



# California

Forms & Instructions

# 565

## 2009

Partnership Tax Booklet

Members of the Franchise Tax Board

John Chiang, Chair

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**This booklet contains:**

**Form 565**, Partnership Return of Income

**FTB 3885P**, Depreciation and Amortization

**FTB 3538 (565)**, Payment for Automatic Extension for LPs, LLPs, and REMICs

**Schedule D (565)**, Capital Gain or Loss

**Schedule K-1 (565)**, Partner's Share of Income, Deductions, Credits, etc.



**File 565 K-1s via CD or Diskette.  
Put up to 300,000+ K-1s on CD or  
12,000 K-1s on a diskette.**



For more information regarding business e-file, see page 2 or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **business e file**.



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**

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## **Business e-file**

Business e-file is available for the following returns:

- **Form 565, Partnership Return of Income**
- Form 568, Limited Liability Company Return of Income
- Form 100, California Corporation Franchise or Income Tax Return, including combined reports.
- Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, including combined reports.
- Form 100S, S Corporation Franchise or Income Tax Return.

For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **business e file**.

# 2009 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

R&TC Sections 17024.5 and 23051.5 have been amended to clarify that, unless otherwise expressly disallowed, federal elections made before a taxpayer becomes a California taxpayer are binding for California tax purposes.

## What's New

**Charitable Contributions for 2010 Haiti Disaster** – California law conforms to the federal law which allows a 2009 charitable contribution deduction for cash contributions made after January 11, 2010, and before March 1, 2010, for the relief of victims in areas affected by the earthquake in Haiti on January 12, 2010. Partnerships may claim the deduction on the 2009 or 2010 California tax return. Partnerships may choose to claim the deduction in different taxable years for federal and California purposes.

**New Jobs Credit** – For taxable years beginning on or after January 1, 2009, a new jobs credit in the amount of \$3,000 is allowed for a qualified employer for each increase in qualified full-time employee hired in the current taxable year. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **new jobs** or get form FTB 3527, New Jobs Credit.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015. Currently there is no funding available to award or claim credits for the period from July 1, 2008, to December 31, 2009. However, carryover is not affected for previously awarded credits.

**Backup Withholding** – For taxable years beginning on or after January 1, 2010, with certain limited exceptions, payers that are required to withhold and remit backup withholding to the Internal Revenue Service (IRS) are also required to withhold and remit to the Franchise Tax Board (FTB). The California backup withholding rate is 7% of the payment. For California purposes, dividends, interests, and any financial institutions release of loan funds made in the normal course of business are exempt from backup withholding. For additional information on California backup withholding, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **backup withholding**.

**Limited Partnership Revival** – For taxable years beginning on or after January 1, 2010, California law requires a canceled limited partnership to accompany the certificate of revival filed with the Secretary of State with written confirmation obtained from the FTB that all required tax returns have been filed by the partnership. This new law further authorizes the FTB to assess a specialized tax service fee of \$100 for a limited partnership revival confirmation letter request, until January 1, 2011, after which the amount of the fee would be set by regulation.

**Farmworker Housing Credit** – For taxable years beginning on or after January 1, 2009, the farmworker housing credit has been consolidated into the low-income housing tax credit. For more information, get form FTB 3521.

**California Film and Television Tax Credit** – For taxable years beginning on or after January 1, 2011, a film and television credit against tax will be allowed. The credit, which is allocated and certified by the California Film Commission, is 20% of expenditures attributable to a qualified motion picture and 25% of production expenditures attributable to an independent film or a TV series that relocates to California. The California Film Commission will accept applications on a first come, first served basis beginning on July 1, 2009. For more information go to [film.ca.gov](http://film.ca.gov) and search for **incentives**.

**Deferred Income** – California has not conformed to the federal election under IRC Section 108(i) to defer the income from discharge of indebtedness in connection with the reacquisition after December 31, 2008,

and before January 1, 2011, of a debt instrument issued by a C corporation or by any person in connection with the conduct of a trade or business.

**Partnership Converting to a Corporation** – IRS Revenue Ruling 2009-15 was released which explains that in certain situations, a partnership that converts to a corporation under Federal Regulation Section 301.7701-3(c)(1)(i) or under a state law formless conversion statute is eligible to make an S election effective for the corporation's first taxable year.

**Increase in Rates** – For taxable years beginning on or after January 1, 2009, the maximum personal income tax rate increased to 9.55%. In addition, non-California partnerships are subject to withholding requirements on the sale of California real property at a rate of 3 1/3% of sales price or 9.55% of gain. The alternative withholding rates for the sale of California real property by S corporations increased to 11.05% and 13.05% for Financial S corporations.

**Group Nonresident Returns (also known as Composite Returns)** – For taxable years beginning on or after January 1, 2009:

- Group nonresident returns may include less than two nonresident individuals.
- Nonresident individuals with more than \$1,000,000 of California taxable income are eligible to be included in group nonresident returns.
- An additional one percent tax will be assessed on nonresident individuals who have California taxable income over \$1,000,000.

See FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

**Conformity** – For updates regarding the following federal acts, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **conformity**.

- American Recovery and Reinvestment Act of 2009

## General Information

### A Important Information

**Installment Sales** – For taxable years beginning on or after January 1, 2009, buyers are required to withhold on each installment sale payment if the sale of California real property is structured as an installment sale.

#### Business Tax Credit Limitation

For taxable years beginning on or after January 1, 2008, and before January 1, 2010, business tax credits can only offset 50% of the net tax, if the corporation's taxable income is \$500,000 or more. Corporations with taxable income less than \$500,000 are not subject to the credit limitation. For the purpose of this limitation, taxable income means net income for state purposes.

Business tax credits disallowed due to the 50% limitation may be carried over. The carryover period for disallowed credits is extended by the number of taxable years the credits were not allowed. For more information see the application Schedule P (Form 100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations

#### Third-Party Designee

For taxable years beginning on or after January 1, 2008, a partnership can designate a third party to discuss the tax return with the Franchise Tax Board (FTB). For more information, go to General Information, Signatures, included in this booklet.

#### Registered Domestic Partners (RDP)

RDPs under California law must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you entered into in a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, you are required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status. For more information on what states have legal unions that are considered substantially equivalent, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **attorney general**.

For purposes of California income tax, references to a spouse, husband, or wife also refer to a California registered domestic partner (RDP), unless otherwise specified. When we use the initials RDP they refer to both a California registered domestic "partner," and a California registered domestic "partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

## Round Cents to Dollars

Round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25. If you do not round, the FTB will disregard the cents.

## Revised Schedule K and Schedule K-1

The California Schedule K (565), Partners' Shares of Income, Deductions, Credits, etc., and Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line items were revised to be in a similar format with the federal Schedule K (1065), Partners' Distributive Share Items, and K-1 (1065), Partner's Share of Income, Deductions, Credits, etc. Refer to the Schedule K Federal/State Line References chart, in this booklet, and the Instructions for Schedule K (565) and Schedule K-1 (565), when completing California Schedule K (565) and Schedule K-1 (565).

## Limited Partnership Act of 2008

For taxable years beginning on or after January 1, 2008, domestic limited partnerships, whose certificates of limited partnership have been canceled, may revive by filing a certificate of revival with the California Secretary of State (SOS). The certificate of revival must include written confirmation by the FTB that all taxes, interest, and penalties have been paid for all taxable years through the date of revival. This includes the taxable years after the limited partnership canceled.

## e-filing

In January 2007, the FTB began offering e-filing for partnerships filing Form 565, California Partnership Return of Income, and certain accompanying forms and schedules. Check with the software provider to see if the partnership can e-file.

## Reconciliation of Income

For taxable years beginning on or after January 1, 2006, the IRS requires certain partnerships to complete federal Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return. For California purposes, the partnerships must complete the California Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, and attach either of the following:

- A copy of the federal Schedule M-3 (Form 1065) and related attachments to the Partnership Return of Income.
- A complete copy of the federal return.

The FTB will accept the federal Schedule M-3 (Form 1065) in a spreadsheet format if more convenient.

## Dissolving or Cancelling/Tax Clearance Certificate Process

For taxable years beginning on or after January 1, 2006, Limited Partnerships (LP) or Limited Liability Partnerships (LLP) will not be required to obtain a Tax Clearance Certificate prior to the dissolution or cancellation of the LP or LLP. For more information, see General Information, Cancelling a Limited Partnership or Limited Liability Partnership.

## California Use Tax

If your partnership made purchases outside California and used them in California, it may owe California use tax. The partnership should report the tax on the California Partnership Return of Income unless the use tax has previously been reported to the State Board of Equalization. See page 10, Additional Information "California Use Tax" for more information.

## California Tax Information on the Internet

You can download, view, and print California tax forms and publications at [ftb.ca.gov](http://ftb.ca.gov).

## Federal Tax Information on the Internet

The IRS has federal forms and publications available to download, view and print at [irs.gov](http://irs.gov).

## State Agencies' Websites

Access other state agencies' websites through the State Agencies Directory on California's website at [ca.gov](http://ca.gov).

## Joint Agency Website

For additional business tax information, go to the California Tax Service Center at [taxes.ca.gov](http://taxes.ca.gov), sponsored by the Board of Equalization (BOE), Employment Development Department (EDD), the FTB, and the IRS.

## Providing California and Federal Returns

The FTB may request a copy of California or federal returns that are subject to or related to a federal examination. Generally, the California statute of limitations is four years from the return due date or from the date filed, whichever is later. However, the statute is extended in situations where

an individual or a business entity is under examination by the IRS. For additional information concerning the extended statute of limitation due to a federal examination, see General Information, Amended Return.

The FTB recommends keeping copies of returns and records that verify income, deductions, adjustments, or credits reported, for at least the minimum time required under the statute of limitations. However, some records should be kept much longer. For example, partners should keep records substantiating their basis in a partnership and property owners should keep records to figure the basis of property.

## Substitute Schedule K-1 (565)

The FTB recommends filing **paperless** substitute Schedules K-1 (565). Since software is most often used to prepare Form 565 and Schedules K-1 (565), you may already have the information needed to prepare paperless Schedules K-1 (565). Once the information is in a database or spreadsheet, it's easy to transfer to the required record layout and then save it to a CD or diskette.

Get approval from the FTB to use substitute Schedules K-1 (565), if the partnership:

- Wants to use paperless Schedules K-1 (565).
- Does not use the official California Schedule K-1 (565) prepared by the FTB.
- Does not use a software program with an FTB-approved Schedule K-1 (565).

The FTB **does not** accept federal Schedules K-1 (1065) as a substitute schedule.

For more information, see General Information, Substitute Schedules.

## Federal/State Differences

California tax law generally conforms to federal tax law in the area of partnerships (IRC Subchapter K – Partners and Partnerships). However, there are some differences:

- California does not conform to the additional first-year depreciation of certain qualified property placed in service after 10/03/2008, and the election to claim additional research and minimum tax credits in lieu of claiming the bonus depreciation.
- California does not conform to the energy efficient commercial buildings deduction.
- California does not conform to reduce the compensation deduction for certain employers from \$1 million to \$500,000, and makes certain parachute payments nondeductible.
- California does not conform to the extent of suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil or gas well property.
- An \$800 annual tax is generally imposed on LPs, Limited Liability Companies (LLCs) classified as partnerships for tax purposes, LLPs, and REMICs that are partnerships or are classified as partnerships for tax purposes.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- A deduction for taxes paid to other states is not allowed.
- California follows federal law by requiring partnerships to use a required taxable year. However, California does not conform to the federal required payment provision.
- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California law modifies the federal definitions for unrealized receivables and substantially appreciated inventory items.
- California does not conform to the electing large partnership provisions.
- Partnerships can electronically file their California partnership returns. Also, partnerships can file Schedules K-1 (565) via CD or diskette. (See General Information, Substitute Schedules, for more information.)
- California has not conformed to the provisions relating to the Tax Equity and Fiscal Responsibility Act (TEFRA).
- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

This list is not intended to be all-inclusive for the federal and state differences. For additional information, consult California's R&TC.

## Conversion to a Limited Liability Company (LLC)

A partnership that converts to an LLC during the year must file two California returns. Even if the partners/members and the business operations remain



the same, the partnership should file Form 565 for the beginning of the year to the date of change. For the remainder of the year, the newly converted LLC would file Form 568, Limited Liability Company Return of Income. See General Information, Accounting Periods, for further instructions.

**Revised Uniform Partnership Act (RUPA)**

California has enacted RUPA which applies to partnerships formed after January 1, 1997. RUPA applies to all partnerships after January 1, 1999. RUPA governs the formation, operation, and liquidation of partnerships in California. However, the R&TC governs the taxation of partnerships doing business in California. For partnerships operating under the newest version of the Uniform Limited Partnership Act of 2008, see Limited Partnership Act of 2008 under “Important Information.”

**Tax Shelter**

If the partnership was involved in a reportable transaction, including a listed transaction, the partnership may have a disclosure requirement. Attach the federal Form 8886, Reportable Transaction Disclosure Statement, to the back of the California return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, send a duplicate copy of the federal Form 8886 to the address below. The FTB may impose penalties if the partnership fails to file federal Form 8886, federal Form 8918, Material Advisor Disclosure Statement, or any other required information. A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

ATSU 398 F385  
FRANCHISE TAX BOARD  
PO BOX 1673  
SACRAMENTO CA 95812-1673

For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **tax shelter**.

**Claim of Right**

If the partnership had to repay an amount that was included in income in an earlier year, under a claim of right, the partnership may be able to deduct the amount repaid from its income for the year in which it was repaid. Or, if the amount the partnership repaid is more than \$3,000, the partnership may be able to take a credit against its tax for the year in which it was repaid. For more information, see the Repayment section of federal Publication 525, Taxable and Nontaxable Income.

**B Purpose**

Form 565 is an information return for calendar year 2009 or fiscal years beginning in 2009. Use Form 565 to report income, deductions, gains, losses, etc., from the operation of a partnership.

**C Definitions**

**Limited Partnership (LP)**

A partnership formed by two or more persons under the laws of this state and having one or more general partners and one or more limited partners. Limited partnerships are required to register with the California SOS.

**Limited Liability Partnership (LLP)**

California law authorizes the formation of LLPs with activities limited to either the practice of public accountancy, law, architecture, and related services. California also recognizes out-of-state LLPs doing business in California.

An LLP is a partnership, other than a limited partnership, that has a Certificate of Registration on file with the California SOS as described in Corporation Code Section 16951.

**Real Estate Mortgage Investment Conduit (REMIC)**

A special tax vehicle for entities that issue multiple classes of investor interests backed by a fixed pool of mortgages.

For additional information get the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, federal Publication 938, Real Estate Mortgage Investment Conduits (REMICs) Reporting Information,(And Other Collateralized Debt Obligations (CDOs)).

**Additional Definitions**

For definitions of a partnership, general partner, limited partner, nonrecourse loans, apportionment, unitary, etc., see the Partner’s Instructions for the Schedule K-1 (565) and the instructions for federal Form 1065, U.S. Partnership Return of Income.

**D Who Must File**

A partnership (including REMICs classified as partnerships) that engages in a trade or business in California or has income from a California source must file Form 565. Regardless of where the trade or business of the partnership is conducted, a partnership is considered to be doing business in California if any of its partners (general or limited) or other agents are conducting business in California on behalf of the partnership.

An electing large partnership that completes federal Form 1065-B, U.S. Return of Income for Electing Large Partnerships, must still use Form 565. California does not conform to the electing large partnership provisions.

LPs and LLPs (both foreign, non-U.S. and domestic U.S.) doing business in California, that have a certificate on file, or are registered with the California SOS (whether or not doing business in California) must file a return and pay the \$800 annual tax.

The LP is still required to file if it is registered in California and both of the following apply:

- It is not doing business in California.
- It does not have California source income.

However, if the LP meets both of these, then it may be eligible for the reduced filing program. The LP’s filing requirement will be satisfied by:

1. Completing Form 565 with all supplemental schedules.
2. Completing and attaching California Schedule(s) K-1 (565) for partners with California addresses.
3. Writing “SB 1106 Filing” in red at the top of Form 565, Side 1.
4. Entering the total number of partners in Question K, Side 2, of Form 565.

Religious and apostolic organizations that are exempt from income tax under R&TC Section 23701k are not required to file Form 565. However, Form 565 should be prepared and attached to Form 199, California Exempt Organization Annual Information Return.

LLCs may be classified for tax purposes as a partnership, a corporation, or a disregarded entity (see General Information, Check-the-Box Regulations). The LLC must file the appropriate California return for its classification.

<b>If your LLC is classified as a partnership:</b>	<b>IT MUST FILE FORM 568.</b>
Does business in California	<b>Note: Nonregistered foreign LLCs and LPs (excluding disregarded entities/single member LLCs) that are not doing business, but are deriving income from California or filing to report an election on behalf of a California resident, MUST FILE FORM 565.</b>
Organized in California	
Organized in another state or foreign country, but registered with the SOS	

Nonregistered foreign LLCs that are members of an LLC doing business in California or general partners in a limited partnership doing business in California are considered to be doing business in California and should file Form 568. (See exceptions to filing Form 568 in the 2009 Limited Liability Company Form 568 Booklet, General Information, Who Must File).

Certain publicly traded partnerships (PTP) treated as corporations under IRC Section 7704 must file Form 100, California Corporation Franchise or Income Tax Return.

A qualifying syndicate, pool, joint venture, or similar organization may elect under IRC Section 761(a) (which California follows) not to be treated as a partnership for state income tax purposes and will not be required to file Form 565 except for the year of election. If Form 565 is filed, a copy of the operating agreement and all amendments must be attached to the return, unless a copy has been previously filed with the FTB.

Partnerships, except LPs and LLPs, organized or registered in California, that do not do business in California and that do not receive income from California sources are not required to file Form 565. However, resident partners of a nonresident partnership may be required to furnish a copy of federal Form 1065.

**E When and Where to File**

A partnership must file Form 565 and pay the \$800 annual tax (if required) by the 15th day of the 4th month (fiscal year) or April 15, 2010 (calendar year), following the close of its taxable year.

## PAYMENTS

- Mail Form 565 with **payment** (LPs, LLPs, and REMICs only) to:  
FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0601
- E-filed returns: Mail form FTB 3587, Payment Voucher for LP, LLP and REMIC e-filed returns, with payment to:  
FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0531

Using blue or black ink, make the check or money order payable to the **"Franchise Tax Board."** Write the partnership's federal employer identification number (FEIN), SOS file number and "2009 Form 565" on the check or money order.

**Note:** SOS file number must begin with "19" or "20."

Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

**Do not** attach a copy of the return with the balance due payment if the partnership already filed a return for the same taxable year.

## REFUNDS

- Mail Form 565 requesting a **refund** to:  
FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0602

## RETURN WITHOUT PAYMENT or PAID by EFT

- Mail Form 565 **without a payment** or **paid by EFT** to:  
FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0600

## Extensions

California does not require the filing of written extensions. If a partnership needs more time to file Form 565 by the return's due date, the partnership is granted an automatic six month extension.

However, the automatic extension does not extend the time to pay the \$800 annual tax.

