



STATE OF CALIFORNIA
FRANCHISE TAX BOARD

FTB Publication 1060

Guide for Corporations Starting Business in California



California Tax Forms on the Internet!

- Current year California forms, instructions, and publications.
- Prior year California forms and instructions.
- Frequently used forms that may be filled in electronically, printed out for submission, and saved for record keeping.
- Answers to frequently asked tax questions.

Access the FTB Website at
www.ftb.ca.gov



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General Information

This guide is intended to help you file your corporation's first:

- *California Corporation Franchise or Income Tax Return* (Form 100) or
- *California S Corporation Franchise or Income Tax Return* (Form 100S) or
- *Bank and Corporation Estimated Tax Payment Voucher* (Form 100-ES).

It will help you:

- Understand the basis of the tax.
- Request forms and instructions.
- File tax returns correctly.
- Avoid unnecessary penalties and interest.

Water's-Edge Filers – For information regarding filing a Water's-Edge return in California, see Form 100W – *California Franchise or Income Tax Return* – *Water's-Edge Filers*

Definitions

Corporation — An entity incorporated or qualified through the Secretary of State and/or doing business in California. For purposes of this guide, the term corporation does not include banks. We do not consider financial corporations to be banks and include them in the term corporation. For more information on corporations, call the Secretary of State, Business Filings, at (916) 657-5448, or visit their website at: www.ss.ca.gov.

Calendar year — A period of 12 months ending on December 31.

Fiscal year — A period of 12 months ending on the last day of any month other than December.

Accounting period — Calendar year or fiscal year used as the accounting period for which the corporation computes its net income.

Taxable year — Calendar year or fiscal year for which the tax is due.

Doing business — Actively engaging in any transaction for the purpose of financial gain or profit.

Newly Formed or Qualified Corporations

Generally, you compute the tax on your corporation's return for its first taxable year by multiplying your corporation's California net income by its appropriate tax rate. There is no minimum tax for the first year, if you incorporated or qualified to do business in California on or after January 1, 2000, unless the entity is a foreign corporation and began doing business in a year prior to which it qualified with the Secretary of State. The tax on your second and subsequent year tax returns is subject to the greater of the minimum franchise tax or your corporation's California net income multiplied by its appropriate tax rate.

If your corporation meets the following requirements we will not require you to file a tax return or pay the minimum franchise tax.

- You incorporate it within the last 15 days or less of its taxable year.
- You do no business in the state.
- You receive no income from sources within the state.

Example: Corporation DEF incorporates on December 20, 2003 and elects a year ending December 31. The corporation does no business and earns no income from December 20 to December 31. We do not consider this 11 day period a taxable year. The corporation's first taxable year will start on January 1, 2004.

For more information on incorporating within the last 15 days of your taxable year, see **Election of Annual Accounting Period and Method**.

Estimated tax: To avoid incurring an estimated tax penalty for the second taxable year, your corporation must make estimated tax payments equal to 100 percent of the tax liability shown on the return for the second taxable year. Exception A, prior year's exception, does not apply to the first tax return and you cannot use it to reduce or eliminate the estimated tax penalty. However, you can annualize your corporation's estimated tax payments to reduce or eliminate the estimated tax penalty. For more information regarding the estimated tax computation, see the instructions for FTB Form 100ES – *Corporation Estimated Tax*.

Example 1: Corporation A incorporates with the California Secretary of State on February 21, 2004. Corporation A selects a calendar year end.

For the taxable year February 21 to December 31, 2004, Corporation A operates at a \$3,000 loss. When Corporation A files its tax return on March 15, 2005, it will owe NO tax.

On April 15, 2005, Corporation A makes an estimated tax payment of \$800. On its return for taxable year ending December 31, 2005, it shows a \$4,000 loss and an \$800 tax liability. Since the corporation made an \$800 estimated tax payment, it will show zero on the "Tax Due" line of the Form 100. An estimated tax penalty is not applicable.

Example 2: Corporation B incorporates in California on January 11, 2003. Corporation B selects a calendar year end.

Corporation B did not make an estimate tax payment on April 15, 2003. For taxable year ending December 31, 2003, it shows \$6,300 of income. When the corporation files its tax return on March 15, 2004, it owes \$557 (\$6,300 x 8.84%) of tax, which it pays with the return. Since Corporation B did not make any estimated tax payments, an estimated tax penalty is due based on the tax of \$557.

On April 15, 2004, the corporation makes an estimated tax payment of \$800. On its tax return for taxable year ending December 31, 2004, it shows a \$14,000 loss and a \$800 tax liability. Since the corporation made an \$800 estimated tax payment, it will show zero on the "Tax Due" line of Form 100. An estimated tax penalty is not applicable.

Federal Elections

Effective January 1, 2004, federal tax elections made before a taxpayer became a California taxpayer are binding for California tax purposes. "Taxpayers" include partnerships, limited liability companies, corporations, or certain organizations exempt from tax. This general rule applies to all elections unless otherwise provided for in another California law or regulation.

