

Sales and Use Tax: *Simplifying Taxes for Your Business* presented by the Board of Equalization



About this Presentation

The contents of these slides do not constitute written advice from the Board of Equalization (BOE) under Revenue and Taxation Code, Section 6596.

This presentation is designed to illustrate general tax concepts, and does not address every situation. The BOE can provide written advice for all transactions, including unique and particular situations.

Requests for written advice can be emailed to the BOE at www.boe.ca.gov/info/email.html or mailed directly to the BOE field office nearest you.

Presentation Objectives

- Sales and use tax: What's taxable?
- Responsibilities as a seller in California
- How your business can avoid problems
- Where to find BOE resources and services

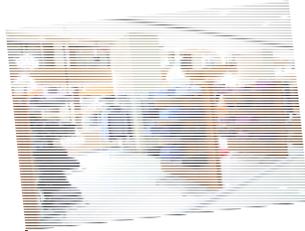
Sales

What exactly is a sale?



Tangible Personal Property (TPP)

TPP



Non-TPP



These examples are not meant to be all inclusive

Seller's Permit

- Allows businesses to make sales of tangible personal property in California
- Posted at each place of business

DISPLAY CONSPICUOUSLY AT PLACE OF BUSINESS FOR WHICH ISSUED

CALIFORNIA STATE BOARD OF EQUALIZATION

SELLER'S PERMIT

ACCOUNT NUMBER
09/07/2015 SR KH 900-000642

HELLO GOODBYE
700 H ST
SACRAMENTO, CA 95814-1216



NOTICE TO PERMITTEE:
You are required to obey all Federal and State laws that regulate or control your business. This permit does not allow you to do otherwise.

IS HEREBY AUTHORIZED PURSUANT TO SALES AND USE TAX LAW TO ENGAGE IN THE BUSINESS OF SELLING TANGIBLE PERSONAL PROPERTY AT THE ABOVE LOCATION. THIS PERMIT IS VALID ONLY AT THE ABOVE ADDRESS.

THIS PERMIT IS VALID UNTIL REVOKED OR CANCELED AND IS NOT TRANSFERABLE. IF YOU SELL YOUR BUSINESS OR DROP OUT OF A PARTNERSHIP, NOTIFY US OR YOU COULD BE RESPONSIBLE FOR SALES AND USE TAXES OWED BY THE NEW OPERATOR OF THE BUSINESS.

Not valid at any other address.

For general tax questions, please call our Customer Service Center at 1-800-400-7115 (TTY:711).
For information on your rights, contact the Taxpayers' Rights Advocate office at 1-888-324-2798 or 1-916-324-2798.

BOE-442-R REV. 16 (11-14)

Sales Tax

All sales are taxable unless specifically exempt by law.

- Definition
- Responsibilities



Common Sales Tax Exemptions and Deductions

- Sales for resale
- Non taxable sales of food products
- Labor (repair and installation)
- Sales to the U.S. Government
- Sales in interstate and foreign commerce
- Sales tax included in gross receipts

Sales for Resale

Resale Certificate

California Resale Certificate

1. Seller's name:

2. Seller's address:

3. Buyer's name:

4. Buyer's address:

5. Description of goods to be purchased for resale:

6. Buyer's use:

Food Products

Non Taxable

Taxable

- Groceries

- Restaurants



Labor

Non Taxable

- Repair
- Installation



Taxable

- Fabrication
- Assembly



Sales to the U.S. Government

Non Taxable

- Federal agencies

Taxable

- Local and state agencies



Sales in Interstate and Foreign Commerce



- The sale occurs outside of California and the use occurs outside of California

Sales Tax Included in Gross Receipts



Use Tax

- Definition
- Items removed from inventory (Use)
- Purchases from out of state retailers



- Online purchases
- Catalog sales

Sales and Use Tax Rate

The screenshot shows the California State Board of Equalization website. The search results for the address 5901 Green Valley Circle, Culver City, CA 90230, show a sales and use tax rate of 9.5% for Culver City. The website also displays a map of the area and provides information about the tax rate and how to find it.

CA.GOV California State Board of Equalization Find a Sales and Use Tax Rate

Search by: Address My Location

Enter an address below:

Street: 5901 Green Valley Circle
City: Culver City
State: California
Zip: 90230

Search

Type an address above and click "Search" to find the sales and use tax rate for that location. All fields required.

