

EXPLANATION OF PROPOSED AMENDMENTS

This paper is intended only for purposes of facilitating public comments regarding proposed amendments to the regulations at California Code of Regulations, Title 18 ("CCR"), Sections 23701, 23772, 23775, 23776, 23777, and 23778 published on July 3, 2025.

CCR Sections 23701 to 23778 set forth regulations implementing California Revenue and Taxation Code ("R&TC") sections 23701 to 23778, relating to exemptions from franchise and income tax. The regulations were last amended in 2009 or earlier.

Since 2009, R&TC sections 23701, 23772 and 23778 have been amended. (See 2010 Cal SB 401 (April 12, 2010); 2011 Cal AB 36 (April 7, 2011); 2012 Cal SB 1341 (Sept. 28, 2012); 2012 Cal AB 1677 (Sept. 30, 2012); 2013 Cal AB 1173 (Oct. 4, 2013); 2015 Cal AB 154 (Sept. 30, 2015); 2017 Cal AB 94 (July 24, 2017); and 2020 Cal SB 934 (Sept. 9, 2020).)

As a result, the Franchise Tax Board ("FTB") is proposing amendments to the regulations to implement, interpret or make specific the amendments to the statutes. Although R&TC sections 23775, 23776, and 23777 have not been amended since 2009, the FTB is proposing amendments to the regulations at CCR Sections 23775, 23776, and 23777 to implement amendments to related statutes.

In addition, the FTB is proposing further amendments to revise the structure, syntax, cross-references, formatting, grammar, or punctuation in the regulations, and make the regulations more easily readable.

The proposed amendments to CCR Sections 23701, 23772, 23775, 23776, 23777 and 23778, are now available on the Regulatory Activity page on the Franchise Tax Board's website at <https://www.ftb.ca.gov/tax-pros/law/regulatory-activity/>. Each CCR section proposed to be amended is discussed separately below, with accompanying explanations of the proposed amendments.

(1) CCR Section 23701.

Background: In 2013, R&TC Section 23701 was amended. Former subdivision (d)(1) (currently subdivision (b)(1)) was added to allow some organizations to obtain streamlined exemption in California by submitting a copy of a determination letter or ruling issued by the Internal Revenue Service recognizing the organization's exemption from federal income tax. The types of organizations eligible for streamlined exemption were expanded to include organizations exempt from federal income tax under Internal Revenue Code ("IRC") sections 501(c)(4), (c)(5), (c)(6), and (c)(7). In 2017, former subdivision (d)(1) was amended to allow streamlined exemption for organizations exempt from federal income tax under IRC section 501(c)(19). In 2020, the subdivision designations were revised. Among other things, subdivision (d)(1) was changed to subdivision (b)(1), and former subdivision (b) was repealed, which eliminated the filing fee.

Proposed Amendments: In CCR Section 23701, subsection (a)(1), the proposed amendments delete and relocate the phrase "in general" to subsection (a) for formatting and consistency purposes. The phrase "tax and" is added to clarify that the exemption applies to both the franchise tax and the corporate income tax since without this edit it is unclear. The phrase "that are" is added to make the language more easily understood because without the edit there may be confusion as to whether being organized and operated for nonprofit purposes is a requirement for an organization to be considered exempt. The phrase "subject to" is changed to "described in" to accurately reflect the statutes referred to in the regulation. The phrase "both of the following occur" is added after the word "if" to clarify that both (a)(1)(A) and re-lettered (a)(1)(B) are required since without this edit there is ambiguity as to whether one or both of these subdivisions must be satisfied in order for an organization to obtain exempt status.

In subsection (a)(1)(A), the phrase "application for exemption" is changed to "exemption application" to ensure consistency of this terminology. The semicolon is replaced with a period for internal consistency.

Subsection (a)(1)(B), which requires a filing fee, is deleted because the statute no longer requires a filing fee. Subsection (a)(1)(C) is renumbered (a)(1)(B) for consistency within the document after incorporation of the change to remove former subsection (a)(1)(B).

In subsection (a)(2), the punctuation for the cross-reference to R&TC section 23731 in the first sentence is revised to provide correct formatting for this citation. After the word "Also" at the beginning of the second sentence, a comma is added to provide correct formatting and to make the sentence easier to read. In the last sentence, the word "must" is omitted to make the language more easily understood because using the word twice is redundant and potentially confusing for a reader. The word "appropriate" is changed to "applicable" to clearly denote that only those filing fees that the organization is subject to must be paid. "Appropriate" may imply a discretionary aspect to the fee requirement.

