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California

Forms & Instructions

100W

2002

Corporation Tax Booklet
Water's-Edge Filers

Members of the Franchise Tax Board

Kathleen Connell, Chair
John Chiang, Member
B. Timothy Gage, Member

This booklet contains:

Form 100W, California Corporation Franchise or Income Tax Return — Water's-Edge Filers

Schedule H (100W), Dividend Income Deduction — Water's-Edge Filers

Schedule P (100W), Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers

Form 100-WE, Water's-Edge Contract

FTB 1116, Notice of Nonrenewal of Water's-Edge Contract

FTB 1117, Request to Terminate Water's-Edge Election

FTB 2416, Schedule of Included Controlled Foreign Corporations

FTB 2424, Water's-Edge Foreign Investment Interest Offset

FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations

FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

FTB 3885, Corporation Depreciation and Amortization

STATE OF CALIFORNIA
FRANCHISE TAX BOARD

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California Corporation Franchise or Income Tax Return — Water's-Edge Filers

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).

Introduction

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

Note: For purposes of these instructions, the word "taxpayer" means a corporation in the combined group that has a California filing requirement.

The statute allowing the taxpayer to file on a water's-edge basis does not supersede the concept of unity; it merely limits the unitary entities included in the combined report. For a discussion of the concepts of the unitary method of taxation and its application by the state of California, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report. Once the taxpayer has computed its income attributable to California sources on the water's-edge combined report basis, the taxpayer may either file a separate return or may elect to file a single return with the other taxpayers in the water's-edge group. See Schedule R-7, Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations, which is included in Schedule R, Apportionment and Allocation of Income.

Note: S corporations normally may not be included in a combined report. For S corporations filing on a water's-edge basis, this booklet should be used in conjunction with Form 100S, California S Corporation Franchise or Income Tax Return.

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, get form FTB 5806, Underpayment of Estimated Tax by Corporations.

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 Section 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.
- The methodology for calculating deductions for bank bad-debt losses, which limits these deductions for large banks (have more than $500 million in assets) to actual losses rather than contributions to a reserve for bad debts. Large banks must recognize 50% of their existing bad-debt reserve balances as income in taxable year 2002. For more information, see question AA and Schedule G instructions.

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, see form FTB 3805Q included in this booklet.

For taxable years beginning on or after January 1, 2002, the credit for prior year alternative minimum tax (AMT) has to be applied before any credits that can reduce the regular tax below the tentative minimum tax (TMT) in accordance with California Revenue and Taxation Code (R&TC) Section 23036 (c).

The authority of the Wildlife Conservation Board to award Natural Heritage Preservation Tax Credit 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.

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, get 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.

For taxable years beginning on or after January 1, 2002, if the corporation's total receipts (see page 17 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 Schedules L, M-1, and M-2. However, this information must be available in the future upon request.

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).

Important Information

- **Check Out Your CPA**

  The California Board of Accountancy (CBA) licenses and regulates individual Certified

Public Accountants (CPA) and Public Accountants (PA), as well as accountancy firms and corporations, in California.

If you currently use or are thinking about using a CPA or PA 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 CBA office.

  Web: **www.cba.ca.gov**
  E mail enforcementinfo.cba.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 Legal 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**
- In *Ceridian v. Franchise Tax Board* (2000) 85 Cal.App.4th 875, the Court of Appeal has 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 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 Section at: toll free (888) 792-4900 or (916) 845-4900.
- For taxable years beginning on or after January 1, 2000, the percentage depletion deduction may not exceed 65% of the taxpayer's taxable income, and cannot exceed 100% of the net income derived from the oil or gas well property.
- For the purposes of determining the correct amount of tax for water's-edge electors, a presumption of correctness attaches to all federal determinations, including determinations made at the audit, appeals, and/or competent authority levels.

California conforms to federal law for the following provisions:

- AMT treatment of contributions of appreciated property.
- The disallowance of the deduction for club membership fees and lobbying expenses.
- The disallowance of the deduction for employee remuneration in excess of $1 million.
- Expensing of Environmental Remediation Costs. 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 an election for state purposes and a separate election is not allowed.
- Shrinkage Estimates for Inventory Accounting. 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.
- Election of mark-to-market for securities and commodities traders. 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.
- 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.
- 1995 ESOPs provisions. Existing federal law provides special tax rules for the purchase of employer securities by employees of the issuing company under IRC Section 1042. State law previously conformed to these provisions except for the 1995 taxable year. California law now conforms to these provisions for the year 1995.
- 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.
- Exemption from AMT for small corporations.
- Accelerated depreciation for property on Indian Reservations.
- The treatment of Subpart F and Section 936 income.
- The IRC passive activity loss rules for real estate activities.
- The temporary suspension of income limitations on percentage depletion for production from marginal wells.

California Taxpayers That are 25% Foreign-Owned U.S. Corporations and Foreign Corporations

Corporations that are required to file 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, with the federal return must attach a copy(ies) to the California return. The penalty for failing to include Form(s) 5472 as required is $10,000 per form. See General Information M, Penalties, for more information.

Information Return for U.S. Taxpayers Who Have Ownership (directly or indirectly) in a Foreign Corporation

For taxable years beginning on or after January 1, 1997, U.S. taxpayers who have an ownership interest (directly or indirectly) in a foreign corporation and are 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(ies) to the California return. The penalty for failing to include a copy of federal Form(s) 5471 as required is $1,000 per form. See General Information M, Penalties, for more information.

Records Maintenance Requirements

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

- Any records needed to determine the correct treatment of items reported on the 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 factors; and
- Documents and information needed to determine the proper 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 FTB notifies the 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.

Small Business Stock
For taxable years beginning on or after January 1, 1996, corporations that issue stock intended to be qualified small business stock pursuant to R&TC Section 18152.5 are required to attach form FTB 3565, Small Business Stock Questionnaire, to Form 100W.

Classification of Certain Business Trusts and Certain Foreign Single Member Foreign Limited Liability Companies (LLCs)
Normally, the classification of a business entity should be the same for California purposes as it is for federal purposes. However, an exception may apply for certain eligible business entities (business trusts and single member LLCs) existing prior to January 1, 1997, that were taxed as corporations for California purposes under the former R&TC Section 23038. If such an existing eligible business entity is, without an election for federal purposes, classified as a partnership (in the case of a business trust) or disregarded (in the case of a single member LLC) for taxable years beginning on or after January 1, 1997, the entity may elect to be classified the same as federal for taxable years beginning on or after January 1, 1997, for California. If this election is not made, the existing eligible business entity will continue to be classified and taxed as a corporation for California purposes. Get form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, for more information.

General Information

A Franchise or Income Tax

Corporation franchise tax
Entities subject to the corporation minimum franchise tax include all corporations (e.g. LLCs electing to be taxed as 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 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 corporation is active, inactive, not doing business in California, or operates at a loss.

Note: A corporation incorporated in California, but not doing business in this state, is not subject to the measured franchise tax. In the case of a 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 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 corporation to be "doing business."

Corporation income tax
The corporation income tax is imposed on all 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" generally includes:

- Associations;
- Massachusetts or business trusts;
- REITs;
- LLCs electing to be taxed as corporations other than those subject to the corporate franchise tax; and
- Other business entities, including partnerships, electing to be taxed as corporations.

B Tax Rates

The tax rates below apply to corporations subject to either the corporation franchise tax or the corporation income tax.

- Corporations other than banks and financial corporations 8.84%
- Banks and financial corporations 10.84%

C Minimum Franchise Tax

All corporations subject to the franchise tax, including banks, financial corporations, corporate general partners of partnerships, and corporate members of LLCs doing business in California, must file Form 100 or Form 100W and pay at least the minimum franchise tax as required by law. The minimum franchise tax, as indicated below, must be paid whether the corporation is active, inactive, operates at a loss, or files a return for a short period of less than 12 months.

- Domestic qualified inactive gold or quicksilver mining corporations $25
- All other corporations subject to franchise tax (see General Information A, Franchise or Income Tax, for definitions) $800

A combined group filing a single return must pay at least the minimum franchise tax for each corporation in the group that is subject to franchise tax.

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 California 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 the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to corporations that are not qualified by the California SOS, or reorganize solely to avoid payment of their 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;
- Corporations that are not incorporated under the laws of California; whose sole activities in this state are engaging in convention and trade show activities for seven or fewer days during the taxable year; and do not derive more than $10,000 of gross income reportable to California during the taxable year. These corporations are not "doing business" in California. For more information, get 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; and
- Newly formed or qualified corporations filing an initial return for taxable years beginning on or after January 1, 2000.

D Accounting Period/Method

The taxable year of a 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, a corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to change its accounting method without prior approval and does so, is deemed to have the FTB's approval if: (1) the corporation files Form 100W consistent with the change for the first year the change becomes effective for federal purpose; 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 100W for the first year the change becomes effective. See FTB Notice 2000-8, for more information. The FTB may modify a requested change if the change would distort income for California purposes.

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

If the corporation is a bank, a savings and loan association, or a financial corporation, it can no longer 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.

E When to File

File Form 100W on or before 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 a short period return. See General Information O, Dissolution/Withdrawal, and P, Ceasing Business, for information on final returns.

F Extension of Time to File

If the corporation cannot file its California 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 unless the corporation is suspended on the original due date. This does not extend the time for payment of tax; the full amount of tax must be paid by the original due date of Form 100W. If there is an unpaid tax liability, complete 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 100W.

Note: If the corporation must pay its tax liability using electronic funds transfer (EFT), all payments must be remitted by EFT to avoid the EFT penalty. Do not send form FTB 3539.

G Electronic Funds Transfer (EFT)

Corporations 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 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 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 a 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 100W" 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 1120, U.S. Corporation Income Tax Return, 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 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 or 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 100W. There are two ways to complete Form 100W, the federal reconciliation method or the California computation method:

1. **Federal reconciliation method**
   a. Attach a copy of federal Form 1120 or Form 1120A, Page 1, U.S. Corporation Income Tax Return, and all pertinent supporting schedules, or transfer the information from federal Form 1120 or Form 1120A, Page 1, to Schedule F and attach all pertinent schedules;
   b. Enter the amount of federal ordinary income (loss) from trade or business activities before any net operating loss (NOL) on Form 100W, Side 1, line 1; and
   c. Enter state adjustments on line 2 through line 17 to arrive at net income after state adjustments, Side 1, line 18.
2. **Schedule F – California computation**
   If the corporation has no federal filing requirement or if the corporation maintains separate records for state purposes, complete Form 100W, Schedule F, 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 29, to Side 1, line 1. Complete Form 100W, Side 1, line 2 through line 17, only if applicable. For more information, see the specific line instructions.

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

J Alternative Minimum Tax

Corporations that claim certain types of deductions, exclusions, and credits may be subject to California's alternative minimum tax (AMT). Generally, corporations that complete federal Form 4626, Alternative Minimum Tax — Corporations, also must complete California Schedule P (100W), Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers. See Schedule P (100W), included in this booklet, for more information.

K Estimated Tax

Every 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 by the 15th day of the 4th month of the taxable year (note that this payment may not be less than the minimum franchise tax, if applicable); and
- The 2nd, 3rd, and 4th installments are due and payable by 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.

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%.

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 Corporations

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

M Penalties

Failure to file a timely return

Any corporation that fails to file Form 100W on or before the extended due date is assessed a penalty. The penalty is 5% of the unpaid tax for each month, or part of the month, the return remains unfiled from the due date of the return until filed. The penalty may not exceed 25% of the unpaid tax. If a 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 Sections 19131 and 23772, for more information.

Failure to pay total tax by the due date
Any corporation that fails to pay the total tax shown on Form 100W 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 a 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 assessed, but the total penalty may not exceed 25% of the unpaid tax.

Underpayment of estimated tax
Any 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 Sections 19142, 19144,19145, 19147, 19148, 19149, 19150, 19151, and 19161, for more information.

Note: If the corporation uses Exception B or Exception C to either compute or eliminate any of the four installments, form FTB 5806 must be attached to the **front** of Form 100W and the box on Side 1, line 41b; should be checked.

EFT Penalty
If the 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. corporations that have an ownership interest (directly or indirectly) in 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 100W. 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 corporation does not file its Form 100W 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 corporation files Form 100W, also attach copies of the 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 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 assessed.

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 regulations thereunder 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.

California Secretary of State (SOS) 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.

For more information, contact:
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 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 100W. Interest is also due on some penalties. The automatic extension of time to file Form 100W 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 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.

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, add this amount to the value on line 35. Make a notation to the right of Side 1, line 35: "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 corporation formally dissolved or withdrew.

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

Samples and/or forms for a dissolution, surrender, or merger agreement filing may be obtained by addressing your request to:
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 a corporation ceases to do business. For taxable years beginning after December 31, 1972, and before January 1, 2000, the tax for the final year in which the 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 corporation does business in California is determined:

- 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 franchise 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 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 a corporation fails to file a Form 100W 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 corporation) or forfeited (in the case of a foreign corporation).

Corporations that operate while suspended or forfeited are subject to a $2,000 penalty, 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 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

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 M on Form 100W, Side 2.

S Combined Report

If two or more corporations are engaged in a unitary business and derive income from sources within and outside of California, the members of the unitary group that are subject to California's franchise or income tax are required to apportion the combined income of the entire unitary group in order to compute the measure of the tax.

If the income of a unitary group is derived wholly from California sources, its members may either file returns on a separate accounting basis or file on a combined report basis.

Members of a unitary group may elect to file a group single return by filing Schedule R-7, Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations. For more information, get Schedule R.

A combined unitary group's single return must present the group's data stated separately for each corporation, as well as totals for the combined group.

The total combined tax, which must include at least the minimum franchise tax for each corporation subject to the franchise tax, must be shown on Form 100W, Side 1, line 24.

For more information, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

T Water's-Edge Reporting

Water's-Edge Combined Report

Entities Included

For taxable years beginning on or after January 1, 1996, the water's-edge combined report includes only the income and apportionment factors of the members of the unitary group that meet the criteria set forth in R&TC Section 25110, as summarized below. If an entity meets any one of these criteria **and** is unitary, it must be included in the combined report. If an entity does not meet any of these criteria, it must be excluded from the combined report.

1. Any domestic international sales corporation, as defined in IRC Section 992, and any foreign sales corporation, as defined in IRC Section 922.
2. Any corporation, regardless of where it is incorporated, if the average of its property, payroll, and sales factors within the U.S. is 20% or more. This rule does not apply to foreign incorporated banks. R&TC Section 25128, requiring the double weighting of the sales factor, does not apply for purposes of this inclusion test. For more information, get FTB Legal Ruling 95-5.
3. Any corporation incorporated in the U.S., more than 50% of whose stock is owned or controlled directly or indirectly by the same interests, except for corporations making an election under IRC Section 936.
4. Any export trade corporation as defined in IRC Section 971.
5. Any controlled foreign corporation (CFC), as defined in IRC Section 957, that has Subpart F income as defined in IRC Section 952. The income and apportionment factors of such corporation are included in the combined report based on the ratio of the total Subpart F income of such entity for the year to its current year earnings and profits (E&P). The ratio cannot exceed 100% or be less than 0%. If the current year E&P are zero or less, none of the income and factors of the entity are included in the combined report. Subpart F income defined in IRC Sections 955, 956, and 956A, is not considered in the computation.
6. Any corporation not described in items 1 through 5 with less than 20% of its average property, payroll, and sales in the U.S., or any foreign organized bank that has income attributable to sources within the U.S. Such entities are included in the combined report only to the extent of their U.S. located income and factors. In general, U.S. located income includes both of the following:
   - Income that is effectively connected income (ECI) with U.S. trade or business, or is treated as effectively connected, under the provisions of the IRC. Because the State of California is not a party to the federal tax treaties, the ECI immunity provisions of the federal tax treaties do not apply for California purposes. Any income satisfying the definition of ECI, that is excluded from federal taxable income due to a tax treaty, is included for California purposes; and
   - U.S.-sourced income that is business income described under R&TC Section 25120, regardless of whether or not such income is considered ECI for federal purposes.

For more information, see R&TC Section 25110(a) and the regulations thereunder.

Intercompany Transactions

FTB Notice 89-601, dated September 20, 1989, states that the Franchise Tax Board (FTB) will issue regulations prescribing the treatment of transactions between two or more entities engaged in a single unitary business. The Notice provides interim guidance for the treatment of certain intercompany transactions in water's-edge combined reports. The FTB has now adopted regulations which will apply to intercompany transactions occurring on or after January 1, 2001. For more information, see Title 18 Cal. Code Reg. Section 25106.5-1.

For earlier years, the water's-edge treatment can be summarized as:

1. If a combined group has deferred gain or loss from intercompany transactions, a water's-edge election under R&TC Section 25111 will cause certain previously deferred gains or losses to be taxed over a 60-month period beginning with the first day of the election period. This applies only to transactions where either the transferee, the transferor, or both, are to be excluded from a combined report by reason of the water's-edge election. It does not apply if both the transferor and the transferee are included in the water's-edge combination.
2. Generally, such gains or losses will be apportioned using the percentage used in the last worldwide combined report that preceded the first water's-edge year. FTB Notice 89-601 provides that the percentage in the year of the original transaction can be used in certain circumstances.

The deferral method referred to in FTB Notice 89-601 applies to intercompany transactions involving fixed assets and capitalized items only. Certain other types of intercompany transactions, including intercompany sales of inventory and intangible assets, must be reported under the elimination/carryover basis method. When members of a combined group use the elimination/carryover basis method, the transferor's basis will carry over to the transferee.

A subsequent water's-edge election will have no effect on the recognition of profit under this method. Any profit eliminated as a result of using this method would be recognized by the transferee when the asset is sold outside the combined reporting group.

Taxpayers may wish to review the treatment of intercompany transactions prescribed in FTB Pub. 1061 and the federal rules under Treas. Reg. Section 1.1502-13.

For more information, see Title 18 Cal. Code Reg. Section 25106.5-1.

Water's-Edge Election

Contract Requirement

To make the water's-edge election, taxpayers must enter into a contract with the FTB by signing and filing Form 100-WE, Water's-Edge Contract. In consideration for being allowed to file on a water's-edge basis, the taxpayer must:

- Agree to file on a water's-edge basis for a period of 84 months;
- Agree to business income treatment of dividends received from: (1) over 50% owned entities engaged in the same general line of business as the members of the water's-edge group, or (2) entities that are a significant source of supply to, or a significant purchaser of, the output of the members of the water's-edge group. Significant means an amount equal to 15% or more; and
- Consent to the taking of depositions from key employees or officers of the members of the water's-edge group and to the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

Title 18 Cal. Code Reg. Section 25111-1 was amended to permit a valid water's-edge election when substantial performance of the requirements for entering into a water's-edge contract has occurred.

For more information, see R&TC Sections 25110(b), 25111, and the regulations thereunder.

Taxpayers Covered by an Election

For an election to be effective, all affiliated taxpayers engaged in a single unitary business must file on a water's-edge basis. A taxpayer or an affiliated group of taxpayers that is engaged in more than one unitary business may make a water's-edge election with respect to any one or more of its businesses, but need not elect for all of its businesses. For example, a taxpayer engaged in two unitary businesses may elect water's-edge for one of the businesses and may remain subject to worldwide combined reporting treatment for the other business.

The common parent of a controlled group that files a consolidated federal return, or the common parent wherever domiciled or organized, may file an election on behalf of all members of the controlled group that are part of the water's-edge combined report group. The common parent need not be a California taxpayer. An election by a common parent supersedes any inconsistent position taken by a member of the combined reporting group.

In cases where the water's-edge election is not entered into by a common parent, each taxpayer included in the combined report must enter into a separate contract.

Time of Making the Contract

The contract must be entered into by all unitary taxpayers included in the original combined report at the time the original return is filed for the first taxable year the contract is to be effective. In addition, to make a valid election each taxpayer must be in good standing with the FTB and the California SOS.

CAUTION: The election must be made on an original return as defined in Regulation 25111-1(e)(1). A copy of the original contract must be attached to all subsequent returns filed during the election period.

Taxpayers with Different Fiscal Year Ends

Taxpayers engaged in a unitary business with different fiscal year ends will make the election on each individual return. For each member of the group, the election period will begin on the first day of the taxable year of the last member of the water's-edge group to file its return and make the election. Each taxpayer that has a taxable year beginning earlier than the last member of the group will compute its tax liability on its initial return using a hybrid worldwide/water's-edge combination method.

For more information, see Title 18 Cal. Code Reg. Section 25111-1(g).

Automatic Renewal

Once the contract period starts, it will automatically renew on the anniversary date of the contract. The anniversary date of the contract is the later of the original due date of the return or the due date of the return as extended. The anniversary date is determined by the first taxable year of the election and does not change. The automatic renewal provision extends the 84-month period of the contract for an additional 12 months. The contract period will automatically renew each annual anniversary date, unless the taxpayer files form FTB 1116, Notice of Nonrenewal of Water's-Edge Contract, at least 90 days prior to an anniversary date.

Notice of Nonrenewal

Form FTB 1116 prevents the automatic renewal provision from extending the contract period.

A taxpayer may file form FTB 1116 at any time during the contract period. To prevent the automatic renewal provisions, form FTB 1116 must be filed with the FTB at least 90 days prior to the anniversary date of the contract. Once form FTB 1116 is filed, the taxpayer must continue to file on a water's-edge basis until the contract period expires.

Caution: Form FTB 1116 must be filed separately from any other form.