If the partnership is filing the return under extension, see form FTB 3538, Payment for Automatic Extension for LPs, LLPs, and REMICs, included in this booklet. Send form FTB 3538 and the tax payment to the FTB by the 15th day of the 4th month following the close of the taxable year.

## 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 the instructions for federal Form 1065 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 you will be using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

## F Annual Tax

The \$800 annual tax applies to all LLCs, LPs, LLPs, and REMICs, if any of the following apply to the entity:

- It is doing business in California.
- It is registered in California.
- It is organized in California.

A general partner in a limited partnership doing business in California is also considered doing business in California. A member of an LLC doing business in California is also considered doing business in California.

This tax cannot be deducted as an expense by the partnership or deducted from the partner's distributive share.

An LP that is filing **ONLY** to report California source income is **NOT** subject to the annual tax if all of the following apply:

- It is not doing business in California.

- It is not registered in California.
- It is not organized in California.

Enter the annual tax payment made for the 2009 taxable year on the applicable line of Form 565.

## G Penalties and Interest

### Failure to File a Timely Return or Provide Information

Unless failure is due to reasonable cause, a penalty will be assessed against the partnership if it is required to file a partnership return and one of the following occur:

- It fails to file the return on time, including extensions.
- It files a return, including Schedules K-1 (565), that fails to show all the information required.

The amount of the penalty for each month, or part of a month (for a maximum of five months) that the failure continues, is \$10 multiplied by the total number of partners in the partnership during any part of the taxable year for which the return is due. Interest will be charged on the penalty from the date the notice of tax due is sent by the FTB to the date the return is filed.

"Small partnerships," as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns, does not apply for California purposes. For more information see R&TC Section 19172.

### Failure to Pay Total Tax by Due Date

For LPs, LLPs, and REMICs that must pay the \$800 annual tax with Form 565, a penalty for late payment of tax may be assessed. Any LP, LLP, or REMIC that fails to pay the \$800 annual tax by the original due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month or part of a month (not to exceed 40 months) the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. Interest will be due and payable on the late payment.

### Interest

Interest is due and payable on any tax due if not paid by the original due date. Interest is also due on some penalties. The automatic extension of time to file does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Business Entity Refund/Billing Information, for more information.

### Other Penalties/Fees

A penalty may also be charged if a payment is returned for insufficient funds. In addition, fees may be charged for the cost of collections.

## H Accounting Methods

Compute ordinary income or loss by the accounting method regularly used to maintain the partnership's books and records. This method must clearly reflect the partnership's income or loss.

Partnerships given permission to change their accounting method for federal purposes should see IRC Section 481 for information relating to the adjustments required.

Generally, a partnership may not use the cash method of accounting if the partnership has a corporate partner, average annual gross receipts of more than \$5 million, or is a tax shelter. For exceptions, see IRC Section 448.

The mark-to-market accounting method is required for securities dealers. The IRC Section 481 adjustment is taken into account ratably over five years beginning with the first income year.

## I Accounting Periods

Partnership returns normally must be filed for an accounting period that includes 12 full months. A short period return must be filed if the partnership is created or terminated within the taxable year. In that case, write "Short Period" in red ink at the top of Form 565, Side 1.

For information on the required taxable year of a partnership, see the instructions for federal Form 1065.

## J Amended Return

If, after the partnership files its return, it becomes aware of changes it must make, the partnership should file an amended Form 565 and an amended paper Schedule K-1 (565) for each affected partner, if applicable. Check the "Amended Return" box on Form 565, Side 1, Item H(3) and on Schedule K-1 (565), Side 1, Item H(2). Give a corrected Schedule K-1 (565) labeled "Amended" to each affected partner. If the partnership originally filed a group

nonresident partner Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, the partnership should file an amended Form 540NR.

If the partnership wishes to file amended Schedules K-1 (565) via CD or diskette see General Information, Substitute Schedules.

If the partnership's federal return is changed for any reason, the federal change may affect the partnership's California return. This would include changes made because of an examination. The partnership must file an amended return within six months of the final federal adjustments. The partnership should attach a copy of the federal Revenue Agent's Report or other notice of the adjustments to the return. The partnership should inform the partners that they may also be required to file amended returns based on any changes made by the IRS within six months from the date of the final federal adjustments.

## K Required Information Returns

Every partnership must file information returns if, in the course of its trade or business any of the following occur:

- The partnership makes payments of rents, salaries, wages, annuities, or other fixed or determinable income during one taxable year totaling \$600 or more to one person.
- The partnership pays an individual or one payee interest and dividends totaling \$10 or more.
- The partnership receives cash payments over \$10,000.

Payments of any amount by a broker, dealer, or barter exchange agent must also be reported.

Partnerships must report payments made to California residents by providing copies of federal Form 1099. Get FTB Pub. 4227A, Guide to Information Returns Filed With California, for more information.

If the partnership has nonresident partners, see the reporting and withholding requirements on Form 592, Quarterly Resident and Nonresident Withholding Statement; Form 592-F, Foreign Partner or Member Annual Return, Form 592-A, Foreign Partner or Member Quarterly Withholding Remittance Statement; and Form 592-B, Resident and Nonresident Withholding Tax Statement.

Partnerships must submit a copy of 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.

Partnerships must report interest paid on municipal bonds issued by a state other than California or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments totaling \$10 or more paid after January 1, 2009. Information returns will be due June 1, 2010. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment Information, for more information.

Partnerships must use form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report interest due or to be refunded under the look-back method on long-term contracts.

If you are filing form FTB 3834 to compute the interest due or to be refunded under the look-back method, attach a copy of form FTB 3834 to Form 565.

Any information returns required for federal purposes under IRC Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to Form 565 when filed. If the information returns are not provided, penalties may be imposed.

Mail all information returns, unless otherwise noted, separately from Form 565. Information returns should be mailed to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0600

## L Special Items

California law generally follows federal law in the areas of:

- IRC Section 702(a) items
- Elections
- Distributions of unrealized receivables and inventory items
- Partners' dealings with the partnership
- Contributions to the partnership

- Income of foreign nonresident partners subject to withholding, Forms 592, 592-A, 592-B, and 592-F
- Basis and at-risk rules
- Passive activity limitations
- Net operating loss deductions by a partner (a partnership is not allowed the deduction)
- Publicly traded partnerships (PTP)
- Long-term contracts
- Installment sales
- Vacation pay
- Amortization of past service costs
- Distributions of contributed property by a partnership
- Recognition of precontribution gain in certain partnership distributions to contributing partners

See the instructions for federal Form 1065 for specific information about these provisions.

## M Signatures

### General Partner

Form 565 is not considered a valid return unless it is signed by a general partner. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that individual must sign the return.

### Paid Preparer's Information

Anyone who is paid to prepare the partnership return must sign the return and complete the "Paid Preparer's Use Only" area of the return.

The paid preparer must do all of the following:

- Complete the required preparer information.
- Sign in the space provided for the preparer's signature.
- Give the partnership a copy of the return in addition to the copy to be filed with the FTB.

An individual who prepares the return and does not charge the partnership should not sign the partnership return.

### Third Party Designee

If the partnership wants to allow the FTB to discuss its 2009 return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the partnership is authorizing the FTB to call the paid preparer to answer any questions that may arise during the processing of its return. The partnership is also authorizing the paid preparer to:

- Give the FTB any information that is missing from the return.
- Call the FTB for information about the processing of the return or the status of any related refund or payments.
- Respond to certain FTB notices about math errors, offsets, and return preparation.

The partnership is not authorizing the paid preparer to receive any refund check, bind the partnership to anything (including any additional tax liability), or otherwise represent the partnership before the FTB.

The authorization will automatically end no later than the due date (without regard to extensions) for filing the partnership's 2009 tax return. If the partnership wants to expand the paid preparer's authorization, see form FTB 3520, Power of Attorney Declaration for the Franchise Tax Board. If the partnership wants to revoke the authorization before it ends, notify the FTB in writing or call 800.852.5711.

## N Group Returns

### Nonresidents or Part-year Residents

A corporation may file a group nonresident return on behalf of certain electing nonresident individuals who receive wages, salaries, fees, or other compensation from that corporation for director services performed in California, including attendance of board of directors' meetings in California.

The laws guiding California's taxation of nonresidents, former nonresidents, and part-year residents set rules for calculating loss carryovers, deferred deductions, and deferred income, including the tax computation method to recognize those items. Get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, for more information.



Nonresident partners of a partnership doing business or deriving income from sources within California may elect to file a group nonresident return (R&TC Section 18535).

For taxable years beginning on or after January 1, 2009:

- Group nonresident returns may include less than two nonresident individuals.
- Nonresident individuals with more than \$1,000,000 of California taxable income are eligible to be included in group nonresident returns.
- An additional one percent tax will be assessed on nonresident individuals who would have California taxable income over \$1,000,000.

See FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

## O Investment Partnerships

Income of nonresident partners, including banks and corporations, derived from “qualifying investment securities” of an “investment partnership” is considered income from sources other than California, except as noted below. Therefore, nonresident partners generally will not be taxed on this income. The partnership should inform its nonresident partners if all or a portion of their distributive share of income is from “qualifying investment securities” of an “investment partnership” and whether it is sourced to California. For definitions of qualifying investment securities and investment partnership, see Specific Instructions, Questions, Question V, included in this booklet.

However, for apportioning purposes, income from a partnership that is an investment partnership is generally considered business income (see Appeal of Estate of Marion Markus, Cal. St. Bd. of Equal., May 6, 1986). Investment partnerships doing business within and outside California should apportion California source income using California Schedule R, Apportionment and Allocation of Income.

Investment partnerships doing business solely within California should treat all business income of the investment partnership as California source income.

Investment partnerships that have California source income should fill out column (e) of the Schedule K-1 (565) showing each partner’s distributive share of California source income.

Generally, partners who are nonresident individuals would not record this income as California source income. However, there are two exceptions to the general rule when a nonresident individual may have California source income from an investment partnership. Nonresident individual partners will be taxed on their distributive shares of income from the investment partnership if the income from the qualifying investment securities is interrelated with either of the following:

- Any other business activity of the nonresident partner.
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

Corporations that are partners in an investment partnership are generally not taxed on their distributive share of partnership’s income, provided that the income from the partnership is the corporation’s only California source income. However, the corporation will be taxed on its distributive share of California source income of the partnership if either of the following apply:

- The corporation participates in the management of the investment activities of the investment partnership.
- The corporation has derived income from or attributable to sources within California other than income from the investment partnership.

## P Cancelling a Limited Partnership (LP) or Limited Liability Partnership (LLP)

LPs and LLPs are required to pay the \$800 annual tax and file Form 565 until the appropriate papers are filed with the California SOS.

For taxable years beginning on or after January 1, 2006, the annual tax will not be assessed if the LP or LLP meets the following requirements:

1. The LP or LLP files a timely Final Partnership Return of Income for the preceding taxable year, including extension.
2. The LP or LLP did not do business in California after the final taxable year.
3. The LP or LLP files the appropriate documents for dissolution with the California SOS within 12 months of the timely filed Final Partnership Return of Income.

## Limited Partnerships (LPs)

In order to terminate an LP, the following steps must be taken:

1. File a timely Final Partnership Return of Income with the FTB and pay the \$800 annual tax for the taxable year of the final return.
2. File Form LP-4/7, Certificate of Cancellation, with the California SOS. The California SOS also requires a domestic LP to file Form LP-3, Certificate of Dissolution. Contact the California SOS for more details.

The Form LP-4/7’s effective date will stop the assessment of the \$800 annual tax for future taxable years. If Form LP-4/7 is filed after the taxable year ending date, a subsequent year’s return and an additional \$800 tax may be required. However, if the LP does no business after the end of the taxable year for which the final annual return is filed, and the LP files its termination documents with the California SOS before 12 months from the date the final return was timely filed, the LP will not owe the annual tax for subsequent years.

**Example** – An LP files a timely 2008 return marked final on April 15, 2009, and pays the \$800 annual tax for 2008. The LP does no business after 2008. The LP files its termination documents with the California SOS before April 15, 2010. The LP does not owe the \$800 annual tax for 2009.

## Limited Liability Partnerships (LLPs)

In order to terminate an LLP, the following steps must be taken:

1. File a timely Final Partnership Return of Income with the FTB and pay the \$800 annual tax for the taxable year of the final return.
2. File Form LLP-4, Notice of Change of Status, with the California SOS. Contact the California SOS for more details.

The Form LLP-4’s effective date (the date Form LLP-4 is received by the California SOS) will stop the assessment of the \$800 annual tax for future taxable years. If Form LLP-4 is filed after the taxable year ending date, a subsequent year return and an additional \$800 may be required.

## Additional Information

For more information on how to cancel your partnership, contact:

By Mail:

LPs – BUSINESS ENTITIES SECTION  
PO BOX 944225  
SACRAMENTO CA 94244-2250

LLPs – BUSINESS ENTITIES SECTION  
PO BOX 944228  
SACRAMENTO CA 94244-2280

In Person:

CALIFORNIA SECRETARY OF STATE  
1500 11TH STREET, 3RD FLOOR  
SACRAMENTO CA 95814

Telephone Number: 916.657.5448

Office hours are Monday through Friday, 8 a.m. to 5 p.m.

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

Email address: [partnerships@sos.ca.gov](mailto:partnerships@sos.ca.gov)

If the partnership is being terminated or cancelled to convert to another type of business entity, be sure to file the appropriate forms with the California SOS.

## Q Withholding Requirements

### Foreign (non-U.S.) Nonresident Partners

As described in IRC Section 1446 and modified by R&TC Section 18666, if a partnership has any income or gain from a trade or business within California, and if any portion of that income or gain is allocable under IRC Section 704 to a foreign (non-U.S.) nonresident partner, the partnership is required to withhold tax on the allocable amount.

### State and Federal Differences Regarding Foreign (non-U.S.) Nonresident Partners

California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws in this area are:

- a. The California withholding rate is 8.84% for C corporations and 9.55% for individuals, partnerships, and fiduciaries.
- b. Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18662.



## Domestic (U.S.) Nonresident Partners

A partnership is required to withhold funds for income or franchise taxes when it makes a distribution of income to a domestic (U.S.) nonresident partner (R&TC Section 18662). This includes prior year income that should have been, but was not, previously reported as income from California sources on the partner's California income tax return. However, withholding is not required if distributions of income from California sources to the partner are \$1,500 or less during the calendar year or if the FTB directs the payer not to withhold.

Domestic (U.S.) nonresident partners include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic (U.S.) nonresident partners also include nonresident estates, trusts, LLCs, and partnerships that do not have a permanent place of business in California. Foreign nonresident partners covered under R&TC Section 18666 are not domestic nonresident partners.

Partnerships with income from within and outside California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable in determining the California part of the distribution subject to the withholding. Partnerships are required to withhold at a rate of seven percent of distributions (including property) of income from California sources made to domestic nonresident partners.

The FTB has administrative authority to allow reduced withholding rates, including waivers, when requested in writing. These authorizations may be one-time, annual, or for a longer period. Waivers or reduced withholding rates will normally be approved when distributions are made by publicly traded partnerships and on distributions to brokerage firms, tax-exempt organizations, and tiered partnerships.

No withholding is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon examination the FTB determines that withholding was required, the partnership may be liable for the withholding and penalties.

Send waiver requests and inquiries to:

WITHHOLDING SERVICES AND COMPLIANCE  
FRANCHISE TAX BOARD  
PO BOX 942867  
SACRAMENTO CA 94267-0651  
Telephone: 888.792.4900 or  
916.845.4900

The withholding should be reported on and sent with Form 592, Form 592-A, Form 592-B, and/or Form 592-F. For more information, get FTB Pub. 1017, Resident and Nonresident Withholding Guidelines.

The taxable income of nonresident partners is the distributive share of California sourced partnership income, not the distributed amount.

## R Check-the-Box Regulations

California generally conforms to the federal entity classification regulations (commonly known as "check-the-box" regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation, or an entity disregarded as separate from its owner.

Generally, any election made for federal purposes under the federal "check-the-box" regulations is considered the California election. No separate election is allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California return for the year in which the election is effective. The entity should file the appropriate California return.

An "eligible entity" may choose its classification. An eligible entity is a business entity that is not a trust, a corporation organized under a federal or state statute, a foreign entity specifically listed as a per se corporation, or other special business entities. Other special business entities under the IRC include PTPs, REMICs, financial asset securitization investment trusts (FASITs), or regulated investment companies (RICs). An eligible entity with two or more owners will be a partnership (for tax purposes) unless it elects to be taxed as a corporation. An eligible entity with a single owner will be disregarded for tax purposes, unless the entity elects to be taxed as a corporation. If the separate existence of an entity is disregarded, its activities are treated as activities of the owner and are reported on the appropriate California return.

**IMPORTANT:** There is an exception to the general rule that an eligible business entity is classified the same for California as for federal income tax purposes. If an eligible business entity was properly classified for California income tax purposes as an association taxable as a corporation for any income year prior to January 1, 1997, it will continue to be classified as such until it makes an irrevocable election to be classified or disregarded the same as it is for federal. The exception does not apply to a business entity which, during the 60 month period preceding January 1, 1997, was appropriately classified as an association taxable as a corporation and met all of the following conditions:

- The business entity was not doing business in California.
- The business entity did not derive income from sources within California.
- The business entity had no partners who were residents of California.

The eligible business entities to which the exception applies are generally: 1) Business trusts that were classified as corporations under California law, but were classified as partnerships for federal tax purposes for taxable years beginning before January 1, 1997; and 2) Previously existing foreign single member limited liability companies (SMLLCs) that were classified as corporations under California law but claimed to be partnerships for federal tax purposes for taxable years beginning before January 1, 1997.

These business trusts and previously existing foreign SMLLCs will continue to be classified as corporations for California tax purposes and must continue to file Form 100, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, and Cal. Code Regs., tit. 18 sections 23038(a)-(b).

## S Substitute Schedules

Partnerships or their tax professional must get approval from the FTB to use a substitute schedule, if any of the following apply:

- The partnership wants to use **paperless** Schedules K-1 (565).
- The partnership does not use the official California Schedule K-1 (565) prepared by the FTB.
- The partnership does not use a software program with an FTB-approved Schedule K-1 (565.)

If you use computer software, read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. All printing should be done to the standards specified in FTB Pub. 1098, Annual Requirements and Specifications for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms. For more information, get FTB Pub. 1095D, Tax Practitioner Guidelines for Computer-Prepared Returns.

Partnerships are subject to penalties for failure to file the appropriate Schedule K-1 (565). See General Information, Penalties and Interest.

To participate in the FTB's substitute forms program, get FTB Pub. 1098, and form FTB 1096, Agreement to Comply with FTB Pub. 1098, Annual Requirements and Specifications.

### Paperless Schedule K-1 (565)

For the procedures, formatting specifications, and record layouts required to program paperless Schedules K-1 (565) get FTB Pub. 1062, Guidelines for Filing Paperless Schedules K-1 (565 or 568).

The transmittal form FTB 3604, Transmittal of Paperless Schedules K-1 (565 or 568) on CD or Diskette, must accompany paperless Schedules K-1 (565) submitted on CD or diskette. Form FTB 3604 is included in FTB Pub. 1062, or in a fillable format at [ftb.ca.gov](http://ftb.ca.gov).

