



STATE OF CALIFORNIA
Franchise Tax Board

Franchise Tax Board's CCTC Compliance Review Process

Summary

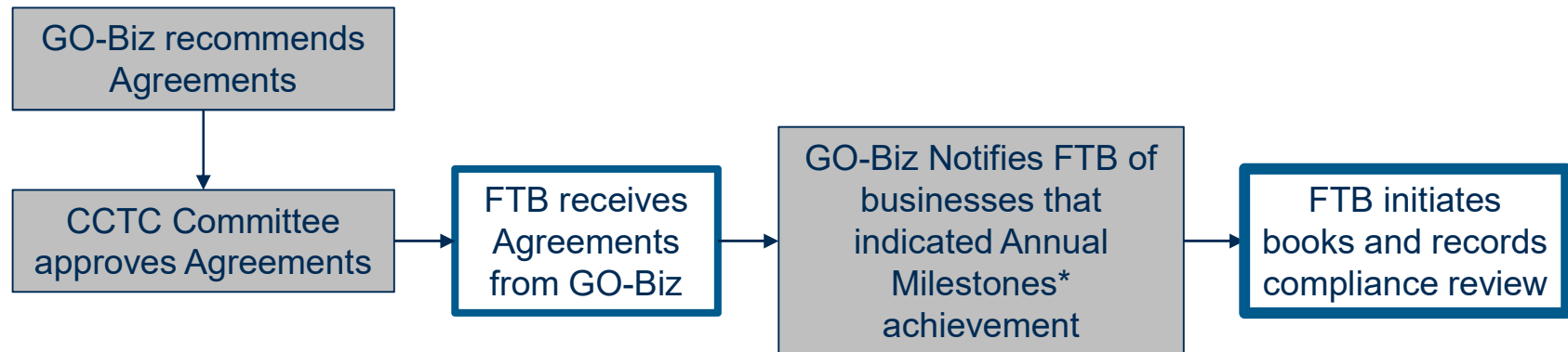
This document provides an overview of the Franchise Tax Board's (FTB) California Competes Tax Credit (CCTC) books and records compliance review process. The purpose of FTB's review is to ensure compliance with the terms and conditions of the CCTC Agreements awarded by the Governor's Office of Business and Economic Development (GO-Biz) and approved by the CCTC Committee.

FTB Notice 2014-02 **[Exhibit A]** establishes general guidelines for FTB's compliance review process. The information and charts on the following slides are designed to provide a greater understanding of the specific steps FTB takes to verify CCTC agreement compliance.

Since the agreements span five years and have a three year maintenance period, each credit awardee can be subject to one or more compliance reviews. The CCTC review focuses on compliance with the awardee's credit agreement as opposed to how items are reported on a tax return. An awardee's tax return remains subject to FTB's normal audit selection process, which is a separate compliance process.

CCTC Process

The chart below shows a high level illustration of when FTB initiates the compliance review process:



* *Milestones are awardees' commitments included in their CCTC Agreement.*

FTB's Compliance Review Process

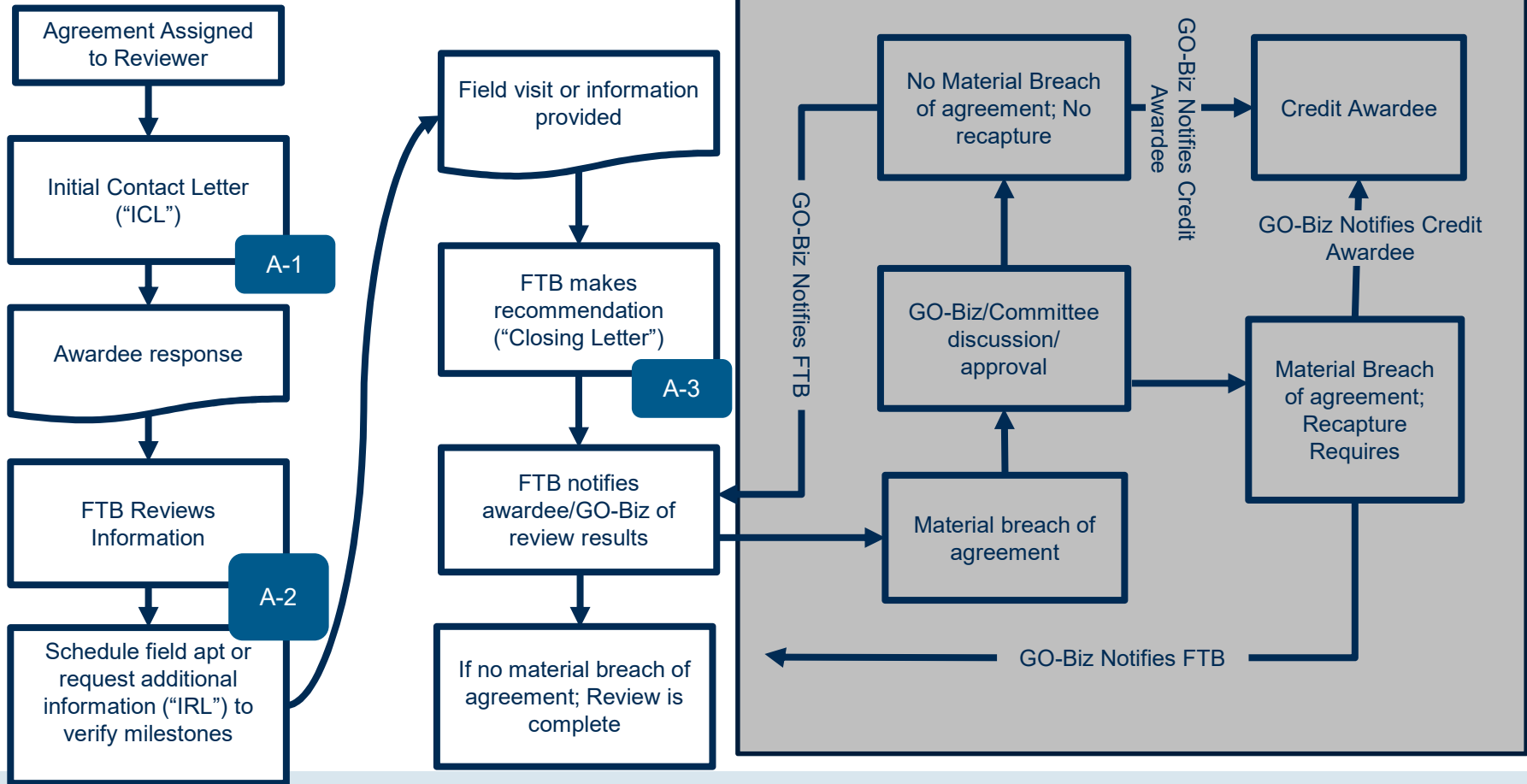
On an annual basis, the credit awardee informs GO-Biz if it has met its agreement commitments relating to jobs creation, wage levels, and investments. FTB's review is "initiated" once annual notification is received from GO-Biz.