Mail form FTB 1116 to:
FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

Example:
Corporation A, a calendar year taxpayer, makes a water's-edge election with its return filed on October 15, 2003. The contract covers taxable years 2002 through 2008. To avoid automatic renewal, Corporation A must file Form 1116 at least 90 days before the anniversary date. The anniversary date is October 15, 2004. Form 1116 must be filed between October 15, 2003, and July 17, 2004. If Form 1116 is not filed before July 17, 2004, the contract automatically renews and extends the election through the 2009 taxable year. If Form 1116 is not filed before July 17, 2005, the contract will be automatically extended by additional 12 months through December 2010 and so forth.

All members of the water's-edge group must consent to the notice of nonrenewal. Similar to the water's-edge contract, the common parent of a controlled group may file form FTB 1116 for all taxpayers in the water's-edge combined group.

Effect of Changes in Affiliation

In general, taxpayers are bound by any contract they enter into, or by any contract entered into by a unitary affiliate, for the entire term of the contract. For example, a bank or corporation that is subject to California tax and becomes a member of an electing water's-edge group after the group makes an election, or a unitary affiliate of an electing taxpayer that becomes subject to California tax after the election, is deemed to have consented to and is bound by the original election and contract for the remaining term of the contract. A water's-edge election is a tax attribute that carries over to the surviving entity in a reorganization or liquidation. When a taxpayer ceases to be a member of the water's-edge group, the taxpayer must continue to file on a water's-edge basis until the contract period expires. If an electing taxpayer is acquired by and is unitary with a non-electing entity or group, the unitary non-electing entity or group must file on a water's-edge basis and be included in the water's-edge combined report of the electing taxpayer until the water's-edge contract period expires.

However, if the water's-edge taxpayer meets certain criteria, it may request termination of its water's-edge election. See "Termination of Election" below.

A non-electing corporation that is subsequently proven to be unitary with a water's edge group pursuant to an audit determination of the FTB is deemed to have made a water's-edge election.

Under certain circumstances, taxpayers adversely affected by the above rules may terminate their election.

When an affiliation change occurs, a statement should be attached to the return identifying which affiliates were included in the original group, the appropriate California Corporation numbers, and what changes have occurred.

For more information, see Title 18 Cal. Code Reg. Section 25111-1(d)(2).

Termination of Election

A taxpayer may terminate its water's-edge election prior to the expiration of the contract period only if:

- The taxpayer is acquired by an unrelated, non-electing entity or group of entities that has larger equity capital than the taxpayer; or
- The FTB grants the taxpayer written permission to terminate the election. A taxpayer may request permission to change its election at any time. In general, the request will be granted only if the taxpayer demonstrates to the satisfaction of the FTB that filing on a water's-edge basis instead of a worldwide basis results in a significant disadvantage to the

taxpayer, and that such disadvantage is the result of an extraordinary and significant event that could not have been reasonably anticipated at the time the election was originally made.

In general, the effective date of any request that is granted by the FTB will be for the taxable year immediately following the taxable year in which the qualifying event occurs. Form FTB 1117, Request to Terminate Water's-Edge Election, must be filed no later than the due date of the return, including extension, for the taxable year the termination is effective.

A taxpayer must timely file form FTB 1117 **separately from any other form** to terminate its water's-edge election. Mail form FTB 1117 to:

FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

For more information, see R&TC Section 25111 and the regulations thereunder.

U Amended Return

To correct or change a previously filed Form 100W, 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 a final federal determination, if the Internal Revenue Service (IRS) examined and changed the corporation's federal return.

V Information Returns

Every 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 to report the amount of such 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.

Report payments on federal Form 1099 (series). Reports must be made for the calendar year and are due to the IRS no later than February 28th of the year following payment. 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.

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 will be due June 1, 2003. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest & Interest-Dividend Payments, for more information.

California conforms to the information reporting requirements of IRC Section 6045(f) for certain payments made to attorneys. If the corporation has complied with the federal requirements, the 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 through 6038C. Any Forms 5471, 5472, or 926 required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. These federal information returns should be attached to the Form 100W 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 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, see form FTB 3805Q included in this booklet.

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

NOL carryovers incurred prior to the water's-edge election are limited to the amount of NOL carryover that the taxpayer would have been incurred if water's-edge election had been in effect in the loss year.

R&TC Sections 24416 through 24416.7 and R&TC Section 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 Business Booklet; form FTB 3807, Local Agency Military Base Recovery Area Business Booklet; or form FTB 3809, Targeted Tax Area Business Booklet.

X 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.

Y New Corporations

New corporations, which begin business on or after January 1, 2000, are no longer required to prepay minimum tax to the California SOS.

For taxable years beginning on or after January 1, 2000, no minimum franchise tax will be due with the initial tax return. However, the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rates.

Specific Line Instructions

Taxpayers that are not filing on water's-edge basis should not use Form 100W, use Form 100, California Corporation Franchise or Income Tax Return. However, a taxpayer that is filing on a water's-edge basis for one or more lines of business should use Form 100W even though that taxpayer may also have one or more lines of business that are not on a water's-edge basis.

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

- 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 100W 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 corporation reports its income using a calendar year, leave the date area blank. If the return is being filed for a short period of less than 12 months, write "short year" in red in the top margin. Convert all foreign monetary amounts to U.S. dollars.

Note: The 2002 Form 100W 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 100W is not available at the time the corporation is required to file its return. The corporation must show its 2003 taxable year on the 2002 Form 100W and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2002.

Questions AA through Z

Answer all applicable questions and attach additional sheets, if necessary. Be sure to answer Questions E through Z on Form 100W, Side 2. Note the following instructions when answering:

Question AA - Bad debt reserve recapture
For taxable years beginning on or after January 1, 2002, California has conformed to the federal bad debt deduction rules. The bad debt deduction for financial corporations, savings and loans, and large banks (institutions that have more than 500 million dollar in assets) is limited to debts that become worthless within the taxable year. This constitutes a change in accounting method and the entities affected by the change must recognize 50% of their existing bad debt reserve balances into income in the year of change. Enter the recapture amount here and on Form 100W, line 8. For those banks remaining on the reserve method of accounting, the prior year's ending reserve is carried over and the reserve is computed using the federal rules contained in Section 585 of the Internal Revenue Code.

Question E — Principal business activity (PBA) code
All corporations **must** answer Question E.

Include the six digit PBA code from the chart found on page 17 through page 19 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 the principal product or service on the lines provided.

Question J — Transfer or acquisition of voting stock
All corporations **must** answer Question J. If the answer is "Yes," a Statement of Change in Control and Ownership of Legal Entities (BOE-100-B), must be filed with the California State Board of Equalization (BOE), or substantial penalties may result. Forms and information may be obtained from the BOE at (916) 323-5685.

Answer "Yes" if:

- The percentage of outstanding voting shares of this corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively exceeded 50% during this year; or
- The total of voting shares transferred to one irrevocable trust cumulatively exceeded 50% during 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 corporation's cumulative ownership or control of the stock or other ownership interest in any legal entity exceeded 50% during this year; or
- Cumulatively more than 50% of the total outstanding shares of this corporation have transferred, changed ownership or control during this year.

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

Question S — Regulated Investment Company (RIC)
California conforms to federal law for taxable years beginning on or after January 1, 1998, for the provisions related to the repeal of the 30% gross income test for RICs.

Question T — Real Estate Mortgage Investment Conduit (REMIC)
If a corporation is a REMIC for federal purposes, it is deemed to be a REMIC for California purposes. A REMIC is subject to the minimum franchise tax but is not subject to the income or franchise tax. The income of a REMIC is taxable to the holders of the REMIC interests. In order to qualify, substantially all of the assets of the entity must consist of "qualified mortgages" and "permitted investments." See the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return, to determine if the corporation qualifies. California law is the same as federal law, except California does not impose a tax on prohibited transactions, as defined in IRC Section 860F. The income or gain from such prohibited transactions remains includible in the California tax base. If the corporation is a REMIC for federal purposes, answer "Yes" to Question T, complete Form 100W and attach a copy of federal Form 1066.

Question U — Real Estate Investment Trust (REIT)
California conforms to the federal law relating to REITs, except for the provisions relating to retaining capital gain tax credit added by Section 1254 of the Taxpayer Relief Act of 1997, and various alternative taxes imposed on certain income and activities of REITs (although such income amounts remain includible in the California tax base). Additionally, a federal election to treat property as foreclosure property under IRC Section 856(e)(5) is considered to be an election for California as well. No separate elections are allowed.

Question V — Limited liability company (LLC)
Answer "Yes" only if the business entity for which the Form 100W is being filed is organized as an LLC but is classified as a corporation for federal tax purposes. An LLC classified as a partnership for federal purposes should generally file Form 568.

Line 1 through Line 42

Line 1 – Net income (loss) before state adjustments
Corporations using the federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120, line 28; or federal Form 1120A, line 24, to Form 100W, Side 1, line 1; and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120 or Form 1120A, Page 1, onto Schedule F and transfer the amount from Schedule F, line 29, to Form 100W, Side 1, line 1.
- Then, complete Form 100W, Side 1, line 2 through line 17, State Adjustments.

Corporations using the California computation method to figure net income (see General Information I) must transfer the amount from Side 3, Schedule F, line 29; to Side 1, line 1. Complete Form 100W, Side 1, line 2 through line 17, only if applicable.

Line 2 through Line 17 – State adjustments
To figure net income for California purposes, corporations using the federal reconciliation method must enter California adjustments to the federal net income on line 2 through line 17. If a specific line for the adjustment is not on Form 100W, corporations must enter the adjustment on line 8, Other additions, or line 16, Other deductions, and attach a schedule that explains the adjustment.

Line 2 and Line 3 – Taxes not deductible
California does not permit a deduction of California corporation franchise or income taxes or any other taxes on, according to, or measured by net income or profits. Such taxes that are shown on Form 100W, Schedule A, must be added to income by entering the amount on Side 1, line 2 or line 3 (see Schedule A, column (d) for the amount to be added to income). California does not permit a deduction for environmental taxes imposed by IRC Section 59A.

The LLC fee is not a tax, R&TC Section 23092; therefore, it is deductible. Do not include any part of an LLC fee on line 2 or line 3.

Line 4 – Interest on government obligations
Corporations subject to California franchise tax must report all interest received on government obligations (such as federal, state, or municipal bonds). On line 4, enter all interest on government obligations that is not included in the federal ordinary income (loss).

Corporations subject to California corporation income tax, see instructions for line 16.

Line 5 – Net California capital gain
Complete Schedule D, Side 2, and enter the California net capital gain from Schedule D, line 11.

See FTB Pub. 1061 for instructions on determining the net capital gain when a combined report is filed.

Line 6 and Line 12 – Depreciation and amortization
California law is substantially different from federal law for corporations.

Complete form FTB 3885, Corporation Depreciation and Amortization, included in this booklet, to determine the amounts to enter on line 6 or line 12.

Line 7a – Net income from Included Controlled Foreign Corporations (CFCs)
R&TC Section 25110(a)(6) provides that a portion of the income and apportionment

factors of any CFC (defined in IRC Section 957) that has Subpart F income, as defined in IRC Section 952, must be included in the combined report of a taxpayer making a water's-edge election. Complete and attach form FTB 2416, Schedule of Included Controlled Foreign Corporations, included in this booklet, to compute the amount to enter on line 7a.

Line 7b – Income not included in federal consolidated return
Use this line to report the net income from corporations included in the combined report but not included in the federal consolidated return.

Line 8 – 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 any miscellaneous items that must be added to arrive at net income after state adjustments (line 18) should be shown on this line. Attach a schedule to itemize amounts. If any federal contribution deduction reduced the amount entered on Form 100W, Side 1, line 1, enter that amount on this line.

California ordinary net gain or loss. Enter any California ordinary net gain or loss from Schedule D-1, Sales of Business Property. Attach Schedule D-1.

Line 10 and Line 11 – Dividends
See instructions for Schedule H (100W), Dividend Income Deduction, included in this booklet.

Foreign Investment Interest Offset
R&TC Section 24344(c) provides that interest expense incurred for purposes of foreign investment is offset against the water's-edge dividends deductible under R&TC Section 24411. The offset cannot be greater than the deduction allowed pursuant to R&TC Section 24411. Complete and attach form FTB 2424, Water's-Edge Foreign Investment Interest Offset, to the return. For more information, see R&TC Section 24344(c) and the regulations thereunder and the instructions to form FTB 2424.

Line 13 – Federal capital gain net income
Enter the federal capital gain net income from federal Form 1120 or Form 1120A, line 8. The California net capital gain should have been added to income on line 5.

Line 14 – Contributions
The contribution deduction for a California corporation 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 limited to 10% of California net income. Carryover provisions per IRC Section 170(d)(2) apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100W format, complete Form 100W, Side 1, line 1 through line 18 without regard to line 14, Contributions. If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as a positive number on line 8. Enter the adjusted basis of the assets contributed on line 5 of the worksheet. Then complete the worksheet that follows to determine the contributions to enter on line 14.

1. Net income after state adjustments from Side 1, line 18 . . . . . _____
2. Deduction for dividends received . . . . . _____
3. Net income for contribution calculation purposes. Add line 1 and line 2 . . . . . _____
4. 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 14 . _____

Get Schedule R to figure the contribution computation for apportioning corporations.

Line 15 – EZ, TTA, or LAMBRA business expense and/or net interest deduction
Businesses conducting a trade or business within an EZ, TTA, or LAMBRA 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 within an EZ or a TTA. For more information, get form FTB 3805Z or form FTB 3809.

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 16 – 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.

For corporations subject to income tax (instead of the 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 4, it must be deducted on line 16.

Federal ordinary net gain or loss. Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property.

Line 19 – Net income (loss) for state purposes
If all corporate income is derived from California sources, transfer the amount on line 18 directly to line 19.

If only a portion of income is derived from California sources, complete Schedule R before entering any amount on line 19. Transfer the amount from Schedule R, line 24, to Form 100W, line 19. Be sure to answer "Yes" to Question M on Form 100W, Side 2.

Note: For corporations with multiple Schedule Rs from separate trade or businesses or business income from prior years, combine the amounts on line 24 from all Schedule Rs, and enter the total on line 19.

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

Line 20, Line 21, and Line 22
Note: The order in which line 20, line 21, and line 22 appear is not meant to imply the order in which any NOL carryover deduction or disaster loss deduction be taken if more than one type of deduction is available.

Line 20 – Net operating loss (NOL) carryover deduction
California has suspended the NOL carryover deduction for taxable years beginning in 2002 and 2003.

Line 21 – 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 22 – Disaster loss carryover deduction
If you have a disaster loss carryover deduction, enter the total amount from the 2002 form FTB 3805Q, Part III, line 1, only if you have income in the current year. The loss may not reduce current year income below zero. Any excess loss must be carried forward.

Line 24 – Tax
Use rates listed in General Information B, Tax Rates, and C, Minimum Franchise Tax.

Line 25 through Line 27 – Tax credits
A variety of tax credits are available to California corporations to reduce tax. However, corporations may not reduce the tax (line 24) below the minimum franchise tax, if applicable.

Also, the amount of the credit that a corporation is allowed to claim may be limited. Generally, if the corporation completed federal Form 4626, Alternative Minimum Tax — Corporations, the corporation may have limited credits. Complete Schedule P (100W), included in this booklet, to compute this limitation.

Corporations claiming only:
- Enterprise zone hiring & sales or use tax credit;
- LARZ construction hiring & sales or use tax credit carryover;
- Solar energy credit carryover;
- Commercial solar energy credit carryover;
- Commercial solar electric system credit;
- Research credit;
- Orphan drug credit carryover;
- Low-income housing credit;
- Manufacturers' investment credit;
- Targeted tax area hiring and sales or use tax credit;
- Natural heritage preservation tax credit;
- Program area sales and use tax and hiring credit carryover; and;
- Clinical testing expense credit carryover.

are not subject to the tentative minimum tax limitation.

Each credit is identified by a code number. See the credit code chart on page 15. To claim one

or two credits, enter the credit name, code number, and the amount of the credit on line 25 and line 26. To claim more than two credits, use Schedule P (100W). List two of the credits on line 25 and line 26. Enter the total of any remaining credits from Schedule P (100W) on line 27. Do not make an entry on line 27 unless line 25 and line 26 are complete.

To figure tax credits, use the appropriate form or schedule. If the corporation claims a credit carryover for an expired credit, use form FTB 3540, Credit Carryover Summary, to figure the amount of credit, unless the corporation is required to complete Schedule P (100W). In that case, enter the amount of the credit on Schedule P (100W) and complete Schedule P (100W). Do not attach form FTB 3540.

Attach the credit form or schedule and Schedule P (100W), if applicable, to Form 100W.

Line 29 – Balance
Subtract line 28 from line 24. Enter the result or the applicable minimum franchise tax, whichever is more. See General Information C, Minimum Franchise Tax.

Line 30 – Alternative minimum tax (AMT)
Enter on this line the AMT from Schedule P (100W), Part I, line 19, or Part II, line 18, whichever is applicable.

Line 33 – 2002 estimated tax payments
Enter the total amount of estimated tax payments made during the 2002 taxable year on this line.

Line 34 – 2002 Nonresident withholding
Enter the 2002 nonresident withholding credit from Form(s) 592-B, 594, or 597 if this corporation was withheld upon. Attach Copy B of Forms 592-B, 594, or 597 that the corporation received from the withholding entity to the front of Form 100W, Side 1.

Line 37 and Line 38 – Tax due or overpayment
Revise the amount of tax due or overpayment, if applicable, by the amount on Side 2, Schedule J, line 6. See instructions for Schedule J.

Line 39 – 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 40 – 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 100W, Side 1, line 40a, 40b, and 40c. Please be sure to fill in **all** the information.

Do not attach a voided check or deposit slip. The illustration below shows which bank numbers to transfer to Form 100W, Side 1, line 40a, and line 40c.

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 41 – Penalties and interest
Enter on line 41a 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 100W, only if Exception B or Exception C is used in computing or eliminating the penalty. Be sure to check the box on line 41b.

Note: 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, attach form FTB 5806.

Schedules

Schedule A — Taxes Deducted

Enter the nature of the tax, the taxing authority, the total tax, and the amount of the tax that is not deductible for California purposes on Form 100W, Side 3, Schedule A.

Schedule D — Capital Gain or Loss

California law does not conform to the federal reduced capital gains tax rates. California taxes capital gains at the same rate as other types of income. California does not allow a three-year carryback of capital losses.

Enter any unused capital loss carryover from 2001 on Schedule D, line 3.

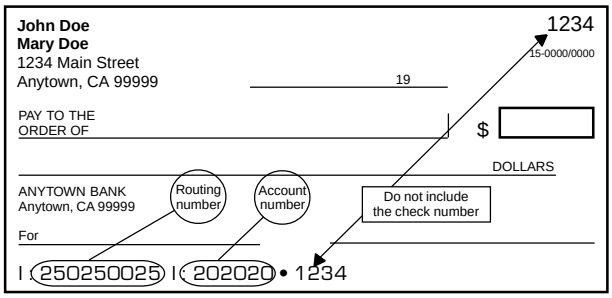
Schedule F — Computation of Net Income

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

Line 13 – Salaries and Wages
Gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised on or after January 1, 1997, and before January 1, 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 AMT and the corporation is not allowed a deduction for the compensation excluded from the employee's gross income. For more information, see R&TC Section 24602.

✓Tip

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



Schedule G Bad Debts — Reserve Method, see instructions

(a) Taxable year	(b) Accounts outstanding at the end of the year	Amount added to reserve (c) Current year's provision	(d) Recoveries	(e) Amount charged against reserve	(f) Reserve for bad debts at end of year
1997					
1998					
1999					
2000					
2001					
2002					

Schedule G — Bad Debts Reserve Method

For the purpose of the bad debt reserve method, banks include savings and loan associations, and other financial institutions. For more information, see the Internal Revenue Code (IRC) Section 581 and 585. Only banks that are not a large bank, as defined in the IRC Section 585(c)(2), may use the bad debt reserve method. Complete Schedule G on page 13 and attach it to Form 100W.

Schedule J — Add-On Taxes and Recapture of Tax Credits

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

- Last-in, first-out (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 amount of tax due or overpayment on Form 100W, line 37 or line 38, as applicable by the amount from Schedule J, line 6.

Installment payment of tax attributable to last-in, first-out (LIFO) recapture for corporations making an S corporation election. A corporation that uses the LIFO inventory pricing method and makes an S corporation election must include a "LIFO recapture amount" in income for its last year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the first-in, first-out (FIFO) method, over the inventory amount using the LIFO method, at the close of the corporation's last taxable year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture in income is payable in four equal installments. The first installment is due on the original due date of Form 100W of the electing corporation's last year as a C corporation.

To determine the additional tax due to LIFO recapture, the corporation must complete Form 100W, Side 1, line 19 through line 31, based on income that does not include the LIFO recapture amount.

On a separate worksheet using the Form 100W format, the corporation must complete the equivalent of Form 100W, Side 1, line 19 through line 31, based on taxable income including the LIFO recapture amount. Form 100W, Side 1, line 31, must then be compared to line 31 of the worksheet. The difference is the additional tax due to LIFO recapture.

Since Form 100W, Side 1, line 31, does not include the additional tax due to LIFO recapture, the corporations must include 1/4 of the additional tax on Schedule J, line 1 and adjust line 37 or line 38 accordingly. Attach the worksheet showing the computation.

Note: The electing S corporations must pay the remaining three installments of deferred tax with Form 100S.

