



September 6, 2019

FTB NOTICE - 2019-03

SUBJECT: Procedures to make an Election under California Revenue and Taxation Code Sections 17563.51, 17564, 24422.3, 24652, 24652.6, 24654, 24673.2, and/or 24701, related to Small Business Method of Accounting.

PURPOSE:

This Notice provides guidance to taxpayers regarding making an election under California Revenue and Taxation Code ("RTC") sections 17563.51, 17564, 24422.3, 24652, 24652.6, 24654, 24673.2, and/or 24701, (collectively referred to as "California's Small Business Method of Accounting provisions"), related to the adoption of federal amendments to Internal Revenue Code ("IRC") sections 263A, 447, 448, 460, and 471, (collectively referred to as "federal Small Business Method of Accounting provisions") for the 2018 taxable year.

BACKGROUND:

Sections 14, 15, 27, 29, 30, 31, 32, and 33 of Assembly Bill 91 – Loophole Closure and Small Business and Working Families Tax Relief Act of 2019 ("AB 91") enacted and/or amends California's Small Business Method of Accounting provisions to incorporate certain federal Tax Cuts and Jobs Act of 2017 (P.L. 115-97) ("TCJA") amendments to the federal Small Business Method of Accounting provisions of the IRC.

More specifically, Section 14 added RTC section 17563.51 to incorporate TCJA amendments to: (1) IRC section 447, related to method of accounting for farming corporations; (2) IRC section 448, related to limitation on the use of the cash method of accounting; (3) IRC section 263A, related to Uniform Capitalization ("UNICAP") rules; (4) IRC section 471, related to the method of accounting for inventories; and (5) the preservation of suspense account rules.

Sections 15 and 32 amended RTC sections 17564 and 24673.2, respectively, to incorporate TCJA amendments to IRC section 460, related to accounting for long-term contracts.

Section 27 amended RTC section 24422.3 to incorporate TCJA amendments to IRC section 263A, related to UNICAP rules.

Section 29 amended RTC section 24652 to incorporate TCJA amendments to IRC section 447, related to method of accounting for farming corporations.

Section 30 added RTC section 24652.6 to incorporate TCJA amendments related to the preservation of suspense account rules.

Section 31 amended RTC section 24654 to incorporate TCJA amendments to IRC section 448, related to limitation on the use of the cash method of accounting.

Section 33 amended RTC section 24701 to incorporate TCJA amendments to IRC section 471, related to the method of accounting for inventories.

The above mentioned sections apply for taxable years beginning on or after January 1, 2019. However, each section of the California's Small Business Method of Accounting provisions¹ allows a taxpayer to elect to apply that section for taxable years beginning on or after January 1, 2018 and before January 1, 2019.

PROCEDURE

In order to make one or more of the elections to apply a California Small Business Method of Accounting provision for taxable years beginning on or after January 1, 2018 and before January 1, 2019, a taxpayer must complete all of the following:

1. Include a statement with their original or amended California tax return stating the taxpayer's intent to make one or more of the elections along with the specific election(s) being made.
2. On the top of the first page of the original or amended tax return, write or print "AB 91 – Small Business Method of Accounting Election" in blue or black ink.
3. Mail all "AB 91 – Small Business Method of Accounting Election" returns to:

Franchise Tax Board
P.O. Box 942857
Sacramento, CA 94257-0500

If a taxpayer has an electronic filing requirement under RTC section 18621.10, the taxpayer may file a paper return for the purposes of making the election pursuant to this Notice. In that case, the taxpayer shall also include a statement with the return stating that the taxpayer is filing a paper return in lieu of an electronic return pursuant to FTB Notice 2019-03.

¹ Specifically, RTC sections 17563.51(f)(3), 17564(g)(3)(C), 24422.3(b)(2)(C), 24652(b)(2)(C), 24652.6(b)(3), 24654(c)(2)(C), 24673.2(g)(3)(C), and/or 24701(b)(2)(C) allow their respective elections to apply for tax years beginning on or after January 1, 2018 and before January 1, 2019.

The principal author of this notice is Shane J. Hofeling of the Franchise Tax Board, Legal Division. For further information regarding this notice, contact Mr. Hofeling at P.O. Box 1720, Rancho Cordova, CA 95741-1720.