



FTB Publication 1060

Guide for Corporations Starting Business in California



Go to ftb.ca.gov for:

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

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General Information

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

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

It will help you:

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

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

Definitions

Corporation — A legal entity that exists separately from the people who own, manage, control, and operate it. It can make contracts, pay taxes, and is liable for debts. Contact the California Secretary of State to incorporate or qualify your business at 916.657.5448, or go to sos.ca.gov.

Calendar year — An accounting period of 12 months or less ending on the last day of December.

Fiscal year — An accounting period of 12 months or less ending on the last day of any month other than December.

Accounting period — Calendar, fiscal, or short-period year used by the corporation to compute their net income.

Tax year — Calendar, fiscal, or short-period year used by the corporation to compute their net income. We require your California tax year to be the same as your federal tax year, unless we initiated or approved a different accounting period.

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

Newly Incorporated or Qualified Corporations

To compute the tax for your corporation's first tax year, multiply your California net income by the appropriate tax rate. Your first tax year is not subject to the minimum franchise tax.

After the first year, your tax is the larger of your California net income multiplied by the appropriate tax rate or the minimum franchise tax.

Tax Year of 15 Days or Less

We do not require a corporation to file a return for a tax year if **both** of the following are true:

- Tax year is 15 days or less
- Corporation did no business during the 15 days

See **Election of Annual Accounting Period and Method**, which has more information on incorporating in the last 15 days of your tax year.

First Year Estimated Tax Requirement

All corporations with a tax liability are required to pay estimated tax. See **Estimated Tax** for more information.

S Corporations

Federal — S corporations are pass-through entities. They do not pay tax at the S corporation level. They pass-through items of income, losses, deductions, and credits to their shareholders and the shareholders report these items on their returns. S corporations file Form IRS 1120S, *U.S. Income Tax Return for an S Corporation*.

California — We require S corporations to pay tax. In addition, they pass-through items of income, losses, deductions, and credits to their shareholders and the shareholders report these items on their returns. S corporations file form FTB 100S, *California S Corporation Franchise or Income Tax Return*.

Federal S Corporation Election is Binding — Corporations with a valid federal S election are **automatically** California S corporations. The corporation does not need to file a separate election form with us.

No Separate State Election Allowed — S corporations are prohibited from making a separate state election to be treated as a C corporation.

Estimated Tax Requirements — All corporations with a tax liability are required to pay estimated tax. See **Estimated Tax** for more information.

Franchise Tax

Corporations pay franchise tax if they meet any of the following:

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

The franchise tax is equal to the larger of your California income multiplied by the appropriate tax rate or the \$800 minimum franchise tax.

Partner or Member in a Pass-Through Entity

Corporations pay franchise tax if they are either:

- A general partner of a partnership that is doing business in California.
- A member of a limited liability company (LLC) that is doing business in California.

Minimum Franchise Tax

All corporations are required to pay at least the \$800 minimum franchise tax if they are:

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

Corporations are required to pay the minimum franchise tax whether they are:

- Active.
- Inactive.
- Operating at a loss.
- Filing a short-period return (less than 12 months).

Exception: We do not require newly incorporated or qualified corporations to pay the minimum franchise tax.

Estimated Tax Requirements

All corporations with a tax liability are required to pay estimated tax. See **Estimated Tax** for more information.

Income Tax

We require corporations to pay income tax if they receive income from California sources but are not doing business in the state. To compute the income tax, multiply your California net income by the appropriate tax rate.

Partner or Member in a Pass-Through Entity

Corporations pay income tax when they are a limited partner in a limited partnership doing business in California.

No Minimum Franchise Tax

There is no minimum franchise tax for income tax filers.

Estimated Tax Requirements

All corporations with a tax liability are required to pay estimated tax. See **Estimated Tax** for more information.

Apportionment of Income

We require corporations that conduct business inside and outside California to apportion their income. See Schedule R, *Apportionment and Allocation of Income*.

Convention and Trade Shows

Corporations in California for conventions and trade shows are considered deriving income from the state if they meet **all** of the following:

- Not incorporated in California.
- Sole activity in California is engaging in convention and trade show activities.
- Were in California for seven or fewer calendar days during the tax year.
- Did not make more than \$10,000 gross California income from those activities.

These corporations are required to file a tax return and pay income tax.

Not meeting the requirements: We consider corporations that do not meet the above requirements to be doing business in California and subject to the franchise tax.

Tax Rates

The following tax rates apply to both the corporation franchise tax and income tax:

C corporations	8.84%
S corporations	1.5%

Accounting Periods and Methods

Federal Accounting Periods and Methods

Corporations must figure taxable income on an annual accounting period called a tax year. The calendar year is the most common tax year.

Corporations are required to use a consistent accounting method. An accounting method is a set of rules for determining when to report income and expenses. The most common accounting methods are the cash or accrual method. For more information, refer to IRS Publication 538, *Accounting Periods and Methods*.

