



BEFORE THE STATE BOARD OF EQUALIZATION
OF THE STATE OF CALIFORNIA

In the Matter of the Appeal of }
THE WILLIAM R. ROWLAND ESTATE }

Appearances:

For Appellant: Alfred W. Arrington, Attorney
at Law

For Respondent: Burl D. Lack, Chief Counsel;
Hebard P. Smith, Associate Tax
Counsel

O P I N I O N

This appeal is made pursuant to Section 25667 of the Revenue and Taxation Code from the action of the Franchise Tax Board on the protest of The William R. Rowland Estate to a proposed assessment of additional tax in the amount of \$1,376.53 for the income year 1944.

Appellant, a California corporation, owns and operates a large ranch in Los Angeles County. Though solvent, it had substantial outstanding indebtedness and in years prior to 1944 its three stockholders had advanced funds to it to enable it to meet current obligations. These advances were represented by Appellant's notes to the stockholders and in 1944 its indebtedness to them totaled \$34,505.87. To improve the corporation's financial position, each of the stockholders in that year extinguished the indebtedness of the corporation to him as a contribution to its capital. The transaction was reflected in the corporation's books by a debit to its Notes Payable account in the amount of \$34,505.87 and a credit in that amount to its Donated Surplus account.

The proposed assessment here in question resulted from the determination of the Franchise Tax Board that the extinguishment or cancellation of the indebtedness gave rise to income under Section 6(d) of