K-1 (565 or 568) TestWare is also available at no charge. K-1 TestWare will help identify and correct errors during programming and before submitting the paperless schedules.

### K-1 (565 or 568) TestWare includes two programs:

- K-1 Verify, edits the Schedule K-1 (565) records to ensure the fields are the correct length and position that the FTB requires, and produces an edit report.
- K-1 Convert, converts spreadsheet formats to standard fixed length formats so you can use them with K-1 Verify.

Once verification is made to ensure the partnership's paperless Schedules K-1 (565) pass the K-1 Verify program, send the schedules to the FTB using form FTB 3604. Multiple partnerships can be put on the same CD or diskette. It is not necessary to provide a separate CD or diskette for each partnership. However, include each partnership's name, FEIN, and number of Schedules K-1 for that partnership in the space provided on form FTB 3604.

If the partnership files paperless Schedules K-1 (565), file all Schedules K-1 (565) for that partnership using the paperless process. **Do not** file paper Schedules K-1 (565) with the Form 565 if the partnership has filed or will file paperless Schedules K-1 (565).

**Do not** file Schedules K-1 (565) on microfiche or file federal Schedules K-1 (1065) with the Form 565.

To get the publication and the K-1 Testware, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **testware**.

Assistance is available from our e-file Help Desk at 916.845.0353.

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## Additional Information

### California Use Tax

#### General Information

The use tax has been in effect in California since July 1, 1935. It applies to purchases from out-of-state sellers and is similar to the sales tax paid on purchases made in California.

In general, partnerships must pay California use tax on purchases made from outside California (for example, by telephone, over the Internet, by mail, or in person) if both of the following apply:

- The seller does not collect California sales or use tax.
- The partnership uses, gives away, stores, or consumes the item in this state.

**Example:** The partnership purchases a conference table from a company in North Carolina. The company ships the table from North Carolina to the partnership's address in California for the partnership's use and does not charge California sales or use tax. The partnership owes use tax on the purchase.

**Complete the Use Tax Worksheet** on page 11 to calculate the amount due.

**Extensions to file.** If the partnership requests an extension to file its tax return, wait until the partnership files its return to report the purchases subject to use tax and to make the use tax payment.

To avoid late payment penalties for use tax, the partnership must report and pay the use tax with a timely filed income tax return.

**Changes in use tax reported.** Do not file an Amended Partnership Return of Income to revise the use tax previously reported. If the partnership has changes to the amount of use tax previously reported on the original tax return, contact the State Board of Equalization.

**For assistance,** go to the State Board of Equalization's website at [boe.ca.gov](http://boe.ca.gov) or call their Taxpayer Information Section at 800.400.7115 or TTY/TDD 800.735.2929. Income tax information is not available at this number.

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## Specific Instructions

### Form 565

#### Fill In All Applicable Lines and Schedules

Enter the total amounts on the applicable lines of Schedule K (565). **Do not** enter these items directly on Form 565, Side 1, Schedule A or Schedule D (565). **Do not** apply the apportionment factor to the items on Schedule K (565). Enter any items specially allocated to the partners on the applicable line of the partner's Schedule K-1 (565).

Whole numbers should be shown on the return and accompanying schedules.

#### Name, Address, FEIN, and California SOS File Number

The partnership may use its legal or trade name on all California returns and other documents filed. Print the partnership's legal or trade name, address, FEIN, and California SOS file number.

- Federal employer identification number (FEIN) (nine digits)
- Secretary of State (California SOS) file number is 12 digits and begins with "19" or "20"
- Partnership name (use the legal name filed with the California SOS) and address, include Private Mail Box (PMB) number, if applicable.

If the partnership leases a PMB from a private business rather than a PO box from the United States Postal Service, include the PMB in the address area. Example: 111 Main Street PMB 123.

#### Item G – Total Assets at End of Taxable Year

See the instructions for Question O before completing this item.

If the partnership is required to complete this item, enter the total assets at the end of the partnership's taxable year. This is determined by the accounting method regularly used to maintain the partnership's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

#### Item I – Principal Business Activity Code (PBA)

California uses the 6-digit federal PBA Code based on the North American Industry Classification System (NAICS).

Common trust funds are required to use PBA code 525920. Investment clubs are required to use PBA code 523900. For further information, see the instructions for federal Form 1065.

## Income

#### Line 1 through Line 12

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity income on line 1 through line 12. However, for California tax purposes, business income of the partnership is computed using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be business income for California sourcing purposes. **Do not** include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825 to Form 565. Use California amounts and attach a statement reconciling any differences between federal and California amounts.

Use worldwide amounts determined under California law when completing these lines.

Form 565, line 4 through line 11 have been separated to report total gains and total losses. Net amounts are no longer reported.

#### Line 6 – Total Farm Profit

#### Line 7 – Total Farm Loss

Enter on line 6 the partnership's total farm profit from federal Schedule F (Form 1040), Profit or Loss from Farming, Line 36, Net farm profit or (loss). Enter on line 7 the partnership's total farm loss from federal Schedule F (Form 1040), Line 36. Attach federal Schedule F to Form 565. If the amount includable for California purposes is different from the amount on federal Schedule F, enter the California amount and attach a note explaining the difference.

#### Line 8 – Total Gain from Schedule D-1

#### Line 9 – Total Loss from Schedule D-1

Include only ordinary gains (losses) from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains (losses) from the sale, exchange, or involuntary conversion of rental activity assets must be reported separately on Schedule K (565) and Schedule K-1 (565).

A partnership that is a partner in another partnership must include on Schedule D-1, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

## Deductions

#### Line 13 through Line 22

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity deductions on line 13 through line 21. Include amounts for repairs, rents, and taxes on line 21. **Do not** include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565).

Use worldwide amounts determined under California law when completing these lines.

Federal reporting requirements for organization expenses, syndication expenses, and uniform capitalization rules apply for California.

**Claim of Right.** To claim as a deduction, enter the amount on Line 21.

If you elect to take the credit instead of the deduction, remember to use the California tax rate, add the credit amount to the total on line 27, Total payments. To the left of this total, write IRC 1341 and the amount of the credit.

**Line 17a – Depreciation and Amortization**

Enter on line 17a the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885P, Depreciation and Amortization, included in this booklet, to figure depreciation and amortization. Transfer the total from form FTB 3885P, line 6, to Form 565, Side 1, line 17a, or federal Form 8825, line 14, or as appropriate (use California amounts). See the instructions for form FTB 3885P for more information.

**Do not** include any expense deduction for recovery property (IRC Section 179; Enterprise Zones, R&TC Section 17267.2; Targeted Tax Area, R&TC Section 17267.6; and Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the partnership. Instead, it is passed through separately to the partners and is reported on line 12 of Schedule K (565) and Schedule K-1 (565).

**Line 24 – Tax**

Enter the \$800 annual tax required for LPs, LLPs, and REMICs. See General Information, Annual Tax, for further details on the annual tax requirements.

**Line 25 – 2009 Resident/Nonresident or Real Estate Withholding**

If taxes were withheld from payment to the partnership, the partnership can either allocate the entire withholding credit to all its partners or claim a portion (not to exceed the total tax due) and allocate the remaining portion to all its partners. If the partnership claims any of the amount withheld, attach Form 592-B or Form 593, Real Estate Withholding Tax Statement, from the withholding entity to the front lower portion of the partnership return. The partnership must file Forms 592 and 592-B to allocate any remaining withholding credit to its partners. For more information, get FTB Pub. 1017, Resident and Nonresident Withholding Guidelines.

The above explanation does not apply to the nonconsenting nonresident member's tax paid by an LLC on behalf of the nonresident member. The nonconsenting nonresident members' tax is not related to the partnership withholding on nonresident partners. Therefore, the tax cannot be claimed using Forms 592 and 592-B; and cannot be claimed by the partnership on this line. The partnership will allocate the entire amount paid by the LLC on its behalf to all of its partners on Schedule K (565) and Schedule K-1 (565), line 15e.

**Line 29 – Use Tax**

As explained on page 10, California use tax applies to purchases from out of state sellers (for example, purchases made by telephone, over the Internet, by mail, or in person). For questions on whether a purchase is taxable, go to State Board of Equalization's website at [boe.ca.gov](http://boe.ca.gov), or call their Taxpayer Information Section at 800.400.7115 or TTY/TDD 800.735.2929.

**Note:** The following businesses must continue to report purchases subject to use tax directly to the State Board of Equalization:

- Businesses that have a California seller's permit.
- Businesses that are not required to hold a California seller's permit, but receive at least \$100,000 in gross receipts.

A partnership that is not required to report purchases subject to use tax directly to the State Board of Equalization may report use tax on its Partnership Return of Income. To report use tax on the partnership tax return, complete the Use Tax Worksheet below.

If the partnership owes use tax but does not report it on the income tax return, the partnership must report and pay the tax to the State Board of Equalization. For information on reporting use tax directly to the State Board of Equalization, go to their website at [boe.ca.gov](http://boe.ca.gov).

Failure to timely report and pay the use tax due may result in the assessment of penalties.

<b>Use Tax Worksheet</b>	
Round all amounts to the nearest whole dollar.	
1. Enter purchases from out-of-state or Internet sellers made without payment of California sales/use tax. See worksheet instructions below	\$ _____ .00
2. Enter the decimal equivalent of the applicable sales and use tax rate. See worksheet instructions below	_____
3. Multiply line 1 by the tax rate on line 2. Enter result here	\$ _____ .00
4. Enter any sales or use tax paid to another state for purchases included on line 1. See worksheet instructions below	\$ _____ .00
5. Total Use Tax Due. Subtract line 4 from line 3. Enter the amount here and on line 29. If the amount is less than zero, enter -0-	\$ _____ .00

**Worksheet, Line 1, Purchases Subject to Use Tax**

- Report items that would have been taxable in a California store, such as office equipment and supplies.
- Include handling charges.
- Do not include any other state's sales or use tax paid on the purchases.
- Enter only purchases made during the year that corresponds with the tax return the partnership is filing.

**Note:** Report and pay any use tax you owe on the following purchases to the State Board of Equalization, not on your income tax return.

- Vehicles, vessels, and trailers that must be registered with the Department of Motor Vehicles.
- Mobile homes or commercial coaches that must be registered annually as required by the Health and Safety Code.
- Vessels documented with the U.S. Coast Guard.
- Aircraft.
- Leases of machinery, equipment, vehicles, and other tangible personal property.

**Worksheet, Line 2, Sales and Use Tax Rate**

- Enter the decimal equivalent of the sales and use tax rate applicable to the place in California where the property is used, stored, or otherwise consumed. For example, the decimal equivalent of 8.25% is 0.0825, and the decimal equivalent of 8.375% is 0.08375.
- If the partnership does not know the applicable rate, see the table on this page and on the following page. "Sales and Use Tax Rates by County." If the partnership has questions regarding the use tax rate in effect in the partnership's area, go to the State Board of Equalization's website at [boe.ca.gov](http://boe.ca.gov) or call their Taxpayer Information Section at 800.400.7115 or TTY/TDD 800.735.2929.

**Worksheet, Line 4, Credit for Tax Paid to Another State**

- This is a credit for tax paid to other states. The partnership cannot claim a credit greater than the amount of tax that would have been due if the purchase had been made in California. For example, if the partnership paid \$8.00 sales tax to another state for a purchase, and would have paid \$6.00 in California, the partnership can claim a credit of only \$6.00 for that purchase.

**Sales and Use Tax Rates by County**

(includes state, local, and district taxes)

As of December 31, 2009

**Note:** All tax rates listed include the 1 percent statewide sales and use tax increase effective April 1, 2009. Tax rates were 1 percent less prior to April 1, 2009 unless otherwise noted. (For example, the tax rate in San Francisco effective April 1, 2009 is 9.50%. The tax rate prior to April 1, 2009 was 8.50%)

County	Rate	County	Rate
Alameda	9.75%	Orange <sup>1</sup>	8.75%
Alpine	8.25%	Placer	8.25%
Amador <sup>2</sup>	8.75%	Plumas	8.25%
Butte	8.25%	Riverside	8.75%
Calaveras	8.25%	Sacramento <sup>1</sup>	8.75%
Colusa <sup>1</sup>	8.25%	San Benito <sup>1</sup>	8.25%
Contra Costa <sup>1</sup>	9.25%	San Bernardino <sup>1</sup>	8.75%
Del Norte	8.25%	San Diego <sup>1</sup>	8.75%
El Dorado <sup>1</sup>	8.25%	San Francisco	9.50%
Fresno <sup>1</sup>	8.975%	San Joaquin <sup>1</sup>	8.75%
Glenn	8.25%	San Luis Obispo <sup>1</sup>	8.25%
Humboldt <sup>1</sup>	8.25%	San Mateo	9.25%
Imperial	8.75%	Santa Barbara	8.75%
Inyo	8.75%	Santa Clara <sup>1</sup>	9.25%
Kern <sup>1</sup>	8.25%	Santa Cruz <sup>1</sup>	9.00%
Kings	8.25%	Shasta	8.25%
Lake <sup>1</sup>	8.25%	Sierra	8.25%
Lassen	8.25%	Siskiyou	8.25%
Los Angeles <sup>1,3</sup>	9.75%	Solano	8.375%
Madera	8.75%	Sonoma <sup>1,4</sup>	9.00%
Marin <sup>1,4</sup>	9.00%	Stanislaus <sup>1</sup>	8.375%
Mariposa	8.75%	Sutter	8.25%
Mendocino <sup>1</sup>	8.25%	Tehama	8.25%
Merced <sup>1</sup>	8.25%	Trinity	8.25%
Modoc	8.25%	Tulare <sup>1</sup>	8.75%
Mono <sup>1</sup>	8.25%	Tuolumne <sup>1</sup>	8.25%
Monterey <sup>1</sup>	8.25%	Ventura <sup>1</sup>	8.25%
Napa	8.75%	Yolo <sup>1</sup>	8.25%
Nevada <sup>1</sup>	8.375%	Yuba	8.25%



1. Many cities in California impose a district tax which results in a higher sales and use tax rate than in other parts of the county. If you are reporting an item that was purchased for use in one of these counties, please check the following city list to see if a higher rate applies to your city. The tax rates shown apply if you live within the city limits of the listed community.
2. The tax rate in the county of Amador prior to April 1, 2009 was 7.25%.
3. The tax rate in the county of Los Angeles prior to April 1, 2009 was 8.25%. The tax rate in the county of Los Angeles between April 1, 2009 and June 30, 2009 was 9.25%.
4. The tax rate in the counties of Marin and Sonoma prior to April 1, 2009 was 7.75%.

County	City	Citywide Rate
Colusa	Williams	8.75%
Contra Costa	El Cerrito	9.75%
Contra Costa	Pinole	9.75%
Contra Costa	Richmond	9.75%
El Dorado	Placerville	8.50%
El Dorado	So. Lake Tahoe	8.75%
Fresno	Reedley	9.475%
Fresno	Sanger	9.725%
Fresno	Selma	9.475%
Humboldt	Arcata (effective 4/1/09) <sup>1</sup>	9.00%
Humboldt	Eureka (effective 4/1/09) <sup>2</sup>	8.50%
Humboldt	Trinidad (effective 4/1/09) <sup>3</sup>	9.00%
Kern	Arvin (effective 4/1/09) <sup>4</sup>	9.25%
Kern	Delano	9.25%
Lake	Clearlake	8.75%
Lake	Lakeport	8.75%
Los Angeles	Avalon	10.25%
Los Angeles	El Monte (effective 7/1/09) <sup>5</sup>	10.25%
Los Angeles	Inglewood	10.25%
Los Angeles	Pico Rivera (effective 7/1/09) <sup>6</sup>	10.75%
Los Angeles	South Gate	10.75%
Marin	San Rafael	9.50%
Mendocino	Fort Bragg	8.75%
Mendocino	Point Arena	8.75%
Mendocino	Ukiah	8.75%
Mendocino	Willits	8.75%
Merced	Los Banos	8.75%
Merced	Merced	8.75%
Mono	Mammoth Lakes	8.75%
Monterey	Del Rey Oaks	9.25%
Monterey	Pacific Grove	9.25%
Monterey	Salinas	8.75%
Monterey	Sand City	8.75%
Monterey	Seaside	9.25%
Nevada	Nevada City	8.875%
Nevada	Truckee	8.875%
Orange	La Habra (effective 4/1/09) <sup>7</sup>	9.25%
Orange	Laguna Beach (effective 7/1/09) <sup>15</sup>	8.75%
Sacramento	Galt (effective 4/1/09) <sup>8</sup>	9.25%
San Benito	Hollister	9.25%
San Benito	San Juan Bautista	9.00%
San Bernardino	Montclair	9.00%
San Bernardino	San Bernardino	9.00%
San Diego	El Cajon (effective 4/1/09) <sup>9</sup>	9.75%
San Diego	La Mesa (effective 4/1/09) <sup>10</sup>	9.50%
San Diego	National City	9.75%
San Diego	Vista	9.25%
San Joaquin	Manteca	9.25%
San Joaquin	Stockton	9.00%
San Luis Obispo	Arroyo Grande	8.75%
San Luis Obispo	Grover Beach	8.75%
San Luis Obispo	Morro Bay	8.75%
San Luis Obispo	Pismo Beach	8.75%
San Luis Obispo	San Luis Obispo	8.75%
Santa Clara	Campbell (effective 4/1/09) <sup>11</sup>	9.50%
Santa Cruz	Capitola	9.25%
Santa Cruz	Santa Cruz	9.50%
Santa Cruz	Scotts Valley (effective 4/1/09) <sup>12</sup>	9.25%
Santa Cruz	Watsonville	9.25%

Sonoma	Santa Rosa	9.25%
Sonoma	Sebastopol	9.25%
Stanislaus	Ceres	8.875%
Tulare	Dinuba	9.50%
Tulare	Farmersville	9.25%
Tulare	Porterville	9.25%
Tulare	Tulare	9.25%
Tulare	Visalia	9.00%
Tuolumne	Sonora	8.75%
Ventura	Oxnard (effective 4/1/09) <sup>13</sup>	8.75%
Ventura	Port Hueneme (effective 4/1/09) <sup>14</sup>	8.75%
Yolo	Davis	8.75%
Yolo	West Sacramento	8.75%
Yolo	Woodland	8.75%

1. The tax rate in Arcata prior to April 1, 2009 was 7.25%
2. The tax rate in Eureka prior to April 1, 2009 was 7.25%
3. The tax rate in Trinidad prior to April 1, 2009 was 7.25%
4. The tax rate in Arvin prior to April 1, 2009 was 7.25%
5. The tax rate in El Monte prior to April 1, 2009 was 8.25%. The tax rate in El Monte between April 1, 2009 and June 30, 2009 was 9.75%
6. The tax rate in Pico Rivera prior to April 1, 2009 was 8.25%. The tax rate in Pico Rivera between April 1, 2009 and June 30, 2009 was 10.25%
7. The tax rate in La Habra prior to April 1, 2009 was 7.75%
8. The tax rate in Galt prior to April 1, 2009 was 7.75%
9. The tax rate in El Cajon prior to April 1, 2009 was 8.25%
10. The tax rate in La Mesa prior to April 1, 2009 was 7.75%
11. The tax rate in Campbell prior to April 1, 2009 was 8.25%
12. The tax rate in Scotts Valley prior to April 1, 2009 was 8.50%
13. The tax rate in Oxnard prior to April 1, 2009 was 7.25%
14. The tax rate in Port Hueneme prior to April 1, 2009 was 7.25%
15. The tax rate in Laguna Beach prior to April 1, 2009 was 8.25%. The tax rate in Laguna Beach between April 1, 2009 and June 30, 2009 was 9.25%

## Schedule A — Cost of Goods Sold

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, Schedule A.

