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**STATE BOARD OF EQUALIZATION**

January 3, 1963

Law Offices of  
N---, K---, B--- & B---  
XXX --- --- Street  
--- --- XX, California

Attention: Mr. T--- F. K---

Gentlemen:

This is in reply to your letter of December 27, 1962 which inquires as to the sales tax consequences of the following transaction:

A client buys all the outstanding stock of a closely held corporation. He dissolves the corporation and receives its assets in exchange for the stock. He then forms a new corporation by transferring the same assets to it, and receives from it only stock.

The board has taken the position that a liquidating dividend does not constitute a sale under section 6006 of the California Sales and Use Tax Law (Revenue and Taxation Code) [i.e., the assets are distributed in exchange only for shares which will have no value because they will be cancelled, and no other consideration such as assumption of liability is transferred]. Therefore, the transfer to the client by the existing corporation does not constitute a sale. The sale by the private individual of assets received from the corporation in exchange for stock constitutes a sale under section 6006. However, the board has taken the position that receiving stock in exchange for assets with which the corporation is capitalized incurs no sales tax liability because the gross receipts by which the sales tax is measured is zero in this case (i.e., when the value of the stock is zero until after the transfer is completed).

Furthermore, unless there is a series of sales by the individual, or he uses the assets in a taxable business enterprise, the sale by him to the corporation would be an occasional sale under section 6006.5, and exempt from taxation under section 6367.

Very truly yours,

John H. Knowles  
Assistant Counsel

JHK:fb

cc: --- --- -- District Administrator