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**SACRAMENTO DELEGATION PAPER**

Bringing Back the Buffer: A Proposal to Amend CRTC Section 18604(a)  
to Provide a Seven-Month Filing Extension to Corporate  
Taxpayers<sup>1 2</sup>

by

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**Executive Summary**

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<sup>1</sup> The comments contained in this paper are the individual views of the authors who prepared them, and do not represent the position of the California Lawyers Association or of the Taxation Section.

<sup>2</sup> Although the authors and/or presenters of this paper might have clients affected by the rules applicable to the subject matter of this paper and have advised such clients on applicable law, no such participant has been engaged by a client to participate on this paper. No author has a direct personal or financial interest in the issue addressed in this paper.

For decades, the due date to file a corporate tax return<sup>3</sup> in California was one month after the federal due date. For calendar year taxpayers, the federal due date was March 15, and the California due date was April 15. These staggered dates reflected the simple fact that taxpayers require the final federal return to prepare their California corporate returns. However, in January 2016, the Surface Transportation and Veterans Health Care Choice Improvement Act took effect, amending the federal corporate tax return due date from March 15 to April 15. This caused the due date to file a California corporate return to fall on the same date as the filing of the federal corporate return—thus removing the one-month buffer that had existed for years between the due dates to file these returns. Likewise, since both federal law and California law allow an automatic six-month extension to file these returns, the extended due date under both federal and California law now falls on the same date—six months after the original due date.

While federal law made a similar change to the due date for partnership returns, the California Legislature promptly changed California law so that the California due date for partnership returns<sup>4</sup> remained 30-days after the federal due date, both for the original return and on extension. The California Legislature declined to amend the original due date for a corporate tax return; thus, the due date for filing the California corporate tax return continues to be the same as the federal due date, with an automatic six-month extension period (to October 15) for calendar year taxpayers.

Although the Franchise Tax Board (“FTB”) has discretion to extend the corporate filing due date up to seven-months from the date of the original return, the FTB announced in Notice 2016-04<sup>5</sup> that California would retain the current six-month extension for corporate tax returns. Thus, the difficulties that were previously avoided because of the staggered due dates are now being experienced. The result is that many more corporate amended returns may need to be filed, which may result in increased costs for both taxpayers and the FTB.

The following proposal seeks to once again allow taxpayers to have, on extension, an additional month after the filing of their federal corporate tax returns to file their California corporate returns. This will provide for

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<sup>3</sup> The returns due for a C or S Corporation or any entity that has “checked-the-box” to be treated as a corporation.

<sup>4</sup> The returns due for partnerships and Limited Liability Companies electing to be treated as a partnership.

<sup>5</sup> See FTB Notice 2016-04.

greater accuracy in reporting and a reduction of the administrative burdens associated with any resultant increase in amended returns.

## I. INTRODUCTION

This proposal recommends that the California Legislature amend California Revenue & Taxation Code (“CRTC”) Section 18604(a) to enact an automatic seven-month extension for filing corporate returns to allow for a one-month buffer between the extended due dates for filing the federal and California corporate tax returns.<sup>6</sup> The current statute permits the FTB to grant an extension not exceeding seven months. Prior to the change to federal law, the FTB had exercised its discretion under this statute to allow for an automatic six-month extension that paralleled the federal extension and resulted in a one-month buffer from the federal due date (for both the original due date and the extended due date) to file the California return.

For reasons discussed below, changing the extended due date for C corporation returns should reduce both the compliance burden and potential for inaccuracies when preparing California corporate returns. Similarly, California corporate returns to be filed one month after the due date for federal corporate returns could serve to decrease the number of amended returns which may need to be filed, which would in turn reduce costs for both taxpayers and the FTB.

## II. BACKGROUND OF CALIFORNIA FILING DEADLINE

CRTC Section 18604(a) provides the FTB with discretion to grant a reasonable extension of time, not to exceed seven months, for taxpayers subject to the California Corporation Tax Law to file their returns.<sup>7</sup> In October of 1992, the FTB issued Notice 92-11,<sup>8</sup> introducing A.B. 3224, which provided a seven-month automatic paperless extension for C and S

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<sup>6</sup> Notably, the same arguments for creating a buffer between the federal and California corporate return due dates apply equally to the original filing deadline and the extended deadline. Therefore, for these reasons, the Legislature may choose to reexamine the rationale espoused in Assembly Bill (“A.B.”) 1775 for declining to change the due date for corporate returns. However, the authors recognize that the Legislature intentionally kept the original filing deadline the same for corporate returns; therefore, this article focuses instead on the extended deadline for corporate returns, as the Legislature did not amend CTRC Section 18604(a), which grants the FTB discretion to provide an extension of up to seven months. Should the FTB wish to break from its declaration in Notice 2016-04 and exercise its discretion to provide a seven-month extension—effectively replacing the buffer between the filing of the federal and California corporate returns—this proposal would be rendered moot.

