

Instructions for Form 100S

California S Corporation Franchise or Income Tax Return

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2001**, and to the California Revenue and Taxation Code (R&TC).

What's New/Tax Law Changes

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. Therefore, California has conformed to the income tax changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206), the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Surface Transportation Revenue Act of 1998 (Public Law 105-178), the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369), the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and to technical corrections made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). However, there are continuing differences between California and Federal law. California has not conformed to some of the law changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) or the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147). **Note:** Fiscal year taxpayers are subject to California tax law as it conforms to federal law that is applicable for taxable years beginning prior to January 1, 2002.

For the 2002 taxable year only, no addition to tax shall apply with respect to any underpayment of estimated tax to the extent the underpayment of an installment was created or increased by any provisions of law enacted or amended by an act chaptered during the 2002 calendar year. To request a waiver of underpayment of estimated tax penalty, see form FTB 5806, Underpayment of Estimated Tax by Corporations.

For taxable years beginning on or after January 1, 2002, California no longer allows a federal S corporation to elect to be a California C corporation. Therefore, for the taxable year beginning in 2002, and thereafter, any corporation with a valid federal S corporation election is considered an S corporation for California purposes. The effective date of the election is the first day of the corporation's taxable year beginning in 2002.

California allows these corporations to request a portion of their 2002 taxable year's estimated tax payments be transferred to the personal income tax accounts of their shareholders. Transfers are allowed only for S corporation taxable year beginning in 2002, and only if the total amount to be transferred is at least \$500. For more information, see form FTB 3833, Application for Transfer of S Corporation 2002 Overpayments to Shareholders.

Corporations that elect to be an S corporation for federal purposes on or after January 1, 2002, and have a California filing requirement are deemed to make the California S election on the same date as the federal election.

S Corporations are no longer required to attach form FTB 3830, S corporation's List of Shareholders and Consents, if the S corporations have one or more nonresident shareholders or trusts with nonresident fiduciaries.

For taxable years beginning on or after January 1, 2002, California law conforms to the federal law relating to:

- Employer deductions for Vacation and Severance Pay. For purposes of determining whether an item of compensation is deferred compensation (under IRC Sec. 404), the compensation is not "paid" or "received" until actually received by the employee. In addition, an item of deferred compensation is not "paid to an employee" until actually received by the employee.
- Trade receivables arising out of the sale of nonfinancial goods and services that are held by the taxpayer or a related person at all times since they were issued are not eligible for mark-to-market treatment.
- The denial of the deduction for lobbying activities, club dues, and employee remuneration in excess of one million dollar.
- The deduction for contributions of appreciated property. Contributions of appreciated property are no longer treated as tax preference item for purposes of Alternative Minimum Taxable Income.

For taxable years beginning in 2002 and 2003, California has suspended the Net Operating Loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses is not affected by the NOL suspension rules.

The carryover period for suspended losses is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003. For more information, get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitation - Corporations.

For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, and form FTB 3805V, Net Operating Loss (NOL) Computation and NOL

Disaster Loss Limitations - Individuals, Estates, and Trusts.

The authority of the Wildlife Conservation Board to award Natural Heritage Preservation Tax Credits has been suspended between July 1, 2002, and June 30, 2003, inclusive. Thus, any credits that were allocated before June 30, 2002, may be claimed on the 2002 tax return. Any credits that could have been allocated, but were not allocated, or any new credits that are allocated on or after July 1, 2003, could be claimed on the 2003 tax return, or subsequent tax returns. Carryover is not affected for previously awarded credits, credits awarded before June 30, 2002, or any credits allocated on or after July 1, 2003.

California has conformed to the federal Job Creation Act of 2002 provision that affects discharge of indebtedness of an S corporation. This provision provides that income from the discharge of indebtedness of an S corporation that is excluded from the S corporation's income is not taken into account as an item of income by any shareholder and thus does not increase the basis of any shareholder's stock in the S corporation. This provision would apply for California purposes to discharges of indebtedness after December 31, 2001, in taxable years ending after that date. The provision would not apply to any discharge of indebtedness before March 1, 2002, pursuant to a plan of reorganization filed with a bankruptcy court on or before October 11, 2001.

California law has not conformed to federal law regarding the additional 30% first-year depreciation allowance for qualified property or the additional 30% first-year depreciation allowance for Qualified New York Liberty Zone property as added by the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

For taxable years beginning on or after January 1, 2002, if the corporation's total receipts (see page 44 of the instructions) for the taxable year **and** total assets at the end of the taxable year are less than \$250,000, the S corporation is not required to complete Schedules L and M-1. However, this information must be available in the future upon request.

Important Information

• Check Out Your CPA

The California Board of Accountancy (CBA) licenses and regulates individual Certified Public Accountants and Public Accountants, as well as accountancy firms and corporations, in California.

If you currently use or are thinking about using a Certified Public Accountant or Public Accountant for tax preparation or

other services, the California Board of Accountancy can:

- Verify online or by telephone that the CPA, PA, or firm has a current license to practice.
- Provide information about any disciplinary actions taken against the license.
- Answer your questions about whether a particular service or activity of a licensee is regulated by the CBA.
- Provide you with the information and forms to file a complaint against an individual or business regulated by the CBA. Complaints can be submitted online, by mail, facsimile, or at the Board office.

Web: www.dca.ca.gov
Email: enforcementinfo.ca.gov
Telephone: (916) 263-3680
Fax: (916) 263-3675
Mail: California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

- You can download, view, and print California tax forms, instructions, publications, and FTB Notices and Rulings dated after 1995 from our Website www.ftb.ca.gov. Information about other state agencies can be accessed through the State Agency Index located on the California State Website: www.ca.gov.
- A shareholder's pro-rata share of income from an S corporation is treated the same as a partner's distributive share of income from a partnership. The income is treated as if it was realized directly from the source. Income from California sources is subject to California tax law. *Valentino et. al. v. Franchise Tax Board* (March 23, 2001) 87 Cal. App. 4th 1284.
- In *Ceridian v. Franchise Tax Board* (2000) 85 Cal.App.4th 875, the Court of Appeal determined that R&TC Section 24410, that provides a limited deduction for dividends received from an insurance company, is unconstitutional. As such, the statute is invalid and unenforceable. Therefore, the deduction is not available.
- Nonresidents who had tax withheld may use the withholding as a credit against tax when they file a California tax return. R&TC Section 18662 requires buyers to withhold income taxes when purchasing California real property from corporate sellers with no permanent place of business in California immediately after the transfer. For more information, get FTB Pub. 1016.
Sellers of California real estate must attach copy B of Form 597, Nonresident Withholding Tax Remittance Statement For Real Estate Sales, to their tax return as proof of withholding.

If you need to verify withholding payments, you may call the Nonresident Withholding at Source Section at: toll free (888) 792-4900 or (916) 845-4900.

California law conforms to federal law for the following provisions:

- Disallowing the deduction for club membership fees and employee remuneration in excess of \$1 million.
- Disallowing the deduction for lobbying expenses.
- Tax-exempt organizations may be shareholders in an S corporation.
- Family farm corporations with income over \$25 million may defer tax on income that was a result of changes in accounting methods required of these corporations. For calendar year taxpayers, the suspense account for these deferrals must be recaptured starting with taxable years beginning on or after January 1, 1998. For fiscal year taxpayers, the suspense account must be recaptured starting in taxable years beginning after June 8, 1997, if the fiscal year taxpayer's taxable year ends on or after December 31, 1997.
- Certain environmental remediation expenditures that would otherwise be chargeable to capital accounts may be expensed and taken as a deduction in the year the expense was paid or incurred. An election to expense environmental remediation costs for federal purposes is considered to be an election for state purposes and a separate election is not allowed.
- For purposes of inventory accounting, an adjustment for shrinkage, based on an estimate, may be made. Taxpayers can voluntarily change their method of accounting if the method currently being used does not utilize estimates of inventory shrinkage and the taxpayer now wishes to use that method.
- Required recognition of gain on certain appreciated financial positions in personal property.
- Allows securities traders and commodities traders and dealers to elect to use mark-to-market accounting similar to what is currently required for securities dealers. Commodities would include only commodities of a kind that are dealt with in the organized commodities exchange. An election to use the mark-to-market method for federal purposes is considered an election for state purposes and a separate election is not allowed.
- Limitation on exception for investment companies under IRC Section 351.
- For certain contributions of ordinary income and capital gain property, the IRC Section 170(e)(1) limitation is modified so that, in the case of charitable contribution of stock in an S corporation, rules similar to IRC Section 751 (relating to unrealized receivables and inventory items) apply in determining whether gain on the stock was long-term, if stock was sold by the S corporation.
- If an Employee Stock Ownership Plan (ESOP) is an S corporation shareholder, items of income or loss of the S corporation that flow through to the ESOP are not treated as unrelated business taxable income (UBTI). Previously, such items were treated as UBTI.
- S corporations which establish and maintain ESOPs are not required to give participants the right to demand distributions in the form of employer securities, if the participants have the right to receive such distributions in cash.
- An IRC Section 338 election, relating to stock purchases treated as asset acquisitions, is treated as an election for state purposes. A separate election for state purposes is not allowed.
- Expansion of deduction for certain interest and premiums paid for company-owned life insurance.
- Modification of holding period applicable to dividends received deduction.
- Repeal of special installment sales rule for manufacturers of tangible personal property.
- Required registration for abusive tax shelters.
- If for any taxable year beginning on or after January 1, 1987, a corporation failed to qualify as an S corporation solely because it did not file a timely federal Form 2553, Election by a Small Business Corporation, the S corporation shall be treated as an S corporation for California purposes for the taxable year in which the federal election was originally made and for each subsequent taxable year if both the following conditions are met:
 1. The corporation and all of its shareholders reported their income for California tax purposes on original returns consistent with S corporation status for the year the S corporation election should have been made, and for each subsequent taxable year (if any) until terminated; and
 2. The corporation and its shareholders filed a federal Form 2553 with the IRS requesting automatic relief with respect to the late S corporation election in full compliance with federal Rev. Proc. 1997-48 I.R.B. 1997-43 and the S corporation received notification of acceptance of the untimely filed S corporation election from the IRS. The S corporation shall provide a copy of the notification to the FTB upon request.
- Payment of estimated tax for closely held REITs and income and services provided by REIT subsidiaries.

California law does not conform to federal law for the following:

- The additional 30% first-year depreciation allowance for qualified property.
- Decreased capital gains tax rate.
- Certain special tax rules relating to employee stock ownership plans (ESOPs) will not apply with respect to S corporation stock held by the ESOP. These include

rules relating to certain contributions to ESOPs, the deduction for dividends paid on employer securities, and the rollover of gain on the sale of stock to an ESOP. See IRC Sections 404(a)(9) and 404(k) for more information.

- Accelerated depreciation for property on Indian reservations.
- The treatment of Subpart F and Section 936 income.
- Temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil or gas well property.

Records Maintenance Requirements

Any taxpayer filing on a water's-edge or worldwide basis is required to keep and maintain records and make available upon request the following:

- Any records needed to determine the correct treatment of items reported on the worldwide or water's-edge combined report for purposes of determining the income attributable to California;
- Any records needed to determine the treatment of items as nonbusiness or business income;
- Any records needed to determine the apportionment factor; and
- Documents and information needed to determine the attribution of income to the U.S. or foreign jurisdictions under IRC Subpart F, IRC Section 882, or other similar provisions of the IRC.

See R&TC Section 19141.6 and the related regulations for more information. A corporation may be required to authorize an agent to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504.

Note: For information about the Power of Attorney, go to our Website:

www.ftb.ca.gov

The penalty for failure to maintain the above required records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the Franchise Tax Board (FTB) notifies the S corporation of the failure, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed. See General Information M, Penalties, for more information.

General Information

Form 100S is used if a corporation has elected to be a small business corporation (S corporation).

All federal S corporations subject to California laws must file Form 100S and pay the greater of the minimum franchise tax or the 1.5%

income or franchise tax. The tax rate for financial S corporations is 3.5%.

The taxable income of the S corporation is calculated two different ways for two different purposes. First, it is calculated in the same manner as for C corporations, with certain modifications, for purposes of computing the 1.5% income or franchise tax. Second, it is calculated using federal rules for the pass-through of income and deductions, etc. for purposes of pass-through to the shareholders.

Note: A corporation that makes a valid election to be treated as an S corporation is not allowed to be included in a combined report of a unitary group, except as provided by R&TC Section 23801(d)(1).

A Franchise or Income Tax

Corporation franchise tax

Entities subject to the corporation minimum franchise tax include all S corporations that are:

- Incorporated or organized in California;
- Qualified or registered to do business in California; or
- Doing business in California, whether or not incorporated, organized, qualified, or registered under California law.

The measured franchise tax is imposed on S corporations doing business in California and is measured by the income of the current taxable year for the privilege of doing business in that taxable year.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit.

The minimum franchise tax must be paid whether the S corporation is active, inactive, not doing business in CA, or operates at a loss.

Note: An S corporation incorporated in California, but not doing business in this state, is not subject to the measured franchise tax. In the case of an S corporation incorporated in California or qualified with the California Secretary of State (SOS) but not doing business in this state, careful attention should be given to the term "doing business." It is not necessary that the S corporation conducts business or engages in transactions within the state on a regular basis. Even an isolated transaction during the year may be enough to cause the S corporation to be "doing business."

Corporation income tax

The corporation income tax is imposed on all S corporations that derive income from sources within California but are not doing business in California.