In subsection (a)(3), the phrase "for requests filed on or after January 1, 2008" is deleted because the requests being filed with FTB are all filed after January 1, 2008. References are added for IRC sections 501(c)(4), (c)(5), (c)(6), (c)(7), and (c)(19) to implement changes to the statute that provide that organizations exempt from federal income tax under those sections are eligible for streamlined exemption. The phrase "franchise or corporate income tax" is changed to "corporate franchise tax and corporate income tax", and this change is necessary in order to utilize the correct terminology with respect to a corporation's franchise tax. The phrase "under the authority of Revenue and Taxation Code section 23701d, subdivision (c)" is deleted because it is no longer an accurate statement of law.

In subsection (b), the word "meet" is changed to "fulfill", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meet" alone does not require that the applicable organizational test or operational test must be fully satisfied, while the word "fulfill" clearly and unambiguously means that these tests must be fully satisfied.

In subsection (b)(1), the parenthetical "(Form 3500)" is deleted because it is redundant since the more appropriate terminology for this type of document – which is an exemption application – is already included in this provision and without this edit there may be confusion which terminology is correct.

In the last sentence of subsection (b)(1), there are two instances where the word "meet" is changed to "fulfill", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meet" alone does not require that the document satisfy the organizational test in CCR 23701(c) or that the activities or proposed activities satisfy the operational test in 23701(b), while the word "fulfill" clearly and unambiguously means that these tests must be fully satisfied.

In the first paragraph of subsection (b)(1)(A), the word "Member" is changed to "Private Shareholder" to conform to the language used in R&TC section 23701d. The phrase "members, officers, directors and employees" is changed to "private shareholder or individual" to conform to the language used in R&TC section 23701d. The phrase "insure that it can be said" is changed to "demonstrate that" to clarify the language. This change is necessary because the former phrase "it can be said" is ambiguous; while it emphasizes the importance of the following statement, it does not necessarily require that the following statement must be demonstrated.

In the second paragraph of subsection (b)(1)(A), the word "his" is changed to "the individual's"; this change is necessary because the word "his" limits its applicability to the male gender, while the word "individual" applies to all genders. The word "upon" is changed to "against"; this change is necessary to reference the correct terminology for the violation of prohibitions against self-dealing. In subsections (b)(1)(A)1. and (b)(1)(A)2.(IX) a cross-reference to R&TC section 23731 is added following the phrase "unrelated business income"; this change is necessary to avoid ambiguity regarding the term "unrelated business income" and to clarify that the tax of this income arises from R&TC section 23731.

Subsection (b)(3), which discusses the application fee and exceptions to the fee, is deleted because the statute no longer requires an application fee.

Subsection (b)(4) is renumbered to (b)(3) after incorporation of the change to remove former subsection (b)(3), and is changed to delete the phrase "under Section 501(c)(3) of the Internal Revenue Code" in the last sentence. This change is necessary because the sentence already references tax-exempt status for federal income tax purposes, and therefore the former reference to "Section 501(c)(3) of the Internal Revenue Code" is redundant.

In subsection (c)(1)(B), the word "meeting" is changed to "fulfilling", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meeting" alone does not require that the organizational test is fully satisfied, while the word "fulfilling" clearly and unambiguously means that this test is fully satisfied.

In subsection (c)(1)(C), the word "meet" is changed to "fulfill", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meet" alone does not require that the organizational test is fully satisfied, while the word "fulfill" clearly and unambiguously means that this test is fully satisfied.

In subsection (c)(2), the phrase "the articles of incorporation" is added to the definition of "articles of organization" or "articles". Articles of incorporation are written instruments by which an organization is created and therefore constitute an "article" as that term is defined in CCR Section 23701. This change avoids confusion as to whether articles of incorporation constitute a type of "article" as that term is used in CCR Section 23701 and corresponding statute.

In subsection (c)(3), the word "meet" is changed to "fulfill", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meet" alone does not require that the organizational test is fully satisfied, while the word "fulfill" clearly and unambiguously means that this test is fully satisfied.

In subsection (d)(2), the parenthetical "(or incorporation)" is deleted because it is obsolete. It was previously included because of certain procedures used by the California Secretary of State which no longer apply. The word "meet" is changed to "fulfill", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meet" alone does not require that the organizational test is fully satisfied, while the word "fulfill" clearly and unambiguously means that this test is fully satisfied.

In subsection (d)(2)(A), the phrase "annual report" is replaced with the phrase "exempt organization annual information return" for consistency since "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR Section 23701, and to provide the correct terminology for this type of information return which is specific to exempt organizations. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC sections 23772 and 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement, and to clarify that this rule applies to both annual information returns and annual statements.

