

2020 Partnership Return of Income

565

- I** (1) During this taxable year, did another person or legal entity acquire control or majority ownership (more than a 50% interest) of this partnership or any legal entity in which the partnership holds a controlling or majority interest that owned California real property (i.e., land, buildings), leased such property for a term of 35 years or more, or leased such property from a government agency for any term? Yes No
- (2) During this taxable year, did this partnership acquire control or majority ownership (more than a 50% interest) in another legal entity that owned California real property (i.e., land, buildings), leased such property for a term of 35 years or more, or leased such property from a government agency for any term? Yes No
- (3) During this taxable year, has more than 50% of the partnership's ownership interests cumulatively transferred in one or more transactions after an interest in California real property (i.e., land, buildings) was transferred to it that was excluded from property tax reassessment under Revenue and Taxation Code Section 62(a)(2) and it was not reported on a previous year's tax return? Yes No
- (Yes requires filing of statement, penalties may apply – see instructions.)**

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

Income	1 a Gross receipts or sales \$ _____ b Less returns and allowances \$ _____ c Balance ●	1c		00
	2 Cost of goods sold (Schedule A, line 8)	2		00
	3 GROSS PROFIT. Subtract line 2 from line 1c	3		00
	4 Total ordinary income from other partnerships and fiduciaries. Attach schedule	4		00
	5 Total ordinary loss from other partnerships and fiduciaries. Attach schedule	5		00
	6 Total farm profit. Attach federal Schedule F (Form 1040)	6		00
	7 Total farm loss. Attach federal Schedule F (Form 1040)	7		00
	8 Total gains included on Schedule D-1, Part II, line 17 (gain only)	8		00
	9 Total losses included on Schedule D-1, Part II, line 17 (loss only)	9		00
	10 Other income. Attach schedule	10		00
	11 Other loss. Attach schedule	11		00
	12 Total income (loss) . Combine line 3 through line 11	12		00
Deductions Enclose, but do not staple, any payment	13 Salaries and wages (other than to partners)	13		00
	14 Guaranteed payments to partners	14		00
	15 Bad debts	15		00
	16 Deductible interest expense not claimed elsewhere on return	16		00
	17 a Depreciation and amortization. Attach form FTB 3885P \$ _____ b Less depreciation reported on Schedule A and elsewhere on return \$ _____ c Balance ●	17c		00

Deductions (cont.)	18 Depletion. Do not deduct oil and gas depletion	18	00
	19 Retirement plans, etc.	19	00
	20 Employee benefit programs	20	00
	21 Other deductions. Attach schedule ●	21	00
	22 Total deductions. Add line 13 through line 21 ●	22	00
	23 Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12 ●	23	00
Payments	24 Tax — \$800.00 (LPs, LLPs, and REMICs only). See instructions. ●	24	00
	25 Partnership level tax. If IRS concluded a centralized audit for this year, see instructions. If not, leave blank. . . ●	25	00
	26 Total tax. Add line 24 and line 25. ●	26	00
	27 Withholding (Form 592-B and/or 593) ●	27	00
	28 Amount paid with extension of time to file return (form FTB 3538) ●	28	00
	29 Total payments. Add line 27 and line 28 ●	29	00
Amount Due or Refund	30 Use tax. This is not a total line. See instructions. ●	30	00
	31 Payments balance. If line 29 is more than line 30, subtract line 30 from line 29 ●	31	00
	32 Use tax balance. If line 30 is more than line 29, subtract line 29 from line 30 ●	32	00
	33 Tax due. If line 26 is more than line 31, subtract line 31 from line 26 ●	33	00
	34 Refund. If line 31 is more than line 26, subtract line 26 from line 31 ●	34	00
	35 Penalties and interest. See instructions ●	35	00
	36 Total amount due. Add line 32, line 33, and line 35. Make the check or money order payable to the Franchise Tax Board ●	36	00

Schedule A Cost of Goods Sold

1 Inventory at beginning of year	1	00
2 Purchases less cost of items withdrawn for personal use	2	00
3 Cost of labor	3	00
4 Additional IRC Section 263A costs. Attach schedule	4	00
5 Other costs. Attach schedule	5	00
6 Total. Add line 1 through line 5	6	00
7 Inventory at end of year	7	00
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8	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 LP required to pay annual tax (is doing business in CA, is registered with SOS, or is organized in CA)
 ● 3 LP, LLC, or other entity NOT required to pay annual tax (is not doing business in CA, is not registered with SOS, and is not organized in CA)
 ● 4 REMIC ● 5 LLP ● 6 Other (See instructions) _____

- K Principal business activity code (Do not leave blank) ● _____
 Business activity _____ Product or service _____
 L Enter the maximum number of partners in this partnership at any time during the year. Attach a CA Sch. K-1 (565) for each partner ● _____
 M Is any partner of the partnership related (as defined in IRC Section 267(c)(4)) to any other partner? ● Yes No
 N 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? ● Yes No
 O Are any partners in this partnership also partnerships or LLCs? If "Yes," complete Schedule K-1, Table 3 for each. ● Yes No

- P** Does the partnership meet all the requirements shown in the instructions for Question P? Yes No
- Q** Is this partnership a partner in another partnership or multiple member LLC? If "Yes," complete Schedule EO, Part I. Yes No
- R** 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. Yes No
- S** Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? Yes No
- T** Is this partnership under audit by the IRS or has it been audited in a prior year? Yes No
- U (1)** Does the partnership have any foreign (non U.S.) nonresident partners? Yes No
- (2)** Does the partnership have any domestic (non-foreign) nonresident partners? Yes No
- (3)** Were Form 592, Form 592-A, Form 592-B, Form 592-F, and Form 592-PTE filed for these partners? Yes No
- V** Is this an investment partnership? See General Information O, Investment Partnerships, in the instructions Yes No
- W** Is the partnership apportioning or allocating income to California using Schedule R? Yes No
- X** 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. Yes No
- Y** Did this partnership file the Federal Schedule M-3 (Form 1065)? Yes No
- Z** Is this partnership a direct owner of an entity that filed a federal Schedule M-3? Yes No
- AA** Does this partnership have a beneficial interest in a trust or is it a grantor of a trust? Attach name, address, and FEIN. Yes No
- BB** Does this partnership own an interest in a business entity disregarded for tax purposes? If "Yes," complete Schedule EO, Part II. Yes No
- CC (1)** Is the partnership deferring any income from the disposition of assets? (see instructions) Yes No
- (2)** If "Yes," enter the year of asset disposition
- DD** Is the partnership reporting previously deferred income from: Installment Sale IRC §1031 IRC §1033 Other
- EE** "Doing business as" name. See instructions:
- FF (1)** Has this partnership operated as another entity type such as a Corporation, S Corporation, General Partnership, Limited Partnership, LLC or Sole Proprietorship in the previous five (5) years? Yes No
- (2)** If "Yes", provide prior FEIN(s) if different, business name(s), and entity type(s) for prior returns filed with the FTB and/or IRS. (see instructions):
- GG (1)** Has this partnership previously operated outside California? Yes No
- (2)** Is this the first year of doing business in California? Yes No

To learn about your privacy rights, how we may use your information, and the consequences for not providing the requested information, go to ftb.ca.gov/forms and search for 1131. To request this notice by mail, call 800.852.5711.

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.

