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**STATE BOARD OF EQUALIZATION**

August 28, 1964

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This is in reply to your letter of August 13 in which you inquire about the sales taxability of the incorporation of a certain partnership.

As we understand the facts, your client is an existing partnership in need of funds. You have formed a corporation and would now like to transfer the partnership assets worth \$15,000 and liabilities of \$8,000 to the corporation in exchange for \$20,000 worth of stock. The additional stock is for the goodwill of the partnership. The \$20,000 of stock represents 25 percent of the total stock to be issued under the permit. The other \$60,000 of stock will be sold to cash investors.

Since, after the whole transaction is completed, the original partners' ownership interest in the tangible personal property of the business will have been diluted to a 25 percent interest from their former 100 percent ownership, the transfer is not exempt as an occasional sale under Section 6006.5(b) of the Sales and Use Tax Law. Because the receipt of stock in a commencing corporation is not regarded as taxable consideration for the transfer, the measure of the tax is, in this case, limited to the amount of the partnership liabilities assumed by the corporation. Since the liabilities assumed are \$8,000, the tax would be \$320. If the corporation gives any other consideration in exchange for the stock, such as notes or cash, that also would be included in the measure of the tax.

We hope this answer is sufficient for your purposes. If it is not, please do not hesitate to write to us again.

Very truly yours,

E. H. Stetson  
Tax Counsel

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