### Questions

#### Question J

Check only one box for this question. The partnership checks the box that best describes its business type. For definitions of general partnership, limited partnership, real estate mortgage investment conduit, and limited liability partnership, see General Information, Definitions, and the instructions for federal Form 1065.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit (R&TC Section 23101).

**Line Item 6** of Question J is for other types of entities not previously mentioned on line 1 through line 5. If your entity is not a general partnership, LP, REMIC, or LLP, then check the box for line item 6 only. In the space provided, write in the type of entity.

#### Question K

Enter the maximum number of partners in the partnership during the taxable year. The number of Schedules K-1 (565) sent via magnetic media or attached to Form 565, must equal the number of partners entered in Question K. **Do not** use abbreviations or terms such as "Various."

#### Question O

Check the "Yes" box if **all** of the following conditions are met:

- a) The partnerships' total receipts for the taxable year were less than \$250,000.
- b) The partnerships' total assets at the end of the taxable year were less than \$1 million.
- c) Schedules K-1 (Form 1065) are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.

If Question O is answered "Yes," the partnership is not required to complete Schedules L, M-1, M-2, or Item G on Side 1 of Form 565 or Item J on Schedule K-1 (565).



### Question T

All partnerships **must** answer all three questions. If you do not own or lease (as specified below) real property in California, answer "No" to the questions. (Real property includes land, buildings, structures, and fixtures – see R&TC Section 104).

The questions provide information regarding changes in ownership with regard to real property held by legal entities (R&TC Section 64). If any of the answers are "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); failure to do so within 45 days of the event date occurring on or after January 1, 2010 will result in substantial penalties. Get forms and information from the BOE website at [boe.ca.gov](http://boe.ca.gov) and search for **leop**.

There may be a change in ownership or control if, during this year, one of the following occurred with respect to this partnership (or any legal entity in which it holds a controlling or majority interest):

- The percentage of partnership interests transferred to, or owned or controlled by **one** person or **one** legal entity cumulatively exceeded 50%.
- The total partnership interests transferred to or held by **one** irrevocable trust or trust beneficiary cumulatively exceeded 50%.
- This partnership, or any legal entity in which it holds a controlling or majority interest, cumulatively acquired ownership or control of more than 50% of the partnership or other ownership interests in any legal entity.
- As of the end of this year, cumulatively more than 50% of the total partnership interests have been transferred or the partnership experienced a change in ownership or control in one or more transactions since March 1, 1975.

For purposes of these questions, leased real property is a leasehold interest in taxable real property: (1) leased for a term of 35 years or more (including renewal options), if not leased from a government agency; or (2) leased for any term, if leased from a government agency.

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

### Question U

California requires taxes to be withheld from certain payments or allocations of income and sent to the FTB (R&TC Section 18662 and Section 18666). If upon examination, the FTB determines that tax withholding was required, the partnership can be liable for the tax and penalties.

The reference to Forms 592, 592-A, 592-B, and 592-F relates to withholding done by the partnership. If you need additional information concerning partnership withholding, see General Information, Required Information Returns, and Withholding Requirements.

### Question V – Investment Partnership

An "investment partnership" is a partnership that meets the following two criteria:

1. No less than 90% of the cost of the partnership's total assets consist of:
  - Qualifying investment securities
  - Deposits at banks or other financial institutions
  - Office equipment and office space reasonably necessary to carry on the activities of an investment partnership
2. No less than 90% of the partnership's gross income is from interest, dividends, and gains from the sale or exchange of qualifying investment securities defined in R&TC Section 17955 and Section 23040.1.

Qualifying investment securities include all of the following:

- Common and preferred stock, as well as debt securities convertible into common stock.
- Bonds, debentures, and other debt securities.
- Foreign and domestic currency deposits or equivalent and securities convertible into foreign securities.
- Mortgage-backed or asset-backed securities secured by governmental agencies.
- Repurchase agreements and loan participations.
- Foreign currency exchange contracts and forward and futures contracts on foreign currencies.
- Stock and bond index securities and futures contracts, and other similar securities.
- Regulated futures contracts.
- Options to purchase or sell any of the preceding qualified investment securities, except regulated futures contracts.

Qualifying investment securities do not include an interest in a partnership, unless the partnership qualifies as an investment partnership. See R&TC Section 17955 and Section 23040.1 and General Information, Investment Partnerships, for more information.

### Question X

Federal Form 8886, Reportable Transaction Disclosure Statement, must be attached to any return on which the partnership has claimed or reported income from, or a deduction, loss, credit or other tax benefit attributable to, participation in a reportable transaction. If the partnership is required to file this form with the federal return, attach a copy to the partnership's Form 565. **Do not** attach copies of federal Schedules K-1 (1065).

A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

A Reportable Transaction is any transaction as defined in R&TC Section 18407 and Treas. Reg. 1.6011-4 and includes, but is not limited to:

- A Confidential Transaction, which is a transaction offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which is a transaction that provides the taxpayer with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained.
- A loss transaction under Section 165, which is a transaction resulting in a loss of at least \$10 million in any one-year or \$20 million in any combination of taxable years for a partnership that has only corporations as partners, (looking through partners that are themselves partnerships); or, \$2 million in any one-year or \$4 million in any combination of taxable years for all other partnerships.
- A transaction with a significant book-tax difference (entered into prior to August 3, 2007). Beginning January 6, 2006, this transaction was no longer required to be disclosed on federal Form 8886. See IRS Notice 2006-06.
- A transaction where the taxpayer is claiming a tax credit of greater than \$250,000 and held the asset for less than 45 days (entered into prior to August 3, 2007).
- A transaction of interest, which is a transaction that is the same as or substantially similar to one of the types of transactions that has been identified by the Internal Revenue Service as a transaction of interest (entered into on or after November 2, 2006).
- A Listed Transaction, which is a specific reportable transaction, or one that is substantially similar, that has been identified by the Internal Revenue Service or the Franchise Tax Board as a tax avoidance transaction.

### Question DD

The new jobs credit allows \$3,000 for a qualified employer for each increase in qualified full-time employee hired in the current taxable year. The new jobs credit is not subject to the 50% business tax credit limitation. Use form FTB 3527 to compute the new jobs credit. Enter the amount generated on line DD (2). Attach a copy of form FTB 3527 to the Form 565. Get form FTB 3527 for more information.

### Question EE

California has not conformed to the federal election to defer the discharge of indebtedness income as described in IRC Section 108(i). If the partnership elected to defer the discharge of indebtedness income for federal purposes, check the "Yes" box and enter the entire amount of the federal deferred income. Include this amount on Schedule K (565), line 11b, column (c), California adjustments.

## Schedule K (565) and Schedule K-1 (565) — Partner's Shares of Income, Deductions, Credits, etc.

### Purpose of Schedules

Schedule K (565) is a summary schedule for the partnership's income, deductions, credits, etc., and Schedule K-1 (565) shows each partner's distributive share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (565) must be attached to Form 565 when it is filed with the FTB. For alternative methods of filing Schedules K-1 (565), see General Information, Substitute Schedules.

Be sure to give each partner a copy of their respective Schedule K-1 (565). Also include a copy of the Partner's Instructions for Schedule K-1 (565) or specific instructions for each item reported on the partner's Schedule K-1 (565). These items should be provided to the partner on or before the due date of the Form 565.

#### Schedule K (565) Only

In column (b), enter the amounts from federal Schedule K. In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments relating to California source income). In column (d) on Schedule K (565), enter the worldwide income computed under California law. For partners to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss), and portfolio income (loss) must be considered separately by the partners. Rental activity income (loss) and portfolio income (loss) are not reported on Form 565, Side 1 so that these amounts are not combined with trade or business activity income (loss). Schedule K (565) is used to report the totals of these (and other) amounts.

#### Apportioning Partnerships Only

Once the Schedule K (565) has been completed, apportioning partnerships should also complete Schedule R before completing its partners' Schedules K-1 (565).

#### Compliance with Partnership Filing Requirements

To help ensure the accurate and timely processing of the partnership's Form 565, verify the following:

- A California approved Schedule K-1 (565) has been sent via magnetic media or attached (to Form 565) for each partner identified on Form 565, Side 2, Question K. Partnerships eligible for the reduced filing program, see General Information, Who Must File.
- The Schedule K-1 (565) contains the partner's correct name, address, and identifying number in the correct fields.
- Questions A through J are completed on Side 1 of Schedule K-1 (565).
- The appropriate entity type box (Schedule K-1 (565), Side 1, Question B) is checked for each partner.
- All Schedules K-1 (565) reconcile to Form 565, Schedule K (565).
- The partner's percentage (Schedule K-1 (565) Question D) is expressed in decimal format and carried to four decimal places (i.e., 33.5432). Do not print fractions, the percentage symbol (%), or use terms such as "Various."
- Substitute computer-generated Schedule K-1 (565) forms **must** be approved by the FTB.

For the highest rate of accuracy and rapid processing, file Schedules K-1 (565) on CD or diskette. See General Information, Substitute Schedules, for more details.

#### Schedule K-1 (565) Only

The partnership completes the entire Schedule K-1 (565) filling out the partner's and partnership's information (name, address, identifying numbers), Questions A through J, and the partner's distributive share of items.

For partners with PMB addresses, include the designation number in the partner's address area. Precede the number (or letter) with "PMB."

For each individual partner, enter the partner's social security number. For all other partners enter the FEIN. However, if a partner is an individual retirement account (IRA), enter the identifying number of the custodian of the IRA. **Do not** enter the social security number of the person for whom the IRA is maintained.

The partnership files one California Schedule K-1 (565) for each partner either by CD or diskette or by attaching a copy to the partnership return. **Do not** attach federal Schedules K-1 (1065). These forms are not California approved forms.

#### Determining the Source of the Partnership's Income for a Resident Partner

A resident partner should include the entire distributive share of partnership income in their California income. If the partnership is apportioning, the partner may be entitled to a credit for taxes paid to other states. The partner should be referred to Form 540, Schedule S, Other State Tax Credit, for more information.

#### Determining the Source of the Partnership's Income for a Nonresident Partner

**Business income:** Regardless of the classification of income for federal purposes, income from California sources is determined in accordance with California law, (Cal. Code Regs., tit. 18 section 17951-4). California source

business income of a trade or business is determined by apportionment, if the partnership conducts any of the following:

If the partnership conducts	Then
A trade or business wholly within California	The income from that trade or business is California source income
A business within and outside California, but the part within California is so distinct that it can be separately accounted for	Only that separate income within California is California source income
A single trade or business within and outside California	California source income is determined by apportionment

The partnership should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Section 25120 through Section 25139). Special rules apply if the partnership has income that is not attributable to the trade or business of the partnership (nonbusiness income).

**Nonbusiness Income:** Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, gains, or losses) located in California is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Section 25124 and Section 25125). Enter this information on the appropriate line of Schedule K-1 (565). If the partnership believes it may have a unitary partner, the information should also be entered on Side 3, Table 2, Part B, for that partner.

The source of nonbusiness income attributable to intangible property depends upon the partner's state of residence or commercial domicile. Individuals generally source this income to their state of residence and corporations to their commercial domicile.

Because the determination of the source of intangible nonbusiness income must be made at the partner level, this income is not entered on Schedule K-1 (565), column (e). It is entered only on Side 3, Table 1.

#### Completing Schedule K-1 (565)

##### Questions A through J

See the Instructions for federal Form 1065, Specific Instructions, Schedule K-1 Only, Part II, Information About the Partner, for more information on completing question A through question J.

##### Questions A and B, Schedule K-1 (565)

Check the appropriate box to indicate a general or limited partner and the partner's entity type. An exempt organization should check box 10 regardless of its legal form.

##### Question C, Schedule K-1 (565)

Check the appropriate box to indicate if this is a foreign partner.

##### Questions D and E, Schedule K-1 (565)

Percentages must be four to seven characters in length and have a decimal point before the four final characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000. Do not enter fractions, the percentage symbol (%), or use terms such as "Various."

For more information on completing Questions D and E, get the instructions for federal Form 1065, Specific Instructions, Schedule K-1 Only, Part II, Information About the Partner.

##### Question F, Schedule K-1 (565)

Enter the reportable transaction or tax shelter registration number(s), if applicable. See instructions for Form 565 Question X for more information.

#### Completing Column (b) through Column (e)

- In **column (b)**, enter the amounts from federal Schedule K-1 (1065).
- In **column (c)**, enter the adjustments resulting from differences between California and federal law for each specific line item.
- In **column (d)**, enter the result of combining column (b) and column (c). This is total income under California law.

**Column (e)** is used to report California source amounts and credits. Include the following items in this column:

1. Income from separate businesses, trades, or professions conducted wholly within California, Cal. Code Regs., tit. 18 section 17951-4(a).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for, Cal. Code Regs., tit. 18 section 17951-4(b).
3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income

attributable to the business, trade, or profession, Cal. Code Regs., tit. 18 section 17951-4(c) and R&TC Sections 25128 through 25137. Generally, the partnership should apportion business income using a four-factor formula consisting of property, payroll, and a double-weighted sales factor. Use a three-factor formula consisting of payroll, property, and a single-weighted sales factor if more than 50% of the business receipts of the partnership are from agricultural, extractive, savings and loans, banks, and financial activities. Apportioning partnerships should complete Schedule R and attach it to Form 565.

4. Nonbusiness income from real and tangible property located in California. Enter the partner's share of nonbusiness income from real and tangible property located in California in column (e). If the partnership believes it may have a unitary partner, enter this income in Table 2, Part B.
5. California credits.

Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Partner's Instructions for Schedule K-1 (565).

#### Column (d) and Column (e)

Schedule K-1 (565), column (d), includes the partner's distributive share of total partnership income, deductions, gains, or losses under California law. Column (e) includes only income, deductions, gains, or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the partner is not a factor in the computation of amounts to be included in column (d) and column (e).

For a partnership that is doing business wholly within California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, gains, or losses from sales of securities).

For a partnership that is doing business within and outside California, the amounts in column (d) and column (e) may be different.

If the partnership knows the partner is a resident individual, then the partnership answers "No" to Question I on Schedule K-1 (565), and completes column (d) only. Otherwise, the partnership should complete column (e) for all other partners.

#### Completing Table 1

Complete Table 1 only if the partnership has nonbusiness intangible income. If the partnership has nonbusiness intangible income, but knows that the partner is a resident individual, then the partnership does not need to complete Table 1 for the partner.

#### Completing Table 2

The partnership does not need to complete Table 2 for a partner, if the partnership knows that the partner is not unitary with its trade or business or any other trade or business.

#### Special Rules for Partners and Partnerships in a Single Unitary Business

Special rules apply if the partnership and a partner are engaged in a single unitary business. In that case, a unitary partner will not use the income information shown in column (e). Instead, the partner's distributive share of business income is combined with the partner's own business income. The combined business income is apportioned using an apportionment formula that consists of an aggregate of the partner's share of the apportionment factors from the partnership and the partner's apportionment factors, Cal. Code Regs., tit. 18 section 25137-1(f). The determination of whether a three-factor or four-factor apportionment formula applies to the combined income will be made at the partner level. The partner's distributive share of business income and property, payroll, and sales factors are entered in Table 2.

If the partnership knows that all of the partners are unitary with the partnership, the partnership need not complete column (e) for any of the Schedules K-1 (565) or attach a Schedule R. For further information, see Partner's Instructions for Schedule K-1 (565).

#### Special Reporting Requirements for Passive Activities

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (565), the partnership must attach a statement to Schedule K-1 (565) for each activity that is a passive activity to the partner. Rental activities are passive activities to all partners; trade or business activities are passive activities to limited partners and to general partners who do not materially participate in the activity. The statement must include all the information explained in the instructions for federal Schedule K-1 (1065).

#### Specific Line Instructions

The California Schedule K (565) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (565) refer to the instructions for federal Schedule K (1065).

When completing the California Schedule K (565) and Schedule K-1 (565), refer to the Federal/State Line References chart that shows the specific line references between the federal Schedule K (1065) and Schedule K-1 (1065), and the California Schedule K (565) and Schedule K-1 (565).

## Income

#### Line 1 through Line 11c

See the instructions for federal Form 1065, Specific Instructions Schedules K and K-1, and Schedule K-1 (565) Income (Loss), line 1 through line 11.

Schedule K (565) must include all income and losses from the partnership activities as determined under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. **Do not** apply the apportionment formula to the income or losses on Schedule K (565).

**Line 10** – Enter on line 10, the amount shown on Schedule D-1, Sales of Business Property, line 7. **Do not** include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts. Instead, report them on line 11b or line 11c.

If the partnership has more than one activity and the amount on line 10 is a passive activity amount to the partner, attach a statement to Schedule K-1 (565) that identifies to which activity the IRC Section 1231 gain (loss) relates.

## Deductions

#### Line 12 through Line 13

See the instructions for federal Form 1065, Specific Instructions Schedules K and K-1 and Schedule K-1 (565), Deductions, line 12, and line 13a through line 13e.

Effective for taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions for reporting the sale, exchange or disposition of property for which an IRC Section 179 expense deduction was claimed in prior years by a partnership. If the partnerships elects the R&TC R&TC Section 17267.2 business expense deduction, the partnership may not claim an IRS Section 179 deduction for this asset.

California has not conformed to the federal Job Creation and Worker Assistance Act of 2002 that allows taxpayers to take an additional first-year depreciation deduction and Alternative Minimum Tax depreciation adjustment for property placed in service after September 10, 2001.

#### Line 13a – Charitable Contributions

Enter the total amount of charitable contributions made by the partnership during its taxable year on Schedule K (565) and each partner's distributive share on Schedule K-1 (565). Attach an itemized list to both schedules showing the amount subject to the 50%, 30%, and 20% limitations.

Partners are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170. For taxable years beginning on or after January 1, 2002, California law conforms to the federal law, relating to the denial of the deduction for lobbying activities, club dues, and employee remuneration in excess of one million dollars.

California conforms to IRC Section 170(f)(8) substantiation requirement for charitable contributions.

#### Line 13b – Investment Interest Expense

This line must be completed whether or not a partner is subject to the investment interest rules. Enter the interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 13b of Schedule K (565) and Schedule K-1 (565), rather than line 13d of Schedule K (565) and Schedule K-1 (565).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partnership and in which the partner does not materially participate. An example would be a partner's working interest in an oil and gas property (i.e., the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity. Investment interest does not include interest expense allocable to a passive activity. For more information, get form FTB 3526, Investment Interest Expense Deduction.



