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***** , **** , ***** , ***** &
***** **

Date: 10/22/2026

Chief Counsel Ruling: 2026-01

ATTN: ***** *****
***** ** ***** ** , **
***** , ** *****

RE: Request for Chief Counsel Ruling for ***** ***** ** , ** ; ***** ***** ,
** ; ***** ***** ***** ** , ** ; ***** , ** ; ***** ***** , ** ;
***** ***** ** , ** ; ***** ***** ***** ***** , *****
***** ***** ** ; ***** ***** ** ; ***** ** ; **
***** , ** ; ***** ***** ***** , ** ; ** ***** ***** , ** ;
and ***** ***** **

Dear ***** :

This letter is in response to your Chief Counsel Ruling ("CCR") request dated **** ** ,
**** . In the request, you ask for the Franchise Tax Board's ("FTB") guidance as to the
assignment of sales of tangible personal property under Revenue and Taxation Code
section 25135 for California franchise and income tax purposes.

FACTS

***** ***** , ** . is the ***** ***** parent company of various affiliates
that manufacture, purchase, import, transport, and/or sell ***** products. The
affiliates include the following: *** ***** ***** ** , ** , *** ***** *****
*** ***** , ** , *** ***** , ** , *** ***** ***** , ** , *** *****
***** ** , ** , *** ***** ***** ***** ***** , **
***** ***** ***** ** , *** ***** ***** ** , *** *****
***** ***** , ** , ***** ***** ***** , ** , *****
***** ***** , ** , and ***** ***** ***** . The key corporation filing a
combined report in California with the other affiliates pursuant to Revenue and Taxation
Code section 25105, subdivision (a) is ***** ***** ** , ** . Those affiliates in
the business of manufacturing and selling the ***** products, as opposed to
purchasing or transporting the products, are referred to as "Taxpayer."

As relevant to this ruling, Taxpayer does not sell its products directly to retailers in
California and instead sells its products to third-party distributors in the U.S. who resell
the products to other third-party distributors or retailers in and outside of California.
Moreover, Taxpayer has recently implemented a new business model governing the sale
of some of their products to third-party distributors. Under this new model, Taxpayer
hires contracted third-party carriers to ship their products from the place of manufacture
** ***** to a ***** Warehouse where the products will be stored until ordered

by third-party distributors.¹ These ***** Warehouses are located in the same state(s) where large facilities are established by third-party distributors ("Hub Warehouses"). After Taxpayer receives an order, Taxpayer hires third-party carriers to ship the ordered products from a ***** Warehouse to a Hub Warehouse. However, Taxpayer also ships some products directly from the place of manufacture or import to Hub Warehouses instead of to a ***** Warehouse. At or before shipment of the products to Hub Warehouses, Taxpayer provides the third-party distributors with an invoice of the sale transaction details, such as the date, invoice number, item number, item type, quantity, and price among other details. The invoices are between Taxpayer and the third-party distributors. At or before arrival of the products to the Hub Warehouses, title, possession, risk of loss, custody, and control of the products transfer from Taxpayer to the third-party distributors. From thereon, Taxpayer is not involved in any aspect of further shipment, warehousing, product handling, and/or distribution of the products, and does not know the subsequent destination of the products upon resale. However, ***** after delivery of the products, the third-party distributors provide Taxpayer with certain limited information regarding *****

*****.

At the Hub Warehouses, third-party distributors engage in several activities to maintain sufficient inventory and ensure uninterrupted flow of product to retailers. The activities at the Hub Warehouses include the following: unloading products, sorting products, storing products, creating new pallets of various products where some pallets contain a combination of Taxpayer's products and other manufacturers' products, packaging and labelling the pallets for shipment, re-packaging damaged packages, and shipping the products. For shipment of the products from Hub Warehouses to other distribution or retail locations, third-party distributors *****
*****_*****
***** are responsible for all aspects of shipping, including security. Additionally, third-party distributors ship products on a "*****_**_*****_****" basis, as required by Taxpayer.

Concurrently with the new distribution model, Taxpayer continues to sell some products directly to third-party distributors located in California. These third-party distributors resell and ship some of these products to other third-party distributors or unrelated retailers located in and outside of California.

ISSUE

For taxable years beginning on January 1, 2024, and onward, whether sales of products by Taxpayer to third-party distributors, where the products are delivered to the third-party

¹ The warehouse space in the first ***** Warehouse ** *****
*****.

distributors at Hub Warehouses located outside of California and subjected to the warehousing activities described in this ruling, are assigned outside of California for Taxpayer, regardless of whether the products are subsequently shipped to other third-party distributors or retailers in California.