California Accounting Periods and Methods

The corporation's accounting period and method must be the same as the federal, unless we initiate or approve a change. The first accounting period cannot end more than 12 months after the date of incorporation or qualification in California.

Change in Accounting Period or Method

A change in accounting period or method requires our consent. However, if a corporation obtains federal approval to change its accounting period or method, or is permitted or required by federal law to make a change in its accounting period or method without prior approval and does so, it is deemed to have the Franchise Tax Board's approval. For additional information go to ftb.ca.gov and search for **FTB Notice 2000-8**.

When Your Tax Year is Less Than 15 Days (15-Day Rule)

Corporations with a first tax year of 15 days or less will not have a filing requirement if they meet **both** of the following:

- Incorporates within the last 15 days of their tax year.
- Conducts **no** business during those 15 days.

The corporation's **Articles of Incorporation** must be filed with the California Secretary of State on or after one of the following dates:

Month Incorporated and Tax Year Ending	Day of the Month
January, March, May, July, August, October, and December (31-day month)	17th or after
April, June, September, and November (30-day month)	16th or after
February (29-day month)	15th or after
February (28-day month)	14th or after

Since a corporation that meets the 15-day rule is not required to file a return, this time period is not considered the first tax year. The following tax year will be considered the first tax year and will not be subject to the minimum franchise tax.

Example: ABC Corp., incorporates on December 20, 2009. The corporation is a calendar year taxpayer. It did no business from December 20, 2009, to December 31, 2009. The corporation meets the 15-day rule and does not need to file a 2009 return. The corporation's first tax year starts on January 1, 2010.

Filing Returns

Form FTB 100, *California Corporation Franchise or Income Tax Return*, or form FTB 100S, *California S Corporation Franchise or Income Tax Return*, is due on the 15th day of the 3rd month after the close of the corporation's tax year.

Farmer's Cooperatives

Returns are due on the 15th day of the 9th month after the close of the tax year.

Extension to File

California allows an additional seven-month filing extension beyond the original due date of the tax return. The extension is automatic; it requires no action on the corporation's part. An extension to file is not an extension to pay. Tax is due on or before the original due date of the return regardless of an extension to file.

Short-Period Returns

The original due date of a short-period return is the 15th day of the 3rd month after the close of the short-period tax year. The seven-month paperless extension also applies to this type of short-period return.

When a Federal Short-Period Return is Required

Corporations that file a short-period federal return must also file a short-period return with California.

The original due date of the California return is the same due date as the federal return. In addition, the seven-month paperless extension also applies to this type of short-period return.

Estimated Tax

We require corporations to make estimated tax payments if they are:

- Incorporated in California.
- Qualified to do business in California.
- Doing business in California.
- Inactive.
- Deriving income in California.

Corporations use form FTB 100-ES, *Corporation Estimated Tax and Instructions* to:

- Compute their estimated tax payment requirements.
- Determine the due dates for those payments.

You can view and download form FTB 100-ES at ftb.ca.gov.

Minimum Franchise Tax

Corporations subject to the franchise tax must pay at least the minimum franchise tax by the first installment due date, unless this is the corporation's first tax year.

Newly Incorporated or Qualified Corporations

We require newly incorporated or qualified corporations to pay estimated tax. Your estimated tax payments are based on the corporation's estimated tax liability after credits for its first tax year. In the corporation's second tax year, the corporation pays at least the minimum franchise tax by the first estimated tax installment due date.

Example 1: No tax in first year: Corporation A incorporates in California on February 1, 2009, and selects a calendar tax year. It did not make an estimate tax payment on April 15, 2009 (first installment due date). On March 15, 2010, it files the 2009 tax return showing a net loss of \$8,500 and no tax liability. Since they had no tax liability, they are not assessed an estimated tax penalty.

Corporation A makes an \$800 estimated tax payment on April 15, 2010 (first installment due date). On March 15, 2011, it files its 2010 tax return showing a net loss of \$5,000 and tax of \$800 (minimum franchise tax). Since it made an \$800 estimated tax payment on April 15, 2010, it is not assessed an estimated tax penalty.

Example 2: First year tax liability: Corporation B incorporates in California on January 11, 2009, and selects a calendar tax year. It did not make an estimate tax payment on April 15, 2009 (first installment due date). On March 15, 2010, it files its 2009 tax return showing net income of \$6,300 and tax of \$557 ($\$6,300 \times 8.84\%$). It pays the \$557 tax when it files its tax return. Since it did not make any estimated tax payments, an estimated tax penalty is due, based on the tax of \$557.

Corporation B makes an \$800 estimated tax payment on April 15, 2010 (first installment due date). On March 15, 2011, it files its 2010 tax return showing a net loss of \$14,000 and tax of \$800 (minimum franchise tax). Since it made an \$800 estimated tax payment on April 15, 2010, it is not assessed an estimated tax penalty.

Penalties

Estimated Tax Penalty

Any corporation that fails to pay, pays late, or underpays an estimated tax installment is assessed a penalty.

