



M2K Advisors



CALIFORNIA - ANNUAL TAX COMPLIANCE



Franchise Tax (1/2)

A **franchise tax** is a type of business tax that is paid by certain forms of businesses just to conduct their business in a specific state. A franchise tax is also known as a **privilege tax** as it provides businesses with the right to operate with that state.

California franchise taxes are applicable for a variety of business structures :
(a) Limited liability companies (LLCs) (b) S corporations (c) Limited liability partnerships (LLPs) (d) Limited partnerships (LPs) (e) C corporations

The franchise tax is due on the **15th day of 4th month** of taxable year which is generally **15 April**.



Franchise Tax (2/2)

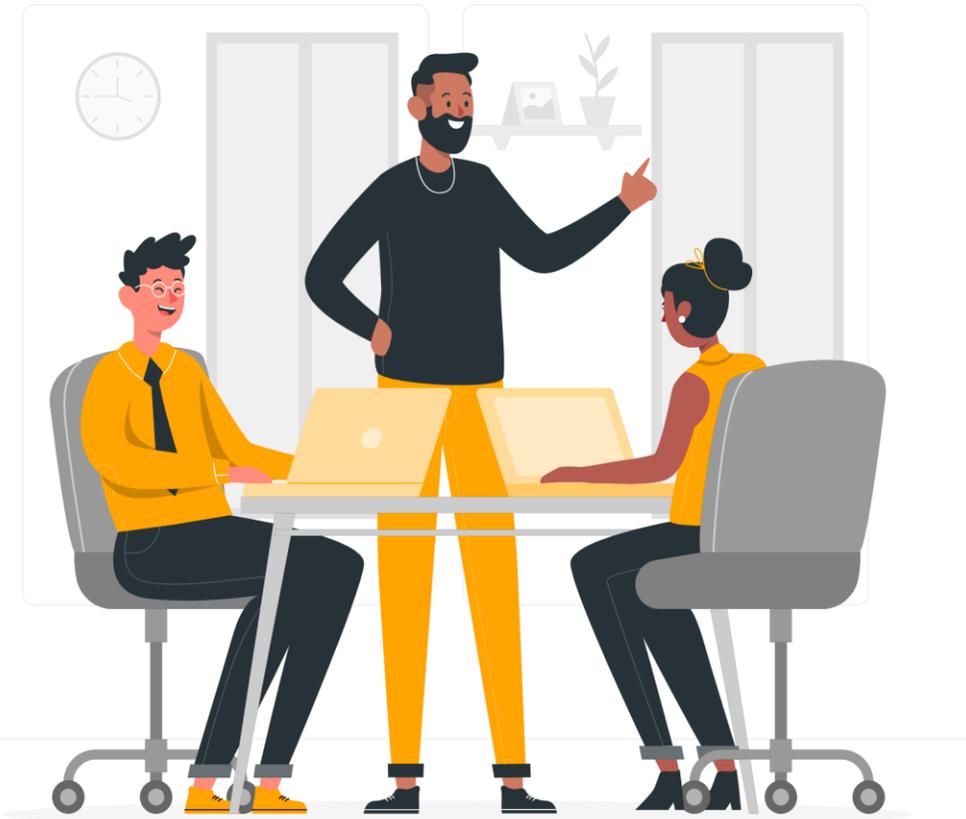
The California tax rate or franchise tax rate would vary from one form of business structure to another they are as follows:

- A** The California business tax rate or **franchise tax rate is 1.5%** of the net income of a C corporation, S corporation and LLP and LLC with the **minimum tax payable being USD 800**. **C corporations** are not subject to franchise tax but when the corporation do not earn net positive income and are not subject to the corporate tax, they must pay the franchise tax .
- B** The tax rate for **an LLC is a flat fee depending on the slabs mentioned in below table instead of a percentage linked to the net income**. This fee will depend on the **total income or gross income earned by the LLC in California**.