In the last sentence of subsection (d)(2)(A), the word "organization's" is added to avoid ambiguity as to whose exempt status shall be revoked. The word "since" is changed to "because"; this change is necessary as the words "because" and "since" can both express cause and effect, but "since" can also indicate a time element which is not applicable here and therefore "because" is a stronger indicator of a direct cause-and-effect relationship.

In subsection (d)(2)(B), the word "their" is added for clarity; without this change, there is confusion as to whether the loss of exempt status applies to the organization. In addition, the phrase "annual report" is replaced with the phrase "exempt organization annual information return" for consistency as "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR

Section 23701, and to provide the correct terminology for this type of information return specific to exempt organizations. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC sections 23772 and 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement, and to clarify that this rule applies to both annual information returns and annual statements.

In subsection (f), the phrase "annual report" is changed to "exempt organization annual information return" for consistency as "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR Section 23701, and to provide the correct terminology for this type of information return which is specific to exempt organizations. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC section 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement, and it clarifies that this rule applies to both annual information returns and annual statements. The phrase "either by suspension of corporate powers, for failure to elect an accounting period, or to file an annual return or statement, then" is deleted to make the language more readable because repetition of the grounds for revocation is unnecessary to understand the rule.

In subsection (g), the phrase "annual information return" is replaced with the phrase "exempt organization annual information return" for consistency as "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR Section 23701, and to provide the correct terminology for this type of information return which is specific to exempt organizations. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC sections 23772 and 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement, and it clarifies that this rule applies to both annual information returns and annual statements. The phrase "Chapter 4 of the Corporation Tax Law" is changed to "Chapter 4 (Exempt Corporations) of Part 11 (Corporation Tax Law)" to provide a complete cross-reference.

In subsection (h), The phrase "applications for exemption" is changed to "exemption applications" to ensure consistency of this terminology. The word "attorney" is changed to "authorized representative". This change is necessary to avoid limiting this rule to attorneys representing the principal organizers; it expands the scope to all representatives authorized by the principal organizer. The phrase "and the application fee" is deleted because the statute no longer requires an application fee.

In subsection (i)(5)(D), the phrase "information return" is changed to "exempt organization annual information return" for consistency as "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR

Section 23701, and to provide the correct terminology for this type of information return which is specific to exempt organizations. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC sections 23772 and 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement, and it clarifies that this rule applies to both annual information returns and annual statements. The word "meet" is changed to "fulfill", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meet" alone does not require that the organizational test is fully satisfied, while the word "fulfill" clearly and unambiguously means that this test is fully satisfied. The phrase "group report" is changed to "group return", and the phrase "annual information" is added before the word "return" in the last line for consistency.

In subsection (i)(6)(C), the phrase "information return" is changed to "exempt organization annual information return" and consistency as "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR Section 23701, and to provide the correct terminology for this type of information return which is specific to exempt organizations.

In subsection (i)(6)(D), the phrase "group letter" is changed to "group exemption letter" to provide the correct terminology for this document. The phrase "annual report" is changed to "exempt organization annual information return" for consistency as "Form 199", "annual return", "annual report", and "annual information return" are used interchangeably in an inconsistent manner in CCR Section 23701, and to provide the correct terminology for this type of information return which is specific to exempt organizations, and to ensure that the reader does not confuse this type of information return with a tax return. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC sections 23772 and 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement, and to clarify that this rule applies to both annual information returns and annual statements.

(2) CCR Section 23772.

Background: In 2009, R&TC section 23772, subdivision (b), stated in part that every organization described in R&TC section 23701d was required to furnish annually ten categories of information. In 2010, subdivision (b) was amended by adding two additional categories of information (R&TC section 23772(b)(10), (12)); adding an electronic form requirement for certain organizations otherwise exempt from furnishing the information required by subdivision (b) (*Id.*, at (b)(13)); and adding a paragraph stating that an organization's exempt status would be revoked if it failed to file an annual return for three consecutive years (*Id.*, at (b)(14).) In 2012, subdivision (a)(2) was amended by revising the mandatory exception for organizations whose gross receipts are normally not more than \$25,000 to organizations whose gross receipts are normally not more than \$50,000. (See

R&TC section 23772(a)(2)(A)(ii).) In 2020, subdivision (a) was amended by deleting paragraphs (a)(3) and (a)(4) which related to the filing fee.

Proposed Amendments: In CCR Section 23772, subsection (a), the phrase "a Form 199 (Exempt Organization Annual Information Return)" is changed to "an exempt organization annual information return. This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772.

In subsection (a)(1), the phrase "Form 199" is changed to "exempt organization annual information return". This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772.

