

Income/Franchise:

California: Updated FTB Guidance Postpones Requirements to Report California Tax Basis Capital Accounts until 2023

FTB Notice 2023-01, Cal. Fran. Tax Bd. (1/30/23). The California Franchise Tax Board (FTB) issued FTB Notice 2023-01 clarifying the reporting requirements for the “Analysis of partner’s tax basis capital account” on Schedule K-1 (565) and Schedule K-1 (568) for taxable years 2021, 2022, and subsequent tax years – permitting extended use of the tax basis method under federal law to taxable year 2022 and requiring tax basis capital account reporting under California law beginning in taxable year 2023, and every year thereafter. Specifically, FTB Notice 2023-01 explains that for taxable years 2021 and 2022, the FTB will permit a taxpayer who files Form 565 or Form 568 to report its partners’ or members’ capital accounts on Schedule K-1 (565) or Schedule K-1 (568) using the tax basis method as determined under federal law, as reported on Schedule K-1 (Form 1065), or by using the tax basis method as determined under California law. However, this permission is limited solely to the capital account analysis on Schedule K-1 (565) and Schedule K-1 (568) for the taxable years 2021 and 2022, and does *not* allow taxpayers to use their federal tax basis in lieu of their California tax basis for any other purpose, including reporting or determining their California tax liability. Beginning for taxable year 2023, and for every taxable year thereafter, Notice 2023-01 explains that the FTB will require a taxpayer who files Form 565 or Form 568 to report its partners’ or members’ capital accounts on the Schedule K-1 (565) and the Schedule K-1 (568) using the tax basis method as determined under California law.

URL: <https://www.ftb.ca.gov/tax-pros/law/ftb-notices/2023-01.pdf>

See recently issued Multistate Tax Alert for more details on this new guidance, including some related taxpayer considerations, and please contact us with any questions.

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