HOLDING

For taxable years beginning on January 1, 2024, and onward, sales of products by Taxpayer to third-party distributors, where the products are delivered to the third-party distributors at Hub Warehouses located outside of California and subjected to the warehousing activities described in this ruling, are assigned outside of California for Taxpayer regardless of whether the products are subsequently shipped to other third-party distributors or retailers in California.

DISCUSSION

Corporations doing business in California or deriving income from sources within California are subject to either a corporation franchise or income tax, both of which are based on net income.² Income is apportioned using a single sales factor formula.³ The sales factor is a fraction, the numerator of which is the total sales in California during the taxable year, and the denominator of which is the total sales everywhere during the taxable year.⁴ Sales of tangible personal property are assigned to California if the property is "delivered or shipped to a purchaser, other than the United States government, within [California] regardless of the f.o.b. point or other conditions of the sale."⁵ Property is delivered or shipped to a purchaser within this state if the shipment terminates in this state, even though the property is subsequently transferred by the purchaser to another state.⁶

The following legal authorities help clarify the meaning of "delivered or shipped to a purchaser...within this state" for sales factor assignment purposes. In *McDonnell Douglas Corporation v. Franchise Tax Board* (1994) 26 Cal.App.4th ("McDonnell Douglas"), the Court of Appeal affirmed the trial court's decision to apply the "destination rule" rather than the "place of delivery" rule by articulating that delivery to a purchaser in California was not considered a sale within the state if the products were ultimately destined for use in another state.⁷ The Court held the phrase "within this state" modified

² Rev. & Tax. Code section 23151.

³ Rev. & Tax. Code section 25128.7.

⁴ Rev. & Tax. Code section 25134.

⁵ Rev. & Tax. Code section 25135, subd. (a)(1). "F.o.b." stands for "free on board," the point at which a buyer or seller assumes ownership and liability for goods being transported.

⁶ Cal. Code Regs., tit. 18, section 25135, subd. (a)(3).

⁷ In *McDonnell Douglas*, the taxpayer manufactured commercial and military aircraft and aircraft parts in California and transferred physical possession of the aircrafts to the

the word "purchaser" and not the words "delivered or shipped." As such, purchasers were not within this state if the goods were destined for use in another state.⁸ The Court concluded the taxpayer must assign the sales to the state of destination rather than to the state of delivery.⁹ In *Appeal of Mazda Motors of America (Central), Inc.*, 94-SBE-009, Nov. 29, 1994 ("Mazda Motors"), decided shortly after *McDonnell Douglas*, the Board of Equalization ("Board") held that storing and adding accessories to vehicles initially shipped to California and then subsequently shipped to another state, caused shipment to terminate and delivery to occur within this state.¹⁰ In doing so, the Board distinguished the sales in *Mazda Motors* from the sales in *McDonnell Douglas* where the out-of-state purchaser merely picked up the products in this state and immediately transported the goods outside of the state. The Board indicated that the activities in *Mazda Motors*, which included, among other activities, adding accessories and storing the products in this state via an agent, were more substantive than temporary storage in the state for purposes of further shipment outside the state.

In response to the *McDonnell Douglas* and *Mazda Motor* cases, FTB issued Legal Ruling 95-3, July 20, 1995, which provides in relevant part that if a purchaser takes possession in a state for a purpose other than transportation to another state, the purchaser is considered "within the state" pursuant to Revenue and Taxation Code section 25135.¹¹ Also, for a sale to be a California sale under Revenue and Taxation Code section 25135, subdivision (a), both the fact of delivery or shipment within this state and receipt by a purchaser within this state are required.¹² As relevant, Legal Ruling 95-3 provides the following guidance for assigning sales of tangible personal property that are still in the stream of commerce:

- (1) If a purchaser takes possession of tangible personal property in this state for the mere purpose of immediate transportation to another state, the sale is not assigned to this state.¹³
- (2) If a purchaser takes possession of tangible personal property in this state for purposes such as "warehousing, repackaging, adding accessories, etc," the sale is assigned to this state.¹⁴

purchaser's employees in this state. The purchaser's employees then arranged for transportation of the aircraft outside of California.

⁸ *McDonnell Douglas*, *supra*, 26 Cal.App.4th at pp. 1793-1796.

⁹ *McDonnell Douglas*, *supra*, 26 Cal.App.4th at p. 1796.