For purposes of the corporation income tax, the term "corporation" is not limited to incorporated entities, but also includes:

- Associations;
- Massachusetts or business trusts;
- Real estate investment trusts; and

- Other business entities classified as associations under Title 18 Cal. Code Reg. Sections 23038(b)-1 through 23038(b)-3.

B Tax Rate and Minimum Franchise Tax

Tax rate

The tax rate for S corporations that are subject to either the franchise or the income tax is 1.5%. The tax rate for built-in gains, and excess net passive income is 8.84%.

Financial S corporations are required to use a rate of 2% above the S corporation rate. See R&TC Section 23186.

Minimum franchise tax

All S corporations subject to the corporation franchise tax and any S corporation "qualified" to do business in California must file Form 100S and pay at least the minimum franchise tax as required by law. The minimum franchise tax is \$800 and must be paid whether the S corporation is active, inactive, operates at a loss, or files a return for a short period of less than 12 months.

Note: For corporations that incorporate or qualify through the California SOS to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the SOS is no longer required. For the first taxable year, the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to qualified Subchapter S subsidiaries or corporations that are not qualified by the California SOS, or reorganize solely to avoid payment of the minimum franchise tax.

There is no minimum franchise tax for:

- Corporations that derive income from sources within California but are subject only to income tax because they are not "doing business" in California, and are not incorporated or qualified under the laws of California. For more information regarding "doing business," get FTB Pub. 1050, Application and Interpretation of Public Law 86-272; FTB Pub. 1060, Guide for Corporation Starting Business in California; or FTB Pub 1063, Guide for Corporations that May Be Subject to the Provisions of the California Corporation Tax Law;
- Credit unions;
- Exempt homeowners' associations;
- Exempt political organizations;
- Qualified non-profit farm cooperative associations;
- Exempt organizations;
- Corporations that are not incorporated under the laws of California; whose sole activities in California are engaging in convention and trade show activities for seven or fewer days during the income year; and do not derive more than \$10,000 of gross income reportable to California

during the taxable year. These S corporations are not "doing business" in California. For more information, get FTB Pub. 1060, Guide for Corporations Starting Business in California or FTB Pub. 1063, Guide for Corporations that May Be Subject to the Provisions of the California Corporation Tax Laws; and

- Newly formed or qualified corporations filing an initial return for taxable years beginning on or after January 1, 2000.

Alternative minimum tax

S corporations are not subject to the alternative minimum tax.

C Elections and Terminations

Elections

Starting January 1, 2002, corporations that elect federal S corporation status and have a California filing requirement, are deemed to have made a California S election effective on the same date as the federal S election.

Terminations

Terminating the taxpayer's federal S election simultaneously terminates its California S election.

If the taxpayer terminates its S corporation status, short period returns are required for the S corporation short year and the C corporation short year, if applicable.

D Accounting Period and Method

The taxable year of the S corporation must not be different from the taxable year used for federal purposes, unless initiated or approved by the FTB (R&TC Section 24632).

A change in accounting method requires consent from the FTB. However, an S corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to make a change in its accounting method without prior approval, and does so, is deemed to have the FTB's approval if: (1) the S corporation files a timely Form 100S consistent with the change for the first year the change is effective, and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change must be attached to Form 100S for the first year the change becomes effective. See FTB Notice 2000-8 for more information. The FTB may modify requested changes if the adjustments would distort income for California purposes.

If the corporation is a bank, savings and loan association, or financial corporation, it cannot use the bad debt reserve method of accounting and elect to be, or continue to be, an S corporation for taxable years beginning on or after January 1, 1997. However, the S corporation status can be maintained or elected if the corporation changes its accounting method from the bad debt reserve

method to the specific write-off method. Get FTB Notice 98-3, for more information.

Note: California is not following the automatic consent procedure for a change of accounting method involving previously unclaimed allowable depreciation or amortization of Federal Revenue Procedure 96-31. Get FTB Notice 96-3, for more information.

E When to File

File Form 100S by the 15th day of the 3rd month after the close of the taxable year unless the return is for a short period as required under R&TC Section 24634. Generally, the due date of a short period return is the same as the due date of the federal short period return. See R&TC Section 18601(c) for the due date of the short period return. Farmers' cooperative associations must file Form 100S by the 15th day of the 9th month after the close of the taxable year.

See General Information O, Dissolution/Withdrawal, and General Information P, Ceasing Business, for information on final returns.

F Extension of Time to File

If an S corporation cannot file its California tax return by the 15th day of the 3rd month after the close of the taxable year, it may file on or before the 15th day of the 10th month, without filing a written request for an extension. If the S corporation is suspended on the original due date, the automatic extension will not apply.

An automatic extension does not extend the time for payment. The full amount of tax must be paid by the original due date of Form 100S. If there is an unpaid tax liability on the original due date, get form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations, (included in this booklet) and send it with the payment by the original due date of the Form 100S.

Note: If the corporation must pay its tax liability using Electronic Funds Transfer (EFT), all taxes due **must** be remitted by EFT to avoid penalties. Do not send form FTB 3539.

G Electronic Funds Transfer (EFT)

Corporations or exempt organizations that meet certain requirements must remit all of their payments through EFT rather than by paper checks to avoid the 10% non-compliance EFT penalty. Corporations or exempt organizations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 must remit all of their payments through EFT. The FTB will notify corporations or exempt organizations that are subject to this requirement. Those that do not meet these requirements and wish to participate on a voluntary basis may do so. If you are an EFT taxpayer, complete the form

FTB 3539 worksheet for your records. DO NOT SEND THE PAYMENT VOUCHER. For more information, go to our Website: www.ftb.ca.gov, call (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

H Where to File

If tax is due, and the corporation is not required to use EFT, make the check or money order payable to the Franchise Tax Board. Write the California corporation number and "2002 Form 100S" on the check or money order. Mail the return and payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0501

Mail all other returns, including those with payment by EFT to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See federal Form 1120S, U.S. Income Tax Return for an S Corporation, for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

Caution: Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

Private Mailbox (PMB) Number

If the S corporation leases a PMB from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

I Net Income Computation

The computation of net income from trade and business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100S. There are two ways to complete Form 100S, the federal reconciliation method or the California computation method.

1. Federal reconciliation method

- a. Attach a copy of federal Form 1120S, page 1, U.S. Income Tax Return for an S Corporation, and all pertinent supporting schedules, or transfer the information from federal Form 1120S, page 1, to Form 100S, Side 2, Schedule F and attach all pertinent supporting schedules;
- b. Enter the amount of federal ordinary income (loss) from trade or business activities before any net operating loss (NOL) on Form 100S, Side 1, line 1; and

- c. Enter the state adjustments (including any adjustments necessary to report items not included in ordinary trade or business income or loss) on line 2 through line 14, to arrive at net income after state adjustments, Side 1, line 15.

See the specific line instructions for more information.

2. Schedule F – California computation method

If the S corporation has no federal filing requirement, or if the S corporation maintains separate records for state purposes, complete Form 100S, Side 2, Schedule F, Computation of Trade or Business Income, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 22, to Form 100S, Side 1, line 1. Complete Form 100S, Side 1, line 1 through line 14, only if applicable.

Note: Regardless of the net income computation method used, the corporation must attach any form, schedule, or supporting document referred to on the return, and schedules or forms filed with FTB.

Substitution of federal schedules

S corporations may not substitute federal schedules for California schedules.

J Built-in Gains

When a C corporation elects to be an S corporation, certain items of gain or loss recognized in S corporation years are subject to the C corporation 8.84% tax rate instead of the S corporation 1.5% tax rate (financial S corporations add 2%).

Built-in gains under current IRC Section 1374

For those S corporations that made the initial federal S election after December 31, 1986, certain income items reported by the S corporation are taxed at 8.84% (or the financial C corporation tax rate). This provision applies for a period of ten years following the C corporation's election to become an S corporation. The amount of built-in gain that is taxed at 8.84% (or the financial C corporation tax rate) is the excess of recognized built-in gains over recognized built-in losses, limited by taxable income as determined under IRC Section 1374(d)(2)(A). The following items are treated as built-in gains subject to this tax:

- Accounts receivable of cash basis taxpayers from C corporation years;
- Long-term contract deferred income from C corporation years;
- Deferred income from installment sales made in C corporation years;
- Recapture of depreciation from C corporation years;
- Income from unreplaced LIFO inventory from C corporation years; and

- Any other income item that is attributable to C corporation years.

(These are just a few of the examples. This list is not intended to be all inclusive.)

K Estimated Tax

California law has conformed to the federal expanded annualization periods for the computation of estimate payments.

For taxable years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

Every S corporation, must pay estimated tax using Form 100-ES, Corporation Estimated Tax.

Estimated tax is generally due and payable in four installments:

- The 1st payment is due on the 15th day of the 4th month of the taxable year (note that this payment may not be less than the minimum franchise tax, plus QSub annual tax, if applicable); and
- The 2nd, 3rd, and 4th installments are due and payable on the 15th day of the 6th, 9th, and 12th months, respectively, of the taxable year.

Caution: If no amount is due, **DO NOT** mail Form 100-ES.

Get the instructions for Form 100-ES for more information.

Note: If the corporation must pay its tax liability using EFT, all estimate payments due **must** be remitted by EFT to avoid the EFT penalty.

L Commencing S Corporations

For taxable years beginning on or after January 1, 2000, no minimum tax is required for the first taxable year if the corporation incorporated or registered through the California SOS. For more information, see General Information B, Minimum Franchise Tax, or get FTB Pub. 1060, Guide for Corporations Starting Business in California.

M Penalties

Failure to file a timely return

Any S corporation that fails to file a Form 100S on or before the due date is assessed a penalty. The penalty is 5% of the tax due, after any timely payments or credits, for each month of delinquency, not to exceed 25% of the unpaid tax. If the S corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return.

See R&TC Section 19131, for more information.

Failure to pay total tax by the due date

Any S corporation that fails to pay the total tax shown on Form 100S by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months) the

tax remains unpaid. This penalty may not exceed 25% of the unpaid tax.

See R&TC Section 19132, for more information.

Note: If an S corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be imposed, but the total will not exceed 25% of the unpaid tax.

Underpayment of estimated tax

Any S corporation that fails to pay, pays late, or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment for the underpayment period.

Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

See R&TC Section 19142, 19144, 19145, 19147, 19148, 19149, 19150, 19151, and 19161, for more information.

Note: If the S corporation uses Exception B or Exception C to compute or eliminate any of the four installments, form FTB 5806 must be attached to the **front** of Form 100S and the box on Side 1, line 40b, should be checked.

EFT Penalty

If the S corporation must pay its tax liability using EFT, all payments must be remitted by EFT to avoid the EFT penalty. The EFT penalty is 10% of the amount not paid by EFT. See R&TC Section 19011 and General Information G, Electronic Funds Transfer (EFT), for more information.

Information reporting penalties

For taxable years beginning on or after January 1, 1997, U.S. taxpayers that have an ownership interest in (directly or indirectly) a foreign corporation and were required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(s) to the California return. The penalty for failure to include a copy of federal Form(s) 5471, as required, is \$1,000 per required form for each year the failure occurs. The penalty applies for taxable years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(s) of Form 5471 to all returns filed for subsequent years.

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100S. The penalty for failing to include Form(s) 5472, as required, is \$10,000 per required form for each year the failure occurs.

See R&TC Section 19141.5 for more information.

If the S corporation does not file its Form 100S by the due date or extended due date, whichever is later, copies of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copies indicating the taxpayer's name, California corporation number, and taxable year. Mail to the same address used for returns without payments. See General Information H, Where to File. When the S corporation files Form 100S, also attach copies of the federal Form(s) 5472.

Record maintenance penalties

The penalty for failure to maintain certain records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the S corporation of the failure, in general, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be charged.

See "Important Information" starting on page 3 for a discussion of the records required to be maintained. See R&TC Section 19141.6 and the related regulations for more information.

Accuracy and fraud related penalties

California conforms to IRC Sections 6662 through 6665 that authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment and the imposition of a fraud penalty equal to 75% of the related underpayment. See R&TC Section 19164 for more information.

Secretary of State penalty

The California Corporations Code requires the FTB to assess a penalty for failure to file an annual statement of corporate officers with the California SOS. See R&TC Section 19141.

For more information, contact the:

CALIFORNIA SECRETARY OF STATE
PO BOX 944230
SACRAMENTO CA 94244-2300
Telephone: (916) 657-3537

Other penalties

Other penalties may be imposed for a check or EFT returned for insufficient funds, non-U.S. foreign corporations operating while forfeited or without qualifying to do business in California, and domestic corporations operating while suspended in California. See R&TC Sections 19134 and 19135 for more information.

N Interest

Interest is due and payable on any tax due if not paid by the original due date of Form 100S. Interest is also due on some penalties. The automatic extension of time to file Form 100S does not stop interest from accruing. California follows federal rules for

the calculation of interest. Get FTB Pub. 1138, Refund/Billing Information, for more information.

O Dissolution/Withdrawal

The franchise tax for the period in which the S corporation formally dissolves or withdraws is measured by the income of the year in which it ceased doing business in California, unless such income has already been taxed at the rate prescribed for the taxable year of dissolution or withdrawal.

An S corporation that is a successor to a corporation that commenced doing business in California before January 1, 1972, is allowed a credit that may be refunded in the year of dissolution or withdrawal. The amount of the refundable credit is the difference between the minimum franchise tax for the corporation's first full 12 months of doing business and the total tax paid for the same period.

To claim this credit, enter the amount on Form 100S, Side 1, line 34. To the left of line 34, write "Dissolving/ Withdrawing."

