



## FTB Publication 1060

# Guide for Corporations Starting Business in California



Go to [ftb.ca.gov](http://ftb.ca.gov) for:

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

## Contents

General Information . . . . .	1
Definitions . . . . .	2
Newly Incorporated or Qualified Corporations . . . . .	2
S Corporations . . . . .	2
Franchise Tax . . . . .	2
Income Tax . . . . .	3
Apportionment of Income . . . . .	3
Convention and Trade Shows . . . . .	3
Tax Rates . . . . .	3
Accounting Periods and Methods . . . . .	3
Filing Tax Returns . . . . .	4
Estimated Tax . . . . .	4
Penalties . . . . .	5
Where to Get Tax Forms and Publications . . . . .	5
Letters . . . . .	6
Internet and Telephone Assistance . . . . .	6
Other Agencies . . . . .	6
Frequently Asked Questions . . . . .	6

## General Information

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

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

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 tax return in California, see Form 100W, *California Corporation 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](http://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** — Beginning with the 2011 tax year, a business is considered to be doing business in California during the year if it meets one of these tests:

- The entity is actively engaging in any transaction for the purpose of financial gain or profit.
- The entity is organized or commercially domiciled in this state. To be commercially domiciled in this state generally means that this state is the principal place from which the trade or business of the entity is directed or managed.
- The entity's California sales exceed either \$500,000 (annually adjusted for inflation) or 25 percent of their total sales. Sales include sales made by an agent or independent contractor of the entity.
- The entity's California real property and tangible personal property exceeds either \$50,000 (annually adjusted for inflation) or 25 percent of their total real property and tangible personal property.
- The entity's California compensation exceeds either \$50,000 (annually adjusted for inflation) or 25 percent of the total compensation paid by the entity

For the above tests, the sales, property, and payroll of the entity include their pro rata or distributive share of pass-through entities. "Pass-through entities" means a partnership, an LLC treated as a partnership, or an S corporation.

Before 2011, doing business was defined as 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 tax 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 tax 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 tax returns. S corporations file FTB 100S, *California S Corporation Franchise or Income Tax Return*.

Corporations that elect federal S corporation status and have a California filing requirement are deemed to have made a California S election effective on the same date as the federal S election.

### Terminations

Terminating the taxpayer's federal S election simultaneously terminates its California S election. If the taxpayer terminates its S corporation status, short-period returns are required for the S corporation short year and the C corporation short year, if applicable.

## 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 net 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.
- For tax year 2011 and after, a limited partner in a limited partnership that is doing business in California, if the corporation's pro rata or distributive share of the limited partnership's sales, property, and payroll meets one of the tests for doing business.

### 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 tax return (less than 12 months).

## Newly Incorporated or Qualified Corporation Exception

Newly incorporated or qualified corporations are not required to pay the minimum franchise tax in their first taxable year.

### Deployed Military Exemption

For tax years beginning on or after January 1, 2010, and before January 1, 2018, a corporation will not be subject to the minimum franchise tax if it meets *all* the following:

- The corporation is a small business solely owned by a deployed member of the United States Armed Forces.
- The owner is deployed during the tax year.
- The corporation operates at a loss, or ceases operation.

For the purpose of this exemption:

- “Deployed” means being called to active duty or active service during a period when the United States is engaged in combat or homeland defense. “Deployed” does not include temporary duty for the sole purpose of training, processing, or a permanent change of station.
- “Operates at a loss” means negative net income as defined in Revenue and Taxation Code (R&TC) Section 24341.
- “Small business” means a corporation with \$250,000 or less of total income from all sources derived from, or attributable to, California.

## Income Tax

Corporations are subject to the 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

For tax year 2011 and after, corporations pay income tax if they are a limited partner in a limited partnership that is doing business in California if the corporations pro rata or distributive share of the limited partnership’s sales, property, and payroll does not meet one of the tests for doing business.

Before tax year 2011, corporations pay income tax if they are a limited partner in a limited partnership that is doing business in California.

### No Minimum Franchise Tax

There is no minimum franchise tax for income tax filers.

## Apportionment of Income

Corporations that conduct business inside and outside California must 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 to determine 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](http://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 tax 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, 2012. The corporation is a calendar year taxpayer. It did no business from December 20, 2012, to December 31, 2012. The corporation meets the 15-day rule and does not need to file a 2012 tax return. The corporation's first tax year starts on January 1, 2013.