Sign Here	Signature of general partner <input type="text"/>	Date <input type="text"/>	Telephone <input type="text"/>
	General Partner's email address (optional) <input type="text"/>		
Paid Preparer's Use Only	Paid Preparer's signature <input type="text"/>	Date <input type="text"/>	Check if self-employed <input type="checkbox"/> PTIN <input type="text"/>
	Firm's name (or yours if self-employed) and address <input type="text"/>	Telephone <input type="text"/>	Firm's FEIN <input type="text"/>
May the FTB discuss this return with the preparer shown above (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No			

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		●		
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		●		
	c	Total other loss. Attach schedule	10c		●		
11	a	Other portfolio income (loss). Attach schedule	11a		●		
	b	Total other income. Attach schedule	11b		●		
	c	Total other loss. Attach schedule	11c		●		
Deductions	12	Expense deduction for recovery property (IRC Section 179). Attach schedule	12		●		
	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.	13c1		●	
		2	Type of expenditures <input checked="" type="radio"/>	13c2			
	d	Deductions related to portfolio income	13d		●		
e	Other deductions. Attach schedule	13e		●			
Credits	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		●	
			Credits related to other rental activities	15d		●	
	e	Nonconsenting nonresident members' tax allocated to all partners	15e		●		
	f	Other credits	15f		●		
Alternative Minimum Tax (AMT) Items	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		●		
	f	Other alternative minimum tax items	17f		●		
Other Information	18	a	Tax-exempt interest income	18a		●	
		b	Other tax-exempt income	18b		●	
	c	Nondeductible expenses	18c		●		
19	a	Distributions of money (cash and marketable securities)	19a		●		
	b	Distribution of property other than money	19b		●		
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 P 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 Total assets				
Liabilities and Capital				
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 Total liabilities and capital				

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 <input checked="" type="radio"/>		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 <input type="radio"/>		a Tax-exempt interest <input checked="" type="radio"/> \$ _____	
3 Guaranteed payments (other than health insurance) <input checked="" type="radio"/>		b Other <input checked="" type="radio"/> \$ _____	
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. <input type="radio"/>	
a Depreciation <input checked="" type="radio"/> \$ _____		7 Deductions included on Schedule K, line 1 through line 13e, not charged against book income this year. Itemize:	
b Travel and entertainment <input checked="" type="radio"/> \$ _____		a Depreciation <input checked="" type="radio"/> \$ _____	
c Limited partnership tax <input checked="" type="radio"/> \$ _____		b Other <input checked="" type="radio"/> \$ _____	
d Other <input checked="" type="radio"/> \$ _____		c Total. Add line 7a and line 7b <input type="radio"/>	
e Total. Add line 4a through line 4d <input type="radio"/>		8 Total. Add line 6c and line 7c <input type="radio"/>	
5 Total of line 1 through line 4e <input type="radio"/>		9 Income (loss) (Schedule K, line 21a). Subtract line 8 from line 5 <input checked="" type="radio"/>	

Schedule M-2 Analysis of Partners' Capital Accounts. Use California amounts.

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

2020 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2015**, and to the California Revenue and Taxation Code (R&TC).

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2015. 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 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 instructions. Taxpayers should not consider the instructions 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

Special Reporting for R&TC Section 41 – Beginning in taxable year 2020, partners, members, shareholders, or beneficiaries of pass-through entities conducting a commercial cannabis activity licensed under the California Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) should file form FTB 4197, Information on Tax Expenditure Items. The Franchise Tax Board (FTB) uses information from form FTB 4197 for reports required by the California Legislature.

If the partnership conducted a commercial cannabis activity licensed under the California MAUCRSA, or received flow-through income from another pass-through entity in that business, attach a schedule to the Schedule K-1 (565) showing the breakdown of the following information:

- The partner's share of total deductions related to the cannabis business, including deductions from ordinary income.
- The partner's share of total credits related to the cannabis business.

Get form FTB 4197 for more information.

New Donated Fresh Fruits or Vegetables Credit – For taxable years beginning on or after January 1, 2020, and before January 1, 2022, the list of qualified donation items has been expanded to include raw agricultural products and processed foods. For more information, get form FTB 3814, New Donated Fresh Fruits or Vegetables Credit.

Natural Heritage Preservation Credit – The Natural Heritage Preservation Credit expired on June 30, 2020. All qualified contributions must be made on or before that date. For more information, get form FTB 3503, Natural Heritage Preservation Credit.

Program 3.0 California Motion Picture and Television Production Credit – For taxable years beginning on or after January 1, 2020, California Revenue and Taxation Code (R&TC) Sections 17053.98 and 23698 allow a third film credit, program 3.0, against tax. The credit is allocated and certified by the California Film Commission (CFC). The qualified taxpayer can:

- Offset the credit against income tax liability.
- Sell the credit to an unrelated party (independent films only).
- Assign the credit to an affiliated corporation.
- Apply the credit against qualified sales and use taxes.

For more information, get form FTB 3541, California Motion Picture and Television Production Credit, form FTB 3551, Sale of Credit Attributable to an Independent Film, go to ftb.ca.gov and search for **motion picture**, or go to the CFC website at film.ca.gov and search for **incentives**.

Main Street Small Business Tax Credit – For the taxable year beginning on or after January 1, 2020, and before January 1, 2021, a Main Street Small Business Tax Credit is available to a qualified small business employer that received a tentative credit reservation from the California Department of Tax and Fee Administration (CDTFA). For more information, get form FTB 3866, Main Street Small Business Tax Credit.

Exemption from First Taxable Year Annual Tax – For taxable years beginning on or after January 1, 2021 and before January 1, 2024, LPs, LLPs, and LLCs that organize, register, or file with the Secretary of State to do business in California are exempt from the annual tax for their first taxable year.

Paycheck Protection Program (PPP) Loan Forgiveness – For taxable years beginning on or after January 1, 2020, California law provides an exclusion from gross income for covered loan amounts forgiven under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program and Health Care Enhancement Act, or the Paycheck Protection Program Flexibility Act of 2020. For more information, see R&TC Section 17131.8.

The Consolidated Appropriations Act, 2021 was signed into federal law on December 27, 2020, allowing deductions for eligible expenses paid for with covered loan amounts that would be or would reasonably be expected to be forgiven under the PPP. California law does not conform to this federal provision. For California purposes, any credit or deduction allowed for any amount paid or incurred should be reduced by the amount of the exclusion allowed under the PPP.

Pass-Through Entity Annual Withholding Return – For taxable years beginning on or after January 1, 2020, a pass-through entity that has paid withholding on behalf of a nonresident owner or has been withheld upon must use **Form 592-PTE, Pass-Through Entity Annual Withholding Return**, to report the total withholding. For more information, get Form 592-PTE.

Payment Voucher for Pass-Through Entity Withholding – For taxable years beginning on or after January 1, 2020, a pass-through entity must use **Form 592-Q, Payment Voucher for Pass-Through Entity Withholding**, to remit the withholding payments. For more information, get Form 592-Q.

Real Estate Withholding Statement – Effective January 1, 2020, the real estate withholding forms and instructions have been consolidated into one new **Form 593, Real Estate Withholding Statement**. For more information, get Form 593.

General Information

A Important Information

Limited Liability Companies (LLCs) Classified as Partnerships File Form 568 – LLCs may be classified for tax purposes as a partnership, a corporation, or a disregarded entity. The LLC must file the appropriate California tax return for its classification. LLCs classified as a:

- Partnership file Form 568, Limited Liability Company Return of Income.
- General corporation file Form 100, California Corporation Franchise or Income tax Return.
- S corporation file Form 100S, California S Corporation Franchise or Income tax Return.
- Disregarded entities, see General Information R, Check-the-Box Regulations.

LLCs classified as partnerships should not file Form 565, Partnership Return of Income. The LLC will file Form 565 only if it meets an exception. For more information, see the exception in General Information D, Who Must File.