The return for the final taxable period is due on or before the 15th day of the 3rd full month after the month during which the S corporation formally dissolved or withdrew.

Get FTB Pub. 1149, Terminating a Corporation, for more information.

To get samples and/or forms for filing a dissolution, surrender, or merger agreement, address your request to:

ATTN: LEGAL REVIEW
CALIFORNIA SECRETARY OF STATE
1500 11TH ST 3RD FLOOR
SACRAMENTO CA 95814-5701
Telephone: (916) 657-5448

P Ceasing Business

A special tax computation is necessary when an S corporation ceases to do business in California. For taxable years beginning after December 31, 1972, and before January 1, 2000, the tax for the final year in which the S corporation does business in California is determined:

- According to or measured by its net income for the next preceding taxable year; PLUS
- Its net income for the taxable year during which the corporation ceased doing business.

For taxable years beginning on or after January 1, 2000 (other than the first taxable year beginning on or after that date), the tax for the final year in which the S corporation does business in California is:

- According to or measured by its net income for the taxable year during which the corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum tax.

For more information, see R&TC Section 23151.1.

The unreported income on installment obligations, the distribution of notes, and the distribution of corporate assets (land, buildings) at a gain must be included in income in the year of cessation. There is no federal law counterpart regarding this issue.

For more information, see R&TC Sections 24672 and 24451.

Note: FTB will complete the final year or special tax computation approximately one year after dissolution/cessation of business.

Generally, the S corporation will remain subject to the minimum franchise tax for each year it is in existence until a decree of dissolution is made and entered by the California SOS. See General Information O, Dissolution/Withdrawal, and R&TC Sections 23331 through 23335 for more information.

Q Suspension/Forfeiture

If an S corporation fails to file Form 100S and/or fails to pay any tax, penalty, or interest due, its powers, rights, and privileges may be suspended (in the case of a domestic S corporation) or forfeited (in the case of a foreign S corporation).

S corporations that operate while suspended or forfeited are subject to a \$2,000 penalty per taxable year, which is in addition to any tax, penalties, and interest already accrued. Also, any contracts entered into during suspension or forfeiture are voidable at the request of any party to the contract other than the suspended or forfeited corporation.

Such contracts will remain voidable and unenforceable unless the S corporation applies for relief from contract voidability and the FTB grants relief.

See R&TC Sections 19135, 19719, 23301, 23305.1, and 23305.2 for more information.

R Apportionment of Income

S corporations with business income attributable to sources both within and outside of California are required to apportion such income. To calculate the apportionment percentage, use Schedule R, Apportionment and Allocation of Income. Be sure to answer Question P on Form 100S, Side 2.

Note: A corporation that has made a valid election to be treated as an S corporation is generally not included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation. See R&TC Section 23801(d)(1).

S Excess Net Passive Investment Income

California conforms to IRC Section 1375 for taxable years beginning on or after January 1, 1987. If an S corporation does not have excess net passive investment income for federal purposes, then the S corporation

will not have excess net passive investment income for California purposes.

If at the close of the taxable year, an S corporation has undistributed earnings and profits – defined in IRC Section 1362(d)(3) – from previous years as a C corporation and has passive investment income that represents more than 25% of total gross receipts, then the S corporation may be subject to a tax on the excess net passive investment income (R&TC Section 23811).

If an S corporation has an 80% or greater ownership stake in a C corporation, dividends received from that C corporation are not treated as passive investment income, for purposes of IRC Sections 1362 and 1375, if the dividends are attributable to the earnings and profits of the C corporation derived from the active conduct of a trade or business.

T Water's-Edge Reporting

For taxable years beginning on or after January 1, 2000, C corporations filing on a water's-edge basis are required to use Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, to file their California tax return. S corporations filing on water's-edge basis should continue to file Form 100S.

For taxable years beginning on or after January 1, 1988, taxpayers may elect to compute income attributable to California on the basis of a water's-edge election. In general, affiliated foreign corporations are excluded from the combined report.

To make the water's-edge election, an S corporation should enter into a contract with the FTB by filing Form 100-WE, Water's-Edge Contract. For the election to be valid for any taxable year, Form 100-WE should be signed and attached to the original Form 100S. A copy should be attached to all subsequent returns filed during the contract period.

In consideration for being allowed to file on a water's-edge basis, the S corporation must, among other things:

- File returns on a water's-edge basis for a period of 84 months;
- Agree to business income treatment of dividends received from certain corporations; and
- Consent to the taking of certain depositions and the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

Get Form 100W, Water's-Edge Booklet, for more information.

U Amended Return

To correct or change a previously filed Form 100S, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. File Form 100X within six months after the corporation filed an amended federal return or

after the final federal determination, if the Internal Revenue Service (IRS) examined and changed the corporation's federal return.

V Information Returns

Every S corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns which report the amount of these payments.

Payments that must be reported include, but are not limited to, compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties and pensions exceeding \$600 annually, interest and dividends exceeding \$10 annually, and cash payments over \$10,000 received in a trade or business. Payments of any amount by a broker or barter exchange must also be reported.

S corporations must report payments made to California residents by providing copies of federal Form 1099. Reports must be made for the calendar year and are due to the IRS no later than February 28th of the year following payment. S corporations must also submit federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

S corporations must report interest paid on municipal bonds held by California taxpayers and issued by a state other than California, or a municipality other than a California municipality. Entities paying interest to California residents on these types of bonds are required to report interest payments aggregating \$10 or more and paid after January 1, 2002. Information returns are due June 1, 2003. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information, for more information.

California conforms to the information reporting requirements of IRC Section 6045(f) for certain payments made to attorneys. If the S corporation has complied with the requirements for federal purposes, the S corporation will be treated as having complied with the requirements for California purposes and no penalty will be imposed.

California conforms to the information reporting requirements imposed under IRC Sections 6038, 6038A, and 6038B. Any information returns required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. Required federal information returns should be attached to the Form 100S when filed. If these information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

For any information returns being filed separate from the tax return, mail to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

W Preparer Tax Identification Number

Tax preparers have the option of providing their individual Social Security Number (SSN) or Preparer Tax Identification Number (PTIN) on returns they prepare. Preparers who want a PTIN must complete and submit federal Form W-7P, Application for Preparer Tax Identification Number, to the IRS.

X Net Operating Loss (NOL)

For taxable years beginning in 2002 and 2003, California has suspended the NOL carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses is not affected by the NOL suspension rules.

The carryover period for suspended losses is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003. For more information, get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitation – Corporations.

For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, and form FTB 3805V, Net Operating Loss (NOL) Computation and NOL Disaster Loss Limitations – Individuals, Estates, and Trusts.

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by qualified corporations.

R&TC Sections 24416 through 24416.7 and 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area designated by the President of the United States or the Governor of California as a disaster area. Losses taken into account under the disaster provisions may not be included in computing regular NOL deductions.

For more information, get form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations (included in this booklet); form FTB 3805D, Net Operating Loss (NOL) Computation and Limitation – Pierce's Disease; form FTB 3805Z, Enterprise Zone Business Booklet; form FTB 3806, Los Angeles Revitalization Zone Booklet; form FTB 3807, Local Agency Military Base

Recovery Area Booklet; or form FTB 3809, Targeted Tax Area Business Booklet.

Y At-Risk Rules

California S corporations are subject to IRC Section 465 relating to the at-risk rules. For more information, see federal Form 6198, At-Risk Limitations. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

Z Passive Activity Loss Limitation

California S corporations generally follow IRC Section 469 and the regulations thereunder that allow losses from passive activities to be applied only against income from passive activities.

California differs from federal law in that rental real estate activities of taxpayers engaged in a real property business are still treated as a passive activity.

California law also differs from federal law in that the passive activity loss rules are applied at both the S corporation level and at the shareholder level. The passive activity loss rules must be applied in determining the net income of the S corporation that will be taxed using the 1.5% tax rate. Subsequent to the income and deductions flowing through to the shareholders, the rules are again applied in determining the net income of the shareholder. Treatment at the shareholder level is the same as the federal treatment prior to January 1, 1994.

The passive activity loss rules apply to the S corporation as if it were an individual (i.e., losses from passive activities may not be used to offset other income, except for \$25,000 in losses from rental real estate). However, when determining whether the S corporation materially participates in the activity, the material participation rules that apply to a "closely held C corporation" should be applied to the S corporation. For more information, see IRC Section 469(h)(4).

S corporations must use form FTB 3801, Passive Activity Loss Limitations, to compute the allowable net loss from passive activities.

AA Passive Activity Credits

S corporation credits subject to the passive activity credit limitation rules include:

- Research credit;
- Low-income housing credit;
- Targeted jobs credit carryover; and
- Clinical testing expense credit carryover.

Get form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

BB Tax Credits

If a C corporation had unused credit carryovers when it elected S corporation status, the carryovers were reduced to 1/3 and transferred to the S corporation. The remaining 2/3 were disregarded. The allowable carryovers

may be used to offset the 1.5% tax on net income in accordance with the respective carryover rules. These C corporation carryovers may not be passed through to shareholders. Refer to Schedule C (100S), S Corporation Tax Credits, included in this booklet.

S corporations may generate credits from both the Corporation Tax Law and the Personal Income Tax Law. Follow the guidelines below:

- If a credit listed on page 14 is allowed only under the Corporation Tax Law, 1/3 of the credit may be used to offset the S corporation tax or may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. No part of the credit may be passed through to the shareholders.
- If the credit is allowed only under Personal Income Tax Law, the full credit may be passed through to the shareholders. No part of the credit may be used by the S corporation to offset the S corporation tax or to be carried over.
- If a credit is allowed under both the Corporation Tax Law and Personal Income Tax Law, the S corporation may use 1/3 of the credit to offset the S corporation tax or it may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. The full amount of the credit, as calculated under the Personal Income Tax Law, may also be passed through to the shareholders.

Credits and credit carryovers may not reduce the minimum franchise tax, the QSub annual tax(es), built-in gains tax, excess net passive income tax, credit recaptures, the increase in tax imposed for the deferral of installment sale income, or an installment of LIFO recapture tax.

CC Group Nonresident Shareholder Return

Nonresident individual shareholder of an S corporation doing business in California may elect to file a group nonresident return on Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

Note: S Corporations are required to withhold income tax on certain distributions to nonresident shareholders and the nonresident shareholders must file Long Form 540NR to claim the withholding even if there are no filing requirements.

DD Qualified Subchapter S Subsidiary (QSub)

California has conformed to the sections of the IRC that allow an S corporation to own a QSub. A QSub is a domestic corporation that is not an ineligible corporation, i.e., it must be eligible to be an S corporation as defined by IRC Section 1361(b)(2). In addition, 100% of

the stock of the subsidiary must be held by the S corporation parent and the parent must elect to treat the subsidiary as a QSub. A QSub is not treated as a separate entity and all assets, liabilities, and items of income, deduction, and credit of the QSub are treated as belonging to the parent S corporation. The activities of the QSub are treated as activities of the parent S corporation.

An election made by the parent S corporation under IRC Section 1361(b)(3) to treat the corporation as a QSub for federal purposes is treated as a binding election for California purposes. A separate election is not filed for California.

The federal election is made on federal Form 8869, Qualified Subchapter S Subsidiary Election. For information on making the election, get IRS Notice 97-4, 1997-1 C.B. 351. California requires that an S corporation parent attach a copy of the Form 8869 for each QSub doing business or qualified to do business in California to the return for the taxable year during which the QSub election was made. California follows the federal transitional relief procedures for perfecting a QSub election.

A QSub is subject to an \$800 annual tax which is paid by the S corporation parent. The QSub annual tax is due and payable when the S corporation's first estimated tax payment is due. If the QSub is acquired, or a QSub election is made during the taxable year, the QSub annual tax is due with the S corporation's next estimated tax payment after the date of the QSub election or acquisition. The QSub annual tax is subject to the estimated tax rules and penalties.

An S corporation that owns a QSub does not file a combined return. Instead, the QSub is disregarded, and the activities, assets, liabilities, income, deductions, and credits of the QSub are considered to be the assets, liabilities, income, and credits of the S corporation. If the QSub is not unitary with the S corporation, then it is treated as a separate division and separate computations must be made to compute business income and apportionment factors for the QSub and the S corporation, and to apportion to California the business income of each.

An S corporation parent must complete the Schedule QS, Qualified Subchapter S Subsidiary Information Worksheet on page 35 and attach it to the Form 100S for each taxable year in which a QSub is acquired or a QSub election is made.

Specific Line Instructions

Filing Form 100S without errors will expedite processing. Before mailing Form 100S, make sure entries have been made for:

- California corporation number (seven digits);
- Federal employer identification number (FEIN) (nine digits); and

- Corporation name and address (include PMB no.; if applicable).

File the 2002 Form 100S for calendar year 2002 and fiscal years that begin in 2002.

Enter taxable year beginning and ending dates **only** if the return is for a short year or a fiscal year. If the S corporation reports its income using a calendar year, leave the date area blank. If the return is filed for a short period (less than 12 months), write "short year" in red in the top margin on Form 100S, Side 1. Convert all foreign monetary amounts to U. S. dollars.

Note: The 2002 Form 100S may also be used if:

- The corporation has a taxable year of less than 12 months that begins and ends in 2003; **and**
- The 2003 Form 100S is not available at the time the corporation is required to file its return. The S corporation must show its 2003 taxable year on the 2002 Form 100S and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2002.

Caution: California law is different from federal law. California taxes S corporations under Chapter 2 (commencing with R&TC Section 23101) or Chapter 3 (commencing with R&TC Section 23501) of the Corporation Tax Law.