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

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the 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), 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(c) applies is outstanding at the close of the year, the corporation must include the interest due under IRC Section 453A on Schedule J, line 3b. For the applicable interest rates, get FTB Pub. 1138.

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 recapture. Complete Schedule J, line 5, if the 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; or
- FTB 3808, Manufacturing Enhancement Area Credit Summary; or
- FTB 3809, Targeted Tax Area Deduction and Credit Summary; or
- FTB 3535, Manufacturers' Investment Credit; or
- FTB 3534, Joint Strike Fighter Credit; or
- FTB 3508, Solar Energy System Credit.

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

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

Schedule M-1— Reconciliation of income (loss) per books with income (loss) per return.

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. 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 from the federal Form 1120, Schedule M-1 if using the California computation method for net income. The California computation method is generally used when the corporation has no federal filing requirement, or if the corporation maintains separate records for state purposes.

Note: If the corporation's total receipts (see page 17 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, Schedule M-1, and Schedule M-2. However, this information must be available in the future upon request.

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 Farmworker Housing – Loan Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM, CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 916 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814	207 208	50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing Banks and financial corporations: 50% of foregone interest income on qualified farmworker housing loans
Joint Strike Fighter Wage – 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 – 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 LAMBRAs
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 makret 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 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 (100W), 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	

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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 on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System.

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 3, Schedule F, line 1a) plus all other income (Side 3, Schedule F, lines 4 through 10). 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 100W, Question E. 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

Merchant Wholesalers, Nondurable Goods

424100 Paper & Paper Products
424210 Drugs & Druggists' Sundries
424300 Apparel, Piece Goods, & Notions
424400 Grocery & Related Products
424500 Farm Product Raw Materials
424600 Chemical & Allied Products
424700 Petroleum & Petroleum Products
424800 Beer, Wine, & Distilled Alcoholic Beverages
424910 Farm Supplies
424920 Book, Periodical, & Newspapers
424930 Flower, Nursery Stock, & Florists' Supplies
424940 Tobacco & Tobacco Products
424950 Paint, Varnish, & Supplies
424990 Other Miscellaneous Nondurable Goods

Wholesale Electronic Markets and Agents and Brokers

425110 Business to Business Electronic Markets
425120 Wholesale Trade Agents & Brokers

Retail Trade

Motor Vehicle and Parts Dealers

441110 New Car Dealers
441120 Used Car Dealers
441210 Recreational Vehicle Dealers
441221 Motorcycle Dealers
441222 Boat Dealers
441229 All Other Motor Vehicle Dealers
441300 Automotive Parts, Accessories, & Tire Stores

Furniture and Home Furnishings Stores

442110 Furniture Stores
442210 Floor Covering Stores
442291 Window Treatment Stores
442299 All Other Home Furnishings Stores

Electronics and Appliance Stores

443111 Household Appliance Stores
443112 Radio, Television, & Other Electronics Stores
443120 Computer & Software Stores
443130 Camera & Photographic Supplies Stores

Building Material and Garden Equipment and Supplies Dealers

444110 Home Centers
444120 Paint & Wallpaper Stores
444130 Hardware Stores
444190 Other Building Material Dealers
444200 Lawn & Garden Equipment & Supplies Stores

Food and Beverage Stores

445110 Supermarkets and Other Grocery (except Convenience) Stores
445120 Convenience Stores
445210 Meat Markets
445220 Fish & Seafood Markets
445230 Fruit & Vegetable Markets
445291 Baked Goods Stores
445292 Confectionery & Nut Stores
445299 All Other Specialty Food Stores
445310 Beer, Wine, & Liquor Stores

Health and Personal Care Stores

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)

Code

Clothing and Clothing Accessories Stores

448110 Men's Clothing Stores
448120 Women's Clothing Stores
448130 Children's & Infants' Clothing Stores
448140 Family Clothing Stores
448150 Clothing Accessories Stores
448190 Other Clothing Stores
448210 Shoe Stores
448310 Jewelry Stores
448320 Luggage & Leather Goods Stores

Sporting Goods, Hobby, Book, and Music Stores

451110 Sporting Goods Stores
451120 Hobby, Toy, & Game Stores
451130 Sewing, Needlework, & Piece Goods Stores
451140 Musical Instrument & Supplies Stores
451211 Book Stores
451212 News Dealers & Newsstands
451220 Prerecorded Tape, Compact Disc, & Record Stores

General Merchandise Stores

452110 Department stores
452900 Other General Merchandise Stores

Miscellaneous Store Retailers

453110 Florists
453210 Office Supplies & Stationery Stores
453220 Gift, Novelty, & Souvenir Stores
453310 Used Merchandise Stores
453910 Pet & Pet Supplies Stores
453920 Art Dealers
453930 Manufactured (Mobile) Home Dealers
453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)

Nonstore Retailers

454110 Electronic Shopping & Mail-Order Houses
454210 Vending Machine Operators
454311 Heating Oil Dealers
454312 Liquefied Petroleum Gas (Bottled Gas) Dealers
454319 Other Fuel Dealers
454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

Transportation and Warehousing

Air, Rail, and Water Transportation

481000 Air Transportation
482110 Rail Transportation
483000 Water Transportation

Truck Transportation

484110 General Freight Trucking, Local
484120 General Freight Trucking, Long-distance
484200 Specialized Freight Trucking

Transit and Ground Passenger Transportation

485110 Urban Transit Systems
485210 Interurban & Rural Bus Transportation
485310 Taxi Service
485320 Limousine Service
485410 School & Employee Bus Transportation
485510 Charter Bus Industry
485990 Other Transit & Ground Passenger Transportation

Pipeline Transportation

486000 Pipeline Transportation Scenic & Sightseeing Transportation

Scenic & Sightseeing Transportation

487000 Scenic & Sightseeing Transportation

Code

Support Activities for Transportation

488100 Support Activities for Air Transportation
488210 Support Activities for Rail Transportation
488300 Support Activities for Water Transportation
488410 Motor Vehicle Towing
488490 Other Support Activities for Road Transportation
488510 Freight Transportation Arrangement
488990 Other Support Activities for Transportation

Couriers and Messengers

492110 Couriers
492210 Local Messengers & Local Delivery

Warehousing and Storage

493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)

Information

Publishing Industries

511110 Newspaper Publishers
511120 Periodical Publishers
511130 Book Publishers
511140 Database & Directory Publishers
511190 Other Publishers
511210 Software Publishers

Motion Picture and Sound Recording Industries

512100 Motion Picture & Video Industries (except video rental)
512200 Sound Recording Industries

Broadcasting (except Internet)

515100 Radio & Television Broadcasting
515210 Cable & Other Subscription Programming

Internet Publishing and Broadcasting

516110 Internet Publishing & Broadcasting

Telecommunications

517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications)

Internet Service Providers, Web Search Portals, and Data Processing Services

518111 Internet Service Providers
518112 Web Search Portals
518210 Data Processing, Hosting, & Related Services

Other Information Services

519100 Other Information Services (including news syndicates & libraries)

Finance and Insurance

Depository Credit Intermediation

522110 Commercial Banking
522120 Savings Institutions
522130 Credit Unions
522190 Other Depository Credit Intermediation

Nondepository Credit Intermediation

522210 Credit Card Issuing
522220 Sales Financing
522291 Consumer Lending
522292 Real Estate Credit (including mortgage bankers & originators)
522293 International Trade Financing
522294 Secondary Market Financing
522298 All Other Nondepository Credit Intermediation

Activities Related to Credit Intermediation

522300 Activities Related to Credit Intermediation (including loan brokers)

Code

Securities, Commodity Contracts, and Other Financial Investments and Related Activities

523110 Investment Banking & Securities Dealing
523120 Securities Brokerage
523130 Commodity Contracts Dealing
523140 Commodity Contracts Brokerage
523210 Securities & Commodity Exchanges
523900 Other Financial Investment Activities (including portfolio management & investment advice)

Insurance Carriers and Related Activities

524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers
524150 Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
524210 Insurance Agencies & Brokerages
524290 Other Insurance Related Activities

Funds, Trusts, and Other Financial Vehicles

525100 Insurance & Employee Benefit Funds
525910 Open-End Investment Funds (Form 1120-RIC)
525920 Trusts, Estates, & Agency Accounts
525930 Real Estate Investment Trusts (Form 1120-REIT)
525990 Other Financial Vehicles

"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under **Management of Companies (Holding Companies)** below.

Real Estate and Rental and Leasing

Real Estate

531110 Lessors of Residential Buildings & Dwellings
531114 Cooperative Housing
531120 Lessors of Nonresidential Buildings (except Miniwarehouses)
531130 Lessors of Miniwarehouses & Self-Storage Units
531190 Lessors of Other Real Estate Property
531210 Offices of Real Estate Agents & Brokers
531310 Real Estate Property Managers
531320 Offices of Real Estate Appraisers
531390 Other Activities Related to Real Estate

Rental and Leasing Services

532100 Automotive Equipment Rental & Leasing
532210 Consumer Electronics & Appliances Rental
532220 Formal Wear & Costume Rental
532230 Video Tape & Disc Rental
532290 Other Consumer Goods Rental
532310 General Rental Centers
532400 Commercial & Industrial Machinery & Equipment Rental & Leasing

Lessors of Nonfinancial Intangible Assets (except copyrighted works)

533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)

Professional, Scientific, and Technical Services

Legal Services

541110 Offices of Lawyers
541190 Other Legal Services

Code

Accounting, Tax Preparation, Bookkeeping, and Payroll Services

541211 Offices of Certified Public Accountants
541213 Tax Preparation Services
541214 Payroll Services
541219 Other Accounting Services

Architectural, Engineering, and Related Services

541310 Architectural Services
541320 Landscape Architecture Services
541330 Engineering Services
541340 Drafting Services
541350 Building Inspection Services
541360 Geophysical Surveying & Mapping Services
541370 Surveying & Mapping (except Geophysical) Services
541380 Testing Laboratories

Specialized Design Services

541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)

Computer Systems Design and Related Services

541511 Custom Computer Programming Services
541512 Computer Systems Design Services
541513 Computer Facilities Management Services
541519 Other Computer Related Services

Other Professional, Scientific, and Technical Services

541600 Management, Scientific, & Technical Consulting Services
541700 Scientific Research & Development Services
541800 Advertising & Related Services
541910 Marketing Research & Public Opinion Polling
541920 Photographic Services
541930 Translation & Interpretation Services
541940 Veterinary Services
541990 All Other Professional, Scientific, & Technical Services

Management of Companies (Holding Companies)

551111 Offices of Bank Holding Companies
551112 Offices of Other Holding Companies

Administrative and Support and Waste Management and Remediation Services

Administrative and Support Services

561110 Office Administrative Services
561210 Facilities Support 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)

Code

561500 Travel Arrangement & Reservation Services
561600 Investigation & Security Services
561710 Exterminating & Pest Control Services
561720 Janitorial Services
561730 Landscaping Services
561740 Carpet & Upholstery Cleaning Services
561790 Other Services to Buildings & Dwellings
561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)

Waste Management and Remediation Services

562000 Waste Management & Remediation Services

Educational Services

611000 Educational Services (including schools, colleges, & universities)

Health Care and Social Assistance

Offices of Physicians and Dentists

621111 Offices of Physicians (except mental health specialists)
621112 Offices of Physicians, Mental Health Specialists
621210 Offices of Dentists

Offices of Other Health Practitioners

621310 Offices of Chiropractors
621320 Offices of Optometrists
621330 Offices of Mental Health Practitioners (except Physicians)
621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists
621391 Offices of Podiatrists
621399 Offices of All Other Miscellaneous Health Practitioners

Outpatient Care Centers

621410 Family Planning Centers
621420 Outpatient Mental Health & Substance Abuse Centers
621491 HMO Medical Centers
621492 Kidney Dialysis Centers
621493 Freestanding Ambulatory Surgical & Emergency Centers
621498 All Other Outpatient Care Centers

Medical and Diagnostic Laboratories

621510 Medical & Diagnostic Laboratories

Home Health Care Services

621610 Home Health Care Services

Code

Other Ambulatory Health Care Services

621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)

Hospitals

622000 Hospitals

Nursing and Residential Care Facilities

623000 Nursing & Residential Care Facilities

Social Assistance

624100 Individual & Family Services
624200 Community Food & Housing, & Emergency & Other Relief Services
624310 Vocational Rehabilitation Services
624410 Child Day Care Services

Arts, Entertainment, and Recreation

Performing Arts, Spectator Sports, and Related Industries

711100 Performing Arts Companies
711210 Spectator Sports (including sports clubs & racetracks)
711300 Promoters of Performing Arts, Sports, & Similar Events
711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures
711510 Independent Artists, Writers, & Performers

Museums, Historical Sites, and Similar Institutions

712100 Museums, Historical Sites, & Similar Institutions

Amusement, Gambling, and Recreation Industries

713100 Amusement Parks & Arcades
713200 Gambling Industries
713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

Accommodation and Food Services

Accommodation

721110 Hotels (except casino hotels) & Motels
721120 Casino Hotels
721191 Bed & Breakfast Inns
721199 All Other Traveler Accommodation
721210 RV (Recreational Vehicle) Parks & Recreational Camps
721310 Rooming & Boarding Houses

Code

Food Services and Drinking Places

722110 Full-Service Restaurants
722210 Limited-Service Eating Places
722300 Special Food Services (including food service contractors & caterers)
722410 Drinking Places (Alcoholic Beverages)

Other Services

Repair and Maintenance

811110 Automotive Mechanical & Electrical Repair & Maintenance
811120 Automotive Body, Paint, Interior, & Glass Repair
811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)
811210 Electronic & Precision Equipment Repair & Maintenance
811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance
811410 Home & Garden Equipment & Appliance Repair & Maintenance
811420 Reupholstery & Furniture Repair
811430 Footwear & Leather Goods Repair
811490 Other Personal & Household Goods Repair & Maintenance

Personal and Laundry Services

812111 Barber Shops
812112 Beauty Salons
812113 Nail Salons
812190 Other Personal Care Services (including diet & weight reducing centers)
812210 Funeral Homes & Funeral Services
812220 Cemeteries & Crematories
812310 Coin-Operated Laundries & Drycleaners
812320 Drycleaning & Laundry Services (except Coin-Operated)
812330 Linen & Uniform Supply
812910 Pet Care (except Veterinary) Services
812920 Photofinishing
812930 Parking Lots & Garages
812990 All Other Personal Services

Religious, Grantmaking, Civic, Professional, and Similar Organizations

813000 Religious, Grantmaking, Civic, Professional, & Similiar Organizations

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TAXABLE YEAR **2002**

California Corporation Franchise or Income Tax Return — Water's-Edge Filers

FORM **100W**

For calendar year 2002 or fiscal year beginning month _____ day _____ year 2002, and ending month _____ day _____ year 20 ____ .

California corporation number	Federal employer identification number (FEIN)

Corporation name

Address including Suite or Room no. | PMB no.

City | State | ZIP Code

AA Enter the bad debt reserve recapture amount, see instructions _____

A Final return? ● ☐ Dissolved ☐ Surrendered (withdrawn) ☐ Merged/Reorganized ☐ IRC Section 338 sale ☐ QSub election. Enter date ● _____

B Is income included in a combined report of a unitary group? ..... ● ☐ Yes ☐ No
If yes, indicate: ☐ wholly within CA (R&TC 25101.15) ☐ within and outside of CA

C Enter commencement date of the current water's-edge election
● _____

D Was the corporation's income included in a federal consolidated return? ..... ● ☐ Yes ☐ No

Questions continued on Side 2

State Adjustments	1	Net income (loss) before state adjustments. See instructions			● 1	
	2	Amount deducted for foreign or domestic tax based on income or profits			● 2	
	3	Amount deducted for tax under the provisions of the Corporation Tax Law			● 3	
	4	Interest on government obligations			● 4	
	5	Net California capital gain from Schedule D, line 11			● 5	
	6	Depreciation and amortization in excess of amount allowed under California law. Attach form FTB 3885			● 6	
	7	**a** Net income from included CFCs from form FTB 2416, column i. See instructions			● 7a	
		b Net income from corporations not included in federal consolidated return. See instructions			● 7b	
	8	Other additions. Attach schedule(s)			● 8	
	9	Total. Add line 1 through line 8			● 9	
	10	Intercompany dividend deduction. Attach Schedule H (100W)	● 10			
	11	**a** Foreign dividend deduction. Attach Schedule H (100W)	● 11a			
		b Other dividend deduction. Attach Schedule H (100W)	● 11b			
	12	Additional depreciation allowed under CA law. Attach form FTB 3885	● 12			
	13	Capital gain from federal Form 1120 or Form 1120A, line 8	● 13			
	14	Contributions	● 14			
	15	EZ, TTA, or LAMBRA business expense and net interest deduction	● 15			
	16	Other deductions. Attach schedule(s)	● 16			
	17	Total. Add line 10 through line 16			● 17	
	18	Net income (loss) after state adjustments. Subtract line 17 from line 9. See instructions			● 18	
Calif. Net Income	19	Net income (loss) for state purposes. Complete Schedule R if apportioning income. See instructions			● 19	
	20	Net operating loss (NOL) carryover deduction. See instructions	20	SUSPENDED		
	21	Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction. See instructions	21	SUSPENDED		
	22	Disaster loss carryover deduction. See instructions	● 22			
	23	Net income for tax purposes. Subtract line 22 from line 19			● 23	
Taxes	24	Tax. _____% x line 23 (not less than minimum franchise tax, if applicable)			■ 24	
	25	Enter credit name _____ code no. __ __ __ and amount	▶25			
	26	Enter credit name _____ code no. __ __ __ and amount	▶26			
	27	To claim more than two credits, see instructions	● 27			
	28	Add line 25 through line 27			■ 28	
	29	**Balance**. Subtract line 28 from line 24 (not less than minimum franchise tax, if applicable)			■ 29	
	30	Alternative minimum tax. Attach Schedule P (100W). See instructions			■ 30	
	31	**Total tax.** Add line 29 and line 30			■ 31	
Payments	32	Overpayment from prior year allowed as a credit	■ 32			
	33	2002 estimate tax payments. See instructions	■ 33			
	34	2002 Nonresident Withholding. See instructions	■ 34			
	35	Amount paid with extension of time to file return	■ 35			
	36	Total payments. Add line 32 through line 35			■ 36	
Refund – Direct Deposit of Refund (DDR) – or Amount Due	37	**Tax due.** If line 31 is more than line 36, subtract line 36 from line 31. Go to line 41			■ 37	
	38	**Overpayment.** If line 36 is more than line 31, subtract line 31 from line 36			■ 38	
	39	Amount of line 38 to be credited to 2003 estimated tax			■ 39	
	40	**Refund.** Amount of line 38 to be refunded. Line 38 less line 39. See DDR instructions			■ 40	
		Fill in the account information to have the refund directly deposited. **a.** Routing number		● 40a		
		b. Type: Checking ● ☐ Savings ● ☐ **c.** Account number		● 40c		
	41	**a** Penalties and interest. **b**● ☐ Check if estimate penalty computed using Exception B or C. See instructions			■ 41a	
	42	**Total amount due.** Add line 37 and line 41a. Pay this amount			42	

100W02103

Schedule D California Capital Gains and Losses

Part I Short-Term Capital Gains and Losses – Assets Held One Year or Less. Use additional sheet(s) if necessary.

(a) Kind of property and description (Example, 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis plus expense of sale	(f) Gain (loss) (d) less (e)
1					

2 Short-term capital gain from installment sales from form FTB 3805E, line 26 or line 37	2		
3 Unused capital loss carryover from 2001	3		
4 Net short-term capital gain (loss). Combine line 1 through line 3	4		

Part II Long-Term Capital Gains and Losses – Assets Held More Than One Year. Use additional sheet(s) if necessary.

5					

6 Enter gain from Schedule D-1, line 9 and/or any capital gain distributions	6		
7 Long-term capital gain from installment sales from form FTB 3805E, line 26 or line 37	7		
8 Net long-term capital gain (loss). Combine line 5 through line 7	8		
9 Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)	9		
10 Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4)	10		
11 Total lines 9 and 10. Enter here and on Form 100W, Side 1, line 5. **Note:** If losses exceed gains, carry forward losses to 2003	11		

Schedule J Add-On Taxes and Recapture of Tax Credits. See instructions.

1 LIFO recapture due to S corporation election, IRC Sec. 1363(d) deferral: $_____ ●	1		
2 Interest computed under the look-back method for completed long-term contracts (Attach form FTB 3834) ●	2		
3 Interest on tax attributable to installment: a Sales of certain timeshares and residential lots ●	3a		
b Method for nondealer installment obligations ●	3b		
4 IRC Section 197(f)(9)(B)(ii) election ●	4		
5 Credit recapture name:_____ ●	5		
6 Combine line 1 through line 5, revise Side 1, line 37 or line 38, whichever applies, by this amount. Write "Schedule J" to the left of line 37 or line 38 ●	6		

Questions (continued from Side 1)

E Principal business activity code. (Do not leave blank): ● ☐☐☐☐☐☐
Business activity _____
Product or service _____

F Date incorporated:_____ ● Where: State ☐☐ Country_____

G Date business began in California or date income was first derived from California sources ● _____

H First return? ● ☐ Yes ☐ No If "Yes" and this corporation is a successor to a previously existing business, check the appropriate box.
● (1) ☐ sole proprietorship (2) ☐ partnership (3) ☐ joint venture (4) ☐ corporation
(5) ☐ other (attach statement showing name, address, and FEIN of previous business)

I "Doing business as" name: ● _____

J Did this corporation or its subsidiary(ies) have a change in control or ownership, or acquire ownership or control of any other legal entity this year? ● ☐ Yes ☐ No

K At any time during the taxable year, was more than 50% of the voting stock:
a Of the corporation owned by any single interest? ● ☐ Yes ☐ No
b Of another corporation owned by this corporation? ● ☐ Yes ☐ No
c Of this and one or more other corporations owned or controlled, directly or indirectly, by the same interests? ● ☐ Yes ☐ No
If a or c is "Yes," enter the country of the ultimate parent ● _____
If a, b, or c is "Yes," furnish a statement of ownership indicating pertinent names, addresses, and percentages of stock owned. If any owner is an individual, provide the SSN.