Net Income of LLC per annum	California Franchise Tax (in USD)
Less than USD 250,000	800
USD 250,000 - USD 499,999	900
USD 500,000 – USD 999,999	2,500
USD 1,000,000 – USD 4,999,999	6,000
USD 5,000,000 or more	11,790

Corporate Tax



01

A **California corporate tax** is a type of direct tax that is also known as company tax or corporation tax. This type of tax is imposed on the profits earned by a corporation within California.

02

The California corporation tax rate is **8.84% for corporations** other than banks and financials and the rate for **banks and financials is of 10.84%**.

03

Corporate tax returns are generally due by the 15th day of the fourth month following the end of the corporation's fiscal year.

04

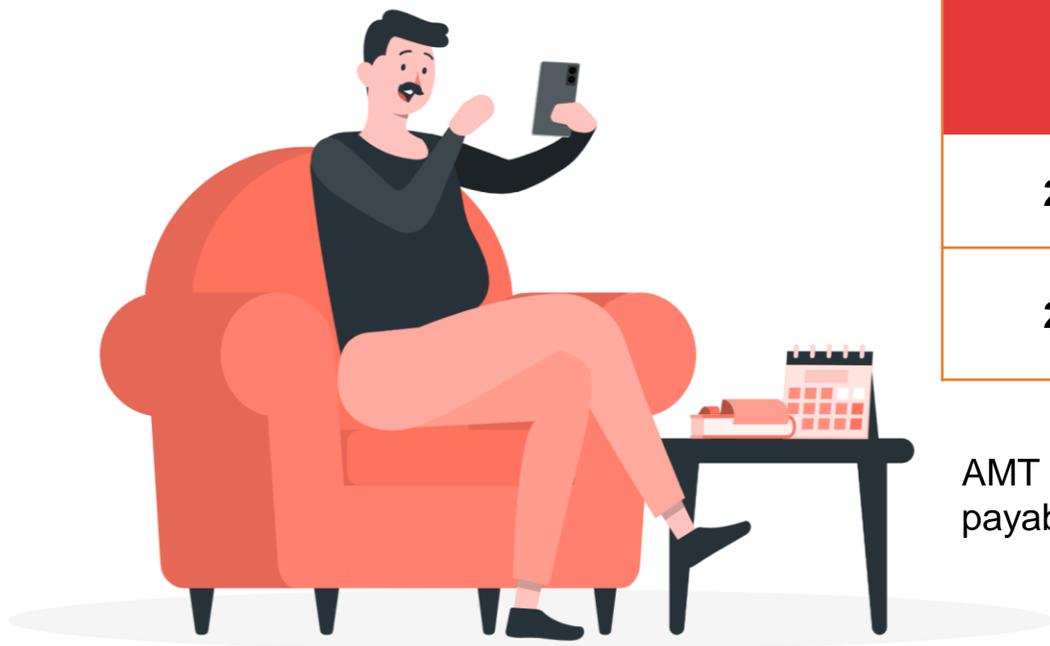
Corporations may request a six-month extension to file their corporate tax returns by September.

05

Installment payment due dates for estimated tax returns occur in the mid of April, June, September and December.

Alternative Minimum Tax (AMT)

