**OFFICE OF TAX APPEALS**

**STATE OF CALIFORNIA**

In the Matter of the Appeal of: ) OTA Case No. 251023625

**CENTIZEN APPS INC.**

# OPINION

Representing the Parties:

For Appellant: Amal Devasagayam, Representative

For Respondent: Rachel Glass, Attorney

S. ELSOM, Hearing Officer: Pursuant to Revenue and Taxation Code (R&TC) section 19324, Centizen Apps Inc. (appellant) appeals an action by the Franchise Tax Board (respondent) denying appellant's claims for refund of $423.21 for the 2022 tax year and $384.60 for the 2023 tax year.

Appellant elected to have this appeal determined pursuant to the procedures of the Small Case Program. Those procedures require the assignment of a single panel member. (Cal. Code Regs., tit. 18, § 30209.05(b).) Appellant waived the right to an oral hearing; therefore, the matter was submitted to the Office of Tax Appeals (OTA) on the written record pursuant to California Code of Regulations, title 18, section 30209(a).

## ISSUES

1. Whether appellant has established reasonable cause to abate the late filing and per-shareholder late filing penalties for the 2022 and 2023 tax years.
2. Whether appellant has established a legal basis to abate the underpayment of estimated tax penalties (estimated tax penalties) for the 2022 and 2023 tax years.

## FACTUAL FINDINGS

1. On October 7, 2024, appellant untimely filed Forms 100S, California S Corporation Franchise or Income Tax Returns (Returns), for the 2022 and 2023 tax years. Each Return reported one shareholder and total tax of $800, which appellant paid on the date of filing.
2. Respondent subsequently sent appellant the following notices imposing penalties plus applicable interest: (1) for the 2022 tax year, a Notice of Balance Due on April 25, 2025, imposing a late filing penalty of $200, a per-shareholder late filing penalty of $198, and an estimated tax penalty of $25.21; and (2) for the 2023 tax year, a Consolidated Return Information Notice on April 29, 2025, imposing a late filing penalty of $200, a per-shareholder late filing penalty of $180, and an estimated tax penalty of $4.60.
3. On May 6, 2025, appellant paid the balances due for the 2022 and 2023 tax years.
4. Appellant subsequently filed form FTB 2924, Reasonable Cause – Business Entity Claim for Refund, requesting abatement and refund of the penalties for the 2022 and 2023 tax years due to reasonable cause.
5. On October 13, 2025, respondent sent appellant a letter denying the claims for refund for each tax year.
6. This timely appeal followed.

## DISCUSSION

Issue 1: Whether appellant has established reasonable cause to abate the late filing and per-shareholder late filing penalties for the 2022 and 2023 tax years.

California imposes a per-shareholder late filing penalty when an S corporation fails to file a return at the time prescribed for the filing, unless it is shown that the failure is due to reasonable cause. (R&TC, § 19172.5(a).) California also imposes a separate penalty for failing to file a return on or before the due date, unless the taxpayer shows that the failure is due to reasonable cause and not due to willful neglect. (R&TC, § 19131(a).) For the years at issue, appellant was required to file a return on or before the 15th day of the third month following the close of its taxable year. (R&TC, § 18601(d)(1).)

When respondent imposes a penalty, the law presumes that the penalty was imposed correctly. (*Appeal of Xie*, 2018-OTA-076P.) The burden of proof is on the taxpayer to show that reasonable cause exists to support an abatement of the penalty. (*Ibid*.) To overcome the presumption of correctness attached to the penalty, the taxpayer must provide credible and competent evidence supporting a claim of reasonable cause; otherwise, the penalty cannot be abated. (*Ibid*.) For penalty abatement purposes, reasonable cause exists when the taxpayer acted as an ordinarily intelligent and prudent businessperson would have acted under similar circumstances. (See *Appeal of Fisher,* 2022–OTA–337P.) In other words, a taxpayer must show that the failure to meet its tax filing obligation occurred despite the exercise of ordinary business care and prudence. (*Ibid*.)