L Was 50% or more of the stock of this corporation owned directly by another corporation during this taxable year? ● ☐ Yes ☐ No

M Is this corporation apportioning income to California using Schedule R? ● ☐ Yes ☐ No

N How many affiliates in the combined report are claiming immunity from taxation in California under Public Law 86-272? ● _____

O Corporation headquarters are: ● (1) ☐ Within California
(2) ☐ Outside of California, within the U.S. (3) ☐ Outside of the U.S.

P Location of principal accounting records _____

Q Accounting method: ● (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other

R Did this corporation or one of its subsidiaries make a federal election to be treated as a foreign sales corporation (FSC) or a domestic international sales corporation (DISC)? ☐ Yes ☐ No

S Is this corporation or any of its subsidiaries a RIC ? ● ☐ Yes ☐ No

T Is this corporation treated as a REMIC for California purposes? ● ☐ Yes ☐ No

U Is this corporation a REIT for California purposes? ● ☐ Yes ☐ No

V Is this corporation an LLC or limited partnership electing to be taxed as a corporation for federal purposes? ● ☐ Yes ☐ No

W Is this corporation to be treated as a credit union? ● ☐ Yes ☐ No

X Is the corporation under audit by the IRS or has it been audited by the IRS in a prior year? ● ☐ Yes ☐ No

Y Have all required information returns (e.g. federal Forms 1099, 5471, 5472, 8300, 8865, etc.) been filed with the Franchise Tax Board? ☐ N/A ☐ Yes ☐ No

Z Were total receipts (see page 17 of the instructions) for the taxable year **and** total assets at the end of the taxable year less than $250,000? ☐ Yes ☐ No
If "Yes" the corporation is not required to complete Schedules L, M-1, and M-2 on Side 4. Instead, enter here the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. $ _____

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer ▶ | Title | Date ● | Telephone ( )

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ ● | Preparer's SSN/PTIN

Firm's name (or yours, if self-employed) and address ▶ _____ ● | FEIN

● | Telephone ( )

Schedule A Taxes Deducted. Use additional sheet(s) if necessary.

(a) Nature of tax	(b) Taxing authority	(c) Total amount	(d) Nondeductible amount
Total. Enter total of column (c) on Schedule F, line 17, and total of column (d) on Side 1, line 2 or line 3			

Schedule F Computation of Net Income. See instructions.

Income

1	**a)** Gross receipts or gross sales_____ **b)** Less returns and allowance_____ **c)** Balance	1c
2	Cost of goods sold. Attach federal Schedule A (California Schedule V)	2
3	Gross profit. Subtract line 2 from line 1c	3
4	Dividends. Attach federal Schedule C, California Schedule H (100W)	4
5	**a** Interest on obligations of the United States and U.S. instrumentalities	5a
	b Other interest. Attach schedule(s)	5b
6	Gross rents	6
7	Gross royalties	7
8	Capital gain net income. Attach federal Schedule D (California Schedule D)	8
9	Ordinary gain (loss). Attach federal Form 4797 (California Schedule D-1)	9
10	Other income (loss). Attach schedule	10
11	**Total income.** Add line 3 through line 10	11

Deductions

12	Compensation of officers. Attach federal Schedule E or equivalent schedule	12	
13	Salaries and wages (not deducted elsewhere)	13	
14	Repairs	14	
15	Bad debts	15	
16	Rents	16	
17	Taxes (California Schedule A)	17	
18	Interest. Attach schedule	18	
19	Contributions. Attach schedule	19	
20	Depreciation. Attach federal Form 4562 and FTB 3885	20	
21	Less depreciation claimed elsewhere on return	21a	21b
22	Depletion. Attach schedule	22	
23	Advertising	23	
24	Pension, profit-sharing plans, etc.	24	
25	Employee benefit plans	25	
26	**a)** Total travel and entertainment_____ **b)** Deductible amounts	26b	
27	Other deductions. Attach schedule	27	
28	**Total deductions.** Add line 12 through line 27	28	
29	Net income before state adjustments. Subtract line 28 from line 11. Enter here and on Side 1, line 1	29	

Schedule V Cost of Goods Sold

1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	**a** Additional IRC Section 263A costs. Attach schedule	4a
	b Other costs. Attach schedule	4b
5	Total. Add line 1 through line 4b	5
6	Inventory at end of year	6
7	Cost of goods sold. Subtract line 6 from line 5	7

Method of inventory valuation ▶ _____

Was there any change in determining quantities, costs of valuations between opening and closing inventory? If "Yes," attach an explanation . . . ☐ Yes ☐ No

Enter California seller's permit number, if any ▶ _____

Check if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 . . . . . ☐

If the LIFO inventory method was used for this taxable year, enter the amount of closing inventory under LIFO_____

Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the corporation? . . . . . ● ☐ Yes ☐ No

The corporation is not required to complete Schedules L, M-1, and M-2 if question Z on Form 100W, Side 2 is answered "Yes."

Schedule L Balance Sheets	Beginning of taxable year		End of taxable year	
Assets	(a)	(b)	(c)	(d)
1 Cash				●
2 a Trade notes and accounts receivable			●	
b Less allowance for bad debts	( )		● ( )	●
3 Inventories				●
4 Federal and state government obligations				●
5 Other current assets. Attach schedule(s)				
6 Loans to stockholders/officers. Attach schedule				●
7 Mortgage and real estate loans				●
8 Other investments. Attach schedule(s)				●
9 a Buildings and other fixed depreciable assets			●	
b Less accumulated depreciation	( )		● ( )	●
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)			●	
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule(s)				●
14 **Total assets**				●
Liabilities and Stockholders' Equity				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule(s)				
18 Loans from stockholders				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule(s)				●
21 Capital stock: a Preferred stock			●	
b Common stock			●	●
22 Paid-in or capital surplus. Attach reconciliation				●
23 Retained earnings – Appropriated. Attach schedule				
24 Retained earnings – Unappropriated				
25 Adjustments to shareholders' equity. Attach schedule				
26 Less cost of treasury stock		( )		( )
27 **Total liabilities and stockholders' equity**				

Schedule M-1 **Reconciliation of income (loss) per books with income (loss) per return.**

1 Net income per books	●	7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax	●	a Tax-exempt interest $_____	
3 Excess of capital losses over capital gains	●		
4 Taxable income not recorded on books this year (itemize) _____		_____	●
_____	●	8 Deductions in this return not charged against book income this year (itemize)	
5 Expenses recorded on books this year not deducted in this return (itemize)		a Depreciation $_____	
a Depreciation $_____		b State tax refunds $_____	
b State taxes $_____		_____	
c Travel and entertainment $_____		_____	●
_____	●	9 Total. Add line 7 and line 8	
6 Total. Add line 1 through line 5		10 Net income per return. Subtract line 9 from line 6	

Schedule M-2 **Analysis of unappropriated retained earnings per books** (Schedule L, line 24)

1 Balance at beginning of year	●	5 Distributions: a Cash	●
2 Net income per books	●	b Stock	●
3 Other increases (itemize) _____		c Property	●
_____		6 Other decreases (itemize) _____	
_____		_____	●
_____	●	7 Total. Add line 5 and line 6	
4 Total. Add line 1 through line 3		8 Balance at end of year. Subtract line 7 from line 4	

TAXABLE YEAR

CALIFORNIA SCHEDULE

2002 Dividend Income Deduction — Water's-Edge Filers H (100W)

See instructions for Schedule H (100W). Use and attach additional sheets if necessary.

Part I Elimination of Intercompany Dividends (R&TC Section 25106)

(a) Dividend payer	(b) Dividend payee	(c) Total amount of dividends received	(d) Amount that qualifies for 100% elimination	(e) Amount from column (d) paid out of current year E&P	(f) Amount from column (d) paid out of prior year E&P	(g) Balance column (c) minus column (d)
1						
2						
3						
4						
5						
6						
7 Total amounts in each column. Enter amount from Part I, column (d) on Form 100W, Side 1, line 10						

Part II Deduction for Dividends Paid by a Corporation Taxed by California (R&TC Section 24402)

(a) Dividend payer	(b) Dividend paid by CA taxpayer (See instructions	(c) FEIN or California corporation no. of dividend payer	(d) Percentage of ownership of dividend payer	(e) Limitation percentage (See instructions)	(f) Percentage of dividends deductible	(g) Deductible dividends columns (b)X(e)X(f)
1						
2						
3						
4						
5						
6						
7 Total amounts in column (g), enter here and on Form 100W, Side 1, line 11b						

Part III Deduction for Dividends Paid to a Fully Included Member of a Water's-Edge Combined Report (R&TC Section 24411)

(Foreign dividends paid by partially included members of a water's-edge combined report cannot be computed on this schedule.)

(a) Dividend payer	(b) Percentage of ownership of dividend payer	(c) Member of water's-edge combined reporting group dividend was paid to (payee)	(d) Amount of qualified dividends received by payee (See instructions)	(e) Amount from col. (d) paid our of current year E&P	(f) Amount from col. (d) paid out of prior year E&P	(g) Deductible dividends column (d) X .75
1						
2						
3						
4						
5						
6						
7 Total amount in column (g). Enter total from Part III, column (g) on Form 100W, Side 1, line 11a						

Instructions for Schedule H (100W)

Dividend Income Deduction — Water's-Edge Filers

Important Information

In *Ceridian v. Franchise Tax Board* (2000) 85 Cal.App.4th 875, the Court of Appeal has 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.

Specific Line Instructions

A corporation may eliminate or deduct dividend income when certain requirements are met. The available eliminations or deductions are described below.

Part I – Intercompany Dividends
A corporation may eliminate dividends received from unitary subsidiaries but only to the extent that the dividends are paid from unitary earnings and profits accumulated while both the payee and payer were members of the combined report, R&TC Section 25106.

Complete Schedule H (100W), Part I and enter the total of column (d) on Form 100W, Side 1, line 10.

Part II – Other Dividends
Corporations may claim a deduction for dividends paid by a corporation taxed by California on earnings from which such dividends are paid, R&TC Section 24402, and not previously deducted under R&TC Section 25106.

To obtain the deductible percentage of a dividend to enter on Schedule H (100W), Part II, column (f), you may:

1. Visit our Website at **www.ftb.ca.gov** and click on other FTB information for the Deductible Dividend Report;
2. Send a written request showing the complete name of the dividend-paying corporation to:

   DEDUCTIBLE DIVIDENDS
   FRANCHISE TAX BOARD
   PO BOX 1468
   SACRAMENTO CA 95812-1468
   FAX: (916) 845-6888

   Allow six weeks for a written reply, or
3. Call the FTB at the telephone numbers on page 55 of this booklet.

Enter this percentage amount on Schedule H (100W), Part II, column (f).

To complete Part II:

1. Fill in column (a) through column (c). For Part II, column (b), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part II, column (b).
2. Enter the corporation's percentage of ownership of the dividend paying corporation on Schedule H (100W), column (d).
3. Determine the limitation percentage and enter it on Schedule H (100W), Part II, column (e). Refer to the ownership percentages in column (d) and the limitation percentages below to determine the applicable limitation percentage.

If the dividend paying corporation is:	The limitation percentage is:
Less than 20% owned	70%
At least 20% but not more than 50% owned	80%
More than 50% owned	100%

4. Multiply the dividend received column (b), by the limitation percentage column(e).
5. Multiply the result of step 4 by the deductible percentage in column (f).
6. Enter the result of step 5 in column (g).

Total the amounts on Schedule H (100W), Part II, line 7, column (g) and Part III, line 7, column (g). Enter the result here and on Form 100W, Side 1, line 11b.

Part III – Water's-Edge Dividends
California R&TC Section 24411 allows a 75% deduction of a portion of the dividends received and included in the water's-edge return. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

In no event will a R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Section 24402 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if:

- The average of the payer's property, payroll, and sales factors within the U.S. is less than 20%; and
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

For taxable years beginning on or after January 1, 1998, dividends received from banks **qualify** for the water's-edge dividend deduction.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity related to alteration or improvement of land. The construction project, the location of which is not subject to the taxpayers' control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the water's-edge group. For more information, see R&TC Section 24411.

Complete Schedule H (100W), Part III and enter the total on Form 100W, Side 1, line 11a. For Part III, column (d), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part III, column (d).

TAXABLE YEAR

2002 Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers

CALIFORNIA SCHEDULE

P (100W)

Attach to Form 100W.

Corporation name

California corporation number

Part I Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

1 Net income (loss) after state adjustments. Enter the amount from Form 100W, line 18 or Schedule R, line 1c. See instructions . 1

2 **Adjustments.** See instructions

a Depreciation of tangible property placed in service after 1986 . . . . . ● 2a

b Amortization of certified pollution control facilities placed in service after 1986 . . . . . 2b

c Amortization of mining exploration and development costs incurred after 1987 . . . . . 2c

d Basis adjustments in determining gain or loss from sale or exchange of property 2d

e Long-term contracts entered into after February 28, 1986 . . . . . 2e

f Installment sales of certain property 2f

g Tax shelter farm activities (personal service corporations only) 2g

h Passive activities (closely held corporations and personal service corporations only) . . . 2h

i Certain loss limitations 2i

j Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 8 . . . 2j

k Merchant marine capital construction funds 2k

l Combine line 2a through line 2k 2l

3 **Tax preference items.** See instructions

a Depletion 3a

b Intangible drilling costs 3b

c Reserves for losses of bad debts. See instructions 3c

d Accelerated depreciation of real property placed in service before 1987 . . . . . 3d

e Amortization of certified pollution control facilities placed in service before 1987 . . . . . 3e

f Add line 3a through line 3e 3f

4 **Pre-adjustment alternative minimum taxable income (AMTI):**

a Combine line 1, line 2l, and line 3f 4a

b **Apportioned pre-adjustment AMTI.** If income is derived from sources both within and outside of California, see instructions. Otherwise, enter amount from line 4a 4b

5 **Adjusted current earnings (ACE) adjustment:**

a Enter ACE. See instructions . . . . . ● 5a

b Subtract line 4b from line 5a (even if one or both of the figures are negative). If negative, use brackets 5b

c Multiply line 5b by 75% (.75) and enter the result as a positive number 5c

d Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments. **Note:** Enter an amount on line 5d (even if line 5b is positive) 5d

e **ACE adjustment:**

- If line 5b is a positive amount or zero, enter the amount from line 5c on line 5e as a positive amount.
- If line 5b is a negative amount, enter the smaller of line 5c or line 5d on line 5e as a negative amount 5e

6 Combine line 4b and line 5e. If zero or less, enter -0- 6

7 a Reduction for disaster loss carryover deduction, if any, from Form 100W, line 22 . . . . . 7a

b AMT net operating loss (NOL) deduction. See instructions . . . . . 7b SUSPENDED

c For 2002 tax year, enter the amount from line 7a 7c

8 AMTI. Subtract line 7c from line 6 8

9 Enter $40,000 exemption. See instructions 9

10 Enter $150,000 limitation. See instructions 10

11 Subtract line 10 from line 8. If zero or less, enter -0- 11

12 Multiply line 11 by 25% (.25) 12

13 Exemption. Subtract line 12 from line 9. If zero or less, enter -0- 13

14 Subtract line 13 from line 8. If zero or less, enter -0- 14

15 Multiply line 14 by 6.65% (.0665) 15

16 Banks and financial corps. Multiply Form 100W, line 23, by 2.00% (.0200). See instructions 16

17 **TMT.** Add line 15 and line 16 17

18 Regular tax before credits. Enter amount from Form 100W, line 24. See instructions 18

19 **AMT.** Subtract line 18 from line 17. If zero or less, enter -0-. See instructions 19

Part II Credits that Reduce Tax

1 Regular tax from Form 100W, line 24	1		
2 Tentative minimum tax (before credits) from Part I, line 17 (but not less than the minimum franchise tax, if applicable)	2		

		(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess regular tax.					
3 Subtract line 2 from line 1. If zero or less, enter -0- and see instructions. This is your excess regular tax which may be offset by credits	3				
A1 Credits that reduce excess regular tax and have no carryover provisions.					
4 Code: 162 Prison inmate labor credit	4				
A2 Credits that reduce excess regular tax and have carryover provisions. See instructions.					
5 Code: ___ ___ ___ Credit Name: _____	5				
6 Code: ___ ___ ___ Credit Name: _____	6				
7 Code: ___ ___ ___ Credit Name: _____	7				
8 Code: ___ ___ ___ Credit Name: _____	8				
9 Code: 188 Credit for prior year alternative minimum tax from Part III, line 3	9				
Section B – Credits that may reduce regular tax below tentative minimum tax.					
10 If Part II, line 3 is zero, enter the amount from line 1 minus the minimum franchise tax if applicable. If line 3 is more than zero, enter the total of Part II, line 2, minus the minimum franchise tax if applicable plus line 9, column (c)	10				
B Credits that reduce net tax and have carryover provisions. See instructions.					
11 Code: ___ ___ ___ Credit Name: _____	11				
12 Code: ___ ___ ___ Credit Name: _____	12				
13 Code: ___ ___ ___ Credit Name: _____	13				
14 Code: ___ ___ ___ Credit Name: _____	14				
Section C – Credits that may reduce alternative minimum tax.					
15 Enter your alternative minimum tax from Side 1, Part I, line 19	15				
16 Code: 180 Solar energy credit carryover from Section B, column (d)	16				
17 Code: 181 Commercial solar energy credit carryover from Section B, column (d)	17				
18 Adjusted AMT. Enter the balance from line 17, column (c) here and on Form 100W, line 30	18				

Part III Credit for Prior Year AMT

1 Enter the alternative minimum tax from the 2001 Schedule P (100W), Part I, line 19. See instructions	1		
2 Carryover of unused credit for prior year alternative minimum tax. See instructions	2		
3 Total available credit. Add line 1 and line 2. See instructions	3		

Instructions for Schedule P (100W)

Alternative Minimum Tax and Credit Limitations — Water's-Edge Filers

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

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

- 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 (AMTI).
- The methodology for calculating deductions for bank bad-debt losses, which limits these deductions for large banks (have more than $500 million in assets) to actual losses rather than contributions to a reserve for bad debts. Large banks must recognize 50% of their existing bad-debt reserve balances as income in taxable year 2002.

For taxable years beginning on or after January 1, 2002, the credit for prior year alternative minimum tax (AMT) has to be applied before any credits that can reduce the regular tax below the tentative minimum tax (TMT) in accordance with California Revenue and Taxation Code (R&TC) Section 23036 (c).

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, see form FTB 3805Q included in this booklet.

The authority of the Wildlife Conservation Board to award Natural Heritage Preservation Tax Credit 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.

Important Information

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.

Newly Formed or Qualified Corporations

For corporations that incorporate or qualify to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California Secretary of State (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 the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. The corporation will be required to make estimated tax payments based on the projected measured tax for its second and third taxable years.

California law conforms to federal law regarding:

- The contribution deduction in excess of adjusted basis for appreciated property.
- The removal of the adjusted current earnings (ACE) depreciation adjustment.
- The use of the same depreciation recovery periods for regular tax and AMT.
- The repeal of the installment method AMT adjustment for farmers. Farmers are allowed to use the installment method of accounting for purposes of AMT for payments received in taxable years beginning on or after January 1, 1997, for installment sales related to the sale or disposition of farm property made in taxable years beginning on or after January 1, 1988.
- The treatment of merchant marine capital construction account funds as an adjustment item for AMT.

California does not conform to the following federal AMT provisions:

- The elimination of AMT for small businesses.

General Information

Unless stated otherwise, the term "corporation" as used in Schedule P (100W) and in these instructions, includes banks, financial corporations, limited liability companies (LLCs) classified as corporations, and exempt organizations other than exempt trusts, but not S corporations.

California tax laws give special treatment to some types of income and allow special deductions and credits for some types of expenses. Corporations that benefit from these laws may have to pay AMT in addition to the minimum franchise tax.

Also use this schedule to figure credits that are limited by the TMT or that may reduce AMT.

See IRC Sections 55 through 59 for more information on figuring AMT. But note that R&TC Sections 23455, 23456, 23457, and 23459 modify IRC Sections 55 through 59.

Who Must File

Corporations should file Schedule P (100W) if the sum of: AMT adjustments, preference items, loss denials, other items as specified under IRC Section 59, and state net income exceeds $40,000. Exempt organizations, other than exempt trusts with unrelated business income, should file Schedule P (100W) if the sum of: AMT adjustments, preference items, loss denials, items specified under IRC Section 59, and state net unrelated business taxable income exceeds $40,000. Exempt trusts should use Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries.

In addition, if the corporation claims credits that are limited by TMT (Part I, line 17), or if the corporation claims credits that reduce the AMT (Part I, line 19), the corporation must file Schedule P (100W).

