



Return Information Notice Explanation

To better understand our adjustments to your tax return, match the paragraph code on the enclosed notice with the explanatory codes within this insert. Then compare the amounts on your tax return and supporting documents with the enclosed notice.

If you still disagree or do not understand our adjustments, you can contact us:

- By telephone: (800) 852-5711. See **Telephone and Internet Assistance** for additional information.
- By fax: (916) 845-4505
- In writing: Use the address shown above.

To review your account we need:

- The name, address, and daytime telephone number of an authorized representative whom we may contact if we need additional information.
- The entity identification number from the notice.

If you call us, please have your tax return, supporting documents, and the notice on hand. If you write or fax information to us, include copies of the supporting documents and the notice.

All forms and publications referenced in this insert are available on our Website: www.ftb.ca.gov.

Telephone and Internet Assistance

From within the United States, call (800) 852-5711
From outside the United States, call
(not toll-free) (916) 845-6500

Website: www.ftb.ca.gov

Assistance for persons with disabilities: We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments please call TTY/TDD (800) 822-6268.

Asistencia para personas discapacitadas. Nosotros estamos en conformidad con el Acta de Americanos

Discapacitados. Personas con problemas auditivos pueden llamar al TTY/TDD (800) 822-6268.

Rights As A Taxpayer

One of our goals at the Franchise Tax Board is to make certain we protect your rights. We want you to have the highest confidence in the integrity, efficiency, and fairness of our state tax system. The **California Taxpayers' Bill of Rights** (FTB Pub. 4058) includes information on your rights as a state taxpayer and how to request written tax advice from the Franchise Tax Board.

You can order the **California Taxpayers' Bill of Rights** by:

Mail: FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO CA 94240-0040

Website: www.ftb.ca.gov

In keeping with the California Taxpayers' Bill of Rights, we have a **Taxpayer Advocate** who reviews cases where taxpayers have been unable to resolve their problems with us through regular channels.

Unless you have received a jeopardy assessment, you have the right to an independent administrative review before we levy your income or assets if you submit a written request within 30 days of the date of the first notice of levy. You can also request review of a tax lien by submitting a written request for review 15 days of the date of the first tax lien notice.

You can contact the **Taxpayer Advocate** by:

Mail: TAXPAYER ADVOCATE BUREAU
PO BOX 157
RANCHO CORDOVA CA 95741-0157

Telephone: (800) 883-5910

FAX: (916) 845-6614

Website: www.ftb.ca.gov

EXPLANATORY PARAGRAPHS

AA We revised the tax shown on the return for one of the following reasons:

- We found a computation error.
- You used the incorrect tax rate.
- For entities incorporated or qualified prior to January 1, 2000, the tax may not be less than the minimum franchise tax.
- Your corporation incorporated or qualified through the California Secretary of State on or after January 1, 2000.

On the first required return, the tax may be less than the minimum franchise tax. If the entity is inactive or operating at a loss, there is no minimum franchise tax due. On subsequent required returns, the tax may not be less than the minimum franchise tax.

If you carry tax credits over to a subsequent year, please revise the carryover amount accordingly.

AB You must pay the minimum franchise tax for each taxable year even if your corporation is inactive or operating at a loss.

AC Corporations doing business in the State of California are subject to the minimum franchise tax.

AD Corporations subject to tax under Chapter 3 of the Corporation Tax Law are not subject to the minimum franchise tax.

AE The minimum franchise tax is due until your corporation files a Certificate of Election to Wind Up and Dissolve with the California Secretary of State.

AF Every corporation that is included in a combined report and is either qualified to do business, or is doing business in California, must pay the minimum franchise tax. If a corporation is qualified to do business in California but is inactive, it must still pay the minimum franchise tax.

AG Our records do not indicate that we granted your corporation exempt status. Therefore, your corporation is subject to the franchise or income tax.