¹⁰ In *Mazda Motors*, the taxpayer imported vehicles and parts from Japan for sale in the United States to its regional distributors. The vehicles and parts entered the United States through two ports in California. The taxpayer maintained some vehicles placed in storage facilities at the California ports awaiting further shipment via common carrier to their ultimate destination.

¹¹ FTB Legal Ruling No. 95-3, pp. 6-7.

¹² *Id.* at p. 3.

¹³ *Ibid.*

¹⁴ *Ibid.*

- (3) If a sale terminates in this state, any subsequent transportation by the purchaser to another state will not affect assignment of the sale for Revenue and Taxation Code section 25135 purposes.¹⁵

Situation 3 in Legal Ruling 95-3 provides the closest analogy to the facts presented in this ruling:

The purchaser takes title and physically receives the machinery in California, and uses its own truck to transport the machinery to another state. [Then] the purchaser transports the machinery to its own place of business in State A, and a few days later transports the machinery to another of its places of business in State B using its own transportation vehicle.¹⁶

The holding in Situation 3 provides:

Because the purchaser took possession of the machinery at its place of business in State A, the machinery is considered shipped to a purchaser in State A. The shipment and sale is considered terminated in that state, and the subsequent transportation of the machinery to State B has no effect on the application of the sales factor.¹⁷

In this case, Taxpayer will cease to be involved in the sales process after it ships its products to the third-party distributors. Thus, the sale terminates for Taxpayer when the third-party distributors take possession of the products at Hub Warehouses located outside of California. In addition to taking possession, the third-party distributors, not Taxpayer, perform the warehousing activities at the Hub Warehouses to prepare the products for resale. Taxpayer does not engage in any product or packaging modifications, warehousing, or further distribution of the products. Also, Taxpayer does not know the destination of the products after they are delivered to the Hub Warehouses. Taxpayer's situation is similar to Situation 3 where the sale terminated in State A because the purchaser took possession of the machinery at its place of business in State A, and so the subsequent transportation of the machinery to State B has no effect on assignment of the sale for the seller.¹⁸ Like Situation 3, the subsequent transportation of the products to other third-party distributors or retailers in or outside of California does not affect assignment of the sale for Taxpayer.

¹⁵ *Id.* at pp. 3-4.

¹⁶ *Id.* at p. 1.

¹⁷ *Id.* at p. 6.

¹⁸ *Ibid.*

Additionally, *Mazda Motors* offers parallels to Taxpayer's situation. Like the distributors in *Mazda Motors* that take control of and title to the vehicles upon delivery at the California ports and cover all further shipment costs, the third-party distributors in this ruling take title to, possession, and control of the products at or before delivery of the products to the Hub Warehouses. Moreover, the activities conducted by third-party distributors at the Hub Warehouses, such as de-palletizing, breaking down existing packaging, sorting the goods, combining with other goods, providing additional packaging (such as re-packaging damaged products), palletizing, adding additional labeling, and storing the goods for at least several days, are "much more substantive than mere temporary storage . . . for purposes of further shipment elsewhere in the stream of interstate commerce." Such activities are analogous to the activities conducted at the California warehouses for which the distributor compensated the *Mazda Motors* taxpayer, such as storing, installing accessories, and making repairs to the vehicles. Thus, for similar reasons that caused shipment to terminate in California at the warehouses in *Mazda Motors*, shipment terminates outside of California at the Hub Warehouses for Taxpayer.

CONCLUSION

Sales of tangible personal property by Taxpayer to third-party distributors, which are delivered to the third-party distributors at Hub Warehouses located outside of California and subjected to the warehousing activities described in this ruling, are not assigned to California for Taxpayer, regardless of whether the products are subsequently shipped to other third-party distributors or retailers in California.

Please be advised that the tax consequences expressed in this Chief Counsel Ruling are applicable only to the named taxpayer and are based upon and limited to the facts you have submitted. In the event of a change in relevant legislation, or judicial or administrative case law, a change in federal interpretation of federal law in cases where our opinion is based upon such an interpretation, or a change in the material facts or circumstances relating to your request upon which this opinion is based, this opinion may no longer be applicable. It is your responsibility to be aware of these changes, should they occur.

This letter is a legal ruling by the FTB's Chief Counsel within the meaning of Revenue and Taxation Code section 21012, subdivision (a), paragraph (1). Please attach a copy of this letter and your request to the appropriate return(s) (if any) when filed or in response to any notices or inquiries which might be issued.

Best regards,



Laura Wingert
Attorney IV