Through its review process, FTB verifies the awardee has complied with its CCTC agreement terms and conditions. FTB performs this verification by requesting a variety of source documents and other information from the awardees. The information-gathering process can occur over a series of interactions in order to obtain needed information. FTB may also perform site tours or field visits during the verification process.

FTB reviews generally take on average 100+ hours, depending on the size of the company. FTB may use other sources to validate information provided by awardees. Refer to the next page for a flowchart of FTB's review process.

FTB's Compliance Review Process Flowchart

GO-Biz Process



Initial Contact Letter (ICL) A-1

The compliance review process begins with FTB's Initial Contact Letter (ICL). The purpose of the ICL is to inform credit awardee that the FTB will begin its review process. An example of an ICL is attached **[Exhibit B]**. Awardees are generally asked to respond within 30 days of receipt of ICL. Awardees may work directly with FTB or authorize a representative to act on their behalf.

The ICL:

- Explains what the credit awardee can expect during the review process **[Exhibit C, FTB 1015F]**
- Requests initial information to support the agreement commitments:
 - Certification of annual milestones achievement.
 - General information regarding the business structure and any changes since the agreement approval.
 - Schedules and calculations for net increase in employment. **[Exhibit D]**
 - Calculation and supporting schedules for salary levels.
 - Schedule of investments made in the state during the taxable years under review.

FTB Reviews Information A-2

Once the awardee provides an initial response, FTB determines what type of additional information is needed to verify the milestones. Below are examples of source documents that are requested from the awardee with an Information Request Letter (IRL). A sample IRL is attached **[Exhibit E]**.

New Jobs Created & Salary Levels	Investment
<ul style="list-style-type: none">• Job offer letters• Employment contract• Payroll records (e.g. I-9, W-4, W-2)• Pay stubs	<ul style="list-style-type: none">• Invoices• Lease/rental agreement• Payment substantiation (e.g. cancelled check)• Site tours

Recommendation/Closing Letter A-3

Once it has reviewed all the relevant information, FTB will make a recommendation and send a position or closing letter to the credit awardee **[Exhibit F]**. A recommendation (position) letter typically explains the material variance from the agreement commitments, resulting from the compliance review. If there is no material variance, a “closing” letter is sent. In arriving at its recommendation, FTB will:

- Document detailed verification and analysis steps in review workpapers.
- Communicate outcome with credit awardee or designated representative.
- Communicate outcome with GO-Biz when credit awardee does not meet milestones, identifies a possible material breach, and/or has a change to their base year amount (as provided on CCTC Agreement).

FTB will repeat the overall process at the final year of the agreement. If there is possible material breach, FTB will await a final determination from GO-Biz and the CCTC committee.

FTB CCTC Resources

FTB has the following resources available to awardees regarding the compliance review process:

- Dedicated FTB Webpage (ftb.ca.gov/cctc)
- Contact Email: GEDI@ftb.ca.gov

Exhibits

The following exhibits are included for reference:

- **Exhibit A:** FTB Notice 2014-02
- **Exhibit B:** Initial Contact Letter (ICL)
- **Exhibit C:** FTB 1015F
- **Exhibit D:** Annual Full-Time Equivalent (AFTE) Schedule Example
- **Exhibit E:** Information Request Letter (IRL)
- **Exhibit F:** Recommendation (Position) / Closing Letter

Exhibit A: FTB Notice 2014-02



STATE OF CALIFORNIA
Franchise Tax Board



State of California
Franchise Tax Board

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11.07.14

FTB NOTICE 2014-02

Subject: Procedures for reviewing the books and records of a taxpayer that was awarded a California Competes Tax Credit (CCC) in accordance with Revenue and Taxation Code sections 17059.2 and 23689.