The tax rate displayed is for the address shown below. Please review the results to ensure that the address shown below is the location that you intended. Also, be aware that tax rates, as well as city and county boundary lines, are subject to change. The rate displayed on the screen is based upon the search results, and is the rate in effect today.

Results:

5901 Green Valley Circle,
Culver City, CA 90230

Sales & Use Tax Rate (1/19/2016):

9.5%
Tax Area(s)
CULVER CITY

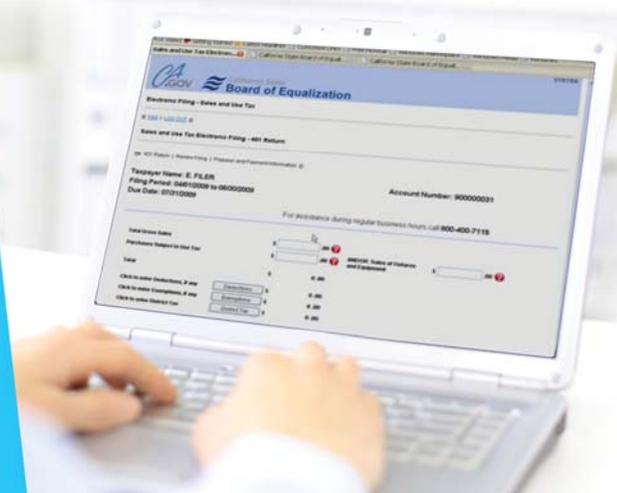
Please ensure the address information you input is what you intended. The tax rate here will reflect the current tax for the address that you entered.

For more information about tax rates, visit our [California City & County Sales & Use Tax Rates website](#). | Contact us at [800-405-2000](#) | [Privacy Policy](#) | Last updated: 10/16/2014

ix(es)
% -
%

Taxpayer Responsibilities

Filing sales and use tax returns



Reporting basis

Avoiding:

- Interest
- Penalties
- Collection fees



Additional Licenses and Accounts Required by the BOE

- Cigarette license
- eWaste
- Tire fee
- Underground storage tank



Account Maintenance

Report changes:

- Ownership
- Location
- Mail and email address
- Closing your business

Recordkeeping

BOE Requirements



Resources and Services

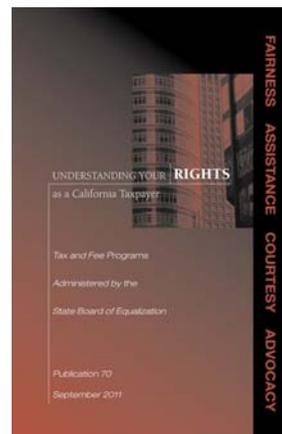
Call Center: (800) 400-7115
Open Monday - Friday, 8:00 a.m. – 5:00 p.m.

A collage of screenshots from the California State Board of Equalization (BOE) website. The screenshots show various sections including 'Languages', 'News & Events', and 'Tax'. Below the screenshots are social media icons for Facebook, YouTube, Twitter, LinkedIn, a mobile phone icon, and RSS.

Taxpayers' Rights Advocate

(888) 324-2798

If you are unable to resolve a disagreement with the BOE and you would like to know more about your rights under the law.



**The BOE wishes you success
in your business venture!**



Healthy Employees – Addressing workforce policies

**Focus on Paid Family Leave in California and
California's new Paid Sick Day Law**

About Small Business Majority



- **Small business education and advocacy organization** – founded and run by small business owners. Been in business since 2005.
- **National** – 14 offices in Washington, D.C., California, Colorado, Illinois, Maryland, Michigan, Missouri, New Jersey, New York, Ohio, Oregon, Virginia and Washington state
- **Focus on issues of top importance to small businesses** (<100 employees) and the self-employed, including access to capital, workforce, healthcare, retirement, taxes, technology and energy savings.
- Work supported by extensive **research**

What is California's Paid Family Medical Leave Program?



- Established by legislation passed in 2002
- A program that provides up to six weeks of wage replacement benefits to workers in cases of:
 - Bonding with a new child
 - Taking care of family member (child, spouse, parent or domestic partner) with serious illness
- Administered by the State Disability Insurance program
- Applies to all CA employers



How does the PFL program work?



