

BEFORE THE OFFICE OF TAX APPEALS

STATE OF CALIFORNIA

IN THE MATTER OF THE APPEAL OF,)
)
RANBIR SAHNI and REKHA SAHNI,) OTA NO. 18073515
)
) APPELLANT.)
)
)
_____)

TRANSCRIPT OF PROCEEDINGS

Los Angeles, California

Tuesday, May 21, 2019

Reported by:
ERNALYN M. ALONZO
HEARING REPORTER

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BEFORE THE OFFICE OF TAX APPEALS

STATE OF CALIFORNIA

IN THE MATTER OF THE OF,)
RANBIR SAHNI and REKHA SAHNI,) OTA NO. 18073515
APPELLANT.)
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Transcript of Proceedings, taken at
355 South Grand Avenue, South Tower, 23rd Floor,
Los Angeles, California, 91401,
commencing at 10:01 a.m. and concluding
at 10:10 a.m. on Tuesday, May 21, 2019,
reported by Ernalyn M. Alonzo, Hearing Reporter,
in and for the State of California.

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APPEARANCES:

Panel Lead: Hon. SARA HOSEY

Panel Members: Hon. TERESA STANLEY
Hon. MICHAEL GEARY

For the Appellant: RICHARD SUAREZ, JR.
GARY BABICK

For the Respondent: State of California
Franchise Tax Board
By: BRANDON KNOLL
MICHAEL CORNEZ

TAX COUNSEL
Legal Division
P.O. Box 1720
Rancho Cordova, CA 95741
916-845-2498

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I N D E X

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E X H I B I T S

(Appellant's Exhibits 1-4 were received at page 6.)

(Respondent's Exhibits A-M were received at page 6.)

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Los Angeles, California; Tuesday, May 21, 2019

9:58 a.m.

ADMINISTRATIVE LAW JUDGE HOSEY: We're now going on the record.

This is the appeal of Ranbir and Rekha Sahni, Case No. 18073515. Today is May 21st, 2019. It is 10:01 a.m., and we're in Los Angeles, California. I am Administrative Law Judge Sarah Hosey, and with me today is Judge Teresa Stanley and Judge Michael Geary.

Parties, can you please state your names for the record.

- MR. SUAREZ: Richard Suarez, CPA.
- MR. BABICK: Gary Babick.
- MR. KNOLL: Brandon Knoll.
- MR. CORNEZ: Michael Cornez.

ADMINISTRATIVE LAW JUDGE HOSEY: Thank you. Today's issue is whether the calculation of appellants' substituted bases in the promissory notes is correct.

Let's move on to the exhibits. We pre-marked Exhibits 1 through 4 for Appellants and A through M for respondent, FTB, at the prehearing conference held on April 4th, 2019.

Mr. Suarez, do you have any objections to admitting Exhibits A through M?

1 MR. SUAREZ: No.

2 ADMINISTRATIVE LAW JUDGE HOSEY: Thank you.

3 Mr. Knoll, any objections to admitting Exhibits 1
4 through 4?

5 MR. KNOLL: No.

6 ADMINISTRATIVE LAW JUDGE HOSEY: All right.
7 Exhibits 1 through 4 and A through M are admitted as
8 evidence into the record.

9 (Appellant's Exhibits 1-4 were received
10 in evidence by the Administrative Law Judge.)

11 (Respondent's Exhibits A-M were received
12 in evidence by the Administrative Law Judge.)

13 Mr. Suarez, are you ready to begin your
14 presentation?

15 MR. SUAREZ: Yes.

16 ADMINISTRATIVE LAW JUDGE HOSEY: Please begin.

17 MR. SUAREZ: Okay. Sorry. I'm new to this.

18 ADMINISTRATIVE LAW JUDGE HOSEY: Take your time.

19 MR. SUAREZ: The -- I'm actually going to keep
20 this very short.

21 ADMINISTRATIVE LAW JUDGE HOSEY: Sure.

22

23 OPENING STATEMENT

24 MR. SUAREZ: This is in response to -- and the
25 reason why we're here is because our request for rehearing

1 was granted and approved by this board, okay. In that
2 appeal, your subsequent decision, you kind of isolated
3 certain key items that we don't take issue with, okay.

4 And some of those are that -- you're statement
5 that the Franchise Tax Board should have adjusted the
6 substituted basis in appellants' promissory notes to
7 reflect the undisputed liabilities of cost of sale. Okay.
8 And then the rehearing shall be limited to consideration
9 of the undisputed liabilities and cost of sale to
10 calculate appellants' substituted basis of the promissory
11 notes.