Loophole Closure and Small Business and Working Families Tax Relief Act of 2019 – The Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017, made changes to the Internal Revenue Code (IRC). California Revenue and Taxation Code does not conform to all of the changes. In general, for taxable years beginning on or after

January 1, 2019, California conforms to the following TCJA provisions:

- California Achieving a Better Life Experience (ABLE) Program
- Student loan discharged on account of death or disability
- Federal Deposit Insurance Corporation (FDIC) Premiums
- Excess employee compensation

Like-Kind Exchanges – The TCJA amended IRC Section 1031 limiting the nonrecognition of gain or loss on like-kind exchanges to real property held for productive use or investment. California conforms to this change under the TCJA for exchanges initiated after January 10, 2019.

Technical Termination of a Partnership – For taxable years beginning on or after January 1, 2019, California conforms to the TCJA repeal of the termination of a partnership by the sale or exchange of 50 percent or more of the total interest in a partnership within a 12 month period.

A partnership may elect to have the repeal of the technical termination apply for taxable years beginning after December 31, 2017, and before January 1, 2019. Taxpayers make the R&TC Section 17859(d)(1) election by providing the following information to the Franchise Tax Board (FTB):

1. Include a statement with their original or amended California tax return stating the taxpayers' intent to make an election under R&TC Section 17859(d)(1) of Assembly Bill 91.
2. On the top of the first page of the original or amended tax return, print "AB 91 – R&TC Section 17859(d)(1) Election" in black or blue ink.
3. Mail returns to:
Franchise Tax Board
PO Box 1570
Rancho Cordova CA 95741-1570

IRC Section 338 Election – For taxable years beginning on or after July 1, 2019, California requires taxpayers to use their federal IRC Section 338 election treatment for certain stock purchases treated as asset acquisitions or deemed election where purchasing corporation acquires asset of target corporation. If an election has not been made by a taxpayer under IRC Section 338, the taxpayer shall not make a separate state election for California.

Small Business Method of Accounting Election – For taxable years beginning on or after January 1, 2019, California conforms to certain provisions of the TCJA relating to changes to accounting methods for small businesses.

A small business may elect to apply the same provisions above to taxable years beginning on or after January 1, 2018 and before January 1, 2019. Taxpayers make the election by providing the following information to the FTB:

1. Include a statement with their original or amended California tax return stating the taxpayers' intent to make a Small Business Method of Accounting election(s).
2. On the top of the first page of the original or amended tax return, print "AB 91 – Small Business Method of Accounting Election" in black or blue ink.
3. Mail returns to:
Franchise Tax Board
PO Box 942857
Sacramento CA 94257-0500

Assignment of Credit – For taxable years beginning on or after January 1, 2019, the following forms and instructions have been consolidated into one form **FTB 3544, Assignment of Credit**:

- FTB 3544, Election to Assign Credit Within Combined Reporting Group.
- FTB 3544A, List of Assigned Credit Received and/or Claimed by Assignee.

New Partnership Audit Regime – For federal purposes, the Bipartisan Budget Act of 2015 replaced the Tax Equity and Fiscal Responsibility Act of 1982, creating a centralized partnership audit regime, and generally transferring the liability for the tax due to the partnership.

All partnerships with tax years beginning after 2017 are subject to this new regime unless an eligible partnership elects out. For California purposes,

taxable years beginning on or after January 1, 2018, partnerships are required to report each change or correction made by the Internal Revenue Service (IRS), to the FTB, for the reviewed year within six months after the date of each final federal determination, and will generally be liable for the tax due.

Deferred Foreign Income – Under IRC Section 965, U.S. shareholders of specified foreign corporations may have to include certain deferred foreign income on its income tax return. California **does not** conform. If you reported IRC 965 inclusions and deductions on Form 1065, U.S. Return of Partnership Income, Schedule K for federal purposes, write "IRC 965" at the top of Form 565, Partnership Return of Income.

Engineers, Land Surveyors, and Architects – California extended the authorization for persons licensed to engage in the practice of engineering, land surveying or architecture to form limited liability partnerships until January 1, 2026.

Schedule K-1 (1065-B) and its instructions – Public Law 114-74, Title XI, sec. 1101(b) repealed the electing large partnership rules for partnership tax years beginning after 2017. As a result, Schedule K-1 (Form 1065-B) and its instructions will be obsoleted after 2017.

Paperless Schedule K-1 – Effective January 1, 2018, the FTB discontinued the Paperless Schedules K-1 (565) program due to the increasing support of our business e-file program. For more information regarding the California business e-file program, go to **ftb.ca.gov** and search for **business efile**.

Partnership Extension Due Date – For taxable years beginning on or after January 1, 2017, the extension period to file a partnership return has changed from six months to seven months. See General Information E, When and Where to File, for more information.

Return Due Date Change – For taxable years beginning on or after January 1, 2016, the due date for a partnership to file its tax return changed to the 15th day of the 3rd month following the close of the taxable year.

Information Return Due Date Change – Beginning on or after January 1, 2016, for withholding on foreign (non-U.S.) partners or members, the due date to file Form 592-F, Foreign Partner or Member Annual Return, changed to the 15th day of 3rd month following the close of the partnership's or LLC's taxable year. The due date to provide Form 592-B, Resident and Nonresident Withholding Tax Statement, to each foreign (non-U.S.) partner or member changed to the 15th day of the 3rd month following the close of the partnership's or LLC's taxable year. Get Form 592-F and Form 592-B for more information.

Business e-file – California law requires any business entity that files an original or amended tax return that is prepared using tax preparation software to electronically file (e-file) their tax return with the FTB. For more information, go to **ftb.ca.gov** and search for **business efile**.

Web Pay – Partnerships can make payments online with Web Pay for Businesses. Partnerships can make an immediate payment or schedule payments up to a year in advance. For more information, go to **ftb.ca.gov/pay**. **Do not** file form FTB 3587, Payment Voucher for LP, LLP, and REMIC e-filed Returns.

Credit Card – Partnerships can use a Discover, MasterCard, Visa, or American Express card to pay business taxes. Go to **officialpayments.com**. Official Payments Corporation charges a convenience fee for using this service. **Do not** file form FTB 3587.

Electronic Funds Withdrawal (EFW) – Partnerships can make an extension payment using tax preparation software. Check with your software provider to determine if they support EFW for extension payments.

Payments and Credits Applied to Use Tax – If a partnership includes use tax on its income tax return, payments and credits will be applied to use tax first, then towards franchise or income tax, interest, and penalties. For more information, see General Information U, California Use Tax and Specific Instructions.

Like-Kind Exchanges – For taxable years beginning on or after January 1, 2014, California requires taxpayers who exchange property located in California for like-kind property located outside of California

under IRC Section 1031, to file an annual information return with the FTB. For more information, get form FTB 3840, California Like-Kind Exchanges, or go to ftb.ca.gov and search for **like kind**.

Apportioning Trade or Business – “Apportioning trade or business” means a distinct trade or business whose business income is required to be apportioned because it has income derived from sources within this state and from sources outside this state. An apportioning trade or business can be conducted in many forms, including, but not limited to, the following:

- (A) A corporation that is a taxpayer.
- (B) A combined reporting group that includes at least one taxpayer member.
- (C) A nonunitary division of a member of a combined reporting group that includes at least one taxpayer member.
- (D) A partnership that is partially owned by but not unitary with either (1) a partner that is a corporation that is a taxpayer, or (2) a member of a combined reporting group that includes at least one taxpayer member.
- (E) A disregarded entity that is not unitary with an owner that is either (1) a corporation that is a taxpayer, or (2) a member of a combined reporting group that includes at least one taxpayer member.
- (F) A sole proprietorship that is operated by an individual who is not a resident of California.
- (G) A partnership that is operated by one or more individual(s) who are not residents of California.

For more information, get Schedule R, Apportionment and Allocation of Income.

Gross Receipts – R&TC Section 25120 was amended to add the definition of gross receipts. For a complete definition of “gross receipts”, refer to R&TC Section 25120(f), or go to ftb.ca.gov and search for **25120**.

