



BEFORE THE STATE BOARD OF EQUALIZATION  
OF THE STATE OF CALIFORNIA

In the Matter of the Appeals of )  
FIBREBOARD PRODUCTS, INC. )

Appearances:

For Appellant: F, E. Denniston, Tax Manager of Appellant  
For Respondent: Burl D. Lack, Chief Counsel;  
Paul L. Ross, Associate Tax Counsel;  
John S. Warren, Associate Tax Counsel

O P I N I O N

These appeals are made pursuant to Section 25667 of the Revenue and Taxation Code from the action of the Franchise Tax Board on the protests of Fibreboard Products, Inc., to proposed assessments of additional franchise tax in the amounts of \$13.66 and \$202.74 for the income years ended April 30, 1949, and 1950, respectively, and, pursuant to Section 26077 of the Revenue and Taxation Code, from the action of the Franchise Tax Board on the claims of Appellant for refund of franchise tax in the amounts of \$2,708.47 and \$5,415.27 for the same income years, respectively.

Appellant is a Delaware corporation with its principal place of business in California. It is engaged in the unitary business of manufacturing and selling paperboard and paperboard containers in California and other states.

During the years in question, the Appellant received interest income from United States securities. The majority of these matured in one year or less, and the remainder matured in three years. Appellant also incurred interest expense on long-term borrowings made to obtain funds for plant expansion and working capital.

The Franchise Tax Board takes the position that the interest income should be attributed wholly to Appellant's commercial domicile in California and that the interest expense should be treated as a deduction in the computation of net income to be allocated among the states in which the Appellant conducts its business.

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Appellant's principal contention is that the interest income "represents income arising from sources comprising a part of its unitary operations, and, therefore, constitutes a part of income allocable to business done both within and without the State, " In the alternative, it contends that the interest expense also should be attributed wholly to California .

Appellant's first contention is answered by our opinion in Appeal of American Airlines, Inc., entered December 18, 1952, in which we concluded that interest income from United States obligations which was held and used to pay Federal taxes was not subject to allocation as a part of the income of the unitary business, As we there stated:

"The source of the interest received by Appellant was its investment in government securities and not the operation of its airline business, or a related activity. In view of these considerations we conclude that the tax notes were not an integral part of Appellant's unitary business and that the interest derived therefrom was not subject to allocation. "

The fact that many of the securities of Fibreboard Products, Inc., matured in a shorter time than those involved in the above-cited decision is, in our opinion, not a material distinction,

With respect to Appellant's second contention, it is clear that the interest expense was an expense of the unitary business . The Appellant does not seriously argue that this expense should be attributed solely to California, but believes rather that the interest income should be allocated in the same manner as the interest expense. The two items, however, are unrelated. The interest income was not derived from the operation of the business, but from investments. Since the interest expense in question was incurred to produce business income rather than investment income, we believe that the position of the Franchise Tax Board with respect to it is correct,

O R D E R

Pursuant to the views expressed in the Opinion of the Board on file in this proceeding, and good cause appearing therefor,

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IT IS HEREBY ORDERED, ADJUDGED AND DECREED, pursuant to Section 25667 of the Revenue and Taxation Code, that the action of the Franchise Tax Board on the protests of Fibreboard Products, Inc., to proposed assessments of additional franchise tax in the amounts of \$13.66 and \$202.74 for the income years ended April 30, 1949, and 1950, respectively, be and the same is hereby sustained.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED, pursuant to Section 26077 of the Revenue and Taxation Code, that the action of the Franchise Tax Board on the claims of Fibreboard Products, Inc., for refund of franchise tax in the amounts of \$2,708.47 and \$5,415.27 for the income years ended April 30, 1949, and 1950, respectively, be and the same is hereby sustained.

Done at Sacramento, California, this 17th day of February, 1959, by the State Board of Equalization.

Paul R. Leake, Chairman

Geo. R. Reilly, Member

John W. Lynch, Member

Richard. Nevins, Member

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ATTEST: Dixwell L. Pierce, Secretary