

INITIAL STATEMENT OF REASONS FOR THE ADOPTION  
OF REGULATION SECTION 25106.5-11

PUBLIC PROBLEM, ADMINISTRATIVE REQUIREMENT, OR OTHER CONDITION OR  
CIRCUMSTANCE THAT THE REGULATION IS INTENDED TO ADDRESS

Each taxpayer that is subject to the California Corporation Tax Law has an obligation to file a return. If a taxpayer conducts business within and without California, it must attach to its return a copy of a combined report, which shows how its business income is apportioned amongst the various states. In many instances, many California corporate taxpayers are members of the same combined reporting group. This means that the same combined report relates to each of them. Therefore, each must file its own return, attaching a copy of the same combined report to each return. This creates administrative difficulties and burdens, both for taxpayers and the Franchise Tax Board.

As a matter of administrative convenience, it has been the Franchise Tax Board's practice to allow taxpayers that are members of the same combined reporting group to file a single "group return," thereby satisfying each taxpayer's return-filing obligation. Attached to this return is a copy of the combined report, which shows how the business income of the group is apportioned amongst the various states. To qualify for this treatment, one of the affiliated taxpayers had to agree to be designated as the "key corporation" for the combined reporting group. The key corporation agreed to act as agent and surety for the remaining taxpayers included in the combined report. This allowed affiliated taxpayers to avoid the burden of filing duplicative combined reports, while allowing the Franchise Tax Board to coordinate with only one taxpayer as opposed to many. The designation of the key corporation and the identification of the remaining taxpayer members included in the single group return was effectuated by attaching a completed Schedule R, Schedule R-7, to the Form 100 that was filed by the designated key corporation.

SPECIFIC PURPOSE OF THE REGULATION

The proposed adoption of Title 18, California Code of Regulations, section 25106.5-11, will generally codify the department's long-standing administrative practice described above.

NECESSITY

The proposed Regulation section 25106.5-11 will complement the previous combined reporting regulations that were enacted in 2002.

MATERIALS RELIED UPON

No outside materials were relied upon in drafting the proposed regulation.

## ALTERNATIVES TO THE REGULATION CONSIDERED AND REASONS FOR THEIR REJECTION

The Franchise Tax Board considered all possible alternatives to this proposal and determined that this proposal was the most effective method available.

## ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON AFFECTED PRIVATE PERSONS OR SMALL BUSINESS

The Franchise Tax Board has determined that there were no alternatives considered which would be more effective in carrying out the purpose of the proposed regulation or would be as effective and less burdensome to affected private persons or small businesses than the proposed regulation.

## ADVERSE ECONOMIC IMPACT ON BUSINESS

There is likely to be no adverse economic impact on business.