131.22.

**ARPA Student Loans Forgiveness** – For taxable years beginning on or after January 1, 2021, and before January 1, 2026, California law conforms to the federal law that allows an exclusion from gross income for the amount of student loans discharged during these periods for the following: loans provided expressly for post-secondary educational expenses if the loans were made, insured, or guaranteed by a federal, state, or local government entity, or an eligible educational institution; private education loans; loans made by certain educational institutions/organizations or by tax-exempt organizations to refinance a loan. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Section 17144.8.

**Kincade Wildfire Exclusion** – For taxable years beginning on or after January 1, 2020, and before January 1, 2028, California law allows a qualified taxpayer an exclusion from gross income for any qualified amount received in a settlement from Pacific Gas and Electric (PG&E) Company or its subsidiary relating to the 2019 Kincade Fire. If a qualified taxpayer included income for a qualified amount received from this settlement in a prior taxable year, the taxpayer can file an amended tax return for that year within the normal statute of limitations. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Sections 17139.2 and 24309.6.

**Zogg Wildfire Exclusion** – For taxable years beginning on or after January 1, 2020, and before January 1, 2028, California law allows a qualified taxpayer an exclusion from gross income for any qualified amount received in a settlement from PG&E Company or its subsidiary relating to the 2020 Zogg Fire. If a qualified taxpayer included income for a qualified amount received from this settlement in a prior taxable year, the taxpayer can file an amended tax return for that year within the normal statute of limitations. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Sections 17139.3 and 24309.7.

**Deployed Military Exemption** – For taxable years beginning on or after January 1, 2020, and before January 1, 2030, a corporation or a limited liability company (LLC) that is a small business solely owned by a deployed member of the United States Armed Forces shall not be subject to the minimum franchise tax or the annual tax if the owner is deployed during the taxable year and the corporation or the LLC operates at a loss or ceases operation. For more information, see General Information, Who Should File and Specific Line Instructions.

**Thomas and Woolsey Wildfires Exclusion** – For taxable years beginning before January 1, 2027, California law allows a qualified taxpayer an exclusion from gross income for any amount received in a settlement from Southern California Edison for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire. If a qualified taxpayer included income for an amount received from these settlements in a prior taxable year, the taxpayer can file an amended tax return for that year within the normal statute of limitations. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Sections 17138.6 and 24309.1.

**Turf Replacement Water Conservation Program** – For taxable years beginning on or after January 1, 2022, and before January 1, 2027, California law allows an exclusion from gross income for any amount received as a rebate, voucher, or other financial incentive issued by a public water system, as defined, local government, or state agency for participation in a turf replacement water conservation program. For more information, see General Information, Who Should File, Specific Line Instructions and R&TC Sections 17138.2 and 24308.9.

**Taxpayers Operating a Commercial Cannabis Activity** – For taxable years beginning on or after January 1, 2020, and before January 1, 2030, California law 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). Taxpayers operating a commercial cannabis activity should file form FTB 4197, as part of the FTB's annual reporting requirement. For more information, see General Information, Who Should File and Specific Line Instructions.

**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, exemptions and other information related to certain trade or business activity for the taxable year, as applicable. The FTB is required to compile tax expenditure 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. 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; 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers; 109, California Exempt Organization Business Income Tax Return; 541, California Fiduciary Income Tax Return; 565, Partnership Return of Income; or 568, Limited Liability Company Return of Income (as applicable). For more information, refer to the applicable tax booklet.

### Who Should File

#### Taxpayers Operating a Commercial Cannabis Activity

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 an LLC 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.

