



Janet Napolitano
Governor

Gale Garriott
Director

ARIZONA CORPORATE TAX RULING CTR 07-1

(This ruling rescinds and supersedes Arizona Corporate Tax Ruling CTR 99-4)

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ISSUE:

If a multistate corporation invests its working capital in short-term instruments, should receipts from the sale or other disposition of these investments be included in the sales factor?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1139 provides that a company's business income is apportioned to this state by multiplying the income by a fraction of the property, payroll and sales factors of the taxpayer.

A.R.S. § 43-1145 provides that "[t]he sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this state during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period."

A.R.S. § 43-1131(5) defines "sales" as "all gross receipts of the taxpayer not allocated under this article" except as "the context otherwise requires."

Walgreen Arizona Drug Co. v. Arizona Department of Revenue, 209 Ariz. 71, 97 P.3d 896 (Ariz. App. 2004), held that the return of short-term investment principal is not includable as part of "total sales" in the sales factor denominator of the apportionment formula pursuant to A.R.S. § 43-1145.

DISCUSSION:

Taxpayers investing liquid assets held for use in the business may invest and reinvest these funds in a number of short-term investments throughout the taxable year. Including the return of principal from these investments in the sales factor inherently distorts the apportionment of

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business income to Arizona because the same principal investment may be included numerous times.

A.R.S. § 43-1131(5) defines “sales” as “all gross receipts of the taxpayer not allocated under this article” except as “the context otherwise requires.” “Sales” does not include the return of short-term investment principal, thus preventing its inclusion in the sales factor. Including such unadjusted gross receipts from the investment and reinvestment in short-term investments distorts the sales factor contrary to legislative intent and the plain meaning of the statute. *Walgreen Arizona Drug Co.*, 209 Ariz. at 92, 97 P.3d at 902.

RULING:

Only net gain from the investment of short-term securities is included in the sales factor of the apportionment formula.

Gale Garriott, Director

Signed: April 3, 2007

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.