

**Explanation of the Discussion Draft, California Code of Regulations, title 18, section 25106.5-11, Election to File a Group Return.**

Attached is a discussion draft of a new proposed regulation providing rules that allow California franchise taxpayers that are members of a combined reporting group to file a group return rather than separate returns. The proposed regulation merely codifies an existing administrative policy that had been enforced through contract principles. It also clarifies the duties of the designated key corporation, which acts as agent and surety for the other California franchise taxpayers that are included in the group return.