- Paid Family Leave (PFL) is a component of the State Disability Insurance (SDI) program and workers covered by SDI are also covered for this benefit.
- Wage replacement benefits under PFL are paid for by employee contributions to the SDI program. The employee contribution appears as a withheld tax on the employee's paycheck.
- No more than six weeks of PFL benefits may be paid within any 12-month period.

What's the difference between PFL program and other family leave laws?



	CA Paid Family Leave	Family & Medical Leave Act	CA Family Rights Act
Employer size	All employers	50+ employees	50+ employees
Provides job protection	No	Yes	Yes
Length of leave	Up to 6 weeks	Up to 12 weeks	Up to 12 weeks
Provides paid leave	Yes	No	No
Additional requirements	Must file claim with Employment Development Department	Must have worked at least one year and 1,250 hours in the year prior to taking leave	Must have worked at least one year and 1,250 hours in the year prior to taking leave

Employer obligations



- Very few obligations for small employers
- Employers deduct PFL contributions from employees' wages in the same way they do now for the State Disability Insurance program.
- Must display notice to employees
- Must provide information on the program to new hires and again when the employee notifies the employer they need to take time off from work to care for a seriously ill family member or to bond with a new child.



Benefits to small business



- PFL program is funded **entirely through worker contributions** to the State Disability Insurance program.
- Since employers **do not have to pay** a worker's salary while on leave, many small businesses that cannot afford to offer paid leave to their employees can offer the benefit through the PFL program.
- This helps small businesses **compete for the best employees**, and gives employers **peace of mind** that they are doing what's best for their workers.



What are earned paid sick days?



- Earned paid sick days allow employees to take time off from work to address their health or a family member's illness without losing a paycheck.
- Earned paid sick days can help promote a healthy workforce and community.



New CA paid sick days law



- Established by the Healthy Workplace Healthy Family Act of 2014
- **Accruals started on July 1, 2015**



How does the law work?



- Beginning July 1, employees in California who work 30 or more days within a year from the beginning of employment are entitled to paid sick leave.
- Employees, including part-time and temporary employees, will earn at least one hour of paid leave for every 30 hours worked.
- Paid at employees' current rate of pay.



How does the law work?



- **Accrual:** Unused, accrued paid sick leave must be carried over to the following year and may be capped at 48 hours, based on employer policy.
- **Usage:** An employer can limit the usage to 24 hours or 3 days per year
- For small employers already offering paid sick days as part of a paid time off (PTO) policy:
 - Employers may offer more time and usage provided in paid sick leave provision but not less.
 - PTO policy must be in writing.
 - PTO plans will be found compliant if they provide the same amount of leave as outlined in the paid sick leave provision.

How does the law work?



- Employers are not required to pay out accrued, unused paid sick days at the time of termination, resignation or retirement.
- If employer already has a PTO plan that offers paid sick days, a final payout of PTO is due at separation.
- If an employee is re-hired within one year, previously accrued and unused paid sick days shall be reinstated.



How does the law work?



- **Up Front Method:**
 - An employer may front load 24 hours of sick leave on the date of hire and replenish this leave annually.
- **Accrual Method:**
 - All employees accrue sick leave at the rate of one hour for every 30 hours worked.
- Both methods require the employer to track employee usage and provide notification of available sick leave.

Using paid sick days



- An employee may use accrued paid sick days beginning on the **90th day of employment**.
- An employee may **request paid sick days in writing or verbally**. An employee cannot be required to find a replacement as a condition for using paid sick days.
- An employee can take paid leave for employee's own or a family member for the diagnosis, care or treatment of an **existing health condition** or **preventive care** or for specified purposes for an employee who is a victim of domestic violence, sexual assault or stalking.

Employer responsibilities



- Display poster on paid sick leave law.
- Document policy and share with staff.
- Provide written notice to employee at time of hire.
- Provide one hour of sick leave for 30 hours of work for each eligible employee.
- Allow employees to use accrued sick leave upon reasonable request.
- Show how many hours of sick leave an employee has accrued on their pay stubs or a document issued the same day as their paycheck.
- Keep records showing how many hours have been earned and used for three years.

What effects will paid sick days have on small businesses?