In subsection (a)(1)(C), the phrase "beginning before January 1, 2012" is added to the exception for organizations whose gross receipts are normally not more than \$25,000 to clarify the time frame for this exception, and to distinguish it from a different time frame under a new exception applicable to organizations whose gross receipts are normally not more than \$50,000. The reference to subsection "(i)" is renumbered "(i)(1)" to make it consistent with new changes therein.

A new subparagraph (D) is added to implement the statutory amendment by adding language relating to the exception for organizations whose gross receipts are normally not more than \$50,000 applicable to taxable years beginning on or after January 1, 2012.

Former subparagraphs (D) and (E) are re-lettered to (E) and (F), respectively, to maintain internal consistency after incorporation of the change to add new subparagraph (D).

New subparagraph (G) is added to provide an exception for a political organization exempt under R&TC section 23701r which states in part that "[t]he requirements set forth in Section 23772 or Section 23774 shall not apply to a political organization or newsletter fund."

In the note at the end of subsection (a)(1), the phrase "Form 199" is changed to "an exempt organization annual information return". This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. Also, the phrase "or submit annually, in electronic form, in the manner as may be prescribed by the Franchise Tax Board, the information listed in Revenue and Taxation Code section 23772(b)(13)(A)(i)" is added to implement the statutory amendment in R&TC section 23772(b)(13)(A)(i). In the second sentence, the phrase "a stock bonus, pension or profit-sharing trust exempt under Revenue and Taxation Code section 17631 with" is necessary to identify that these are subject to the filing of the tax return identified in the same sentence if they have unrelated business expenses of \$1,000 or more. The reference to "Form 109" is changed to "a California exempt organization business income tax return" to avoid confusion as to the identification of the return, and this change avoids further confusion in the future if the form number is ever changed. .

In subsection (a)(2)(A), the phrase "Form 199" is changed to "an exempt organization annual information return". This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772.

In subsections (a)(2)(A)1. through 9., possessive pronouns are deleted and other minor edits are made to make the clauses grammatically consistent and easier to read.

In subsection (a)(2)(A), clauses 10. through 12. are added to implement the requirements in R&TC Code section 23772(b)(6), (10) and (13). Current clauses 10. and 11. are renumbered to 13. and 14 for internal consistency after incorporation of the change to add new clauses 10. through 12.

In subsection (a)(2)(B)1., there are two instances where the phrase "Form 199" is changed. In the first instance, "Form 199" is changed to "an exempt organization annual information return." In the second instance, "the Form 199" is changed to "an exempt organization annual information return". These changes are necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. The reference to "page 1" is changed to "Part I" to ensure consistency to when referencing "Parts" of this information return, to provide a more accurate reference, and to avoid future issues in the event the reporting requirements are relocated from page 1 to a different page on the information return. The language referring to a filing fee is deleted because the statute no longer requires a filing fee.

In subsection (a)(2)(B)1.(I) the phrase "Registry of Charitable Trusts Report CT-2" is changed to "annual registration renewal fee report to Attorney General of California" because Form CT-2 no longer exists and has been replaced with the report provided to the Attorney General.

In subsection (a)(2)(B)1.(II), the phrase "Federal Form 990" is changed to "the federal return from organization exempt from income tax" to avoid confusion as to the identification of the return, and this change avoids further confusion in the future if the form number is ever changed. In the second sentence, the phrase "with assets of \$5,000 or more, at any time during its accounting period, must furnish a copy of the annual report of private foundation (Federal Form 990A-R or substitute report) filed with the Internal Revenue Services" is changed to "attach a completed copy of the federal report of the private foundation, including all required schedules, filed with the Internal Revenue Service." Without this change, there may be confusion as to the identification of this federal report, and this change avoids further confusion in the future if the form number is ever changed.

In subsection (a)(2)(B)1.(III), the phrase "Labor Department Form LM-3" is changed to "federal labor organization annual report" to avoid confusion as to the identification of the annual report, and this change avoids further confusion in the future if the form number is ever changed.

In subsection (a)(2)(C), the phrase "Form 199" is changed to "an exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772.

In subsection (a)(2)(C)1., the phrase "Form 199" is changed to "an exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. The word "Section" is changed to lower case "section" to make the reference consistent with other references in the regulations.

In subsection (a)(2)(C)1.(I), the word "meets" is changed to "fulfills", and this change is necessary to avoid ambiguity because it is arguable that the utilization of the word "meets" alone does not require that the organizational test is fully satisfied, while the word "fulfills" clearly and unambiguously means that this test is fully satisfied. The language "I.R.C." is deleted to clarify the citation and make it consistent with other citations to the Internal Revenue Code.