We require taxpayers who made no federal election (where one was available to treat transactions made prior to becoming a California taxpayer) the same as they treated transactions for federal tax purposes.

S Corporations

California has adopted most of the federal provisions for S corporations. However, there is an S corporation tax at the corporate level in addition to the individual tax on pass-through income. A federal S corporation doing business in California or having California source income is subject to California tax as an 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 percent.

Imposition of Tax

We impose a franchise tax on businesses treated as corporations in California. This includes:

- All California domestic corporations.
- Foreign corporations that qualified to do business in California through the Secretary of State.
- Foreign corporations that do business in California but are **not** qualified through the Secretary of State.

For more information regarding qualifying to do business in California, call the Secretary of State, Business Filings, at (916) 657-5448, or visit their Website at: www.ss.ca.gov

We compute the franchise tax by multiplying the corporation's current year taxable income by the appropriate tax rate. Except in certain instances, the tax the corporation must pay cannot be less than the minimum franchise tax.

Convention and Trade Shows

Corporations that are not incorporated under the laws of California and whose sole activities in this state during a taxable year are engaging in convention and trade show activities may not be subject to the \$800 minimum franchise tax.

See our Form 100 Booklet or Form 100S Booklet for more information.

Corporation Income Tax

We impose the corporation income tax on all corporations that derive income from sources within California but are not doing business in California.

For purposes of filing a corporation income tax return, the term Corporation does not exclude unincorporated entities, but also includes:

- Associations.
- Massachusetts trusts.
- Business trusts.
- Real estate investment trusts.

See our Form 100 Booklet or Form 100S Booklet for more information.

Minimum Franchise Tax

Except for newly incorporated or qualified corporations, and unless otherwise exempted by law, all corporations incorporated, qualified to do business, or doing business in California are subject to an annual minimum franchise tax. The minimum tax is \$800 per year, except for certain inactive gold mining corporations and quicksilver mining corporations that pay a minimum franchise tax of \$25 per year.

Except for newly incorporated or qualified corporations, if the corporation is inactive or operates at a loss during any taxable year, whether or not a full 12 months, its tax for the taxable year is the minimum tax.

Apportionment of Income

Corporations with business income attributable to sources both within and outside California must apportion such income. See Schedule R, *Apportionment and Allocation of Income*, for more information.

Election of Annual Accounting Period and Method

If you form a new corporation or qualify an existing corporation, you must notify the Franchise Tax Board of its accounting period as soon as possible. On the corporation's first tax return, you must adopt a taxable year that meets the requirements of the law. The corporation's taxable year end must be the same as the tax year used for federal purposes, unless we initiate or approve it. In addition, the first accounting period cannot end more than 12 months after the date of incorporation or qualification in California. If the first taxable year is 15 days or less, the corporation will not have a filing requirement provided it was not doing business in, and received no income from, sources within this state. For a portion of a month to be disregarded under this rule, the corporation's Articles of Incorporation would have to be filed in the case of:

- A 28-day month — on the 14th day or after
- A 29-day month — on the 15th day or after
- A 30-day month — on the 16th day or after
- A 31-day month — on the 17th day or after

Example: Corporation ABC incorporates with the Secretary of State on October 10, 2002.

It elects a fiscal year ending October 31, as its accounting period. Therefore, on or before January 15, 2003, a corporation franchise tax return is due for the short period taxable year ending October 10, 2002 to October 31, 2002.

A change in accounting period or method requires consent from the Franchise Tax Board. However, a corporation that obtains federal approval to change its accounting period or method, or that is permitted or required by federal law to make a change in its accounting period or method without prior approval and does so, is deemed to have the Franchise Tax Board's approval. See our Form 100 Booklet, Form 100S Booklet, and FTB Notice 2000-8 for additional information.

Paying Estimated Tax

We require one or more payments of estimated tax annually from every corporation, unless exempt by law. Use Form 100-ES to make these payments. However, some corporations must make estimated tax payments by electronic funds transfer. See **Electronic Funds Transfer Requirement** on page 4 for more information.

We show the percentage of tax we require you to pay for each installment, along with the installment due dates, on the next page. However, the amount of the first installment cannot be less than the minimum franchise tax. For newly incorporated or qualified corporations, see page 2.

We will credit the estimated tax payments against the total tax shown on the tax return, as measured by income reported on the return. Any balance of tax due will incur an estimated tax penalty. We will refund or apply to other balances due any overpayment of tax together with interest. We do not pay interest on refunds made within 90 days of the return due date or the date the return is filed, whichever is later. Refer to Form 100-ES, for specific instructions.

Filing Returns

Each corporation must file a corporation franchise or income tax return (Form 100 or Form 100S) by the 15th day of the third month after the close of the taxable year. (Exception: a return for a farmers' cooperative association, described in Section 24404 of the Revenue and Taxation Code, is due on the 15th day of the ninth month after the close of its taxable year.) Special rules exist for short period returns. See Form our FTB 100 Booklet and 100S Booklet for more information.