Members of a Combined Report

Alternative minimum taxable income (AMTI) and ACE are apportioned and allocated to California and to each taxpayer in the same manner as net income for purposes of regular tax. A separate AMT calculation is required for **each** member of a combined report. Complete a separate Schedule P (100W), Side 1 and Side 2, for **each** taxpayer included in the combined report. Attach the Schedule P (100W) for each taxpayer member in the combined report **behind** the combined Schedule P (100W) for all members. See instructions for Part I, line 4b, line 5a, line 5d, line 7b, line 9, and line 10.

Short Period Return

For a short period return, use the formula in IRC Section 443(d) to determine AMTI and AMT.

Credit for Prior Year AMT

If the corporation paid AMT for 2001 or has a carryover of credit for prior year AMT and has no AMT liability for 2002, the corporation may use this credit in 2002 to reduce its regular tax liability. Complete Part III to figure this credit.

Specific Line Instructions

Part I — Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

Line 1- Net income (loss) after state adjustments
Enter the amount from Form 100W, line 18. If the corporation filed a Schedule R with the return, enter the amount from line 1c of Schedule R.

Line 2a – Depreciation of tangible property placed in service after 1986 and before 1999
Do not include depreciation adjustments attributable to a tax shelter farm activity or a passive activity on this line. Instead, include the adjustment on line 2g or line 2h.

Refigure the depreciation as follows: For property other than real property and property on which the straight-line method was used, use the 150% declining balance method, switching to straight-line for the first taxable year in which that method will give a higher depreciation deduction. Use the same life classes as used on the federal Form 4626, Alternative Minimum Tax – Corporations. For personal property having no asset depreciation range (ADR) class life, use 12 years. For residential rental and nonresidential real property, use the straight-line method over 40 years. Determine the depreciation adjustment by subtracting the recomputed depreciation from the California depreciation on form FTB 3885, Corporation Depreciation and Amortization. Enter the difference on this line.

If the corporation elected to depreciate a grapevine that was replanted in a vineyard as a result of phylloxera or Pierce's disease infestation over five years instead of 20 years for regular tax, it must depreciate the grapevine over 10 years for AMT.

Note: Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.

The depreciation adjustment does not apply to property placed in service after December 31, 1998.

Line 2b – Amortization of certified pollution control facilities
For any certified pollution control facility placed in service in California after 1986 and before 1999, the five year depreciation method available for such facilities for regular tax purposes must be replaced for AMT purposes by the alternative depreciation system specified under IRC Section 168(g) – straight-line method, without regard to salvage value. A facility placed in service after 1998 is depreciated using the IRC Section 168 straight-line method.

Line 2c – Amortization of mining exploration and development costs incurred after 1987
If the corporation elected the optional 10-year write-off under IRC Section 59(e) for all assets in this category, skip this line.

With respect to each mine or other natural deposit, (other than an oil, gas, or geothermal well) refigure the expenses before the 30% reduction under IRC Section 291(b) by amortizing them over 10 years beginning with the year in which the expenses were paid or incurred. Figure the adjustment by subtracting the refigured amount from the deduction taken under IRC Section 616(a) or 617(a) after the 30% reduction. Enter the amount on this line. If a loss resulted with respect to those expenses, see IRC Section 56(a)(2)(B).

Line 2d – Basis adjustments in determining gain or loss from sale or exchange of property
If the corporation disposed of property during the year, refigure the gain or loss from such sale taking into account the AMT adjustments on line 2a through line 2c. Enter the difference between the gain or loss reported for regular tax and the recomputed gain or loss. If the recomputed gain is less, or the loss is more, enter the difference as a negative amount. Otherwise, enter a positive amount.

Line 2e – Long-term contracts entered into after February 28, 1986
If the corporation entered into a long-term contract after February 28, 1986, determine the taxable income from the contract under the percentage of completion method of accounting as modified by IRC Section 460(b) and R&TC Section 24673.2 using AMT adjustments and tax preference items.

Determine the difference between that result and the amount determined for the contract in figuring the regular tax and enter the difference on this line. If the refigured taxable income is less than the result when determining the regular tax, enter the difference as a negative amount.

California has conformed to IRC Section 460(b)(2). This section requires the taxpayer to "look-back" to previous years during which the contract work for certain contracts was in progress. The taxpayer must compute interest on the difference between the tax that was actually paid and the tax that would have been paid if the taxpayer had known the actual contract prices and costs that would finally result.

Get form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to figure the interest due or to be refunded under the "look-back method."

Line 2f – Installment sales of certain property
For regular tax purposes, corporations may use the installment method of accounting for sales of certain property. For AMT, corporations may not determine income from dispositions of inventory or other property described in IRC Section 1221(1) using the installment method, except for certain dispositions of timeshares or residential lots, if the corporation elected to pay interest under IRC Section 453(l)(2)(B) (R&TC Section 24667).

If the corporation used the installment method for regular tax purposes, but was required for AMT purposes to report the entire gain in the year of disposition, the corporation may have adjustments with respect to those dispositions. Enter on this line as a negative amount the current year income the corporation reported for regular tax.

Farmers that received payments for a taxable year beginning on or after January 1, 1997, for qualified installment sales made in taxable years beginning on or after January 1, 1988, do not need to make an adjustment on this line.

Line 2g – Tax shelter farm activities (personal service corporations only)

Caution: To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Complete this line only if the corporation has a gain or loss from a tax shelter farm activity, as defined in IRC Section 58(a)(2), that is not a passive activity. If the tax shelter farm activity is a passive activity, the corporation must include the gain or loss with its other passive activities on line 2h.

Refigure all gains and losses reported for regular tax purposes from tax shelter farm activities using the AMT adjustments and tax preference items.

Figure the tax shelter farm activity gain or loss for AMT using the same rules the corporation used for regular tax except:

- Do not take any refigured loss unless the corporation is insolvent. See IRC Section 58(c)(1); and
- Do not offset gains from other tax shelter activities with any refigured loss.

Instead, suspend and carry over the loss to future taxable years until:

- The corporation has a gain in a future taxable year from that same tax shelter farm activity; or
- The corporation disposes of the activity.

Enter on this line the difference between the AMT tax shelter farm loss and the regular tax shelter farm loss.

Line 2h – Passive activities (closely held corporations and personal service corporations only)

Caution: To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Corporations may enter two kinds of adjustments on this line:

Regular passive activities. Refigure passive activity gains and losses for AMT by taking into account all AMT adjustments, tax preference items and AMT prior year unallowed losses that apply to the passive activity.

Tax shelter passive farm activities. Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments, tax preference items, and AMT prior year unallowed losses. If the amount is a gain, it may be included on form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, but if it is a loss, the adjustment for tax shelter passive farm activity is the loss the corporation reported for regular tax. The AMT loss carryover is the refigured AMT loss.

Note: If, at the end of the taxable year, the corporation's liabilities exceed the fair market

value of the corporation's assets (insolvency), increase the passive activity loss allowed by that excess (but not more than the total loss). See IRC Section 58(c)(1).

Line 2i – Certain loss limitations
Refigure the allowable losses from at-risk activities and basis limitations applicable to partnerships, taking into account the AMT adjustments and tax preference items. See IRC Sections 59(h), 465, and 704(d). If the refigured loss is more than the loss reported for purposes of the regular tax, enter on this line as a negative amount the difference between the loss reported on the tax return for purposes of the regular tax and the refigured loss.

Line 2k – Merchant marine capital construction funds
Amounts deposited in these funds are not deductible for AMT. Earnings on these funds are not excludable from gross income for AMT. If the corporation deducted these amounts or excluded them from income for regular tax, add them back on line 2k.

Tax Preference Items

Line 3a – Depletion
In the case of mines, wells, and other natural deposits, enter the amount by which the deduction for depletion under IRC Section 611 is more than the adjusted basis of the property at the end of the corporation's taxable year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 4626, Alternative Minimum Tax, Corporations. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and differences in bases.

See IRC Section 291(a)(2) for reduction in the amount allowable as a deduction in the case of iron ore and coal.

Line 3b – Intangible drilling costs
If the corporation elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

Enter the amount by which excess intangible drilling costs exceed 65% of net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs as follows: From the intangible drilling and development costs allowable under IRC Section 263(c) or 291(b) (except costs in drilling a nonproductive well), subtract the amount that would have been allowable if these costs had been capitalized and either amortized over 120 months starting when production began or treated according to an election made under IRC Section 57(b)(2).

Net income from oil, gas, and geothermal properties is gross income from them, minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure the line 3b amount separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

Note: California conformed in 1993 to the limited federal repeal of intangible drilling costs preferences for independent producers. California now conforms to the limit on the benefit of the exclusion of the preference for intangible drilling costs of 40% of AMTI. See the instructions for federal Form 4626. Also, note that your intangible drilling costs amounts may differ from federal amounts because of prior differences in the law.

Line 3c – Reserves for losses on bad debts
Use this line to adjust the reserves for losses on bad debts of banks to which IRC Section 585 applies. For the purpose of the bad debt reserve method, banks include savings and loan associations, and other financial institutions. For more information, see the Internal Revenue Code (IRC) Section 581 and 585.Enter the excess of the deduction allowable for a reasonable addition to a reserve for bad debts, over the amount that would have been allowable had the institution always maintained its bad debt reserve based on actual experience.

Line 3d – Accelerated depreciation of real property placed in service before 1987
Enter on this line, but not less than zero, the difference between the depreciation taken for this property in determining the regular tax and depreciation as refigured using the straight-line method. Figure this amount separately for each property and include only positive adjustments. Use the straight-line method over the life of the property using the half-year convention and no salvage value.

Line 3e – Amortization of certified pollution control facilities placed in service before 1987
For any certified pollution control facility in California placed in service before 1987 (or before August 1, 1986, if an election was made), figure the amount by which the amortization allowable under IRC Section 169 is more than the depreciation deduction otherwise allowable. Before figuring this tax preference item, reduce the amortizable basis by 20% (15% if the facility was placed in service in 1983 or 1984, 0% if placed in service before 1983), as required under IRC Section 291. Multiply the difference above by 59.6% (71.6% if the facility was placed in service in 1983 or 1984, 100% if placed in service before 1983). Enter only positive amounts.

Line 4b – Apportioned pre-adjustment alternative minimum taxable income (AMTI)
For taxpayers required to apportion their income, pre-adjustment AMTI is apportioned and allocated to California in the same manner as net income for purposes of the regular tax. This may be done by transferring the amount from line 4a to Schedule R, Apportionment and Allocation of Income, line 1a. Refigure the Schedule R taking into account any AMT adjustments, then transfer the refigured net income from Schedule R, line 24 to Schedule P (100W), line 4b.

For combined reports, each taxpayer's pre-adjustment AMTI is the sum of (1) that corporation's apportioned share of combined business pre-adjustment AMTI and (2) any of that corporation's nonbusiness California source pre-adjustment AMTI. For additional guidance in making these computations, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Line 5a – ACE adjustment
If this schedule is for a regulated investment company or a real estate investment trust, skip this line.

The ACE adjustment is the pre-adjustment AMTI from line 4b with additional adjustments. California's ACE adjustment generally follows the federal ACE adjustment rules in IRC Section 56(g). To compute the California ACE, the federal ACE worksheet included in the instructions for the federal Form 4626 can be used by taking into account the modifications of R&TC Sections 23456 (e) and (f), if applicable. For example:

Taxes. Taxes on, according to, or measured by income are not deductible from earnings and profits (E&P). Foreign taxes on, according to, or measured by income are not deductible even though a foreign tax credit is not taken for federal purposes. Environmental taxes imposed by IRC Section 59A are not deductible from E&P.

Depreciation and amortization. For property placed in service on or after January 1, 1981, and before January 1, 1987, the amount allowable as depreciation or amortization must be determined using the straight-line method for each taxable year of useful life (determined without regard to R&TC Section 24354.2) that the corporation has held the property.

For property placed in service on or after January 1, 1987, and before January 1, 1990, the amount allowable as depreciation or amortization must be determined by using the state AMTI depreciable basis as of the close of the taxable year beginning before January 1, 1990, and applying IRC Section 168(g). For property placed in service on or after January 1, 1990, and before January 1, 1998, use the ADS described in IRC Section 168(g). For property placed in service on or after January 1, 1998, the ACE depreciation is the same as the AMT depreciation. therefore, no ACE depreciation adjustment is necessary for those assets.

Dividends. Dividends deductible for regular California tax purposes are deductible from E&P.

The provision of IRC Section 56(g)(4)(C)(ii), for 100% dividend, does not apply.

The provisions of IRC Sections 56(g)(4)(C)(iii) and (iv), for dividends from IRC Section 936 companies and certain dividends received by certain cooperatives, do not apply.

Certain amortization provisions. IRC Section 56(g)(4)(D)(ii) was modified to specify that circulation expenditures under R&TC Section 24364 and organizational expenditures under R&TC Section 24407 do not apply to expenditures paid or incurred in

taxable years beginning on or after January 1, 1990, for E&P calculations.

Interest income. For entities not subject to the minimum franchise tax, interest income included in E&P must not exceed the amount of interest income included for regular tax purposes.

Appropriate adjustments must be made to limit deductions from ACE for interest expense in accordance with the provisions of R&TC Sections 24344 and 24425.

Apportioning taxpayers and members of a combined report. ACE is apportioned and allocated to California in the same manner as net income for purposes of the regular tax and AMTI (FTB Legal Ruling 94-3). The method described in the instructions for line 4b may be used to compute the California ACE.

Line 5d – Excess of AMTI increases over AMTI reductions from prior year ACE adjustments
For combined reports, each taxpayer corporation enters the excess of its prior year accumulated positive California ACE adjustments over its prior year negative California ACE adjustments.

Line 7a
If a disaster loss carryover is claimed in 2002, enter the amount on this line.

Line 7b – AMT net operating loss (NOL) deduction.

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

Line 9 and Line 10
The $40,000 exemption and the $150,000 limitation apply to each bank or corporation included in the combined report that has a filing requirement in California, to the extent that each bank or corporation has AMTI.

Line 16 – Banks and financial corporations
Corporations with negative or zero taxable income on Form 100W, line 23, enter -0-.

Line 18 – Regular tax before credits
For installment obligations subject to IRC Section 453(I)(2)(B) (Timeshares and Residential Lots) and IRC Section 453A (Nondealer dispositions greater than $150,000), do not include tax increases for interest on the deferred tax liability.

Line 19 – AMT
If line 17 is more than zero and if the corporation has credits or credit carryovers, continue to Part II. Otherwise, stop here and enter the amount, from line 19 on Form 100W, line 30.

Part II — Credits that Reduce Tax

Complete Part II only if the corporation has tax credits.

Use Part II to determine:
- The amount of credit that may be used to offset tax;
- The tax that may be offset;
- The amount of credit, if any, that may be carried over to future years; and
- The order in which to claim credits, if the corporation has more than one credit to claim.

Note: Credits are applied against the tax on a separate entity basis. Unless otherwise provided by statutory authority, specific credits are only available to the corporation that incurred the expense that generated the credits.

Before you begin Part II:
- Complete Form 100W through line 24.
- Figure the amount of credit(s) using a schedule or the credit form identified in the Credit Table on the next page. Be sure to attach the credit form or schedule to the tax return, if applicable.

To complete Part II:
- Complete line 1 through line 3 to figure the amount of excess tax the corporation may offset by credits.
- Identify in which section(s) of Part II the corporation may take tax credit(s). Credits without carryover provisions are listed on Schedule P (100W) in Section A1 and may be taken only in that section. Credits with carryover provisions are listed on the Credit Table on the next page. The table identifies the section(s) of Part II in which the corporation may take these tax credits.
- If the corporation has credit(s) in Section B, be sure to complete line 10 in addition to the line(s) for the corporation's credit(s).
- If the corporation's credit is taken in Section A2 or Section B, enter the credit code and the credit name in the space provided. Refer to the Credit Table for the credit code.
- Complete column (a) through column (d) for each line on which the corporation is taking a credit. Refer to "column instructions."
- If the corporation credit(s) are taken in more than one section, complete each section before going to the next section.
- Once the corporation has completed Part II, see "How to Claim Credits" on the next page.

Section A — Credits that reduce excess regular tax

Section A Instructions

Line 3 – Subtract line 2 from line 1. If the amount is zero or less than zero, continue to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

1. Does the Credit Table show that the corporation may take the credit ONLY in Sections A1 or A2?
   Yes. Do not take the credit this year. Go to question 2.
   No. Go to Section B to figure the amount of credit the corporation may take this year. Then continue to Section C if the corporation's credit is listed in that section.
2. Does the credit have carryover provisions?
   Yes. Enter the credit code, credit name, and credit amount in column (a) in the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit the corporation may carry over and use in future years.
   No. Do not take the credit this year or in future years.

Section A1 Instructions

Line 4 – If the corporation has the credit listed in this section, complete column (a) through column (c).

Section A2 Instructions

For taxable years beginning on or after January 1, 2002, the credit for prior year AMT has to be applied before any credits that can reduce the regular tax below the TMT in accordance with California Revenue and Taxation Code (R&TC) Section 23036 (c).

Line 5 through Line 9 – Follow the Credit Table Instructions to find out in which section to claim the credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Note: Generally, it is to the corporation's advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, the corporation may want to apply credits with no limitation on the carryover first if that is more advantageous.

Corporations may use these credits to reduce regular tax but not below TMT. The corporation may be able to, if applicable, use them in Section B or Section C or carry them over to future years. The credits that do not have shading in column (d) can be used in Section B, or carried over to future years, if applicable, after reducing the regular tax down to TMT.

Section B — Credits that may reduce regular tax below tentative minimum tax
Corporations may use these credits to reduce the regular tax below TMT. And corporations may carry over to future taxable years any credits remaining after reducing the regular tax down to the minimum franchise tax, if applicable. But, if the corporation has a tax balance and can continue to use the credit in Section C, apply the carryover in Section C.

Section B Instructions

Line 11 through Line 14 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Section C — Credits that may reduce alternative minimum tax
If the corporation has AMT and remaining solar energy credit carryover and commercial solar energy credit carryover after reducing the regular tax down to the minimum franchise tax (if applicable), the corporation may reduce AMT using these credits. Also,

corporations may carry over to future taxable years any credits remaining after reducing the AMT to zero.

Section C Instructions

Line 16 and Line 17 – If the corporation has any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

Column Instructions – In column:

(a) Enter the amount of credit available to offset AMT;

(b) Figure the amount of credit the corporation is able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line;

(c) Figure the amount of AMT remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line; and

(d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

How to Claim Credits

Claim credits by transferring them to Form 100W:

Credits on Line 4 through Line 17

If the corporation claims only one or two credits, enter the name, code number, and amount of the credit from column (b) on Form 100W, line 25 and line 26. To claim credits that are listed in more than one section, total column (b) for the credits that have the same code numbers. Then enter the name, code number, and amount of the credit on Form 100W, line 25 and line 26.

If the corporation has any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 100W, line 27.

Credit Table Instructions

To use the table:

1. Find the corporation's credit(s) listed in the table.
2. See which sections are identified in the columns under "Offset Tax in Section."
3. Take the credit only in sections the table identifies for the corporation's credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

Part III — Credit for Prior Year AMT

Use this part to figure the 2002 credit for prior year AMT if the corporation paid AMT for 2001 or had an alternative minimum tax credit carryover from 2001.

For members of a unitary group filing a combined report, compute the credit for prior year AMT for each entity in the current year's group.

Line 1

Enter the AMT from the 2001 Schedule P (100W), Part I, line 19. If this amount was reduced by any commercial solar energy credit carryover or solar energy credit carryover, use the AMT from Section C, line 18 of the 2001 Schedule P (100W).

Line 2

Enter the credit for prior year carryover from the 2001 Schedule P (100W), Part II, line 9, column (d).

Line 3

Enter this amount on Part II, line 9, column (a).

Credit Table

Code	Current Credits	Form	Offset Tax in Section			
209	Community Development Financial Institution Deposits	N/A		A2		
205	Disabled Access for Eligible Small Businesses	FTB 3548		A2		
204	Donated Agricultural Products Transportation	FTB 3547		A2		
190	Employer Child Care Contribution	FTB 3501		A2		
189	Employer Child Care Program	FTB 3501		A2		
203	Enhanced Oil Recovery	FTB 3546		A2		
176	Enterprise Zone Hiring & Sales or Use Tax 1 = hiring credit 2 = sales or use tax	FTB 3805Z			B_1 B_2	
207	Farmworker Housing – Construction	N/A		A2		
208	Farmworker Housing – Loan	N/A		A2		
215	Joint Strike Fighter Wage	FTB 3534		A2		
216	Joint Strike Fighter Property	FTB 3534		A2		
198	Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax	FTB 3807		A2		
172	Low-Income Housing	FTB 3521			B	
199	Manufacturers' Investment	FTB 3535			B	
211	Manufacturing Enhancement Area (MEA) Hiring	FTB 3808		A2		
213	Natural Heritage Preservation	FTB 3503			B	
188	Prior Year Alternative Minimum Tax	FTB 3510		A2		
162	Prison Inmate Labor	FTB 3507	A1			
183	Research	FTB 3523			B	
206	Rice Straw	N/A		A2		
217	Solar Energy System	FTB 3508		A2		
210	Targeted Tax Area (TTA) Hiring & Sales or Use Tax	FTB 3809			B	
Code	**Repealed Credits with Carryover Provisions**	**Form**	**Offset Tax in Section**			
175	Agricultural Products	FTB 3540		A2		
196	Commercial Solar Electric System	FTB 3540			B	
181	Commercial Solar Energy	FTB 3540			B	C
202	Contribution of Computer Software	FTB 3540		A2		
191 192 193	Employer Ridesharing Large Employer Small Employer Transit	FTB 3540		A2		
182	Energy Conservation	FTB 3540		A2		
159	Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	FTB 3806			B	
160	Low-Emission Vehicles	FTB 3540		A2		
185	Orphan Drug	FTB 3540			B	
184	Political Contributions	FTB 3540		A2		
174	Recycling Equipment	FTB 3540		A2		
171	Ridesharing	FTB 3540		A2		
200	Salmon & Steelhead Trout Habitat Restoration	FTB 3540		A2		
180	Solar Energy	FTB 3540			B	C
179	Solar Pump	FTB 3540		A2		
201	Technological Property Contribution	FTB 3540		A2		

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visit our Website:

www.ftb.ca.gov

YEAR

CALIFORNIA FORM

2002 Water's-Edge Contract

100-WE

Attach this form to the back of Form 100W or Form 100S.

