

# 2021 Instructions for Form FTB 4197

## Information on Tax Expenditure Items

### What's New

**Paycheck Protection Program (PPP) Loans Forgiveness** – For taxable years beginning on or after January 1, 2019, California law allows an exclusion from gross income for covered loan amounts forgiven under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, or the Consolidated Appropriations Act (CAA), 2021. However, the Paycheck Protection Program Extension Act extends the covered period of the PPP to June 30, 2021. California law does not conform to this extension and does not allow an exclusion from gross income for PPP loans forgiven due to the extended covered period after March 31, 2021 to June 30, 2021. For more information, refer to the applicable tax booklets.

The CAA, 2021, allows deductions for eligible expenses paid for with covered loan amounts. California law conforms to this federal provision, with modifications. For California purposes, these deductions do not apply to an ineligible entity. For more information, refer to the applicable tax booklet or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **AB 80**.

**Other Loan Forgiveness** – For taxable years beginning on or after January 1, 2019, California law allows an exclusion from gross income for borrowers of forgiveness of indebtedness described in Section 1109(d)(2)(D) of the CARES Act as stated by Section 278, Division N of the federal CAA, 2021. The CAA, 2021, allows deductions for eligible expenses paid for with covered loan amounts. California law conforms to this federal provision, with modifications. For California purposes, these deductions generally do not apply to an ineligible entity. For more information, refer to the applicable tax booklet, or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **AB 80**.

**Advance Grant Amount** – For taxable years beginning on or after January 1, 2019, California law conforms to the federal law regarding the treatment for an emergency Economic Injury Disaster Loan (EIDL) grant under the federal CARES Act or a targeted EIDL advance under the CAA, 2021.

**Reporting Requirements** – For taxable years beginning on or after January 1, 2021, taxpayers who benefited from the exclusion from gross income for the PPP loans forgiveness, other loan forgiveness, or the EIDL advance grant and related eligible expense deductions under the federal CARES Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, or the CAA, 2021, should file form FTB 4197, Information on Tax Expenditure Items, as part of Franchise Tax Board's (FTB) annual reporting requirement. For more information, see General Information, Who Should File.

### General Information

Beginning on or after January 1, 2020, taxpayers should file form FTB 4197 with the FTB to report tax expenditure items as part of the FTB's annual reporting requirements under California Revenue and Taxation Code (R&TC) Section 41. Tax expenditure means a credit, deduction, exclusion, exemption, or any other tax benefit.

#### **Taxpayers Operating a Commercial Cannabis Activity**

For taxable years beginning on or after January 1, 2020, and before January 1, 2025, California allows individuals and other taxpayers operating under the personal income tax law to claim credits and deduction of business expenses paid or incurred during the taxable year in conducting commercial cannabis activity (R&TC Section 17209).

**Note:** Commercial cannabis activities mean businesses licensed under California Medicinal and Adult-Use Cannabis Regulation and Safety Act (CA MAUCRSA).

### Purpose

Use form FTB 4197 to report the total amount of deductions, credits, exclusions, and exemptions related to certain trade or business activity for the taxable year, as applicable. FTB is required to compile deduction and credit information to report to the California Legislature.

Filing this form is in addition to any other credit forms or expense schedules that are required to be filed with your tax return. Refer to the applicable booklet instructions for more information.

### Who Should File

#### **Taxpayers Operating a Commercial Cannabis Activity**

Taxpayers that should file form FTB 4197 include the following:

- Individuals operating a commercial cannabis activity licensed under CA MAUCRSA.
- Individual owners of single member limited liability companies (SMLLCs) operating a commercial cannabis activity licensed under CA MAUCRSA.
- Individual shareholders, beneficiaries, partners, or members that received Schedules K-1 (100S, 541, 565, or 568), Share of Income, Deductions, Credits, etc., from an S corporation, an estate or trust, a partnership, or a limited liability company taxed as a partnership, that are operating commercial cannabis activities licensed under CA MAUCRSA.
- C corporation partners (including corporation filing a combined report) and S corporation partners that received Schedule K-1 from a partnership that is operating a commercial cannabis activity licensed under CA MAUCRSA.

#### **Taxpayers that Benefited from the Paycheck Protection Program/Other Loan Forgiveness/Economic Injury Disaster Loan**

The following taxpayers should file form FTB 4197 if they benefited from the PPP loans forgiveness, other loan forgiveness, or the EIDL advance grant:

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- Limited liability companies (LLCs)

Complete form FTB 4197 and attach to Form 540, California Resident Income Tax Return; 540NR, California Nonresident or Part-Year Resident Income Tax Return; 100, California Corporation Franchise or Income Tax Return; 100S, California S Corporation Franchise or Income Tax Return; 100W, California Corporation Franchise or Income Tax Return - Water's-Edge Filers; 109, California Exempt Organization Business Income Tax Return; 541, California Fiduciary Income Tax Return; 565, Partnership Return of Income; or 568, Limited Liability Company Return of Income (as applicable).

### Specific Line Instructions

**Note:** For taxpayers that benefited **only** from the PPP, other loan forgiveness, or EIDL program, complete only Part I, column (a); **do not** complete the rest of the form.

### Part I — Deductions, Credits, Exemptions, and Exclusions

#### **Taxpayers Operating a Commercial Cannabis Activity**

The following taxpayers should complete Part I, columns (a) through (d); **do not** complete columns (e) and (f):

- Sole proprietors conducting a commercial cannabis activity.
- Individual owners of SMLLCs conducting a commercial cannabis activity.

Enter all amounts as positive numbers.