<sup>7</sup> See CA Rev. & Tax. Code (“CRTC”) § 18604(a).

<sup>8</sup> See FTB Notice 92-11.

Corporations in good standing with the State of California—permitting California corporate returns to be filed one month after federal corporate returns.<sup>9</sup>

Thirteen years after the California Legislature passed A.B. 3224, Congress passed the Surface Transportation and Veterans Health Care Choice Improvement Act (the “Act”), which took effect in January of 2016.<sup>10</sup> The Act amended federal return due dates in two significant ways. First, the Act amended the federal partnership return due date from April 15<sup>th</sup> to March 15<sup>th</sup>.<sup>11</sup> Second, the Act amended the federal corporate return due date from March 15<sup>th</sup> to April 15<sup>th</sup>.<sup>12</sup> The purpose of this change was to allow the parties receiving the data from the pass-through entity time to incorporate this data into their tax returns.<sup>13</sup> Prior to the Act, the returns were due for corporations before some data was even available from pass-through entities, creating unavoidable errors in the tax returns due to the lack of finalized tax data.

In response to these federal law changes, California enacted A.B. 1775, which changed the due date for C Corporation returns from March 15<sup>th</sup> to April 15<sup>th</sup> for tax years beginning on or after January 1, 2016.<sup>14</sup> At the same time, A.B. 1775 changed the due date for partnership tax returns from April 15<sup>th</sup> to March 15<sup>th</sup>,<sup>15</sup> which effectively shortened the extended filing period from seven months to six months. To account for this on the pass-through side, the Legislature enacted A.B. 119 the following year, which changed the extended filing period for partnerships six-months to seven-months.<sup>16</sup> However, no such seven-month extension was granted for corporations.<sup>17</sup>

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<sup>9</sup> The notice was issued in response to A.B. 3224 (Stats, 1992, Ch. 662) (amending CRTC § 25402 to allow extensions of time to file returns required under the Bank and Corporation Tax Law to be granted without specific written requests by taxpayers).

<sup>10</sup> See H.R. 3236, 114<sup>th</sup> Cong. (2015-2016).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* See also 26 U.S.C. § 6072(b). The Act also amended the extended return deadline for Corporations from a three-month extension to a six-month automatic extension. It is important to note that California maintained a seven-month extended return deadline for C and S Corporations prior to the passing of the 2016 Act; a period in which the federal extended return deadline was only three months.

<sup>14</sup> See A.B. 1775, Stats. 2016, Ch. 348.

<sup>15</sup> *Id.* (amending CRTC Section 18633).

<sup>16</sup> See A.B. 119, Stats. 2017, Ch. 21. See also A.B. 1171 (“in the case of a partnership required to file a return under Section 18633 or 18633.5, the extension shall be for no more than seven months”).

<sup>17</sup> See Multistate Corporate Income Tax Guide CA(CCH) P 406-843.

The FTB subsequently issued Notice 2016-04, which announced that the FTB would not, under the discretion granted to it by CRTC Section 18604, allow a similar seven-month extension for corporate tax returns; rather, California retained the six-month extended due date for corporate returns, while maintaining a seven-month extended return due date for partnerships.<sup>18</sup> This Notice solidified a shorter extension period for corporations (from seven months to six months), making the California due date of corporate returns the same as the due date of corporate returns for federal purposes.<sup>19</sup> According to the legislative history of A.B. 1775, the recent date changes were designed to have California due dates conform with federal due dates as a means to create an easier process for taxpayers by ensuring that they will not have to keep up with different due dates.<sup>20</sup>

### **III. PROBLEM PRESENTED: COMPLIANCE BURDENS AND THE POTENTIAL FOR INACCURACIES IN REPORTING ON CALIFORNIA CORPORATE RETURNS**

As a general rule, the computation of California taxable income uses federal taxable income as its starting point, and then permits modifications to account for differences between federal and state tax law. Taxpayers must have the federal tax return numbers completed when preparing the state returns and, often must rush to prepare and/or revise state returns at the last minute because federal numbers have not been finalized or have been revised. Revisions to a federal return routinely occur up through the federal tax return due date, which is often the extended due date under federal law.

