

INITIAL STATEMENT OF REASONS FOR THE
AMENDMENT OF CALIFORNIA CODE OF REGULATIONS,
TITLE 18, SECTION 25114

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

The proposed amendments to the existing regulation are intended to conform to recent changes in the statutory language of Revenue and Taxation Code section 25114.

SPECIFIC PURPOSE OF THE REGULATIONS

The proposed amendments to the existing regulation are necessary to reflect the statutory changes to Revenue and Taxation Code section 25114 requiring examinations of returns filed by taxpayers that have made a water's-edge election. In addition, consistent with the language of Revenue and Taxation Code section 25114, proposed amendments to regulation section 25114 shall apply to examinations commenced by the Franchise Tax Board on or after January 1, 2008. The proposed amendments specify that an examination will be considered commenced when a taxpayer is first contacted by the Franchise Tax Board concerning any examination with respect to the taxpayer's return.

The proposed amendments also set forth a definition of "examine" and "examination" in order to clarify when the changes to the statute apply.

NECESSITY

On October 5, 2007, the Governor signed SB 788, Stats. 2007, ch. 306, which amended Revenue and Taxation Code section 25114. Regulation section 25114 is proposed to be amended to conform to those statutory changes.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS.

The Franchise Tax Board examined and considered the legislative history of Revenue and Taxation Code section 25114, including bill analyses and public hearing documents. The Franchise Tax Board did not rely upon any other technical, theoretical, or empirical studies, reports or documents in proposing the adoption of this regulation.

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 amendments to regulation section 25114 or would be as effective and less burdensome to affected private persons or small businesses than the proposed amendments. In addition, the proposed amendments pertain to corporate taxpayers and therefore do not affect private individuals.

ADVERSE ECONOMIC IMPACT ON BUSINESS

The Franchise Tax Board has determined that proposed amendments to regulation section 25114 of Title 18 of the California Code of Regulations will not have a significant overall economic impact on business. The proposed regulation simply implements and makes specific the new and revised statutory language of Revenue and Taxation Code section 25114.