



MULTISTATE INCOME/FRANCHISE TAX

## California postpones requirement to report California tax basis capital accounts until tax year 2023

### Tax Alert

## Overview

On January 30, 2023, the California Franchise Tax Board (“FTB”) released [FTB Notice 2023-01](#) to clarify 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. FTB Notice 2023-01 provides that, for taxable year 2022, taxpayers may report its partners’ or members’ capital accounts using the tax basis method as determined under federal law or under California law.

FTB Notice 2023-01 supersedes and replaces previously released [FTB Notice 2022-01](#), which required taxpayers to report its partners’ or members’ capital accounts using the tax basis method as determined under California law beginning taxable year 2022. Under FTB Notice 2023-01, that requirement is postponed until taxable year 2023, and for every taxable year thereafter.

This Tax Alert summarizes some of the relevant guidance from FTB Notice 2023-01.

## Overview of FTB Notice 2023-01

- Beginning taxable year 2021, the FTB follows the changes made to the federal Schedule K-1 (Form 1065) and requires an entity taxed as a partnership to report its partners’ or members’ capital accounts on the Schedule K-1 (565) or Schedule K-1 (568) using the same tax basis method as described in the 2021 instructions for Form 1065 but calculated under California law.
- In response to concerns that taxpayers may not be able to comply with this requirement for taxable years 2021 and 2022, the FTB will allow a taxpayer to report its partners’ or members’ capital accounts using the tax basis method as determined under federal law or the tax basis

method as determined under California law for taxable year 2021 and 2022 only.

- For taxable year 2023 and thereafter, the FTB will require taxpayers to report partners' or members' capital accounts using the tax basis method as determined under California law.
- FTB's 2022 Form 565 and 568 instructions contain methods to compute the beginning tax basis capital account analysis balance under California law, including methods similar to those the IRS permitted in its 2020 Form 1065 instructions.
- FTB Notice 2023-01 supersedes and replaces FTB Notice 2022-01, which was released on March 8, 2022. Under FTB Notice 2022-01, the FTB required taxpayers 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 beginning in taxable year 2022. As discussed above, FTB Notice 2023-01 postpones that requirement until taxable year 2023, and for every taxable year thereafter.

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