

220.0086 **Corporate Property Transfers.** For transfers of property to qualify as transfers made among members of an affiliated group, the affiliation must exist before and after the transfer. A transfer made as part of a split-up of affiliated corporations is not within the provisions of Revenue and Taxation Code section 64(b). C 5/14/85.

(916) 324-6594

May 14, 1985

Dear Mr. [redacted]:

Thank you for your letter of April 26, 1985 and attachments of copies of selected pages of the Plan of Reorganization ("POR") dated December 16, 1982 and the Reorganization and Divestiture Agreement among American Telephone and Telegraph Company, Pacific Telesis Group, and Affiliates dated as of November 1, 1983. After reviewing this material, it is still not clear that the embedded CPE was transferred on December 31, 1983 rather than January 1, 1984.

First, although the POR provides that property transfer "will occur at the end of December 1983" as your letter indicates, that provision is qualified by the language "[e]xcept as otherwise provided in this Plan". The next sentence says "Because of the number of documents and entities involved in these transactions, many of the appropriate papers will be executed prior to December 31, 1983, to become effective on January 1, 1984" (emphasis added). The transfer of embedded CPE to ATTIS is not mentioned anywhere on the page of the POR which you sent.

With respect to the Reorganization and Divestiture Agreement, you refer to Sections 1.20, 3.3, and 3.8.2 as proof that the embedded CPE was to be transferred at the close of business on December 31, 1983. Again, none of those sections refers specifically to any transfer of embedded CPE to ATTIS. As you will recall from my letter to you of February 28, 1985, however, each of the documents we relied upon is more recent and specifically refers to embedded CPE being transferred on January 1, 1984. Consequently, we are not convinced that the transfer of embedded CPE to ATTIS occurred prior to January 1, 1984.

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Although our opinion that Revenue and Taxation Code Section 64(b) did not apply was based on the assumed fact that Pacific Bell and ATTIS became disaffiliated on the same day that Pacific Bell transferred its embedded CPE to ATTIS, we recognized that the transfer may have occurred before rather than after the divestiture. We therefore realized that Pacific Bell and ATTIS may have in fact been affiliated corporations at the time of the transfer and for several hours thereafter.

Thus, in concluding that Revenue and Taxation Code Section 64(b) was not applicable, we necessarily interpreted that section to require more than mere transitory or fleeting affiliation between the corporations involved. As you know, the basis for that interpretation is the statement of Bob Leland, former consultant to the Assembly Revenue and Taxation Committee that:

"The purpose of [Section 64(b)] is to exclude those transfers made among subsidiaries directly or indirectly owned by the same parent corporation, and which, therefore, are essentially under the same ownership and control before the transfer as after."

(Implementation of Proposition 13, Vol. I, Property Tax Assessment, Assembly Revenue and Taxation Committee, Assembly Publication No. 746, October 29, 1979.)

Clearly, had the transfer occurred simultaneously with divestiture, Pacific Bell and ATTIS would not have been under the same ownership and control before the transfer as after and the purpose of Section 64(b) would therefore not have been fulfilled. Had the transfer occurred one minute, one hour or even one day prior to divestiture, we believe that the purpose of Section 64(b) would have been similarly unfulfilled. The fact is that regardless of when the transfer in question actually took place, it was clearly intended to occur approximately at the time of divestiture and not at a time substantially prior to divestiture. We therefore believe that for purposes of Section 64(b), it can reasonably be said that Pacific Bell and ATTIS were not under the same ownership and control before the transfer as after. Accordingly, it is our

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opinion that the transfer in question is not excluded under Section 64(b) even if made the day prior to divestiture.

Very truly yours,

Eric F. Eisenlauer
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Legal Section