Questions A through P

Answer all applicable questions. Be sure to answer Questions E through P on Form 100S, Side 2. Note the following instructions when answering:

Question A – Final Return

Get FTB Pub 1149, Terminating a Corporation, for more information.

Question B – Transfer or acquisition of voting stock

All S corporations **must** answer Question B. If the answer is "Yes," a "Statement of Change in Control and Ownership of Legal Entities" (BOE-100-B) must be filed with the State Board of Equalization, or substantial penalties may result. Forms and information may be obtained from the Board of Equalization at (800) 400-7115.

Answer "Yes" to Question B if:

- The percentage of outstanding voting shares of this S corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively surpassed 50% during this year; or
- The total percentage of voting shares transferred to **one** irrevocable trust cumulatively surpassed 50% this year; or
- One or more irrevocable proxies transferred voting rights to more than 50% of the outstanding shares to **one** person or **one** entity during this year; or
- This S corporation's cumulative ownership or control of the stock or other ownership

interest in any legal entity surpassed 50% during this year; or

- Cumulatively more than 50% of the total outstanding shares of this S corporation have been transferred or changed ownership or control this year.

R&TC Section 64(e) requires this information for use by the California State Board of Equalization.

Question C – Principal business activity (PBA) code

All S corporations **must** answer Question C.

Include the six digit PBA code from the chart found on page 44 through page 46 of this booklet.

The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California code number may be different from the federal code number.

If, as its principal business activity, the corporation: (1) purchases raw material; (2) subcontracts out for labor to make a finished product from the raw materials; and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes under "Manufacturing." Also, write in the business activity and principal product or service on the lines provided.

Question E – Does this return include Qualified Subchapter S Subsidiaries (QSubs)?

Answer "Yes" if the S corporation owns a QSub. Refer to the instructions for line 22 and line 32 to report the QSub annual tax. Be sure to complete Schedule QS (QSub Information Worksheet) on page 35 of this booklet and attach the Worksheet to Form 100S when filed.

Line 1 through Line 41

Line 1 – Ordinary income (loss) from trade or business

S corporations using federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120S, line 21 to Form 100S, Side 1, line 1 and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120S, page 1, onto Form 100S, Side 2, Schedule F and transfer the amount from Schedule F, line 22, to Form 100S, Side 1, line 1.
- Then, complete Form 100S, Side 1, line 2 through line 14, State Adjustments.

S corporations using the California computation to figure ordinary income (see General Information I, Net Income Computation) must transfer the amount from Form 100S, Side 2, Schedule F, line 22, to line 1. Complete

Form 100S, Side 1, line 2 through line 14, only if applicable.

Line 2 through Line 14 – State adjustments

To figure net income for California purposes, corporations using the federal reconciliation method (see General Information I, Net Income Computation) must enter California adjustments to the federal net income on line 2 through line 14. If a specific line for the adjustment is not on Form 100S, enter the adjustment on line 7, Other additions, or line 13, Other deductions, and attach a schedule.

Line 2 – Taxes not deductible

California law does not permit a deduction for California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Add these taxes to income on line 2. Examples of these taxes are California's minimum franchise tax, the 1.5% income or franchise tax, and the environmental taxes imposed by IRC Section 59A.

Line 3 – Interest on government obligations

S corporations subject to the California franchise tax must report interest received on government obligations even though it may be exempt from state or federal individual income tax. This interest must be added to income on line 3. See line 13 instructions for S corporations subject to the California corporation income tax.

Line 4 – Net capital gain

Enter on this line any net capital gain subject to the 1.5% tax rate (3.5% for financial S corporations) shown on Schedule D (100S), Section B, and any gains subject to the 8.84% tax rate (10.84% for financial S corporations) shown on Schedule D (100S), Section A, line 3a and line 6a.

Line 5 – Depreciation and amortization

Depreciation for S corporations follows the depreciation rules provided under California Personal Income Tax Law. Unlike other corporations, an S corporation is allowed to compute depreciation using the Modified Accelerated Cost Recovery System (MACRS). Complete Schedule B (100S) for assets subject to depreciation and for assets subject to amortization. Enter the total of Schedule B, Part III, on Form 100S, Side 1, line 5.

Line 6 – Portfolio income

Enter on this line net portfolio income not included in line 1 but that must be included in the S corporation's net income for computing the 1.5% tax. Include interest, dividends, and royalties. Do not include any passive activity amounts on this line. Instead, include passive activity amounts on line 7 or line 13.

Line 7 – Other additions

R&TC Section 24425 disallows expenses allocable to income, which is not in the measure of the Franchise Tax or Income Tax. Add back such deductions on this line.

Also, include on this line other items not added on any other line to arrive at California net income. Attach a schedule that clearly

shows how each item was computed and explain the basis for the adjustment.

If a federal contribution deduction was taken in arriving at the amount entered on line 1, include that amount in the computation of line 7. See line 11, Contributions.

Enter any passive activity income on line 7.

California ordinary net gain or loss

Before entering the amount from Schedule D-1, line 18, determine whether the gain is subject to built-in gains tax. If the gain is subject to built-in gains tax, enter the amount on Schedule D (100S), Part III so the built-in gains tax can be computed, and enter the difference between the amount on Schedule D-1, line 18 and the amount subject to built-in gains tax on Form 100S, Side 1, line 7. See General Information O, Dissolution/Withdrawal.

Line 9 and Line 10 – Dividends

See instructions for Schedule H (100S), Dividend Income Deduction, included in this booklet.

Line 11 – Contributions

The contribution deduction for California corporations is limited to the adjusted basis of the assets being contributed.

For taxable years beginning on or after January 1, 1996, the contribution deduction is 10% of California net income, without regard to charitable contributions and special deductions (e.g., the deduction for dividends received). The definition of California net income differs from federal taxable income for computing the contribution deduction.

Per IRC Section 170(d)(2), five-year carryover provisions shall apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100S format, complete Form 100S, Side 1, line 1 through line 15 (without regard to line 11). If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as an addition on line 7 of the Form 100S formatted worksheet. Enter the adjusted basis of the assets contributed on line 5 of the worksheet below. Then complete the worksheet below to determine the contribution deduction to enter on line 11.

1. Net income after state adjustments from Side 1, line 15 _____
2. Deduction for dividends received. _____
3. Net income for contribution calculation purposes. Add line 1 and line 2 _____
4. Allowable contributions. Multiply line 3 by 10% (.10) _____
5. Enter the amount actually contributed _____
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 11 _____

Get Schedule R, Apportionment and Allocation of Income, to figure the contribution computation for apportioning corporations.

Line 12 – Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), or Targeted Tax Area (TTA) business expense and/or net interest deduction

Businesses conducting a trade or business within an EZ, LAMBRA, or TTA may **elect** to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z, form FTB 3807, or form FTB 3809.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business inside an EZ. For more information, get form FTB 3805Z.

Be sure to attach form FTB 3805Z, form FTB 3807, or form FTB 3809 if any of these benefits are claimed. If the proper form is not attached, these tax benefits may be disallowed.

Line 13 – Other deductions

Include on this line deductions not claimed on any other line. Attach a schedule that clearly shows how each deduction was computed and explain the basis for the deduction.

Include in the computation for line 13 any passive activity loss. Also enter any IRC Section 179 expense from Schedule B (100S), line 5.

For S corporations subject to income (and not franchise) tax, interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 3, deduct it on this line.

Federal ordinary net gain or loss

Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property, line 18, if the amount is included in income on line 1.

Line 16 – Net income (loss) for state purposes

If all the S corporation income is derived from California sources, transfer the amount from line 15 to line 16.

If only a portion of income is derived from California sources, complete Schedule R, before entering any amount on line 16. Transfer the amount from Schedule R, line 24, to this line. Be sure to answer "Yes" to Question P on Form 100S, Side 2.

Note: For S corporations with business income from prior years or multiple Schedule Rs from separate trade or businesses, combine the amounts on line 24 from all Schedule Rs, and enter the total on line 16.

If this line is a net loss, complete and attach the 2002 form FTB 3805Q to Form 100S.

Line 17 – R&TC Section 23802(e) deduction

If the S corporation has a tax imposed on excess net passive investment income and built-in gains, a deduction is allowed against the net income taxed at the 1.5% rate. See the "Excess Net Passive Income and Income Tax Worksheet," included on page 13 to determine if the S corporation is subject to the tax on excess net passive investment income. If a tax is shown on this worksheet, enter the amount of excess net passive income from line 8 of the worksheet on Form 100S, Side 1, line 17.

For purposes of the built-in gains tax, enter the amount from Schedule D (100S), Section A, Part III, line 11.

Line 18 – Net operating loss (NOL) carryover deduction

California has suspended the NOL carryover deduction for taxable years beginning in 2002 and 2003.

Line 19 – Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction

California has suspended the NOL carryover deduction for Pierce's disease, EZ, LARZ, TTA, or LAMBRA for taxable years beginning in 2002 and 2003.

Line 20 – Disaster loss carryover deduction

If the S corporation has a disaster loss carryover, enter the total amount from Part III, line 2 of the 2001 FTB 3805Q only if the corporation has income in the current year.

Line 22 – Tax

S corporations must use a tax rate of 1.5%. Financial S corporations must use the financial tax rate of 3.5%. The tax on line 22 may not be less than the sum of the minimum franchise tax and QSub annual tax(es), if applicable. See General Information B, Tax Rate and Minimum Franchise Tax.

If the S corporation is the parent of a QSub subject to the annual tax and paid the \$800 annual tax on behalf of such QSub, add the total amount of QSub annual tax(es) to the tax on net income or the minimum franchise tax, whichever is applicable, and enter the result on line 22. Use the QSub Information Worksheet on page 35 of this booklet.

Example 1: Corporation A, an S corporation, is the parent of three QSubs, B, C, & D. QSub B & C are either incorporated or qualified to do business in California. QSub D is not incorporated, doing business, or qualified to do business in California. Corporation A is subject to the minimum Franchise tax of \$800 and \$1,600 of QSub annual tax for QSub B and C.

Example 2: Beta Corporation, an S corporation, is the parent of three QSubs. Only one of the QSubs is qualified and doing business in California. Beta Corporation reports net income for California tax purposes on line 21 of \$100,000. Tax on net income is \$1,500. On line 22, Beta Corporation will report tax of \$2,300. The \$2,300 includes tax on net

income of \$1,500 plus \$800 of QSub annual tax payments for one QSub. Beta corporation is not required to pay the QSub tax on the two QSubs not doing business in California.

Line 23 through Line 25 – Tax credits

Credits may be used to reduce the California tax liability, however, credits may not be used to reduce the tax on line 22 to an amount less than the sum of the minimum franchise tax plus the QSub annual tax(es), if applicable. Also, the S corporation is allowed to claim only 1/3 of the total credit generated against the 1.5% franchise tax. See General Information AA, Passive Activity Credits, and BB, Tax Credits.

Complete and attach the applicable credit form for each credit claimed to Form 100S. For any carryover credits only, complete form FTB 3540, Credit Carryover Summary. See page 14 for a list of available credits.

Transfer the credit(s) from the respective credit forms to Schedule C (100S) to compute the amount of credit to claim on Form 100S. Then transfer the credit(s) from Schedule C (100S) to Form 100S. Each credit is identified by a code number. To claim one or two credits, enter the credit name, code number, and the amount of the credit on line 23 and line 24. Enter the total of any remaining credits from Schedule C (100S) on line 25. Do not make an entry on line 25 unless line 23 and line 24 are complete.

Attach all credit forms, schedules, and Schedule C (100S) to Form 100S.

Line 28 – Tax from Schedule D (100S)

S corporations must enter the tax from Schedule D (100S) (included in this booklet). See General Information J, Built-in Gains, for more information.

Line 29 – Excess net passive income tax

If the corporation has always been a S corporation for California purposes or has no federal excess net passive investment income, the excess net passive investment income tax does not apply. See General Information S, Excess Net Passive Investment Income, for more information.

To determine if the S corporation owes this tax, complete line 1 through line 3 and line 9 of the “Excess Net Passive Income and Income Tax Worksheet” below. If line 2 is greater than line 3 and the S corporation has taxable income, it must pay the tax. Complete a separate schedule using the format of line 1 through line 11 of the worksheet below to figure the tax. Enter the tax from line 11 of the worksheet on Form 100S, Side 1, line 29. Attach the schedule showing the computation. Reduce each item of passive income passed through to shareholders by its pro-rata share of the tax on line 29. See IRC Section 1366(f)(3) and R&TC Section 23803(b)(2).

R&TC Section 23811(e) provides a deduction for C corporation earnings and profits attributable to California sources for any taxable year by the amount of a consent dividend paid after the close of the taxable year. The amount of the consent dividend is limited to the difference between the C corporation earnings and profits attributable to California sources and the C corporation earnings and profits for federal purposes.

Line 32 – 2002 estimated tax payments

Enter the total amount of estimated tax payments made during the 2002 taxable year on line 32. If the S corporation is the parent of a QSub and made payments for the QSub annual tax, include the total amount of QSub annual tax payment made during 2002 on line 32 along with the total estimated tax payments. See General Information DD, Qualified Subchapter S Subsidiary (QSub), for more information. Be sure to complete the Schedule QS Information Worksheet on page 35 of this booklet and attach it to the return.

Line 33 – 2002 Nonresident Withholding

If the corporation was withheld upon, enter the 2002 nonresident withholding credit that was not allocated to the shareholders. Attach any Form 592-B, Form 594, or Form 597 that the corporation received from the withholding entity to the front of Form 100S, Side 1.