In subsection (a)(2)(C)1.(II), the word "him" is changed to "the employer". This change is necessary because the word "him" limits its applicability to the male gender, while the word "the employer" applies to all genders.

In subsection (a)(2)(C)1.(III), the word "to" is added before the word "be" to correct the grammar. The word "his" is changed to "the"; this change is necessary because the word "his" limits its applicability to the male gender, while the word "the" relates specifically to the person's contributions and removes the gender specificity.

In subsection (a)(2)(C)5., the word "title" is added because it is needed to distinguish the officers, directors and employees about whom the information is requested.

In subsection (a)(2)(C)6., the phrase "Form 199" is changed to "an exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772.

A new subsection (b) is added which requires the electronic submission of information listed in R&TC section 23772(b)(13)(A)(i) by certain organizations that are not required to file an exempt organization annual information return. This subsection is added to implement the statutory amendment in R&TC section 23772(b)(13)(A)(i). The purpose of the electronic submission of information listed in R&TC section 23772(b)(13)(A)(i) is to provide a means of reporting the information required under R&TC section 23772(b)(13)(A)(i).

Former subsection (b) is re-lettered to (c) to maintain internal consistency after incorporation of the change to add new subsection (b). The former subtitle "Accounting Period for Filing

Return" is changed to "Accounting Period for Filing Information Return or Annual Statement, or Submitting Information Electronically." The purpose of the addition of "information" before the existing word "statement" is to avoid ambiguity and correctly reference the type of return. The purpose of adding a reference to electronic submissions is to include reference to the method of electronic submission of information listed in R&TC section 23772(b)(13)(A)(i). Without these edits, it is not clear which documents are required to be submitted electronically.

In the first sentence after the subtitle of subsection (c), the word "a return on Form 199" is changed to "an exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. The phrase "or annual statement (see Revenue and Taxation Code section 23774) shall be filed, or the information listed in Revenue and Taxation Code section 23772(b)(13)(A)(i) shall be submitted electronically in the manner as may be prescribed by the Franchise Tax Board" is added to implement the statutory amendment in RT&C section 23772(b)(13)(A)(i). Further, these changes clarify that the provision applies to the three types of submissions (i.e., the filing of an information return or annual statement, or an electronic submission) that an organization may be required to provide. Without these changes, it is not clear that which documents can be submitted electronically for taxpayers without an established exempt status.

In the second sentence after the subtitle of subsection (c), the word "return" is changed to "exempt organization annual information return or annual statement." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. This change also ensures that the reader does not confuse this type of information return with a tax return. The phrase "the information listed in Revenue and Taxation Code section 23772(b)(13)(A)(i) shall be submitted electronically in the manner as may be prescribed by the Franchise Tax Board" is added to implement the statutory amendment in R&TC section 23772(b)(13)(A)(i).

Subsection (c) is re-lettered (d) to maintain internal consistency after incorporation of the change to add new subsection (b). In the subtitle, the word "not" is changed to uppercase for formatting consistency. In the second sentence, the word "application" is changed to "request" to provide a more generalized term applicable here. The phrase "exempt return" is changed to "exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. This change also ensures that the reader does not confuse this type of information return with a tax return. The last two sentences are deleted because they deal with a different situation where exemption is denied at a later time and are redundant.

Subsection (d) is re-lettered (e) to maintain internal consistency after incorporation of the change to add new subsection (b). In subsection (e)(1)(A)1.(I), the phrase "annual return" is changed to "exempt organization annual information return". This change is necessary for

consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. This change also ensures that the reader does not confuse this type of information return with a tax return. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis. A cross-reference to R&TC section 23774 is added to avoid ambiguity regarding the foregoing reference to the annual information return and annual statement.

In subsection (e)(1)(C)1.(II), the phrase "employer identification numbers" is added to provide the FTB with additional information to accurately identify subordinate organizations. The phrase "qualified subordinates" is deleted and replaced with "subordinate organizations" for internal consistency.

In subsection (e)(1)(C)2.(I) and (II), the word "subordinates" is replaced with "subordinate organizations" for internal consistency.

In subsection (e)(1)(C)2.(III), the word "report" is changed to "group return" to clarify the type of document that must be filed. Without this change, there may be confusion as to whether a group return is a type of report.

In subsection (e)(1)(C)3., the first sentence is revised to state that "The central organization must secure an exemption or group exemption determination from the Franchise Tax Board before a group return may be filed." The second sentence is deleted as redundant the requirements for group exemption are already established in the regulations. The third sentence is revised to state "Subordinate organizations must be covered by a group exemption, or have obtained exempt status on their own basis, before they can be included in a group return." These changes are made to clarify the rules because the current language implies that group filing was contingent on group exemption. This is incorrect as a group filing only requires that all subordinates in the group have exempt status which is obtained either on their own basis or under a group exemption.

