

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 231

October 28, 1959

EXEMPTION – PRODUCTION CREDIT ASSOCIATION – WHEN NOT SUBJECT TO TAX

Syllabus:

When a portion of the stock of a Production Credit Association is reacquired by the Federal Government, that association is not subject to franchise tax until the said reacquisition is retired.

The X Production Credit Association retired the last of its capital stock theretofore owned by the Federal Government and thereby became subject to the taxes imposed by the Bank and Corporation Franchise Tax Law. In a later year the farmers in the association suffered heavy losses. A federal agency purchased a portion of the association's Class A stock pursuant to the provisions of the Farm Credit Act.

Section 63 of the Farm Credit Act (12 U.S.C.A. 1138c) provides in part that Production Credit Associations organized under Federal Charter are instrumentalities of the United States and exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance and gift taxes) now or hereafter imposed by any state. It further provides that the exemption shall not apply with respect to any Production Credit Association or its property or income after the Class A stock held by the Federal Government has been retired.

Since the right of the Franchise Tax Board to tax a Production Credit Association depends upon Congressional consent and since that consent is granted only when all the Class A stock held by the government is retired, franchise taxes may not be imposed upon such association until the new acquisition of stock is retired.