Purpose: The purpose of this Notice is to inform taxpayers of the procedures the Franchise Tax Board (FTB) will use to review the books and records of taxpayers that are awarded a CCC by the Governor's Office of Business and Economic Development (GO-Biz).

Background: Subdivision (d) of Sections 17059.2 and 23689 of the Revenue and Taxation Code require the FTB to review the books and records of all taxpayers awarded a CCC, other than taxpayers that are small businesses. The purpose of the review is to ensure compliance with the written agreement between the taxpayer and GO-Biz. These statutory provisions also authorize FTB to review the books and records of small business taxpayers awarded a CCC. FTB will review the books and records of small business taxpayers when, in the sole discretion of the FTB, a review of those books and records is necessary. The review of books and records to determine contract compliance is not an audit of tax returns. The contracts negotiated between Go-Biz and the taxpayers incorporate the attached review procedures by reference to this Notice.

Procedures: The specific procedures FTB will use to conduct a review of a taxpayer's books and records to evaluate compliance with an agreement entered into pursuant to Revenue and Taxation Code sections 17059.2 and 23689 are attached.

For additional information concerning the CCC please visit FTB.CA.GOV and search "CCC."

The principal author of this notice is Kristen E. Kane of the Franchise Tax Board, Legal Division. For further information regarding this notice, contact Mrs. Kane at P. O. Box 1720, Rancho Cordova, CA 95741-1720.

**PROCEDURES FOR REVIEW OF BOOKS AND RECORDS
FOR THE CALIFORNIA COMPETES TAX CREDIT**

(a) General.

(1) The purpose of the review is to determine if the taxpayer is in compliance with the written agreement (herein referred to as contract) with the Governor's Office of Business and Economic Development (GO-Biz) with respect to the California Competes Tax Credit as provided in Revenue and Taxation Code Sections 17059.2 / 23689.

(2) In general, the review must be completed in a timely manner to allow Franchise Tax Board to provide timely information to GO-Biz that the taxpayer is, or is not, in compliance with the contract. A review of the books and records may take place once or multiple times depending on the terms of the contract.

(3) Power to Review. Franchise Tax Board has the power to review the books and records of the taxpayer to ensure that the taxpayer is in compliance with the contract as set forth in Revenue and Taxation Code Sections 17059.2(d) / 23689(d).

(4) Taxpayer's Duty to Respond. A taxpayer or the taxpayer's representative has the duty to make a timely and complete response to requests for information or documents by the Franchise Tax Board that are relevant and reasonable or provide an explanation as to why additional time is necessary to respond or state why the request is not relevant or reasonable.

The reviewer and the taxpayer or the taxpayer's representative should work together to make information requests relevant and reasonable including the use of alternative sources of information in order to substantiate the facts and circumstances of the issue under review. For example, the reviewer and the taxpayer or the taxpayer's representative may agree to a procedure in which the reviewer would draft an information request, discuss the information request with the taxpayer or the taxpayer's representative, and the reviewer would take into account such comments before issuing the formal information request. The reviewer shall be a Franchise Tax Board audit staff member.

(5) Duty of Franchise Tax Board Staff. Franchise Tax Board staff has the duty to:

(A) Conduct the review of the books and records, in a reasonable, practical manner consistent with applicable California law.

(B) Make relevant and reasonable information requests related to the contract terms or milestones under examination:

1. The reviewer shall explain the relevance or reasonableness of the request when asked to do so,
2. Requests for information are relevant if the requested information is germane to or applicable to the contract terms or milestones, and
3. The reviewer and the taxpayer or the taxpayer's representative should work together to make information requests relevant and reasonable including the use of alternative sources of information in order to substantiate the facts and circumstances of the contract terms of milestones under review.

(C) Timely analyze information received or responses submitted and to request additional relevant information.

(6) Duty to Maintain Records. Generally, it is the taxpayer who will be in possession or control of the necessary information, documents, books and records and who will have the knowledge regarding the circumstances of the relevant activities related to its business and the terms of the contract. The inability, or failure, of a taxpayer to supply requested relevant information in support of the contract terms under review, may result in the Franchise Tax Board notifying GO-Biz that there is a possible breach. A taxpayer has a duty to maintain relevant records and documents pursuant to normal accounting or regulatory guidelines set forth in the Revenue and Taxation Code as applicable to the contract items under review. The Franchise Tax Board recognizes that taxpayers are sometimes not able to respond to each and every request for information. The reviewer should work with the taxpayer to resolve difficult information requests.

(7) Application of Time Limits. These guidelines are intended to provide for an orderly process that leads to a quick conclusion to the review.

(A) The Franchise Tax Board recognizes that some Information Document Requests can be responded to in less than 30 days while other responses will require time in excess of 30 days. The reviewer has discretion to take into account the taxpayer's facts and circumstances in establishing the original response time or to allow reasonable extensions of time to respond.

(B) The reviewer shall take into account responses to Information Document Requests received after the established date for a response, prior to the closure of the review.

(b) Reviews.

(1) Type of Review. The Franchise Tax Board staff will determine if the review will be a field review or a desk review based on the size of the business, dollar amounts involved and complexity of the contract terms and which type of review will be more conducive under the circumstances. The taxpayer may

offer input on the determination of the type of review for the Franchise Tax Board staff to consider.

(2) Field Review.

