

**FINAL STATEMENT OF REASONS
FOR THE AMENDMENT OF CALIFORNIA CODE OF REGULATIONS, TITLE 18,
SECTIONS 23038(b)-1, 23038(b)-2, 23038(b)-3, AND THE ADOPTION OF CALIFORNIA CODE
OF REGULATIONS, TITLE 18, 23038(b)-4, AND 23038(b)-5**

UPDATE OF INITIAL STATEMENT OF REASONS

The public notice required by Government Code section 11346.4 was mailed and published in the California Regulatory Notice Register on May 11, 2018. The notice stated that there would not be a public hearing unless requested by an interested person at least 15 days before the close of the written comment period, which ended June 26, 2018. No request was made for a public hearing, and no hearing was held. No comments were received.

The text of the proposed regulations has not changed since the publication of the notice on May 11, 2018. The Franchise Tax Board has complied with the requirements of Section 44 of Title 1 of the California Code of Regulations.

ALTERNATIVES DETERMINED

The Franchise Tax Board has determined that no alternative to the proposed regulations it considered would be more effective in carrying out the purpose of the proposed regulations or would be as effective and less burdensome to affected private persons than the adopted regulations, or would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provisions of the law, in accordance with Government Code section 11346.9, subdivision (a)(4). The proposed regulations are the only text identified by or proposed to the Franchise Tax Board that accomplishes the intent of the regulations and no alternatives have been identified or proposed that would reduce costs to those regulated.

ALTERNATIVES THAT WOULD LESSEN ADVERSE ECONOMIC IMPACT ON SMALL BUSINESS

The Board has determined that the proposed regulations will not have a significant impact on small business. Tax return data suggest only a small number of taxpayers have filing characteristics which might be affected by the proposed regulations. Even in an extreme case where all taxpayers within this group were classified as small business, these taxpayers would represent only a minor share of total small business entities in California. In addition, the proposed regulations will provide guidance to taxpayers as to how various types of entities are to be classified for tax purposes, consistent with the corresponding federal regulations. These proposed regulations would not result in the elimination of jobs, promotion of new jobs, or adversely impact opportunities for existing businesses. Therefore, small businesses will not be significantly impacted.

LOCAL MANDATE DETERMINATION

The proposed regulations do not impose any mandate on local agencies or school districts.