In subsection (e)(1)(C)5., the phrase "group return" is changed to "group statement" to correct the type of document that may be filed under that provision. The word "organization" is added after "subordinate" for internal consistency. In the last sentence, the word "group report" is replaced with "group return" for internal consistency and to clarify the type of document that must be filed. Without this change, there may be confusion as to whether a group return is a type of report.

Subsection (e) is re-lettered (f) to maintain internal consistency after incorporation of the change to add new subsection (b). The phrase "annual return on Form 199 shall be filed" is changed to "exempt organization annual information return shall be filed, or the information listed in Revenue and Taxation Code section 23772(b)(13)(A)(i) shall be submitted electronically in the manner as may be prescribed by the Franchise Tax Board". The change is necessary to reference the annual information return is for consistency, to provide the correct terminology for this type of information return which is specific to exempt

organizations, and to ensure that the reader does not confuse this type of information return with a tax return. The reference to the type of electronic submission is necessary to implement the statutory amendment in R&TC section 23772(b)(13)(A)(i).

The phrase "(4 1/2 months)" is deleted to make the sentence easier to understand. Also, a reference to the number of months is redundant because this timeline is already included in this provision in a different manner (i.e., "15th day of the fifth month following the close of the annual accounting period").

The phrase "return on Form 565" is changed to "partnership return of income" to correctly identify the type of return. The phrase "Form 199" is changed to "an exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772.

Former subsection (f), which relates to the payment of a filing fee, is deleted because the statute no longer requires the payment of a filing fee.

In subsection (g), the phrase "a Form 199" is changed to "an exempt organization annual information return. This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. The phrase "it will have to" is changed to "shall". This change is necessary because "it will have to" implies that an action or outcome is required based on an external factor. Meanwhile, "shall" denotes indicates a mandatory action that must be followed. The changes are made to the language to avoid these potential erroneous interpretations.

In subsection (h), the phrase "annual information return" is changed to "exempt organization annual information return." This change is necessary for consistency and to avoid confusion because the terms "Form 199", "annual return", and "annual information return" are used inconsistently and interchangeably in CCR Section 23772. The word "annual" is added in front of "statement" to utilize the correct terminology for this type of statement and to avoid ambiguity as to whether these statements are filed annually or on a one-time basis.

In subsection (i)(1), the phrase "for taxable years beginning before January 1, 2012" is added to the exception for organizations whose gross receipts are normally not more than \$25,000 to clarify the time frame of this exception, and to distinguish it from the time frame for a new exception applicable to organizations whose gross receipts are normally not more than \$50,000.

A new subsection (i)(2) is added to implement the new amendments to R&TC section 23772(a)(2)(A)(ii) by adding language relating to the exception for organizations whose gross receipts are normally not more than \$50,000 which is applicable for taxable years beginning on or after January 1, 2012.

Subsection (i)(2) is renumbered to (i)(3) for internal consistency after incorporation of the change to add new subsection (i)(2).

In subsection (i)(3)(C), the word "less" is changed to "loss" to correct a grammatical error. The reference to "Form 109" is changed to "a California exempt organization business income tax return" to avoid confusion as to the identification of the form, and this change avoids further confusion in the future if the form number is ever changed.

In subsection (j), the word "are" is added before "also" to make clear that filing a return is required. The reference to "Form 109" is changed to "a California exempt organization business income tax return" to avoid confusion as to the identification of the form, and this change avoids further confusion in the future if the form number is ever changed. In the parenthetical, the word "the" is added before "regulations" to make this sentence easier to read and understand.

In subsection (k), the phrase "subsection (f) and clause (i) of subparagraph (B) of paragraph (3) of subsection (a) shall be applied with respect to fees imposed on or after July 1, 1983" is deleted because former subsection (f) (which related to payment of filing fees) is deleted and there is no subsection (a)(3)(B)(i).

(3) CCR Section 23775.

Background: There have been no amendments to R&TC section 23775 since 2009. The FTB is proposing amendments to the corresponding regulation to implement changes to related statutes, revise the structure, syntax, cross-references, grammar, or punctuation in the regulation, and make the regulation easier to read and understand.

Proposed Amendments: In CCR Section 23775, subsection (a)(1), the phrase "annual return (Form 199)" is changed to "exempt organization annual information return." This change is necessary to provide consistent terminology and to avoid confusion. A reference to "Revenue and Taxation Code" is added before the reference to section 23772 to avoid ambiguity as to where this section is located.

