

810-27-1-.09 Apportionment Formula: Double Weighting the Sales Factor.

(1) The provisions of this rule are effective for taxable years beginning on or after December 31, 2010. For previous taxable years, the sales factor was evenly weighted with property factor and payroll factor in calculating a taxpayer's apportionment factor in Alabama.

(2) All business income of the taxpayer shall be apportioned to this state by use of the apportionment formula set forth in Code of Alabama 1975 40-27-1, § 40-27-1, Article IV.9, as amended. The elements of the apportionment formula are the property factor, the payroll factor and the sales factor. The apportionment formula gives double-weight to the sales factor and equal weight to both the property and payroll factors. 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 as provided for in §40-27-1, Article IV.18 and any rules promulgated thereunder.

(a) EXAMPLE: Company A is a multistate entity which does business both within and without of Alabama. Company A shall apportion its income using the apportionment formula as follows:

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

Company A must compute its apportionment formula as follows:

Property	(500,000/600,000)	83.3333%
Payroll	(1,500,000/2,000,000)	75.0000%
Sales	(2,500,000/7,000,000)	71.4286%= (35.7143% X 2)
Sum of Factor Percentages		229.7619%

Divide by Number of Factors Used	<u> </u> ÷ 4
Apportionment Factor Average	
Percentage:	<u>57.4405%</u>

(b) Company B is a multistate entity which does business both within and without of Alabama. Company B has property and sales within Alabama but does not have any payroll within Alabama. Therefore, Company B shall eliminate the payroll factor and reduce the denominator. Company B shall apportion its income by doing the following:

	<u>Alabama</u>	<u>Everywhere</u>
Property	500,000	600,000
Payroll	0	0
Sales	2,500,000	7,000,000

Company B must compute its apportionment formula as follows:

Property	(500,000/ 600,000)	83.3333%
Payroll	(0/0)	00.0000%
Sales	(2,500,000/ 7,000,000)	71.4286%= (35.7143% X 2)
Sum of Factor Percentages		154.7619%
Divide by Number of Factors Used		<u> </u> ÷3
Apportionment Factor Average		
Percentage		<u>51.5873%</u>

(3) 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 apportionment formula shall include the pro rate share of the unincorporated entity's factor data.

(a) EXAMPLE: Corporation C has a 20 % distributive share of Partnership P's income which is included in Corporation C's apportionable business income. There are no transactions between Corporation Co and Partnership P. Corporation C shall apportion his income 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 rules for computing the elements of the apportionment formula at the partnership level, Corporation C's 20% share of Partnership P's apportionment factor data is as follows:

	<u>Alabama</u>	<u>Everywhere</u>
Property	20,000	55,000
Payroll	10,000	25,000
Sales	15,000	70,000

Corporation 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)	42.8572% = (21.4286% X 2)
Sum of Factor Percentages		219.2628%

Divide by Number of Factors Used	<u> </u> ÷ 4
Apportionment Factor Average	
Percentage	<u>54.8157%</u>

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Authority: §§ 40-2A-7 (a) (5) and 40-18-57, Code of Alabama 1975.
History: New Rule: Filed May 11, 2016, effective June 25, 2016.