ARIZONA DEPARTMENT OF REVENUE

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ARIZONA CORPORATE TAX RULING
CTR 02-2

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

ISSUE:

Should gain on an installment sale be apportioned to Arizona on the basis of the apportionment ratio for year of the sale or the year in which the income is reported?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) §§ 43-102(A)(2) and 43-1101(1) provide that Arizona gross income of a corporation is its federal taxable income for the taxable year.

A.R.S. § 43-1139 provides that all business income of a taxpayer shall be apportioned to this state by an apportionment ratio comprised of property, payroll, and sales factors.

A.R.S. § 43-1148 provides for alternate reporting methods if the standard allocation and apportionment provisions do not fairly represent the taxpayer's activity in Arizona.

DISCUSSION:

Arizona has adopted the current year’s federal taxable income as the starting point for computing Arizona taxable income. After the statutory additions and subtractions, business income is apportioned based on the current year's apportionment factors. Installment gains reported in the current year are apportioned based on the current year’s apportionment ratio. The sales factor of the apportionment ratio includes only that portion of the installment sale that is reportable in the current year’s taxable income. For example: if only twenty percent of the gain is included in taxable income each year, including the year of sale, only twenty percent of the gross proceeds would be included in the sales factor for that year.[1]

The gain on installment sales generally results from the accumulation of value over a number of years and the recapture of prior years’ depreciation. The apportionment ratio for the year of sale would generally not apportion the gain more accurately than the ratio

[1] When the reporting of an installment gain is accelerated under A.R.S. § 43-1158, the total gain reported for the year would be included in the apportionment factor.

from the year the income is reported or the ratio from any other year in which the asset was held. A.R.S. § 43–1148 would only be used if the standard apportionment method does not fairly represent the taxpayer's activity in Arizona because of the particular circumstances of the sale.

RULING:

Arizona statutes require business income, including gain on installment sales, to be apportioned by the apportionment ratio of the year in which the income is reported. Only when that apportionment of the gain does not fairly represent the taxpayer's activity in Arizona will another method of apportionment be used as provided in A.R.S. § 43-1148.

Mark W. Killian, Director

Signed: July 15, 2002

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law that are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement that provides interpretation, detail, or supplementary information concerning application of the law. Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.