- Some bookkeeping and administrative changes
- No impact on businesses already providing basic sick day protections
- Levels the playing field by making it a universal practice
- Helps small employers reduce employee turnover and increase productivity



Resources



- Small Business Majority FAQ on California's paid family leave program:
<http://www.smallbusinessmajority.org/small-business-resources/workforce/california-family-leave-program.php>
- For more information on the state's paid sick days requirements: <http://www.dir.ca.gov/DLSE/ab1522.html>
- For more information on PFL: www.edd.ca.gov

Join our network



Contact

- **Mark Herbert, Project Manager, Outreach Manager**
 - Email: xpena@smallbusinessmajority.org
 - Direct: 818-470-0377

Connect with us!



@SmIBizMajority



Small Business Majority

Ways to Get Involved:

- Receive a monthly newsletter
- Share your story for media requests
- Letters to the editor/Op-eds
- State events/Roundtables
- Fly-ins
- Webinars for business organizations

Employee or Independent Contractor

Employment Development Department
Taxpayer Education and Assistance Program



Objectives

- Common misconceptions
- Employees or independent contractors
- Statutory and exempt employment
- Resources to help classify workers

Common Misconceptions

When is an individual an employee?

There are several common misconceptions which often lead to misclassifying workers as independent contractors.

Resource:

Independent Contractor Misconceptions (DE 573M)

Reasons to Properly Classify Workers

- Avoid reclassification audits and investigations by the EDD, IRS, and/or Department of Industrial Relations due to:
 - Worker claims – unemployment/injury.
 - Worker informants.
 - Competitor informants.
- Prevent additional taxes, penalties, and interest.

Misclassification Example

One worker, earning \$20,000 for one year	Employer misclassifies worker as independent contractor.	Employer correctly classifies worker as employee.
UI (3.4 percent)* *New employer rate	\$238	\$238
ETT (0.1 percent)	\$7	\$7
SDI (0.9 percent)	\$180	(withheld from employee)
PIT (6.0 percent)	\$1,200	withheld from employee)
Total due for one year	\$1,625** **Plus penalty and interest	\$245

Types of Workers

- Employees
 - Common Law
 - Statutory
 - Exempt
- Independent Contractors

Resource:

Information Sheet: Employment (DE 231)

Common Law Guidelines

- **Common Law Employee:**
 - An individual who performs services for you and is subject to your control regarding what will be done **and** how it will be done.
- **Independent Contractor:**
 - An individual who performs services for you **but** you control only the result of the work.

Common Law Employment

- Common law evolved slowly over the years based on court decisions on individual cases.
- Common law rules of employment are the total of all court decisions on employment.

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Common Law Primary Factor

- The right of the principal to control the manner and means of accomplishing a desired result.
- The right to discharge a worker at will and without cause is strong evidence of right to control.

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Weighing the Factors

The importance or weight given each factor will vary, depending on the specific work situation, industry, and occupation.



Examining and Categorizing the Factors

FACTORS	EMPLOYEE	INDEPENDENT CONTRACTOR
Distinct trade or occupation	No separately established business	
Supervision		Own methods
Skill level		Own expertise
Tools and place of work	Business provides	
Length of time	Continuous	
Method of payment	Guaranteed payment	
Regular part of business	Vital to business	
Belief of parties		Independent contractor
Extent of actual control		Worker sets schedule
Services benefit principal	Benefits owner's business	
Profit or loss	No investment or financial risk	

Statutory Employees

Employee by law under a specific statute.

Examples include, but not limited to:

- ✓ Corporate officers
- ✓ Unlicensed contractors
- ✓ Certain Limited Liability Company (LLC) members

Resources:

- *Information Sheet: Statutory Employees (DE 231SE)*
- *Information Sheet: Limited Liability Entities (DE 231LLC)*

Exempt Employees

Certain employees are not subject to specific taxes or withholding provisions.