(A) Definition of "Field Review". A "field review" is a review that takes place at the taxpayer's place of business or some other location that is not an office of the Franchise Tax Board. For field reviews, "initial contact" is the date of the first meeting between the taxpayer and/or the taxpayer's representative and a member of the Franchise Tax Board review staff.

(B) Location of Field Review. A field review will generally take place at the location where the taxpayer's original books, records, and source documents pertinent to the review are maintained. In the case of a sole proprietorship or business entity, this will usually be the taxpayer's principal place of business. Field reviews can be moved to a Franchise Tax Board office, or the office of the taxpayer's representative, if the taxpayer (or the taxpayer's representative) does not have the appropriate work area available or the taxpayer or the taxpayer's representative does not have time available for the review to be conducted at their location, or as circumstances of the taxpayer warrant.

(C) Site Visitations. Regardless of where the review takes place, the Franchise Tax Board staff may visit the taxpayer's place of business or residence to establish facts that can only be established by direct visit, such as asset verification. The Franchise Tax Board staff generally will visit for these purposes on a normal workday of the Franchise Tax Board during normal business hours.

(D) Requests by Taxpayers to Change Place of Review. The Franchise Tax Board staff will consider, on a case-by-case basis, written requests by taxpayers or their representatives to change the place that the Franchise Tax Board has set for a review. Reasonable requests to move a review to another of the taxpayer's offices or to the taxpayer's-representative's office will be granted unless doing so would impose an unreasonable burden to the Franchise Tax Board staff or significantly interrupt the review schedule.

If the taxpayer requests that the review be conducted at a Franchise Tax Board office, or the office of the taxpayer's representative, it is the taxpayer's responsibility to deliver all books and records necessary for the review.

(3) Definition of "Desk Review". A "desk review" is a review conducted primarily through mailed correspondence. For desk reviews, "initial contact" is the date of the first letter to the taxpayer regarding the review.

(4) Time of the Review. The Franchise Tax Board may schedule the day or days of the review during a normally scheduled workday or workdays of the Franchise Tax Board, during the Franchise Tax Board's normal business hours.

The Franchise Tax Board may schedule reviews throughout the year, without regard to seasonal fluctuations in the businesses of particular taxpayers or their representatives. However, the Franchise Tax Board will work with taxpayers or their representatives to try to minimize any adverse effects in scheduling the date and time of the review.

(5) The following procedures may be used either in field or desk reviews depending on the nature of the review.

(A) Opening Conferences. Items to be discussed during the opening conference include, but are not limited to, estimated timeframes to complete the review, the scheduling of future review appointments, discussion of the contract items under review, information document requests, and photocopying.

At the opening conference or via mail if no opening conference is held, the reviewer shall provide a written document stating the name and phone number of the review supervisor or manager.

(B) Review Plan. A written review plan may be drafted as appropriate, if agreed to by the reviewer and the taxpayer, documenting key dates related to conducting the review, identifying key points of the review, or identifying other items discussed during the opening conference. The review plan should be signed by the reviewer and either the taxpayer or the taxpayer's representative. The review plan is considered a guideline for conducting the review and can be amended as circumstances warrant.

(C) Information Document Request (IDR). The Franchise Tax Board may provide a taxpayer an Information Document Request requesting single or multiple documents. As a general rule, response times shall be determined on an IDR-by-IDR basis with a maximum response time of 30 days from the date the IDR was hand-delivered to the taxpayer or the taxpayer's representative by the reviewer or the date mailed by the reviewer.

1. As a general rule, where a reply by the reviewer is appropriate or the reviewer needs additional information, the reviewer will notify the taxpayer or the taxpayer's representative within 30 days of the reviewer's receiving the response to the IDR.

2. Failure to provide a timely and complete response to a request from the Franchise Tax Board for additional information may result in notification to GO-Biz that there is a possible breach. Before informing GO-Biz of a possible breach the reviewer will exercise discretion in a reasonable manner that is appropriate under the relevant circumstances related to that particular review.

(D) Photocopying. The Franchise Tax Board may, require either the submission of relevant photocopied documents, or that relevant information be made available for photocopying, scanning or other electronic reproduction at a specified time and place for the purpose of determining compliance with the agreement with GO-Biz. Photocopying is a benefit to both the Franchise Tax Board and the taxpayer as the photocopy provides objective evidence supporting a contract term under review.

(E) Review Conferences. Conferences may be held as necessary throughout the review to discuss the status of IDRs or to discuss findings and to ensure that the review is on track to finish in a timely manner.

(G) Closing the Review: At the conclusion of the review, a closing conference may be held at the discretion of the reviewer or at the request of the taxpayer or the taxpayer's representative. If held, items discussed will generally include an explanation of the reviewer's findings and recommendation to GO-Biz.

(H) Closing Letters. At the close of a review, the Franchise Tax Board will notify GO-Biz and the taxpayer or the taxpayer's representative of the results of the review:

(1) If the Franchise Tax Board finds compliance with the agreement, a letter to this effect will be sent to the taxpayer or taxpayer's representative. The Franchise Tax Board will also notify GO-Biz of its findings.

(2) If the Franchise Tax Board determines there is a possible breach, the Franchise Tax Board will notify GO-Biz and provide detailed information regarding the basis for that determination as required by Revenue and Taxation Code sections 17059.2 and 23689 subdivisions (d). The Franchise Tax Board will also notify the taxpayer or taxpayer's representative in writing of these findings. Please refer to the contract for information on breaches and recapture.