Line 36 and Line 37 – Tax due or overpayment

In addition to any amount entered on line 36 or line 37, tax due or overpayment, also include any amounts required to be included from Schedule J, Add-On Taxes or Recapture of Tax Credits. See Schedule J instructions for more information.

Line 38 – Amount to be credited to 2003 estimated tax

If the corporation chooses to have the overpayment credited to next year’s estimated tax payment, the corporation cannot later request that the overpayment be applied to the prior year to offset any tax due.

Line 39 – Refund

Direct Deposit of Refund (DDR)

Direct deposit is fast, safe, and convenient. To have the refund directly deposited into the corporation’s bank account, enter the account information on Form 100S, Side 1, line 39a, 39b, and 39c. Please be sure to fill in all the information.

Do not attach a voided check or deposit slip. The illustration on page 15 shows which bank numbers to transfer to the preprinted areas on Form 100S, Side 1, line 39a, 39b, and 39c.

To cancel the DDR, call FTB at (800) 852-2753.

FTB is not responsible when a financial institution rejects a direct deposit. If the bank or financial institution rejects the direct deposit due to an error in the routing number or account number, FTB will issue a paper check.

Line 40 – Penalties and interest

Enter on line 40a the amount of any penalties and interest due.

Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, to the front of Form 100S only if Exception B or Exception C is used to compute or eliminate the penalty. Be sure to check the box on line 40b.

(continued on page 15)

Excess Net Passive Income and Income Tax Worksheet

1 Enter gross receipts for the taxable year (see IRC Section 1362(d)(3)(B) for gross receipts from the sale of capital assets)*	1		
2 Enter passive investment income as defined in IRC Section 1362(d)(3)(C)*	2		
3 Enter 25% (.25) of line 1. If line 2 is less than line 3, the corporation is not liable for this tax	3		
4 Excess passive investment income. Subtract line 3 from line 2	4		
5 Enter expenses directly connected with the production of income on line 2. See IRC Section 1375(b)(2)*	5		
6 Net passive income. Subtract line 5 from line 2	6		
7 Divide the amount on line 4 by the amount on line 2	7		
8 Excess of net passive income. Multiply line 6 by line 7. See instructions on line 11 below	8		
9 Enter taxable income**	9		
10 Enter the smaller of line 8 or line 9	10		
11 Excess net passive income tax. Enter 8.84% (financial S corporations must use 10.84%) of line 10 here and on Form 100S, Side 1, line 29. (If an amount is entered here, go to line 8 above and carry the line 8 amount to Form 100S, line 17.)	11		

* Income and expenses on line 1, line 2, and line 5 are from total operations for the taxable year. This includes applicable income and expenses from Form 100S, Side 1. See IRC Sections 1362(d)(3)(C) and 1375(b)(4) for exceptions regarding line 2 and line 5.

** Taxable income is defined in federal Treas. Regulations Section 1.1374-1A(d). Figure taxable income by completing line 1 through line 17 of Form 100, California Corporation Franchise or Income Tax Return. Clearly mark “ENPI Taxable Income” on the Form 100 computation and attach it to Form 100S.

CREDIT NAME	CODE	DESCRIPTION
Current Credits		
Community Development Financial Institution Deposits – Obtain certification from: CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, STE 1460 SACRAMENTO CA 95814	209	20% of a qualified investments made into a community development financial institution
Disabled Access for Eligible Small Businesses – FTB 3548	205	Similar to the federal credit, but limited to \$125 per eligible small business, and based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: 30% of the cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery – FTB 3546	203	1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for enterprise zone businesses
Farmworker Housing – Construction	207	50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing
Farmworker Housing – Loan Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM, CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 916 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814	208	Banks and financial corporations: 50% of foregone interest income on qualified farmworker housing loans
Joint Strike Fighter Wages – FTB 3534	215	50% of qualified wages paid or incurred in taxable years beginning on or after January 1, 2001, not to exceed \$10,000 for each qualified employee, or a proportional amount for an employee who is employed by the taxpayer for only part of the taxable year
Joint Strike Fighter Property Costs – FTB 3534	216	10% of the cost of property placed in service in California for ultimate use in a joint strike fighter
Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for LAMBRA
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturers' Investment – FTB 3535	199	6% of the cost of qualified property
Manufacturing Enhancement Area – FTB 3808	211	Hiring Credit for Manufacturing Enhancement Area
Natural Heritage Preservation – FTB 3503	213	55% of the fair market value of the qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government.
Prior Year Alternative Minimum Tax – FTB 3510	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in the current year
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Rice Straw Obtain certification from: DEPARTMENT OF FOOD AND AGRICULTURE 1220 N STREET, ROOM 409 SACRAMENTO CA 95814	206	\$15 per ton of rice straw grown in California
Solar or Wind Energy System – FTB 3508	217	A credit equal to the lesser of 15% of the net cost paid to purchase and install a solar energy system for the production of electricity, or the \$4.50 per rated watt of generating capacity of that system.
Targeted Tax Area (TTA) Hiring & Sales or Use Tax – FTB 3809	210	Business incentives for TTA businesses
Repealed Credits with Carryover Provisions		
Agricultural Products	175	The expiration dates for these credits have passed. However, these credits had carryover provisions. You may claim these credits if there is a carryover available from prior years. If you are not required to complete Schedule P (100), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.
Commercial Solar Electric System	196	
Commercial Solar Energy	181	
Contribution of Computer Software	202	
Employer Ridesharing – Large employer	191	
Employer Ridesharing – Small employer	192	
Employer Rideshare – Transit	193	
Energy Conservation	182	
Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	159	
Low Emission Vehicles	160	
Orphan Drug	185	
Recycling Equipment	174	
Ridesharing	171	
Salmon & Steelhead Trout Habitat Restoration	200	
Solar Energy	180	
Solar Pump	179	
Technology Property Contributions	201	



Tip

Do not use a deposit slip to find the bank numbers. Contact your financial institution for assistance in getting the correct routing number.

The diagram shows a check from John Doe and Mary Doe, 1234 Main Street, Anytown, CA 99999. The check is payable to the order of \$1234.00. The bank is ANYTOWN BANK, Anytown, CA 99999. The routing number is 250250025 and the account number is 202020. A note indicates that the check number 1234 should not be included. The MICR line at the bottom is ⑆250250025⑆ 202020 ⑆1234⑆.

Schedules

Schedule B (100S)

Use Schedule B (100S) to calculate depreciation and amortization for California purposes. Effective January 1, 1998, California law conforms to federal law regarding the income forecast method and the exemption of limits on depreciation for incremental costs of clean fuel vehicles.

California generally conforms to the provisions of IRC Section 197 for amortization of intangibles for taxable years beginning on or after January 1, 1994. However, there may be differences in the federal and California amounts for intangible assets acquired in taxable years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

California did not allow depreciation under the federal accelerated cost recovery system (ACRS) for years prior to 1987. California also does not allow depreciation under MACRS for assets placed in service while the corporation was taxable as a C corporation. This is a change of accounting method for which the taxpayer must request FTB's consent.

S corporations must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Get form FTB 3885, Corporation Depreciation and Amortization, to determine how to continue depreciating these assets. The following were the most common methods used to calculate depreciation for years prior to 1987:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

For assets placed in service in 1987 and after, S corporations may use the same method for California as was used for federal purposes. S corporations conducting a trade or business inside an EZ, a LAMBRA, or a TTA may elect to treat a portion of the cost of qualified property as a business expense in the first year it is placed in service. This expense deduction is in lieu of the IRC Section 179 expense deduction. For more information, get form FTB 3805Z, form FTB 3807, or form FTB 3809.

Schedule C (100S)

Use Schedule C (100S) to determine the allowable amount of credits to claim on the 2002 Form 100S and the credit carryover to future years. For more information, see General Information Z, Passive Activity Loss Limitation, AA, Passive Activity Credits, and BB, Tax Credits.

Note: The amount entered in column (a) must be limited to 1/3 the amount of the total credit.

Schedule D (100S)

Schedule D (100S) is divided into Section A and Section B. Use Section A to report all built-in gains subject to the 8.84% tax rate (10.84% for financial S corporations). Use Section B to report all other capital gains subject to the 1.5% tax rate (3.5% for financial S corporations). See General Information J, Built-in Gains, for more information.

Note: Use California amounts when computing gain from like-kind exchanges on federal Form 8824.

Section A

Part I and Part II

S corporations use Part I to report and summarize gains and losses attributable to: (1) sale or exchange of capital assets; and (2) gains on distributions to shareholders of appreciated assets that are capital assets. Be sure to use the California basis for all assets when computing the gain or loss. See the instructions for federal Schedule D (Form 1120S), for more information.

Line 2 and Line 5

Use California amounts when figuring the amount to enter for short or long-term capital gains or losses from like-kind exchanges from federal Form 8824.

Part III

Line 7

To determine if the S corporation is subject to tax on built-in gains, see the instructions for federal Schedule D (Form 1120S) and General Information J, Built-in Gains in this booklet.

Apportioning corporations only:

All recognized built-in gains and all recognized built-in losses apportioned and allocated to California must be included on line 7.

Line 9

If the S corporation:

- Filed its election to be an S corporation after 1986;
- Was a C corporation before it elected to be an S corporation, or acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation; and
- Has a California net unrealized built-in gain as defined in IRC Section 1374(d)(1), that is in excess of the California net recognized built-in gain from prior years;

Then compute the California net unrealized built-in gain reduced by the California net recognized built-in gain from prior years.

On line 9, enter the smaller of line 7, line 8, or the amount computed above.

Line 10

For taxable years beginning in 2002 and 2003, California has suspended the NOL carryover deduction.

Section B

Use Section B, Part I and Part II to report the sale or disposition of all capital assets acquired as an S corporation or which are not reported in Section A. For more information, see the instructions for federal Schedule D (Form 1120S).

Schedule F

See General Information I, Net Income Computation, for information on net income computation methods.

Line 1a-line 6 – Income

Report only income or loss from trade or business activity on line 1a through line 6. Do not report any rental activity or portfolio income or loss on these lines. Rental activity and portfolio income or loss are reported on Form 100S, Side 1, line 7 or line 13; Schedules K (100S); and K-1 (100S). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corpora-

tion. Attach a copy of federal Form 8825 to Form 100S.

Line 7 – Compensation of Officers

If the S corporation's total receipts are \$150,000 or more, complete and attach a schedule showing the compensation of officers. On the schedule list:

- Name of officer;
- Social security number of officer;
- Percentage of time devoted to the business;
- Percentage of stock owned; and
- Amount of compensation.

Also show the calculation of compensation of officers deducted:

- Total compensation of officers, minus
- Compensation of officers claimed in the cost of goods sold schedule and elsewhere on the return.

Line 8 – Salaries and wages

Gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised after 1996 and before 2002, can be excluded from gross income if the individual's earned income is \$40,000 or less. The exclusion from gross income is subject to the alternative minimum tax and the S corporation is not allowed a deduction for the compensation excluded from the employee's gross income.

Schedule J

Complete Schedule J if the S corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for:

- LIFO recapture resulting from an S corporation election;
- Interest computed under the look-back method for completed long-term contracts;
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations; or
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible.

Revise the tax due or overpayment on Form 100S, line 36 or line 37, as appropriate, by the amount from Schedule J, line 6.

LIFO recapture tax

If the S corporation computed the LIFO recapture tax in the final year as a C corporation, include on Schedule J, line 1, any LIFO installment due this taxable year.

Long-term contracts

If the S corporation must compute interest under the look-back method for completed long-term contracts, complete form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, and include the amount of interest the S corporation owes or the amount of interest to be credited or refunded to the S corporation on Schedule J, line 2. Attach form FTB 3834 to Form 100S. If interest is to be credited or refunded, enter as a negative amount.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots

If the S corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3) (R&TC Section 24667), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information. Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain nondealer installment obligations

If an obligation arising from the disposition of property to which IRC Section 453A (R&TC Section 24667) applies is outstanding at the close of the taxable year, the corporation must include the interest due under IRC Section 453A(c) on Schedule J, line 3b. Attach a schedule showing the computation. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information.

IRC Section 197(f)(9)(B)(ii) election

Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

Credit recaptures

Complete Schedule J, line 5, if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit;
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary;
- FTB 3807 Local Agency Military Base Recovery Area Deduction and Credit Summary;
- FTB 3808, Manufacturing Enhancement Area Credit Summary;
- FTB 3809, Targeted Tax Area Deduction and Credit Summary; or
- FTB 3535 Manufacturers' Investment Credit.

Also complete Schedule J, line 5, if the corporation is subject to recapture of

- The Farmworker Housing Credits;
- The Joint Strike Fighter Credit for Property Costs;
- The Community Development Financial Institution Deposits Credit; or
- The Solar or Wind Energy System Credit.

Schedule K and Schedule K-1

Shareholders' share of income, deductions, credits, etc.

Purpose of schedules

Schedule K (100S) is a summary schedule of all the shareholders' shares of the S corporation's income, deductions, credits, etc. Schedule K-1 (100S) shows each shareholder's separate share of pass-through items and adjusted basis. Use federal Schedule K and Schedule K-1 (Form 1120S)

as a basis for preparing California Schedule K and Schedule K-1 (Form 100S).

Note: Amounts on Schedule K-1 (100S) may not add up to amounts reflected on Form 100S, Side 1 amounts because Side 1 calculates tax at the S corporation level while Schedule K-1 (100S) amounts are calculated using different rules.

Attach one copy of each Schedule K-1 (100S) to the Form 100S filed with the FTB. Keep one copy of each Schedule K-1 (100S) for the S corporation's records, and give each shareholder a copy of Schedule K-1 (100S) on or before the due date of Form 100S.