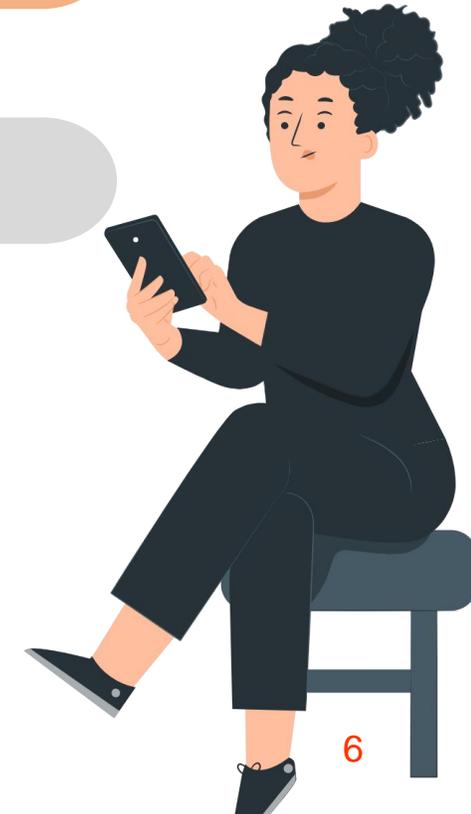
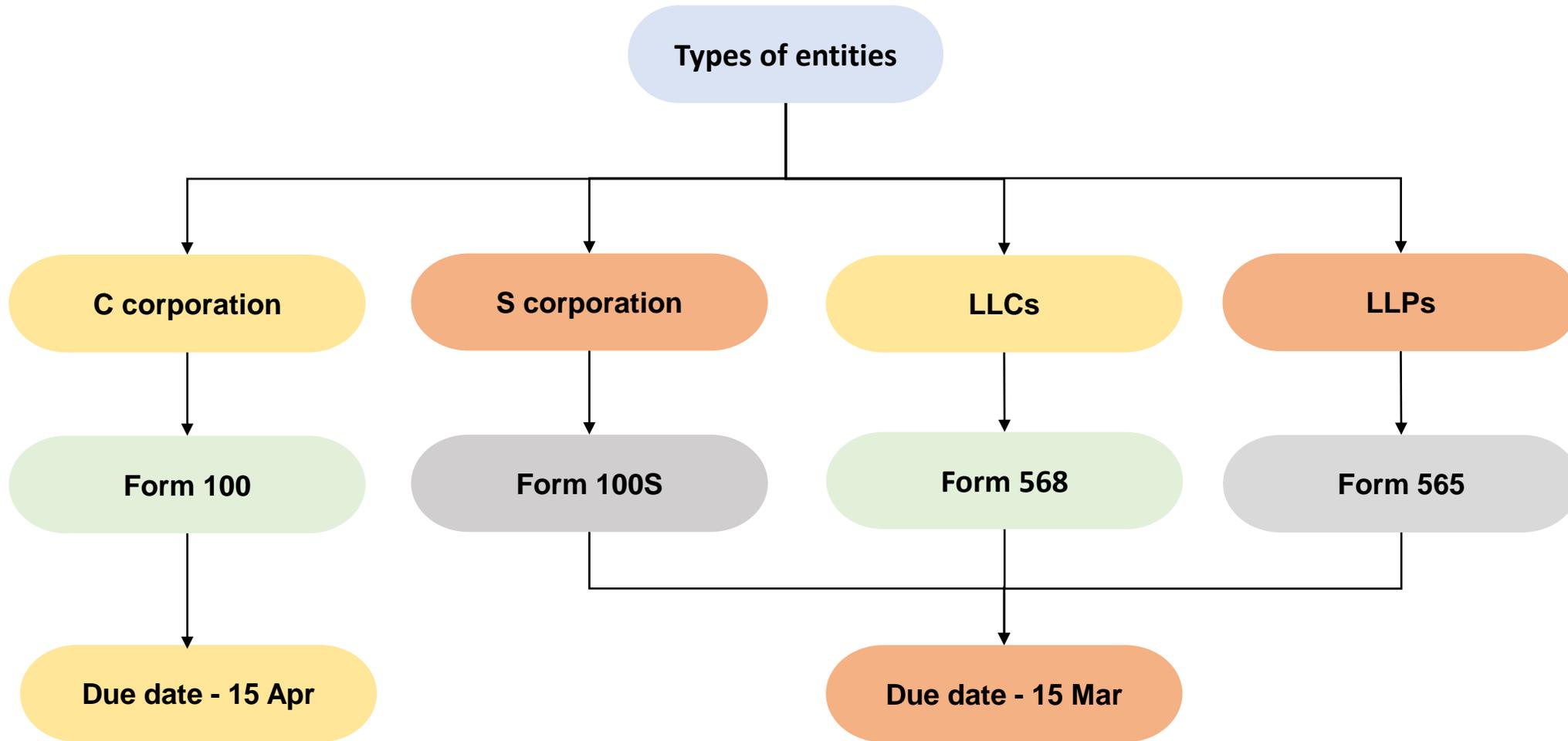
AMT is an alternative taxation mechanism. It applies to taxpayers who have certain types of income that receive favorable treatment, or who qualify for certain deductions, under the tax law. These tax benefits can significantly reduce the regular tax of some taxpayers **with higher economic incomes**. The AMT sets a **limit on the amount these benefits can be used to reduce total tax**. It will not be imposed until income reaches beyond a certain exemption level.