- AH** You used the incorrect financial tax rate.
- AI** Corporations electing S corporation treatment are subject to tax at the rate of 1.5 percent of net income, but the tax must not be less than the minimum franchise tax.
- AJ** Limited partnerships, limited liability partnerships, and real estate mortgage investment conduits must pay an amount equal to the minimum franchise tax, but are not subject to franchise or income tax.
- AK** For taxable years beginning on or after January 1, 1990, credit unions with gross receipts solely from membership income are not required to pay the minimum franchise tax.
- AL** A corporation is subject to Chapters 2 and 3 of the Corporation Tax Law until the corporation files a Certificate of Dissolution with the California Secretary of State. This applies even if the corporation is inactive or operating at a loss.
- AM** Your corporation, classified as an insurance company, is no longer subject to the franchise tax provisions of the Corporation Tax Law.
- AN** All qualified subchapter S subsidiaries that are incorporated, qualified, or doing business in California are subject to an annual tax in the amount of the minimum franchise tax.
- AO** Every Financial Asset Securitization Investment Trust (FASIT) is subject to the minimum franchise tax.
- AP** You used the incorrect tax rate.
- AR** We revised the tax shown on your return. The minimum tax is \$800 unless you indicated you met the definition of a qualified new corporation. For corporations incorporated on or after 01/01/1999, and before 01/01/2000, a qualified new corporation is defined as one that:
- Reasonably estimates that it will have gross receipts, less returns and allowances, reportable to California of less than \$1 million.
 - Reasonably estimates it will not have a tax liability that exceeds the minimum franchise tax of \$800.
 - Begins business operation at or after the time of its incorporation.
 - Did not begin business as a single proprietorship, partnership, or other form of business entity prior to its incorporation.
- The minimum tax for the second taxable year of a qualified new corporation is \$500.
- BB** Tax credits claimed on your return may not reduce the tax below the minimum franchise tax.
- BC** Tax credits claimed on your return may not exceed the statutory maximum amount allowed.
- BD** We revised the tax credits claimed on your return because we could not locate the schedules and identify the type of tax credit claimed.
- CA** We revised the tax shown on your return for one of the following reasons:
- We found a computation error in adding the alternative minimum tax, tax from Schedule D, excessive net passive income tax, or preference tax.
 - We made a revision to reflect our adjustments to the preceding lines shown on your return.
- DA** We revised the prior year overpayment shown on your return because an incorrect amount was claimed.
- DB** We applied an estimated tax payment or credit to another tax year according to your instructions. We cannot refund or transfer those funds to a different tax year until you file a return for that year.
- DC** We have no record of a prior year credit.
- DD** We refunded all or part of the amount you claimed on your return as an overpayment from the prior year.
- DE** Credit that is pending due to a claim for refund may not be taken for any year until we allow the claim.
- EA** We revised the estimated tax payment amount indicated on your return to reflect the amount of estimated tax payments we received.
- EB** The minimum tax paid at the date of incorporation is for the privilege of doing business in California and cannot be claimed as an estimated tax payment.
- EE** We revised the amount of real estate or nonresident withholding to the greater of:
- The amount substantiated by Franchise Tax Board Forms 592-B, 593-B, 594, or 597 attached to your return.
 - The amount of available credit we were able to verify.
- If you disagree with our revision, please contact Withholding Services and Compliance Section with your explanation and supporting documents:
Toll-free (888) 792-4900
Fax. (916) 845-9512
- EF** We credited the corporation with payments made by subsidiaries included in the combined report.
- FA** The amount claimed as an extension payment was incorrect.
- GA** We revised the dissolving/withdrawing credit shown on your return for one of the following reasons:
- You cannot claim the dissolving/withdrawing credit if the corporation incorporated or qualified after December 31, 1971.
 - You must formally dissolve the corporation to claim the dissolving/withdrawing credit. The California Secretary of State's records indicate your corporation is not formally dissolved.
- HA** We revised the tax due indicated on your return to correct a computation error or to reflect our adjustments to the preceding lines on your return.
- HB** You made an error in transferring figures from Schedule J to Side 1 of your return or in computing the amount of the look-back tax adjustment.
- IA** We revised the overpayment shown on your return to correct a computation error.
- JA** We revised the credit to the next year's estimated tax for one or more of the following reasons:
- We found a computation error.
 - We revised the total tax shown on your return.
 - We transferred the minimum amount required for the first estimate due on the subsequent year.
- JB** We applied part or all of the overpayment from your return to the next year's estimated tax. If you do not want the overpayment applied, please contact us. Please note that if we refund the credit, your

corporation may be subject to an estimated tax penalty when you file next year's return.

