

BEFORE THE STATE BOARD OF EQUALIZATION  
OF THE 'STATE OF CALIFORNIA

In the Matter of the Appeal of )  
STEINER AMERICAN CORPORATION )

Appearances:

For Appellant: Daniel Harris  
Assistant Secretary

For Respondent: Wilbur F. Lavelle  
Tax Counsel

O P I N I O N

This appeal is made pursuant to section 25667 of the Revenue and Taxation Code from the action of the Franchise Tax Board on the protest of Steiner American Corporation against a proposed assessment of additional franchise tax in the amount of \$19,528.33 for the income year ended June 30, 1963.

The issue presented is whether losses resulting from the closing of a California plant and from the subsequent sale of machinery and equipment therein were unitary losses to be offset against unitary income or whether they were nonunitary losses attributable solely to California.

Appellant is engaged in the linen supply service business both within and without this state on a unitary basis. In July 1962 appellant's linen supply operations at 1627 Paloma Avenue, Los Angeles, were shut down for economic reasons. Customers of that plant were thereafter served by another plant in the Los Angeles area. Approximately 10 percent of the plant's machinery, office equipment, and motor vehicles was transferred to other plants. Attempts to sell or rent the Paloma plant were unsuccessful. Eventually the plant machinery and equipment were sold for salvage at an

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auction in April 1963. The plant machinery was dismantled shortly before the auction in order to facilitate the sale. **The plant** was idle for approximately nine months preceding the sale.

As a result of the **plant's** closing and the sale of the machinery and equipment, **appellant** reported a loss of **\$394,066.36**, consisting of a **\$243,330.08** loss on the sale of machinery and equipment, a **\$76,128.26** loss on abandonment of the leasehold improvements, **\$70,045.02** for expenses incurred while awaiting disposition of the **plant**, and a July 1962 operating loss which amounted to **\$4,663.00**. While **appellant** filed its franchise tax return for the income year **ended** June 30, 1963, on the basis that it was engaged in a unitary business within and without the state, it deducted the entire **\$394,066.36** loss as a nonunitary loss attributable solely to California, the **situs** of the property. Respondent Franchise Tax Board determined that the loss arose from transactions which were part of the unitary business and, accordingly, only allocated a portion of the loss to California.

**Appellant** now concedes that the July 1962 operating loss of **\$4,663.00** resulted from a unitary business activity. It contends, however, that the balance of the expenses and losses were wholly attributable to California, maintaining that the Paloma facilities were abandoned (subject to sale for possible salvage value) in July of 1962, that they were **not used in the unitary business after that date and, therefore,** that the expenses and losses should not be regarded as unitary in nature. Respondent contends that the fact the plant was idle for approximately nine months while being held for sale did not alter the unitary nature of the expenses and losses.

Pursuant to section 25101 of the Revenue and Taxation Code and the regulations adopted under it, the income of a unitary business conducted within and without this state is allocable in part to California by a formula composed of income producing factors of the business. **Respondent's** regulations exclude from formula allocation any income from property which is not a part of or connected with the unitary business. (Cal. Admin. Code, tit. 18, reg. 25101, subd. (d)(1).)

As we stated in the Appeal of W. J. Voit Rubber Corp., Cal. St. Bd. of Equal., May 12, 1964, any income from assets which are integral parts of the unitary business is unitary income. It is appropriate that all returns from property which are developed and maintained through the resources of and for the purpose of furthering the business should be attributed to the business as a whole. The principles and reasoning set forth in the W. J. Voit appeal, supra, are equally applicable to losses and expenses relative to assets which are integral parts of a unitary business.

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It is clear that the Paloma plant and the machinery and equipment therein were integral parts of the unitary business, at least until the plant was shut down in July 1962. Here, unlike in the Appeal of Ford Motor Co., Cal. St. Bd. of Equal., April 22, 1948 the machinery and equipment were not converted to a non-unitary use prior to their sale. Mere idleness for protracted periods does not change the unitary character of property. (Appeal of E. K. Wood Lumber Co., Cal. St. Bd. of Equal., July 15, 1943.)

The decision to shut down the Paloma plant and to sell the machinery and equipment was made for economic reasons in the course of, and for the benefit of, **appellant's** unitary operations. Accordingly, we find that the machinery and equipment in the Paloma plant remained integral assets of **appellant's** unitary business until they were sold and that the expenses and losses resulting from the closing of that plant and from the subsequent sale of machinery and equipment therein constituted expenses and losses of the unitary business which offset unitary income.

O R D E R

Pursuant to the views expressed in the opinion of the board on file in this proceeding, end good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED, pursuant to section 25667 of the Revenue and Taxation Code, that the action of the Franchise Tax Board on the protest of Steiner American Corporation against a proposed assessment of additional franchise tax in the amount of \$19,528.33 for the income year ended June 30, 1963, be and the same is hereby sustained.

Done at Sacramento, California, this 7th day of August, 1967, by the State Board of Equalization.

Paul R. Seake, Chairman

Robert Higgins, Member

John W. Lynch, Member

Richard H. ..., Member

..., Member

ATTEST: W. Freeman, Secretary