

Income/Franchise:

California: IRS Closing Agreement Deemed a Final Federal Determination that Reorganization Was Not Tax-Free

OTA Case Nos. 18083623 & 18083632 [2024-OTA-228], Cal. Off. of Tax App. (3/21/23). In a case involving a corporate acquisition in 1999 that under Texas law qualified as a tax-free statutory merger but that did *not* appear to qualify as a tax-free reorganization pursuant to the taxpayer's 2007 closing agreement with the Internal Revenue Service (IRS), a recently posted California Office of Tax Appeals (OTA) nonprecedential ruling held that the IRS closing agreement constituted a final federal determination that the transaction was a taxable sale for federal income tax purposes and reflected its failure to qualify as a tax-free organization under Internal Revenue Code (IRC) section 368(a)(1)(A). The OTA also held that the California Franchise Tax Board had timely issued to the taxpayer corresponding Notices of Proposed Assessment (NPAs) that reflected the federal taxable transaction, and as a result increased its California corporate income tax liability. Please contact us with any questions.

URL: <https://ota.ca.gov/wp-content/uploads/sites/54/2024/06/McGarvey-Clark-Realty-Inc.-Avis-Budget-Group-Inc.pdf>

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