## Line 14

The information reported on line 14 of the federal Schedule K (1065), and federal Schedule K-1(1065), does not apply to California and therefore there is no line 14.

## Credits

### Line 15a – Total Withholding, Schedule K-1 (565) only

If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide each affected partner (including California residents) a completed Form 592-B. Partners must attach Form 592-B to the front of their California return to claim withheld amounts. Schedule K-1 (565) may **not** be used to claim this withholding credit.

### Line 15b through Line 15d

These lines relate to rental activities. Use line 15f to report credits related to trade or business activities.

California line numbers are different from federal line numbers in this section.

### Line 15b – Low-Income Housing Credit

A credit may be claimed by owners of residential rental projects providing low-income housing (IRC Section 42). Generally, the credit is effective for buildings placed in service after 1986. Get form FTB 3521, Low-Income Housing Credit, for more information.

### Line 15c – Credits Other Than Line 15b Related To Rental Real Estate Activities

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

### Line 15d – Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

### Line 15e – Nonconsenting Nonresident Member's Tax Allocated to All Partners

If income tax was paid by an LLC on behalf of a member that is a partnership because the general partner in the partnership did not sign form FTB 3832, Limited Liability Company Nonresident Members' Consent, the amount paid is entered on the member's Schedule K-1 (568), line 15e. This credit is allocated to all partners according to their partnership interest. Partners must attach a copy of the Schedule K-1 (568), previously issued to their partnership by the LLC as well as the Schedule K-1 (565) issued by their partnership, to their California tax return to claim their share of the tax paid by the LLC on their partnership's behalf.

### Line 15f – Other Credits

Attach a statement showing each partner's allocable share of any credit or credit information that is related to a trade or business activity.

Credits that can be reported on line 15f include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Environmental Tax Credit. Get form FTB 3511.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

Line 15f may also include the distributive share of net income taxes paid to other states by the partnership. Subject to limitations of R&TC Section 18001 and R&TC Section 18006, partners may claim a credit against

their individual income tax for net income taxes paid by the partnership to another state. The amount of tax paid must be supported by a schedule of payments and evidence of tax liability by the partnership to the other states. Refer partners to Form 540, Schedule S for more information.

All of the above credit forms are available at [ftb.ca.gov](http://ftb.ca.gov).

### Line 15g – New Jobs Credit

Use form FTB 3527 to calculate the new jobs credit. Enter the credit amount generated on line 15g. The new jobs credit is not subject to the 50% business tax credit limitation. Get form FTB 3527 for more information.

### Line 16

The information reported on line 16 of the federal Schedule K (1065) and federal Schedule K-1(1065), Foreign Transactions, does not apply to California and therefore there is no line 16.

## Alternative Minimum Tax (AMT) Items

### Line 17a through Line 17f

Enter each partner's distributive share of income and deductions that are adjustments and tax preference items. Get Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations, to determine amounts and for other information.

California law conforms to the existing federal law eliminating the deduction for contributions of appreciated property as an item of tax preference. As a result, taxpayers no longer need to include in their computation of Alternative Minimum Taxable Income the amount by which any allowable deduction for contributions of appreciated property exceeds the taxpayer's adjusted basis in the contributed property.

For additional information, see instructions for federal Schedule K (1065), Alternative Minimum Tax (AMT) Items, line 17a through line 17f. For differences between federal and California law for alternative minimum tax (AMT), see R&TC Section 17062.

## Tax-Exempt Income and Nondeductible Expenses

### Line 18a through Line 18c – Tax-exempt income and Nondeductible Expenses

Enter on Schedule K (565) the amounts of tax-exempt interest income, other tax-exempt income, and nondeductible expenses from federal Schedule K (1065) lines 18a, 18b, and 18c. Enter on Schedule K-1 (565) the amounts of tax-exempt income, other tax-exempt income, and nondeductible expenses, from federal Schedule K-1 (1065) box 18. The partnership should give each partner a description and the amount of the partner's share for each item applicable to California in this category.

## Distributions

### Line 19a and Line 19b – Distributions

Enter on Schedule K (565) the amounts of cash and marketable securities, and other property from federal Schedule K (1065), line 19a and line 19b. Enter on Schedule K-1 (565) the amounts of cash and marketable securities, and other property from federal Schedule K-1 (1065), box 19.

## Other Information

### Line 20a and Line 20b – Investment Income and Investment Expenses

These lines must be completed whether or not a partner is subject to the investment interest rules.

Enter on line 20a only the investment income included on line 5, line 6, line 7, and line 11a of Schedule K (565) and Schedule K-1 (565). Enter on line 20b only investment expenses included on line 13d of Schedule K (565) and Schedule K-1 (565).

If items of investment income or expenses are included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (565), items other than the amounts included on line 5 through line 9, line 11a, and line 13d of Schedule K-1 (565), give each partner a statement identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expenses generally do not include any income or expenses from a passive activity.



Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. **Do not** reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. Get the instructions for form FTB 3526 for more information.

#### Line 20c – Other information

See the instructions for the federal Schedule K (1065), line 20c, Other Items and Amounts. For credit recaptures attach a schedule including credit recapture names and amounts.

#### Supplemental Information

The partnership may need to report supplemental information that is not specifically requested on the Schedule K-1 (565) separately to each partner. If the partnership has supplemental information not included in lines 1 through 20b, write, “See attached” on line 20c, column b and column d and provide a schedule with the details.

Partners may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the partnership.

Alternative minimum taxable income does not include income, positive and negative adjustments, and preference items attributed to any trade or business of a qualified taxpayer who has aggregate gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The partnership should provide the partner’s proportionate interest of aggregate gross receipts on Schedule K-1 (565), line 20c.

For purposes of R&TC Section 17062(b)(4), “aggregate gross receipts, less returns and allowances” means the sum of all of the following:

- The gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the pass-through entity’s gross receipts in which the taxpayer holds an interest.

“Aggregate gross receipts” means the sum of gross receipts from the production of business income, within the meaning of subdivisions (a) and (c) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section, “pass-through entity” means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), and a REMIC. See R&TC Section 17062 for more information.

Also show on line 20c a statement showing each of the following:

1. Each partner’s distributive share of business income apportioned to an EZ, LAMBRA, MEA, or TTA.
2. Each partner’s distributive share of business capital gain or loss included in 1 above.

### Analysis – Schedule K (565) only

#### Line 21a through Line 21b(2)

For the instructions for line 21a through line 21b(2) of Schedule K (565), see the instructions for federal Schedule K (1065), Analysis of Net Income (Loss).

### Other Partner Information – Schedule K-1 (565) only

#### Table 1

Enter the partner’s share of nonbusiness income from intangibles. Because the source of this income must be determined at the partner level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short-term and long-term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

Enter nonbusiness income from intangibles in Table 1 net of related expenses.

#### Table 2

The final determination of unity is made at the partner level. If the partnership and the partner are unitary, or if the partnership is uncertain as to whether it is unitary with the partner, it should furnish the information in Table 2.

**Part A.** Enter the partner’s distributive share of the partnership’s business income. The partner will then add that income to its own business income and apportion the combined business income.

Cal Code Regs., tit. 18 section 25120 defines “business income” as income arising from transactions and activity in the regular course of the taxpayer’s trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer’s regular trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income.

**Part B.** Enter the partner’s share of nonbusiness income from real and tangible property that is located in California. This income has a California source, and should also be included on the appropriate line in column (e). Nonbusiness income is all income other than business income.

**Part C.** Enter the partner’s distributive share of the partnership’s property, payroll, and sales factors.

### Schedule L — Balance Sheets

California’s reporting requirements are the same as the federal reporting requirements. The amounts reported on the balance sheet should agree with the books and records of the partnership and should include all amounts whether or not subject to taxation. Attach a statement explaining any differences between federal and state amounts or any differences between the balance sheet and the partnership’s books and records. Follow the instructions for federal Form 1065, Schedule L.

Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question O for the specific requirements to qualify for this exception.

### Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Partner’s Capital Accounts

Domestic partnerships with 10 or fewer partners may not have to complete Schedule M-1, Schedule M-2, or Item J on Schedule K-1 (565). See the instructions for Question O for the specific requirements to qualify for this exception.

If the partnership is required to complete Schedule M-1 and Schedule M-2, the amounts shown should agree with the partnership’s books and records and the balance sheet amounts. Attach a statement explaining any differences.

Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item J, column (c), of all the partners’ Schedules K-1 (565).

**Net Income (Loss) Reconciliation for Certain Partnerships.** For taxable years beginning on or after January 1, 2006, the IRS requires certain partnerships to complete federal Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, instead of Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return. For California purposes, the partnership must complete the California Schedule M-1, and attach either of the following:

- A copy of the federal Schedule M-3 (Form 1065) and related attachments to the California Franchise or Income Tax Return.
- A complete copy of the federal return.

The FTB will accept the federal Schedule M-3 (Form 1065) in a spreadsheet format if more convenient.

### Schedule K Federal/State Line References

The following chart cross-references the line items on the federal Schedule K(1065) to the appropriate line items on the California Schedule K (565). For more information, see the Specific Line Instructions for Schedule K (565) and Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc, included in this booklet.

Federal Schedule K (1065)		CA Schedule K (565)	
Line	Items	Line	Items
<b>1</b>	Ordinary business income (loss)	<b>1</b>	Ordinary income (loss) from trade or business activities
<b>2</b>	Net rental real estate income (loss)	<b>2</b>	Net income (loss) from rental real estate activities
<b>3a</b>	Other gross rental income (loss)	<b>3a</b>	Gross income (loss) from other rental activities
<b>3b</b>	Expenses from other rental activities	<b>3b</b>	Less expenses
<b>3c</b>	Other net rental income (loss)	<b>3c</b>	Net income (loss) from other rental activities
<b>4</b>	Guaranteed payments	<b>4</b>	Guaranteed payments to partners
<b>5</b>	Interest income	<b>5</b>	Interest income
<b>6a</b>	Ordinary dividends	<b>6</b>	Dividends
<b>6b</b>	Qualified dividends	-	Included in line 6 above
<b>7</b>	Royalties	<b>7</b>	Royalties
<b>8</b>	Net short-term capital gain (loss)	<b>8</b>	Net short-term capital gain (loss). Attach Schedule D (565)
<b>9a</b>	Net long-term capital gain (loss)	<b>9</b>	Net long-term capital gain (loss). Attach Schedule D (565)
<b>9b</b>	Collectibles 28% gain (loss)	-	Included in line 8 and line 9 above, as applicable
<b>9c</b>	Unrecaptured section 1250 gain	-	Included in line 8 and line 9 above, as applicable
<b>10</b>	Net section 1231 gain (loss)	<b>10a</b>	Total Gain under IRC Section 1231 (other than due to casualty or theft)
-	Included in line 10 above	<b>10b</b>	Total Loss under IRC Section 1231 (other than due to casualty or theft)
	<i>Not applicable</i>	<b>11a</b>	Other Portfolio Income (loss)
<b>11</b>	Other Income (loss)	<b>11b</b>	Total other income
-	Included in line 11 above	<b>11c</b>	Total other loss
<b>12</b>	Section 179 deduction (attach Form 4562)	<b>12</b>	Expense deduction for recovery property (IRC Section 179 and R&TC Sections 17267.2, 17267.6, and 17268)
<b>13a</b>	Contributions	<b>13a</b>	Charitable contributions
<b>13b</b>	Investment interest expense	<b>13b</b>	Investment interest expense
<b>13c</b>	Section 59(e)(2) expenditures:	<b>13c</b>	1. Total expenditures to which IRC Section 59(e) election may apply
	(1) Type		2. Type of expenditures
	<i>Not applicable</i>	<b>13d</b>	Deductions related to portfolio income
<b>13d</b>	Other deductions	<b>13e</b>	Other deductions
	(1) Type		
<b>14a-c</b>	Self-employment	<b>14a-c</b>	<i>Not applicable</i>
<b>15a</b>	Low-income housing credit (section 42(j)(5))	<b>15a</b>	Withholding on partnership allocated to all partners
<b>15b</b>	Low-income housing credit (other)	<b>15b</b>	Low-income housing credit
<b>15c</b>	Qualified rehabilitation expenditures (rental real estate)	<b>15c</b>	Credits other than the credit shown on line 15b related to rental real estate activities
<b>15d</b>	Other rental real estate credits	<b>15d</b>	Credit(s) related to other rental activities
<b>15e</b>	Other rental credits	<b>15e</b>	Nonconsenting nonresident members' tax allocated to all partners
<b>15f</b>	Other credits	<b>15f</b>	Other credits
-		<b>15g</b>	New Jobs Credit
<b>16a-n</b>	Foreign Transactions	<b>16a-n</b>	<i>Not applicable</i>
<b>17a</b>	Post-1986 depreciation adjustment	<b>17a</b>	Depreciation adjustment on property placed in service after 1986
<b>17b</b>	Adjusted gain or loss	<b>17b</b>	Adjusted gain or loss
<b>17c</b>	Depletion (other than oil and gas)	<b>17c</b>	Depletion (other than oil and gas)
<b>17d</b>	Oil, gas, and geothermal properties – gross income	<b>17d</b>	Gross income from oil, gas, and geothermal properties
<b>17e</b>	Oil, gas, and geothermal properties – deductions	<b>17e</b>	Deductions allocable to oil, gas, and geothermal properties
<b>17f</b>	Other AMT items	<b>17f</b>	Other alternative minimum tax items
<b>18a</b>	Tax-exempt interest income	<b>18a</b>	Tax-exempt interest income
<b>18b</b>	Other tax-exempt income	<b>18b</b>	Other tax-exempt income
<b>18c</b>	Nondeductible expenses	<b>18c</b>	Nondeductible expenses
<b>19a</b>	Distributions of cash and marketable securities	<b>19a</b>	Distributions of money (cash and marketable securities)
<b>19b</b>	Distributions of other property	<b>19b</b>	Distributions of property other than money
<b>20a</b>	Investment income	<b>20a</b>	Investment income
<b>20b</b>	Investment expenses	<b>20b</b>	Investment expenses
<b>20c</b>	Other items and amounts	<b>20c</b>	Other information

# 2009 Partnership Return of Income

# 565

For calendar year 2009 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_.

Partnership name (type or print) _____		Check box if name changed <input type="checkbox"/>		<b>A</b> FEIN ●	
DBA _____		<b>B</b> Secretary of State (SOS) file number ●			
Address (suite, room, PO Box, and PMB no.) _____				<b>C</b> Principal business activity name (same as federal)	
City _____		State _____	ZIP Code _____		
<b>E</b> Check accounting method ● (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		<b>F</b> Date business started in CA ●	<b>G</b> Enter total assets at end of year. See instructions. ● \$ _____	<b>H</b> Check the applicable box ● (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> <b>FINAL RETURN</b> (3) <input type="checkbox"/> Amended return	<b>I</b> Principal business activity code (same as federal) ●

**Caution:** Include **only** trade or business income and expenses on line 1a through line 22 below. See the instructions for more information.

<b>Income</b>	<b>1 a</b> Gross receipts or sales \$ _____	<b>b</b> Less returns and allowances \$ _____	<b>c</b> Balance ●	<b>1c</b>	00
	<b>2</b> Cost of goods sold (Schedule A, line 8) . . . . .		●	<b>2</b>	00
	<b>3</b> GROSS PROFIT. Subtract line 2 from line 1c . . . . .		●	<b>3</b>	00
	<b>4</b> Total ordinary income from other partnerships and fiduciaries. Attach schedule . . . . .		●	<b>4</b>	00
	<b>5</b> Total ordinary loss from other partnerships and fiduciaries. Attach schedule . . . . .		●	<b>5</b>	00
	<b>6</b> Total farm profit. Attach federal Schedule F (Form 1040) . . . . .		●	<b>6</b>	00
	<b>7</b> Total farm loss. Attach federal Schedule F (Form 1040) . . . . .		●	<b>7</b>	00
	<b>8</b> Total gains included on Schedule D-1, Part II, line 17 ( <b>gain only</b> ) . . . . .		●	<b>8</b>	00
	<b>9</b> Total losses included on Schedule D-1, Part II, line 17 ( <b>loss only</b> ) . . . . .		●	<b>9</b>	00
	<b>10</b> Other income. Attach schedule . . . . .		●	<b>10</b>	00
	<b>11</b> Other loss. Attach schedule . . . . .		●	<b>11</b>	00
	<b>12</b> <b>Total income (loss).</b> Combine line 3 through line 11 . . . . .		●	<b>12</b>	00
<b>Deductions</b> <small>Enclose, but do not staple, any payment</small>	<b>13</b> Salaries and wages (other than to partners) . . . . .		●	<b>13</b>	00
	<b>14</b> Guaranteed payments to partners . . . . .		●	<b>14</b>	00
	<b>15</b> Bad debts . . . . .		●	<b>15</b>	00
	<b>16</b> Deductible interest expense not claimed elsewhere on return . . . . .		●	<b>16</b>	00
	<b>17 a</b> Depreciation and amortization. Attach form FTB 3885P \$ _____		●		
	<b>b</b> Less depreciation reported on Schedule A and elsewhere on return \$ _____		●	<b>17c</b>	00
	<b>18</b> Depletion. Do not deduct oil and gas depletion . . . . .		●	<b>18</b>	00
	<b>19</b> Retirement plans, etc. . . . .		●	<b>19</b>	00
	<b>20</b> Employee benefit programs . . . . .		●	<b>20</b>	00
	<b>21</b> Other deductions. Attach schedule . . . . .		●	<b>21</b>	00
<b>22</b> <b>Total deductions.</b> Add line 13 through line 21 . . . . .		●	<b>22</b>	00	
<b>23</b> Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12 . . . . .		●	<b>23</b>	00	
<b>Payments</b>	<b>24</b> <b>Tax — \$800.00 (LPs, LLPs, and REMICs only).</b> See instructions. . . . .		●	<b>24</b>	00
	<b>25</b> 2009 Resident/nonresident or real estate withholding. See instructions . . . . .	● <b>25</b>		00	
	<b>26</b> Amount paid with extension of time to file return (form FTB 3538) . . . . .	● <b>26</b>		00	
<b>27</b> <b>Total payments.</b> Add line 25 and line 26 . . . . .		●	<b>27</b>	00	
<b>Amount Due or Refund</b>	<b>28</b> Tax due. If line 24 is more than line 27, subtract line 27 from line 24 . . . . .		●	<b>28</b>	00
	<b>29</b> <b>Use Tax. This is not a total line.</b> See instructions. . . . .	● <b>29</b>		00	
	<b>30</b> <b>Refund.</b> If the total of line 24 and line 29 is less than line 27, subtract the total from line 27 . . . . .		●	<b>30</b>	00
	<b>31</b> Penalties and interest. . . . .		●	<b>31</b>	00
<b>32</b> <b>Total amount due.</b> Add line 24, line 29, and line 31, then subtract line 27 from the result. Make the check or money order payable to the Franchise Tax Board . . . . .		●	<b>32</b>	00	
<b>Sign Here</b>	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.			Telephone	
	Signature of general partner _____		Date _____	● ( )	
<b>Paid Preparer's Use Only</b>	Paid Preparer's signature _____	Date _____	Check if self-employed <input type="checkbox"/>	Paid Preparer's SSN/PTIN	
	Firm's name (or yours if self-employed) and address _____	Telephone		FEIN	
	● ( )		●		●
May the FTB discuss this return with the preparer shown above (see instructions)? . . . . . ● <input type="checkbox"/> Yes <input type="checkbox"/> No					