Foreign Reduced Withholding – The FTB began applying Federal Treasury Regulation 1.1446-6 procedures to reduce or eliminate withholding of California tax on effectively connected taxable income (ECTI) from California sources allocable to a foreign partner or member. The foreign partner must first sign and send federal Form 8804-C, Certificate of Partner-Level Items to Reduce Section 1446 Withholding, to the partnership or LLC. The foreign partner or member must sign and send Form 589, Nonresident Reduced Withholding Request, to the FTB along with a signed copy of federal Form 8804-C. The FTB will review the request within 21 business days. If the request is approved, the partnership or LLC should remit the reduced withholding amount to the FTB along with Form 592-A, Payment Voucher for Foreign Partner or Member Withholding.

Single-Sales Factor Formula – R&TC Section 25128.7 requires all business income of an apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), to apportion its business income to California using the single-sales factor formula. For more information, get Schedule R, or go to ftb.ca.gov and search for **single sales factor**.

Market Assignment – R&TC Section 25136 requires **all** taxpayers to assign sales, other than sales of tangible personal property, using market assignment. For more information, get Schedule R or go to ftb.ca.gov and search for **market assignment**.

Doing Business – A taxpayer is doing business if it actively engages in any transaction for the purpose of financial or pecuniary gain or profit in California or if **any** of the following conditions are satisfied:

- The taxpayer is organized or commercially domiciled in California.
- The sales, as defined in R&TC Section 25120(e) or (f), of the taxpayer in California, including sales by the taxpayer’s agents and independent contractors, exceed the lesser of \$610,395 or 25% of the taxpayer’s total sales.
- The real property and tangible personal property of the taxpayer in California exceed the lesser of \$61,040 or 25% of the taxpayer’s total real property and tangible personal property.
- The amount paid in California by the taxpayer for compensation, as defined in R&TC Section 25120(c), exceeds the lesser of \$61,040 or 25% of the total compensation paid by the taxpayer.

In determining the amount of the taxpayer’s sales, property, and payroll for doing business purposes, include the taxpayer’s pro-rata share of amounts from partnerships and S corporations. These amounts are reported on the partner’s Schedule K-1 on Table 2, Part C.

Partnerships and LLCs are considered doing business in California if they have a general partner or member doing business on their behalf in California. Likewise, general partners and members are considered doing business in California if the partnership or LLC, respectively, is doing business in this state. For more information, see R&TC Section 23101 or go to ftb.ca.gov and search for **doing business**.

Backup Withholding – With certain limited exceptions, payers that are required to withhold and remit backup withholding to the IRS are also required to withhold and remit to the FTB on income sourced to California. If the payee has backup withholding, the payee must contact the FTB to provide a valid Taxpayer Identification Number (TIN), before filing the tax return. Failure to provide a valid TIN may result in a denial of the backup withholding credit. For more information, go to ftb.ca.gov and search for **backup withholding**.

Domestic Limited Partnership Revival – California law requires a cancelled domestic limited partnership to accompany the certificate of revival filed with the California Secretary of State (SOS) with written confirmation obtained from the FTB that all required tax returns have been filed by the partnership. Also, in addition to payment of taxes, interest and penalties, fees must be paid as well. This new law further authorizes the FTB to assess a specialized tax service fee for an expedited domestic limited partnership revival confirmation letter request. The fee is:

- \$100 until December 31, 2010.
- \$56 on or after January 1, 2011, as set by regulation.

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.

Conversion to an 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. See General Information I, Accounting Periods, for further instructions.

Paid Preparer Authorization

A partnership can designate a paid preparer to discuss the tax return with the FTB. For more information, see General Information M, Signatures, included in this booklet.

Dissolving or Cancelling/Tax Clearance Certificate Process

Limited Partnerships (LP) or Limited Liability Partnerships (LLP) are not required to obtain a Tax Clearance Certificate prior to the dissolution or cancellation of the LP or LLP. For more information, see General Information P, Cancelling a Limited Partnership (LP) or Limited Liability Partnership (LLP).

Providing California and Federal Returns

The FTB may request copies 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 J, 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.

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:

The Federal TCJA signed into law on December 22, 2017 made changes to the IRC. In general, California R&TC **does not** conform to the changes. California taxpayers continue to follow the IRC as of the specified date of January 1, 2015, with modifications. The following is a non-exhaustive list of the TCJA changes:

- California does not conform to the expanded definition of IRC Section 179 property for certain depreciable tangible personal property related to furnishing lodging and for qualified real property for improvements to nonresidential real property.
- California does not conform to the deferral and exclusion of capital gains reinvested or invested in qualified opportunity zone funds.
- California does not conform to the exclusion of a patent, invention, model or design, and secret formula or process from the definition of capital asset.
- California does not conform to the new federal deduction for qualified business income of pass-through entities under IRC section 199A.
- California does not conform to the gain or loss of foreign persons from sale or exchange of interests in partnership engaged in a trade or business within the United States.
- California does not conform to the modification of the definition of substantial built-in loss in the case of the transfer of partnership interests.
- California does not conform to charitable contribution and foreign taxes being taken into account in determining limitation on allowance of partner's share of loss.
- California does not conform to IRC Section 951A, which relates to global intangible low-taxed income.
- California does not conform to IRC Section 965, which relates to treatment of deferred foreign income.
- The change to IRC Section 163(j), which limits business interest deductions.

Additional federal/state differences may occur for the following:

- California does not conform to the qualified small business stock deferral and gain exclusion under IRC Section 1045 and IRC Section 1202.
- IRC Section 168(k) relating to the depreciation deduction for certain assets
- 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, 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 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.

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.

California Disclosure Obligations

If the partnership was involved in a reportable transaction, including a listed transaction, the partnership may have a disclosure requirement. Attach 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 federal Form 8886 to the address below:

TAX SHELTER FILING
ABS 389 MS F340
FRANCHISE TAX BOARD
PO BOX 1673
SACRAMENTO CA 95812-9900

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.

For more information, go to ftb.ca.gov and search for **disclosure obligation**.

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 Repayments section of federal Publication 525, Taxable and Nontaxable Income.

California Tax Information on the Internet

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

Federal Tax Information on the Internet

The IRS has federal forms and publications available to download, view, and print at irs.gov.

State Agencies' Websites

Access other California state agency websites at ca.gov.

Joint Agency Website

For additional business tax information, go to taxes.ca.gov, sponsored by the Board of Equalization (BOE), California Department of Tax and Fee Administration (CDTFA), Employment Development Department (EDD), the FTB, and the IRS.

B Purpose

Form 565 is an information return for calendar year 2020 or fiscal years beginning in 2020. Use Form 565 to report income, deductions, gains, losses, etc., from the operation of a partnership.

C Definitions

General Partnership

A general partnership is only composed of general partners. Any partnership that does not satisfy state law requirements to be a limited partnership is a general partnership.

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 architecture, public accountancy, engineering, land surveying, law, and related services. California also recognizes

out-of-state LLPs doing business in California. California extended the repeal date until January 1, 2026.

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. Return of Partnership 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. See definition of "doing business" in General Information A, Important Information.

LPs and LLPs

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 Form 565 if the LP is registered in California and both of the following apply:

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

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 doing all of the following:

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 black or blue ink at the top of Form 565, Side 1.
4. Entering the total number of partners in Question L, Side 2, of Form 565.

Partnerships (except for those 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.

LLCs

LLCs may be classified for tax purposes as a partnership, a corporation, or a disregarded entity. The LLC must file the appropriate California tax return for its classification. LLCs classified as a:

- Partnership file Form 568, see below for more information on LLCs classified as partnerships.
- General corporation file Form 100.
- S corporation file Form 100S.
- Disregarded entities, see General Information R, Check-the-Box Regulations.

