

2025 Instructions for Form FTB 2416

Schedule of Included Controlled Foreign Corporations (CFC)

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2025**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, for taxable years beginning on or after January 1, 2025, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2025. 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), California Adjustments – Residents, or Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents, 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.

A Purpose

R&TC Section 25110(a)(2)(A)(ii) provides that the income and apportionment factors of any Controlled Foreign Corporation (CFC) (as defined in [Internal Revenue Code \[IRC\]](#) Section 957) that has Subpart F income (defined in IRC Section 952) ~~are to be included in the combined report of a taxpayer making a water's-edge election.~~

Use form FTB 2416, Schedule of Included Controlled Foreign Corporations (CFC), to compute the net income and apportionment factors required to be included in the water's-edge combined report.

B Controlled Foreign Corporation

In general, a foreign corporation is a corporation that is not created or organized in the U.S. or under the laws of the U.S. or any state.

A CFC is any foreign corporation that is more than 50% owned or considered to be owned per IRC Section 958(b) by U.S. shareholders.

C Apportionment

For each CFC, the amounts included in income and the apportionment factors are determined by multiplying the total income and each component of the apportionment factors by a fraction. The numerator of the fraction is the current taxable year total Subpart F income defined in IRC Section 952 and the denominator is the current taxable year earnings and profits (E&P) as defined in IRC Section 964.

See R&TC Section 25110(a)(2) and the related regulations for more information.

Specific Instructions

Column (b) – Country of incorporation

Enter the country of incorporation in column (b). Use the list of country codes on form FTB 2416, Side 2.

Column (c) – Country of primary business activity

Enter the country in which the CFC conducts its primary trade or business in column (c). Use the list of country codes on form FTB 2416, Side 2. This country may be different from the country of incorporation.

Column (d) – Principal business activity (PBA) code

Enter the PBA code of the CFC. The PBA codes are listed on the Principal Business Activity Codes chart in Form 100W, California Corporation Tax Booklet – Water's-Edge Filers.

Column (e) – Subpart F income

In determining whether a CFC has Subpart F income, defined by IRC Section 952, for purposes of R&TC Section 25110(a)(2) and the regulations thereunder, the limitation and exclusions provided for in IRC Section 954(b) shall apply. However, IRC Section 952(c) shall not apply.

For these purposes, Subpart F income does not include income defined in IRC Sections 955 or 956.

Include both business and nonbusiness income as defined under R&TC Section 25120 for the current year.

If there is no Subpart F income, none of the income or factors of this CFC will be included in the water's-edge combined report. See *Fujitsu IT Holdings, Inc. vs. Franchise Tax Board* (2004) 120 Cal.App.4th 459.

Column (f) – Current year earnings and profits

E&P, as defined in IRC Section 964, includes both business and nonbusiness income for the current taxable year. In most cases, the E&P can be taken from federal Schedule H (Form 5471), Current Earnings and Profits, line 5d.

If there is no current E&P, stop. None of the income or factors of this CFC will be included in the water's-edge combined report.

Column (g) – Percentage

The percentage may not exceed 100% or be less than zero.

Column (h) – Net income

Report the total net income as reflected on the CFC's books and records, adjusted to conform to California tax law.

Column (i) – Net income included in the combined report

Enter total from column (i) on Form 100W, Side 1, line 7a.

Apportionment factors

Refer to the apportionment factor rules set forth in R&TC Sections 25128, 25128.7, and 25129 through 25137. ~~See~~ [California Schedule R, Apportionment and Allocation of Income](#), for more information.

Columns (j), (l), (n), and (p)

Determine the everywhere apportionment factors for the CFC ~~to be included in the water's-edge combined report including:~~

- Total sales everywhere, if using the single-sales factor formula, **or**
- Total average property everywhere, rent expense everywhere, payroll everywhere, and sales everywhere, if using the three-factor formula.

Columns (k), (m), (o), and (q)

~~Determine the California apportionment factors for the CFC to be included in the water's-edge combined report including:~~

- ~~Total California sales, if using the single-sales factor formula, **or**~~
- ~~Total California average property, California rent expense, California payroll, and California sales, if using the three-factor formula.~~