



State of California  
Office of Tax Appeals

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**Agenda**

Office of Tax Appeals Hearings  
Monday, August 26, 2019, 10:00 a.m.  
400 R Street  
Hearing Room  
Sacramento, CA 95811

Agenda updated as of 08/13/19, 3:40 p.m.

**Franchise and Income Tax Appeals Hearings**

Paul B. Thompson and Kathleen D. Thompson, 18011377

Panel Lead: Tommy Leung

Panel Members: John Johnson

Neil Robinson

Appearing for Taxpayer:

Paul Thompson, Taxpayer

Cary Gaidano, Representative

Betty J. Williams, Attorney

Michael W. Pearson, Attorney

Appearing for Franchise Tax Board:

Chris Casselman, Tax Counsel

Roman Johnston, Tax Counsel

Issues: Whether the structure implemented by appellants, which involved the payment or accrual of employee leasing fees by an operating company, to an S corporation management company owned by an Employee Stock Ownership Plan, and the deduction of such payments by the operating company, had sufficient business purpose and economic substance to be respected for tax purposes;

Whether the extended 8-year statute of limitations pursuant to RTC section 19755 applies for tax years 1999 through 2002 and, alternatively for tax year 2001 and 2002, whether the 6-year statute of limitations applies pursuant to RTC section 19058;

If the structure implemented by appellants did not have sufficient business purpose and economic substance to be respected for tax purposes, whether the income is properly allocable to the individual taxpayers or to the operating corporation that paid the management fees; and,

If there is an understatement of appellants tax liability, whether the noneconomic substance transaction understatement penalty pursuant to RTC section 19774 and the interest based penalty pursuant to RTC section 19777 apply.



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The following case was removed from this agenda:

Alan Varela and Jennifer Varela, 18011376      Taxpayer requested deferral of this case

The hearing location is accessible to people with disabilities. Please contact Claudia Lopez at (916)206-4772, or email [Claudia.Lopez@ota.ca.gov](mailto:Claudia.Lopez@ota.ca.gov) if you require special assistance.

Note: The above case description is intended simply to inform the public and the press as to the general subject matter of the case. The description does not necessarily define the specific issues that will be addressed at the hearing.