

# ARIZONA DEPARTMENT OF REVENUE

## ARIZONA PARTNERSHIP TAX RULING

### PTR 93-1

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.

#### **ISSUES:**

1. What is the tax year for a partnership?
2. What is the due date for short period Arizona partnership returns?

#### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S) § 43-102.A.2 sets forth the intent of the legislature to adopt the provisions of the federal Internal Revenue Code relating to the measurement of taxable income for partnerships.

A.R.S. § 43-104.23 defines "taxable year" for purposes of Title 43.

A.R.S. § 43-1401.1 defines "Arizona gross income" of a partnership to mean its taxable income for the year computed pursuant to the Internal Revenue Code.

A.R.S. § 43-901 governs the taxable year of a taxpayer.

A.R.S. § 43-325 prescribes the time for filing returns.

A.R.S. § 43-931.B sets forth the due date of a short period return resulting from a change in accounting period.

A.R.S. § 43-934 provides for returns filed by a taxpayer not in existence during the entire taxable year.

Internal Revenue Code (I.R.C.) § 441 and related Treasury regulations govern the period for computing taxable income.

I.R.C. § 706 and related Treasury regulations govern the taxable years of partners and partnerships.

## **DISCUSSION:**

### **Issue 1:**

*What is the tax year for a partnership?*

A.R.S. § 43-102.A.2 provides that the legislative intent is to adopt the provisions of the Internal Revenue Code relating to the measurement of taxable income for partnerships, to the end that taxable income reported each taxable year by a partnership to the Internal Revenue Service shall be the identical sum reported to Arizona, subject to the modifications contained in Title 43 of the Arizona Revised Statutes.

A.R.S. § 43-901 provides that taxable income shall be computed upon the basis of the taxpayer's annual accounting period and requires that the tax year reflect the proper income of the taxpayer. I.R.C. § 441 and Treas. Reg. § 1.441-1T provide that taxable income be computed using the taxpayer's taxable year. A taxable year is defined as an annual accounting period, either fiscal year or a calendar year, or the period for which the return is made if a return is made for a period of less than 12 months.

A.R.S. § 43-104.23(a) provides that, for purposes of Title 43, "taxable year" means a calendar year or fiscal year upon the basis of which the taxable income is computed. For federal purposes, the tax year used by a partnership to determine a partner's distributive share of partnership ordinary income and separately stated items is controlled by I.R.C. § 706. In general, I.R.C. § 706(b) and Treas. Reg. § 1.706-1T provide that a partnership must adopt a taxable year that is the same as the taxable year of its partners who own a majority interest in partnership profits and capital. If the majority partners do not all have the same taxable year, the partnership must adopt the year of all the principal partners. A principal partner is one who owns five percent or more in partnership profits or capital. Where neither the majority partner rule nor the principal partner rule applies, then the partnership must adopt a calendar year unless it can establish a business purpose to have some other year end.

A.R.S. § 43-1401.1 requires that the starting point for computing Arizona gross income of a partnership be the taxable income as computed under the partnership provisions of the Internal Revenue Code. Therefore, the partnership's taxable year must be the same for federal and state purposes.

## Issue 2:

*What is the due date for short period Arizona partnership returns?*

A.R.S. § 43-104.23(b) states that in the case of a return made for a fractional part of a year under Title 43 or rules prescribed by the Department of Revenue, "taxable year" means the period for which the return is made.

A.R.S. § 43-325 provides that, unless otherwise indicated, returns shall be filled on or before the fifteenth day of the fourth month following the close of the taxable year.

A.R.S. § 43-934 provides that a taxpayer not in existence during the entire taxable year shall make a return for the fractional part of the year that the taxpayer was in existence.

Therefore, a partnership filing a short period return because it was not in existence during the entire taxable year would have a due date on the fifteenth day of the fourth month following the close of the taxable year. Treas. Reg. § 1.706-1(c)1 provides that, in the case of termination, the closing of the partnership's taxable year occurs when the partnership is terminated.

### EXAMPLE:

A calendar year partnership terminates its activities on March 21. The taxable year closes on that date and a short period return would be filed from January 1 through March 21. This return would be due on July 15.

A.R.S. § 43-931.B provides that a short period return resulting from a change in accounting period is due on the fifteenth day of the fourth month following the close of the short period.

Therefore, a partnership filing an Arizona short period return due to a change in accounting period would have a due date on the fifteenth day of the fourth month following the close of the short period.

### EXAMPLES:

A calendar year taxpayer changes its accounting period to a June 30 fiscal year end. The taxpayer would file a short period return for the period January 1 through June 30. This short period return would be due October 15.

A taxpayer with a fiscal year ending August 31 changing to a calendar year would file a short period return from September 1 through December 31. This short period return would be due April 15.

## **RULING:**

1. The tax year used by a partnership to determine a partner's distributive share of partnership ordinary income and separately stated items for Arizona purposes must be the same as the tax year used for federal purposes.
2. A partnership filing a short period return due to a change in accounting period or because it was not in existence during the entire taxable year would have a due date on the fifteenth day of the fourth month following the close of the short period.

Harold Scott, Acting Director  
Signed April 8 ,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.