Exhibit B: Initial Contact Letter (ICL)



STATE OF CALIFORNIA
Franchise Tax Board

Initial Contact Letter



STATE OF CALIFORNIA
FRANCHISE TAX BOARD
P O Box 1673
Sacramento CA 95812-1673

Date:

Case:
Case Unit:
In Reply, Refer to:

Regarding: California Competes Tax Credit Allocation Agreement Review
CCN:
Taxpayer's Name:
Taxable Year(s): 20XX, 20XX and 20XX
Agreement Number:

We are conducting a review of your books and records to determine compliance with the Governor's Office of Business and Economic Development credit agreement (referenced above). Our goal is to conduct the review in a timely and efficient manner. We use the procedures and guidelines as explained in FTB Notice 2014-02. To obtain the notice, go to ftb.ca.gov and search **FTB Notice 2014-02**. For more information, see the enclosed *California Competes Tax Credit Review Information*.

To help facilitate the review process, please provide the following information in an **electronic format** (use Excel schedule for computations and data):

1. A copy of the 20XX, 20XX, and 20XX California Competes Tax Credit Annual Milestone Certification Worksheets.
2. General requests regarding agreement terms and conditions:
 - a. An explanation of any significant changes or modifications to your project as provided in the agreement.
 - b. Is the net increase in full-time employees due to a transfer of employees that were previously employed by a related entity? If yes, provide a list of such employees.
 - c. Is the net increase in full-time employees due to an acquisition or merger with another business? If yes, provide a list of such employees.
 - d. Are there any new employees in the review year(s) 20XX-20XX that were hired to replace staff employed in the base year? If yes, provide a list of such employees.
 - e. Are there any project investments related to an acquisition or merger with another business? If yes, provide a list of such investments.
 - f. Are any project investments purchases or leased from a related person or entity, or from a purchase/lease conversion? If yes, provide a list of such investments.
3. Annual Full-Time Equivalent (AFTE) calculations and supporting schedules (a full-time employee works not less than an average of 35 hours per week):
 - a. The AFTE calculation and supporting schedules for base year (taxable year 20XX) as shown in Exhibit A ("Milestones") of the agreement.

-
- b. The AFTE calculation and supporting schedules for taxable year(s) 20XX, 20XX, and 20XX as reported on the applicable Annual Milestone Certification Worksheet.

For each AFTE calculation, include each employee's name or identification number, date hired, and date terminated (if applicable). Additionally, for hourly employees, provide both total weeks and hours worked, and for salaried employees, provide total weeks worked. **Please refer to the enclosed AFTE schedule example as a guideline of the AFTE computation requested and the desired format.**

4. Annualized Minimum and Cumulative Average Wage calculations and supporting schedules:
- a. The Minimum Annual Wage calculation and supporting schedules for employees hired during taxable year(s) 20XX, 20XX, and 20XX as reported on the applicable Annual Milestone Certification Worksheet.
- b. Average Annual and Cumulative Average Annual Wage:
- i. Explain the method used to compute annualized wages and provide the related calculations.
 - ii. The Average Annual Wage calculation and supporting schedules for employees hired during taxable year(s) 20XX, 20XX, and 20XX as reported on the applicable Annual Milestone Certification Worksheet.
 - iii. The Cumulative Average Annual Wage calculation and supporting schedules for the amount reported on the 20XX Annual Milestone Certification Worksheet.

Eligible wages include the amount of monetary compensation a full time employee is paid by the applicant per year and does not include tips, overtime, bonuses, benefits or other compensation of any kind.

5. Investment schedules for taxable year(s) 20XX, 20XX, and 20XX as reported on the applicable Annual Milestone Certification Worksheet. Supporting schedules should include an investment description, amount, and purchase date.
6. If you would like to designate a person who is not a part of your business as a contact for the review, follow the instructions below to complete the applicable Power of Attorney (POA) forms.

Instructions to Complete a POA for a California Competes Tax Credit Review

- 1) Complete FTB 3520 PIT, *Individual or Fiduciary Power of Attorney Declaration* or FTB 3520 BE, *Business Entity or Group Nonresident Power of Attorney Declaration*, as applicable. Go to ftb.ca.gov/POA to obtain the form.
- 2) You may submit the POA online using MyFTB or email the completed POA form to your reviewer (contact your reviewer to set up a secure email account). For more information about submitting POA declarations online, go to ftb.ca.gov/POA.

CCN: #####

Case Unit: #####

Page 3 of 3

Please provide the above requested information by **XX.XX.20XX**. Once we have reviewed the above provided information, we may need to request additional information to complete our review.

To send and receive information securely via the department's email system, contact Reviewer's Name at the telephone number or email address below. The reviewer will send you an encrypted email to create a secure email account. As an alternative, you may mail your response to:

By Regular Mail

Attn: (Reviewer name & MS)
FRANCHISE TAX BOARD
PO BOX (#)
(City, State, & Zip)

By Express Mail

Attn: (Reviewer Name)
FRANCHISE TAX BOARD (MS # Here)
STSS - TRSB
(City, State, & Zip)

Reviewer's Name

Phone: XXX.

Fax: 916.843.xxxx

Reviewer's Email Address

Web: ftb.ca.gov

Thank you for your cooperation. Please call me at the telephone number above if you have any questions regarding this matter.