**Taxpayers that Benefited from the Paycheck Protection Program/Other Loan Forgiveness/Economic Injury Disaster Loan**

The following taxpayers should only complete Part I, column (a) if they benefited from the PPP loans forgiveness, other loan forgiveness, or the EIDL advance grant:

- Individuals
- C corporations including Water's-Edge filers
- S corporations
- Exempt organizations
- Estates or trusts
- Partnerships
- LLCs

**Column (a) – Code**

Use the chart below to enter the applicable code in column (a).

Activity	Code
Cannabis	CBIS
Paycheck Protection Program	PPP
Other Loan Forgiveness	OLF
Economic Injury Disaster Loan	EIDL

Taxpayers who benefited **only** from the PPP loans forgiveness, other loan forgiveness, or the EIDL advance grant, enter the appropriate code in column (a); stop here and **do not** complete the rest of this form.

Taxpayers operating a commercial cannabis activity, see instructions below and complete the rest of the form, as applicable.

**Column (b) – Deductions claimed this year**

Enter in column (b) the total deductions claimed this year for the trade or business activity listed in column (a), including any deductions for your SMLLCs. Total deductions do not include cost of goods sold (COGS). The total amount of deductions claimed should come from the following schedules:

- Federal Schedule C (Form 1040), Profit or Loss From Business, line 28 plus line 30, using California amounts.
- Federal Schedule F (Form 1040), Profit or Loss From Farming, line 33 or line 49, using California amounts.

**Column (c) – Credits generated this year**

Enter in column (c) the total credits generated this year from the trade or business activity listed in column (a). Refer to the specific credit form for more information. If you generate more than one credit, attach a schedule to this form with a break down of the credits from the trade or business activity listed in column (a):

- Credit name and code of each specific credit
- Amount generated for each specific credit
- Total amount of all credits generated

Enter the total amount of credits generated in column (c).

**Column (d) – Credits claimed/used this year**

Enter in column (d) the total credits claimed/used this year from the trade or business activity listed in column (a). Refer to the specific credit form for more information. If you claim/use more than one credit, attach a schedule to this form with a break down of the credits from the trade or business activity listed in column (a):

- Credit name and code of each specific credit
- Amount claimed/used for each specific credit
- Total amount of all credits claimed/used

Enter the total amount of credits claimed/used in column (d).

**Part II — Deductions, Credits, Exemptions, and Exclusions from Pass-Through Entities (PTE)**

The following taxpayers should complete Part II, columns (a) through (e); do not complete columns (f) and (g):

- Individual shareholders, beneficiaries, partners, or members of a PTE.
- C corporation partners and S corporation partners of a PTE.

Enter all amounts as positive numbers.

**Column (a) – PTE code**

See the Code chart in the instructions for Part I, column (a), to enter the applicable code for the PTE.

**Column (b) – Deductions from PTE**

Enter in column (b) the deductions that you received from the PTE that is conducting the trade or business activity listed in column (a). The S corporation, estate or trust, partnership, or LLC should provide you a schedule showing your share of total deductions pertaining to the PTE trade or business activity listed in column (a).

**Column (c) – Deductions claimed this year**

Enter in column (c) the deductions claimed this year for the deductions that you received from the PTE that is conducting the trade or business activity listed in column (a).

If your cannabis business operated at a loss, and this loss is suspended because of passive activity loss rules, complete the following worksheet:

Worksheet I	
Enter all amounts as positive numbers.	
1. Gross receipts from cannabis business . . . . .	1. _____
2. Cost of goods sold . . . . .	2. _____
3. Gross income. Subtract line 2 from line 1 . . . . .	3. _____
4. Total expenses . . . . .	4. _____
5. Net loss from cannabis business. Subtract line 4 from line 3 . . . . .	5. _____
6. Enter the portion of total expenses from line 4 above that reduced gross income to \$0. See example below . . . . .	6. _____
7. Enter the allowed passive loss for cannabis business, from form FTB 3801, <a href="#">Worksheet F</a> , column (c) . . . . .	7. _____
8. Deductions claimed this year. Add line 6 and line 7. Enter the total amount here and on form FTB 4197, Part II, column (c) . . . . .	8. _____

**Example:** The gross receipts, COGS, gross income, expenses and net loss from cannabis business for this taxable year is as follows:

- Gross receipts . . . . . \$1,000
- COGS . . . . . 100
- Gross income. Subtract line 2 from line 1 . . . . . 900
- Total expenses . . . . . 1,500 (The expenses amount that reduced your gross income to zero is \$900.)
- Net loss from cannabis business. Subtract line 4 from line 3 . . . \$600

**Column (d) – Credits from PTE**

Enter in column (d) the credits that you received this year from the PTE that is conducting the trade or business activity listed in column (a). The S corporation, estate or trust, partnership, or LLC should provide you a schedule showing your share of total credits pertaining to the trade or business activity listed in column (a).

**Column (e) – Credits claimed/used this year**

Enter in column (e) the total credits claimed/used this year for the credits that you received from the PTE that is in the trade or business activity listed in column (a).

**Franchise Tax Board Privacy Notice on Collection**

Our privacy notice can be found in annual tax booklets or online. Go to [ftb.ca.gov/privacy](http://ftb.ca.gov/privacy) to learn about our privacy policy statement, or go to [ftb.ca.gov/forms](http://ftb.ca.gov/forms) and search for 1131 to locate FTB 1131 EN-SP, Franchise Tax Board Privacy Notice on Collection. To request this notice by mail, call 800.338.0505 and enter form code 948 when instructed.