



STATE OF CALIFORNIA
FRANCHISE TAX BOARD - Legal Branch
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March 14, 2002

FTB NOTICE 2002-02

**SUBJECT: REQUEST FOR PUBLIC COMMENT --
DISCUSSION DRAFT OF PROPOSED CHANGES TO CALIFORNIA
CODE OF REGULATIONS, TITLE 18, SECTION 25137-2**

The Franchise Tax Board staff has prepared a discussion draft containing proposed amendments to the existing regulations adopted under Revenue and Taxation Code section 25137. The proposed amendments to California Code of Regulations, title 18, section 25137-2, provide that the apportionment rules currently applied to long-term construction contracts will also apply to long-term contracts for the manufacture or fabrication of tangible personal property. The regulation, as it currently applies to construction contracts, ensures that income generated by a long-term contract will be apportioned by a formula using the property and payroll actually used to earn the income. These amendments will have the same effect as to long-term contracts for the fabrication or manufacture of tangible personal property.

To broadly inform the public about this proposed modification, the Franchise Tax Board staff is making the draft of the proposed changes and a brief explanation of the proposed additions available to the public for review and comment prior to formal regulatory notice.

For copies of the discussion draft of the proposed additions to the existing regulation or for further information regarding this notice, contact Colleen Berwick at the Franchise Tax Board Legal Branch, P.O. Box 1720, Rancho Cordova, CA 95741-1720; Tel.:(916) 845-3306; Fax:(916) 845-3648; E-Mail: colleen.berwick@ftb.ca.gov. The draft and explanation are also available at the Franchise Tax Board's website at <http://www.ftb.ca.gov>.

Written comments may be addressed to Ms. Berwick and should be received by the Franchise Tax Board no later than April 12, 2002. If significant public interest is voiced and written comments are received, the department will hold a public meeting or symposium on this proposed addition prior to commencement of the formal hearing process for approval. If the discussion draft of the proposed changes to the existing regulation is officially noticed under the Administrative Procedure Act, comments will be entered into the regulation record. Participants may also comment at the symposium without name attribution. A summary of the symposium will be made available to all participants, and will also be entered into the regulation record, if any.

The department has tentatively scheduled a symposium to discuss the discussion draft and proposed changes to the existing regulation on April 29, 2002, in Room 1040 of Phase II of the Franchise Tax Board headquarters building in Rancho Cordova,

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California, beginning at 10:00 am. If no public interest is voiced and no written comments are received by April 12, 2002, the symposium will be canceled. Notice of cancellation, if applicable, will be published on the Franchise Tax Board's website on April 15, 2002. If you have any questions regarding the symposium, please contact Ms. Berwick.

If you are interested in being added to the mailing list for the proposed rulemaking action that may follow the symposium, please advise Ms. Berwick at the above address and she will add your name to the mailing list.

The principal author of this notice is Karl W. Grossenbacher of the Franchise Tax Board Legal Branch. For further information regarding the substance of the draft amendments, contact Mr. Grossenbacher at the Franchise Tax Board, Legal Branch, P. O. Box 1720, Rancho Cordova, CA 95741-1720.