Year	Exemption Threshold		
	Single filers	Couples filing jointly	Corporation
2022	USD 75,900	USD 118,100	USD 40,000
2023	USD 81,300	USD 126,500	USD 40,000

AMT is an alternative taxation mechanism which provides for a minimum tax that is payable by an individual/ corporation.

Tax Filing Requirements



Interest and Penalties

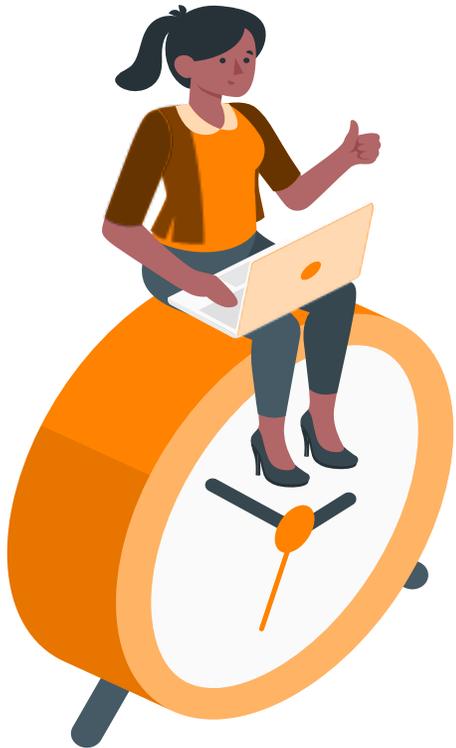
Type of Entity	Failure to file timely return	Failure to pay total tax by due date
Corporation	5% of the tax due, for every month up to a maximum of 25%	5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months) up to a maximum of 25% of the unpaid tax.
S Corporation	5% of the tax due, up to a maximum of 25% . AND The amount of the penalty for each month, or part of a month (for a maximum of 12 months) is USD 18 multiplied by the total number of shareholders / members / partners (as may be applicable)	
LLC		
LLP		



Note: California follows federal rules for the calculation of interest.

Extension of time to File

Entities in California do not require the filing of written extensions. If the entities need more time to file their forms by the return's due date, the entities are granted an automatic six / seven months extension depending on the type of entity. The automatic extension timeline is provided in the below table.