Note: Be sure to give each shareholder a copy of either the Shareholder's Instructions for Schedule K-1 (100S) (included in this booklet) or specific instructions for each item reported on the shareholder's Schedule K-1 (100S).

Substitute forms

You need approval from the FTB to use a substitute Schedule K-1 (100S). The substitute schedule must include the Shareholder's Instructions for Schedule K-1 (100S) or other prepared specific instructions. For more information, get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms.

Special reporting requirements for passive activities

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (100S), the S corporation must attach a statement to Schedule K-1 (100S) for each activity that is a passive activity to the shareholder. Rental activities are passive activities to all shareholders. Trade or business activities are passive activities to shareholders who do not materially participate in the activity.

The attachment must include all the information explained in the instructions for federal Schedule K-1 (Form 1120S).

Specific Line Instructions

Item A through Item E (Schedule K-1 (100S) only)

To ensure correct processing of Schedule K-1 (100S), answer all items that are appropriate.

Item A and Item B (Schedule K-1 (100S) only)

See the instructions for Item A and Item C of federal Schedule K-1 (Form 1120S).

Income

Line 1 – Ordinary income (loss) from trade or business activities

Enter in column (c) any California adjustments to ordinary income that do not need to be separately stated. Include in this column the adjustment to add back the minimum franchise tax or the 1.5% tax deducted for federal purposes.

Line 2 – Net income (loss) from rental real estate activities

Enter the net income and expenses of any rental real estate activity of the S corporation. If the S corporation has more than one rental real estate activity reported on these lines, attach a separate schedule or use Schedule K-1 (100S), line 23 to list the income or loss from each activity, plus any other information required under the rules for passive activities. Attach form FTB 3801, Passive Activity Loss Limitations, to Form 100S.

Line 3a, Line 3b, and Line 3c – Net income (loss) from other rental activities (Schedule K (100S) only)

Enter the net income and expenses of other rental activities not listed on line 2 above. If the S corporation has more than one rental activity reported on these lines, attach a separate schedule listing the income or loss from each activity, plus any other information required under the rules for passive activities.

Line 4a through Line 4f – Portfolio income (loss)

Portfolio income (loss) is any gross income from interest, dividends, annuities, or royalties that is not derived in the ordinary course of business. Portfolio income must be separately accounted for as such. Portfolio income also includes gains or losses from the sale or other disposition of property (other than an interest in a passive activity) producing portfolio income or held for investment.

Line 4a, Line 4b, and Line 4c – Interest, dividend, and royalty income

Enter only taxable interest, dividend, and royalty income that is portfolio income.

Line 4d and Line 4e – Net capital gain (loss)

Enter on line 4d and line 4e the amount of capital gains and losses that is portfolio income (loss). If any of the income (loss) is not portfolio income (loss), include it on line 6.

Line 4f – Other portfolio income (loss)

Enter any other portfolio income (loss) not entered on line 4a through line 4e.

Line 5 – Net gain (loss) under IRC Section 1231

The amount for line 5 comes from Schedule D-1, Sales of Business Property. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report these gains or losses on line 6.

If the S corporation has more than one activity and the amount on line 5 is a passive activity amount to the shareholder, attach a statement to Schedule K-1 (100S) (or use Schedule K-1 (100S), line 23) to identify to which activity the IRC Section 1231 gain (loss) relates.

Line 6 – Other income (loss)

Enter any other item of income or loss not included on line 1 through line 5, such as:

- a. Wagering gains and losses. See IRC Section 165(d).
- b. Recovery of tax benefit items. See IRC Section 111.
- c. Any gain or loss where the S corporation was a trader or dealer in IRC Section 1256 contracts or property related to such contracts. See IRC Section 1256(f).
- d. Net gain (loss) from involuntary conversions due to casualty or theft.
- e. Loss(es) from qualified low-income housing projects for shareholders that are qualified investors.
- f. Eligible gain from the sale or exchange of qualified small business stock (defined in R&TC Section 18152.5). Also report on an attachment to Schedule K (100S) and Schedule K-1 (100S) the name of the corporation that issued the stock and the adjusted basis of that stock.

Note: The exclusion allowed under R&TC Section 18152.5 for small business stock is not allowed for an S corporation but is allowed for the shareholder.

Deductions**Line 7 – Charitable contributions**

Enter the total amount of charitable contributions made by the S corporation during its taxable year on Schedule K (100S) and each shareholder's distributive share on Schedule K-1 (100S). On an attachment to each schedule, separately show the dollar amount of contributions subject to each of the 50%, 30%, and 20% of adjusted gross income limits.

A resident shareholder is allowed a deduction for contributions to a qualified organization as provided in IRC Section 170.

Line 8 – Expense deduction for recovery property

The amount of expense deduction for recovery property that can be claimed from all sources will vary depending on the type of property and the year of designation. For more information, see IRC Section 179 and R&TC Sections 17201, 17267.2, 17267.6, and 17268.

Line 9 – Deductions related to portfolio income (loss)

Enter on this line the deductions allocable to portfolio income (loss) other than interest expenses. Generally, these deductions are IRC Section 212 expenses and are subject to IRC Section 212 limitations at the shareholder level. However, interest expense related to portfolio income (loss) is generally investment interest expense and is reported on line 11a.

Investment Interest**Line 11a through Line 11b(2)**

These lines must be completed whether or not a shareholder is subject to the investment interest rules.

Line 11a – Interest expense on investment debts

Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on Schedules K and K-1 (100S), line 11a rather than Schedules K and K-1 (100S), line 9. Investment interest does not include interest expense allocable to a passive activity. A passive activity is a rental activity or a trade or business activity in which the shareholder does not materially participate.

Property held for investment includes a shareholder's interest in a trade or business activity that is not a passive activity to the shareholder and in which the shareholder does not materially participate. An example would be a shareholder's working interest in oil and gas property (i.e., the shareholder's interest is not limited) if the shareholder does not materially participate in the oil and gas activity.

The amount on line 11a will be reflected (after applying the investment interest expense limitations) by individual shareholders on their Schedule CA (540 or 540NR), California Adjustments.

For more information, get form FTB 3526, Investment Interest Expense Deduction.

Line 11b(1) and Line 11b(2) – Investment income and expenses

Enter on line 11b(1) only the investment income included on Schedules K and K-1 (100S), line 4a, line 4b, line 4c, and line 4f. Enter on line 11b(2) only the investment expense included on Schedules K and K-1 (100S), line 9.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the shareholder on Schedule K-1 (100S), such as net short-term capital gain or loss, net long-term gain or loss and other portfolio gains or losses, give each shareholder a schedule identifying these amounts. See the instructions for Form 1120S, for more information on portfolio income.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income.

Get form FTB 3526 for more information.

Credits

Line 12a – Low-income housing credit

R&TC Section 23610.5 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. The credit is generally effective for buildings placed in service after 1986. If the shareholders are eligible to claim the low-income housing credit, attach a copy of form FTB 3521, Low-Income Housing Credit, to Form 100S and to each shareholder's Schedule K-1 (100S).

Line 12b – Credits related to rental real estate activities

Report any information that the shareholder needs to figure credits related to a rental real estate activity other than the low-income housing credit. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

Line 12c – Credits related to other rental activities

Use this line to report information that the shareholder needs to figure credits related to a rental activity other than a rental real estate activity. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

Line 13 – Other credits

Enter on an attached schedule each shareholder's allocable share of any credit or credit information reported on Schedule C (100S) that is related to a trade or business activity.

The following are examples of credits that may apply to each shareholder:

- Employer child care program/contribution credit (get form FTB 3501);
- Enterprise zone (EZ) hiring & sales or use tax credit (get form FTB 3805Z);
- Local agency military base recovery area (LAMBRA) hiring & sales or use tax credit (get form FTB 3807);
- Manufacturing enhancement area (MEA) hiring credit (get form FTB 3808);
- Targeted tax area (TTA) hiring and sales or use tax credit (get form FTB 3809);
- Research credit (get form FTB 3523); or
- Manufacturers' investment credit (get form FTB 3535).

Adjustments and Tax Preference Items

Line 14a through Line 14e

Enter the items of income and deductions that enter into each shareholder's computation of adjustments and tax preference items. A shareholder with alternative minimum tax items may be required to file Schedule P (540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations.

Get the instructions for federal Schedules K and K-1 (Form 1120S), Adjustments and Tax Preference Items, line 14a through line 14e, for more information.

Other State Taxes

Line 15a through Line 15e

Subject to certain conditions, shareholders may claim a credit against their individual tax for net income taxes paid by the S corporation to another state that either taxes the corporation as an S corporation or does not recognize S corporation status. For purposes of this credit, net income taxes include the shareholder's share of taxes on, according to, or measured by income. Enter the name of the other state(s), the income reported to the other state(s), and the amount of tax paid. Attach a copy of the return filed with the other state.

Residents are taxable on all their pro-rata share of income and generally receive a credit for taxes paid to other states. Nonresidents must use the amounts shown in column (e). See R&TC Sections 18001, 18002, and 18006 for more information.

Other

Line 16a through Line 19

Refer to the instructions for federal Schedules K and K-1 (Form 1120S).

Line 20 (Schedule K only)

Enter total distributions made to shareholders other than dividends reported on Schedule K, line 22. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

Line 21 (Schedule K only)

The S corporation may need to report supplemental information separately to each shareholder that is not specifically requested on the Schedule K-1 (100S).

Attach a schedule to the Schedule K showing the computation of those items that must be reported separately to shareholders including any credit recapture reported to shareholders on Schedule K-1, line 23.

Shareholders may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the S corporation. As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, adjustments, and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses. The S corporation can provide the shareholder's proportionate interest of aggregate gross receipts on Schedule K-1 (100S), line 23. For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the

production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062, Instructions for federal Schedule K (1020S), line 21, and Schedule K-1 (100S) instructions for more information.

Line 22 (Schedule K only)

Report the distribution amount made out of prior C corporation years accumulated earnings and profits (E&P). The corporation should issue a federal Form 1099-DIV to each of the shareholders reporting their proportionate distribution amounts.

Line 20 (Schedule K-1 only)

Report the distribution amount for each shareholder that was paid out of prior C corporation years accumulated earnings and profits (E&P). Each shareholder should receive a federal Form 1099-DIV reporting the proportionate distribution amount shown on Schedule K-1 (100S), line 20.

Line 21 (Schedule K-1 only)

Report the distribution amount for each shareholder for distributions other than dividends reported on Schedule K-1 (100S), line 20. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

Line 22 (Schedule K-1 only)

Report the amount of loan repayments the S corporation has made to each shareholder who has loaned the S corporation money.

Supplemental Information

Line 23 (Schedule K-1 only)

The S corporation will provide supplemental information required to be reported to each shareholder on this line.

The S corporation should provide an amount showing each shareholder's proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances, on Schedule K-1 (100S), line 23. See the instructions for Schedule K (100S), line 21.

Report the credit recapture amount on line 23 if the S corporation completed the credit recapture portion of form:

- FTB 3501, Employer Child Care Program/Contribution Credit; or
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary; or
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; or
- FTB 3535, Manufacturers' Investment Credit; or
- FTB 3809, Targeted Tax Area Deduction and Credit Summary; or

- FTB 3808, Manufacturing Enhancement Area Credit Summary; or
- FTB 3534, Joint Strike Fighter Credit; or
- FTB 3508, Solar Energy System Credit.

Also report the credit recapture amount on line 23 if the corporation is subject to recapture of:

- The Farmworker Housing Credits; or
- The Community Development Financial Institution Deposits Credit.

Also show on line 23 a statement showing each of the following:

1. Each shareholder's share of business income apportioned to an EZ, LAMBRA, MEA, or TTA; and
2. Each shareholder's pro-rata share of business capital gain or loss included in 1 above.

Table 1 and Table 2

Table 1 – Enter the shareholder's pro-rata share of nonbusiness income from intangibles. Because the source of this income must be determined at the shareholder level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short and long-term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

Nonbusiness income is all income other than business income. See definition of business income below.

Table 2 – In Part A, enter the shareholder's pro-rata share of the S corporation's business income. The shareholder will then add that income to its own business income and apportion the combined business income.

Business income is defined by Title 18 Cal. Code Reg. Section 25120(a) as income arising in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

In Part B, enter the shareholder's pro-rata share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

In Part C, enter the shareholder's pro-rata share of the S corporation's payroll, property, and sales factors.

Schedule L

If the corporation's total receipts (see page 44 of the instructions) for the taxable year **and** total assets at the end of the taxable year are less than \$250,000, the corporation is not required to complete Schedule L and Schedule M-1. However, this information must be available in the future upon request.

Line 23

Retained earnings include balances in the accumulated adjustments account (AAA), the other adjustments account, and other retained earnings.

Schedule M-1

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. If the corporation's total receipts (see page 44 of the instructions) for the taxable year **and** total assets at the end of the taxable year are less than \$250,000, the corporation is not required to complete Schedule L and Schedule M-1. However, this information must be available in the future upon request.

The federal and state Schedule M-1 may be the same when you use the federal reconciliation method for net income computation. See General Information I, Net Income Computation, for more information. The Schedule M-1 will be different if using the California computation method for net income. The California computation method is generally used when the S corporation has no federal filing requirement, or if the S corporation maintains separate records for state purposes.

Schedule M-2

The computation of the California AAA and Other Adjustments Account (OAA) is similar to the federal computation applying California amounts. Get the instructions for federal Form 1120S and IRC Section 1368 for additional information.