In subsection (a)(2), the phrase "of Article 1 of this Subchapter" is added after "Section 23703" and the phrase "of this Article" is added after "Section 23772" to avoid ambiguity as to where this section is located. The word "Section" is added before "23772" for internal consistency.

Subsection (a)(3) is deleted to remove a requirement that will result in improved administrability of the applicable statute. Organizations that do not give notice of an annual accounting period are presumed to be calendar year filers.

In subsection (b), the phrase "or forfeiture" is added to clarify that the provision applies to forfeiture as stated in R&TC section 23775.

In subsection (c), in the second sentence, the comma after "equity" is deleted to make the sentence easier to read. In the last sentence, the phrase "under Section 23303" is deleted, and the phrase "pursuant to Revenue and Taxation Code section 23303" is added to avoid ambiguity as to where this section is located and to make the sentence easier to read and understand.

In subsection (d), the phrase "or forfeiture" is added to clarify that the provision applies to forfeiture in order to be consistent with R&TC section 23775.

(4) CCR Section 23776.

Background: There have been no amendments to R&TC Section 23776 since 2009. The FTB is proposing amendments to the corresponding regulation to implement changes to related statutes, revise the structure, syntax, cross-references, grammar, or punctuation in the regulation, and make the regulation easier to read and understand.

Proposed Amendments: In CCR Section 23776, subsection (a), the phrase "or forfeited" is added to clarify that the provision applies to forfeiture as stated in R&TC section 23776. The phrase "of this Article 1 " is added after "Section 23775" to avoid ambiguity as to where this section is located. The phrase "all of the following" is added at the end of the sentence to clarify that all items listed in subsections (a)(1) through (4) must be provided, since without this edit it may not be clear that all four items are required, as is intended by the corresponding statute.

In subsection (a)(1), the phrase "application for exemption" is changed to "exemption application" to ensure consistency of this terminology. The phrase "and payment of the ten-dollar (\$10) application fee" is deleted because the statute no longer requires an application fee. The phrase "; and" is replaced with a period for internal consistency.

In subsection (a)(3), the word "annual" is added before the phrase "information return" to clarify that the information return is submitted on an annual basis. The phrase "of this Article" is added after "Sections 23772 or 23775" to avoid ambiguity as to where these sections are located. The phrase "; and" is replaced with a period for internal consistency.

In subsection (a)(4), the word "annual" is added before the phrase "information return" to clarify that the information return is submitted on an annual basis. The phrase "of this Article" is added after "Sections 23772" to avoid ambiguity as to where this section is located.

Subsection (b)(1) is deleted because it is redundant, as subsection (a) already provides the procedure for relief from suspension. Without this edit, there may be confusion as to whether these procedures are different.

Subsection (b)(2) is re-lettered to subsection (b) after incorporation of the change delete former subsection (b). The word "other" is deleted to clarify the language because it is unnecessary as this provision applies to all corporations. The parenthetical "(Include

application for revivor)" is deleted because an application for revivor is not one of the items required under the list of abbreviated information to be provided under subsection 23776(b)(1) through (5). Without this edit, there may be confusion as to whether an application for revivor must be included under this provision.

Former subsections (b)(2)(A)-(E) are changed to (b)(1)-(5). In subsection (b)(1), the language "page one of the exemption application and the appropriate question number 11 through 21" is changed to "and the exemption application appropriate schedule(s)" because the exemption application has changed and the omitted language is no longer applicable.

In subsection (b)(2), the word "xerox" is deleted because it is obsolete and redundant.

In subsection (b)(5), The word "annual information" is added before "returns" for clarification and to ensure consistency of this terminology. The phrase "for accounting periods ending in 1970 and subsequent years" is deleted due to redundancy because applicable accounting periods to which this provision applies are all after the year 1970. The phrase "in addition to any applicable penalties and fees" is added to ensure that any applicable fees are submitted prior to submitting an exemption application under subdivision (b)(5). The last sentence of the first paragraph, which refers in part to filing fees, and the two subparagraphs, (i) and (ii), are deleted to implement related statutory amendments which no longer require fees.

Former subsection (b)(3) is deleted because it is redundant of subsection (a).

(5) CCR Section 23777.

Background: There have been no amendments to R&TC section 23777 since 2009. The FTB is proposing amendments to the corresponding regulation to implement changes to related statutes, revise the structure, syntax, cross-references, grammar, or punctuation in the regulation, and make the regulation easier to read and understand.

Proposed Amendments: In CCR Section 23777, subsection (a), the phrase "Revenue and Taxation Code" is added before "section 23772" to avoid ambiguity as to where this section is located.