If you have any questions or concerns regarding the review process and are unable to resolve them with the reviewer, you may contact either:

Abel Escobar/Andrew Brown, Review Supervisor.....916.845.5295/4280

Lynn Chau, Review Manager.....916.845.7048

Enc. FTB 1015F, *California Competes Tax Credit Review Information & AFTE Schedule Example*

Exhibit C: FTB 1015F



STATE OF CALIFORNIA
Franchise Tax Board



California Competes Tax Credit Review Information

Your business obtained a California Competes Tax Credit (CCTC) Allocation Agreement from the Governor's Office of Business and Economic Development (GO-Biz). The Franchise Tax Board (FTB) is conducting a review of your books and records to determine compliance with the credit agreement. The following topics are designed to help provide information about our review process and procedures.

CCTC Review

Our review determines your compliance with the credit agreement. The credit agreement has yearly milestones for California full-time employment, salary levels, and project investment. The review focuses primarily on verifying these milestones. We will ask you to provide reasonable and relevant information to verify the actual results for each milestone.

Time Frames

In general, you have 30 days to respond to information requests. The reviewer considers your facts and circumstances when establishing the response times or to allow reasonable extensions.

Unavailable Information

If you do not have the information we request, we will work with you to obtain alternative information that may support the issues under review. Immediately contact your reviewer at the telephone number provided on the enclosed letter and discuss a reasonable time extension if you cannot get the requested information by the required date.

CCTC Review Procedures and Guidelines

FTB Notice 2014-02 explains the procedures or guidelines for a review. Go to ftb.ca.gov and search for **2014-02**. At the end of the review, we will provide our findings in writing and issue to you one of the following:

- A letter stating you are in compliance.
- A letter stating there is a possible breach.

Electronic Communication With Us

You or your authorized representative may request the use of secure email with your reviewer. Secure email protects your privacy and security by enabling a secure transmission of confidential documents and state tax information. Go to ftb.ca.gov and search for **secure email**.

Representation and Power of Attorney

You have the right to have someone represent or accompany you during your review. To designate a representative, you must submit a completed FTB 3520, *Power of Attorney*. Go to ftb.ca.gov and search for **poa** or call 800.338.0505 and enter phone order code **972** when prompted.

Breach of Credit Agreement

A breach includes:

- Failure to timely furnish information requested by your reviewer or GO-Biz.
- Material misstatements or omissions in information provided to GO-Biz.
- Failure to materially satisfy the milestones.
- Failure to materially maintain the milestones.

If there is a possible breach to the credit agreement, your reviewer will contact you and GO-Biz. GO-Biz contacts you and allows a period of time to resolve the breach.

If the breach is not resolved, GO-Biz may recommend recapture to the CCTC Committee. If the committee approves the recapture, GO-Biz notifies you and FTB of the recapture amount.

You report the recapture on the tax return for the taxable year the committee made the decision. If you do not report the recapture on your tax return, we send you a bill.

Questions About Your Review

Your reviewer is prepared to assist you with specific questions about your review. Your reviewer's supervisor may also provide additional support. Refer to your enclosed letter for the appropriate phone numbers.

For Internet assistance, go to ftb.ca.gov or business.ca.gov (GO-Biz site).

Exhibit D: Annual Full-Time Equivalent (AFTE) Schedule Example



STATE OF CALIFORNIA
Franchise Tax Board

AFTE Schedule Example

Full-Time (FT) Employee (Avery Adel was employed a total of 138 days in TY 2015 (08/15/15 - 12/31/15):

Total Hours Worked in TY 2015	1,073.50
Weeks Worked (Total of 138 days employed in TY 2015 ÷ 7 days)	19.71
Hours Worked/Week (Total Hours Worked ÷ Weeks Worked)	54.46

Avery Adel is eligible to be included in the AFTE computation for TY 2015

Not a FT Employee (Pat Perkins was employed a total of 183 days in TY 2015 (03/15/15 - 09/14/15):

Total Hours Worked in TY 2015	525.75
Weeks Worked (Total 183 days employed in TY 2015 ÷ 7 days)	26.14
Hours Worked/Week (Total Hours Worked ÷ Weeks Worked)	20.11

Pat Perkins cannot be included in the AFTE computation in TY 2015

Example: Annual Full-Time Equivalent (AFTE) Schedule (Base Year)*

Employee Name or Employee ID	Hire Date	Term Date	Total (Actual) Hours or (Actual) Weeks Worked	Hourly (H) or Salary (S)
Adkins, Tom	09/15/1990		2,291.10	H
Green, Tea	07/07/2003		2,086.75	H
Total Hourly FT Employees That Worked ≥ 1,750 Hours:				2.00

Bowls, Harold	02/23/2009	12/31/2016	52	S
Grid, Iron	11/01/2010		52	S
Mark, Twane	07/16/2012	12/20/2016	52	S
Total Salaried FT Employees That Worked ≥ 50 Weeks:				3.00

Adel, Avery	08/15/2015		1,073.50	H
Franklin, Dolar	02/12/2015	09/04/2016	1,615.64	H
Total Number of Actual Hours worked:			2,689.14	
Total Hourly FT Employees That Worked < 1,750 Hours: (Total # of Hours worked ÷ 1,750 Hours):				1.54