Column (a) – The AAA is an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation for the corporation's post-1986 years. S corporations with accumulated E&P from C corporation years must maintain the AAA to determine the tax effect of distributions during S corporation years and the post-termination transition period. An S corporation without accumulated E&P does not need to maintain the AAA in order to determine the tax effect of distributions. However, if an S corporation without accumulated E&P engages in certain transactions to which IRC Section 381(a) applies, such as a merger into an S corporation with accumulated E&P, the S corporation must be able to calculate its AAA at the time of the merger for purposes of determining the tax effect of post-merger distributions. Therefore, it is recommended that all S corporations maintain the AAA.

At the end of the taxable year, the AAA is determined by taking into account all items of income, loss, and deductions for the taxable year (including nondeductible losses and expenses that are not capitalized but excluding certain exempt income and state taxes attributable to C corporation years). After the year-end income and expense adjustments are

made, the account is reduced by distributions made during the taxable year. The AAA should be reduced by the California built-in gains tax amount and the minimum franchise tax.

Note: The amount on Form 100S, Side 1, line 2, should be included as an other addition on Schedule M-2, line 3, and as an other reduction on Schedule M-2, line 5. Also include any other adjustments to arrive at California income.

Note: The AAA may have a negative balance at year end as a result of losses or deductions from the S corporation.

Column (b) – The other adjustments account is adjusted for tax-exempt income (and related expenses) of the S corporation. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year.

Column (c) – Other retained earnings include appropriated and unappropriated retained earnings accumulated in prior years when the S corporation was a C corporation. Line 1, column (c) for the first S corporation return will be the sum of the ending balances of appropriated and unappropriated retained earnings for the previous year.

Distributions

Generally, property distributions (including cash) are applied in the following order to reduce accounts of the S corporation that are used to compute the tax effect of distributions made by the S corporation to its shareholders:

1. Reduce the AAA determined without regard to any net negative adjustment for the taxable year (but not below zero). If distributions during the taxable year exceed the AAA at the close of the taxable year determined without regard to any net negative adjustment for the taxable year, the AAA is allocated pro-rata to each distribution made during the taxable year. See IRC Section 1368(c). The term "net negative adjustment" means the excess, if any, of the reductions in the AAA for the taxable year (other than distributions) over the increases in the AAA for the taxable year.
2. Reduce accumulated E&P. Generally, the S corporation has accumulated E&P only if it has not distributed E&P accumulated in prior years when the S corporation was a C corporation, IRC Section 1361(a)(2), or when the S corporation merged with another corporation that has C corporation accumulated E&P. The only adjustments that can be made to the accumulated E&P of an S corporation are:
 - a. Reductions for dividend distributions; and
 - b. Adjustments for redemptions, liquidations, reorganizations, etc.
3. Reduce the other adjustment account.
4. Reduce any remaining shareholders' equity account.

Note: Shareholders' previously taxed income (PTI) Column (c), federal Form 1120S, Schedule M-2, 1120S — California S corporations will **never** have undistributed PTI. The federal code section that created PTI was removed from the IRC before California incorporated the federal S corporation provisions into the R&TC.

Elections relating to the order of distributions

The corporation may modify the ordering rules by making one or more of the following elections:

- Election to distribute accumulated E&P first. If the corporation has accumulated E&P and wants to distribute E&P before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders – IRC Section 1368(e)(3)(B). This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see “Statement Regarding Elections” on this page.
- Election to make a deemed dividend. If the corporation wants to distribute all or part of its C corporation accumulated E&P through a deemed dividend, it may elect to do so with the consent of all its affected shareholders – IRC Section 1368(e)(3)(B). Under this section, the corporation will be treated as also having made the election to distribute E&P first. The amount of the deemed dividend cannot exceed the accumulated E&P at the end of the taxable year reduced by any actual distributions of accumulated E&P made during the taxable

year. A deemed dividend is treated as if it were a pro-rata distribution of money to the shareholders, received by the shareholders, and immediately contributed back to the corporation all on the last day of the tax year. This election is irrevocable and applies only for the tax year for which it is made.

Statement regarding elections

To make any elections relating to the order of distribution, the corporation must attach a statement to a timely filed original Form 100S or amended Form 100S for the year in which the election is made. The corporation must identify the election it is making and state that each shareholder consents to the election. A corporate officer must sign the statement under penalties of perjury on behalf of the corporation. The statement of election to make a deemed dividend must include the amount of the deemed dividend distributed to each shareholder.

When making either of the elections, the corporation must prepare copies of federal Form 1099-DIV for shareholders to report this dividend as taxable income.

Note: The corporation may file the election for California purposes only. It is not necessary for the corporation to have the same election for federal purposes in order to make a California election. However, regardless of whether or not the corporation makes the same election on the federal return, the corporation must attach a separate election statement to the California return.

C corporation E&P

Check the box on Schedule M-2, below line 9, if the S corporation was a C corporation in a prior year(s) and has C corporation E&P at the end of the taxable year. For this purpose, C corporation E&P means the remaining balance of E&P of any S corporation for any taxable year when it was not an S corporation. If the S corporation has C corporation E&P, it may be liable for excess net passive income tax and the distributions to shareholders may have different tax consequences for federal and California purposes. See instructions for Form 100S, Side 1, line 28 and line 29, for details on these taxes.

Principal Business Activity Codes

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning after 1997, these principal business activity codes are based on the North American Industry Classification System (NAICS).

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (Side 2, Schedule F, line 1a) plus all other income (Side 2, Schedule F, line 4 and line 5). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on Form 100S, Question C. For the business activity code number, enter the six digit code selected from the list below. On the next line enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on the next line.

Agriculture, Forestry, Fishing, and Hunting

Code

Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems

Construction

Code

Construction of Buildings

- 236110 Residential Building Construction
- 236200 Nonresidential Building Construction

Heavy and Civil Engineering Construction

- 237100 Utility System Construction
- 237210 Land Subdivision
- 237310 Highway, Street, & Bridge Construction
- 237990 Other Heavy & Civil Engineering Construction

Specialty Trade Contractors

- 238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)
- 238210 Electrical Contractors
- 238220 Plumbing, Heating, & Air-Conditioning Contractors
- 238290 Other Building Equipment Contractors
- 238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)
- 238900 Other Specialty Trade Contractors (including site preparation)

Manufacturing

Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills
- Apparel Manufacturing
- 315100 Apparel Knitting Mills

Code

- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg
- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

Printing and Related Support Activities

- 323100 Printing & Related Support Activities

Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg

Code

- 332810 Coating, Engraving, Heat Treating, & Allied Activities
- 332900 Other Fabricated Metal Product Mfg

Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine, & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

Wholesale Trade

Merchant Wholesalers, Durable Goods

- 423100 Motor Vehicle & Motor Vehicle Parts & Supplies
- 423200 Furniture & Home Furnishings
- 423300 Lumber & Other Construction Materials
- 423400 Professional & Commercial Equipment & Supplies
- 423500 Metal & Mineral (except Petroleum)
- 423600 Electrical & Electronic Goods
- 423700 Hardware, & Plumbing & Heating Equipment & Supplies
- 423800 Machinery, Equipment, & Supplies
- 423910 Sporting & Recreational Goods & Supplies
- 423920 Toy & Hobby Goods & Supplies
- 423930 Recyclable Materials
- 423940 Jewelry, Watch, Precious Stone, & Precious Metals
- 423990 Other Miscellaneous Durable Goods

Code	Code	Code	Code
Merchant Wholesalers, Nondurable Goods	Clothing and Clothing Accessories Stores	Support Activities for Transportation	Securities, Commodity Contracts, and Other Financial Investments and Related Activities
424100 Paper & Paper Products	448110 Men's Clothing Stores	488100 Support Activities for Air Transportation	523110 Investment Banking & Securities Dealing
424210 Drugs & Druggists' Sundries	448120 Women's Clothing Stores	488210 Support Activities for Rail Transportation	523120 Securities Brokerage
424300 Apparel, Piece Goods, & Notions	448130 Children's & Infants' Clothing Stores	488300 Support Activities for Water Transportation	523130 Commodity Contracts Dealing
424400 Grocery & Related Products	448140 Family Clothing Stores	488410 Motor Vehicle Towing	523140 Commodity Contracts Brokerage
424500 Farm Product Raw Materials	448150 Clothing Accessories Stores	488490 Other Support Activities for Road Transportation	523210 Securities & Commodity Exchanges
424600 Chemical & Allied Products	448190 Other Clothing Stores	488510 Freight Transportation Arrangement	523900 Other Financial Investment Activities (including portfolio management & investment advice)
424700 Petroleum & Petroleum Products	448210 Shoe Stores	488990 Other Support Activities for Transportation	
424800 Beer, Wine, & Distilled Alcoholic Beverages	448310 Jewelry Stores		
424910 Farm Supplies	448320 Luggage & Leather Goods Stores		
424920 Book, Periodical, & Newspapers		Couriers and Messengers	Insurance Carriers and Related Activities
424930 Flower, Nursery Stock, & Florists' Supplies	Sporting Goods, Hobby, Book, and Music Stores	492110 Couriers	524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers
424940 Tobacco & Tobacco Products	451110 Sporting Goods Stores	492210 Local Messengers & Local Delivery	524150 Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
424950 Paint, Varnish, & Supplies	451120 Hobby, Toy, & Game Stores		524210 Insurance Agencies & Brokerages
424990 Other Miscellaneous Nondurable Goods	451130 Sewing, Needlework, & Piece Goods Stores	Warehousing and Storage	524290 Other Insurance Related Activities
	451140 Musical Instrument & Supplies Stores	493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)	
Wholesale Electronic Markets and Agents and Brokers	451211 Book Stores		Funds, Trusts, and Other Financial Vehicles
425110 Business to Business Electronic Markets	451212 News Dealers & Newsstands	Information	525100 Insurance & Employee Benefit Funds
425120 Wholesale Trade Agents & Brokers	451220 Prerecorded Tape, Compact Disc, & Record Stores	Publishing Industries	525910 Open-End Investment Funds (Form 1120-RIC)
		511110 Newspaper Publishers	525920 Trusts, Estates, & Agency Accounts
Retail Trade	General Merchandise Stores	511120 Periodical Publishers	525930 Real Estate Investment Trusts (Form 1120-REIT)
Motor Vehicle and Parts Dealers	452900 Other General Merchandise Stores	511130 Book Publishers	525990 Other Financial Vehicles "Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under Management of Companies (Holding Companies) below.
441110 New Car Dealers	Miscellaneous Store Retailers	511140 Database & Directory Publishers	
441120 Used Car Dealers	453110 Florists	511190 Other Publishers	Real Estate and Rental and Leasing
441210 Recreational Vehicle Dealers	453210 Office Supplies & Stationery Stores	511210 Software Publishers	Real Estate
441221 Motorcycle Dealers	453220 Gift, Novelty, & Souvenir Stores	Motion Picture and Sound Recording Industries	531110 Lessors of Residential Buildings & Dwellings
441222 Boat Dealers	453310 Used Merchandise Stores	512100 Motion Picture & Video Industries (except video rental)	531120 Lessors of Nonresidential Buildings (except Miniwarehouses)
441229 All Other Motor Vehicle Dealers	453910 Pet & Pet Supplies Stores	512200 Sound Recording Industries	531130 Lessors of Miniwarehouses & Self-Storage Units
441300 Automotive Parts, Accessories, & Tire Stores	453920 Art Dealers	Broadcasting (except Internet)	531190 Lessors of Other Real Estate Property
	453930 Manufactured (Mobile) Home Dealers	515100 Radio & Television Broadcasting	531210 Offices of Real Estate Agents & Brokers
Furniture and Home Furnishings Stores	453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)	515210 Cable & Other Subscription Programming	531310 Real Estate Property Managers
442110 Furniture Stores	Nonstore Retailers	Internet Publishing and Broadcasting	531320 Offices of Real Estate Appraisers
442210 Floor Covering Stores	454110 Electronic Shopping & Mail-Order Houses	516110 Internet Publishing & Broadcasting	531390 Other Activities Related to Real Estate
442291 Window Treatment Stores	454210 Vending Machine Operators	Telecommunications	
442299 All Other Home Furnishings Stores	454311 Heating Oil Dealers	517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications)	Rental and Leasing Services
	454312 Liquefied Petroleum Gas (Bottled Gas) Dealers	Internet Service Providers, Web Search Portals, and Data Processing Services	532100 Automotive Equipment Rental & Leasing
Electronics and Appliance Stores	454319 Other Fuel Dealers	518111 Internet Service Providers	532210 Consumer Electronics & Appliances Rental
443111 Household Appliance Stores	454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	518112 Web Search Portals	532220 Formal Wear & Costume Rental
443112 Radio, Television, & Other Electronics Stores		518210 Data Processing, Hosting, & Related Services	532230 Video Tape & Disc Rental
443120 Computer & Software Stores	Transportation and Warehousing	Other Information Services	532290 Other Consumer Goods Rental
443130 Camera & Photographic Supplies Stores	Air, Rail, and Water Transportation	519100 Other Information Services (including news syndicates & libraries)	532310 General Rental Centers
	481000 Air Transportation		532400 Commercial & Industrial Machinery & Equipment Rental & Leasing
Building Material and Garden Equipment and Supplies Dealers	482110 Rail Transportation	Finance and Insurance	
444110 Home Centers	483000 Water Transportation	Depository Credit Intermediation	Lessors of Nonfinancial Intangible Assets (except copyrighted works)
444120 Paint & Wallpaper Stores	Truck Transportation	522110 Commercial Banking	533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)
444130 Hardware Stores	484110 General Freight Trucking, Local	522120 Savings Institutions	
444190 Other Building Material Dealers	484120 General Freight Trucking, Long-distance	522130 Credit Unions	
444200 Lawn & Garden Equipment & Supplies Stores	484200 Specialized Freight Trucking	522190 Other Depository Credit Intermediation	
	Transit and Ground Passenger Transportation	Nondepository Credit Intermediation	
Food and Beverage Stores	485110 Urban Transit Systems	522210 Credit Card Issuing	
445110 Supermarkets and Other Grocery (except Convenience) Stores	485210 Interurban & Rural Bus Transportation	522220 Sales Financing	
445120 Convenience Stores	485310 Taxi Service	522291 Consumer Lending	
445210 Meat Markets	485320 Limousine Service	522292 Real Estate Credit (including mortgage bankers & originators)	
445220 Fish & Seafood Markets	485410 School & Employee Bus Transportation	522293 International Trade Financing	
445230 Fruit & Vegetable Markets	485510 Charter Bus Industry	522294 Secondary Market Financing	
445291 Baked Goods Stores	485990 Other Transit & Ground Passenger Transportation	522298 All Other Nondepository Credit Intermediation	
445292 Confectionery & Nut Stores	Pipeline Transportation	Activities Related to Credit Intermediation	
445299 All Other Specialty Food Stores	486000 Pipeline Transportation Scenic & Sightseeing Transportation	522300 Activities Related to Credit Intermediation (including loan brokers)	
445310 Beer, Wine, & Liquor Stores	Scenic & Sightseeing Transportation		
Health and Personal Care Stores	487000 Scenic & Sightseeing Transportation		
446110 Pharmacies & Drug Stores			
446120 Cosmetics, Beauty Supplies, & Perfume Stores			
446130 Optical Goods Stores			
446190 Other Health & Personal Care Stores			
Gasoline Stations			
447100 Gasoline Stations (including convenience stores with gas)			