12 All the other facts and circumstances that have
13 been discussed, I believe, have all been accepted, okay,
14 up to this point. We agree, okay, that section 732(b)
15 does apply, and we think -- we believe that we have
16 properly applied section 734(b) as per our materials and
17 attachments, our exhibits.

18 That's pretty much it.

19 ADMINISTRATIVE LAW JUDGE HOSEY: Okay. Thank
20 you.

21 Mr. Knoll, would you like to begin your
22 presentation?

23 MR. KNOLL: Yes.

24 ADMINISTRATIVE LAW JUDGE HOSEY: Okay. Let's do
25 it.

1 substitute basis on the promissory notes. Therefore,
2 respondent respectfully request that appellant's claim for
3 refund be denied. Thank you.

4 ADMINISTRATIVE LAW JUDGE HOSEY: Thank you. I'm
5 going to ask the panel if there's any questions.
6 Judge Stanley?

7 ADMINISTRATIVE LAW JUDGE STANLEY: No.

8 ADMINISTRATIVE LAW JUDGE GEARY: No questions.

9 ADMINISTRATIVE LAW JUDGE HOSEY: Okay.
10 Mr. Suarez, would you like to make a final statement?

11 MR. SUAREZ: Well, I think that the argument that
12 he presented was outside the scope of the rehearing.
13 Okay. And then all the documentation -- we've correct --
14 we believe that we've correctly calculated the 734(b)
15 adjustment. Okay.

16 MR. BABICK: 732.

17 MR. SUAREZ: I'm sorry. 732. Okay. 732(b).
18 They did not -- the documentation issue was not part of
19 the scope of this rehearing.

20 ADMINISTRATIVE LAW JUDGE HOSEY: That's it?

21 MR. BABICK: Yeah. I would add just one item.
22 If you would make reference to the first schedule or the
23 third schedule that we submitted there, it's just a brief
24 summary of the tax return balance sheets that show the
25 difference between book capital count and the tax basis.

1 And the only single item that changes between the book
2 capital account and the tax basis is the deferred gain on
3 the installment sale. When that is considered, the tax
4 basis changes, and it's that tax basis that was used in
5 the materials that we presented.

6 Originally when we had the audit, since this went
7 back to 2002, we didn't have -- neither Richard and I were
8 involved, and we didn't have the original information from
9 escrow statements to show what the potential -- what the
10 commissions and cost of sales were. We had estimated it
11 on the amended return. The state disallowed the
12 estimates. We agree we can't -- we can't substantiate the
13 commission. We don't have the document showing from 19
14 years ago what the commission was.

15 So in the schedules we presented to you here,
16 we've limited anything that's not on the tax return. It's
17 simply a matter of what's the tax basis on the note. I
18 think it's a very clear schedule as to what that -- what
19 that basis should be.

20 ADMINISTRATIVE LAW JUDGE HOSEY: Okay. Thank
21 you. Okay.

22 MR. CORNEZ: May I ask a question?

23 ADMINISTRATIVE LAW JUDGE HOSEY: Sure. What's
24 your question?

25 MR. CORNEZ: I'm sort of curious as to who this

1 witness or person testifying is. We've not heard or seen
2 his name before.

3 MR. BABICK: I'm sorry. I've just done some work
4 for Mr. Sahni. Richard is the power of attorney, and I
5 worked with him on trying to put this together. I'm a
6 former tax partner at one of the large firms, but I
7 haven't practiced for a bunch of years.

8 ADMINISTRATIVE LAW JUDGE HOSEY:
9 Co-representative?

10 MR. BABICK: Yeah.

11 ADMINISTRATIVE LAW JUDGE HOSEY: Okay. We have
12 your evidence, and we've heard your arguments. Is there
13 anything else you've prepared to present to the panel
14 today?

15 MR. SUAREZ: Nope.

16 ADMINISTRATIVE LAW JUDGE HOSEY: Okay. We're
17 ready to submit the case. The record is now closed. This
18 concludes the hearing, and the judges will meet and decide
19 the case based on the documents and arguments presented
20 today. We will send both the parties the written decision
21 no later than 100 days from today.

22 So this hearing is now in recess.

23 (Proceedings adjourned at 10:10 a.m.)

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HEARING REPORTER'S CERTIFICATE

I, Ernalyne M. Alonzo, Hearing Reporter in and for the State of California, do hereby certify:

That the foregoing transcript of proceedings was taken before me at the time and place set forth, that the testimony and proceedings were reported stenographically by me and later transcribed by computer-aided transcription under my direction and supervision, that the foregoing is a true record of the testimony and proceedings taken at that time.

I further certify that I am in no way interested in the outcome of said action.

I have hereunto subscribed my name this 3rd day of June, 2019.

ERNALYN M. ALONZO
HEARING REPORTER