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March 3, 1983

Dear

This is in response to your letter of January 17, 1983, to Mr. Glenn Rigby in which you ask our opinion of whether a certain proposed transaction constitutes a change in ownership for property tax purposes. Specifically, the facts of the proposed transaction are as follows:

Corporation X holds California real estate. X is owned by a number of shareholders who hold similar but not identical interests in Y, a corporation that holds no California property. There are, however, shareholders in Y who have no interest in X.

The X and Y shareholders intend to contribute their X and Y shares to a newly-formed holding company in exchange for holding company stock. This contribution would result in only a de minimis change in the X and Y shares held by the X and Y shareholders indirectly as compared to the shares they held directly.

Upon the conclusion of the proposed transaction, the holding company would directly own 100% of the stock of Corporations X and Y. In this regard, Section 64(a) of the Revenue and Taxation Code provides for the general rule, with noted exceptions, that the transfer of corporate stock does not constitute a change in ownership. One such noted exception is provided in Section 64(c), which states:

When a corporation, partnership, other legal entity or any other person obtains control, as defined in Section 25105, in any corporation, or obtains a majority ownership interest in any partnership or

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ownership interest in any partnership or other legal entity through the purchase or transfer of corporate stock, partnership interest, or ownership interests in other legal entities, such purchase or transfer of such stock or other interest shall be a change in ownership of property owned by the corporation, partnership, or other legal entity in which the controlling interest is obtained.

Section 25105 of the Code provides:

Direct or indirect ownership or control of more than 50 percent of the voting stock of the taxpayer shall constitute ownership or control....

Based on the foregoing, it is our opinion that a change in ownership of Corporation X's California real property would occur when the holding company acquires 100% of Corporation X's stock because there would be a change in control pursuant to Section 64(c) of the Revenue and Taxation Code.

Very truly yours,

Margaret S. Shedd
Tax Counsel

MSS:jlh