JC We applied the amount of overpayment from your return to the next year's estimated tax as requested.

KA We revised the refund amount on the return based on the amount of payments and credits available.

KB We may not allow a refund or credit beyond the later of:

- Four years after the due date of the original return.
- Four years after the date the original return is filed if filed by the extended return due date.
- One year after the date of the payment.

KC The amount of refund claimed on your return was partially or completely applied to prior balances due.

MA We revised the prepayment tax because for taxable years beginning in 1997 or 1998, the prepayment tax paid to the California Secretary of State is \$600 if the corporation meets the definition of a qualified new corporation. For corporations incorporated on or after 01/01/1997, and before 01/01/1999, a qualified new corporation is defined as one that:

- Reasonably estimated its gross receipts, less returns and allowances reportable to California, to be \$1 million or less for its first taxable year.
- Reasonably estimated it will have a California tax liability that does not exceed \$800, based upon its income, for the first taxable year.
- Has less than fifty percent of its stock owned by another corporation.

For taxable years beginning on or after 01/01/1999, and before 01/01/2000, the prepayment tax paid to the California Secretary of State is \$300 if the corporation meets the definition of a qualified new corporation. For corporations incorporated on or after 01/01/1999, and before 01/01/2000, a qualified new corporation is defined as one that:

- Began operation on or after the date of its incorporation.
- Reasonably estimated its gross receipts, less returns and allowances reportable to California, to be \$1 million or less for its first taxable year.
- Reasonably estimated it will have a California tax liability that does not exceed \$800, based upon its income, for the first taxable year.
- Less than fifty percent of its stock is owned by another corporation.
- Did not begin business prior to its incorporation as a single proprietorship, partnership, or other form of business entity.

For taxable years beginning on or after 01/01/2000, there is no prepayment tax due for the first taxable year if the corporation:

- Incorporated or qualified through California Secretary of State on or after January 1, 2000.
- Is not a Regulated Investment Company (RIC), Real Estate Mortgage Investment Conduit (REMIC), Financial Asset Securitization Investment Trust (FASIT), or Qualified Subchapter S Subsidiary (QSub).

- Is not reorganizing solely for the purpose of avoiding payment of its minimum tax.

MB When you incorporated with the California Secretary of State, you paid a prepayment tax of \$600 as a qualified new corporation. (See paragraph **MA** for the definition of a qualified new corporation.) Because your corporation does not meet the requirement of a qualified new corporation, its prepayment tax to the California Secretary of State should have been \$800. We have made the appropriate adjustment.

MC Under California law, corporations doing business in California must pay the minimum tax of \$800 on or before the first estimate installment due date.

MD Information on your corporation's return indicates it is a qualified new corporation. (See paragraph **MA** for the definition of a qualified new corporation.) A qualified new corporation must pay \$600 to the California Secretary of State when it incorporates. You paid \$800.

ME We cannot grant your request for a \$200 refund of the prepayment tax made to the California Secretary of State because your corporation does not meet the definition of a qualified new corporation. (See paragraph **MA** for the definition of a qualified new corporation.)

MF When you incorporated with the California Secretary of State, you paid a prepayment tax of \$300 as a qualified new corporation. (See paragraph **MA** for the definition of a qualified new corporation.) Because your corporation does not meet the definition of a qualified new corporation, the prepayment tax to the California Secretary of State is \$800. We have made the appropriate adjustment.

MG Information on your corporation's return indicates it is a qualified new corporation. (See paragraph **MA** for the definition of a qualified new corporation.) A qualified new corporation must pay \$300 to the California Secretary of State when it incorporates. You paid \$800.

MH We cannot grant your request for a \$500 refund of the prepayment tax made to the California Secretary of State because your corporation does not meet the definition of a qualified new corporation. (See paragraph **MA** for the definition of a qualified new corporation.)

NB We issued this refund because we approved your application for exempt status.

NC Organizations exempt under Revenue and Taxation Code Section 23701d are not subject to a filing fee. These organizations are:

- An exclusively religious organization.
- An organization that is controlled by a religious organization.
- A school.
- A public charity.

ND Filing fees are not due if gross receipts are normally less than \$25,000.

