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**STATE BOARD OF EQUALIZATION**

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July 29, 1959

R---, L--- and P---  
Certified Public Accountants  
XXXX --- Street  
---, CA

Attention: Mr. A--- D. P---

RE: The C--- Company  
Account -- -- XXXXX

Gentlemen:

In your letter of July 24, you ask for our advice as to the application of the California sales tax to the following transactions:

The C--- Company, a California corporation, owns all of the stock of C--- Mfg. Co., which is presently engaged in a manufacturing operation. Under an agreement executed April 24, 1959, the C--- Company purchased all of the stock of the P--- Corporation, a Nevada corporation, doing business in California. All of the assets of P--- are located within the State of California. The C--- Company now proposes to adopt the following course of action:

1. On September 30, 1959, C--- will liquidate P--- into itself. Pursuant to this liquidation, P--- will transfer to C--- all of its assets and liabilities. C--- will transfer all of the stock of P--- to that company in exchange for the net assets. This transaction will be consummated so as to come within the terms of Section 334(a) of the Internal Revenue Code.

2. On September 30, 1959, all of the assets and liabilities of C--- Mfg. Co. will be transferred to the C--- Company in liquidation. This transaction will be consummated in such a manner as to come within Section 332 of the Internal Revenue Code.

3. On September 30, 1959, the C--- Company will transfer all of the assets and liabilities of P---, which were received upon the liquidation of P--- to C--- Mfg. Co. in exchange for common stock with a stated value of \$1,415,000 and a ten-year note for \$500,000 bearing interest at 5%. This transaction will be consummated in such a manner as to come within Section 351 of the Internal Revenue Code.

R---, L--- & P---  
Re: The C--- Company  
Account -- XXXXX

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We assume that the above-shown transactions will occur in the sequence above.

From the information presented we think that the sales tax would apply to each of the above transactions in the following manner:

1. The transfer of all of the assets of P--- Corporation to C--- Company in exchange for all of the outstanding stock of P--- would not be subject to tax under the Sales and Use Tax Law, since the transaction is either 1) a sale for resale or 2) an occasional sale as defined in Section 6006.5(b).

2. The transfer of all of the assets of C--- Mfg. Co to C--- Company in exchange for all of the outstanding stock of C--- Mfg. Co. is not subject to sales tax since the transaction is an occasional sale as defined in Section 6006.5(b).

3. The transfer of all of the asses formerly owned by P--- Corporation from C--- Company to C--- Mfg. Co. in exchange for stock and a note would appear not to be an occasional sale as defined in Section 6006.5 and tax would apply to the gross receipts from the sale of the tangible personal property involved other than inventory purchased for resale.

If you have any further questions concerning this matter, please feel free to write to us.

Very truly yours,

John H. Murray  
Associate Tax Counsel

JHM:rg

cc: --- -- Administrator