In subparagraph (a)(1), the phrase "annual return" is changed to "exempt organization annual information return." This change is necessary for consistency, to provide the correct terminology for this type of information return which is specific to exempt organizations, and to ensure that the reader does not confuse this type of information return with a tax return. The phrase "Revenue and Taxation Code" is added before "section 23772" to avoid ambiguity as to where this section is located.

In subparagraph (a)(2), the phrase "of Article 1 of this Subchapter" is added after "Section 23703" and "of this Article" is added after "Section 23772" to avoid ambiguity as to where these sections are located. The word "Section" is added before "23772" for internal consistency.

Subsection (b) is deleted because it is obsolete since corporations that fail to elect an accounting period automatically default to the calendar year. Organizations that do not elect an accounting period are presumed to be calendar year filers. To the extent subsection (b) refers to suspension for failure to file returns or pay amounts due on time, it is redundant of section 23775, which addresses suspension.

Former subsection (c) is re-lettered (b) to maintain internal consistency after incorporation of the change to delete former subsection (b). The phrase "Revenue and Taxation Code" is added before "section 23777" to avoid ambiguity as to where these sections are located.

Former subsection (d) is re-lettered (c) to maintain internal consistency after incorporation of the change to delete former subsection (b). The word "report" is changed to "exempt organization annual information return." This change is necessary for consistency, and to provide the correct terminology for this type of information return which is specific to exempt organizations." The phrase "or a filing fee" is deleted because the related statutes no longer required a filing fee.

Former subsection (e) is re-lettered (d) to maintain internal consistency after incorporation of the change to delete former subsection (b).

(6) CCR Section 23778.

Background: Former R&TC section 23778 set forth requirements for reestablishing exemption after an organization had its exemption revoked under R&TC section 23777. In 2012, R&TC Section 23703 was repealed and reenacted with amendments which provided that the FTB would revoke the exemption of a corporation if it failed to register or file periodic reports with the Attorney General. Section 23778 was amended to provide that the requirements for reestablishing exemption also applied to organizations that had their exemption revoked under Section 23703. In 2020, Section 23778 was repealed and reenacted in identical form except that it omitted the exemption application fee requirements from subdivision (a)(1).

Proposed Amendments: In CCR Section 23778, subsection (a), the phrase "Revenue and Taxation Code" is added before "section 23777" to avoid ambiguity as to where this section is located. A reference to R&TC section 23703 is also added to implement statutory amendments in R&TC sections 23703 and 23778.

In subsection (a)(1), the phrase "application for exemption" is changed to "exemption application" to ensure consistency of this terminology. The phrase "and payment of the twenty-five dollar (\$25) filing fee required under Section 23701" is deleted to implement the amendment to the statute to no longer require a filing fee. The phrase "; and" is replaced with a period for internal consistency.

In subsection (a)(2), the word "annual" is added in front of the phrase "information returns" for clarification. The phrase "Revenue and Taxation Code" is added before "section 23777" to avoid ambiguity as to where this section is located. The word "which" is replaced with

"that" to make it grammatically correct. The phrase "; and" is replaced with a period for internal consistency.

In subsection (b)(1), the sentence is changed from "complete page one of the application and the appropriate question number 11 through 21" to "complete the exemption application" because the exemption application has changed and the omitted language is no longer applicable, and to ensure consistency of this terminology with respect to the exemption application.

In subsection (b)(4), the phrase "returns" is changed to "exempt organization annual information return." This change is necessary for consistency, and to provide the correct terminology for this type of information return, which is specific to exempt organizations. The phrase "or statements, or filing fees, or penalties or assessments made under Section 23703" is changed to "or annual statements that have not previously been filed, in addition to any applicable penalties and fees" to clarify that there may be penalties and fees due other than those described in CCR 23703, and these applicable penalties and fees must be paid by an organization seeking relief from revocation. In addition, Section 23703 relates to assessments from the Attorney General's office, which is no longer applicable under the R&TC as these assessments are not collected by the FTB. The sentence stating "Any time a \$10.00 filing fee is due and it will be paid late, it is automatically increased to \$25.00" is deleted to implement the statutory amendment to no longer require a filing fee.

Subsection (b)(5) is deleted because the subject matter content regarding penalties is already addressed in Section 23772 and subsection (b)(4) includes "penalties and fees." It is necessary to delete this language to avoid redundancy and confusion.

Subsection (c) is deleted because it is redundant of subsection (a), because (a) already addresses applications for exemptions.

Subsection (d) is re-lettered (c) to maintain internal consistency after incorporation of the change to delete former subsection (c).