Corporation name	California corporation number

Number and street	PMB no.

City	State	ZIP Code

WATER'S-EDGE CONTRACT

Pursuant to Revenue and Taxation Code (R&TC) Section 25111 and subject to the representations and conditions set forth herein and in the R&TC, the parties agree and contract as follows:

I The Franchise Tax Board (FTB) shall allow the **ELECTOR** to determine the amount of income derived from or attributable to sources within this state pursuant to R&TC Section 25110 and related provisions (including incorporated federal provisions, as may be amended during the contract period); and

II The **ELECTOR** consents to the taking of depositions from key domestic corporate individuals, wherever located, and acceptance of subpoenas duces tecum, both as provided in R&TC Section 25110(b)(2)(A), and agrees that the dividends described in R&TC Section 25110(b)(2)(B) are functionally related and presumed to be business income.

PARTIES: The parties to this Contract shall be the **FTB and** _____**, ELECTOR.**

Unless subject to a common-parent election, each taxpayer member of the water's-edge group should file its own separate contract.

☐ Check here if the common parent is electing on behalf of the water's-edge group. List each corporation covered by this contract on Side 2. As the common parent of a controlled group, the corporation hereby contracts for all members of the controlled group which are includable in the water's-edge combined report.

Any taxpayer that subsequently becomes a member of the water's-edge group or is subsequently proved to be a member of the water's-edge group will be deemed to have consented to the election subject to the provisions of R&TC Section 25111 and the regulations thereunder.

PERIOD: The contract shall begin on _____ (MONTH) _____ (DAY) _____ (YEAR), the first day of the taxable year for which the election can be made and shall, except as otherwise provided by statute or herein, continue for seven years (84 calendar months) from that date.

RENEWAL: Unless a notice of nonrenewal is filed at least ninety (90) days prior to the anniversary date, the contract shall automatically be extended for one year (12 calendar months). The "anniversary date" shall be defined as the later of the original due date or the due date as extended for the taxable year for which the election was initially made.

TERMINATION: If the ELECTOR requests, the FTB may, subject to conditions as provided by statute or regulation, allow this contract to be terminated prior to the expiration of its term.

JURISDICTION: This is a legally binding contract. Any disputes arising under this contract shall be subject to the laws of the State of California and the jurisdiction of the Superior Court of the State of California.

_____
Electing Corporation Name/Electing Corporation Number

_____
Date

_____
Signature of Officer of Electing Corporation

_____
Print or type name and title of signing Officer

SIGN FORM 100-WE AND ATTACH TO FORM 100W OR FORM 100S
KEEP A COPY FOR YOUR RECORDS

Corporations Covered by the Water's-Edge Contract

Key California corporation name*	Key California corporation number
Common parent name	FEIN (if applicable) –
List of corporations covered by the election	California corporation number

*For definition of Key Corporation, see FTB Pub. 1061.

Attach additional sheets if necessary.

Instructions for Completing Form 100-WE, Water's-Edge Contract

Enter the corporation name, California Corporation number, and address as they appear on Form 100W. Enter the name of the corporation making the election in the space provided described as elector.

Be sure to check the box if a common parent is electing on behalf of members of the controlled group included in the water's-edge combined report. If there is no common parent election, each electing member of the water's-edge group should file its own contract, even if a single return is filed on a combined basis. For more information, see Title 18 Cal. Code Reg. Section 25111-1(c). List all taxpayers covered by the common parent's election on this page.

Enter the beginning date of the water's-edge contract in the space provided. This date is generally the same as the beginning date for the taxable year that appears on Form 100W or Form 100S for the first year of the election. If the corporation is a member of a water's-edge combined group that has different fiscal-year ends, the contract beginning date is the beginning date of the taxable year of the last member of the group to file its return and make the election. For example, if one member of the water's-edge group has a January 1, 2002, to December 31, 2002, taxable year and the second member has an April 1, 2002, to March 31, 2003, taxable year, the beginning date of this water's-edge contract is April 1, 2002.

An officer of the electing corporation must sign and date the contract.

YEAR

CALIFORNIA FORM

20□□ Notice of Nonrenewal of Water's-Edge Contract 1116

Corporation name		Key California corporation number
Number and street	PMB no.	Federal employer identification number (FEIN)
City, state, ZIP Code		

☐ **INDIVIDUAL TAXPAYER NOTICE OF NONRENEWAL**

_____

_____

hereby notifies the Franchise Tax Board (FTB) of its intention not to renew its water's-edge contract with the beginning date of

MONTH | DAY | YEAR

_____ | _____ | _____ , providing for a water's-edge election pursuant to Revenue and Taxation Code (R&TC) Section 25110. The last day of the taxable year for which the contract shall remain in effect is MONTH _____ | DAY _____ | YEAR _____ .

In order for nonrenewal of the water's-edge contract to be effective, each taxpayer making a water's-edge election within the group must file a separate notice of nonrenewal of water's-edge contract.

_____ Date

_____ Signature of Officer

_____ Print or type name and title of signing Officer

☐ **COMMON PARENT NOTICE OF NONRENEWAL**

_____

_____

a common parent hereby notifies the FTB of its intention not to renew its contract with the beginning date of

MONTH | DAY | YEAR

_____ | _____ | _____ , providing for a water's-edge election pursuant to R&TC Section 25110.

The last day of the taxable year for which the contract shall remain in effect is MONTH _____ | DAY _____ | YEAR _____ .

_____ Date

_____ Signature of Officer

_____ Print or type name and title of signing Officer

Affiliated taxpayers included in the water's-edge group must be listed on the back of this form.

THIS FORM MUST BE FILED SEPARATE FROM THE TAX RETURN

Mail separately to: FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

Notice of Nonrenewal of Water's-Edge Contract

Key California corporation name*	Key California corporation number
Common parent name	FEIN (if applicable)
List of corporations covered by the election	California corporation number

*For definition of Key Corporation, see FTB Pub. 1061

Attach additional sheets if necessary.

TAXABLE YEAR

CALIFORNIA FORM

20☐☐ Request to Terminate Water's-Edge Election 1117

For use only by taxpayers filing on a water's-edge basis. **Note:** Parts I, II, III, and VII must be completed in all cases.

Part I Complete in all cases.

Corporation name (as reflected on original water's-edge return)	California corporation number

Address (number and street)	PMB no.

City	State	ZIP Code

Do not change the method of filing until it has been approved by the Franchise Tax Board (FTB).

Request to terminate the water's-edge election effective for taxable year ending MONTH ____ DAY ____ YEAR ____

Current expiration date of the water's-edge election MONTH ____ DAY ____ YEAR ____

Part II Complete in all cases.

1. This is a request to terminate the water's-edge election ☐; or
2. This is a request for the FTB's permission to terminate the water's-edge election ☐ .
3. Basis for request to terminate the election, see instructions (attach additional sheets if necessary).

Part III Complete in all cases.

List Taxpayers Currently Covered by Original Contract	List Taxpayers Requesting to Terminate Election

THIS FORM MUST BE FILED SEPARATE FROM THE TAX RETURN

See instructions on page 41 for more information.

Parts IV, V, and VI apply only if you are requesting permission to terminate the election. Otherwise, go to Part VII.

Part IV **Complete only by taxpayers requesting permission to terminate the election.**

Provide a list of all gains or losses on stock or assets during the water's-edge election period of any affiliated banks or corporations included in the combined report prior to the water's-edge election. See Part VI.

Bank or Corporation Name	Item Disposed Of	Date Sold/Disposed Of	Gain/Loss

Part V **Complete only by taxpayers requesting permission to terminate the election.**

	Tax As Computed		
Taxable Year Ended	Water's-Edge Method	Worldwide Method	Difference

Attach a statement showing computations, estimates, and assumptions made.

Part VI **Applies only to taxpayers requesting permission to terminate the election.**

The books and records with respect to the gain(s) and loss(es) listed in Part IV above, E&P of affiliated banks and corporations, the nature of the event giving rise to the request, the consequences of such event, and such other relevant matters must be made available upon request of the FTB.

Conditions:

A request for permission to terminate an election may be subject to the following conditions:

1. Dividends received during the remaining period of the contract from affiliated banks or corporations not included in the water's-edge combined report will be considered to have been paid first out of the earnings and profits (E&P) not included in the combined report of a unitary business for purposes of computing any allowable dividend exclusion under R&TC Section 25106. To the extent the dividends exceed such E&P, they may be subject to the exclusion.
2. Gain(s) on distribution with respect to stock that is not a dividend or from the sale or other disposition of assets received during the remaining period of the contract from affiliated banks or corporations not included in the water's-edge combined report will not be deferred or eliminated. Loss(es) from the sale or worthlessness of stock or from the sale or other disposition of assets of affiliated banks or corporations not included in the water's-edge combined report will be allowed only to the extent of dividend income or other gain(s) recognized as a result of the change in election.
3. Gain(s) or loss(es) on the disposition of stock or assets of an affiliated bank or corporation that was included in a combined report prior to the election and that was excluded from the water's-edge combined report will be included in income in the first return filed after permission is granted. Loss(es) will be included only to the extent of gain(s) recognized as a result of the change in election.

If the taxpayer does not believe that one or more of these conditions are necessary to prevent the avoidance of tax or to clearly reflect income, attach a letter explaining why you believe the conditions are not necessary or applicable.

Part VII **Signature and Verification. Complete in all cases.**

1. I attest to the accuracy of factual statments.
2. I attest to the belief that the termination of the water's-edge election is permitted by law.

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge, it is true, correct, and complete.

Signature of officer _____ Title _____ Date _____

Print or type name of person to contact _____ ( ) Telephone _____

Mail this form separate from the tax return to:

FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

Instructions for Form FTB 1117

Request to Terminate Water's-Edge Election

General Information

Purpose

Use form FTB 1117 to request to terminate the water's-edge election or to request the FTB's permission to terminate the water's-edge election.

R&TC Section 25111 provides how and when the water's-edge election is to be made. In addition, this section provides the manner in which the water's-edge election may be terminated at any time prior to the expiration of the contract period. The election may be terminated if the taxpayer requests:

- To terminate the election; or
- The FTB's permission to terminate the election.

The taxpayer should clearly state under which criteria it is requesting the termination and the specific facts involved.

Specific Instructions

Request to Terminate

Part II, Line 1

An electing water's-edge taxpayer may terminate its water's-edge election if it is acquired directly or indirectly by an unrelated nonelecting entity that is larger than the taxpayer in terms of equity capital.

In the case of termination by reason of acquisition by a larger entity, the request to terminate an election will affect only the member of the water's-edge group making the request.

Permission to Terminate

Part II, Line 2

In general, the request for permission to terminate the water's-edge election will be granted only if the taxpayer demonstrates that the requirement to file returns on a water's-edge basis, rather than on a worldwide combined basis, for the unexpired term of the contract will result in a significant disadvantage to the taxpayer and that such disadvantage is the consequence of an extraordinary and significant event that could not have been reasonably anticipated at the time the original election was made.

An example of an event that could be considered extraordinary and significant includes, but is not limited to, a change in ownership or affiliation.

A taxpayer requesting permission to terminate the water's-edge election by reason of change in ownership or affiliation must request permission to terminate no later than the due date of the return, including extension, for the taxable year immediately succeeding the taxable year in which the change in ownership or affiliation occurred.

The basis for permission to terminate the water's-edge election must be in writing and must state the reason(s) for the request. In addition, the statement should explain why filing on the water's-edge combined basis results in a significant disadvantage to the taxpayer and how such disadvantage is the consequence of an extraordinary and significant event that could not have been reasonably anticipated at the time the original election was made.

A significant disadvantage will occur when the tax under water's-edge reporting is materially more than the tax under worldwide reporting for the remaining life of the election. Any assumptions, estimates, and computations made to determine such material difference must be included with the request for permission to terminate the election. Taxpayers requesting permission to terminate must complete Part IV and Part V of form FTB 1117.

Basis for Request to Terminate

Part II, Line 3

Provide a detailed explanation of the basis for your request to terminate.

When a taxpayer, acquired directly or indirectly by a larger non-electing, non-affiliated entity, requests termination of a water's-edge election, the explanation for the basis to terminate the election should include all of the following:

- The name of the acquiring corporation;
- The date of acquisition; and
- A schedule showing the equity capital for the taxpayer and the acquiring corporation as shown on their balance sheets for the period immediately preceding the date of acquisition. **Note:** For this purpose, equity capital includes issued stock of any class, paid in capital, and retained earnings or earned surplus.

Changing an Election

A request for permission to terminate an election under Part II, line 2 of this form may be subject to the conditions outlined in Part VI of form FTB 1117. If the FTB determines that the termination shall be granted subject to one or more of the conditions, the taxpayer will be notified. The taxpayer will be given an opportunity to either accept the conditions or withdraw the request for termination.

Action on Request

Within 90 days of receiving a request to terminate the water's-edge election, the FTB will either act on the request or advise the taxpayer what additional information is needed to consider the request. Upon receiving the additional information requested, the FTB will act on the request within 90 days.

If the FTB takes no action or requests no additional information, a request to terminate the water's-edge election under Part II, line 1 of this form is deemed allowed when the 90-day period expires unless this time period is specifically extended by the taxpayer.

If the FTB takes no action or requests no additional information, a request for permission to terminate the water's-edge election under Part II, line 2 of this form is deemed disallowed when the 90-day period expired unless this time period is specifically extended by the taxpayer.

The taxpayer may withdraw its request at any time before the FTB takes action.

Effective Date

The effective date of a terminated election varies depending on whether the taxpayer is requesting to terminate or requesting permission to terminate and the basis for the change. A terminated election, based on acquisition by a larger entity, is effective for the succeeding taxable year.

In general, requests for permission to terminate the water's-edge election are effective for the first succeeding taxable year after the taxable year in which the qualifying event occurred.

The FTB may grant the change effective for a later taxable year. However, requests will not be allowed retroactively.

For additional information, refer to R&TC Section 25111 and the regulations thereunder.

Due Date of Form FTB 1117

Any request to terminate an election described in Part II, line 1 and any request for permission to terminate an election by reason of change in ownership or affiliation must be filed with the FTB no later than the due date, including extensions, of the return for which the termination would be effective. Other requests for permission to terminate an election described in Part II, line 2 may be filed at any time. However, requests cannot be applied retroactively.

Where to Mail

A taxpayer must file form FTB 1117, Request to Terminate Water's-Edge Election, separate from any other form. Form FTB 1117 filed with a return is **not** valid and **will not** terminate a taxpayer's water's-edge election.

Mail form FTB 1117 to:

FRANCHISE TAX BOARD
PO BOX 1779
RANCHO CORDOVA CA 95741-1779

For more information, see R&TC Section 25111 and the regulations thereunder.

Instructions for Form FTB 2416

Schedule of Included Controlled Foreign Corporations (CFC)

General Information

A Purpose

R&TC Section 25110(a)(6) provides that the income and apportionment factors of any Controlled Foreign Corporation (CFC) (as defined in IRC Section 957) that has Subpart F income (defined in IRC Section 952) are to be included in the combined report of a taxpayer making a water's-edge election.

Use form FTB 2416 to compute the net income and apportionment factors required to be included in the water's-edge combined report.

B Controlled Foreign Corporation

In general, a foreign corporation is a corporation that is not created or organized in the U.S. or under the laws of the U.S. or any state.

A CFC is any foreign corporation that is more than 50% owned or considered to be owned per IRC Section 958(b) by U.S. shareholders.

C Apportionment

For each CFC, the amounts included in income and the apportionment factors are determined by multiplying the total income and each component of the apportionment factors by a fraction. The numerator of the fraction is the current year total Subpart F income defined in IRC Section 952 and the denominator is the current year E&P as defined in IRC Section 964.

See R&TC Section 25110(a)(6) and the regulations thereunder for more information.

Specific Instructions

Column (b) – Country of incorporation

Enter the country of incorporation in column (b). Use the list of country codes on page 44.

Column (c) – Country of primary business activity

Enter the country in which the CFC conducts its primary trade or business in column (c). Use the country codes listed on page 44. This country may be different from the country of incorporation.

Column (d) – Principal business activity (PBA) code

Enter the PBA code of the CFC. The PBA codes are listed on page 17 through page 19 of this booklet. The new PBA codes are six digits not four digits.

Column (e) – Subpart F income

In determining whether a bank or corporation has Subpart F income, defined By IRC Section 952, for purposes of R&TC Section 25110(a)(6) and the Regulations thereunder, the limitation and exclusions provided for in IRC Section 954(b) shall apply. However, IRC Section 952(c) shall not apply.

For these purposes, Subpart F income does not include income defined in IRC Sections 955, 956, or 956A.

Include both business and nonbusiness income as defined under R&TC Section 25120 for the current year.

If there is no Subpart F income for California purposes, STOP. None of the income or factors of this CFC will be included in the water's-edge combined report.

Column (f) – Current year earnings and profits (E&P)

E&P, as defined in IRC Section 964, includes both business and nonbusiness income for the current year. In most cases, this figure can be taken from federal Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, page 4, Schedule H, line 5d.

If there is no current E&P, STOP. None of the income or factors of this CFC will be included in the water's-edge combined report.

Column (g) – Percentage

The percentage may not exceed 100 or be less than zero.

Column (h) – Net income

Report the total net income as reflected on the CFC's books and records, adjusted to conform to California tax law.

Columns (j), (l), (n), and (p) – Apportionment factors

Determine the apportionment factors for the CFC to be included in the water's-edge combined report including total average property everywhere, rent expense everywhere, payroll everywhere, and sales everywhere based on the apportionment factor rules set forth in R&TC Sections 25129 through 25137. See California Schedule R, Apportionment and Allocation of Income, for more information.

Column (i) – Net income included in combined report

Enter total from column (i) on Form 100W, Side 1, line 7a.

TAXABLE YEAR

CALIFORNIA FORM

2002 Schedule of Included Controlled Foreign Corporations (CFC) 2416

Corporation name

California corporation number

	(a) Corporation name	(b) Country of incorporaton	(c) Country of primary bus. activity	(d) Principal bus. activity code	(e) Subpart F income	(f) Current year earnings and profits	(g) Percentage (e) ÷ (f)
1							
2							
3							
4							
5							
6							
7							
8							

	(h) Net income	(i) * (g) x (h)	(j) Average property everywhere	(k) (g) x (j)	(l) Rent expense x 8	(m) (g) x (l)	(n) Payroll everywhere	(o) (g) x (n)	(p) Sales everywhere	(q) (g) x (p)
1										
2										
3										
4										
5										
6										
7										
8										
9	**TOTAL**									

*Enter total from column (i) on Form 100W, Side 1, line 7.

Attach additional sheets if necessary.

