# ARIZONA DEPARTMENT OF REVENUE

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## ARIZONA CORPORATE TAX RULING
## CTR 98-1

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.

### ISSUE:

Does Arizona recognize the transactions reported on the federal return between a corporation and its affiliated Foreign Sales Corporation (FSC) when computing Arizona taxable income of the corporation?

### APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1101.2 provides that Arizona taxable income is federal taxable income adjusted by the modifications in article 3 of chapter 11.

A.R.S. §§ 43-1121 and 43-1122 provide for modification of federal taxable income when computing Arizona taxable income.

### DISCUSSION:

Although A.R.S. § 43-1121.5 provides a specific addition to Arizona gross income to modify the effect of transactions between a corporation and a Domestic International Sales Corporation (DISC), the legislature has provided no modification for similar transactions involving a Foreign Sales Corporation (FSC). Therefore, those FSC transactions included in federal taxable income are not subject to modification when computing Arizona taxable income.

**<u>RULING</u>:**

Arizona will not make adjustments to the transactions between a corporation and a valid affiliated Foreign Sales Corporation (FSC) when computing Arizona taxable income if those transactions meet the applicable federal requirements.

Mark W. Killian, Director

Signed: April 20, 1998

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.