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**Small Business Solely Owned by a Deployed Member of the United States Armed Forces**

Taxpayers that should file form FTB 4197 include the following:

- C corporations
- S corporations
- LLCs

**Taxpayers that Benefited from the Thomas and Woolsey Wildfires/Turf Replacement Water Conservation Program**

The following taxpayers should file form FTB 4197 if they benefited from the Thomas and Woolsey Wildfires or Turf Replacement Water Conservation Program:

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

**Taxpayers that Benefited from the Emergency Financial Aid Grants/ARPA Student Loans Forgiveness**

Individual taxpayers should file form FTB 4197 if they benefited from the emergency financial aid grants or ARPA student loans forgiveness.

**Taxpayers that Benefited from the Kincade Wildfire/Zogg Wildfire**

The following taxpayers should file form FTB 4197 if they benefited from the Kincade or Zogg Wildfires:

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

**Taxpayers that Benefited from the Wildfire Mitigation Payment**

The following taxpayers should file form FTB 4197 if they benefited from the Wildfire Mitigation Payment:

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

**Taxpayers that Benefited from the Thomas and Woolsey Wildfires/Turf Replacement Water Conservation Program**

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

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

**Taxpayers that Benefited from the Emergency Financial Aid Grants/ARPA Student Loans Forgiveness**

Individual taxpayers should complete Part I, columns (a) and (e); **do not** complete columns (b), (c), (d), (f) and (g).

**Taxpayers that Benefited from the Kincade Wildfire/Zogg Wildfire**

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

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

**Taxpayers that Benefited from the Wildfire Mitigation Payment**

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

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

*(continued on next page)*

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**Specific Line Instructions**

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**Part I — Deductions, Credits, Exclusions, Exemptions, and Other**

Enter all amounts as positive numbers.

**Taxpayers Operating a Commercial Cannabis Activity**

The following taxpayers should complete Part I, columns (a), (c), and (d). (If deductions apply, complete column (b)); **do not** complete columns (e), (f), and (g):

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

**Small Business Solely Owned by a Deployed Member of the United States Armed Forces**

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

- C corporations
- S corporations
- LLCs

## Code Reference and Column Instructions

The chart below provides a summary of tax expenditure items for completing form FTB 4197. Refer to Part I, column (a) through column (g) instructions for more information.

If you received items from a Pass-Through Entity (PTE) operating a commercial cannabis activity, see the instructions for Part II, column (a) through column (e), and complete Part II of form FTB 4197, as applicable.

Tax Expenditure Item	Code - Enter in column (a)	Additional Columns Requested
Cannabis	CBIS	Complete Part I, columns (a), (c), and (d). (If deductions apply, complete column (b)). Complete Part II, columns (a) through (e), as applicable.
Deployed Military Exemption	DME	Enter in column (g) the number of employees (including yourself) that the corporation or the LLC employed
Thomas and Woolsey Wildfires Exclusion	TWWE	Enter the amount excluded for federal purposes in column (e) – Exclusions
Turf Replacement Water Conservation Program	TRWCP	Enter amount in column (e) – Exclusions
Emergency Financial Aid Grants	EFAG	Enter amount in column (e) – Exclusions
ARPA Student Loans Forgiveness	ARPSLF	Enter amount in column (e) – Exclusions
Kincade Wildfire Exclusion	KWE	Enter amount in column (e) – Exclusions
Zogg Wildfire Exclusion	ZWE	Enter the amount excluded for federal purposes in column (e) – Exclusions
Wildfire Mitigation Payment	WMP	Enter amount in column (e) – Exclusions

### Column (a) – Code

Use the prior chart to enter the applicable code in column (a).

Taxpayers operating a commercial cannabis activity, enter the applicable code in column (a) and see columns (b), (c), and (d) instructions. Skip columns (e) and (g) instructions, and complete the rest of the form, as applicable.

A corporation or an LLC that is a small business solely owned by a deployed member of the United States Armed Forces shall not be subject to the minimum franchise tax or the annual tax if the owner is deployed during the taxable year and the corporation or the LLC operates at a loss or ceases operation. If the corporation or an LLC meets the above requirements, write “DME” in column (a). Skip columns (b), (c), (d), and (e) instructions and see column (g) instructions.