NE Political action organizations are exempt from the payment of the minimum franchise tax.

NF Your organization does not have to file California Exempt Organization Annual Information Return (Form 199) or pay the associated filing fee.

- PB** We assessed a penalty for the period the estimated tax was underpaid.
- PC** No estimated tax penalty is due for the taxable year shown on the notice.
- PD** We assessed penalties and interest where applicable. Refer to the *INTEREST INFORMATION* and *PENALTIES AND FEES* sections of this form for additional information.
- RA** We revised the amount shown on your Limited Liability Company Return of Income (Form 568), Line 1, "Total income from Limited Liability Company Income Worksheet", because the amount shown is less than the amount of Gross Profit reported on Schedule B, Income and Deductions.
- RB** Limited liability companies doing business in California are subject to an annual fee based on their total annual income as defined in Revenue and Taxation Code Section 17942. We revised your LLC fee shown on your return either because we found a computation error or you used the incorrect fee amount.
- RC** Limited liability companies doing business in California or having a certificate of registration or articles of organization issued by the California Secretary of State are subject to an annual tax of \$800.
- RD** We revised the non-consenting nonresident members' tax shown on your return because we found a computation error or you used the incorrect tax rate.
- RE** We revised the annual tax shown on your return. Provided you conducted no business, you must file a Limited Liability Company Short Form Certificate of Cancellation (LLC-4/8) with the Secretary of State within 12 months of filing the Articles of Organization (LLC-1) in order to qualify for zero annual tax. Annual tax payments made by a registered limited liability company for its first taxable year are not refundable.
- RF** We revised the extension payment (FTB 3537) and annual tax payment (FTB 3522) shown on your return because the amount shown is incorrect.
- RG** We revised the tax and fee due shown on your return to correct a computation error.
- RH** We revised the credit to next year's tax or fee shown on the return for one of the following reasons:
- We found a computation error.
 - We made a change to the total tax and fee due.
 - We corrected the amount of payments and credits available.
- RI** We applied part or all of the overpayment from your return to the next year's tax liability. If you do not want the overpayment applied, please contact us. Please note that if we refund the credit, you may be subject to a late payment penalty for the next tax year.
- RJ** We offset all or a portion of the total overpayment to other liabilities existing on this account. If you disagree with our application of all or part of the overpayment to another liability, you can file a claim for refund. File the claim for refund for the year to which we applied the overpayment. If the

overpayment did not completely satisfy the liability for that taxable year, you must pay the tax and any penalties before you submit your claim. The claim should be in letter format titled "Claim for Refund" and should include the following:

- Entity name and entity ID number.
- All taxable years and amount of the claim.
- Reason for the claim and any substantiation.

Send the Claim for Refund to:
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

- SA** We disallowed your request for direct deposit of your refund because the information required was either missing, invalid, or illegible. We converted your direct deposit request to a paper check to ensure a timely refund.
- TA** If you do not pay by the date of this notice, we may revoke your amnesty, reinstate cancelled penalties, and assess new amnesty related penalties.
- VA** We offset all or part of the total overpayment to other liabilities on this account. If you disagree with our application of all or part of the overpayment, you can file a claim for refund. File the claim for the tax year to which we applied the overpayment. If the overpayment did not completely satisfy the liability for that taxable year, you must pay the tax and penalties before you submit your claim. (See paragraph **RJ** for instructions to file a Claim for Refund.)
- WA** We offset all or part of the total overpayment to other liabilities on the account of a related corporation. If you disagree with our application of all or part of the overpayment you can file a claim for refund. File the claim for the tax year to which we applied the overpayment. If the overpayment did not completely satisfy the liability for that taxable year, you must pay the tax and penalties before you submit your claim. (See paragraph **RJ** for instructions to file a Claim for Refund.)
- XA** The State Board of Equalization notified us that your entity has an outstanding liability with them. Your Franchise Tax Board refund was offset against that liability. Refer to the enclosed notice for the amount credited to the State Board of Equalization. You can contact them at (916) 323-1820.
- XB** The State Controller's Office notified us that your entity has an outstanding liability with them. Your Franchise Tax Board refund was offset against that liability. Refer to the enclosed notice for the amount credited to the State Controller's Office.
- XD** The Attorney General's Office notified us that your entity has an outstanding liability with them. Your Franchise Tax Board refund was offset against that liability. Refer to the enclosed notice for the amount credited to the Attorney General's Office.
- XE** The Medical Board of California notified us that your entity has an outstanding liability with them. Your Franchise Tax Board refund was offset against that liability. Refer to the enclosed notice for the amount credited to the Medical Board of California.

