

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 411

January 16, 1979

OWNERSHIP REQUIREMENT FOR COMBINED REPORTING: INSURANCE COMPANY

Syllabus:

Over 50 percent of the voting stock of each of three corporations (subsidiaries) is owned by an insurance company (parent). The three subsidiaries and the insurance company parent are engaged in a single unitary business conducted within and without this state. However, as insurance companies are not subject to the Bank and Corporation Tax Law, the parent cannot be included in a combined report with the subsidiaries.

Question:

Is the unity of ownership requirement for purposes of combining the three subsidiaries satisfied where the subsidiaries are owned and controlled by a parent insurance company and are engaged in a single unitary business between and among themselves and with the parent, but cannot be combined with the parent insurance company?

Decision:

Yes

Discussion:

It was concluded in Legal Memorandum No. 624 that an insurance company cannot be included in the combined report of a unitary business.

In Legal Memorandum No. 652, a situation was discussed where a group of three subsidiary corporations operated as a single unitary business between and among themselves but not with their corporate parent, which held the controlling stock ownership of the subsidiaries. It was concluded, based on various authorities, that when the other elements of a unitary business exists the ownership requirement for combining the subsidiaries was satisfied by the singular existence of common controlling ownership held by the parent, which was not combinable with the subsidiary group.

That discussion is equally applicable here as in both situations, either the corporate parent or the insurance company parent, is not combinable with the corporate subsidiary group operating as a single unitary business. Yet unity of ownership is present.

Based on the authority and discussion in Legal Memorandum No. 652, it is concluded that the unity of ownership requirement for combining corporate subsidiaries is satisfied where the insurance company parent holds controlling ownership of the subsidiaries to be combined.

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