**Schedule A Cost of Goods Sold**

<b>1</b> Inventory at beginning of year	<b>1</b>	00
<b>2</b> Purchases less cost of items withdrawn for personal use	<b>2</b>	00
<b>3</b> Cost of labor	<b>3</b>	00
<b>4</b> Additional IRC Section 263A costs. Attach schedule	<b>4</b>	00
<b>5</b> Other costs. Attach schedule	<b>5</b>	00
<b>6 Total.</b> Add line 1 through line 5	<b>6</b>	00
<b>7</b> Inventory at end of year	<b>7</b>	00
<b>8 Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on Side 1, line 2.	<b>8</b>	00

- 9 a** Check all methods used for valuing closing inventory:  
**(1)**  Cost **(2)**  Lower of cost or market as described in Treas. Reg. Section 1.471-4 **(3)**  Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) **(4)**  Other. Specify method used and attach explanation \_\_\_\_\_  
**b** Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970.   
**c** Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership?  Yes  No  
**d** Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation  Yes  No

- J** What type of entity is filing this return? Check one only:  
**● 1**  General partnership **● 2**  Limited partnership required to pay annual tax (is doing business in California, is registered with SOS, or is organized in California) **● 3**  Limited partnership, limited liability company (LLC), or other entity NOT required to pay annual tax (is not doing business in California, is not registered with SOS, and is not organized in California) **● 4**  REMIC **● 5**  Limited liability partnership **● 6**  Other (See instructions)

	K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner)	
	Yes	No
<b>L</b> Is any partner of the partnership related (as defined in IRC Section 267(c)(4)) to any other partner?	<input type="checkbox"/>	<input type="checkbox"/>
<b>M</b> Is any partner of the partnership a trust for the benefit of any person related (as defined in IRC Section 267(c)(4)) to any other partner?	<input type="checkbox"/>	<input type="checkbox"/>
<b>N</b> Are any partners in this partnership also partnerships or LLCs?	<input type="checkbox"/>	<input type="checkbox"/>
<b>O</b> Does the partnership meet all the requirements shown in the instructions for Question O?	<input type="checkbox"/>	<input type="checkbox"/>
<b>P</b> Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Q</b> Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754	<input type="checkbox"/>	<input type="checkbox"/>
<b>R</b> Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)?	<input type="checkbox"/>	<input type="checkbox"/>
<b>S</b> Is this partnership under audit by the IRS or has it been audited in a prior year?	<input type="checkbox"/>	<input type="checkbox"/>
<b>T (1)</b> For this taxable year, was there a change in control or majority ownership for this partnership (or any legal entity in which it holds a controlling or majority interest) that owned or (under certain circumstances) leased real property in California?	<input type="checkbox"/>	<input type="checkbox"/>
<b>(2)</b> For this taxable year, did this partnership (or any legal entity in which it holds a controlling or majority interest) acquire control or majority ownership of any other legal entity that owned or (under certain circumstances) leased real property in California?	<input type="checkbox"/>	<input type="checkbox"/>
<b>(3)</b> If this partnership (or any legal entity in which it holds a controlling or majority interest) owned or (under certain circumstances) leased real property in California, has more than 50 percent of the partnership's interest cumulatively transferred in one or more transactions since March 1, 1975, which was not reported on a previous year's tax return?	<input type="checkbox"/>	<input type="checkbox"/>
<b>U (1)</b> Does the partnership have any foreign (non U.S.) nonresident partners?	<input type="checkbox"/>	<input type="checkbox"/>
<b>(2)</b> Does the partnership have any domestic (non-foreign) nonresident partners?	<input type="checkbox"/>	<input type="checkbox"/>
<b>(3)</b> Were Form 592, Form 592-A, Form 592-B, and Form 592-F filed for these partners?	<input type="checkbox"/>	<input type="checkbox"/>
<b>V</b> Is this an investment partnership? See General Information, Investment Partnerships, in the instructions.	<input type="checkbox"/>	<input type="checkbox"/>
<b>W</b> Is the partnership apportioning income to California using Schedule R?	<input type="checkbox"/>	<input type="checkbox"/>
<b>X</b> Has the partnership included a Reportable Transaction or Listed Transaction within this return? (See instructions for definitions.) If "Yes," complete and attach federal Form 8886 for each transaction	<input type="checkbox"/>	<input type="checkbox"/>
<b>Y</b> Did this partnership file the Federal Schedule M-3 (Form 1065)?	<input type="checkbox"/>	<input type="checkbox"/>
<b>Z</b> Is this partnership a direct owner of an entity that filed a federal Schedule M-3?	<input type="checkbox"/>	<input type="checkbox"/>
<b>AA</b> Does this partnership have a beneficial interest in a trust or is it a grantor of a trust? Attach name, address, and FEIN.	<input type="checkbox"/>	<input type="checkbox"/>
<b>BB</b> Does this partnership own an interest in a business entity disregarded for tax purposes? Attach schedule of disregarded entity names and identification numbers.	<input type="checkbox"/>	<input type="checkbox"/>
<b>CC</b> During the year did this partnership defer any income from the disposition of assets?	<input type="checkbox"/>	<input type="checkbox"/>
<b>DD (1)</b> Did this partnership generate a New Jobs Credit?	<input type="checkbox"/>	<input type="checkbox"/>
<b>(2)</b> If "Yes," enter the generated amount		.00
<b>EE (1)</b> Did this partnership or an entity in which this partnership has an ownership interest elect to defer income from the discharge of indebtedness as described in IRC 108(i) for Federal purposes?	<input type="checkbox"/>	<input type="checkbox"/>
<b>(2)</b> If "Yes" enter the portion of the discharge of indebtedness attributable to the partnership		.00



**Schedule K Partners' Shares of Income, Deductions, Credits, etc.**

		(a) Distributive share items	(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law			
Income (Loss)	1	Ordinary income (loss) from trade or business activities . . . . .	1 ●					
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825. . . . .	2					
	3 a	Gross income (loss) from other rental activities. . . . .	3a					
	b	Less expenses. Attach schedule . . . . .	3b					
	c	Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●			
	4	Guaranteed payments to partners . . . . .	4		●			
	5	Interest income . . . . .	5		●			
	6	Dividends . . . . .	6		●			
	7	Royalties . . . . .	7		●			
	8	Net short-term capital gain (loss). Attach Schedule D (565) . . . . .	8		●			
	9	Net long-term capital gain (loss). Attach Schedule D (565) . . . . .	9		●			
Deductions	10 a	Total Gain under IRC Section 1231 (other than due to casualty or theft) . . .	10a		●			
	b	Total Loss under IRC Section 1231 (other than due to casualty or theft) . . .	10b		●			
	11 a	Other portfolio income (loss). Attach schedule . . . . .	11a					
	b	Total other income. Attach schedule . . . . .	11b					
	c	Total other loss. Attach schedule . . . . .	11c					
	12	Expense deduction for recovery property (IRC Section 179 and R&TC Sections 17267.2, 17267.6, and 17268). Attach schedule . . . . .	12					
Credits	13 a	Charitable contributions. See instructions. Attach schedule. . . . .	13a					
	b	Investment interest expense . . . . .	13b		●			
	c 1	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule . . . . .	13c1					
	2	Type of expenditures _____	13c2					
	d	Deductions related to portfolio income . . . . .	13d					
Alternative Minimum Tax (AMT) Items	13 e	Other deductions. Attach schedule . . . . .	13e					
	15 a	Withholding on partnership allocated to all partners. . . . .	15a					
	b	Low-income housing credit . . . . .	15b					
	c	Credits other than the credit shown on line 15b related to rental real estate activities . . . . .	15c					
	d	Credits related to other rental activities. . . . .	15d					
	e	Nonconsenting nonresident members' tax allocated to all partners . . . . .	15e					
	f	Other credits . . . . .	15f		●			
Other Information	g	New Jobs Credit . . . . .	15g					
	17 a	Depreciation adjustment on property placed in service after 1986 . . . . .	17a					
	b	Adjusted gain or loss . . . . .	17b					
	c	Depletion (other than oil and gas) . . . . .	17c					
	d	Gross income from oil, gas, and geothermal properties . . . . .	17d					
	e	Deductions allocable to oil, gas, and geothermal properties . . . . .	17e					
Analysis	f	Other alternative minimum tax items . . . . .	17f					
	18 a	Tax-exempt interest income . . . . .	18a					
	b	Other tax-exempt income . . . . .	18b		●			
Analysis	c	Nondeductible expenses . . . . .	18c					
	19 a	Distributions of money (cash and marketable securities) . . . . .	19a					
	b	Distribution of property other than money . . . . .	19b					
Analysis	20 a	Investment income . . . . .	20a					
	b	Investment expenses . . . . .	20b					
	c	Other information. See instructions . . . . .	20c					
Analysis	21 a	Total distributive income/payment items. Combine lines 1, 2, and 3c through 11c. From the result, subtract the sum of lines 12 through 13e. . . . .	21a		●			
	b	Analysis by type of partner:	(a)	(b) Individual	(c)	(d)	(e)	
			Corporate	i. Active	ii. Passive	Partnership	Exempt Organization	Nominee/Other
			(1) General partners					
(2) Limited partners								

**Schedule L Balance Sheets.** See the instructions for Question O before completing Schedules L, M-1, and M-2.

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other 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				●
14 <b>Total assets</b>				
<b>Liabilities and Capital</b>				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 <b>Total liabilities and capital</b>				

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return.** Use total amount under California law. If the partnership completed federal Schedule M-3 (Form 1065), see instructions.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 11c. Itemize:	
2 Income included on Schedule K, line 1 through line 11c, not recorded on books this year. Itemize: ●		a Tax-exempt interest . . . . . \$ _____	
3 Guaranteed payments (other than health insurance) . . . . . ●		b Other . . . . . \$ _____	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 13e. Itemize:		c Total. Add line 6a and line 6b . . . . . ●	
a Depreciation . . . . . \$ _____		7 Deductions included on Schedule K, line 1 through line 13e, not charged against book income this year. Itemize:	
b Travel and entertainment . . . . . \$ _____		a Depreciation . . . . . \$ _____	
c Limited partnership tax . . . . . \$ _____		b Other . . . . . \$ _____	
d Other . . . . . \$ _____		c Total. Add line 7a and line 7b . . . . . ●	
e Total. Add line 4a through 4d . . . . . ●		8 Total. Add line 6c and line 7c . . . . .	
5 Total of line 1 through line 4e . . . . .		9 Income (loss) (Schedule K, line 21a). Subtract line 8 from line 5 . . . . .	

**Schedule M-2 Analysis of Partners' Capital Accounts**

1 Balance at beginning of year		5 Total of line 1 through line 4 . . . . .	
2 Capital contributed during year:		6 Distributions: a Cash . . . . . ●	
a Cash . . . . . ●		b Property . . . . . ●	
b Property . . . . . ●		7 Other decreases. Itemize . . . . .	
3 Net income (loss) per books . . . . .		. . . . . ●	
4 Other increases. Itemize . . . . . ●		8 Total of line 6 and line 7 . . . . .	
. . . . .		9 Balance at end of year. Subtract line 8 from line 5 . . . . .	
. . . . . ●			

2009 Partner's Share of Income, Deductions, Credits, etc.

K-1 (565)

For calendar year 2009 or fiscal year beginning month day year, and ending month day year.

Partner's identifying number, Partnership's FEIN, Secretary of State file number, Partner's name, address, city, state, and ZIP Code.

A Is this partner a general or limited partner? B What type of entity is this partner? C Is this partner a foreign partner? D Enter partner's percentage of special allocations. E Partner's share of liabilities. F Reportable transaction or tax shelter registration number(s). G (1) Check here if this is a publicly traded partnership... (2) Check here if this is an investment partnership... H Check here if this is: (1) A final Schedule K-1 (565) (2) An amended Schedule K-1 (565). I Is this partner a nonresident of California?

J Analysis of partner's capital account: Check the box (1) Tax Basis (2) GAAP (3) Section 704(b) Book (4) Other (explain). Table with columns (a) Capital account at beginning of year, (b) Capital contributed during year, (c) Partner's share of line 3, line 4, and line 7, Form 565, Schedule M-2, (d) Withdrawals and distributions, (e) Capital account at end of year.

Caution: Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your California return.

Table with 5 columns: (a) Distributive share items, (b) Amounts from federal Schedule K-1 (1065), (c) California adjustments, (d) Total amounts using California law. Combine col. (b) and col. (c), (e) California source amounts and credits. Rows include Ordinary income, Net income from rental real estate, Net income from other rental, Guaranteed payments, Interest income, Dividends, Royalties, Net short-term capital gain, Net long-term capital gain, Total Gain under IRC Section 1231, Total Loss under IRC Section 1231, Other portfolio income, Total other income, Total other loss.

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine col. (b) and col. (c)	(e) California source amounts and credits
Deductions	12 Expense deduction for recovery property (IRC Section 179 and R&TC Sections 17267.2, 17267.6 and 17268) . . . . .				
	13 a Charitable contributions . . . . .				
	b Investment interest expense . . . . .				
	c 1 Total expenditures to which an IRC Section 59(e) election may apply				
	2 Type of expenditures _____				
	d Deductions related to portfolio income . . . . .				
	e Other deductions. Attach schedule . . . . .				
	Credits	15 a Total withholding (equals amount on Form 592-B if calendar year partnership) . . . . .			●
b Low-income housing credit . . . . .					
c Credits other than line 15b related to rental real estate activities. . . . .					
d Credits related to other rental activities. . . . .					
e Nonconsenting nonresident partner's tax paid by partnership. . . . .					
f Other credits – Attach required schedules or statements . . . . .					
g New jobs credit					
Alternative Minimum Tax (AMT) Items		17 a Depreciation adjustment on property placed in service after 1986 . . . . .			
	b Adjusted gain or loss . . . . .				
	c Depletion (other than oil & gas) . . . . .				
	d Gross income from oil, gas, and geothermal properties. . . . .				
	e Deductions allocable to oil, gas, and geothermal properties. . . . .				
	f Other alternative minimum tax items . . . . .				
	Tax-Exempt Income and Nondeductible Expenses	18 a Tax-exempt interest income . . . . .			
b Other tax-exempt income . . . . .					
c Nondeductible expenses . . . . .					
Distributions	19 a Distributions of money (cash and marketable securities). . . . .				
	b Distributions of property other than money . . . . .				
Other Information	20 a Investment income . . . . .				
	b Investment expenses . . . . .				
	c Other information. See instructions . . . . .				



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**Other Partner Information****Table 1** — Partner's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the partners):

Interest \$ \_\_\_\_\_ Sec. 1231 Gains/Losses \$ \_\_\_\_\_ Capital Gains/Losses \$ \_\_\_\_\_  
Dividends \$ \_\_\_\_\_ Royalties \$ \_\_\_\_\_ Other \$ \_\_\_\_\_

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FOR USE BY APPORTIONING UNITARY PARTNERS ONLY – See instructions.

**Table 2** — Partner's share of distributive items.

- A. Partner's share of the partnership's business income. See instructions. \$ \_\_\_\_\_  
B. Partner's share of nonbusiness income from real and tangible personal property sourced or allocable to California.

Capital Gains/Losses \$ \_\_\_\_\_ Rents/Royalties \$ \_\_\_\_\_  
Sec. 1231 Gains/Losses \$ \_\_\_\_\_ Other \$ \_\_\_\_\_

- C. Partner's distributive share of the partnership's property, payroll, and sales:

<b>Factors</b>	<b>Total within and outside California</b>	<b>Total within California</b>
Property: Beginning	\$ _____	\$ _____
Ending	\$ _____	\$ _____
Annual rent expense	\$ _____	\$ _____
Payroll	\$ _____	\$ _____
Sales	\$ _____	\$ _____

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2009 Capital Gain or Loss

D (565)

Name as shown on return FEIN Secretary of State (SOS) file no.

Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less (use additional sheets if necessary)

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Sales price, (e) Cost or other basis, (f) Gain loss.

- 1 Enter line 1, column (f) totals here
2 Short-term capital gain from installment sales, from form FTB 3805E, line 26 or line 37
3 Partnership's share of net short-term capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations
4 Net short-term capital gain (loss). Add line 1, line 2, and line 3. Enter total here and on Schedule K, line 8 or line 11.

Part II Long-Term Capital Gains and Losses - Assets Held More Than One Year (use additional sheets if necessary)

Table with 6 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Sales price, (e) Cost or other basis, (f) Gain loss.

- 5 Enter line 5, column (f) totals here
6 Long-term capital gain from installment sales, from form FTB 3805E, line 26 or line 37
7 Partnership's share of net long-term capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations
8 Capital gain distributions
9 Net long-term capital gain (loss). Add line 5, line 6, line 7, and line 8. Enter total here and on Schedule K, line 9 or line 11

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available.

Internet Access

You can download, view, and print California tax forms and publications at ftb.ca.gov.

Access other state agencies' websites through the State Agencies Directory on California's website at ca.gov.

Purpose

Use Schedule D (565), Capital Gain or Loss, to report the sale or exchange of capital assets, by the partnership, except capital gains (losses) that are specially allocated to any partners. Do not use this form

to report the sale of business property. For sales of business properties, use California Schedule D-1, Sale of Business Property.

Enter specially allocated short-term capital gains (losses) received from limited liability companies (LLCs) classified as partnerships, partnerships, S corporations, and fiduciaries on Schedule D (565), line 3. Enter specially allocated long-term capital gains (losses) received from LLCs classified as partnerships, partnerships, S corporations, and fiduciaries on Schedule D (565), line 7.

Nonresident and Part-Year Resident Partners, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

With the enactment of AB 1115 (Stats. 2001, Ch 920) capital loss carryover and capital loss limitations for nonresident partners and part-year resident partners, for the portion of the year they were nonresidents, are determined based upon California source income and loss items only for the computation of their California taxable income.

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California law conforms to federal law for the recognition of gain on a constructive sale of property in which the partnership held an appreciated interest.

**Qualified Small Business Stock**

R&TC Section 18152.5 is similar to IRC Section 1202 regarding the exclusion of 50% of the gain on the sale of qualifying small business stock originally issued after August 10, 1993, that was held for more than five years. However, for California purposes, at least 80% of the issuing corporation's payroll must be attributable to employment located within California, and at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.

R&TC Section 18038.5 also provides for the deferral of gain from the sale of small business stock that has been held for six months or more, if qualified replacement stock is purchased within 60 days after the sale giving rise to the gain. Report gain deferred from the sale of qualified small business stock in accordance with the instructions contained in Revenue Procedure 98-48.

The partnership also must separately state the amount of the gain that qualifies for the 50% exclusion under R&TC Section 18152.5 on Schedule K, line 11. Each partner must determine if he or she qualifies for the gain at the partner level.



2009 Depreciation and Amortization

3885P

Name as shown on return FEIN

Secretary of State (SOS) file no.