Examples include:

- ✓ Domestic workers
- ✓ Family members
- ✓ Direct sellers
- ✓ Real estate agents

Resource:

Information Sheet: Exempt Employment (DE 231EE)

Resources

- *Employment Determination Guide (DE 38)*
- *Determination of Employment Work Status for Purposes of State of California Employment Taxes and Personal Income Tax Withholding (DE 1870)*
- California Unemployment Insurance Appeals Board

www.cuiab.ca.gov/index.asp

Employee or Independent Contractor Course at:
www.edd.ca.gov/Payroll_Taxes/Web_Based_Seminars.htm

Resources (Continued)

- Payroll Tax Seminars
www.edd.ca.gov/Payroll_Tax_Seminars
- Taxpayer Assistance Center:
1-888-745-3886

State Electronic Filing and Payment



e-Services for Business

- Fast, easy, and secure way to manage your payroll taxes online.
- View and edit your returns or reports prior to submission.
- Available 24 hours a day, 7 days a week.

<https:eddservices.edd.ca.gov>

Thank You.

Questions?

The EDD, an equal opportunity employer/program, is a partner in this event. Auxiliary aids and services are available upon request to individuals with disabilities.

Recordkeeping for Small Business/Self Employed Individuals



Date

Agenda

- Necessity of books and records
- Definition of books and records
- Specific types of records needed
- Maintaining books and records



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Necessity of Books and Records

- Monitor the business's progress
- Prepare financial statements
- Keep track of deductible expenses



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Necessity of Books and Records

- Prepare tax returns
- Prepare for examination
- Business
 - Verify expenses
 - Proof of payment not enough



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Books and Records

- Records
- Tax purpose of a record
- Accounting entry
- Accounting book
- Income statement
- Balance sheet



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UETA Definition of Electronic Books and Records

Uniform Electronic Transaction Act defines electronic records that, by electronic means, are:

- Created
- Generated
- Sent
- Communicated
- Received, or
- Stored



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Electronic Documentation and the Audit Process

- Records generally accepted by the IRS
- Follow rules when providing electronic records to the IRS
- Revenue Procedure 98-25



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Record Types Needed Gross Receipts

- Cash register tapes
- Receipt book
- Sales
- Invoices
- Credit charge slips
- Forms 1099



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Record Types Needed Purchases and Expenses

- Amount paid
- Amount was for business purchases



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Record Types Needed (Cont'd)

Charitable Contributions, Travel, Transportation, Entertainment, Gifts

- Amount
- Each date
- Description
- Explanation of business benefit gained



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Record Types Required Employment Taxes

- Names
- Addresses and
- Taxpayer identification numbers for individuals
 - who work for you or
 - performs services and receives payment



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Record Types Needed - Assets

- Property used in business must be substantiated
- Maintaining records that show
 - When and how property acquired
 - Purchase price, and
 - Use of property



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Maintenance of Books and Records

- Use the method that works best
- Records should say:
 - what was received
 - from whom
 - for what reason
- Keep records timely



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Responsibility of Books and Records

- Taxpayer/business owner responsible for maintaining adequate books and records
- If paid preparer used, preparer's records needed also



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How Long to Keep Records

- Generally, three years from filing date to examine tax return
- Tax records must be kept at least until statute of limitations expires
- Certain tax returns much longer
- Keep source records (checks, receipts, and proof of business purpose) at least three years



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How Long to Keep Records (Cont'd)

- Until deduction no longer claimed
- Employment tax records, four years
- Assets, until sold or removed
- IRA contributions, permanently
- Broker statements, expiration of limitation period
- Improvements to residence, until sold
- Net operating losses, until statute of limitations expired on last tax return claiming a loss
- Follow state recordkeeping laws also



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IRS Resources

- Publication 15, Circular E - Employers Tax Guide
- Publication 463, Travel, Entertainment, Gift, and Car Expenses
- Publication 535, Business Expenses
- Publication 536, Net Operating Losses
- Publication 547, Casualties, Disasters and Thefts
- Publication 556, Examination of Returns, Appeal Rights & Claims



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IRS Resources

- Publication 594, The IRS Collection Process
- Publication 3498, The Examination Process
- Publication 5, Appeal Rights and Preparation of Protests for Unagreed Cases
- Circular 230, Regulations Governing the Practice of Attorneys, Certified Public Accountants, enrolled Agents, Enrolled Actuaries, and Appraisers before the Internal Revenue Service
- Publication 583, Starting a Business and Keeping Records



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IRS Resources (Cont'd.)