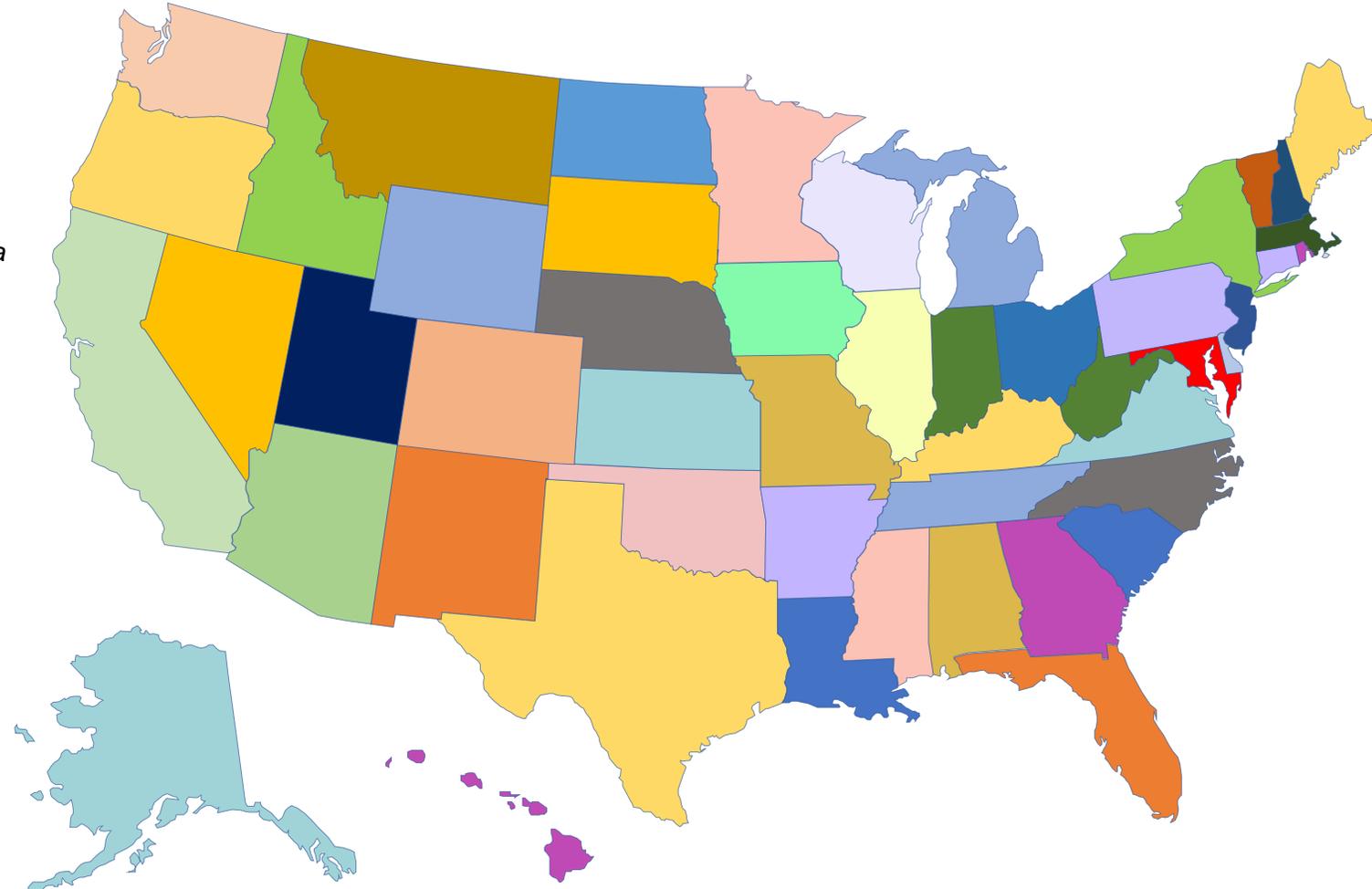


Entities	Extended time to file	Note
C corporation	15 November of the following CY	The automatic extension does not extend the time to pay the minimum franchise tax of USD 800 .
S corporation	15 September of the following CY	
LLC		
LLP		

Upcoming Series

Please find below the list of completed alerts from the series. In case you have missed the previous alerts, click on the hyperlink for the completed alerts to refer the same.

- | | | |
|-------------------------------|--------------------|--------------------|
| 1. Delaware | 18. Kansas | 35. North Dakota |
| 2. New Jersey | 19. Kentucky | 36. Ohio |
| 3. California | 20. Louisiana | 37. Oklahoma |
| 4. Alabama | 21. Maine | 38. Oregon |
| 5. Alaska | 22. Maryland | 39. Pennsylvania |
| 6. Arizona | 23. Massachusetts | 40. Rhode Island |
| 7. Arkansas | 24. Michigan | 41. South Carolina |
| 8. Colorado | 25. Minnesota | 42. South Dakota |
| 9. Connecticut | 26. Mississippi | 43. Tennessee |
| 10. Columbia | 27. Missouri | 44. Texas |
| 11. Florida | 28. Montana | 45. Utah |
| 12. Georgia | 29. Nebraska | 46. Vermont |
| 13. Hawaii | 30. Nevada | 47. Virginia |
| 14. Idaho | 31. New Hampshire | 48. Washington |
| 15. Illinois | 32. New Mexico | 49. West Virginia |
| 16. Indiana | 33. New York | 50. Wisconsin |
| 17. Iowa | 34. North Carolina | 51. Wyoming |



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THANK YOU

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