

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 228

October 27, 1959

CORPORATE REORGANIZATION – DISSOLUTION: CONTINUING THE BUSINESS OF THE TRANSFEROR CORPORATION

Syllabus:

Distribution by a corporation pursuant to a plan of complete liquidation of all its assets other than cash to a bank shareholder, which continues the operations of the corporation, is a reorganization pursuant to section 23251 of the Bank and Corporation Tax Law.

The X Corporation was organized to acquire, subdivide and sell certain tracts of land. It sold all of its real estate except an undivided interest in two lots which were improved with a building. Its exclusive business was then collecting interest and principal on notes secured by first trust deeds and collecting rents and operating commercial properties. The Y bank owned stock in the X Corporation.

The X Corporation adopted a plan of complete liquidation and distributed its assets pro rata to its shareholders. Y received all of the assets other than cash and continued the operations of X. The other shareholders received the cash. X Corporation then dissolved. In cases involving certain types of reorganizations, the transferor and the transferee are treated in effect as one continuing corporation for franchise tax purposes. For this purpose a reorganization is defined in section 23251(d) to include a distribution in liquidation (other than a distribution to which section 24504(b)(2) applies) by a bank or corporation of a substantial portion of its property to a bank or corporation stockholder, which continues all or a substantial portion of the business of the liquidated bank or corporation.

Since Y acquired a substantial portion of the business property of X and continued X's operations, the transaction was a reorganization within the meaning of section 23251.