- Publication 225, Farmers Tax Guide
- Publication 1066-C, A Virtual Small Business Workshop CD
- Publication 2194, Disaster Losses Kit for Individuals
- Publication 2194B, Disaster Losses Kit for Businesses
- Publication 4758, Reconstructing Your Records
- Publication 4796, IRS Records at Your Fingertips
- Visit IRS.gov



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Tips for Small Business Success

Walter Stamps, EDS SBA

Valley Glen, CA

July 20, 2016



Keep Healthy

- Eat
- Exercise
- Stress
- Checkups
- Doctor

Know your numbers

- Get a competent accountant
- Understand your key ratios
- Know your break even point
- Be able to explain your numbers
- Have a regular “number session”



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Have a Team

- Accountant
- Banker
- Lawyer
- Insurance agent
- ADA specialist
- IT expert

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Planning

- The Business Plan
- Strategy sessions
- Your Exit Plan
- “What if?”



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Your Competition

- Know who they are
- What makes you special?
- Do you have a niche?
- Industry data

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Social Media

- What is the competition up to?
- Which forum(s) are best for your business
- Offer relevant useful content
- Constant barrages
- More visual
- Global leaders have embraced it
- Last three years – Facebook – and now....
- Evolution



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Prepare for the Unexpected

- 40 - 60% !
- Insurance Coverage
- Solid supply chain
- Alternate Location
- Not always an earthquake
- preparemybusiness.org/
- Ready.gov

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Your Voice

- Elevator pitch (20-30 seconds!)
- Your staff
- Reception/phones/First point of contact
- Would you do business with you?
- Public speaking



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Networking

- Business cards – options
- Networking events – have a plan
- Who do you know?
- Networking is constant
- Courtesies (names, follow up)
- YOU are your brand!



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Advisory Board

- Who
- Experience
- Number
- Avoid
- Pay
- Meetings
- Structure

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Passion

- It shows
- Necessary for success
- 40 vs. 80



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Take Advantage

- www.sba.gov
- RENI guide
- Resource partners
- Your local partners
- County, state

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Expectations

迎春接福

Greet the New Year and encounter happiness.

4/22/2014

www.sba.gov



SBA Los Angeles District Office

For more information on SBA's programs and services

Please contact:

Walter E. Stamps SBA

330 North Brand Blvd., Suite 1200

Glendale, CA 91203

Telephone: 818 552-3203

Email: walter.stamps@sba.gov

Or visit our office web site at www.sba.gov

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2015

Forms of Ownership



Presented by
Small Business Education and Outreach Section

2015



Sole Proprietorships



Sole Proprietorship Characteristics



<p>The simplest form of doing business.</p>	<p>No formal transfer of assets to start business.</p>	<p>Business' taxable year is the same as the owner's taxable year.</p>
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Sole Proprietorship Characteristics

The image shows a portion of the IRS Form 990 Schedule C, titled "Profit or Loss from Business (Sole Proprietorship)". The form includes sections for:

- Part I: Personal business, including product or service activities.
- Part II: Expenses for operations and activities.
- Part III: Income from operations.
- Part IV: Accounting method (Cash or Accrual).
- Part V: Depreciation and amortization.
- Part VI: Production or disposition of inventory.
- Part VII: Other income or expenses.
- Part VIII: Expenses for advertising or promotion.
- Part IX: Other expenses.
- Part X: Expenses for business use of your home.

- Sole proprietors use Schedule C to report the business' profit or loss on their Form 540 income tax returns whether distributed or not.
- Losses generally offset other income.
- Sole proprietor is not considered to be an employee of the business.

General Partnerships



Partnership Characteristics

Two or more persons carrying on a business for profit.

Flexible form of business and relatively easy to set up.



Partners decide the organization's structure and distribution of profits and losses.

A formal written agreement is advisable.

Partnership Characteristics

- Not a separate taxable entity.
- Partnership files informational return using Form 565.
- Partners report profit or loss on their individual Form 540 income tax returns whether distributed or not.
- Losses may be limited.

Most Commonly Used Legal Entities

Corporations

Limited
Liability
Companies

There are other less common legal entities types available. For more information see our publication FTB 1123, *Forms of Ownership*.



California Legal Entities

Formed by filing the appropriate documents or forms with the California Secretary of State.

Corporation

- Articles of Incorporation
- Various Forms
- Minimum Tax

Limited Liability
Company

- Articles of Organization
- Form LLC-1
- Annual Tax and Fee

Taxed annually until formally dissolved or cancelled.



