

Income/Franchise:

California: Partnership Income from Stock Sale Deemed Apportionable Rather Than Sourced Entirely In-State

Case No. CGC18571122, Cal. Super. Ct. (1/22/25). In a case addressing the sourcing of gain realized by a limited partnership (LP) on the sale of stock of a wholly-owned C-corporation where numerous trusts (*i.e.*, the taxpayers) owned the limited partnership interests in the LP, as well as the stock of the S-corporation that was the general partner, the San Francisco Superior Court (Court) held in favor of the trusts that the underlying gain was not solely California-source income. Specifically, the Court considered the sourcing of gain realized by the LP on the sale of stock of the C-corporation. The three entities at issue – the LP, the S-corporation, and the C-corporation – jointly operated a movie-theatre business in multiple states, including California. The original LP tax return for the period in question did not allocate income between California and non-California sources, and the trustees subsequently sought a refund, arguing that the gain should have been reported as apportionable between California and non-California sources. The Court agreed and held that because the partnerships are part of “a unitary business that conducts itself within and without California,” the income from the sale should not have been fully apportioned to California as it was previously reported; rather, income from the sale should have been apportioned at the partnership level under Cal. Code Regs. section 17951-4(d) and therefore apportioned in part outside of California, entitling the trusts to a refund. [Note: see Case No. A154691, Cal. Ct. App., 1st Dist. (6/29/20) and previously issued Multistate Tax Alert for more details on a related 2020 California Court of Appeal ruling]. Please contact us with any questions.

URL: <https://www.courts.ca.gov/opinions/documents/A154691.PDF>

URL: <https://www2.deloitte.com/us/en/pages/tax/articles/california-court-of-appeal-rules-that-a-trust-is-taxable-on-all-california-source-income-without-regard-to-the-residence-of-fiduciaries.html?id=us:2em:3na:stm:awa:tax:013125&sfid=701ap000001peEAAAY>

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