- XF** The Pharmacy Board notified us that your entity has an outstanding liability with them. Your Franchise Tax Board refund was offset against that liability. Refer to the enclosed notice for the amount credited to the Pharmacy Board.
- YA** The Employment Development Department notified us that your entity has an outstanding liability with them. Your Franchise Tax Board refund was offset against that liability. Refer to the enclosed notice for the amount credited to the Employment Development Department. You can contact them at (916)464-2079.
- ZC** The overpayment is due to duplicate or additional payments.
- ZD** If you would like this credit refunded, please return a copy of this notice with a request for refund. Please note that if we refund the credit, your corporation may be subject to an estimated tax penalty for the next tax year.
- ZE** We applied all or part of the overpayment to the amount owed on a subsidiary account.
- ZF** We base the tax for the year in which a corporation dissolves or withdraws on the income for that year plus the income for the preceding year, but it cannot be less than the minimum tax.
- ZG** We disallowed your request for waiver of penalties and interest due to a disaster or act of terrorism for one of the following reasons:
- Your tax year does not fall within the designated time period for claiming the disaster or terrorism loss.
 - Your loss did not occur within the designated disaster or terrorism area.
- ZH** We partially disallowed your request for waiver of penalties and interest due to a disaster or act of terrorism. We can only waive penalties and interest for the duration of the administrative relief period.

INTEREST INFORMATION

We refer below to the California Revenue and Taxation Code as R&TC.

Generally, interest accrues on unpaid taxes from the original due date of the return until the date we receive payment. Interest accrues on unpaid limited liability company annual tax from the due date of the annual tax. We also charge interest on penalties. (R&TC Sections 19521 and 19101)

We charge C corporations an interest rate 2 percent greater than the current rate if both of the following are true:

- Their total unpaid tax for any taxable year exceeds \$100,000.
- They do not pay their full balance due within 30 days of the original notice date.

The following are rates for computing interest on:

- Underpayments
- Overpayments
- Penalties

Note: We do not compound the rate when computing the estimated tax penalty.

INTEREST RATES	
PERIOD	RATE
01/01/2007 – AND LATER	8%
07/01/2006 – 12/31/2006	7%
01/01/2006 – 06/30/2006	6%
07/01/2005 – 12/31/2005	5%
07/01/2004 – 06/30/2005	4%
07/01/2003 – 06/30/2004	5%
07/01/2002 – 06/30/2003	6%
01/01/2002 – 06/30/2002	7%
01/01/2001 – 12/31/2001	9%
01/01/2000 – 12/31/2000	8%
07/01/1999 – 12/31/1999	7%
01/01/1999 – 06/30/1999	8%
07/01/1995 – 12/31/1998	9%
01/01/1995 – 06/30/1995	8%
For corporation overpayments:	
01/01/2007 – AND LATER	5%
07/01/2006 – 12/31/2006	4%
01/01/2006 – 06/30/2006	3%
07/01/2005 – 12/31/2005	2%
07/01/2003 – 06/30/2005	1%
07/01/2002 – 06/30/2003	2%
For prior years' rates, please call us at the TELEPHONE AND INTERNET ASSISTANCE numbers shown on this insert, or visit our Website at: www.ftb.ca.gov.	

AUTOMATIC EXTENSIONS

The automatic extension of time to file does not apply if your entity is suspended or forfeited through the California Secretary of State or the Franchise Tax Board on the original due date of the return.