## Filing Tax Returns

FTB 100, *California Corporation Franchise or Income Tax Return*, or 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

Tax 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 tax return regardless of an extension to file.

## Short-Period Tax Returns

The original due date of a short-period tax 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 tax return.

## When a Federal Short-Period Tax Return is Required

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

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

## Estimated Tax

All corporations must 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 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 FTB 100-ES at [ftb.ca.gov](http://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

Newly incorporated or qualified corporations must 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, 2012, and selects a calendar tax year. It did not make an estimated tax payment on April 15, 2012 (first installment due date). On March 15, 2013, it files the 2012 tax return showing a net loss of \$8,500 and no tax liability. Since it had no tax liability, it is not assessed an estimated tax penalty.

Corporation A makes an \$800 estimated tax payment on April 15, 2013 (first installment due date). On March 15, 2014, it files its 2013 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, 2013, it is not assessed an estimated tax penalty.

**Example 2: First year tax liability:** Corporation B incorporates in California on January 11, 2012, and selects a calendar tax year. It did not make an estimated tax payment on April 15, 2012 (first installment due date). On March 15, 2013, it files its 2012 tax return showing net income of \$6,300 and tax of \$557 (\$6,300 x 8.84 percent). 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, 2013 (first installment due date). On March 15, 2014, it files its 2013 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, 2013, it is not assessed an estimated tax penalty.

## Penalties

### Estimated Tax Penalty

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 of estimated tax for the period from the date the installment was due until the date it is paid, or until the original due date of the tax return, whichever is earlier. Use form FTB 5806, *Underpayment of Estimated Tax by Corporations*, to determine both the amount of underpayment and the amount of penalty. See R&TC Section 19142 for more information.

### Underpayment and Monthly Penalty

Any corporation that fails to pay the total tax shown on Form 100 or Form 100S by the original due date is assessed a penalty. The penalty is 5 percent of the unpaid tax, plus 0.5 percent for each month, or part of the month (not to exceed 40 months), the tax remains unpaid. This penalty may not exceed 25 percent of the unpaid tax.

The late payment penalty may be waived where 90 percent of the tax shown on the return, but not less than minimum franchise tax if applicable, is paid by the original due date of the return. See R&TC Section 19132 for more information.

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, or the greater of the two penalties may be assessed, but the total penalty may not exceed 25 percent of the unpaid tax.

### Delinquent Filing Penalty

Any corporation that fails to file Form 100 or Form 100S on or before the extended due date is assessed a delinquent filing penalty. The delinquent filing penalty is computed at 5 percent of the tax due, after allowing for timely payments, for every month that the return is late, up to a maximum of 25 percent. 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. (R&TC Section 19131)

## Late Filing Penalty – S Corps

We impose a late filing penalty if an S corporation fails to file a return by the original or extended due date for returns with original due dates on or after January 1, 2011, for taxable years beginning on or after January 1, 2010. (This penalty is also known as the per shareholder penalty.) We also impose the late filing penalty for incomplete returns. The late filing penalty is \$18 per shareholder, for each month or fraction of the month the return is late (or incomplete), to a maximum of 12 months. We impose the late filing penalty in addition to the delinquent penalty. (Revenue & Taxation Code Section 19172.5)

## Where to Get Tax Forms and Publications

**By Internet** – Download, view, and print California tax forms, instructions, publications, FTB Notices, and FTB Legal Rulings at [ftb.ca.gov](http://ftb.ca.gov).

**Telephone** – Order current year California tax forms from 6 a.m. to 8 p.m., weekdays, 6 a.m. to 4:30 p.m. Saturdays, 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 Organization – Filing Requirements Paying Filing Fees*
- 802** FTB 3500, *Exemption Application*
- 831** FTB 3500A, *Submission of Exemption Request*

## 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.

Mail 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 tax return.

## Internet and Telephone Assistance

Website: [ftb.ca.gov](http://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](http://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 para personas con discapacidades auditivas y del habla

## Other Agencies

### California Secretary of State

Website: [sos.ca.gov](http://sos.ca.gov)  
Telephone: 916.657.5448

### California Board of Equalization

Website: [boe.ca.gov](http://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](http://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](http://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 tax 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?