Case 20-8c
To Sell or Not to Sell

The CFO of X, an SEC registrant (the "Company"), tells you that the Company is contemplating a sale of one of its reporting units, G, a wholly owned subsidiary of the Company located in the Midwest.

California law allows the Company to include G in its combined group for California state income tax purposes. Therefore G's receipts are currently included in the Company's calculation of its California sales apportionment factor. G has very few, if any, California customers and therefore the inclusion of G's activity in the receipts factor significantly dilutes the Company's resulting California apportionment percentage.

If the Company sells G, the California state apportionment factor will increase significantly (from 1% currently to approximately 14% post-sale) as it will no longer be diluted by G's receipts. The increase in the state apportionment factor will result in a higher effective California state income tax rate for the Company.

The Company's existing California deductible temporary differences, which are expected to be recovered over the next five years, will not be reduced or otherwise affected by the sale of G. Therefore, the Company will still be able to utilize the deferred tax assets (DTAs) related to G in its California returns subsequent to the sale of G.

The Board of Directors is expected to vote on the sale of G prior to June 30, 20x0 (the Company's fiscal year end). If the Board approves the sale of G, it will be classified as held-for-sale as of June 30, 20x0.

Required:

Assuming the Board approves the sale of G and G meets the criteria in ASC 360-10-45-9, <u>Plant, Property, and Equipment Overall,</u> to be classified as held-for-sale as of June 30, 20x0, address the following issue:

- When measuring its existing deferred tax assets at June 30, 20x0, should X use its current California apportionment factor, which includes G's receipts, or its anticipated California apportionment factor reflecting the sale of G?