PENALTIES AND FEES

Estimated Tax Penalty We impose a penalty if your entity does not pay, pays late, or underpays an estimated tax installment. We calculate the penalty on the unpaid amount from the due date of the estimated tax installment to the date we receive your payment or to the due date of the return, whichever is earlier. (R&TC Section 19142-19161)

Delinquent Return Penalty If you do not file your entity's income tax return by the extended due date, we impose a penalty of 5 percent of the tax due, after applying any payments and credits made on or before the original return due date, for each month, or part of a month the return is late. The maximum penalty is 25 percent. We impose the penalty from the original due date of the return. (R&TC Section 19131)

Delinquent Return Penalty – Limited Liability Company

If you do not file your limited liability company's income tax return by the extended due date, we impose a penalty. After we deduct your timely payments and credits, we charge 5 percent monthly on the fee and/or nonconsenting nonresident members' tax indicated on your return, not to exceed 25 percent. We impose the penalty from the original return due date. (R&TC Section 19131)

Delinquent Form 199 Penalty We impose a penalty if you do not file your organization's Form 199 by the extended due date, regardless of whether you pay the fee. The penalty is \$5 per month or part of a month the Form 199 is late. The maximum penalty is \$40. We impose the penalty from the original due date of the return. (R&TC Section 23772)

Demand to File Penalty If we send you a demand to file your entity's income tax return and you do not file it, we impose a penalty of 25 percent of the tax liability before applying any payments or credits. **Therefore, your entity may owe penalties and interest even if its tax return shows that a refund is due.** This penalty is in addition to the 25 percent delinquent return penalty. (R&TC Section 19133)

Late Filing Penalty – Partnership or Limited Liability Company We impose a penalty if you do not file partnership or limited liability company returns by the extended due date. The penalty is \$10 per partner or member for each month or part of the month the return is late. The maximum penalty is \$50 per partner or member. We impose the penalty from the original due date of the return. (R&TC Section 19172)

Underpayment and Monthly Penalty We impose a penalty if you do not pay the total amount due shown on your entity's return by the original due date. The penalty is 5 percent on the unpaid tax, plus 0.5 percent on the unpaid tax for each month or part of a month it remains unpaid. The maximum penalty is 25 percent of the unpaid tax. (R&TC Section 19132)

Underpayment and Monthly Penalty – Limited Liability Company We impose a penalty if you do not pay your limited liability company's:

- Annual tax by the 15th day of the fourth month of its taxable year.
- Fee or nonconsenting nonresident members' tax by the 15th day of the fourth month after the end of its taxable year.

The penalty is 5 percent on the unpaid tax or fee, plus 0.5 percent on the unpaid tax or fee for each month or part of a month it remains unpaid. The maximum penalty is 25 percent of the unpaid tax or fee. (R&TC Section 19132)

Filing Fee

If we require your organization to file Form 199, you must pay a fee. The amount depends upon when you file and when you make the payment. (R&TC Section 23772)

- **The fee is \$10 if:**
You file and pay by the original due date, or
You file and pay after the original, but on or before, the extended due date.

- **The fee is \$25 if:**
You file by the original due date but pay after that date, or
You file and pay after the extended due date.

Exception: The filing fee does not apply to the following organizations exempt under R&TC Section 23701d:

- An exclusively religious organization.
- An organization that is controlled by a religious organization.
- A school.
- A public charity.

Electronic Funds Transfer Requirement Once a corporation remits an estimated tax or extension payment in excess of \$20,000 or has a total tax liability in excess of \$80,000 in any taxable year beginning on or after January 1, 1995, it must make all future payments, regardless of the taxable year or amount, through an electronic funds transfer. Payments made by other means will result in a penalty of 10 percent of the amount paid. For more information regarding this requirement, see our *Electronic Funds Transfer Information Guide* (FTB Pub. 3817), access our Website at www.ftb.ca.gov, or call us at (800) 852-2753. (R&TC Section 19011)

Dishonored Payment Penalty We impose a penalty if your entity's financial institution does not honor a payment you make to us by check, money order, or electronic funds transfer. For a payment of \$750 or more, the penalty is 2 percent of the payment amount. For a payment less than \$750, the penalty is \$15 or the payment amount; whichever is less. (R&TC Section 19134)

Cost Recovery Fee We charge you cost recovery fees if we must take collection action to resolve your filing and payment delinquencies. Cost recovery fees may include a filing enforcement fee, a collection fee, a lien fee, and fees to cover the cost of seizing and selling property. (R&TC Sections 19254, 19209, 19233, and 19234)

Other Penalties/Fees For more information about penalties and fees refer to R&TC Part 10.2, Division 2, Chapter 4, Article 7.