ATTACH TO FORM 100W OR FORM 100S

Alphabetic Listing of Countries and Codes for Form FTB 2416

Country	Code
Abu Dhabi	TC
Afghanistan	AF
Albania	AL
Algeria	AG
American Samoa	AQ
Andorra	AN
Angola	AO
Anguilla	AV
Antarctica	AY
Antigua and Barbuda	AC
Argentina	AR
Armenia	AM
Aruba	AA
Ashmore and Cartier Islands	AT
Australia	AS
Austria	AU
Azerbaijan	AJ
Azores	PO
Bahamas, The	BF
Bahrain	BA
Baker Island	FQ
Balearic Islands *(Mallorca, etc.)*	SP
Bangladesh	BG
Barbados	BB
Bassas da India	BS
Belarus	BO
Belgium	BE
Belize	BH
Benin *(Dahomey)*	BN
Bermuda	BD
Bhutan	BT
Bolivia	BL
Bonaire	NT
Bosnia-Herzegovina	BK
Botswana	BC
Bouvet Island	BV
Brazil	BR
British Indian Ocean Territory	IO
Brunei	BX
Bulgaria	BU
Burkina Faso *(Upper Volta)*	UV
Burma	BM
Burundi	BY
Cambodia (Kampuchea)	CB
Cameroon	CM
Canada	CA
Canary Islands	SP
Cape Verde	CV
Cayman Islands	CJ
Central African Republic	CT
Chad	CD
Chile	CI
China, People's Republic of *(including Inner Mongolia, Tibet, and Manchuria)*	CH
Christmas Island *(Indian Ocean)*	KT
Clipperton Island	IP
Cocos *(Keeling)* Islands	CK
Colombia	CO
Comoros	CN
Congo *(Brazzaville)*	CF
Congo, Democratic Republic of *(Zaire)*	CG
Cook Islands	CW
Coral Sea Islands Territory	CR
Corsica	VP
Costa Rica	CS
Cote D'Ivoire (Ivory Coast)	IV
Croatia	HR
Cuba	CU
Curacao	NT
Cyprus	CY
Czech Republic	EZ
Denmark	DA
Djibouti	DJ
Dominica	DO
Dominican Republic	DR
Dubai	TC
Ecuador	EC
Egypt	EG
Eleuthera Island	BF
El Salvador	ES
Equatorial Guinea	EK
Eritrea	ER
Estonia	EN
Ethiopia	ET
Europa Island	EU
Falkland Islands *(Islas Malvinas)*	FK
Faroe Islands	FO
Fiji	FJ
Finland	FI
France	FR
French Guiana	FG
French Polynesia (*Tahiti)*	FP
French Southern and Antarctic Lands	FS
Gabon	GB
Gambia, The	GA
Gaza Strip	GZ
Georgia	GG
Germany	GM
Ghana	GH
Gibraltar	GI
Glorioso Islands	GO
Great Britain *(United Kingdom)*	UK
Greece	GR
Greenland	GL
Grenada *(Southern Grenadines)*	GJ
Guadeloupe	GP
Guam	GQ
Guatemala	GT
Guernsey	GK
Guinea	GV
Guinea-Bissau	PU
Guyana	GY
Haiti	HA
Heard Island and McDonald Islands	HM
Honduras	HO
Hong Kong	HK
Howland Island	HQ
Hungary	HU
Iceland	IC
India	IN
Indonesia *(including Bali, Belitung, Flores, Java, Moluccas, Sumatra, Timor, etc.)*	ID
Iran	IR
Iraq	IZ
Ireland, Republic of (Eire)	EI
Isle of Man	IM
Israel	IS
Italy	IT
Jamaica	JM
Jan Mayen	JN
Japan	JA
Jarvis Island	DQ
Jersey	JE
Johnston Atoll	JQ
Jordan	JO
Juan de Nova Island	JU
Kazakhstan	KZ
Kenya	KE
Kingman Reef KQ	KQ
Kiribati *(Gilbert Islands)*	KR
Korea, Democratic People's Republic of *(North)*	KN
Korea, Republic of *(South)*	KS
Kosovo	YO
Kurile Islands	RS
Kuwait	KU
Kyrgyzstan	KG
Laos	LA
Latvia	LG
Lebanon	LE
Lesotho	LT
Liberia	LI
Libya	LY
Liechtenstein	LS
Lithuania	LH
Luxembourg	LU
Macau M LU	MC
Macedonia *(former Yugoslav Republic of)*	MK
Madagascar *(Malagasy Republic)*	MA
Malawi	MI
Malaysia	MY
Maldives	MV
Mali	ML
Malta	MT
Marshall IslandsRM	RM
Martinique	MB
Mauritania	MR
Mauritius	MP
Mayotte	MF
Mexico	MX
Micronesia, Federated States of	FM
Midway Islands	MQ
Moldova	MD
Monaco	MN
Mongolia	MG
Montenegro	YO
Montserrat	MH
Morocco	MO
Mozambique	MZ
Namibia	WA
Nauru	NR
Navassa Island	BQ
Nepal	NP
Netherlands	NL
Netherlands Antilles	NT
New Caledonia	NC
New Zealand	NZ
Nicaragua	NU
Niger	NG
Nigeria	NI
Niue	NE
Norfolk Island	NF
Northern Ireland	UK
Northern Mariana Islands	CQ
Norway	NO
Oman	MU
Pakistan	PK
Palau	PS
Palmyra Atoll	LQ
Panama	PM
Papua New Guinea	PP
Paracel Islands	PF
Paraguay	PA
Peru	PE
Philippines	RP
Pitcairn Island	PC
Poland	PL
Portugal	PO
Puerto Rico	RQ
Qatar *(Katar)*	QA
Redonda	VI
Reunion	RE
Romania	RO
Russia	RS
Rwanda	RW
Ryukyu Islands	JA
St. Helena *(Ascension Island and Tristan de Cunha Island Group)*	SH
St. Kitts *(St. Christopher and Nevis)*	SC
St. Lucia	ST
St. Pierre and Miquelon	SB
St. Vincent and the Grenadines *(Northern Grenadines)*	VC
San Marino	SM
Sao Tome and Principe	TP
Sarawak	MY
Saudi Arabia	SA
Senegal	SG
Serbia	YO
Seychelles	SE
Sierra Leone	SL
Singapore	SN
Slovakia	LO
Slovenia	SI
Solomon Islands	BP
Somalia	SO
South Africa	SF
South Georgia and the South Sandwich Islands	SX
Spain	SP
Spratly Islands	PG
Sri Lanka	CE
Sudan	SU
Suriname	NS
Svalbard (Spitsbergen)	SV
SwazilandRO	WZ
Sweden	SW
Switzerland	SZ
Syria	SY
Taiwan	TW
Tajikistan	TI
Tanzania	TZ
Thailand	TH
Togo	TO
Tokelau	TL
Tonga	TN
Tortola	VI
Trinidad and Tobago	TD
Tromelin Island	TE
Tunisia	TS
Turkey	TU
Turkmenistan	TX
Turks and Caicos Islands	TK
Tuvalu	TV
Uganda	UG
Ukraine	UP
United Arab Emirates	TC
United Kingdom *(England, Wales, Scotland, No. Ireland)*	UK
Uruguay	UY
Uzbekistan	UZ
Vanuatu	NH
Vatican City	VT
Venezuela	VE
Vietnam	VM
Virgin Islands (British)	VI
Virgin Islands (U.S.)	VQ
Wake Island	WQ
Wallis and Futuna	WF
West Bank	WE
Western Sahara	WI
Western Samoa	WS
Windward Islands	VC
Yemen *(Aden)*	YM
Yogoslavia *(Kosovo, Montenegro, Serbia)*	YO
Zaire *(Democratic Republic of Congo)*	CG
Zambia	ZA
Zimbabwe	ZI
Other Country	OC
Unknown Country	UC

YEAR

CALIFORNIA FORM

2002 Water's-Edge Foreign Investment Interest Offset 2424

Attach this form to the back of Form 100W or Form 100S.

Key corporation name

Key California corporation number

1	R&TC Section 24411 dividend deduction from Schedule H (100W), Part III, line 7, column (g), or Form 100S, Side 1, line 10. See instructions	1	
	If line 1 is zero, this offset is zero. Do not complete this form.		
2	Total interest expense	2	
3	Interest expense specifically assignable to foreign investment	3	
4	Interest expense specifically assignable to domestic investment or other property	4	
5	Unassigned interest expense, add line 3 and line 4, and subtract from line 2	5	
6	Unassigned interest expense from line 5, paid on debt incurred prior to January 1, 1988	6	
7	Unassigned interest expense from line 5, paid on new debt incurred on or after January 1, 1988	7	
8	Interest expense included in line 7, paid with respect to debt proceeds deposited in restricted accounts	8	
9	Subtract line 8 from line 7	9	
10	Unassigned interest expense subject to allocation. Add line 6 and line 9	10	
11	Unassigned foreign investment	11	
12	Unassigned total assets	12	
13	Percentage. Divide line 11 by line 12	13	
14	Interest expense allocated to foreign investment. Multiply line 10 by line 13	14	
15	Interest expense attributable to foreign investment. Add line 3 and line 14	15	
16	Enter the amount from line 1 or line 15, whichever is less	16	
17	Multiply the amount from line 16 by 75% (.75). Enter here and on Schedule R, Side 1, line 1b and Schedule R-5, line 2	17	

Note: The remaining interest expense is subject to the provisions of R&TC Section 24344(b).

Instructions for Form FTB 2424

Water's-Edge Foreign Investment Interest Offset

General Information

R&TC Section 24344(c) provides that interest expense incurred for purposes of foreign investment (as defined below) may be offset against the foreign dividend deduction allowed under R&TC Section 24411. The foreign investment interest offset may not exceed the total foreign dividend deduction allowed for the taxable year.

The amount of interest expense attributable to to the foreign investment is equal to the amount of interest expense specifically assigned to foreign investment plus the amount of unassigned interest expense allocated to foreign investment. Unassigned interest expense is allocated by formula. The amount of the offset is limited to the lesser of:

- The sum of interest expense specifically assigned and interest expense allocated to foreign investment; or
- The foreign dividend deduction.

This limited amount is multiplied by 75% to arrive at the foreign investment interest offset. Interest expense that exceeds the offset amount will be subject to the standard interest offset computation of R&TC Section 24344(b). See FTB Notice 2000-9.

Note: If there is no foreign dividend deduction, then no foreign interest offset computation is necessary.

A Definitions

1. Foreign investment

Foreign investment is stock or other equity investment, which is included in total assets, regardless of when it was acquired, in:

- An entity whose dividends would be qualifying dividends for purposes of R&TC Section 24411; and/or
- A non-affiliated corporation that is organized under the laws of a country or political subdivision of a country other than the United States.

To determine the asset value for the foreign investment, see Section B "Asset Value."

2. Interest expense assigned to specific property

If the existence of all of the facts and circumstances described below is established, interest expense is considered to be related solely to specific property. Specific property may be either a foreign investment, domestic investment, or other property.

- The indebtedness on which the interest was paid was specifically incurred for the purpose of purchasing, maintaining, or improving the specific property;
- The proceeds of the borrowing were actually applied to the specified purpose; and
- The creditor can look only to the specific property (or any lease or other interest therein) as security for payment of the principal and interest of the loan and, thus, has no secured interest in any other property of the borrower or the borrower itself with respect to repayment of the loan.

Even though the above facts and circumstances are present in substance as well as form, a deduction for interest will not be considered definitely related to a specific property where the motive for structuring the transaction in the manner described above was without any economic significance.

3. Unassigned interest expense

Interest expense paid that does not meet the above conditions to be assigned, is unassigned interest expense.

4. Interest expense on restricted accounts

Interest expense on restricted accounts is interest expense paid on new debt incurred on or after January 1, 1988, if the proceeds of the debt are deposited into an account that prevents its use for foreign investment and the account is not, in fact, used for foreign investment. However, debt shall not be treated as incurred on or after January 1, 1988, if the majority of the proceeds were used to refinance debt incurred prior to January 1, 1988, or the debt arises pursuant to a line of credit or similar arrangement.

5. Total assets

Total assets means all of the assets of a corporation included in a water's-edge combined report by reason of R&TC Section 25110, after the elimination of intercompany accounts of assets.

6. Average values of assets

An average of values is computed for the year on the basis of values of assets at the beginning and the end of the year.

B Asset Values

Assets and stock or other equity investments with less than 50% ownership are taken into account at the federal tax book value (original cost for federal tax purposes less depreciation, amortization, or depletion).

Stock or other equity investments with more than a 50% ownership are taken into account at adjusted basis for federal tax purposes:

- Increased by the amount of the E&P of such corporation attributable to such stock or other equity investment and accumulated during the period the stock or other equity investment was owned by another affiliated corporation; and
- Reduced (but not below zero) by any deficit in E&P of such corporation attributable to such stock or other equity investment for such period.

For more information, see R&TC Section 24344(c) and the regulations thereunder.

Specific Instructions

Line 1
Enter the Water's-Edge Dividend Deduction claimed on Schedule H (100W), Part III, line 7, column (g) or Form 100S, line 10.

Line 2
Enter total interest expense for all entities included in the water's-edge combined report filed pursuant to R&TC Section 25110, net of intercompany interest expense.

Line 3
Enter the interest expense specifically assignable to foreign investments. See R&TC Section 24344(c) and the regulations thereunder for further information.

Line 4
Enter the interest expense specifically assignable to domestic investments or other property.

Line 6
Enter unassigned interest expense included in line 5 that is for debt incurred prior to January 1, 1988.

Line 7
Enter unassigned interest expense included in line 5 for debt incurred on or after January 1, 1988.

Line 8
Enter interest expense paid on restricted accounts.

Line 11
Unassigned foreign investment is the average value of all foreign investment to which interest is not specifically assigned.

Line 12
Unassigned total assets is the average value of all assets to which interest is not assigned.

Line 13
In calculating the ratio, foreign investment and assets to which interest expense has been specifically assigned are not to be considered.

Note: If the taxpayer reported the foreign dividend deduction for dividends received from foreign investments and foreign construction projects, the taxpayer must calculate a separate foreign investment interest offset for each component. The two separately calculated amounts are then added together and entered on Schedule R, Side 1, line 1b and Schedule R-5, Side 3, line 2.

Instructions for Form FTB 3539

Automatic Extension for Corporations and Exempt Organizations

General Information

Use form FTB 3539 only if:

- You cannot file your 2002 California (CA) return by the original due date; and
- You owe tax for the 2002 taxable year.

Use the worksheet on the following page to determine if you owe tax.

- If you do not owe tax, there is nothing to file at this time and no need to complete or mail this voucher.
- If you owe tax, complete the voucher and mail it along with your check or money order to the Franchise Tax Board (FTB) by the original due date of the CA tax return.

If a corporation, including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs), limited liability companies (LLCs) electing to be treated as corporations, or an exempt organization in good standing, cannot file its CA tax return by the original due date, a seven month extension to file will be allowed automatically without filing a written request. To qualify for the automatic extension, the corporation or exempt organization must file its CA tax return by the extended due date and its powers, rights, and privileges must not be suspended or forfeited by the FTB or the California Secretary of State (SOS) as of the original due date.

The extended due date for corporations is the 15th day of the 10th month following the close of the taxable year (fiscal year filers) or October 15, 2003 (calendar year filers). The extended due date for exempt organizations filing Form 199 or Form 109 is the 15th day of the 12th month following the close of the taxable year (fiscal year filers) or December 15, 2003 (calendar year filers).

The extended due date for an employee's trust defined in IRC Section 401(a) and an IRA filing Form 109 is the 15th day of the 11th month after the end of the taxable year (fiscal year filers) or November 17, 2003 (calendar year filers).

Note: An extension of time to file the CA tax return is not an extension of time to pay the tax.

To avoid late payment penalties and interest, 100% of the tax liability must be paid by the 15th day of the 3rd month (fiscal year corporations), or the 15th day of the 5th month (fiscal year exempt organizations) following the close of the taxable year or March 17, 2003 (calendar year corporations), or May 15, 2003 (calendar year exempt organizations). Employees' trusts and IRAs must pay 100% of the tax liability by the 15th day of the 4th month after the end of the taxable year.

Save the completed worksheet as a permanent part of the corporation's or exempt organization's tax records along with a copy of the CA tax return.

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 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 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.

Where to File

If tax is due and the corporation or exempt organization is not required to use EFT, attach a check or money order for the tax due to form FTB 3539. Write the California corporation number or FEIN and 2002 FTB 3539 on the check or money order. Mail only the voucher portion with the payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0551

Private Mailbox (PMB) Number

If the corporation leases a private mailbox (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.

DETACH HERE — IF NO PAYMENT IS DUE, DO NOT MAIL FORM — DETACH HERE

(Calendar year corporations — Due March 17, 2003) (Fiscal year filers – see instructions)
(Employees' trust and IRA — Due April 15, 2003)
(Calendar year exempt organizations — Due May 15, 2003)

TAXABLE YEAR **2002**

Payment Voucher for Automatic Extension for Corporations and Exempt Organizations

CALIFORNIA FORM **3539 (CORP)**

For calendar year 2002 or fiscal year beginning month _____ day ____ year 2002, and ending month _____ day ____ year ____ .

California corporation number | Federal employer identification number | **Tax Due** ___,___,___,___.__

Corporation/exempt organization name

Address | PMB no.

City | State | ZIP Code

Type of form filed.
- ☐ Form 100/100W
- ☐ Form 100S
- ☐ Form 109
- ☐ Form 199

EXTC

IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM

EFT TAXPAYERS, DO NOT MAIL THIS FORM

353902103

Penalties and Interest

- If the corporation or exempt organization fails to pay its total tax by the original due date, a late payment penalty plus interest will be added to the tax due.
- If the corporation or exempt organization does not file its CA tax return by the extended due date, or the corporation's powers, rights, and privileges have been suspended or forfeited by the FTB or the California SOS, as of the original due date, the automatic extension will not apply and a delinquency penalty plus interest will be assessed from the original due date of the CA tax return.
- If the corporation or exempt organization is required to remit all of its payments through EFT and pays by another method, a 10% non-compliance penalty will be assessed.

Note: 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.

Combined Reports

- If members of a combined unitary group have made or intend to make an election to file a combined unitary group single return, only the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the minimum franchise tax for each corporation of the combined unitary group that is subject to the franchise tax in California.
- If members of a combined unitary group intend to file separate returns with the FTB, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the Tax Payment Worksheet.
- If any member of a combined unitary group meets the requirements for mandatory EFT, all members must remit their payments through EFT, regardless of their filing election.

Exempt Organizations

- Form 100 filers:
  The due dates for corporations also apply to the filing of Form 100, California Corporation Franchise or Income Tax Return, by political action committees and exempt homeowners' associations.

  Political action committees and exempt homeowners' associations that file Form 100 should not enter the minimum franchise tax on line 1 of the Tax Payment Worksheet.
- Form 199 Filers:
  Generally, Form 199, California Exempt Organization Annual Information Return, requires a $10 filing fee to be paid with the return on the original or extended due date.

  Use form FTB 3539 only if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet.
- Form 109 Filers:
  The due dates for filing Form 109, California Exempt Organization Business Income Return, depend on the type of organization filing the return. Employees' pension trusts and IRAs (including education IRAs) must file on or before the 15th day of the 4th month after the close of their taxable year. All other exempt organizations (except homeowners' associations and political organizations) must file on or before the 15th day of the 5th month after the close of their taxable year.

TAX PAYMENT WORKSHEET FOR YOUR RECORDS

1	Total tentative tax. Include alternative minimum tax if applicable. See instructions	**1**		
2	Estimated tax payments including prior year overpayment applied as a credit	**2**		
3	Tax Due. If line 2 is more than line 1, see instructions. If line 1 is more than line 2, subtract line 2 from line 1. Enter the result here and on form FTB 3539	**3**		

How to Complete the Tax Payment Worksheet

Line 1 – Enter the total tentative tax, including the alternative minimum tax, if applicable, for the taxable year.

- If filing Form 100, Form 100W, or Form 100S and subject to franchise tax, the tentative tax may not be less than the minimum franchise tax and Qualified Subchapter S Subsidiary (QSub) annual tax (S corporations only).
- If filing Form 100, Form 100W, or Form 100S, and subject to income tax, enter the amount of tax. Corporations subject to the income tax do not pay the minimum franchise tax.
- If a corporation incorporates or qualifies to do business in California on or after January 1, 2000, the corporation will compute its tax liability for the first taxable year by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year.
- If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.

Line 2 – Enter the estimated tax payments, including prior year overpayment applied as a credit. S corporations include any QSub annual tax payments.

Line 3

Tax due. If the amount on line 1 is more than the amount on line 2, then the corporation's or exempt organization's tentative tax is more than its payments and credits. The corporation or exempt organization has tax due.

Subtract line 2 from line 1. Enter this amount on line 3 and on form FTB 3539.

If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tentative tax. The corporation or exempt organization has no tax due. **DO NOT SEND THE PAYMENT VOUCHER**. The corporation or exempt organization will automatically qualify for an extension if the CA tax return is filed by the extended due date and the corporation or exempt organization is in good standing with the FTB or SOS.

TAXABLE YEAR 2002

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

CALIFORNIA FORM **3805Q**

Attach to your California tax return (Form 100, Form 100S, Form 100W, or Form 109).

Corporation name

California corporation number

FEIN

During the year the corporation incurred the NOL, the corporation was a(n): ☐ C Corporation ☐ S Corporation ☐ Exempt Organization ☐ Limited Liability Company (electing to be taxed as a corporation)

If the corporation previously filed California tax returns under another corporate name, enter the corporation name and California corporation number:

Note: If the corporation is included in a combined report of a unitary group, see instructions, General Information C, Combined Reporting.

PART I Computation of current year NOL. If you do not have a current year NOL, go to Part II.

1 Net loss from Form 100, line 19; Form 100W, line 19; Form 100S, line 16; or Form 109, line 2. Enter as a positive number 1

2 2002 disaster loss from line 1. Enter as a positive number 2

3 Subtract line 2 from line 1. If zero or less, enter -0- and see instructions 3

4 a Enter the amount of the loss incurred by a new business included in line 3 . . . . . 4a

b Enter the amount of the loss incurred by an eligible small business included in line 3 . . . . . 4b

c Add line 4a and line 4b 4c

5 Subtract line 4c from line 3. If zero, skip to line 7 5

6 General NOL. Multiply line 5 by 60% (.60) 6

7 2002 NOL carryover. Add line 2, line 4c, and line 6. See instructions 7

PART II NOL carryover and disaster loss carryover limitations. See Instructions.

1 Net income (loss) – Enter the amount from Form 100, line 19; Form 100W, line 19; Form 100S, line 16 less line 17 (but not less than -0-); or Form 109, line 2 . . . . . (g) Available balance

Prior Year NOLs

(a) Year of loss	(b) Code – See instructions for Part II, column (b)	(c) Type of NOL – See below	(d) Initial loss	(e) Carryover from 2001	(f) Amount used in 2002		(h) Carryover to 2003 col. (e) - col. (f)
2		DIS					
		DIS					
		DIS					
		All Other Type			SUSPENDED	SUSPENDED	

Current Year NOLs

3 2002		DIS					col. (d) - col. (f)
4 2002							
2002							
2002							
2002							

Type of NOL: General (GEN), New Business (NB), Eligible Small Business (ESB), Title 11 (T11), or Disaster (DIS).