Appellant does not dispute the imposition or calculation of the penalties at issue but instead asserts reasonable cause for the abatement of them. Appellant asserts that it was unaware of its California filing requirement, and promptly filed the Returns as soon as it became aware of the filing requirement. However, ignorance of the law does not establish reasonable cause for the failure to comply with statutory requirements. (*Appeals of Cremel and Koeppel*, 2021-OTA-222P.) Although appellant asserts it promptly filed returns upon discovering the filing requirement, an acceptable reason for the failure to file a return will excuse such a failure only so long as the reason remains valid. (See *Appeal of Triple Crown Baseball LLC*, 2019-OTA-025P.)[1] Appellant does not provide any information to establish reasonable cause from the due date of the returns until the date of the filings. Thus, appellant has not met its burden of proof to establish reasonable cause to abate the penalties. (*Appeal of Xie*, *supra*.)

Appellant further asserts that it promptly paid the balances due for each tax year upon receiving respondent's notices and asks OTA to consider respondent's determination to allow appellant's refund for the same issue for the prior tax year, the 2021 tax year. In the absence of reasonable cause, appellant's prompt payment of the balance due is not a relevant criterion for the abatement of the late filing and per-shareholder late filing penalties. Further, each tax year stands on its own terms and must be separately considered. (*Appeals of Kwon et al.*, 2021-OTA-296P.) OTA can only consider the evidence and arguments provided by appellant for the current tax year to determine if appellant has established reasonable cause. Therefore, respondent's determination to allow a refund for the 2021 tax year is separate from the determination of whether appellant has established reasonable cause to abate the penalties for the years at issue here.

Finally, appellant asks OTA to consider the financial strain that penalties imposed by respondent have caused to appellant's business. OTA's role in the appeals process is to

[1] The *Appeal of Triple Crown Baseball LLC*, *supra*, determined whether the taxpayer in that matter established reasonable cause for the late payment of tax. Because the issue of whether a taxpayer has demonstrated reasonable cause for failure to pay tax asks the same questions and weighs the same evidence as the inquiry of whether reasonable cause exists for failure to file a tax return, decisions analyzing whether reasonable cause existed for failure to timely file a tax return are persuasive authority for determining whether reasonable cause existed for the failure to timely pay the tax. (*Appeal of Berzolheimer* (86-SBE-172) 1986 WL 22860.)

determine the correct amount of the taxpayer's California income tax liability. (See *Appeal of Robinson*, 2018-OTA-059P.) OTA lacks authority to make discretionary adjustments to the amount of a tax assessment based on a taxpayer's ability to pay. (*Ibid*.) Further, though financial hardship may establish reasonable cause in some circumstances (*Appeal of Triple Crown Baseball LLC*, *supra*), appellant does not assert, or provide any information to show, that financial hardship caused the late filing of its returns. Based on the foregoing, appellant has not established reasonable cause for the late filing of its returns.

Issue 2: Whether appellant has established a legal basis to abate the estimated tax penalties for the 2022 and 2023 tax years.

Corporations that are required to pay California franchise tax pursuant to the Corporation Tax Law must make estimated tax payments. (R&TC, §§ 19023, 19025(a).) A corporation that underpays its estimated tax is liable for a penalty equal to a specified rate of interest applied to the amount of the underpayment. (R&TC, §§ 19142(a), 19144.) However, there are a few limited statutory exceptions to the estimated tax penalty. (See R&TC, §§ 19147, 19148.)

An estimated tax penalty is properly imposed where the taxpayer's installment payments are less than the amounts due at the end of the installment periods. (*Appeal of Bechtel, Inc*. (78-SBE-052) 1978 WL 3525.) There is no extenuating circumstance, reasonable cause, or lack of willful neglect exception for the estimated tax penalty. (*Appeal of Weaver Equipment Co*. (80-SBE-048) 1980 WL 4976.)

Appellant does not specifically address the estimated tax penalty or raise any legal basis to abate it other than for reasonable cause, which is not applicable for this penalty. Therefore, appellant has not established a legal basis to abate the estimated tax penalty.

## HOLDINGS

1. Appellant has not established reasonable cause to abate the late filing and per-shareholder late filing penalties for the 2022 and 2023 tax years.
2. Appellant has not established a legal basis to abate the estimated tax penalties for the 2022 and 2023 tax years.

## DISPOSITION

Respondent's action denying appellant's claims for refund is sustained.

Signed by:
Seth Elsom
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Seth Elsom
Hearing Officer

Date Issued: 4/16/2026