Table with columns: (a) Description of property, (b) Date placed in service, (c) Cost or other basis, (d) Method of figuring depreciation, (e) Life or rate, (f) Depreciation for this year, (g) Code section, (h) Period or percentage, (i) Amortization to this year.

1 Enter line 1, column (f) and column (i) totals here 1

Depreciation

Be sure to make adjustments for any basis differences when calculating Depreciation.

- 2 California depreciation for assets placed in service before January 1, 2009 2
3 Total California depreciation. Add line 1(f) and line 2 3

Amortization

Be sure to make adjustments for any basis differences when calculating Amortization.

- 4 California amortization for intangibles placed in service before January 1, 2009 4
5 Total California amortization. Add line 1(i) and line 4 5
6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 17a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities 6
7 IRC Section 179 expense election from worksheet, in the instructions, line 12 7
8 Carryover of disallowed deduction to 2010. From worksheet, in the instructions, line 13. 8

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to ftp.ca.gov and search for conformity. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Internet Access

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Access other state agencies' websites through the State Agencies Directory on California's website at ca.gov.

A Purpose

Use form FTB 3885P, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 565, Partnership Return of Income. Attach form FTB 3885P to Form 565.

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is an amount deducted to recover the cost of certain capital expenses over a fixed period.

In general, California conforms to federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Federal/State Calculation Differences

California law has not always conformed to federal law with regard to depreciation methods, special credits, or accelerated write-offs. Consequently, the recovery periods and the basis on which the depreciation is calculated may be different from the amounts used for federal purposes. Reportable differences may occur if all or part of your assets were placed in service:

- Before January 1, 1987: California disallowed depreciation under the federal Accelerated Cost Recovery System (ACRS). Continue to calculate California depreciation in the same manner as in prior years for those assets.
• On or after January 1, 1987: California provides special credits and accelerated write-offs that affect the California basis for qualifying assets. California does not conform to all the changes to federal law enacted in 1993. Therefore, the California basis or recovery periods may be different for some assets.

California law does not conform to the federal law for the:

- The 50% bonus depreciation deduction [IRC Section 168(k)] for assets acquired and placed in service during 2008 or 2009, and during 2010 for certain qualifying property.
• The enhanced IRC Section 179 expensing election for assets acquired and placed in service in taxable years beginning after December 31, 2007, and before January 1, 2010.

- Additional first-year depreciation of certain qualified property placed in service after October 3, 2008, and the election to claim additional research and minimum tax credits in lieu of claiming the bonus depreciation.
- Accelerated recovery period for depreciation of smart meters and smart grid systems.

Additional differences may occur for the following:

- **Luxury Automobile Depreciation:** California generally conforms to the federal 2003 increase (IRC Section 280F) for the limitation on luxury automobile depreciation. In addition, SUVs and minivans built on a truck chassis are included in the definition of trucks and vans when applying the 6,000 pound gross weight limit.
- **Amortization of Certain Intangibles** (IRC Section 197): Property classified as Section 197 property under federal law is also Section 197 property for California purposes. There is no separate California election required or allowed. However, for Section 197 property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period.
- **Qualified Indian reservation property:** California has not conformed to the accelerated recovery periods available under the Alternative Depreciation System (ADS) for such property.
- **Grapevines subject to Phylloxera or Pierce's Disease:** For California purposes, replacement grapevines may be depreciated using a recovery period of five years instead of ten years.

This list is not intended to be all-inclusive of the federal and state differences. For additional information, please refer to California's R&TC.

## Specific Line Instructions

### Line 1 – California depreciation for assets placed in service after December 31, 2008, and amortization for intangibles placed in service after December 31, 2008

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 2008. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

### Line 2 – California depreciation for assets placed in service before January 1, 2009

Enter total California depreciation for assets placed in service prior to January 1, 2009, taking into account any differences in asset basis or differences in California and federal tax law.

### Line 4 – California amortization for intangibles placed in service before January 1, 2009

Enter total California amortization for intangibles placed in service prior to January 1, 2009, taking into account any differences in asset basis or differences in California and federal tax law.

### Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

### Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, Side 1, line 17a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the partnership should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., for purposes of passive activity reporting requirements. **Use California amounts** to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

### Line 7

Enter the IRC Section 179 expense election amount from line 12 of the following worksheet.

These limitations apply to the partnership and each partner.

## Election to Expense Certain Tangible Property (IRC Section 179) Worksheet

Follow the instructions on federal Form 4562, Depreciation and Amortization, for listed property.

1	Maximum dollar limitation	1	\$ 25,000
2	Total cost of IRC Section 179 property placed in service during the taxable year	2	
3	Threshold cost of IRC Section 179 property placed in service during the taxable year	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for taxable year. Subtract line 4 from line 1. If zero or less, enter -0-	5	

(a)	(b)	(c)
Description of property	Cost	Elected cost
<b>6</b>		

7	Listed property. Use federal Form 4562, Part V, line 29. Make any adjustments for California law and basis differences	7	
8	Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 2008. See instructions for line 10 through line 13 on federal Form 4562	10	
11	Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership, other than credits, tax-exempt IRC Section 179 expense deduction, and guaranteed payments under IRC Section 707(c)	11	
12	IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (565), line 12 and on form FTB 3885P, line 7	12	
13	Carryover of disallowed deduction to 2010. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P	13	

# Instructions for Form FTB 3538

## Payment for Automatic Extension for LPs, LLPs, and REMICs

### General Information

California does not require the filing of written extensions. If a partnership cannot file Form 565, Partnership Return of Income, by the return's due date, the partnership is granted an automatic six-month extension.

If the tax return is filed by the 15th day of the 10th month following the close of the taxable year (fiscal year) or by October 15, 2010 (calendar year), the extension will apply.

However, an extension of time to file the limited partnership (LP), limited liability partnership (LLP), or real estate mortgage investment conduit (REMIC) return is **not** an extension of time to **pay** the \$800 annual tax.

Only use form FTB 3538, Payment for Automatic Extension for LPs, LLPs, and REMICs, if both of the following apply:

- The LP, LLP, or REMIC cannot file Form 565 by the due date
- Tax is owed for 2009

If tax is not owed, there is nothing to file at this time. **Do not** complete or mail this form.

If tax is owed or you are paying the \$800 annual tax, complete the form below. Mail the payment form along with the check or money order to the Franchise Tax Board (FTB) by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 2010 (calendar year), to avoid a late payment penalty.

**Round Cents to Dollars** – Round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25.

### How to Complete Form FTB 3538

Enter all the information requested using blue or black ink. To ensure the timely and proper application of this payment to the partnership's account, enter the federal employer identification number (FEIN) and the California Secretary of State (SOS) file number (assigned upon registration with the SOS).

### Private Mail Box

Include the Private Mail Box (PMB) in the address field. Write "PMB" first, then the box number. Example: 111 Main Street PMB 123.

### Where to File

Make check or money order payable to the "Franchise Tax Board." Write the FEIN or SOS file number and "2009 FTB 3538" on the check or money order. Detach the payment form from the bottom of this page. Enclose, but **do not** staple, your payment to the form and mail to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0651

Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution.

**If no payment is due, do not mail this form.**

### Penalties and Interest

An extension of time to file a return is **not** an extension of time to **pay** the tax. If the entity fails to pay its tax liability by the original due date, the entity will incur a late payment penalty plus interest. To avoid late payment penalties and interest, the tax liability must be paid by the 15th day of the 4th month, following the close of the taxable year.

### Internet Access

You can download, view, and print California tax forms and publications at [ftb.ca.gov](http://ftb.ca.gov).

Access other state agencies' websites through the State Agencies Directory on California's website at [ca.gov](http://ca.gov).

✂ DETACH HERE \_\_\_\_\_ IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM \_\_\_\_\_ DETACH HERE ✂  
Fiscal year: File and Pay by the 15th day of the 4th month following the close of the taxable year.  
Calendar year: File and pay by APRIL 15, 2010.

TAXABLE YEAR **2009** **Payment for Automatic Extension** CALIFORNIA FORM  
**for LPs, LLPs, and REMICs** **3538 (565)**

For calendar year 2009 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____.		
LP, LLP, or REMIC name	FEIN	
DBA	Secretary of State (SOS) file number	
Address (suite, room, PO Box or PMB no.)		
City	State	ZIP Code
Contact Telephone no. ( ) _____	Amount of payment	

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**Visit our website:**

**[ftb.ca.gov](http://ftb.ca.gov)**



# Partner's Instructions for Schedule K-1 (565)

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 2005, and to the California Revenue and Taxation Code (R&TC).

## What's New

**New Jobs Tax Credit** – For taxable years beginning on or after January 1, 2009, a new jobs tax credit against the tax will be allowed for a qualified employer in the amount of \$3,000 for each qualified full-time employee hired during the taxable year that increases the employer's number of full-time employees over the previous year. This is determined on an annual full-time equivalent basis. Any credits not used in the taxable year may be carried forward up to eight years. For more information get form FTB 3527, New Jobs Credit, or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **new jobs**.

**Farmworker Housing Credit** – For taxable years beginning on or after January 1, 2009, the farmworker housing credit has been consolidated into the low-income housing tax credit. For more information, get form FTB 3521, Low-Income Housing Credit.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015. Currently there is no funding available to award or claim credits for the period from July 1, 2008, to December 31, 2009. However, carryover is not affected for previously awarded credits.

## General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of an asset for which an IRC Section 179 expense was claimed in a prior year by a partnership, limited liability company (LLC) or S corporation.

Partners should follow federal reporting requirements as detailed in federal Form 1065, U.S. Return of Partnership Income, and federal Form 4797, Sale of Business Property instructions.

**Revised Schedule K-1** – The California Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line items were revised to be in a similar format with the federal Schedule K-1 (1065), Partner's Share of Income, Deductions, Credits, etc. For more information, get the Schedule K Federal/State Line References chart included in the Form 565, Partnership Tax Booklet.

**Round Cents To Dollars** – Round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25.

## A Purpose

The partnership uses Schedule K-1 (565) to report your distributive share of the partnership's income, deductions, credits, etc. Keep the Schedule K-1 (565) for your records. Information from the Schedule K-1 (565) should be used to complete your California return. However, do not file the schedule with your California return. The partnership has filed a copy with the Franchise Tax Board (FTB).

**As a partner of the partnership, you are subject to tax on your distributive share of the partnership income, whether or not distributed.**

The amount of loss and deduction you are allowed to claim on your California return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity loss and credit rules. It is

the partner's responsibility to consider and apply any applicable limitations. See Specific Instructions, Loss Limitations.

You should also read the federal Schedule K-1 (1065) instructions before completing your California return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications:

- Publication 541, Partnerships
- Publication 535, Business Expenses

Any information returns required for federal purposes under IRC Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to your California return when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

## Internet Access

You can download, view, and print California tax forms and publications at [ftb.ca.gov](http://ftb.ca.gov).

Access other state agencies' websites through the State Agencies Directory on California's website at [ca.gov](http://ca.gov).

## B Definitions

### General Partner

An individual or entity owning interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

### Limited Partner

An individual or entity owning an interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

### Nonrecourse Loans

Liabilities of the partnership for which none of the partners have assumed any personal liability.

### Qualified Nonrecourse Financing

Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government, or borrowed from a "qualified person."

### California Business Situs

The place at which intangible personal property is employed as capital in California or the possession and control of the property is localized in connection with a business in California so that its substantial use and value attach to and become an asset of the business in California.

### Apportionment

The process by which business income from a trade or business conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the property (including rent), payroll, and sales factors of the apportioning trade or business.

### Unitary

A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For more information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

### Election

The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to compute taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California return and not by the partnership. These elections are made under the following IRC Sections, to which the R&TC conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness)
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred)

## Additional Definitions

For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, or the instructions for federal Form 1065, U.S. Return of Partnership Income.

## C Reporting Information from Columns (d) and (e)

If the partnership derives income from activities conducted both within and outside California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss.

Nonresident, corporate, and other entity partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Cal. Code Regs., tit. 18 sections 17951 and 25137-1 for more information. Also see General Information, Unitary Partners. Nonresident, corporate, and other entity partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d), and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information get Form 540, Schedule S, Other State Tax Credit.

Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the "No" box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

### Inconsistent Treatment of Items

Generally, partners must report tax items shown on their Schedule K-1s and any attached schedules, the same way the partnership treated the items on its tax return. If the treatment on a partner's original or amended tax return is inconsistent with the partnership's treatment, or if the partnership has not filed a tax return, the partner must attach a statement with its original or amended tax return to identify and explain any inconsistency or to note that a partnership tax return has not been filed. If a partner is required to attach this statement but fails to do so, the partner may be subject to an accuracy related penalty.

## D Income Not from a Trade Or Business of the Partnership (Nonbusiness Income)

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that nonbusiness intangible income will be determined at the partner level. However, nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

The source of income from all nonbusiness intangibles will depend on whether the partner is required to apportion its income and whether the partner is a corporation. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the partner.

However, for individuals, estates, and trusts that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Cal. Code Regs., tit. 18 section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is an apportioning taxpayer or a corporation, Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 require that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1. The partner must determine the source of such income by applying the rules described above.

## E Unitary Partners

The following rules apply to corporations, individuals and other entities that conduct a trade or business that is unitary with the partnership's trade or business (see Cal. Code Regs., tit. 18 section 17951, incorporating the provisions of section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described in the following instructions, and in the Specific Line Instructions.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or, that is includible in the partner's business income subject to apportionment is made in accordance with Cal. Code Regs., tit. 18 section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

## Distributive Items of Business Income

### Apportionment of Business Income – Unitary Business

If the partnership's activities and the partner's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors with the factors of the partner for any partnership year ending within the partner's tax accounting period. Combined business income is then apportioned by using a 3- or 4-factor formula consisting of the combined property, payroll, and a single or double-weighted sales factor. Use of a 3-factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are more than 50% from agricultural, extractive, banking, or savings and loans and other financial business activities.

If you are a partner that is unitary with the partnership, use Table 2 to compute your factors, applying the rules shown below (see Cal. Code Regs., tit. 18 section 25137-1 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. Compute property, payroll, and sales factors by combining your share of the partnership's factors from Table 2, Part C, with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

### 1. Unitary Partner's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Cal. Code Regs., tit. 18 sections 25129, 25130 and 25131. Also apply the following special rules:

- A. Include in the denominator of your property factor your distributive share of the partnership's beginning and ending balances of real and tangible personal property owned (if rented, multiply net annual rents paid, by 8) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of your property factor the value of such property that is described in 1A (above) that is located in California. See Table 2, Part C.
- C. See Cal. Code Regs., tit. 18 section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

## 2. Unitary Partner's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Cal. Code Regs., tit. 18 sections 25132 and 25133. Apply the following special rules:

- A. Include in the denominator of your payroll factor your distributive share of the partnership's payroll used to produce business income. See Table 2, Part C.
- B. Include in the numerator any such payroll described in 2A that is applicable to California. See Table 2, Part C.

## 3. Unitary Partner's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with Cal. Code Regs., tit. 18 sections 25134 to 25136. Apply the following special rules:

- A. Include in the denominator of the sales factor your distributive share of the partnership's sales that give rise to business income. See Table 2, Part C.
- B. Include in the numerator of your sales factor the amount of such sales described in 3A (on the previous page) attributable to California.
- C. Eliminate intercompany sales as one of the following:
  - Sales by the partner to the partnership to the extent of the partner's interest in the partnership.
  - Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales. See Cal. Code Regs., tit. 18 section 25137-1(f)(3).

## Distributive Items of Nonbusiness Income for a Unitary Partner

Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Unitary members must make certain to separately include such items from Table 1 and 2 as California source income. Unitary members shall use Table 1 and 2 to report nonbusiness income instead of Schedule K-1 (568), column (e).

## Specific Instructions

### Questions and Items

The partnership completes the questions and items on the Schedule K-1 (565) for all partners. Partners should follow federal reporting requirements as detailed in the instructions for federal Form 1065, and federal Form 4797.

### Schedule K-1 (565)

**Important Note to Partners:** If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk, and the passive activity loss limitations before such losses/deductions can be deducted on your California return. See Specific Instructions, Loss Limitations, below. Also, see IRC Section 705(a) for information on how to compute basis.

If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), California adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D (540), California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this

Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. See the instructions for federal Schedule K-1 (1065) for more information.

## Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income or loss from the partnership's business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses before you may deduct losses on your tax return. These limitations and the order in which they must be applied are:

- Basis limitations (IRC Section 704)
- At-risk limitations (IRC Section 465)
- Passive activity loss and credit limitations (IRC Section 469)

Each of these limitations is discussed separately in the following instructions.

Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

### Basis Rules

Generally, California tax law conforms to federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provide you with an analysis of the changes to your capital account on your Schedule K-1 (565), Item J, that information is based on the partnership's books and records and should not be used to compute your basis.

You can compute the basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis may include the following:

- Money and the adjusted basis of property you contributed to the partnership.
- Your distributive share of the partnership's income.
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis, but not below zero, may include the following:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the liabilities of the partnership (and/or your individual liabilities assumed by the partnership).

This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the basis of your partnership interest.

### At-Risk Rules

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as IRC Section 179, R&TC Sections 17267.2, 17267.6, and 17268 deduction) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

See the instructions for federal Schedule K-1 (1065), At-Risk Limitations, and federal Publication 925, Passive Activity and At-Risk Rules, for more information.

### Passive Activity Loss and Credit Rules

IRC Section 469 limits the deduction of certain losses and credits. California law generally conforms to this federal provision. These rules apply to partners who have a passive activity loss or credit for the taxable year.



For California purposes, the passive loss limitations apply to:

1. Individuals
2. Estates
3. Trusts (other than grantor trusts)
4. Closely held corporations
5. S Corporations

Even though the passive loss rules do not apply to grantor trusts, partnerships, and limited liability companies, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates and trusts, and S corporations must complete form FTB 3801 to calculate the allowable passive losses, and form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 15f are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3, and line 15b are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply separately to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, partners who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold, IRC Section 469(k). See the instructions for form FTB 3801 and form FTB 3802 for the rules to calculate and report income, gains, and losses from passive activities that you held through each PTP you owned during the taxable year.

See the instructions for federal Schedule K-1 (1065), Passive Activity Limitations, and federal Publication 925 for more information.

## Investment Partnership Income

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&TC Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an investment partnership if the income from the qualifying investment securities is interrelated with either of the following:

- Any other business activity of the nonresident partner.
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

If you are a corporate partner, the amounts in column (e) will also generally not be taxable in California provided the income from the partnership is the corporation's only California source income. However, if the corporation does either of the following:

- Participates in the management of the investment activities of the partnership or is engaged in a unitary business with another corporation or partnership that participates in the management of the investment activities of the partnership
- Has income attributable to sources within California other than income from the investment partnership

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&TC Section 23040.1 for more information.

## Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

**G(1)** – If this box is checked, the partnership is a PTP as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains, and losses from PTPs.

**G(2)** – If this box is checked, the partnership is an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California. See Specific Line Instructions, Credits, for more information.

**Note to Nonresident Partners:** The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

## Income (Loss)

### Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where this amount is reported depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their California returns is a function of the partnership's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 for more information. In addition, see General Information, Unitary Partners.

