

**Revenue Information Bulletin No. 06-026**

**June 27, 2006**

**Corporation Franchise Tax**

**Reclassifications Required for the Franchise Tax Return**

Before beginning to compute the franchise tax base the books of the corporation must be correct for franchise tax purposes. Only after the balance sheets have been corrected for franchise tax purposes is the franchise tax calculated.

Many times the account groupings referred to as “Other Current Liabilities” and “Other Liabilities” contain a mix of indebtedness accounts and surplus accounts. An example of a surplus account is deferred income tax, which might appear in either or both of those account groupings. In order to prepare a correct franchise tax return and calculate the correct franchise tax, these accounts must be reclassified.

Franchise taxable periods beginning on or after January 1, 2006 include the first phase of the phase-out of indebtedness from the franchise taxable base. The following illustration is provided to demonstrate the reclassification and the phase out.

Liabilities	EOY Balances	Reclassified Accounts	CFT EOY Balances	2006 Debt Excluded 14%	Taxable Base
Accounts Payable	\$25,000		\$25,000		0
Mortgages, Notes, Bonds Payable(one year old or less)	0		0		
Other Current Liabilities:	\$60,000		\$60,000		0
Loans From Stockholders	0		0		0
EOY Balance Due to Subs and Affiliates	\$40,000		\$40,000	(\$5,600)	\$34,400
Mortgages, Notes, Bonds Payable (more than one year old)	\$48,000		\$48,000	(\$6,720)	\$41,280
Other Liabilities:					
Loans from Affiliates	\$4,000		\$4,000	(\$560)	\$3,440
Deferred FIT	\$6,500	(\$6,500)	0		
Self Insurance Reserve	\$3,000	(\$3,000)	0		
Capital Stock	\$25,000		\$25,000		\$25,000
Paid-in or Capital Surplus	0		0		
Surplus Reserves	0	\$9,500	\$9,500		\$9,500
Earned Surplus and Undivided Profits	\$8,500		\$8,500		\$8,500
Excess Reserves or Undervalued Assets	0		0		0
Total Liabilities	\$220,000		\$220,000		\$122,120

Cynthia Bridges  
Secretary

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