If your LLC is classified as a partnership, it must file Form 568 if any of the following apply:

- The LLC does business in California.
- The LLC is organized in California.
- The LLC is organized in another state or foreign country, but registered with the California SOS.
- The LLC has income from California sources.

Exception: Nonregistered foreign (i.e., not organized in California) 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 file Form 565 instead of Form 568.

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 2020 Form 568 Limited Liability Company Tax Booklet, General Information D, Who Must File).

Nonregistered foreign partnerships that are a member of an LLC doing business in California or a general partner of a partnership doing business in California are considered doing business in California and should file Form 565.

Other Partnerships and Organizations

Certain publicly traded partnerships (PTPs) 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.

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.

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 3rd month (fiscal year) or March 15, 2021 (calendar year), following the close of its taxable year.

When the due date falls on a weekend or holiday, the deadline to file and pay without penalty is extended to the next business day.

PAYMENTS

- Mail Form 565 with **payment** (LPs, LLPs, and REMICs only) to:
FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0501
- E-filed returns: Pay electronically using Web Pay, credit card, EFW, or 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 black or blue ink, make the check or money order payable to the "**Franchise Tax Board.**" Write the partnership's FEIN, California SOS file number, and "2020 Form 565" on the check or money order.

Note: California SOS file number is 12 digits long.

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 94257-0500

RETURN WITHOUT PAYMENT or PAID ELECTRONICALLY

- Mail Form 565 **without a payment** or **paid electronically** to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

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 seven 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 3rd month following the close of the taxable year.

Electronic Funds Withdrawal

Partnerships can make an extension payment using tax preparation software. Check with your software provider to determine if they support EFW for extension payments.

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 LPs, LLPs, REMICs, and LLCs, 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.

The annual 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.

For taxable years beginning on or after January 1, 2021 and before January 1, 2024, LPs, LLPs, and LLCs that organize, register, or file with the Secretary of State to do business in California are exempt from the annual tax for their first taxable year. Enter the annual tax payment made for the 2020 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 12 months) that the failure continues, is \$18 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.

For "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 black or blue ink at the top of Form 565, Side 1.

For information on the required taxable year of a partnership, get 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 Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, the partnership should file an amended Form 540NR.

Attach a statement that identifies the line number of each amended item, the corrected amount or treatment of the item, and an explanation of the reason(s) for each change.

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 (series).

If the partnership has nonresident partners, see the reporting and withholding requirements on Form 592, Resident and Nonresident Withholding Statement; Form 592-B; Form 592-F and Form 592-PTE. Get FTB Pub. 1017, Resident and Nonresident Withholding Guidelines, for more information.

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, 2019. Information returns will be due June 1, 2020. Get form FTB 4800 MEO, Interest and Interest-Dividend Payment Reporting Requirement Letter, 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, 6038B, and 6038D 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 94257-0500

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
- Allocable income of foreign nonresident partners subject to withholding, Forms 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 (PTPs)
- 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.

Include a general partner's phone number and email address in case the FTB needs to contact the partnership for information needed to process this return. By providing this information the FTB will be able to process the return or issue the refund faster.

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. Tax preparers must provide their preparer tax identification number (PTIN).
- 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.

Paid Preparer Authorization

If the partnership wants to allow the paid preparer to discuss it's 2020 Form 565 with the FTB, 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 2021 tax return. If the partnership wants to expand the paid preparer's authorization, go to ftb.ca.gov/poa. 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

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).

- 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 1% tax will be assessed on resident and nonresident individuals who have California taxable income over \$1,000,000.

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.

Get 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. 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, 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.

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.

The annual tax will not be assessed if the LP or LLP meet 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. 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 2020 return marked final on March 15, 2021, and pays the \$800 annual tax for 2020. The LP does no business after 2020. The LP files its termination documents with the California SOS before March 15, 2022. The LP does not owe the \$800 annual tax for 2021.

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:

Where to File: Completed forms along with the applicable fees, if any, can be mailed to:

LPs – CALIFORNIA SECRETARY OF STATE
BUSINESS ENTITIES FILINGS UNIT
PO BOX 944260
SACRAMENTO CA 94244-2600

LLPs – CALIFORNIA SECRETARY OF STATE
BUSINESS ENTITIES
PO BOX 944228
SACRAMENTO CA 94244-2280

or delivered in person (drop off) to the Sacramento office:

CALIFORNIA SECRETARY OF STATE
BUSINESS ENTITIES FILINGS UNIT
1500 11TH STREET, 3RD FLOOR
SACRAMENTO CA 95814

This form is filed only in the Sacramento office.

Telephone Number: 916.657.5448

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

Website: 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.

Get FTB Pub. 1038, Guide to Dissolve, Surrender, or Cancel a California Business Entity, for more information.

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 12.3% 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 7% 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 PTPs 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 MS F182
FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0651
Telephone: 888.792.4900 or
916.845.4900

Waivers may also be submitted online. Go to ftb.ca.gov and search **588 online**.

Report withholding on Forms 592, 592-B, 592-F, and 592-PTE. Withholding payments are remitted with Forms 592-A, 592-Q, and 592-V, Payment Voucher for Resident and Nonresident Withholding. For more information, get FTB Pub. 1017.

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

The LLC needs approval from the FTB to use a substitute Schedule K-1 (565). The substitute schedule must include the Partner's Instructions for Schedule K-1 (565) or other prepared specific instructions. For more information and access to form FTB 1096, Agreement to Comply with FTB Pub. 1098 Annual Requirements and Specifications; or FTB Pub. 1098, Annual Requirements and Specifications for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms, email the FTB's Substitute Forms Program at SubstituteForms@ftb.ca.gov.

T Property Subject to IRC Section 179 Recapture

California will follow the revised federal instructions (with some exceptions) 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, LLC, or S corporation.

If there is gain from the sale, exchange, or disposition of property for which an IRC Section 179 expense deduction was claimed in a prior year, special rules apply. Partners should follow the instructions in federal Form 4797, Sales of Business Property.

The gain on property subject to the IRC Section 179 recapture should be reported on the Schedule K (565) and Schedule K-1 (565) as supplemental information as instructed on the federal Form 4797.

The partnership must provide all of the following information with respect to a disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:

1. Description of the property.
2. Date the property was acquired and placed in service.
3. Date the property was sold or other disposition.
4. Gross sales price or amount realized.
5. Cost or other basis plus expense of sale (not including the entity's basis reduction in the property due to IRC Section 179 expense deduction).
6. Depreciation allowed or allowable (not including the IRC Section 179 expense deduction).
7. Amount of IRC Section 179 expense deduction (if any).
8. An indication if the disposition is from a casualty or theft.
9. If this is an installment sale, compute the installment amount by using the method provided in form FTB 3805E, Installment Sale Income.

U California Use Tax

General Information

Use tax has been in effect in California since July 1, 1935. It applies to purchases of property from out-of-state sellers and is similar to sales tax paid on purchases made in California. If the partnership has not already paid all use tax due to the California Department of Tax and Fee Administration, it may be able to report and pay the use tax due on its state income tax return. However, partnerships required to hold a California seller's permit or to otherwise register with the California Department of Tax and Fee Administration for sales and use tax purposes may not report use tax on their state income tax return. See the information below and the instructions for line 30 of the income tax return.

In general, partnerships must pay California use tax on purchases of merchandise for use in California, made from out-of-state sellers, for example, by telephone, online, by mail, or in person.

Partnerships must pay California use tax on taxable items if:

- The seller does not collect California sales or use tax, and
- The partnership uses, gifts, stores, or consumes the item in California.

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.

However, not all purchases require the partnership to pay use tax. For example, the partnership would include purchases of office equipment, but not exempt purchases of food products or prescription medicine.

