

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 344

June 17, 1970

INSTALLMENT REPORTING: EXCHANGE OF STOCK OR CORPORATE BONDS

Syllabus:

Installment reporting may be used to report the gain on the exchange of common stock for corporate bonds paying 5 1/2 percent interest semi-annually and maturing to the extent of 5 percent of the principal amount in 22 years and as to the balance in 23 years.

Advice has been requested as to the applicability of the installment reporting method to gain realized on the exchange of common stock for corporate bonds paying 5 1/2 percent interest semi-annually and maturing to the extent of 5 percent of principal in 22 years and the remainder in 23 years. The exchange was pursuant to a general purchase offer to shareholders of a corporation in its acquisition by the issuer of the bonds.

Under California Revenue and Taxation Code Section 17578 the installment method may be used for reporting gain on the casual sale of personal property not normally found in the seller's inventory if the price exceeds \$1,000 and the seller does not receive payments exceeding 30 percent of the sales price in the year of sale. Evidence of indebtedness of the purchaser is not considered payment received. Reg. 17577-17580 (a)(3)(A). Corporate bonds may be used as evidences of indebtedness of a purchaser for installment reporting (Frances M. Averill v. Comm., 101 Fed.2d 644 (1938)), and a minimum of two payments is sufficient. C.F.R. § 1.453-2(b)(1) and (2), C.F.R. § 1.453-2(d)(3)(i). Thus, the requirements of Section 17578 are met, and gain is reportable by the seller on the installment method.