Having the original and extended due dates for the California corporate return fall on the same dates as the federal returns increases the opportunity for and likelihood of reporting errors, simply because there is little or no time to make the needed changes. As a practical matter, prior to the law change, much of the work of preparing the California corporate return was done in the one-month period following the filing of the federal return—and, generally speaking, the work done during that month was not work that could be done earlier or more quickly precisely because it was dependent on finalizing numbers contained on the federal return. Now that the California due date for filing corporate returns is the same as the federal date, it creates the possibility for more inadvertent and unintentional errors on California corporate tax returns that result solely from an inability to

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<sup>18</sup> See FTB Notice 2016-04.

<sup>19</sup> See FTB Notice 92-11.

<sup>20</sup> See Bill Analysis for A.B. 1775.

make changes to the California return, particularly as the federal return is being changed and finalized up through the federal due date. To the extent errors exist on originally filed returns, this necessitates the filing of a greater number of amended returns—which the FTB will have to process—and may result in more penalties and, thus, more requests for penalty abatement for the FTB to consider—unless the errors result in a large corporate understatement penalty (“LCUP”), which has no reasonable cause exception.

Furthermore, due to federal tax reform, the potential for errors stemming from changes that need to be made from the federal return to prepare the California return is significantly greater this year than it has been in past years, generally speaking. Significant tax law changes were recently enacted at the federal level to which California has only recently partially conformed. Even this conformity is not entirely consistent with the federal statutes, requiring further modifications and analysis. Thus, state income tax compliance is becoming more complex, time consuming, and burdensome. While the recent date changes under A.B. 1775 were designed to have California due dates conform with federal due dates as a means to create an easier process for taxpayers, these date changes have had the unintended consequence of a substantially increased burden on taxpayers to comply with their filing obligations in California, taxpayer’s exposure to related filing penalties, and the potential need to file amended returns.

### **A. Proposal for Amendment**

As noted above, the FTB currently has discretion to grant taxpayers a seven-month extension to file corporate tax returns and no statutory change is required to implement the proposed change. However, because Notice 2016-04 indicates that California intends to keep the automatic six-month extension for the filing of corporate returns, this proposal seeks a statutory amendment of CRTC Section 18604(a) to provide a seven-month extension to corporate taxpayers, such that the California corporate return will be due on November 15<sup>th</sup>—one month after the filing of federal corporate returns.

To accomplish this, the Legislature may consider the following amendment to CRTC Section 18604(a):

“The Franchise Tax Board, in accordance with Section 25402, *shall* grant the later of a seven-month extension, or an extension of 30 days after the due date for filing the federal corporate

income tax return on extension, to file any return, declaration, statement, or other document required by Part 11 (commencing with Section 23001). For corporations that are not in good standing with the California Secretary of State, this automatic extension will not apply.”

## **B. Benefits of Providing a Seven-Month Extension to File a California Corporate Tax Return**

### ***1. Reducing the Compliance Burden, Particularly in the Face of Federal Tax Reform***

As a preliminary matter, providing an automatic seven-month extension, or (if later) an extension that is 30 days after the federal due date, for filing the federal corporate income tax return would reduce the compliance burden on tax preparers and corporate tax departments, the potential for inaccuracies in reporting, and the need to file amended returns to report corrections, which may be caused by the inability to reflect changes made on the federal return due to the lack of time. This could also reduce the need for processing resources at the FTB, as the number of amended returns filed would be reduced.

With respect to reducing the compliance burden discussed above, a seven-month extension period will allow tax preparers and corporate tax departments additional time to address the broad complexity of a California return in conjunction with the federal return and identify and correctly report differences and areas of nonconformity. For instance, California is one of four states that generally requires unitary business groups to use the worldwide reporting method.<sup>21</sup> As such, reporting requirements for controlled foreign corporations (“CFC”) have become more complex and impact the preparation of California returns. As a worldwide state, California requires tax return preparers to include information from and attach federal Form 5471.<sup>22</sup> Thus, those individuals or departments preparing a corporation’s California returns must first finalize the federal return, before applying California’s particular rules for CFCs and finalizing the California corporate return. Forms 5471, along with the federal tax

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<sup>21</sup> See Cal. Code Regs. tit. 18, § 25106.5(b)(5). The other three states with the same general requirement are Idaho (Idaho Code § 63-3027C; Idaho Regs. § 35.01.01.643.01), Montana (Mont. Code Ann. § 15-31-322; Mont. Admin. R. 42.26.306; Mont. Admin. R. 42.26.302), and North Dakota (N.D. Cent. Code § 57-38.4-02; N.D. Admin. Code § 81-03-05.3-02).