For more information on nontaxable and exempt purchases, the partnership may refer to Publication 61, *Sales and Use Taxes: Exemptions and Exclusions*, on the California Department of Tax and Fee Administration's website at cdtfa.ca.gov.

For more information about California use tax, please refer to the California Department of Tax and Fee Administration's website at cdtfa.ca.gov and type "**Find Information About Use Tax**" in the search bar.

Complete the Use Tax Worksheet on page 14 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 tax return to report the purchases subject to use tax and to make the use tax payment.

Interest, Penalties, and Fees. Failure to timely report and pay use tax due may result in the assessment of interest, penalties, and fees.

Application of Payments. For purchases made during taxable years starting on or after January 1, 2015, payments and credits reported on an income tax return will be applied first to the use tax liability, instead of income tax liabilities, penalties, and interest.

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 California Department of Tax and Fee Administration.

For assistance with use tax questions, go to the California Department of Tax and Fee Administration's website at cdtfa.ca.gov or call their Customer Service Center at 800.400.7115 (CRS:711) (for hearing and speech disabilities). For California income tax information, contact the Franchise Tax Board at ftb.ca.gov.

Specific Instructions

Form 565

Fill In All Applicable Lines and Schedules

Enter any items specially allocated to the partners on the applicable line of the partner's Schedule K-1 (565) and 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).

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) (9 digits)
- California SOS file number (12 digits)
- Partnership name (use the legal name filed with the California SOS) and address, include Private Mail Box (PMB) number, if applicable.

Use the Additional information field for "Owner/Representative/Attention" name and other supplemental address information only.

Foreign Address

If the partnership has a foreign address, follow the country's practice for entering the city, county, province, state, country, and postal code, as applicable, in the appropriate boxes. **Do not** abbreviate the country name.

Item G – Total Assets at End of Taxable Year

See the instructions for Question P 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 \$0.

Item H(2) – Final Return

If the partnership is filing a final year tax return, check the "Final Return" box on Form 565, Side 1, Item H(2), and check the "A final Schedule K-1 (565)" box for Item H(1) on Schedule K-1 (565). Attach a statement that explains the reason for the termination or liquidation of the partnership.

Item H(4) Protective claim

Check the box if this Form 565 is being filed as a protective claim for refund. A protective claim is a claim for refund filed before the expiration of the statute of limitations for which a determination of the claim depends on the resolution of some other disputed issues, such as pending state or federal litigation or audit. For more information on how to file a protective claim, go to ftb.ca.gov and search for **protective claim**.

Question I

All partnerships **must** answer all three questions. The questions provide information regarding changes in control or ownership of legal entities owning or under certain circumstances leasing California real property (R&TC Section 64). (Real Property includes land, buildings, structures, fixtures – see R&TC Section 104).

If any of the answers are "**Yes**," a *Statement of Change in Control and Ownership of Legal Entities* must be filed with the State of California; failure to do so within 90 days of the event date will result in penalties. The form for this statement is form BOE-100-B, filed with the California State Board of Equalization. Get this form and information from the BOE website (boe.ca.gov) by searching for Legal Entity Ownership Program (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 in one or more transactions since an interest in California real property was transferred to the partnership that was excluded from property tax reassessment under R&TC Section 62(a)(2) which established an original co-owners' interest status.

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. For partnerships, ownership interest is measured by a partner's interest in both the capital and profits interests in the partnership.

R&TC Section 64(e) requires this information for use in determining whether a change in ownership has occurred under Section 64(c) and (d); it is used by the LEOP.

Item K – Principal Business Activity Code (PBA)

California uses the six-digit PBA code from the Principal Business Activity Codes chart included in this booklet.

For example, if, as its principal business activity, the partnership (a) purchases raw materials, (b) subcontracts out for labor to make a finished product from the raw materials, and (c) retains title to the goods, the partnership is considered to be a manufacturer and must enter "Manufacturer" in item C and enter in item I one of the codes (311110 through 339900) listed under "Manufacturing" on the list, *Codes for Principal Business Activity*.

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. For example, the partnership is required to report a \$100 Other Income item and a <\$20> Other Loss item. The \$100 Other Income item must be reported on Line 10 and the <\$20> Other Loss item loss must be reported as a negative number on Line 11.

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 34, Net farm profit or (loss). Enter on line 7 the partnership's total farm loss from federal Schedule F (Form 1040), line 34. 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.

For taxable years beginning on or after January 1, 2014, California does not allow a business expense deduction for any fine or penalty paid or incurred by an owner of a professional sports franchise assessed or imposed by the professional sports league that includes that franchise. If the partnership deducted the fine or penalty for federal purposes, do not include the deduction for California purposes.

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, and add the credit amount to the total on line 29, 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) 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 F, Annual Tax, for further details on the annual tax requirements.

Line 25 – Partnership Level Tax

Use this line to report the Partnership Level Tax (PLT) for California purposes resulting from changes or corrections made by IRS under its centralized partnership audit regime. PLT is typically reported on an amended return. See R&TC Section 18622.5(d)(1)(A) for how to compute the PLT for state tax purposes.

Line 27 – Withholding (Form 592-B and/or 593)

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 Statement, to the front lower portion of the partnership return. The partnership must file Forms 592, 592-F, or 592-PTE, and 592-B to allocate any remaining withholding credit to its partners. For more information, get FTB Pub. 1017.

The above explanation does not apply to the nonconsenting nonresident member's tax paid by an LLC on behalf of the nonresident partner. The nonconsenting nonresident members' tax is not related to the partnership withholding on nonresident partners. Therefore, the tax cannot be claimed using Forms 592, 592-F, 592-PTE, 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 30 – Use Tax

As explained under Use Tax General Information U, California use tax applies to purchases of merchandise from out-of-state sellers (for example, purchases made by telephone, online, by mail, or in person) where sales or use tax was not paid and those items were used in California. For questions on whether a purchase is taxable, go to the California Department of Tax and Fee Administration's website at cdtfa.ca.gov, or call their Customer Service Center at 800.400.7115 (CRS:711) (for hearing and speech disabilities).

Note: The following businesses are required to report purchases subject to use tax directly to the California Department of Tax and Fee Administration and may not report use tax on their income tax return:

- Businesses that have, or are required to hold, a California seller's permit.
- Businesses that receive \$100,000 or more per year in gross receipts.
- Businesses that are otherwise registered or required to be registered with the California Department of Tax and Fee Administration to report use tax.

A partnership that is not required to report purchases subject to use tax directly to the California Department of Tax and Fee Administration may, with some exceptions, report use tax on its Partnership Return of Income. To report use tax on the tax return, complete the Use Tax Worksheet on page 14.

Note: A partnership may not report use tax on its income tax return for certain types of transactions. These types of purchases are listed in the instructions for completing Worksheet, Line 1.

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 California Department of Tax and Fee Administration. For information on how to report use tax directly to the California Department of Tax and Fee Administration, go to their website at cdtfa.ca.gov and type "Find Information About Use Tax" in the search bar.

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

Use Tax Worksheet	
Round all amounts to the nearest whole dollar.	
1. Enter purchases from out-of-state sellers made without payment of California sales/use tax. See worksheet instructions	\$ _____ .00
2. Enter the applicable sales and use tax rate. See worksheet instructions	_____
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	\$ _____ .00
5. Total Use Tax Due. Subtract line 4 from line 3. Enter the amount here and on line 30. If the amount is less than zero, enter -0-	\$ _____ .00

Worksheet, Line 1, Purchases Subject to Use Tax

Report purchases of items that would have been subject to sales tax if purchased from a California retailer unless your receipt shows that

California tax was paid directly to the retailer. For example, generally, purchases of clothing would be included, but not exempt purchases of food products or prescription medicine. For more information on nontaxable and exempt purchases, visit the California Department of Tax and Fee Administration's website at cdtfa.ca.gov.