2015



State of California
Franchise Tax Board

C Corporations



State of California
Franchise Tax Board

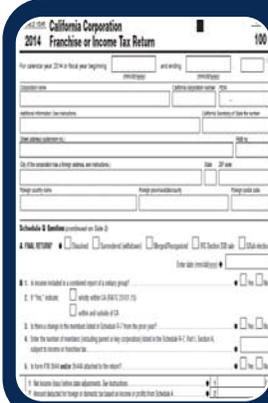
C Corporation Characteristics

A separate legal entity owned by shareholders.	Must register with SOS before conducting business.
Can be costly to set up and maintain.	Option of choosing an income year other than the calendar year.



State of California
Franchise Tax Board

C Corporation Characteristics

A thumbnail image of the California Corporation 2014 Franchise or Income Tax Return Form 100. The form includes fields for the taxpayer's name, address, and other identifying information. It also features a section for 'Schedule B Dividends' with checkboxes for 'Dividend', 'Dividend or interest', 'Dividend or interest', and 'Dividend or interest'. The form is numbered '100' in the top right corner.

- Files using Form 100.
- Taxed annually on its earnings at a rate of 8.84% on net income.
- Subject to \$800 minimum tax.
- Shareholders taxed on distributed dividends.

S Corporations



S Corporation Characteristics



A separate legal entity owned by shareholders.



Must register with SOS before conducting business.



Election is made for S corporation status.

S Corporation Characteristics



No more than 100 shareholders.



Only one class of stock.



Shareholder can only be individuals, estates, or certain trusts.

S Corporation Characteristics

The image shows a thumbnail of the California S Corporation Franchise or Income Tax Return Form 100S for the year 2014. The form includes fields for the taxpayer's name, address, and other identifying information. It also features checkboxes for various tax options and instructions for filing.

- A hybrid business entity.
- Files using Form 100S.
- State tax rate of 1.5% of net income. Not subject to federal tax.
- Subject to \$800 minimum tax.
- Shareholders report profit or loss on their individual Form 540 income tax returns whether distributed or not.

Limited Liability Companies (LLC)



LLC Characteristics



A separate legal entity owned by members.



Must register with SOS before conducting business.



A hybrid business entity.



Restriction may apply to professional services that require a license, certification, or registration.

LLC Characteristics



IRS corporation classification: follow corporation rules.



IRS partnership classification: follow partnership rules.



For California only. A single member classification: follow sole proprietor rules.

LLC Characteristics Single Member and Partnership

A screenshot of the California Form 568, Limited Liability Company Return of Income. The form is titled "2014 Limited Liability Company Return of Income" and "568". It includes fields for the calendar year (2014), taxpayer identification number, and other identifying information. The form is designed for single-member LLCs and partnerships.

- Single or partnership classified LLCs file using Form 568.
- Subject to \$800 annual tax.
- Maybe subject to an LLC fee based on total income (gross income plus cost of goods).
- Members report their share of profit or loss on Form 540 income tax returns whether distributed or not.

LLC Characteristics C Corporation Classification

A screenshot of the California Form 100, California Corporation Franchise or Income Tax Return. The form is titled "2014 California Corporation Franchise or Income Tax Return" and "100". It includes fields for the calendar year (2014), taxpayer identification number, and other identifying information. The form is designed for C corporations.

- C Corporation classified LLCs file using Form 100.
- Taxed annually on its earnings at a rate of 8.84% on net income.
- Subject to \$800 minimum tax.
- Members receive profits and losses like C corporation shareholder.

LLC Characteristics S Corporation Election

A thumbnail image of the California S Corporation Franchise or Income Tax Return Form 100S. The form is titled "2014 California S Corporation Franchise or Income Tax Return 100S". It includes fields for the calendar year, tax year beginning and ending, and various checkboxes for election and reporting options.

- S Corporation classified LLCs file using Form 100S.
- State tax rate of 1.5% on net income. Not subject to federal tax.
- Subject to \$800 minimum tax.
- Members report their share of profit or loss on Form 540 income tax returns whether distributed or not.

Forms of Ownership Information



FTB Publication 1123, *Franchise Tax Board's Guide to Forms of Ownership*

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