

ARIZONA DEPARTMENT OF REVENUE

ARIZONA INDIVIDUAL INCOME TAX RULING

ITR 93-6

(On 7/26/2011, Title 42 statute references were updated due to the recodification of Title 42. No substantive changes were made.)

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:

May the department independently audit and adjust a taxpayer's Arizona gross income when there has not been a similar adjustment by the Internal Revenue Service?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 42-1108 provides that if a taxpayer fails to file a return required by A.R.S. Title 43 or if the department is not satisfied with the return or payment of the amount of tax required to be paid, the department may examine any return, including books and records relating to the return, to determine the correct amount of tax.

A.R.S. § 42-1112 prescribes the enforcement powers and duties of the department.

A.R.S. § 43-102 sets forth the legislative intent to adopt, for Arizona purposes, the provisions of the Internal Revenue Code relating to the measurement of adjusted gross income for individuals and the measurement of taxable income for corporations, trusts, estates and partnerships.

A.R.S. § 43-1001 defines "Arizona gross income" of a resident individual as federal adjusted gross income for the taxable year, computed pursuant to the Internal Revenue Code.

A.R.S. § 43-1091 provides that in the case of nonresidents, "Arizona gross income" includes only that portion of federal adjusted gross income which represents income from sources within Arizona.

A.R.S. § 43-1101 defines "Arizona gross income" of a corporation as its federal taxable income for the taxable year, computed pursuant to the Internal Revenue Code.

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A.R.S. § 43-1301 defines "Arizona gross income" of an estate or trust as its taxable income for the taxable year, computed according to the Internal Revenue Code.

A.R.S. § 43-1401 defines "Arizona gross income" of a partnership.

DISCUSSION:

By statute, Arizona has adopted federal income tax provisions and has defined Arizona gross income to mean federal adjusted gross income for individuals and federal taxable income for corporations, estates, trusts and partnerships. The statutory definitions must, however, be considered as referring to correct federal adjusted gross or federal taxable income. Arizona's income tax law is based on federal adjusted gross or federal taxable income properly derived and the Internal Revenue Code properly construed.

RULING:

The Arizona statutory provisions grant the department authority to examine tax returns and make assessments if deficiencies are found. The department has the authority to audit, construe federal law, and determine Arizona gross income notwithstanding a different determination by the Internal Revenue Service or failure of the Internal Revenue Service to make a similar determination.

Harold Scott, Acting Director

Signed: March 29, 1993

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 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.