Ball, Tenney	05/05/2015	10/25/2015	24.71	S
Blue, Grass	01/09/2015	06/30/2015	24.57	S
Free, Way	03/07/2014	03/02/2015	8.57	S
Thom, McCann	07/25/2015		22.71	S
Total Number of Actual Weeks worked:			80.56	
Total Salaried FT Employees That Worked < 50 Weeks (Total # of Weeks worked ÷ 50 Weeks):				1.61

Annual Full Time Equivalent for TY 2015:	
Total Number of Full-Time Hourly Employees That Worked ≥ 1,750 Hours	2.00
Total Number of Full-Time Salaried Employees That Worked ≥ 50 Weeks	3.00
Total Number of Full-Time Hourly Employees That Worked < 1,750 Hours**	1.54
Total Number of Full-Time Salaried Employees That Worked < 50 Weeks	1.61
AFTE	8.15

*Note: Based on a TY 2015 Calendar Year

Note: Only full-time employees that worked an average of 35 hours or more per week in CA are taken into consideration for this computation. **1,750 hours = (35 hours per week * 50 weeks) See examples above.

AFTE Schedule Example

FT Employee (Dolar Franklin was employed a total of 247 days in TY 2016 (01/01/16- 09/04/16):

Total Hours Worked in TY 2016	1,478.64
Weeks Worked (Total of 247 days employed in TY 2016 ÷ 7 days)	35.29
Hours Worked/Week (Total Hours Worked ÷ Weeks Worked)	41.90

Dolar Franklin is eligible to be included in the AFTE computation for TY 2016

Not a FT Employee (Penry Jones was employed a total of 266 days in TY 2016 (02/27/16-11/19/16):

Total hours worked in TY 2016	988.00
Weeks Worked (Total of 266 days employed in TY2016 ÷ 7 days)	38.00
Hours Worked/Week (Total Hours Worked ÷ Weeks Worked)	26.00

Penry Jones cannot be included in the AFTE computation in TY 2016

Example: Annual Full-Time Equivalent (AFTE) Schedule (1st Year Milestone)*

Employee Name or Employee ID	Hire Date	Term Date	Hourly Employees - Total Hours Worked or Salaried Employees - Weeks Worked	Hourly (H) or Salary (S)
Adel, Avery	08/15/2015		2,050.25	H
Adkins, Tom	09/15/1990		2,291.10	H
Green, Tea	07/07/2003		2,086.75	H
Koffee, Kathey	02/17/2016		1,803.00	H
Total Hourly FT Employees That Worked ≥ 1,750 Hours:				4.00

Bowls, Harold	02/23/2009	12/31/2016	52.00	S
Grid, Iron	11/01/2010		52.00	S
Mark, Twane	07/16/2012	12/20/2016	51.71	S
Sauna, Pool	01/04/2016		52.00	S
Thom McCann	07/25/2015		52.00	S
Total Salaried FT Employees That Worked ≥ 50 Weeks:				5.00

Chair, Coffey	05/12/2016		1,394.00	H
Cray, Ola	06/30/2016		1,560.00	H
Franklin, Dolar	02/12/2015	09/04/2016	1,478.64	H
Table, Top	08/28/2016	12/15/2016	565.27	H
Total Number of Actual Hours worked:			4,997.91	
Total Hourly FT Employees That Worked < 1,750 Hours: (Total # of Hours worked ÷ 1,750 Hours):				2.86

Apple, Bigsby	04/23/2016	06/04/2016	16.14	S
Butler, Florence	10/14/2016		11.14	S
Golf, Greens	09/15/2016		15.29	S
Total Number of Actual Weeks worked:			42.57	
Total Salaried FT Employees That Worked < 50 Weeks (Total # of Weeks worked ÷ 50 Weeks):				0.85

Annual Full Time Equivalent for TY 2016:	
Total Number of Full-Time Hourly Employees That Worked ≥ 1,750 Hours	4.00
Total Number of Full-Time Salaried Employees That Worked ≥ 50 Weeks	5.00
Total Number of Full-Time Hourly Employees That Worked < 1,750 Hours**	2.86
Total Number of Full-Time Salaried Employees That Worked < 50 Weeks	0.85
AFTE	12.71

*Note: Based on a TY 2016 Calendar Year

Note: Only full-time employees that worked an average of 35 hours or more per week in CA are taken into consideration for this computation. **1,750 hours = (35 hours per week * 50 weeks) See examples above.

Example: Net Increase

Base Year AFTE (2015)	8.15
1st Year Milestone AFTE (2016)	12.71
Net Increase	4.56

Exhibit E: Information Request Letter (IRL)



STATE OF CALIFORNIA
Franchise Tax Board

Information Request Letter



STATE OF CALIFORNIA
FRANCHISE TAX BOARD
P O Box 1673
Sacramento CA 95812-1673

Date:

Case:
Case Unit:
In Reply, Refer to:

- Regarding: California Competes Tax Credit Allocation Agreement
CCN:
Taxpayer's Name:
Taxable Year(s): 20XX-20XX
Agreement Number:

Thank you for your response to the Initial Contact Letter (ICL). Based on the California Competes Tax Credit (CCTC) agreement computations provided for taxable year(s) 20XX-20XX, we have selected some employees and investments for additional verification.

Annual Full-Time Equivalent (AFTE) Verification

Additional information is needed to verify employment hire dates, CA job locations, and that employees meet the full-time requirement.

1. Base Year: (*taxable year 20XX*)

For each employee listed, please provide verification that the employee worked full-time in California during taxable year 20XX such as an employment contract, payroll records, or other documentation.

