

Apportionment factor - Current Law

Assume P's water's-edge combined report factors are:

Property				
California		1,151		1,151
Everywhere	14,200		14,200	
CFC1 x Inclusion Ratio	<u>320</u>		<u>-</u>	
		14,520		14,520
Percent within California		<u>7.9268%</u>		<u>7.9268%</u>
Payroll				
California		319		319
Everywhere	4,564		4,564	
CFC1 x Inclusion Ratio	<u>85</u>		<u>-</u>	
		4,649		4,649
Percent within California		<u>6.8615%</u>		<u>6.8615%</u>
Sales				
California		2,680		2,680
Everywhere	31,509		31,509	
LR 2006-1	-		22.5	(\$100 - \$10 - \$67.50)
CFC1 x Inclusion Ratio	<u>1,760</u>		<u>-</u>	
		33,269		31,532
Percent within California		<u>8.0555%</u>		<u>8.4994%</u>
Double weighed sales factor		8.0555%		8.4994%
Average apportionment percentage		<u>7.7249%</u>		<u>7.9468%</u>

Apportionment factor - Proposed Law

Assume P's water's-edge combined report factors are:

Property				
California		1,151		1,151
Everywhere	14,200		14,200	
CFC1 x Inclusion Ratio	<u>N/A</u>		<u>N/A</u>	
		14,200		14,200
Percent within California		<u>8.1056%</u>		<u>8.1056%</u>
Payroll				
California		319		319
Everywhere	4,564		4,564	
CFC1 x Inclusion Ratio	<u>N/A</u>		<u>N/A</u>	
		4,564		4,564
Percent within California		<u>6.9895%</u>		<u>6.9895%</u>
Sales				
California		2,680		2,680
Everywhere	31,509		31,509	
LR 2006-1	7.30		21.25	(\$100 - \$15 - \$63.75)
CFC1 x Inclusion Ratio	<u>N/A</u>		<u>N/A</u>	
		31,516		31,530
Percent within California		<u>8.5035%</u>		<u>8.4998%</u>
Double weighed sales factor		8.5035%		8.4998%
Average apportionment percentage		<u>8.0255%</u>		<u>8.0237%</u>

Comparison Example of Current Law and LP 08-03

US Corporation P owns 100 percent of CFC1, a controlled foreign corporation. P elected to file its California returns on a water's-edge basis. Assume CFC1 has the following facts:

	<u>Year 1</u>	<u>Year 2</u>
Taxable income (TI)	\$ 100.00	\$ -
Subpart F income	10.00	-
Earnings and profits:		
Beginning of the year	5.00	
Current year	<u>100.00</u>	105.00
Inclusion ratio = Sub F/current yr E&P	10.00%	0.00%
Cash dividend to P	-	100.00
Factors:		
Property	3,204	3,204
Payroll	851	851
Sales	17,600	17,600

Assume that the \$5 accumulated E&P at the beginning of the year is PTI under IRC section 959.

Current Law:

WATER'S-EDGE COMBINED REPORT

Income:	<u>Year 1</u>	<u>Year 2</u>	
CFC income x inclusion ratio (I/R)	\$ 10.00	\$ -	(\$100 TI x 10% I/R)
Dividend income	-	100.00	
Dividend elimination - R&TC sec 25106	-	(10.00)	(\$100 div x Yr1 10% I/R)
Dividend deduction - R&TC sec 24411	-	(67.50)	(\$90 qualifying div x 75%)
Foreign investment interest offset - Assume a 10%	-	6.75	
Pre-Apportionment Income	<u>\$ 10.00</u>	<u>\$ 29.25</u>	
Apportionment factor (see below computation)	7.7249%	7.9468%	
Net income	0.77	2.32	
Tax at 8.84%	<u>0.068</u>	<u>0.205</u>	

Proposed Law:

WATER'S-EDGE COMBINED REPORT

Income:	<u>Year 1</u>	<u>Year 2</u>	
CFC income x inclusion ratio = N/A	\$ -	\$ -	
Dividend income	10.00	100.00	
Dividend exclusion - 27%	(2.70)	-	
Previously Taxed Income (PTI)	-	(15.00)	(\$5 IRC sec 959 + \$10)
Dividend deduction - R&TC sec 24411	-	(63.75)	(\$85 qualifying div x 75%)
Foreign investment interest offset - Assume a 10%	0.27	6.375	
Pre-Apportionment Income	<u>\$ 7.57</u>	<u>\$ 27.63</u>	
Apportionment factor (see below computation)	8.0255%	8.0237%	
Net income	0.61	2.22	
Tax at 8.84%	<u>0.054</u>	<u>0.196</u>	