<sup>22</sup> See Instructions, Form 100, California Corporation Franchise or Income Tax Return.

return, are often being modified up through the due date of the federal return, especially in light of the recent, substantive changes to taxation of foreign income made by the Tax Cuts and Jobs Act of 2017 (the “TCJA”).<sup>23</sup>

Moreover, tax reform has caused the preparation of federal returns to become arguably more difficult than it ever has been, which compresses the timeline to prepare California returns even more. Many federal returns are not completed until the end of the last day for filing which is the same day the California return is due. As noted above, recent legislation requires taxpayers and tax return preparers to reevaluate and revise their filing methodology, especially when using the information from the federal return to prepare state returns. Specifically, newly enacted A.B. 91,<sup>24</sup> which selectively conforms California’s tax laws to certain changes made under the TCJA, makes now the perfect opportunity to extend the automatic extension period. Consider that California, one of the states that requires combined reporting,<sup>25</sup> compels corporate members of a combined group to separately compute NOL carryovers for each corporate member in the group using their individual apportionment factors.<sup>26</sup> While this process typically presented difficulties and opportunities for inaccurate reporting, taxpayers must now rethink the calculation of NOLs under the TCJA, which eliminates NOL carrybacks with indefinite carryforward and separate Internal Revenue Code (“IRC”) Section 338 elections. This change, among others, may require tax preparers and corporate tax departments to take additional time to prepare the federal returns, and will necessarily compress the time it takes to prepare the taxpayer’s California return.

In addition, A.B. 91 does not address or conform to some of the notable corporate tax provisions such as the following: the net business interest limitation under IRC Section 163(j); the 80% limitation on NOLs; the dividends received deduction (“DRD”); 100% bonus depreciation; foreign-derived intangible income (“FDII”); and global intangible low-taxed income (“GILTI”). Although selective conformity is a step towards addressing the TCJA, California tax law still does not mirror many aspects of the TCJA.<sup>27</sup> Thus, taxpayers will not only have to examine their current tax reporting methodology, but also will need to consider the broader impact

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<sup>23</sup> H.R. 1, Pub. L. No., 115-97 (Dec. 22, 2017).

<sup>24</sup> A.B. 91, 2019-2020 Reg. Sess. (Cal. 2019).

<sup>25</sup> See Cal. Code Regs. tit. 18, § 25106.5(a).

<sup>26</sup> *Id.*

<sup>27</sup> California still generally conforms to the Internal Revenue Code as of January 1, 2015 and only selectively conforms to certain provisions. See Cal. Rev. & Tax Code §§ 17024.5; 23051.5.

that legislation has or will have on their business operations in general and how to move forward. Therefore, taxpayers and tax return preparers will benefit from having an additional month to consider the proper way to account for the complexities and changes to the federal return, and will reduce inaccuracies in reporting for both the current and subsequent tax years.

Moreover, an additional month to file the California corporate tax return provides taxpayers and tax return preparers with the ability to address subsequent legislative and administrative changes related to tax reform. Given that California is a fixed conformity state, California may enact subsequent legislation to affirmatively conform or decouple from certain provisions of the TCJA that have not yet been addressed. Further, additional tax law changes at the federal level have been introduced to fine tune the TCJA creating risk for on-going issues on non-conformity that may need to be addressed annually by California corporate taxpayers. Allowing California corporate returns to be filed one month after the due date for filing the federal corporate income tax return on extension will help ease the compliance burden associated with subsequent legislation, as well as the possibility of retroactive or prospective applicability of the TCJA provisions that California may conform to at a later date, and increase the accuracy of returns filed thereby reducing the return processing burden on the FTB.