- 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 correspond with the tax return the partnership is filing.

Note: Do not report the following types of purchases on the partnership's 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.
- Rental receipts from leasing machinery, equipment, vehicles, and other tangible personal property to its customers.
- Cigarettes and tobacco products when the purchaser is registered with the California Department of Tax and Fee Administration as a cigarette and/or tobacco products consumer.

Worksheet, Line 2, Sales and Use Tax Rate

Enter the sales and use tax rate applicable to the place in California where the property is used, stored, or otherwise consumed. If the partnership does not know the applicable city or county sales and use tax rate, please go to the California Department of Tax and Fee Administration's website at cdtfa.ca.gov and type "City and County Sales and Use Tax Rates" in the search bar, or call their Customer Service Center at 800.400.7115 (CRS:711) (for hearing and speech disabilities).

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

This is a credit for tax paid to other states on purchases reported on Line 1. The partnership can claim a credit up to 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 only claim a credit of \$6.00 for that purchase.

Line 35 – Penalties and Interest

Enter penalties and interest. See General Information G, Penalties and Interest.

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 1125-A, Cost of Goods Sold.

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 C, Definitions, and the instructions for federal Form 1065.

Doing Business – A taxpayer is doing business if it actively engages in any transaction for the purpose of financial or pecuniary gain or profit in California or if **any** of the following conditions are satisfied:

- The taxpayer is organized or commercially domiciled in California.
- The sales, as defined in R&TC Section 25120(e) or (f), of the taxpayer in California, including sales by the taxpayer's agents and independent contractors, exceed the lesser of \$610,395 or 25% of the taxpayer's total sales.
- The real property and tangible personal property of the taxpayer in California exceed the lesser of \$ 61,040 or 25% of the taxpayer's total real property and tangible personal property.

- The amount paid in California by the taxpayer for compensation, as defined in R&TC Section 25120(c), exceeds the lesser of \$61,040 or 25% of the total compensation paid by the taxpayer.

In determining the amount of the taxpayer's sales, property, and payroll for doing business purposes, include the taxpayer's pro-rata share of amounts from partnerships and S corporations. These amounts are reported on the partner's Schedule K-1 on Table 2, Part C.

For more information, see R&TC Section 23101 or go to ftb.ca.gov and search for **doing business**.

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 L

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

Question P

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

- The partnership's total receipts for the taxable year were less than \$250,000.
- The partnership's total assets at the end of the taxable year were less than \$1 million.
- 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 P 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 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, 592-F, and 592-PTE relates to withholding done by the partnership. If you need additional information concerning partnership withholding, see General Information K, Required Information Returns, and General Information Q, Withholding Requirements.

Question V – Investment Partnership

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

- 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
- 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 O, 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 IRC 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 IRS 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 IRS or the FTB as a tax avoidance transaction.

Question CC

Check the "Yes" or "No" box to indicate if the partnership is deferring any income from the disposition of assets. If "Yes," enter the four-digit year in which the assets were disposed (ex. 2020) on line CC (2). If there are multiple years, write "see attached" on the line and attach a schedule listing the years. This question is applicable if the partnership is deferring any income from a disposition of assets in the current taxable year or prior taxable years.

Question DD

Check the box for the type(s) of previously deferred income the partnership is reporting. If there are multiple sources of income, check the box for the appropriate items and attach a schedule listing the income type and year of disposition. If the partnership is reporting "Other" types of previously deferred income, check the box for "Other" and attach a schedule listing the income type and year of disposition. This question is applicable if the partnership is reporting previously deferred income in the current taxable year or prior taxable years.

Question EE

Partnerships doing business under a name other than that entered on Side 1 of Form 565 must enter the doing business as (DBA) name in Question EE. If the partnership is doing business under multiple DBA's attach a schedule listing all DBA's. Leave Question EE blank if the partnership is not using DBA's to conduct business.

Question FF

Check the "Yes" or "No" box to indicate if the partnership operated as another entity type such as a Corporation, S Corporation, General Partnership, Limited Partnership, LLC, or Sole Proprietorship in the previous five (5) years. If "Yes," enter prior FEIN(s) if different, business name(s), and entity type(s) for prior returns filed with the FTB and/or IRS on line FF (2). If there are multiple entries, write "see attached" on the line and attach a schedule listing the prior FEINs, business names, and entity types.

Question GG

Check "Yes" or "No" if the partnership previously operated outside California. Check "Yes" or "No" if this is the partnership's first year of doing business in California.

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 S, 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.

See 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).

Paycheck Protection Program (PPP) Loan Forgiveness – Under federal law, the Consolidated Appropriations Act, 2021 allows deductions for eligible expenses paid for with covered loan amounts that would be or would reasonably be expected to be forgiven under the PPP. California law does not conform to this federal provision. For California purposes, any credit or deduction allowed for any amount paid or incurred should be reduced by the amount of the exclusion allowed under the PPP.

Special Reporting for R&TC Section 41

If the partnership conducted a commercial cannabis activity licensed under the California MAUCRSA, or received flow-through income from another pass-through entity in that business, attach a schedule to the Schedule K-1 (565) showing the breakdown of the following information:

- The partner's share of total deductions related to the cannabis business, including deductions from Ordinary Income.
- The partner's share of total credits related to the cannabis business.

Get form FTB 4197 for more information.

Schedule K (565) Only

In column (b), enter the amounts from federal Schedule K (1065). 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 attached to Form 565 for each partner identified on Form 565, Side 2, Question L. Partnerships eligible for the reduced filing program, see General Information D, 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 of Schedule K-1 (565) are completed.
- 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" or "Formula."
- Substitute computer-generated Schedule K-1 (565) forms **must** be approved by the FTB.

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 Private Mail Box (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 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 the California 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).

The California source income from a trade or business of a Nonresident Partner is determined as follows:

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 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 4, 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 4, 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" or "Formula."

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.

Question G(1), Schedule K-1 (565)

If the "Yes" box is checked on Form 565, Question S, then check the box for Question G(1) on Schedule K-1 (565).

Question G(2), Schedule K-1 (565)

If the "Yes" box is checked on Form 565, Question V, then check the box for Question G(2) on Schedule K-1 (565).

Question H(1), Schedule K-1 (565)

If the partnership is filing a final year tax return, check the "Final Return" box on Form 565, Side 1, Item H(2), and check the "A final Schedule K-1 (565)" box for Item H(1) on Schedule K-1 (565). Attach a statement that explains the reason for the termination, or liquidation of the partnership.

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 or apportioned amounts and credits. Include the following items in this column:

For Individuals:

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. 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).
4. Income from a trade or business conducted within and outside California. Enter the amount of business income apportioned to California according to Schedule R. 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. Combined business income is then apportioned by the 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.
5. California credits.

For Corporations and Other Business Entities:

1. Income from a trade or business conducted within and outside California. See #4 under For Individuals.
2. 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.
3. California credits.

For all partners, 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 "Yes" 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 will complete Table 2, Parts A to C for unitary partners and Table 2 Part C for all non-unitary partners. Table 2 does not need to be completed for non-unitary individuals.

The Partnership will complete Table 2, Part C to report the partner's distributive share of property, payroll and sales **Total within California**.

The partners will use Table 2, Part C to determine if they meet threshold amounts of California property, payroll, and sales for the doing business

threshold in California. For more information about doing business, see General Information A, Important Information.

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. The determination of whether a single sales factor or a three-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 Rules for Partners and Partnerships in a Non-Unitary Business

If the apportioning trade or business conducted by a partner is not unitary with the apportioning trade or business of the partnership, the partnership apportions its business income separately using Schedules R-1, R-2, R-3, and R-4 only. The different items of business income as apportioned to California are entered in column (e).

