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[7900](#) Intrastate Apportionment

7900 INTRASTATE APPORTIONMENT

The combined report is a means by which the income of a unitary business is divided among the taxing jurisdictions in which the trade or business is conducted. A combined report is not a "return" but merely the name given to the calculations by which multi-entity unitary businesses apportion income on a geographic basis. There is no "combined report" form. Tax is calculated on an attached form.

In a combined report, the entire amount of unitary business income of all corporations in the unitary group (including unitary members with no property, payroll, or sales within California) is aggregated in the combined report.

The combined business income of the unitary group is then apportioned to California and to the unitary members subject to tax. The process of apportioning the combined business income subject to taxation to the taxpayer members of the group is referred to as intrastate apportionment. The rules for those computations are contained in CCR section 25106.5(c)(7). The California net income of each member is then computed, taking into account its apportioned share of the unitary group business income or loss plus any income from a business wholly conducted in California. California source non-business income or loss, and allowable California net operating loss carryovers are accounted for in order to determine taxable income.

Even though unitary business income is geographically apportioned on the basis of a combined report, each taxpayer member of a combined group is subject to its own tax liability. The minimum franchise tax and alternative minimum tax are applied on an individual entity basis, as are net operating losses and most tax credits. A taxpayer's non-business income or losses may only be offset against the California business income apportioned to that taxpayer. When separate Notices of Proposed Assessment are issued, each Notice must reflect only the tax deficiency for that particular taxpayer.

Since unitary business income is combined and apportioned on a group basis, it is necessary to further apportion the California income among the taxpayer members of the group. This process is referred to as intrastate apportionment.

Intrastate apportionment schedules showing the separate tax liabilities for all taxpayers in the combined report are generally required for all cases. Exceptions will only be

permitted in those rare occasions where the data necessary to compute intrastate apportionment is no longer available. You should explain the reasons for not preparing intrastate apportionment computations in the audit narrative.

If the information necessary to intrastate apportion the self-assessed tax is not disclosed in the tax return itself, then you should attempt to reconstruct the intrastate apportionment using the best available information supplied by the taxpayer or obtained during the audit. If the data needed to intrastate apportion the previously assessed tax cannot otherwise be developed, then you should credit the previously assessed tax in a manner, which is reasonable under the circumstances. These procedures are explained in [FTB Legal Ruling 95-2](#). An acceptable approach was approved by the SBE in the *Appeal of First Pacific Bancorp*, 95-SBE-013, November 9, 1995.

Computation of intrastate apportionment:

An explanation of intrastate apportionment computations is found in FTB Publication 1061. Basically, combined California business income is divided among corporations having activities in this state in accordance with the ratio that the California factors of each corporation bears to the total factors of the group.

FTB Publication 1061 also contains an example. The PASS audit schedules will perform these calculations.