

ARIZONA CORPORATE TAX RULING

CTR 93-12

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:

Is that portion of employee wage expense, which is not deductible on the employer's federal corporate income tax return when a targeted jobs credit is claimed under Internal Revenue Code § 51, allowed as a subtraction on the employer's Arizona corporate income tax return?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1101 provides that Arizona taxable income for corporations is federal taxable income as adjusted by the modifications in A.R.S. §§ 43-1121 and 43-1122.

A.R.S. § 43-1122 provides a specific list of subtractions for corporations in adjusting federal taxable income to Arizona taxable income.

Arizona State Tax Commission v. Kieckhefer, 67 Ariz. 102, 191 P.2d 729 (1948) held that a right to a deduction does not exist in the absence of statutory authorization and a deduction will not be allowed for items not within the terms of the statute.

A.R.S. § 43-1101.4 defines federal taxable income as taxable income of a corporation computed pursuant to the Internal Revenue Code.

A.R.S. § 43-104.13 defines the Internal Revenue Code for purposes of title 43 and for tax years beginning from and after December 31, 1992, as the Internal Revenue Code in effect on January 1, 1993, but excluding all changes to such code enacted after January 1, 1993.

DISCUSSION:

The starting point for the Arizona corporate income tax computation is the corporation's federal taxable income. A.R.S. § 43-1122 provides subtractions from federal taxable income to arrive

at Arizona taxable income for corporations. There is no provision within A.R.S. § 43-1122 which provides for a subtraction of wage expenses which cannot be deducted on the federal return when the targeted jobs credit is claimed under Internal Revenue Code (I.R.C.) § 51. Subtractions are allowable only when specifically authorized by statute. Therefore, wage expenses which are not allowed as a deduction on the federal return as a result of a taxpayer claiming the targeted jobs credit may not be subtracted to arrive at Arizona taxable income.

Arizona did not adopt the provisions of the federal Revenue Reconciliation Act of 1993 for purposes of computing federal taxable income of corporations. Therefore, for tax years beginning from and after December 31, 1992, the starting point for the computation of Arizona taxable income of a corporation will be the corporation's federal taxable income computed under the Internal Revenue Code in effect on January 1, 1993.

Under the Internal Revenue Code as defined in A.R.S. § 43-104.13, the targeted jobs credit was not allowed on wages paid or incurred to an individual who began work for the employer after June 30, 1992. Therefore, for tax years beginning from and after December 31, 1991, federal taxable income of a corporation for Arizona purposes would be computed allowing a full deduction of those wages paid or incurred to an individual who began work for the employer after June 30, 1992, since under the Internal Revenue Code, as recognized by Arizona, no credit would be allowed and all wages would be fully deductible.

RULING:

Wage expenses which were not allowed as a deduction in the computation of federal taxable income as a result of claiming the I.R.C. § 51 targeted jobs credit may not be claimed as a subtraction in arriving at Arizona taxable income.

However, for taxable years beginning from and after December 31, 1991, the federal taxable income used to determine Arizona gross income will be computed allowing the full amount of wage expense related to the targeted jobs credit for individuals who began work for the employer for periods after June 30, 1992.

Harold Scott, Director
Date Signed December 3, 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.