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).

Completing Table 3

Complete Table 3 for partners that are partnerships or LLCs. Enter only amounts used to determine income (loss) derived from and attributable to California sources.

Include the partner's distributive share of the cost of goods sold and deductions, as adjusted for California law, from any ordinary income (loss) of your trade or business. These amounts are on Side 1 of Form 565. The California law adjustments are on Schedule K (565), line 1, column (c). Also, enter the partner's distributive share of total gross rents from property located in California from federal Form 8825. Even if your pass-through entity partners are not LLCs, you must enter this information. LLCs in tiered entity structures that include your partnership's activities may use this information to complete Schedule IW, Limited Liability Company (LLC) Income Worksheet, and determine the LLC fee.

If your partnership owns pass-through entities and received Schedule K-1 (565), Table 3 information, multiply these amounts by the partner's distributive share percentage and combine the results with the amounts from your return as determined above.

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 Schedule K Federal/State Line References chart (included in this booklet).

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).

Qualified Opportunity Zone Funds – The TCJA established Opportunity Zones. IRC Sections 1400Z-1 and 1400Z-2 provide a temporary deferral of inclusion of gross income for capital gains reinvested in a qualified opportunity fund, and exclude capital gains from the sale or exchange of an investment in such funds. California **does not** conform to the deferral and exclusion of capital gains reinvested or invested in federal opportunity zone funds under IRC Sections 1400Z-1 and 1400Z-2, and has no similar provisions. If, for California purposes, gains from investment in qualified opportunity zone property had been included in income during previous taxable year, do not include the gain in the current year income.

Financial Incentive for Seismic Improvement. For taxable years beginning on or after July 1, 2015, California law allows an income exclusion for loan forgiveness, grants, credits, rebates, vouchers, or other financial incentive issued by the California Residential Mitigation Program or California Earthquake Authority to assist a residential property owner or occupant with expenses paid, or obligations incurred, for earthquake loss mitigation. If any amount was included for federal purposes, exclude that amount for California purposes on line 11b, column (c).

IRC Section 951A income. California **does not** conform to IRC Section 951A. If, for federal purposes, global intangible low-taxed income (GILTI) was included make an adjustment on line 11b, column (c).

IRC Section 965 inclusions. California **does not** conform to IRC Section 965. If for federal purposes, deferred foreign income was included, make an adjustment on line 11b, column (c). In addition, taxpayers that reported IRC Section 965 amounts on their federal tax return should write "IRC 965" on the top of their California tax return or follow their tax software guidelines.

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.

California follows 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.

IRC Section 965 deductions. California **does not** conform to IRC Section 965. If, for federal purposes, a deduction was made for deferred foreign income, make an adjustment on line 13e, column (c).

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.

For taxable years beginning after December 31, 2017, and before January 1, 2026, the 50% limitation under IRC Section 170(b) for cash contributions to public charities and certain private foundations is increased to 60% for federal purposes. California does not conform. The limitation for California is 50%.

Partners are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170. 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.

For taxable years beginning on or after January 1, 2014, and before January 1, 2023, **do not** include any amounts taken into account for the College Access Tax credit as a contribution deduction.

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

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

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, or backup withholding, 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.

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:

- California Competes Tax Credit. Get form FTB 3531.
- College Access Tax Credit. Get form FTB 3592.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring Credit. Get form FTB 3805Z.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring Credit. Get form FTB 3807.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- New California Motion Picture and Television Production Credit. Get form FTB 3541.
- New Donated Fresh Fruits or Vegetables Credit. Get form FTB 3814.
- New Employment Credit. Get form FTB 3554.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Program 3.0 California Motion Picture and Television Production Credit. Get form FTB 3541.
- Research Credit. Get form FTB 3523.
- Main Street Small Business Tax Credit. Get form FTB 3866.

All of the above credit forms are available at ftb.ca.gov/forms.

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 the California Schedule S 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 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.

The gain on property subject to the IRC Section 179 Recapture should be reported on the Schedule K as supplemental information as instructed on the federal Form 4797.

The partnership must provide all of the following information with respect to a disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:

- Description of the property.
- Date the property was acquired.
- Date the property was sold.
- Gross sales price.
- Cost or other basis plus expense of sale (not including the partnership's basis reduction in the property due to IRC Section 179 expense deduction).
- Depreciation allowed or allowable (not including the IRC Section 179 expense deduction).

- Amount of IRC Section 179 expense deduction (if any) passed through to each partner for the property and the partnership's taxable year(s) in which the amount was passed through.
- An indication if the disposition is from a casualty or theft.
- If this is an installment sale, any information needed to complete form FTB 3805E.

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.

The gain or loss on property subject to the IRC Section 179 Recapture should be reported on Schedule K-1 (565) as supplemental information as instructed on the federal Form 4797.

The partnership must provide all of the following information with respect to a disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:

- Description of the property.
- Date the property was acquired.
- Date the property was sold.
- The partner's pro-rata share of the gross sales price.
- The partner's pro-rata share of the cost or other basis plus expense of sale (**not** including the entity's basis reduction in the property due to IRC Section 179 expense deduction).
- The partner's pro-rata share of the depreciation allowed or allowable (**not** including the IRC Section 179 expense deduction).
- The partner's pro-rata share of the amount of IRC 179 expense deduction (if any) passed through to the partner for the property and the partnership's taxable year(s) in which the amount was passed through.
- An indication if the disposition is from a casualty or theft.
- If this is an installment sale, any information needed to complete form FTB 3805E. The partnership also must separately report the partner's pro-rata share of all payments in future taxable years. (Installment payments received for installment sales made in prior taxable years should be reported in the same manner used in prior taxable years.)

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 R&TC Section 25120(a) and (c), and the gross receipts from the production of nonbusiness income as defined in R&TC Section 25120(d).

R&TC Section 25120 was amended to add the definition of gross receipts. For a complete definition of "gross receipts", refer to R&TC Section 25120(f), or go to ftb.ca.gov and search for **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 partnership will complete Table 2, Parts A to C for unitary partners and Table 2, Part C for all non-unitary partners. Table 2 does not need to be completed for non-unitary individuals.

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.

The partnership will complete Table 2, Part C to report the partner’s distributive share of property, payroll and sales **Total within California.**

The partners will use Table 2, Part C to determine if they meet threshold amounts of California property, payroll, and sales for the doing business threshold in California. For more information about doing business, see General Information A, Important Information.

Table 3

Complete Table 3 for partners that are partnerships or LLCs. Enter only amounts used to determine income (loss) derived from and attributable to California sources.

Include the partner’s distributive share of the cost of goods sold and deductions, as adjusted for California law, from any ordinary income (loss) of your trade or business. These amounts are on Side 1 of Form 565. The California law adjustments are on Schedule K (565), line 1, column (c). Also, enter the partner’s distributive share of total gross rents from property located in California from federal Form 8825. Even if your pass-through entity partners are not LLCs, you must enter this information. LLCs in tiered entity structures that include your partnership’s activities may use this information to complete Schedule IW and determine the LLC fee.

If your partnership owns pass-through entities and received Schedule K-1 (565), Table 3 information, multiply these amounts by the partner’s distributive share percentage and combine the results with the amounts from your return as determined above.

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 P for the specific requirements to qualify for this exception.

Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, and Schedule M-2, Analysis of Partners’ 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 P 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, 2014, the IRS allows partnerships with at least \$10 million but less than \$50 million in total assets at tax year end to file Schedule M-1 (Form 1065) in place of Schedule M-3 (Form 1065), Parts II and III. However, Schedule M-3 (Form 1065), Part I, is required for these partnerships. **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 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.

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