### Line 2 – Net Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. If you have an amount on Schedule K-1 (565), line 2, column (c), report the California adjustment on Schedule CA (540 or 540NR), line 17, column B or column C, whichever is applicable.

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special \$25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

See the federal Schedule K-1 (1065) Specific Instructions for box 2, item 1, and item 2 for more information.

Report any California adjustment amount from column (c) on Schedule CA (540 or 540NR) if you are a qualified investor reporting a qualified low-income housing project loss.

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

### Line 3 – Net Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.



#### Line 4 – Guaranteed Payments to Partners

Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 4, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable. If this is a passive activity for the partner, then the partner must also complete the passive activity form. Use federal Form 8582, Passive Activity Loss Limitations, for federal purposes and form FTB 3801 for California purposes.

#### Portfolio Income – Line 5 through Line 11a

Portfolio income (loss) referred to as “portfolio” income (loss) in these instructions, is generally not subject to the passive activity limitation rules of IRC Section 469. Portfolio income includes interest, dividend, royalty income and gain or loss on the sale of property held for investment. Generally, amounts reported on line 8, line 9, and line 11a are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). However, if an amount reported on line 8, line 9, or line 11a, column (d), is a passive activity amount, the partnership should identify the amount.

#### Line 5 – Interest Income

If you have an amount on Schedule K-1 (565) line 5, column (c), report this amount on Schedule CA (540 or 540NR), line 8, column B or column C, whichever is applicable.

#### Line 6 – Dividends

If you have an amount on Schedule K-1 (565) line 6, column (c), report this amount on Schedule CA (540 or 540NR), line 9, column B or column C, whichever is applicable.

#### Line 7 – Royalties

If you have an amount on Schedule K-1 (565), line 7, column (c), report this amount on Schedule CA (540 or 540NR), line 17, column B or column C, whichever is applicable.

#### Line 8 and Line 9 – Net Short-term and Net Long-term Capital Gain (Loss)

If you have an amount on Schedule K-1 (565), line 8 or line 9, column (d), report this amount on the Schedule D (540 or 540NR), line 2.

#### Line 10a and Line 10b – Total Gain and Total Loss under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amounts on line 10a and line 10b relate to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amounts on line 10a and line 10b relate to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount report it on Schedule D-1, line 2, column (g).
- If a gain is reported on line 10a, column (d), and it is a passive activity amount report the gain on Schedule D-1, line 2, column (g).
- If a loss is reported on line 10b, column (d), and it is a passive activity amount, see form FTB 3801 to determine if your loss is limited.

#### Line 11a – Other Portfolio Income (Loss)

The partnership uses line 11a, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 11a, column (d). An example of portfolio income that could be reported on line 11a, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of “excess inclusion” and your share of IRC Section 212 expenses. If you itemize your deductions on federal Schedule A (1040), Itemized Deductions, you may deduct these IRC Section 212 expenses as a miscellaneous deduction.

#### Line 11b and Line 11c – Total Other Income and Total Other Loss

Amounts reported on these lines are other items of income (loss) not included on line 1 through line 11a. The partnership should give you a description for each of these items.

Use the instructions below to:

- Report income or gain (not losses) from passive activities.
- Report income, gain, or losses from all other passive activities.

If you have losses from passive activities, or a combination of income, gains, and losses from passive activities, you must first complete form FTB 3801 or form FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 11b and line 11c items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.
- Gains and losses from wagering, IRC Section 165(d). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.
- Any income, gain, or loss to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10.
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10.
- Net gain or loss from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 38, column (b)(i), column (b)(ii), and column (c).
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5 and issued after August 10, 1993). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedule K (565) and Schedule K-1 (565). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 11b and line 11c, column (c).

#### Deductions

##### Line 12 – Expense Deduction for Recovery Property

For California the maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is \$25,000. The \$25,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

Federal limitation amounts are different than California limitation amounts.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. Get form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, and Publication 946, How To Depreciate Property, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 12, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.

Refer to R&TC Sections 17267.2, 17267.6, and 17268 on how to figure the expense deduction for recovery property in an economic development area.

##### Line 13a – Charitable Contributions

The partnership will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040, U.S. Individual Income Tax Return, and federal Publication 526, Charitable Contributions, for more information.

California has not conformed to any of the provisions of the Katrina Emergency Disaster Relief Act of 2005.

If there is an amount on Schedule K-1 (565), line 13a, column (c), enter this amount on Schedule CA (540 or 540NR), line 41.

##### Line 13b – Investment Interest Expense

If the partnership paid or accrued interest debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

#### **Line 13c – IRC Section 59(e) Expenditures**

If you have an amount on Schedule K-1 (565) line 13c, see the instructions for the federal Schedule K-1 (1065), box 13. The partnership should give you a description and the amount of your share for each item applicable to this category.

#### **Line 13d – Deductions Related to Portfolio Income**

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 13d, column (c), enter this amount on Schedule CA (540 or 540NR), line 41. If any of the line 13d amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify these amounts.

#### **Line 13e – Other Deductions**

Amounts on this line are deductions not included on lines 12, 13a, and 13d. If there is an amount on Schedule K-1 (565), line 13e, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

See the instructions for federal Schedule K-1 (1065), box 13, for examples of other deductions. Also, get FTB Pub. 1001 for differences between federal and California tax law for certain deductions.

#### **Line 14**

The information reported in box 14 of the federal Schedule K-1(1065), does not apply to California and therefore there is no line 14.

### **Credits**

If you have credits that are passive activity credits, complete form FTB 3801-CR (use form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

#### **Line 15a – Total Withholding**

Total Withholding is the sum of your distributive share of taxes withheld from payments to the partnership by another entity (allocated to all partners according to their respective partnership interests) plus taxes withheld-at-source on you as a domestic or foreign nonresident partner. If there is a pass-through withholding credit from another entity or taxes were withheld on you by the partnership, the partnership must provide a completed Form 592-B, Resident and Nonresident Withholding Tax Statement. Attach Form 592-B to the front of your California return to claim the amount withheld. Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 15a may not match the amount on Form 592-B because of the difference in accounting periods. The amount shown on Form 592-B should be claimed on one of the following:

- Form 540, California Resident Income Tax Return, line 73.
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return (Long Form), line 82.
- Form 541, California Fiduciary Income Tax Return, line 31.
- Form 109, California Exempt Organization Business Income Tax Return, line 17.
- Form 100, California Corporation Franchise or Income Tax Return, line 34.
- Form 100S, California S Corporation Franchise or Income Tax Return, line 33.

Get Pub. 1017, Resident and Nonresident Withholding Guidelines, for more information.

#### **Line 15b – Farmworker/Low-Income Housing Credit**

For taxable years beginning on or after January 1, 2009, the farmworker housing credit has been consolidated into the low-income housing tax credit. For more information, get form FTB 3521.

Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the Tax Reform Act of 1986.

#### **Line 15c – Other Credits Related to Rental Real Estate Activities**

The information you need to compute credits related to rental real estate activities other than the low-income housing credit is provided on this line with an attached schedule. These credits may be limited due to passive activity limitation rules.

#### **Line 15d – Credits Related to Other Rental Activities**

Any information you need to compute credits related to rental activities other than rental real estate activities is provided on this line. These credits may be limited due to passive activity limitation rules.

#### **Line 15e – Nonconsenting Nonresident Member's Tax Paid by LLC on Behalf of Your Partnership.**

This line shows any income tax paid on your partnership's behalf by an LLC if the general partner in the partnership did not sign form FTB 3832, Limited Liability Company Nonresident Members' Consent, consenting to California's jurisdiction to tax the partnership's distributive share of the LLC income attributable to California sources.

You must attach a copy of the Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., previously issued to your partnership by the LLC and the Schedule K-1 (565) issued to you by your partnership.

#### **Line 15f – Other Credits**

This line is used to report information you need to compute pass-through credits and other items that are not includable on line 15a through line 15d but are related to the trade or business activity. The partnership should provide a schedule and/or statement explaining any items.

Credits that may be reported on line 15f (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Environmental Tax Credit. Get form FTB 3511.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring and Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credit. Get form FTB 3809.

The passive activity limitations of IRC Section 469 may limit the amount of credits on line 15b, line 15c, line 15d, and line 15f. Line 15b, line 15c, and line 15d credits are related to the rental activities of the partnership. Line 15f credits are related to the trade or business activities of the partnership. In general, passive activity credits from passive activities are limited to tax attributable to passive activities for California purposes (R&TC Section 17561). Credits that may be limited under the passive activity credit rules include the following:

- Research credit
- Low-income housing credit

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. See form FTB 3801-CR for more information.

The partnership can include on line 15f your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Form 540, Schedule S for more information.

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**Line 15g – New Jobs Credit**

The new jobs credit is not subject to the 50% business tax credit limitation. For more information, get form FTB 3527.

**Line 16**

The information reported in box 16 of the federal Schedule K-1 (1065), does not apply to California and therefore there is no line 16.

**Alternative Minimum Tax (AMT) Items****Line 17a through Line 17f column (d)**

Use the information reported on line 17a through line 17f, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations. For more information, see the instructions for federal Schedule K-1 (1065), Alternative minimum tax (AMT) items box 17.

**Tax-Exempt Income and Nondeductible expenses****Line 18a through Line 18c – Tax-exempt Income and Nondeductible Expenses**

See the instructions for federal Schedule K-1 (1065), box 18. The partnership should give you a description and the amount of your share for each item applicable to California in this category.

**Distributions****Line 19a and Line 19b – Distributions**

See the instructions for federal Schedule K-1 (1065), box 19.

**Other Information****Line 20a and Line 20b – Investment Income and Investment Expenses**

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, and federal Publication 550.

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

The amounts shown on line 20a and line 20b include only investment income and expenses included on lines 5, 6, 7, 11, and 13d of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 20a and line 20b to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

**Line 20c – Other Information**

For credit recaptures attach a schedule that includes the credit recapture, names, and amounts.

The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits from an EZ, LARZ, LAMBRA, MEA, or TTA it will give you the business income and business capital gains and losses apportioned to the EZ, LARZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit.

The partnership may have provided a schedule with amounts showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income. A "qualified taxpayer" means a taxpayer that meets both of the following:

- Is the owner of, or has an ownership interest in a trade or business.
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, limited liability company (LLC), S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this partnership to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of the following:

- The gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns.
- The proportional interest of pass-through entities gross receipts in which the taxpayer holds an interest. "Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section, "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&TC Section 17062 for more information.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on Schedule K-1 (565) as other information. Follow the instructions on the federal Form 4797 and federal Schedule K-1 (1065) for the reporting requirements.

Get FTB Pub. 1001 for a listing of items of nonconformity for individuals.

**Other Partner Information****Table 1 – Partner's Share of Nonbusiness Income from Intangibles (source of income is dependent on residence or commercial domicile of the partners)**

Generally, nonbusiness interest and dividends are sourced to the state of residence for nonapportioning individuals. Nonapportioning means doing business entirely within California. For more information regarding the sourcing of intangibles, see R&TC Section 17952.

For apportioning partners, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California.

For more information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 25126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (565). For more information, see General Information, Income Not from a Trade or Business of the Partnership (Nonbusiness Income), and General Information, Unitary Partners.

**Table 2 – Partner's Share of Distributive Items**

The final determination of unity is made at the partner level.

If the partner and the partnership are engaged in a single unitary business or if the partnership is uncertain as to whether it is unitary with the partner, the partnership will furnish the information in Table 2.

The partner's share of the partnership's business income is entered on Table 2, Item A. The partner then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Item B reflects the partner's share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information on sourcing intangibles, see R&TC Sections 25124 and 25125, and Cal. Code Regs., tit. 18 sections 17951-1, 17951-2, and 17951-3.

The partner's share of the partnership's property, payroll, and sales factors is in Table 2, Item C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For more information see General Information, Income Not from a Trade or Business of the Partnership (Nonbusiness Income), and General Information, Unitary Partners.

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# Form 565

## Codes for Principal Business Activity

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 partnership derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales plus all other income. If the partnership purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the partnership 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 565, Question C. Enter a description of the principal product or service of the partnership on the next line. Finally, for the business entity code number, enter the six digit code selection from the list below.

### Agriculture, Forestry, Fishing, and Hunting

Code	Description
<b>Crop Production</b>	
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)
<b>Animal Production</b>	
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	Aquaculture (including shellfish & finfish farms & hatcheries)
112900	Other Animal Production
<b>Forestry and Logging</b>	
113110	Timber Tract Operations
113210	Forest Nurseries & Gathering of Forest Products
113310	Logging
<b>Fishing, Hunting and Trapping</b>	
114110	Fishing
114210	Hunting & Trapping
<b>Support Activities for Agriculture and Forestry</b>	
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
212390	Minerals Mining & Quarrying
213110	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
221500	Combination Gas & Electric

### Construction

Code	Description
<b>Construction of Buildings</b>	
236110	Residential Building Construction
236200	Nonresidential Building Construction
<b>Heavy and Civil Engineering Construction</b>	
237100	Utility System Construction
237210	Land Subdivision
237310	Highway, Street, & Bridge Construction
237990	Other Heavy & Civil Engineering Construction
<b>Specialty Trade Contractors</b>	
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

<b>Food Manufacturing</b>	
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)
<b>Beverage and Tobacco Product Manufacturing</b>	
312110	Soft Drink & Ice Mfg
312120	Breweries
312130	Wineries
312140	Distilleries
312200	Tobacco Manufacturing
<b>Textile Mills and Textile Product Mills</b>	
313000	Textile Mills
314000	Textile Product Mills
<b>Apparel Manufacturing</b>	
315100	Apparel Knitting Mills

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
<b>Leather and Allied Product Manufacturing</b>	
316110	Leather & Hide Tanning & Finishing
316210	Footwear Mfg (including rubber & plastics)
316990	Other Leather & Allied Product Mfg
<b>Wood Product Manufacturing</b>	
321110	Sawmills & Wood Preservation
321210	Veneer, Plywood, & Engineered Wood Product Mfg
321900	Other Wood Product Mfg
<b>Paper Manufacturing</b>	
322100	Pulp, Paper, & Paperboard Mills
322200	Converted Paper Product Mfg
<b>Printing and Related Support Activities</b>	
323100	Printing & Related Support Activities
<b>Petroleum and Coal Products Manufacturing</b>	
324110	Petroleum Refineries (including integrated)
324120	Asphalt Paving, Roofing, & Saturated Materials Mfg
324190	Other Petroleum & Coal Products Mfg
<b>Chemical Manufacturing</b>	
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
<b>Plastics and Rubber Products Manufacturing</b>	
326100	Plastics Product Mfg
326200	Rubber Product Mfg
<b>Nonmetallic Mineral Product Manufacturing</b>	
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
<b>Primary Metal Manufacturing</b>	
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
<b>Fabricated Metal Product Manufacturing</b>	
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

332810	Coating, Engraving, Heat Treating, & Allied Activities
332900	Other Fabricated Metal Product Mfg
<b>Machinery Manufacturing</b>	
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
<b>Computer and Electronic Product Manufacturing</b>	
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
<b>Electrical Equipment, Appliance, and Component Manufacturing</b>	
335100	Electric Lighting Equipment Mfg
335200	Household Appliance Mfg
335310	Electrical Equipment Mfg
335900	Other Electrical Equipment & Component Mfg
<b>Transportation Equipment Manufacturing</b>	
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
<b>Furniture and Related Product Manufacturing</b>	
337000	Furniture & Related Product Manufacturing
<b>Miscellaneous Manufacturing</b>	
339110	Medical Equipment & Supplies Mfg
339900	Other Miscellaneous Manufacturing
<b>Wholesale Trade</b>	
<b>Merchant Wholesalers, Durable Goods</b>	
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**

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 (except Internet)**

511110 Newspaper Publishers

511120 Periodical Publishers

511130 Book Publishers

511140 Directory Mailing List 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

**Telecommunications**

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

**Data Processing Services**

518210 Data Processing, Hosting, & Related Services

**Other Information Services**

519100 Other Information Services (including news syndicates & libraries, internet publishing & broadcasting)

**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, check clearing & money transmitting)

**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 (including third-party administration of insurance and pension funds)

**Funds, Trusts, and Other Financial Vehicles**

525100 Insurance & Employee Benefit Funds

525910 Open-End Investment Funds (Form 1120-RIC)

525920 Trusts, Estates, & Agency Accounts

525990 Other Financial Vehicles (including mortgage REITS & closed-end investments funds)

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

**Real Estate and Rental and Leasing**

**Real Estate**

531110 Lessors of Residential Buildings & Dwellings (including equity REITS)

531114 Cooperative Housing (including equity REITS)

531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITS)

531130 Lessors of Miniwarehouses & Self-Storage Units (including equity REITS)

531190 Lessors of Other Real Estate Property (including equity REITS)

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)

Code

**Professional, Scientific, and Technical Services**

**Legal Services**

- 541110 Offices of Lawyers
- 541190 Other Legal Services

**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

Code

- 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)

- 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

Code

**Home Health Care Services**

- 621610 Home Health Care Services

**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, & Similar Organizations (including condominium and homeowners associations)

# How to Get California Tax Information

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## Automated Telephone Service

Use our automated service to get recorded answers to many of your questions about California taxes and to order current year California business entity tax forms and publications. This service is available in English and Spanish to callers with touch-tone telephones. Have paper and pencil ready to take notes.

Telephone: 800.338.0505 from within the United States  
916.845.6600 from outside the United States

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## General Telephone Service

Telephone assistance is available year-round from 8 a.m. until 5 p.m. Monday through Friday, except holidays. Hours subject to change.

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 impairment

IRS: 800.829.4933 call the IRS for federal tax questions

### Asistencia bilingüe en español:

Asistencia telefónica está disponible todo el año durante las 8 a.m. y las 5 p.m. lunes a viernes, except días festivos. Las horas están sujetas a cambios.

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

IRS: 800.829.4933 llame al IRS para preguntas sobre impuestos federales

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## Letters

If you write to us, be sure your letter includes your federal employer identification number (FEIN), SOS file number, your daytime and evening telephone numbers, and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0640

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. **Do not** attach your letter to your California return.

## Where to Get Tax Forms and Publications

**By Internet** – You can download, view, and print California tax forms and publications at [ftb.ca.gov](http://ftb.ca.gov).

Our California Tax Service Center website offers California business tax information and forms for the BOE, EDD, FTB, and IRS at [taxes.ca.gov](http://taxes.ca.gov).

You can also download, view, and print federal forms and publications from the IRS at [irs.gov](http://irs.gov).

**By phone** – Call our automated toll-free phone number, listed on this page, and follow the recorded instructions.

**By mail** – Allow two weeks to receive your order. If you live outside California, allow three weeks to receive your order. Write to:

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

**In person** – Many post offices and libraries provide free California tax booklets during the filing season.

Employees at libraries and post offices cannot provide tax information or assistance.

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## Your Rights As A Taxpayer

The FTB's goals include making certain that your rights are protected so that you 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 request written advice from the FTB on whether a particular transaction is taxable. See "Where To Get Income Tax Forms and Publications," on this page. To request FTB Pub. 4058 by phone, enter code 943.