## ***2. Such a Change is Consistent with Actions Taken by Other States to Alleviate Pressure on Tax Preparers and Corporate Tax Departments***

It is also worth noting that other states offer a seven-month corporate filing extension, such that state corporate returns are due a month after the federal corporate returns.<sup>28</sup> For example, Virginia Code Section 58.1-453(A) grants corporations an extension of time to file their returns to the later of six months after the due date for filing the original Virginia corporate income tax return, or 30 days after the due date for filing the

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<sup>28</sup> Alaska (30 days after the federal extension period) (Alaska Stat. § 43.20.030); Indiana (30 days after the federal extension period) (Ind. Code Ann. § 6-8.1-6-1(c)(1)); Louisiana (La. Rev. Stat. Ann. § 47:287.614(d)); Maryland (Md. Code Ann. Tax-Gen. § 10-823); Michigan (8-month extension period) (Mich. Comp. Laws § 206.685(3)); Minnesota (Minn. Stat. § 289A.19(2)); Nebraska (Neb. Admin. R. & Regs. 316-24-007.01); New Hampshire (N.H. Rev. Stat. Ann. § 77-A:9); New Mexico (up to a 12-month extension upon a showing of good cause) (N.M. Stat. Ann. § 7-1-13(E)); North Dakota (N.D. Cent. Code § 57-38-34(6)); Oklahoma (Okla. Stat. Ann. Tit. 68, § 216); Pennsylvania (30 days after the federal extension period) (72 Pa. Stat. § 7405); Vermont (30 days after the federal extension period) (Vt. Stat. Ann. Tit. 32, § 5868); Virginia (Va. Code Ann. § 58.1-453(A)); Wisconsin (Wis. Stat. § 71.24(7)).

federal corporate income tax return on extension. Before tax year 2016, Virginia generally granted a 6-month filing extension to corporate taxpayers, which meant an extended due date of October 15<sup>th</sup> for calendar year filers. However, on July 28, 2017, Virginia released Tax Bulletin 17-9<sup>29</sup> in response to the Act, which granted a seven-month filing extension to C Corporations for tax year 2016 and tax years thereafter.

The fact that other states have extended due dates of November 15<sup>th</sup>, and even December 15<sup>th</sup>, supports the notion that taxpayers need a buffer between the filing of the federal and state corporate tax returns, to allow adequate time for the preparation of the state return after the finalization of the federal corporate return. Such an extension is especially necessary for California, as California's delayed and selective conformity to federal tax reform provisions is effective for tax year 2019. Although immediate implementation of this proposal may not be feasible, tax year 2019 serves as a great example why an additional month between the due date of the California return and the federal return is beneficial. Additional time will give tax return preparers a better opportunity to understand how these changes will affect the California state return for tax year 2019 and ensure more accurate reporting.

### ***3. Consistency with A.B. 1775 and the Historical Basis for this Proposal***

According to the legislative history of A.B. 1775, the recent date changes were designed to have California due dates conform with federal due dates as a means to create an easier process for taxpayers. However, leaving the California and federal tax return due dates for corporate taxpayers the same has unintentionally increased the burden and complexity of the process due to the complexities of the California and federal return filings. Despite the stated purpose of A.B. 1775, different return due dates between federal and state filings did not overly burden taxpayers; rather, this buffer provided them time to ensure that the returns filed were accurate and all federal changes made were accurately reported. Accordingly, allowing a seven-month extension of time, or providing an extension of 30 days after the due date for filing the federal corporate income tax return, to file the California return will achieve the objective of A.B. 1775 by creating an easier process for taxpayers.

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<sup>29</sup> Virginia Tax Bulletin VTB 17-9 (July 28, 2017).

The proposed extension is also consistent with the purpose of A.B. 1775, as it ensures that corporate taxpayers have the information from pass-through entities to accurately prepare their respective returns. Accepting the reality that corporations are also often investors in partnerships, and rely on K-1s to accurately report their taxes, the additional month could further ensure that corporate investors receive their K-1s with enough time to file accurate returns and thus decrease the need to file amended returns.

The seven-month automatic extension period for C corporations also has a historical basis. As noted in the commentary for A.B. 1171, which proposed an extension of time for filing California partnership returns, A.B. 1171 aimed to restore the dates that were historically in place before A.B. 1775 was passed.<sup>30</sup> Specifically, the commentary noted that “the state returns for both [corporations] and partnerships have always been due a month after the federal returns.”<sup>31</sup>

#### ***4. Reducing Costs Associated with Reporting Errors***

The FTB and Legislature may also consider that changing the extended due date for California corporate returns to allow for an additional month after the federal due date can alleviate costs to both taxpayers and the state. First, the lack of adequate time to prepare the California corporate tax returns will increase the burden on the FTB to process amended tax returns and handle taxpayer’s inquiries. Currently, the processing time for amended returns is six months to a year, or even longer in some instances.<sup>32</sup> Leaving the federal and state return extended due date the same may not provide adequate time to accurately prepare the California return and may increase the burden on these processing systems. Furthermore, having inadequate time to prepare the California corporate returns may even extend the time needed to process amended returns, increase notices that are erroneously issued because the amended returns are not processed, increase correspondence and burden on call centers, and increase the cost of compliance for taxpayers. Changing the extended return to allow it to be filed one month after the federal tax return could alleviate a significant portion of these issues, and allow the FTB to devote resources to processing the existing amended return backlog.