PART III 2002 Disaster Loss deduction

1 Total the amounts in Part II, column (f). Enter the total here and on Form 100, line 22; Form 100W, line 22; Form 100S, line 20; or Form 109, line 4 1

2002 Instructions for Form FTB 3805Q

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

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

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 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, see form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Individuals, Estates, and Trusts.

General Information

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), 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.

The general NOL carryover percentage varies. For taxable years beginning on or after:

- January 1, 2000, and before January 1, 2002, 55% of the NOL may be carried forward;
- January 1, 2002, and before January 1, 2004, 60% of the NOL may be carried forward; and
- After January 1, 2004, 100% of the NOL may be carried forward.

Also, any NOL incurred in any taxable year beginning on or after January 1, 2000, may be carried forward for 10 years.

In 1998, the Franchise Tax Board (FTB) implemented the new principal business activity (PBA) code chart that is based on the North American Industry Classification System (NAICS) in the corporate tax booklets. However, the California R&TC still uses the Standard Industrial Codes (SIC) for purposes of the new business and eligible small business NOL.

A Purpose

Use form FTB 3805Q to figure the current year NOL and to limit NOL and disaster loss carryover deductions.

Note: Exempt trusts should use form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

The California NOL is figured the same way as the federal NOL, except that for California:

- An NOL may be carried over only to future years (no carrybacks are allowed); and
- The carryover period and the amount to be carried over differ from federal allowances.

Only a portion of the NOL may be eligible for carryover to future years because California has established different categories of NOL. See General Information F, Types of NOLs, for more information.

Note: If the corporation has a current year NOL under R&TC Section 24416.2, 24416.5, 24416.6, and 24416.7 (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation **must elect** on its return for the taxable year in which the loss is incurred to carryover the loss either under that section or the loss under R&TC Section 24416 (relating to general NOLs). If the corporation elects to compute the NOL under R&TC Section 24416.1(c) (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation must:

- Make the election in a statement attached to the original return; and
- Use the applicable Pierce's disease form or economic development area (EDA) form to calculate the NOL.

The election is irrevocable. Get form FTB 3805D, form FTB 3805Z, form FTB 3807, or form FTB 3809 for more information.

B Apportioning Corporations

The loss carryover for a corporation that apportions income is the amount of the corporation's loss, if any, after adding income or loss apportioned to California with income or loss allocable to California under Chapter 17 of the Corporation Tax Law. The loss carryover may be deducted from income of that corporation apportioned and allocable to California in subsequent years.

C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using its individual apportionment factors (R&TC Section 25108). Complete a separate form FTB 3805Q for **each** taxpayer included in the combined report. Attach the separate forms for each taxpayer member **behind** the combined form FTB 3805Q for all members.

Unlike the loss treatment for a federal consolidated return, a California loss carryover for one member in a combined report may not be applied to the income of another member included in the combined report. Get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for more information.

D Water's-Edge

For Water's-Edge taxpayers, R&TC Section 24416(c) imposes a limitation on the NOL deduction if the NOL is generated during a non-Water's-Edge tax year. The NOL carryover is limited to the lesser amount as redetermined by computing the income and factors of the original worldwide combined reporting group as if the Water's-Edge election had been in force for the year of the loss.If R&TC Section 24416(c) applies; the NOL carryover for each corporation may be decreased, but not increased.

E S Corporations

An S corporation is allowed to carry over a loss that is incurred during a year in which it has in effect a valid election to be treated as an S corporation. The loss is also separately calculated under the pass through rules and passed to the shareholders in the year incurred and is taken into account in determining each shareholder's NOL carryover, if any.

If a corporation changes from a C corporation to an S corporation, the loss incurred while the corporation was a C corporation may not be applied to offset income subject to the 1.5% tax imposed on an S corporation. However, losses incurred while the corpora-

tion was a C corporation may be applied against the built-in gains which are subject to tax. If the corporation incurred losses while it was a C corporation and an S corporation, and the S corporation is using C corporation losses to offset its built-in gains, the corporation must complete two forms FTB 3805Q and attach them to Form 100S, California S Corporation Franchise or Income Tax Return. The unused losses incurred while the corporation was a C corporation are "unavailable" except as provided for above unless and until the S corporation reverts back to a C corporation or the carryover period expires.

However, if an S corporation changes to a C corporation, any S corporation NOLs are lost.

F Types of NOLs

The table below shows the types of NOLs available, a description, and the percentages and carryover periods for each type of loss.

***Note:** 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.

Type of NOL and Description	Taxable Year NOL Incurred	NOL Carried Over	Carryover* Period
General NOL (GEN) Available as a result of a loss incurred in years after 1986 and allowed under R&TC Section 24416. Does not include losses incurred from activities that qualify as a new business, an eligible small business, EZ, LARZ, LAMBRA, TTA, disaster loss, or Pierce's disease.	2002-2003 2000-2001 1997-1999 1987-1996	60% 55% 50% None	10 Years 10 Years 5 Years Expired
New Business NOL (NB) Get FTB Legal Ruling 96-5 for more information. Incurred by a trade or business that first commenced in California on or after January 1, 1994, during the first three years of business, 100% of an NOL may be carried over for ten years, but only to the extent of the net loss from the new business. The term ''new business'' also includes any taxpayer engaged in biopharmaceutical activities or other biotechnology activities described in Codes 2833 to 2836 of the SIC Manual. It also includes any taxpayer that has not received regulatory approval for any product from the United States Food and Drug Administration. See R&TC Section 24416(g)(7)(A) for more information. If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over as a general NOL. If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business conducted by the taxpayer or related person is not a new business if the fair market value (FMV) of the acquired assets exceeds 20% of the FMV of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as were used immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the SIC Manual. If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and then starts an additional trade or business in California, the additional trade or business qualifies as a new business only if the activity is classified under a different division classification of the SIC Manual. Business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Sections 267 or 318.	On or after 01/01/2000 Before 01/01/2000 Year of Business Year 1 Year 2 Year 3	100% For the first three years of business 100% 100% 100%	10 Years 8 Years 7 Years 6 Years
Eligible Small Business (ESB) Get Legal Ruling 96-5 for more information. Incurred in a trade or business activity that has gross receipts, less returns and allowances, of less than $1 million during the taxable year. 100% of an NOL may be carried over, but only to the extent of the net loss from the eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business, the excess may be carried over as a general NOL. The corporation should use the same SIC Code division classifications described in the new business NOL section to determine what constitutes a trade or business activity.	On or after 01/01/2000 On or after 01/01/1994 and before 01/01/2000	100% 100%	10 Years 5 Years
Title 11 Bankruptcy (T11) If the corporation is claiming an NOL carryover deduction under the provisions of R&TC Section 24416(e)(4)(A), enter the carryover amount on Part II, line 2.	1987-1993	50%	10 Years
Disaster Losses (DIS) Casualty losses in areas of California declared by the President of the United States or the Governor of California to be in a state of disaster. An election may be made under IRC Section 165(i) permitting the disaster loss to be taken against the previous year's income. If you made this election, see current year NOLs, Part II, line 3 and Internal Revenue Service form 4684 instructions for when the election must be filed. If special legislation is enacted under R&TC Section 24347.5 and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to five taxable years. If any excess loss remains after the five- year period, 50% of that remaining loss may be carried over for up to 10 additional taxable years for losses occurred in any taxable year beginning before January 1, 2000, 55% for losses incurred in any taxable year beginning on or after January 1, 2000, and before January 1, 2002, 60% for losses incurred in any taxable year beginning on or after January 1, 2002, and before January 1, 2004 or 100% for losses incurred in any taxable year beginning on or after January 1, 2004.	See "Designated Disasters list" on next page.	100% See instructions	First 5 Years 10 Years Thereafter

Specific Line Instructions

Part I

Use Part I of this form to figure the current year NOL eligible for carryover.

Line 2 – If the corporation incurred a disaster loss during 2002, enter the amount of the loss on this line. Enter as a positive number.

Line 3 – If the amount is zero or less, the corporation does not have a current year general NOL. Go to Part II for computation of general NOL carryovers, the current year disaster loss, and carryover from disaster losses.

Line 7 – Go to Part II, Current Year NOLs, to record your 2002 NOL carryover to 2003. Complete columns (b), (c), (d), and (h) only, for each type of loss that you incurred.

If you have an eligible qualified new business or a small business and your NOL is greater than the amount of net loss from such a business, use the general NOL first. If you operate one or more new businesses and one or more eligible small businesses, determine the amount of the loss attributable to the new business(es), the small business(es), and the general NOL in the following manner. The NOL is first treated as a new business NOL to the extent of the loss from the new business. Any remaining NOL is then treated as an eligible small business NOL to the extent of the loss from the eligible small business. Any further remaining NOL is treated as an NOL under the general rules.

Part II

Use Part II to limit current year disaster loss to current year income and to record all of the corporation's loss carryover information.

If the corporation has losses from more than one source and/or more than one category, the corporation must compute the allowable NOL carryover for **each** loss separately.

When to use an NOL carryover

Use your NOLs in the order the disaster losses were incurred. There is no requirement to deduct NOL carryovers (if allowed) before disaster loss carryovers.

Prior Year NOLs

Column (a) – Enter the year the loss was incurred.

Column (b) – Enter the disaster code from the list below.

List of events that have been declared disasters:

Year	Code	Event
2000	21	Napa County earthquake
1999	20	Wildfires and other related casualties*
1999 1998	19	Winter Freeze 98/99
1998	18	El Niño 98
1997 1996	17	Disaster floods 96/97
1996	16	Firestorms 96*
1995	15	Storms, flooding, and other related casualties
1994	14	San Luis Obispo fire and other related casualties
1994	13	Los Angeles, Orange, and Ventura County earthquake and other related casualties
1993	12	Storms, floods, and other related casualties
1992	11	Wildfires and other related casualties in Calaveras and Shasta Counties
1992	10	San Bernardino County earthquake and other related casualties
1992	9	Riots, arson, and related casualties in California during April and May
1992	8	Humboldt County earthquake and related casualties
1992	7	Storms, floods, and other related casualties
1991	6	Oakland/Berkeley fire and other related casualties
1990	5	Santa Barbara fires and other related casualties
1989	4	Bay Area earthquake and other related casualties
1987	3	Forest fires, October earthquake, and other related casualties
1986	2	Storms, floods, and other related casualties
1985	1	Forest fires and related casualties occurring in California

*Carryover period and percentage are limited to the NOL rules. No special legislation was enacted.

Column (d) – Enter 100% of the initial loss for the year given in column (a).

Column (e) – Enter the disaster loss carryover amount from the 2001 form FTB 3805Q, Part II, column (h).

Column (f) – Enter the smaller of the amount in column (e) or the amount in column (g) of the previous line.

Column (g) – Enter the result of subtracting column (f) from the balance in column (g) of the previous line.

Column (h) – Subtract the amount in column (f) from the amount in column (e) and enter the result.

Current Year NOLs

Note: As of the date of the publication of this form, no California designated disaster losses had occurred in tax year 2002. However, if a disaster loss occurs between the date of the publication and the end of the taxable year, please go to our Website at: **www.ftb.ca.gov** for an updated version of this form, which will include the information for any subsequent disaster loss and follow line 3 instructions.

Line 3 – Current year Disaster Loss

If you did not elect to deduct your current year disaster loss in the prior year:

- Column (a) and (c) are entered.
- In column (d), enter your 2002 disaster loss from Part I, line 2.
- In column (f), enter the disaster loss used in 2002.
- In column (h), enter column (d) less column (f).

If you elected to deduct your 2002 disaster loss on your 2001 tax return, and you have an excess amount to be carried over to 2002, enter the carryover amount in Part II, line 2, column (e). Use the Prior Year NOL instructions for column (a) through column (h) except:

- In column (a), enter 2002;
- In column (b), enter the new disaster code; and
- In column (d), enter the total disaster loss incurred in 2002.

TAXABLE YEAR

CALIFORNIA FORM

2002 Corporation Depreciation and Amortization 3885

Attach to Form 100 or Form 100W.

Corporation name

California corporation number

Part I Depreciation

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in earlier years	(e) Method of figuring depreciation	(f) Life or rate	(g) Depreciation for this year	(h) Additional first year depreciation
1							

2 Add the amounts in column (g) and column (h). The combined total of column (h) may not exceed $2,000. See instructions for line 1, column (h) 2

3 Total. Add the amounts on line 2, column (g) and column (h) 3

4 Total depreciation claimed for federal purposes from federal Form 4562, line 22 4

5 Depreciation adjustment. If line 4 is greater than line 3, enter the difference here and on Form 100 or Form 100W, Side 1, line 6. If line 4 is less than line 3, enter the difference here and on Form 100 or Form 100W, Side 1, line 12. (If California depreciation amounts are used to determine net income before state adjustments on Form 100 or Form 100W, no adjustment is necessary.) 5

Part II Amortization

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Amortization allowed or allowable in earlier years	(e) R&TC section	(f) Period or percentage	(g) Amortization for this year
1						

2 Total. Add the amounts in column (g) 2

3 Total amortization claimed for federal purposes from federal Form 4562, line 44 3

4 Amortization adjustment. If line 3 is greater than line 2, enter the difference here and on Form 100 or Form 100W, Side 1, line 6. If line 3 is less than line 2, enter the difference here and on Form 100 or Form 100W, Side 1, line 12 4

General Information

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), 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.

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 Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

For any taxable year beginning on or after January 1, 2000, California law does not conform to federal law regarding the temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction may not exceed 65% of the taxpayer's taxable income and cannot exceed 100% of the net income derived from the oil or gas well property.

A Purpose

Use this form to figure California depreciation and amortization for corporations, and for partnerships and limited liability companies (LLCs) classified as corporations only.

S corporations must use Schedule B (100S). Individuals must use form FTB 3885A, Depreciation and Amortization – Individuals. Fiduciaries and exempt trusts must use form FTB 3885F, Depreciation and Amortization – Fiduciaries. Partnerships must use form FTB 3885P, Depreciation and Amortization – Partnerships. LLCs classified as partnerships must use form FTB 3885L, Depreciation and Amortization – Limited Liability Companies.

Depreciation and amortization are deductions corporations claim for reasonable exhaustion, wear and tear, and normal obsolescence of property used in a trade or business or held for the production of income.

For purposes of this form, depreciation is used in connection with tangible property, while amortization is used for intangible assets.

Note: For amortizing the cost of certified pollution control facilities, use form FTB 3580, Application to Amortize Certified Pollution Control Facility.

Important differences between federal and California laws affect the calculation of depreciation and amortization. Some of the major differences are briefly described, as follows:

- California law has not conformed to the additional 30% first-year depreciation allowance for qualified property
- California law allows additional first-year depreciation under Revenue and Taxation Code (R&TC) Section 24356, rather than an election to expense the cost of the property as provided in IRC Section 179;
- California law has not conformed to federal statutes allowing accelerated depreciation for property on Indian Reservations;
- California law allows a useful life of five years, instead of ten years, for grapevines planted as replacements for vines subject to Phylloxera or Pierce's disease;
- California corporation tax law has not conformed to the federal special class life for gas station convenience stores and similar structures;
- California has not conformed to federal statutes allowing depreciation under Modified Accelerated Cost Recovery System (MACRS) for corporations, except to the extent such depreciation is passed through from a partnership or LLC classified as a partnership;
- California has adopted provisions of the federal Class Life Asset Depreciation Range System (ADR), which specifies a useful life for various types of property. However, California law does not allow the corporation to choose a depreciation period that varies from the specified asset guideline system.

B Depreciation Calculation Methods

Depreciation methods are defined in R&TC Sections 24349 through 24354. Depreciation calculation methods, described in R&TC Section 24349, are as follows:

Straight-Line. The straight-line method divides the cost or other basis of property, less its estimated salvage value, into equal amounts over the estimated useful life of the property. An asset may not be depreciated below a reasonable salvage value.

Declining Balance. Under this method, depreciation is greatest in the first year and smaller in each succeeding year. The property must have a useful life of at least three years. Salvage value is not taken into account in determining the basis of the property, but the property may not be depreciated below a reasonable salvage value.

The amount of depreciation for each year is subtracted from the basis of the property and a uniform rate of up to 200% of the straight-line rate is applied to the remaining balance.

For example, the annual depreciation allowances for property with an original basis of $100,000 are:

Year	Remaining basis	Declining balance rate	Depreciation allowance
First	$100,000	20%	$20,000
Second	80,000	20%	16,000
Third	64,000	20%	12,800
Fourth	51,200	20%	10,240

Sum-of-the-years-digits method. This method may be used whenever the declining balance method is allowed. The depreciation deduction is figured by subtracting the salvage value from the cost of the property and multiplying the result by a fraction. The numerator of the fraction is the number of years remaining in the useful life of the property. Therefore, the numerator changes each year as the life of the property decreases. The denominator of the fraction is the sum of the digits representing the years of useful life. The denominator remains constant every year.

Other consistent methods. Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

C Period of Depreciation

Under CA Reg. 24349 (l), California conforms to the federal useful lives of property.

Use the following information as a guide to determine reasonable periods of useful life for purposes of calculating depreciation. Actual facts and circumstances will determine useful life. Note, however, that the figures listed below represent the normal periods of useful life for the types of property listed as shown in IRS Rev. Proc. 83-35.

- Office furniture, fixtures, machines, and equipment . . . . . 10 yrs.

  This category includes furniture and fixtures (that are not structural components of a building) and machines and equipment used in the preparation of paper or data.

  Examples include: desks; files; safes; typewriters, accounting, calculating, and data processing machines; communications equipment; and duplicating and copying equipment.

- Computers and peripheral equipment (printers, etc.) . . . . . 6 yrs.
- Transportation equipment and automobiles (including taxis) . . . . . 3 yrs.
  General-purpose trucks:
  Light (unloaded weight less than 13,000 lbs.) . . . . . 4 yrs.
  Heavy (unloaded weight 13,000 lbs. or more) . . . . . 6 yrs.
- Buildings

  This category includes the structural shell of a building and all of its integral parts that service normal heating, plumbing, air conditioning, fire prevention and power requirements, and equipment such as elevators and escalators.

  Type of building:
  Apartments . . . . . 40 yrs.
  Dwellings (including rental residences) . . . . . 45 yrs.
  Office buildings . . . . . 45 yrs.
  Warehouses . . . . . 60 yrs.

D Depreciation Methods to Use

Corporations may use the straight-line method for any depreciable property. Before using other methods, consider the kind of property, its useful life, whether it is new or used, and the date it was acquired. Use the following chart as a general guide to determine which method to use:

Property description	Maximum depreciation method
Real estate acquired 12/31/70 or earlier	
New (useful life 3 yrs. or more) . . .	200% Declining balance
Used (useful life 3 yrs. or more) . . .	150% Declining balance
Real estate acquired 1/1/71 or later	
Residential Rental:	
New	200% Declining balance
Used (useful life 20 yrs. or more) . .	125% Declining balance
Used (useful life less than 20 yrs.) .	Straight-line
Commercial and industrial:	
New (useful life 3 yrs. or more) . . .	150% Declining balance*
Used	Straight-line
Personal property	
New (useful life 3 yrs. or more) . . .	200% Declining balance*
Used (useful life 3 yrs. or more) . . .	150% Declining balance

*Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

The Guideline Class Life System of depreciation may be used for certain classes of assets placed in service before 1971.

The Class Life ADR System of depreciation may be used for designated classes of assets placed in service after 1970.

E Amortization

California conformed to the 1993 federal Revenue Reconciliation Act (Public Law 103-66) for the IRC Section 197 amortization of intangibles for taxable years beginning on or after January 1, 1994. Generally, assets that meet the definition under IRC Section 197 are amortized on a straight-line basis over 15 years. 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.

Amortization of the following assets is governed by California law:

Bond premiums	R&TC 24360 – 24363.5
Research expenditures	R&TC 24365
Reforestation expenses	R&TC 24372.5
Organizational expenditures	R&TC 24407 – 24409
Start-up expenses	R&TC 24414

Other intangible assets may be amortized if it is proved with reasonable accuracy that the asset has an ascertainable value that diminishes over time and has a limited useful life.

Specific Line Instructions

Line 1

Corporations may enter each asset separately or group assets into depreciation accounts. Figure the depreciation separately for each asset or group of assets. The basis for depreciation is the cost or other basis reduced by a reasonable salvage value (except when using the declining balance method), additional first-year depreciation (if it applies), and tax credits claimed on depreciable property (where specified). This may cause the California basis to be different from the federal basis.

If the Guideline Class Life System or Class Life ADR System is used, enter the amount, from a schedule showing the computation, on form FTB 3885, column (g), and identify as such.

Line 1, Column (h), Additional first-year depreciation

Corporations may deduct up to 20% of the cost of "qualifying property" in the year acquired in addition to the regular depreciation deduction. The maximum additional first-year depreciation deduction is $2,000. Corporations must reduce the basis used for regular depreciation by the amount of additional first-year depreciation claimed.

"Qualifying property" is tangible personal property used in business and having a useful life of at least six years. Land, buildings, and structural components do not qualify. Property converted from personal use, acquired by gift, inheritance, or from related parties also does not qualify.

See R&TC Section 24356 and the applicable regulations for more information.

Note: An election may be made to expense up to 40% of the cost of property described in R&TC Sections 24356.6, 24356.7, and 24356.8. For more information, get form FTB 3809, Targeted Tax Area Deduction and Credit Summary; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; or form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary.

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?

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