

BEFORE **THE** STATE BOARD OF EQUALIZATION
OF THE STATE OF CALIFORNIA

In the Matter of the Appeal of }
W. J. VOIT RUBBER CORP, }

Appearances:

For Appellant: Patrick James Kirby,
Attorney at Law

For Respondent: A. Ben Jacobson,
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 W. J. Voit Rubber Corp. against a proposed assessment of additional franchise tax in the amount of \$7,463.21 for the taxable year 1957.

Appellant, a California corporation, is a manufacturer of rubber products. For many years it operated a plant at Danville, Illinois, as part of its unitary business. On September 26, 1956, appellant contracted to sell the Danville operation to Ridbo Laboratories, Inc., an outside party. The particular items to be sold were inventories, customers' accounts receivable, machinery and shop equipment, a leasehold interest in the Danville premises and a patent application and license agreement relating to the manufacture of rubber hose.

The contract specified a closing date of October 31, 1956, with the plant to be shut down for three days prior thereto for the purpose of taking inventory. The contract was modified by a letter dated October 17, 1956, advancing the date of closing to October 29, 1956, a Monday, and setting the taking of inventory for the three days immediately preceding. A second modification, dated October 19, 1956, provided that all business transacted "on October 29, 30 and 31 and before the closing shall be at the expense of Ridbo." The plant was shut down October 26, 27 and 28, 1956, the employees of Voit were discharged as of October 27, 1956, the inventory was

Appeal of W. J. Volt Rubber Corp.

completed October 28, 1956, and the closing took place on October 29, 1956.

Respondent's regulations provide that "Income from property, which is not a part of or connected with the unitary business, is excluded from the income of the unitary business which is allocated by formula." (Cal. Admin. Code, tit. 18, reg. 25101, subd. (d) (1), formerly reg. 24301, subd. (c)(1).) By implication, then, the income from all property **which is** a part of or connected with the unitary business **is** to be included in unitary income..:

Consistent with this regulation, we have previously held that income from an abnormal liquidation of **inventories** (Appeal of Wesson Oil and Snowdrift Sales Co., Cal. St. Bd. of Equal., Feb. 5, 1957), from accounts receivable (Appeal of M. Sellar Co., Cal. St. Bd. of Equal., Aug. 22, 1946), and from patents (Appeal of International Business Machines Corp., Cal. St. Bd. of Equal., Oct. 7, 1954), was **includible** in unitary income. We have also held that capital gain from the sale of aircraft (American Airlines, Inc., Cal. St. Bd. of Equal., Dec. 18, 1952) and from the sale of ships (Appeal of American President Lines, Ltd., Cal. St. Bd. of Equal., Jan. 5, 1961) constituted income of the unitary business subject to allocation.

The underlying principle **in** these cases is that **any** income from assets which are Integral parts of the unitary business is unitary income. It is appropriate that all returns from property which is developed or acquired and maintained through the resources of and in furtherance of the business should be attributed to the business as a whole. And, with particular reference to assets which have been depreciated or amortized in reduction of the unitary income, it is appropriate that gains upon the sale of those assets should be added to the unitary income.

It is readily apparent from the description of the assets sold by appellant that they were integral parts of the unitary business, at least before the plant was shut down.

Appellant contends that the three day shut-down of the plant immediately preceding the closing date constituted a withdrawal of the plant from its unitary business, and that the purchase price, therefore, was not subject to allocation as part of unitary **income**.

A legal ruling published by respondent, **FTB LR 143**, Dec. 5, 1958, provides that:

Appeal of W. J. Voit Rubber Corp.

Idle property of a unitary business may not be included in the property factor of the allocation formula if the property **is** not available for use in the **unitary** business during the period of idleness and the maintenance of such **idle** property may not be deducted from unitary income,

It is **appellant's** argument that, as the Danville, Illinois, plant was closed for three days, this ruling, by extension of its reasoning, requires that the gain from the sale be treated as non-unitary income.

The cited ruling, however, has no rational application to the case at hand. The contract of sale was negotiated and signed while the plant was admittedly still a unitary asset. The shutting down of the plant **was, according to the letter** of modification dated October 17, 1956, "To accommodate a closing of the sale agreement," and to enable the parties "to complete the taking of the physical inventories." It was merely a matter of simplifying the mechanics of a sale which had been agreed upon previously.

The modification of October 19, 1956, providing that "All business transacted on October 29, 30 and 31 and before the closing shall be at the expense of **Ridbo**," is emphasized by appellant. No reasonable interpretation of this provision, however, could alter the clear import that the plant was shut down to facilitate the sale.

The closing of the sale was not an isolated event that took place after the closing of the plant. It, the **dis-**charging of the employees, the inventory-taking, and the shutting-down were all parts of one transaction that was decided **upon** in the course of, and for the benefit of, an admittedly unitary business. Accordingly, we find that the assets of the Danville, Illinois, plant remained integral assets of appellant's unitary business until the sale and that the gain from the sale was part of **appellant's** unitary income,

Appellant's further contention regarding the constitutionality of taxing this transaction is unfounded. Hans Rees' Sons, Inc. v. North Carolina, 283 U.S., 123 [75 L. Ed. 879], cited by appellant, concerned the method of properly allocating income. It did not deny the state the right to allocate income determined to be unitary. Appellant has not contested **respondent's** method of **allocation**, but rather contests the inclusion of the proceeds of the sale in **alloc-**-able income. As the income **is** unitary **income**, and appellant **has** not shown by clear and cogent evidence that **extraterritorial** values **are being** taxed, respondent's **action** must be upheld.

Appeal of W. J. Voit Rubber Corp.

(Butler Bros. v. McColgan, 315 U.S. ' 501 [86 L. Ed. 991];
Edison California Stores, Inc. v. McColgan, 30 Cal. 2d 472
[183 P.2d 16].)

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,

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 protest of W. J. **Voit** Rubber Corp. against a proposed assessment of additional franchise tax in the amount of **\$7,463.21** for the taxable year **1957**, be and the same **is** hereby sustained,.

Done at Sacramento, California, this 12th day of **May**, 1964, by the **State Board** of Equalization.

<u>Paul R. Leake</u>	Chairman
<u>John W. Lynch</u>	Member
<u>Richard L. ...</u>	Member
<u>Bob ...</u>	Member
<u>...</u>	Member

Attest: J. H. Freeman, **Secretary**