



MULTISTATE INCOME/FRANCHISE TAX

California provides guidance on tax basis capital accounts reporting requirements

Tax Alert

Overview

On March 8, 2022, California's Franchise Tax Board ("FTB") released [FTB Notice 2022-01](#) to clarify the reporting requirements for the "Analysis of partner's tax basis capital account" on Schedule K-1 for tax year 2021 and subsequent years. As per the guidance provided, taxpayers filing form 565/568 may use federal tax basis for the 2021 tax year; however, for the 2022 tax year and beyond, tax basis must be calculated under California law.

This Tax Alert summarizes some of the relevant provisions of FTB Notice 2022-01.

FTB Notice 2022-01 details

- Effective for tax years beginning on or after January 1, 2021, the FTB is requiring partner/member capital accounts to be reported using tax basis calculated under California law.
- In response to concerns that taxpayers may not be able to comply with this requirement for tax year 2021, the FTB is allowing taxpayers to choose between using tax basis calculated under federal law or California law for taxable year 2021 only.
- For taxable year 2022 and thereafter, the FTB will require taxpayers to report partners' or members' capital account using tax basis calculated under California law.

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