Employee Name	Hire Date

2. Review Years: **taxable year(s) 20XX – 20XX**

For each employee listed, please provide the following:

- a. Verification of each employee's hire date such as Federal Form I-9 or W-4 new employment forms.
- b. Verification that each employee worked full-time in California during taxable year(s) 20XX - 20XX such as an employment contract, payroll records, or other documentation.

Employee Name	Hire Date

Annualized Wage Verification for New Hires

For the new hires listed below, please provide verification that annualized wage computations (minimum, average, and cumulative average) includes eligible compensation. Verification documents may include employment contracts, offer letters, pay stubs, etc.

Employee Name	Hire Date	Annualized Wage

Investment Verification

Additional documentation is needed to verify investments were purchased during the applicable taxable year and were placed in service in California. For each investment item listed, please provide contracts, invoices*, lease agreement, cancelled check, payment confirmation, or other documentation.

Invoice#	Invoice Date	Description	Vendor	Amount

***Note:** If the number of invoices for one asset exceeds 10, provide a listing of the invoices and selected invoices shall be requested for verification.

Please provide the requested information via FTB's secure email system by **XX.XX.20XX**. If you would like to use our secure email system and have not set up an account, contact your reviewer. If you prefer to submit the response by mail, attach a copy of this letter to your response and send to:

By Regular Mail

Attn: (Reviewer name & MS)
FRANCHISE TAX BOARD
PO BOX (#)
(City, State, & Zip)

By Express Mail

Attn: (Reviewer Name)
FRANCHISE TAX BOARD (MS # Here)
STSS - TRSB
(City, State, & Zip)

Thank you for your cooperation. Please call me at the telephone number listed below if you have questions regarding this matter.

Reviewer Name
Telephone: XXX
Fax: 916.843.XXXX
Reviewer Email@ftb.ca.gov
Web: ftb.ca.gov

Exhibit F: Recommendation (Position) / Closing Letter



STATE OF CALIFORNIA
Franchise Tax Board

Sample Recommendation (Position) Letter



STATE OF CALIFORNIA
FRANCHISE TAX BOARD
PO Box 1673
Sacramento CA 95812-1673

Date:

Case: 1XXXXXABC123
Case Unit: 1XXXXXABC123
In Reply, Refer to: 346:AJB:F350

Regarding: California Competes Tax Credit Allocation Agreement

CCN: 1XXXX6
Taxpayer's Name: Sample
Tax Years: 2017-2018
Agreement Number: #XXXXX-A12

We completed the review of your books and records for the CA Competes Tax Credit (CCTC) agreement noted above. Here is a summary of our findings:

1. Base Year: For the base year (Tax Year 2016), the annual full-time equivalent (AFTE) computation is revised to 39 to account for employees that did not meet the full-time requirement of working not less than an average of 35 hours per week.
2. Tax Year 2017 Findings: CCTC Tax Year 2017 milestones were met, resulting in earned credits of \$15,000.
3. Tax Year 2018 Findings: Based on a review of the computations we determined that all of the agreed upon 2018 milestones were not met.
 - a. Sample. committed to an AFTE net increase of 6, however, based on review of the full-time employment requirement, the revised AFTE totaled 4 - Not met.
 - b. Tax Year 2018 investment milestone was met.

See the chart below for details.

Milestone	Summary Of CCTC Review		
	Per the CCTC Agreement (Exhibit A)	Per Taxpayer Provided Schedules	Per Books & Records Review
Annual Full-Time Equivalents			
Base Year 2016	44	43	39
Taxable Year 2017	45	45	42
Taxable Year 2018	50	44	43
Net Increase in Full-Time Employees			
Tax Year 2017	1	1	3
Tax Year 2018	6	0	4
Investments			
Tax Year 2017	0	\$15,000	\$5,000
Tax Year 2018	\$25,000	\$25,000	\$26,000
Tax Credits earned			
Tax Year 2017			\$15,000
Tax Year 2018			0

The CCTC is considered earned and available for use when all agreed upon tax year milestones are met. All milestones were met for Tax Year 2017 resulting in earned credits of \$15,000. Milestones for tax year 2018 were not met and therefore the tax year 2018 credit was not earned and is not available for use.

If you agree with these CCTC review findings please respond in writing via email. If you disagree with these findings, provide any additional information for consideration within 30 days by 11/30/2019.

We appreciate your cooperation during this review process.

Sincerely,

Closing Letter



STATE OF CALIFORNIA
FRANCHISE TAX BOARD
P O Box 1673
Sacramento CA 95812-1673

Date:

Case:
Case Unit:
In Reply, Refer to:

- Regarding: California Competes Tax Credit Allocation Agreement

CCN:

Taxpayer's Name: ABCD Inc.
Taxable Year(s): 20XX-20XX
Agreement Number:

We have completed the review of your books and records for the California Competes Tax Credit (CCTC) agreement referenced above. We determined that you are in compliance with the CCTC agreement for the above-mentioned taxable year(s).

Based on the review the Annual Full Time Equivalent for the base year (Taxable Year 20XX) has been revised to XXXX

We will notify the Governor's Office of Business and Economic Development (GO-Biz) of the base year change. We appreciate your cooperation during this review process. Please maintain your books and records pertaining to the remaining CCTC allocation and maintenance periods for future review. If you have any questions, please contact me at the number listed below.

- Sincerely,
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