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## ARIZONA CORPORATE INCOME TAX RULING CTR 12-1

(Supersedes Arizona Corporate Income Tax Ruling CTR 94-10)

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:**

Which taxpayers may file a consolidated Arizona income tax return and what are the requirements?

### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 43-947 provides for the filing of consolidated Arizona income tax returns by corporations.

Arizona Revised Statutes (A.R.S.) § 43-1201(A)(14) exempts insurance companies from Arizona income tax.

### **DISCUSSION:**

A.R.S. § 43-947 allows corporate taxpayers to elect to file consolidated Arizona income tax returns. In order to file a consolidated Arizona return the taxpayer must file a federal consolidated return. The taxpayer must include the same corporations in the Arizona consolidated return as in the federal consolidated return. The election to file on a consolidated basis is binding for all succeeding taxable years, unless the department consents to a change in filing method. The election must be accompanied by the written consent, signed by an officer, of each member of the affiliated group.

### **RULING:**

This ruling consists of the department's answers to questions which have been raised concerning the election to file consolidated Arizona income tax returns.

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1. Which corporate groups are eligible to file a consolidated Arizona income tax return?

An affiliated group of corporations which files a federal consolidated return may elect to file a consolidated Arizona income tax return, subject to the conditions described in this ruling and the statutes.

2. How does the corporate group elect to file a consolidated return?

An affiliated group of corporations may elect to file a consolidated Arizona income tax return by filing a consolidated Arizona tax return on or before the extended due date and attaching completed copies of Arizona Form 122, which is the Arizona consent form. The consent form must be signed by a current officer of each subsidiary in the affiliated group.

3. Once a group of corporations has elected to file consolidated returns, can they withdraw the election?

No. The election is binding on all succeeding taxable years, unless the department consents to a change in filing method.

4. If the parent corporation did not previously file in Arizona, should the consolidated group file under the taxpayer identification number (TIN) of the parent or the subsidiary operating within the state?

The consolidated Arizona tax return should use the name and TIN used on the federal consolidated tax return.

5. How is the carryforward of net operating losses computed when members of the affiliated group have losses incurred prior to the consolidation?

See Arizona Corporate Tax Ruling CTR 94-11.

6. How is the fifty dollar minimum tax imposed on the consolidated Arizona return?

The consolidated group is considered one taxpayer and the minimum tax is imposed on the single return rather than each corporation within the group.

7. How will the apportionment formula be calculated for a multistate taxpayer filing a consolidated return?

A single apportionment formula will be calculated using the apportionment factors prescribed in Chapter 11, Article 4 of Title 43. The apportionment formula will be

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applied against all of the business income (may be multiple lines of business) of the affiliated group as if it were a single taxpayer. All Arizona property, payroll, and sales of the affiliated corporations will be included in the numerator of the relevant apportionment factors regardless of whether each of the corporations had nexus within the state on a separate basis during the taxable year.

8. How will the acquisition or sale of a subsidiary affect the consolidated group?

An affiliated group which files a consolidated federal return and which has elected to file a consolidated Arizona return is required to file a consolidated Arizona return for succeeding taxable years. The Arizona affiliated group consists of the same group of corporations that files a consolidated federal return. Newly acquired subsidiaries included in the consolidated federal return are considered to have waived any objection to filing a consolidated Arizona return by their consent to the filing of a consolidated federal return and are included as a part of the Arizona affiliated group.

9. Are insurance companies taxed as part of the consolidated group?

Although they may be part of the affiliated group, income or loss of insurance companies exempt under A.R.S. § 43-1201 that are included in the consolidated Arizona return is excluded from Arizona gross income pursuant to A.R.S. §§ 43-1121 and 43-1122. Property, payroll, and sales of the exempt insurance companies must also be excluded from the numerator and denominator of the appropriate apportionment factors. Note: income of insurance companies that are not subject to premium tax, such as title insurance companies, is not removed from the consolidated Arizona return.

John A. Greene, Director

Signed: December 20, 2012

### 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 which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. **Relevant statute, case law, or administrative rules, as well**

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**as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling.** See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.