

810-27-1-4-.09 Apportionment Formula.

All business income of the taxpayer shall be apportioned to this state by use of the apportionment formula set forth in section 40-27-1, Article IV.9. The elements of the apportionment formula are the property factor (see Regulation 810-27-1-4-.10.), the payroll factor (see Regulation 810-27-1-4-.13.) and the sales factor (see Regulation 810-27-1-4-.15.) of the trade or business of the taxpayer. For taxpayers with a business interest in an unincorporated entity (e.g., partnership, unincorporated joint-venture, limited liability company taxed as a partnership, etc.), the elements of the apportionment formula shall include the pro rata share of the unincorporated entity's factor data. If any factor is not utilized in the production of business income, it shall be eliminated and the denominator reduced accordingly. The taxpayer may request, or the Commissioner may require, the use of a replacement factor in lieu of the eliminated factor where appropriate. See regulation 810-27-1-4-.18.

(i) EXAMPLE: Corporation C has a 20% distributive share of Partnership P's income which is included in C's apportionable business income. There are no transactions between C and P. Using the regulations for computing the elements of the apportionment formula, C has its own apportionment factor data as follows:

	<u>Alabama</u>	<u>Everywhere</u>
Property	550,000	600,000
Payroll	1,800,000	2,000,000
Sales 1,500,000	7,000,000	

Using the regulations for computing the elements of the apportionment formula at the partnership level, C's 20% share of P's apportionment factor data is as follows :

	<u>Alabama</u>	<u>Everywhere</u>
Property (20% of 100,000)	20,000	(20% of 275,000) 55,000
Payroll (20% of 50,000)	10,000	(20% of 125,000) 25,000
Sales (20% of 75,000)	15,000	(20% of 350,000) 70,000

C must compute its apportionment formula as follows:

	<u>Alabama</u>	<u>Everywhere</u>
Property (550,000+20,000)	570,000	(600,000+55,000) 655,000
Payroll (1,800,000+10,000)	1,810,000	(2,000,000+25,000) 2,025,000
Sales (1,500,000+15,000)	1,515,000	(7,000,000+70,000) 7,070,000

Property	(570,000) 655,000)	87.0229%
Payroll	(1,810,000) 2,025,000)	89.3827%
Sales	(1,515,000) 7,070,000)	<u>21.4286%</u>
Sum of Factor Percentages	197.8342%	
Divide by Number of Factors Used	<u>) 3</u>	
Apportionment Factor Average Percentage	<u>65.9447%</u>	

(ii) EXAMPLE: Assume same facts as in (i) except that C owns a building costing \$100,000 that is rented to P for \$12,000 per year. C must include the original cost of the building (\$100,000) in its property factor. Therefore, no portion of the value of P's rented property will be reflected in the property factor of C. C would eliminate intercompany rents (20% of \$12,000 is \$2,400) to the extent of its partnership interest from the net annual rental rate.

(iii) EXAMPLE: Assume same facts as in (ii) except that P owns the building at the same original cost and rents it to C. C will include \$20,000 (20% of \$100,000) in its property factor because of its interest in P. In addition, C must include its rental expense in its property factor in order to give weight to the rented building used in C's operations. C would eliminate intercompany rental expense of \$2,400 (20% of \$12,000) from its rent expense in its property factor before applying the multiplier of eight. Thus, the value of the building which is to be included in C's property factor is \$96,800 (\$20,000 plus \$76,800 [8 x \$9,600 (\$12,000 less \$2,400)]).

(iv) EXAMPLE: Same facts as in (i) except that C sells \$30,000 to P. In the computation of the sales factor of C, \$6,000 (20% of C's \$30,000 sales to P) will be eliminated. Thus, the amount of sales which is to be included in C's sales factor is \$7,064,000 (\$7,000,000 plus partnership sales of \$70,000 less eliminated sales of \$6,000).

(v) EXAMPLE: Same facts as in (i) except that P sells \$60,000 to C. In the computation of C's sales factor, \$12,000 (20% of P's \$60,000 sales to C) will be eliminated. Thus, the amount of sales which is to be included in C's sales factor is \$7,058,000 (\$7,000,000 plus partnership sales of \$70,000 less eliminated sales of \$12,000).

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Authority: §§ 40-2A-7(a)(5) and 40-18-57

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