<i>Code</i>	<i>Code</i>	<i>Code</i>	<i>Code</i>
Accounting, Tax Preparation, Bookkeeping, and Payroll Services	561500 Travel Arrangement & Reservation Services	Other Ambulatory Health Care Services	Food Services and Drinking Places
541211 Offices of Certified Public Accountants	561600 Investigation & Security Services	621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)	722110 Full-Service Restaurants
541213 Tax Preparation Services	561710 Exterminating & Pest Control Services		722210 Limited-Service Eating Places
541214 Payroll Services	561720 Janitorial Services		722300 Special Food Services (including food service contractors & caterers)
541219 Other Accounting Services	561730 Landscaping Services	Hospitals	722410 Drinking Places (Alcoholic Beverages)
	561740 Carpet & Upholstery Cleaning Services	622000 Hospitals	
Architectural, Engineering, and Related Services	561790 Other Services to Buildings & Dwellings	Nursing and Residential Care Facilities	Other Services
541310 Architectural Services	561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)	623000 Nursing & Residential Care Facilities	Repair and Maintenance
541320 Landscape Architecture Services			811110 Automotive Mechanical & Electrical Repair & Maintenance
541330 Engineering Services	Waste Management and Remediation Services	Social Assistance	811120 Automotive Body, Paint, Interior, & Glass Repair
541340 Drafting Services	562000 Waste Management & Remediation Services	624100 Individual & Family Services	811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
541350 Building Inspection Services		624200 Community Food & Housing, & Emergency & Other Relief Services	811210 Electronic & Precision Equipment Repair & Maintenance
541360 Geophysical Surveying & Mapping Services	Educational Services	624310 Vocational Rehabilitation Services	811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
541370 Surveying & Mapping (except Geophysical) Services	611000 Educational Services (including schools, colleges, & universities)	624410 Child Day Care Services	811410 Home & Garden Equipment & Appliance Repair & Maintenance
541380 Testing Laboratories			811420 Reupholstery & Furniture Repair
Specialized Design Services		Arts, Entertainment, and Recreation	811430 Footwear & Leather Goods Repair
541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)		Performing Arts, Spectator Sports, and Related Industries	811490 Other Personal & Household Goods Repair & Maintenance
		711100 Performing Arts Companies	Personal and Laundry Services
Computer Systems Design and Related Services		711210 Spectator Sports (including sports clubs & racetracks)	812111 Barber Shops
541511 Custom Computer Programming Services	Health Care and Social Assistance	711300 Promoters of Performing Arts, Sports, & Similar Events	812112 Beauty Salons
541512 Computer Systems Design Services	Offices of Physicians and Dentists	711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures	812113 Nail Salons
541513 Computer Facilities Management Services	621111 Offices of Physicians (except mental health specialists)	711510 Independent Artists, Writers, & Performers	812190 Other Personal Care Services (including diet & weight reducing centers)
541519 Other Computer Related Services	621112 Offices of Physicians, Mental Health Specialists		812210 Funeral Homes & Funeral Services
	621210 Offices of Dentists	Museums, Historical Sites, and Similar Institutions	812220 Cemeteries & Crematories
Other Professional, Scientific, and Technical Services	Offices of Other Health Practitioners	712100 Museums, Historical Sites, & Similar Institutions	812310 Coin-Operated Laundries & Drycleaners
541600 Management, Scientific, & Technical Consulting Services	621310 Offices of Chiropractors		812320 Drycleaning & Laundry Services (except Coin-Operated)
541700 Scientific Research & Development Services	621320 Offices of Optometrists	Amusement, Gambling, and Recreation Industries	812330 Linen & Uniform Supply
541800 Advertising & Related Services	621330 Offices of Mental Health Practitioners (except Physicians)	713100 Amusement Parks & Arcades	812910 Pet Care (except Veterinary) Services
541910 Marketing Research & Public Opinion Polling	621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists	713200 Gambling Industries	812920 Photofinishing
541920 Photographic Services	621391 Offices of Podiatrists	713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)	812930 Parking Lots & Garages
541930 Translation & Interpretation Services	621399 Offices of All Other Miscellaneous Health Practitioners		812990 All Other Personal Services
541940 Veterinary Services	Outpatient Care Centers	Accommodation and Food Services	Religious, Grantmaking, Civic, Professional, and Similar Organizations
541990 All Other Professional, Scientific, & Technical Services	621410 Family Planning Centers	Accommodation	813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations
	621420 Outpatient Mental Health & Substance Abuse Centers	721110 Hotels (except casino hotels) & Motels	
Management of Companies (Holding Companies)	621491 HMO Medical Centers	721120 Casino Hotels	
551111 Offices of Bank Holding Companies	621492 Kidney Dialysis Centers	721191 Bed & Breakfast Inns	
551112 Offices of Other Holding Companies	621493 Freestanding Ambulatory Surgical & Emergency Centers	721199 All Other Traveler Accommodation	
	621498 All Other Outpatient Care Centers	721210 RV (Recreational Vehicle) Parks & Recreational Camps	
Administrative and Support and Waste Management and Remediation Services	Medical and Diagnostic Laboratories	721310 Rooming & Boarding Houses	
Administrative and Support Services	621510 Medical & Diagnostic Laboratories		
561110 Office Administrative Services	Home Health Care Services		
561210 Facilities Support Services	621610 Home Health Care Services		
561300 Employment Services			
561410 Document Preparation Services			
561420 Telephone Call Centers			
561430 Business Service Centers (including private mail centers & copy shops)			
561440 Collection Agencies			
561450 Credit Bureaus			
561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)			

How To Get California Tax Information

Where To Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms, instructions, publications, FTB Notices and Rulings dated after 1995 from our Website www.ftb.ca.gov

By phone – To order current year California tax forms:

- Refer to the list in the right column and find the code number for the form you want to order.
- Call (800) 338-0505.
- Select “Business Entity Information.”
- Select “Order Forms and Publications.”
- Enter the three-digit code shown to the left of the form title when you are instructed to do so.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

In person – Many libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

Note: Employees at libraries and quick print businesses cannot provide tax information or assistance.

By mail – Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will respond to your letter within six weeks. In some cases, we may need to call you for additional information. Do not attach correspondence to your tax return unless the correspondence relates to an item on the return.

General Toll-Free Phone Service

Our general toll-free phone service is available:

- Monday – Friday, 7 a.m. until 8 p.m.
- Saturdays, 8 a.m. until 5 p.m. (January through June, only)

Note: We may modify these hours without notice to meet operational needs.

From within the United States (800) 852-5711
From outside the United States (not toll-free) (916) 845-6500
For federal tax questions, call the IRS at (800) 829-1040

Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairment, please call:

TTY/TDD (800) 822-6268

Asistencia bilingüe en español:

Para obtener servicios en español y asistencia para completar su declaración de impuestos / formularios, llame al número telefónico indicado arriba que le corresponda.

California Tax Forms and Publications

- 817 California Corporation Tax Forms and Instructions.
This booklet contains:
Form 100, California Corporation Franchise or Income Tax Return;
Schedule H (100), Dividend Income Deductions
Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
FTB 3565, Small Business Stock Questionnaire
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations
FTB 3885, Corporation Depreciation and Amortization
- 816 California S Corporation Tax Forms and Instructions.
This booklet contains:
Form 100S, California S Corporation Franchise or Income Tax Return;
Schedule B (100S), S Corporation Depreciation and Amortization
Schedule C (100S), S Corporation Tax Credits
Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains
Schedule H (100S), Dividend Income Deduction
Schedule K-1 (100S), Shareholder’s Share of Income, Deductions, Credits, etc.
Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL Disaster Loss – Corporations
- 814 Form 109, Exempt Organization Business Income Tax Return
818 Form 100-ES, Corporation Estimated Tax
815 Form 199, Exempt Organization Annual Information Return
820 FTB Pub. 1068, Exempt Organizations Requirements for Filing Returns and Paying Filing Fees
802 FTB 3500, Exemption Application
803 FTB 3555, Request for Tax Clearance — Corporations
831 FTB 3534, Joint Strike Fighter Credits
835 FTB 3805D, Net Operating Loss (NOL) Computation and Limitation – Pierce’s Disease

Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers’ Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers’ Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable.

See “Where to Get Tax Forms and Publications” on this page.

Automated Toll-Free Phone Service

(Keep This Booklet For Future Use)

Our automated toll-free phone service is available 24 hours a day, 7 days a week, in English and Spanish to callers with touch-tone telephones. To order Business Entity forms, the automated service is available from 6 a.m. to 8 p.m. Monday through Friday, except state holidays and from 6 a.m. to 4 p.m. Saturdays. You can:

- Order current year California income tax forms, and
- Hear recorded answers to many of your questions about California taxes.

Have paper and pencil ready to take notes.

Call from within the United States (800) 338-0505
Call from outside the United States (not toll-free) (916) 845-6600

To Order Forms

See "Where to Get Tax Forms and Publications" on the previous page.

To Get Information

If you need an answer to any of the following questions, call (800) 338-0505, select "Business Entity Information," then "General Tax Information," follow the recorded instructions, and enter the three-digit code when instructed to do so.

Code Filing Assistance

- 715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 23 of Form 100 or Form 100W?
717 What are the tax rates for corporations?
718 How do I get an extension of time to file?
722 When does my corporation have to file a short-period return?
734 Is my corporation subject to franchise tax or income tax?

S Corporations

- 704 Is an S corporation subject to the minimum franchise tax?
705 Are S corporations required to file estimated payments?
706 What forms do S corporations file?
707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?
708 Where do S corporations make adjustments for state and federal law differences on Schedule K-1 (100S), and where do nonresident shareholders find their California source income on their Schedule K-1 (100S)?

Exempt Organizations

- 709 How do I get tax-exempt status?
710 Does an exempt organization have to file Form 199?
735 How can an exempt organization incorporate without paying corporation fees and costs?
736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

Minimum Tax and Estimate Tax

- 712 What is the minimum franchise tax?
714 My corporation is not doing business; does it have to pay the minimum franchise tax?
716 When are my corporation's estimated payments due?

Billings and Miscellaneous Notices

- 503 How do I file a protest against a Notice of Proposed Assessment?
723 I received a bill for \$250. What is this for?
728 Why was my corporation suspended?
729 Why is my subsidiary getting a request for a return when we

filed a combined report?

Tax Clearance

- 724 How do I dissolve my corporation?
725 What do I have to do to get a tax clearance?
726 How long will it take to get a tax clearance certificate?
727 My corporation was suspended/forfeited. Can I still get a tax clearance?

Limited Liability Companies (LLC)

- 750 How do I organize or register an LLC?
751 How do I cancel the registration of my LLC?
752 What tax forms do I use to file as an LLC?
753 When is the annual tax payment due?
754 What extension voucher do I use to pay the LLC fee and/or member tax?
755 Where does an LLC send its tax payments?
756 As an LLC I never did any business or even opened a door, bank account, or anything. Why do I owe the \$800 annual tax?
757 How are the LLC fees calculated?
758 If a corporation converted to an LLC during the current year, is it liable for tax as a corporation and as an LLC in the same year?

Miscellaneous

- 700 Who do I need to contact to start a business?
701 I need a state Employer ID number for my business. Who do I contact?
702 Can you send me an employer's tax guide?
703 How do I incorporate?
719 How do I properly identify my corporation when dealing with the Franchise Tax Board?
720 How do I obtain information about changing my corporation's name?
721 How does my corporation change its accounting period?
737 Where do I send my payment?
738 What is electronic funds transfer?
739 How do I get a copy of my state corporation or partnership tax return?
740 What requirements do I have to report municipal bond interest paid by a state other than California?
759 If I have nonresident members and cannot get all their signatures on the consent release form, can I still file the return?