STATE OF CALIFORNIA
FRANCHISE TAX BOARD
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Chair

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Member

Third Interested Parties Meeting

To attend this meeting, please RSVP by Monday, June 9, 2014, by contacting Colleen Berwick at (916) 845-3306 or Email: Colleen.Berwick@ftb.ca.gov.

To participate in this meeting by telephone, use this number to dial in: (877) 923-3149. The participant pass code is 2233420.

When

Thursday, June 12, 2014
1:30 p.m.

Where

Franchise Tax Board
Valley Quail Conference Room
9646 Butterfield Way
Sacramento, CA 95827

Topic

Revenue and Taxation Code (RTC) section 23663 permits the assignment of credits among affiliated members of the same combined reporting group. RTC section 23663 was added by Section 10 of AB 1452 (Stats. 2008, ch. 763) and is specifically operative for assignments made in taxable years beginning on or after July 1, 2008, and first permits assigned credits to be claimed against the "tax" of the assignee in taxable years beginning on or after January 1, 2010.

An assignment is made as an election on a taxpayer's original tax return on the Form FTB 3544 and is irrevocable under RTC section 23663, subdivision (c). In some situations taxpayers have made defective elections. Under RTC section 23663, subdivision (e), paragraph (4), the Franchise Tax Board is specifically authorized to issue necessary regulations to specify the treatment of any assignment that does not comply with the requirements of section 23663, including where the taxpayer and assignee are not members of the same combined reporting group on the dates required.

A first interested parties meeting was held on October 1, 2012, and a second interested parties meeting was held on December 5, 2013. This third interested parties meeting will discuss proposed regulations which define a defective assignment and provides rules for the treatment of defective assignments. Specifically, the draft language provides default rules for the allocation of credits that are the subject of defective assignments, alternative allocations that are available before first contact and corrections of errors that are available before the filing of the subsequent year's tax return. These rules provide certainty for taxpayers as to the availability of credits that were the subject of a defective assignment.

Please see the Discussion Draft and the Explanation of Discussion Draft Language for Proposed Regulation Sections 23663-1 through 23663-5 posted with this notice. The Meeting Notice for the second interested parties meeting held on December 5, 2013 is also posted with this notice.

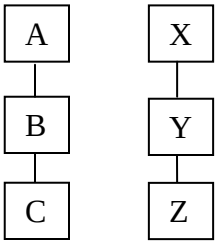
This meeting will also include the first interested parties meeting regarding rules clarifying when an assignee is considered an eligible assignee in the same combined reporting group under RTC section 23663.

Purpose

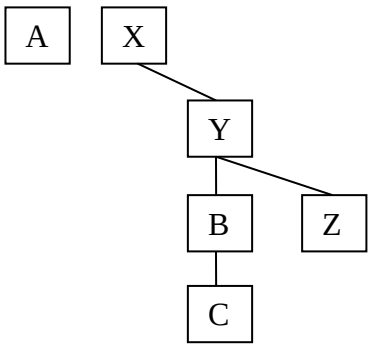
To elicit public input on draft language for new regulations that address defective assignments. Prior interested parties meetings have discussed the general concept and structure of these regulations, but have not included draft regulatory language. This meeting will discuss draft language posted with this notice and invite public comment and feedback. The draft language proposes rules for allocating credits that are the subject of defective assignments and in certain circumstances providing taxpayers with some flexibility in dealing with defective assignments.

The purpose of the meeting is also to elicit public input on a proposed regulation which would clarify when an assignee is considered an eligible assignee in the same combined reporting group. The meeting will include discussion in the context of reorganizations and other corporate restructuring, such as transactions in which tax attributes, including credits, would survive, whether under IRC 381 or otherwise.

The following diagram illustrates the type of fact pattern which has raised this issue under RTC section 23663:



Assume in 2010, A, B and C are in the same combined group, and X, Y and Z are in the same combined group. B earns credits in 2010, but neither claims them against its "tax" nor assigns them in either 2010 or 2011.



In 2012, B and C are acquired by the X group in a tax-free reorganization. Which corporation, if any, in the combined group may B assign credits to under RTC section 23663? Assume that B was merged or liquidated into Y so that the 2010 credits earned by B are now Y's credits. Which corporation, if any, in the combined group may Y assign B's former credits to under RTC section 23663?

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Visitors Parking Map

* This facility is architecturally accessible to persons with physical disabilities.

COST IMPACTS OF PROPOSED RULEMAKING

In addition to the discussion regarding the determination of who is an eligible assignee following certain tax-deferred transactions to which Internal Revenue Code section 381 applies, the Administrative Procedure Act (APA) requires the department to assess the economic impact of this proposed regulation on business, representative private persons, and small businesses. Recent legislation (SB 617, Stats. 2011, ch. 496) revised certain aspects of the standardized regulatory cost impact analysis, particularly with respect to "major regulations" (as defined), but also with respect to other rulemaking activities. As a result, the department intends to solicit information from interested parties during the pre-APA process that will assist in preparation of the regulatory cost impact analysis.

Specifically, the APA requires the department to assess the economic and fiscal impact of this regulation on the following –

(1) Estimated private sector cost impacts on businesses and/or employees, small businesses, jobs or occupations, competitiveness of California businesses, reporting requirements, or individuals. This includes the total number and types of businesses impacted, including the number or percentage of those businesses that are small businesses, the number of businesses that will be created or eliminated, the geographic extent of the impacts (local or statewide), the number of jobs created or eliminated, and the ability of California businesses to compete with businesses in other states.

(2) Estimated total statewide dollar costs that businesses and individuals may incur to comply with this regulation, including start-up and ongoing costs. This includes an identification of the costs for each industry affected, the annual costs a typical business may incur to comply with these requirements (including programming, recordkeeping, reporting and other paperwork, whether or not the paperwork is required to be submitted), whether the regulation directly impacts housing costs, and whether there are comparable federal regulations.

(3) Estimated benefits from the regulation (both whom will benefit and by how much).

(4) Any suggested alternatives to the proposed regulation, and the costs and benefits of those suggested alternatives under 1, 2 and 3 above.

(5) Whether the estimated costs of this regulation to California businesses will exceed $10 million.

The department encourages submission of any comments and/or cost data on the items set forth above by any interested parties.