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<sup>30</sup> A.B. 1171, 2017-2018 Reg. Sess. (Cal. 2017) (as amended April 24, 2017).

<sup>31</sup> *Id.*

<sup>32</sup> According to the FTB website, the processing timeframe for amended returns for businesses is usually 6 to 12 months. See <https://www.ftb.ca.gov/file/after-you-file/amend-a-return/after-you-submit.html>.

Further, taxpayers that are forced to rush to prepare and file California returns at the same time as the federal returns are exposed to an increased likelihood for error and risk incurring penalties, such as the LCUP. Thus, the current timeline creates an incentive for taxpayers to file California corporate returns conservatively to comply with the filing deadline and then file amended returns, which further exacerbates the administrative burden discussed above. Therefore, providing more time to file accurate returns can result in a more efficient use of FTB's resources.

### **C. Challenges to Amending the Statute**

#### ***1. Implementation Considerations***

The FTB has expressed that a primary challenge to moving the extension deadline for corporate tax returns beyond October 15th is “due to year end processing limitations.”<sup>33</sup> Additionally, parties have cited to the costs associated with implementing changes on applicable forms, instructions, and to processing system. Indeed, these costs may be exacerbated by the short time frame necessary to ensure these resources are available for taxpayers prior to impending filing deadlines.<sup>34</sup> However, the FTB and tax preparation software vendors were faced with similar challenges when updating forms, instructions, and processing systems to reflect the due date changes associated with California's conformity to the federal changes in 2016 and for partnership tax returns. Thus, there is a recently established basis and method for overcoming cost considerations.

Another potential challenge to extending the due date for filing a corporate tax return to November 15th is that such a change could “significantly impact the department's operations for current year filings and could delay the FTB's ability to implement the return processing infrastructure for the next year's tax return.”<sup>35</sup> However, this could possibly be addressed by direction from the Legislature with respect to how the FTB implements the return processing infrastructure. For instance, if deemed necessary by the Legislature, an operative date can be established to give the FTB time to prepare to implement this change so that the additional month

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<sup>33</sup> See Franchise Tax Board Tax News, “California extended due dates for corporate taxpayers” (October 2018). <https://www.ftb.ca.gov/about-ftb/newsroom/tax-news/october-2018/california-extended-due-dates-for-corporate-taxpayers.html>

<sup>34</sup> See Bill Analysis for A.B. 1171.

<sup>35</sup> See Analysis of Original Bill for A.B. 1171. Although this bill is specific to partnership returns, similar reasoning can be analogized to corporate returns.

does not significantly impact the department's operations for current year filings. Notably, similar challenges were overcome to account for the changes to partnership return deadlines brought on by A.B. 1775.

Lastly, many of the implementation concerns may be offset by the reduction of administrative costs associated with the filing of amended returns discussed in Section III.B.4. above.

## *2. Additional Considerations: Penalties*

The frequency at which the FTB can impose certain corporate filing penalties might be affected if corporate taxpayers have an additional month to file. Although the fiscal impact related to penalties is uncertain, the FTB may want to consider the unknown revenue loss associated with the assessed penalty for failure to file and requested penalty relief and with the assessed penalty for delinquent filing and requested penalty relief.

## **IV. CONCLUSION**

In conclusion, this proposal provides a suggested statutory amendment to allow a seven-month, or 30 days after the due date for filing the federal corporate income tax return on extension, extension of time to file California corporate tax returns. Such a change could serve to reduce compliance and administrative burdens, increase accuracy in reporting, reduce administrative costs associated with reporting errors and the filing of amended returns, and reduce the likelihood of taxpayers incurring severe penalties, such as the LCUP. Such a change would be consistent not only with the intent of A.B. 1775, but with the legislative and administrative actions of many other states. Lastly, while there could be potential implementation challenges, these challenges may be addressed and overcome as part of the effort to extend the extension deadline for partnership returns in this state.

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