Taxpayers who benefited from the Thomas and Woolsey Wildfires or Turf Replacement Water Conservation Program, enter the applicable code in column (a). Skip columns (b), (c), (d), and (g) instructions and see column (e) instructions.

Taxpayers who benefited from the emergency financial aid grants or ARPA student loans forgiveness, enter the applicable code in column (a). Skip columns (b), (c), (d), and (g) instructions and see column (e) instructions.

Taxpayers who benefited from the Kincade or Zogg Wildfires, enter the applicable code in column (a). Skip columns (b), (c), (d), and (g) instructions and see column (e) instructions.

Taxpayers who benefited from the Wildfire Mitigation Payment, enter the applicable code in column (a). Skip columns (b), (c), (d), and (g) instructions and see column (e) instructions.

### Column (b) – Deductions claimed this year

Enter in column (b) the total deductions claimed this year for the trade or business activity 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 activity 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 activity 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).

### Column (e) – Exclusions

California law allows a qualified taxpayer an exclusion from gross income for the following:

- Any amount received in a settlement from Southern California Edison for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire.
- Any amount received as a rebate, voucher, or other financial incentive issued by a public water system, as defined, local government, or state agency for participation in a turf replacement water conservation program.
- Amounts for certain emergency financial aid grants received by a postsecondary education student.
- Amounts of student loans discharged under the ARPA for the following: loans provided expressly for post-secondary educational expenses if the loans were made, insured, or guaranteed by a federal, state, or local government entity, or an eligible educational institution; private education loans; loans made by certain educational institutions/organizations or by tax-exempt organizations to refinance a loan.

- Any qualified amount received in a settlement from PG&E Company or its subsidiary relating to the 2019 Kincade Fire.
- Any qualified amount received in a settlement from PG&E Company or its subsidiary relating to the 2020 Zogg Fire.
- Any amount received as a California qualified wildfire loss mitigation payment through the California Wildfire Mitigation Financial Assistance Program.

If the taxpayer benefited from any of the items listed above and listed the applicable code in column (a), enter in column (e) the amount of gross income exclusion this year.

**Column (g) – Other**

A corporation or an LLC that is a small business solely owned by a deployed member of the United States Armed Forces shall not be subject to the minimum franchise tax or the annual tax if the owner is deployed during the taxable year and the corporation or the LLC operates at a loss or ceases operation. If the corporation or an LLC meets the above requirements and listed the code “DME” in column (a), enter in column (g) the number of employees (including yourself) that the corporation or the LLC employed.

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

Enter all amounts as positive numbers.

**Taxpayers that Received Items from a PTE Operating a Commercial Cannabis Activity**

The following taxpayers should complete Part II, columns (a) through (e) as applicable; **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.

**Column (a) – PTE code**

See the prior chart in the Code Reference and Column Instructions for Part I, to enter the applicable code in column (a) 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 activity 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 activity 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 activity listed in column (a).

If your cannabis business operated at a loss, and this loss is suspended because of passive activity loss rules, complete Worksheet I as follows:

<b>Worksheet I</b>	
<b>Enter all amounts as positive numbers.</b>	
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 on this page . . . . .	6 _____
7. Enter the allowed passive loss for cannabis business, from form FTB 3801, Part VIII, 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 activity 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 activity 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 activity listed in column (a).

**Franchise Tax Board Privacy Notice on Collection**

Our privacy notice can be found in annual tax booklets or online. Go to [ftb.ca.gov/privacy](http://ftb.ca.gov/privacy) to learn about our privacy policy statement, or go to [ftb.ca.gov/forms](http://ftb.ca.gov/forms) and search for **1131** to locate FTB 1131 EN-SP, Franchise Tax Board Privacy Notice on Collection - Aviso de Privacidad del Franchise Tax Board sobre la Recaudación. To request this notice by mail, call 800.338.0505 and enter form code **948** when instructed.