Note: California allows an additional seven-month filing extension beyond the original due date of the tax return. The extension is automatic; it requires no action on the corporation's part. **This does not extend the due date for the payment of tax.**

Penalties

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)

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)

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 Sections 19142 - 19161)

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)

Installment Due Dates and Amounts of Estimated Tax – 12-Month Accounting Period

Installment	Due Date	Amount Payable
1	15th day of the 4th month of the taxable year	25% of net income multiplied by the applicable estimated tax rate, but not less than the minimum franchise tax, if applicable.
2	15th day of the 6th month of the taxable year	50% of net income multiplied by the applicable estimated tax rate, less amount of prior payment.
3	15th day of the 9th month of the taxable year	75% of net income multiplied by the applicable estimated tax rate, less amount of prior payment.
4	15th day of the 12th month of the taxable year	100% of net income multiplied by the applicable estimated tax rate, less amount of prior payment.

Installment Due Dates and Amounts of Estimate Tax – Accounting Period Less Than 12 Months (First Year Only)

Fiscal year taxpayers should adjust dates accordingly

If taxable year (calendar year) begins:	Number of Installments	Percentage of Estimated Tax Due on or Before the 15th Day of			
		April	June	September	December
January 1 through January 16	4	25%	50%	75%	100%
January 17 through March 16	3		33 ¹ / ₃ %	66 ² / ₃ %	100%
March 17 through June 15	2			50%	100%
June 16 through September 15	1				100%
September 16 through December 31	None				

Notes applicable to the above tables:

For taxable years beginning on or after January 1, 1998, the applicable percentage for the estimated tax basis is 100 percent.

- To compute your tax payment, first multiply your estimated taxable income by the applicable rate as follows: corporations, use 8.84 percent; S corporations, use 1.5 percent.
- Banks and financial corporations: corporation rate is 10.84 percent and for S corporation the rate is 3.5 percent. For a taxable year ending in 1996 the rate for corporations was 11.3 percent and for S corporation the rate was 3.5 percent. Then apply the percentages provided in the table above.
- Any installment may be paid before the timely filed date prescribed.
- Generally, an overpayment from the prior year may be credited to the first installment as of the first installment due date or the date of payment, whichever is later.

Where To Get Tax Forms and Publications

By Internet – You can download, view, and print 1994 through 2002 California income tax forms, instructions, and publications. Legal notices and rulings beginning 96-1 up to current are also available. Go to our Website at: www.ftb.ca.gov.

By phone – To order current year **California tax forms and publications**:

- Refer to the list below and find the code number for the form you want to order.
- Call (800) 338-0505.
- Select: business entity tax information.
- Select: order forms and publications.
- Enter the three-digit code shown to the left of the form title when 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.

For prior year California tax forms, call our toll-free number listed under "Telephone and Internet Assistance."

In person – Many California libraries and some quick print businesses have forms and schedules for you to photocopy (they may require a nominal fee). **Note:** Employees at libraries, post offices, banks, 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.

- 816 California S Corporation Tax Forms and Instructions. This booklet contains: Form 100S, *California S Corporation Franchise or Income Tax Return*
Schedule QS, *Qualified Subchapter S Subsidiary (QSub) Information Worksheet*
- 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*

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 ten 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.

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 P (100), *Alternative Minimum Tax and Credit Limitations – Corporations*
FTB 3885, *Corporation, Depreciation and Amortization*
FTB 3805Q, *Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations*
FTB 3539, *Payment Voucher for Automatic Extension for Corporations and Exempt Organizations*

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 at: 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 TELEFONICA Y EN EL INTERNET

Dentro de los Estados Unidos,

llame al (800) 852-5711

Fuera de los Estados Unidos,

llame al (cargos aplican) (916) 845-6500

Sitio en el Internet: www.ftb.ca.gov

Other California State Agencies

Secretary of State

Incorporation/Qualification Information . (916)657-5448

Website www.ss.ca.gov

Board of Equalization

Toll-Free Number (800) 400-7115

Website www.boe.ca.gov

Employment Development Department (State Disability Insurance, Personal Income Tax Withholding and Unemployment Insurance)

From within the United States (888) 745-3886

From outside the United States (916) 464-3502

Website www.edd.ca.gov

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?

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 estimate 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?

Exempt Organizations

709 How do I get tax exempt status?

710 Does an exempt organization have to file Form 199?

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?

Billings and Miscellaneous Notices

723 I received a bill for \$250. What is this for?

Tax Clearance

724 How do I dissolve my corporation?

725 What do I have to do to get a tax clearance?

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?

703 How do I incorporate?

721 How do I change my accounting period?

737 Where do I send my payment?

750 How do I organize or register an LLC?

752 What tax forms do I use to file as an LLC?

753 When is the annual tax payment due?