Corporations use form FTB 5806, *Underpayment of Estimated Tax by Corporations and Instructions*, to compute their estimated tax penalty.

Underpayment and Monthly Penalty

When a corporation fails to pay the total tax shown on the return by the original due date, we assess an underpayment and monthly penalty. The penalty is 5% of the unpaid tax, plus 0.5% of the unpaid tax for each month or part of a month it remains unpaid. The maximum penalty is 25% of the unpaid tax. (R&TC Section 19132)

Delinquent Return Penalty

When a corporation fails to file their tax return by the extended due date, we assess a delinquent return penalty. The penalty is 5% of the tax due, after applying any payments or credits made on or before the original return due date for each month, or part of a month the return is late. The maximum penalty is 25%. The penalty is computed from the original due date of the return to the date paid. (R&TC Section 19131)

Electronic Funds Transfer Penalty

When certain corporations fail to pay their estimated tax, extension payment, or other payments by electronic funds transfer (EFT), we assess an EFT penalty. The penalty is 10% of the amount **not** paid by EFT. For more information go to ftb.ca.gov and search for **eft**; call 916.845.4025; or get FTB Publication 3817, *Electronic Funds Transfer Program Information Guide*. (R&TC Section 19011)

Where to Get Tax Forms and Publications

Internet – Download, view, and print California tax forms, instructions, publications, FTB Notices, and FTB Legal Rulings at ftb.ca.gov.

Telephone – Order current year California tax forms between 6 a.m. and 8 p.m., Monday through Friday, except holidays.

- Refer to the list below to find the code number for the form you want to order.
- Call 800.338.0505.
- Select **Business Entity Tax Information**.
- Select **Order Forms and Publications**.
- Enter the three-digit code shown to the left of the form title when instructed.

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

Mail – Write to:

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

California Tax Forms and Publications

- 817** California Corporation Tax Forms and Instructions.
This booklet contains:
Form 100, *California Corporation Franchise or Income Tax Return Schedule P (100) Alternative Minimum Tax and Credit Limitations – Corporations*; FTB 3885, *Corporation, Depreciation and Amortization*;
FTB 3805Q, *Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations*;
FTB 3539, *Payment Voucher for Automatic Extension for Corporations and Exempt Organizations*
- 816** California S Corporation Tax Forms and Instructions.
This booklet contains:
Form 100S, *California S Corporation Franchise or Income Tax Return*;
Schedule QS, *Qualified Subchapter S Subsidiary (QSub) Information Worksheet*
- 814** Form 109, *Exempt Organization Business Income Tax Return*
- 818** Form 100-ES, *Corporation Estimated Tax*
- 815** Form 199, *Exempt Organization Annual Information Return*
- 820** FTB Pub. 1068, *Exempt Organizations Requirements for Filing Returns and Paying Filing Fees*

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 (if applicable) with your letter.

Send to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

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

Internet and Telephone Assistance

Website: ftb.ca.gov
Telephone: 800.852.5711 from within the United States
916.845.6500 from outside the United States
TTY/TDD: 800.822.6268 for persons with hearing or speech impairments

Asistencia Por Internet y Teléfono

Sitio web: ftb.ca.gov
Teléfono: 800.852.5711 dentro de los Estados Unidos
916.845.6500 fuera de los Estados Unidos
TTY/TDD: 800.822.6268 personas con discapacidades auditivas y del habla

Other Agencies

California Secretary of State

Website: sos.ca.gov
Telephone: 916.657.5448

California Board of Equalization

Website: boe.ca.gov
Telephone: 800.400.7115 from within the United States
916.445-6362 from outside the United States

California Employment Development Department

Website: edd.ca.gov
Telephone: 888.745.3886 from within the United States
916.464.3502 from outside the United States

Internal Revenue Service

Website: irs.gov
Telephone: 800.829.1040

Frequently Asked Questions

You can hear recorded answers to frequently asked questions 24 hours a day, 7 days a week. Call our automated telephone service at 800.338.0505. Select business entity information then frequently asked questions. Enter the 3-digit code listed below when prompted.

Code Filing Assistance

- 715** If my actual tax is less than the minimum franchise tax, what figure do I put on line 24 of Form 100?
- 717** What are the tax rates for corporations?
- 718** How do I get an extension of time to file?
- 722** When does my corporation have to file a short-period return?
- 734** Is my corporation subject to franchise tax or income tax?

S Corporations

- 704** Is an S corporation subject to the minimum franchise tax?
- 705** Are S corporations required to make 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?

Exempt Organizations

- 709** How do I get tax-exempt status?

Minimum Tax and Estimate Tax

- 712** What is the minimum franchise tax?
- 714** My corporation is not doing business; does it have to pay the minimum franchise tax?

Billings and Miscellaneous Notices

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

Corporate Dissolution

- 724** How do I dissolve my corporation?

Miscellaneous

- 700** Who do I need to contact to start a business?
- 701** I need a state Employer ID number for my business. Who do I contact?
- 703** How do I incorporate?
- 737** Where do I send my payment?