

810-27-1-4-.09.01 Apportionment Formula: Double Weighting the Sales Factor. (NEW RULE)

(1) **The provisions of this regulation are effective for taxable years beginning on or after December 31, 2010.**

(2) All business income of the taxpayer shall be apportioned to this state by use of the three factor 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.). 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. See regulation 810-27-1-4-.18.

(a) **EXAMPLE:** Company D is a multistate entity which does business both within and without the state. Company D shall apportion its income using the three factor apportionment formula as follows:

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

C must compute its apportionment formula as follows:

|   |                         |                           |
|---|-------------------------|---------------------------|
| <b>Property</b>                                 | (500,000)/ 600,000)     | 83.3333%                  |
| <b>Payroll</b>                                  | (1,500,000)/ 2,000,000) | 75.0000%                  |
| <b>Sales</b>                                    | (2,500,000)/ 7,000,000) | 71.4286% = (35.7143% * 2) |
| <b><i>Sum of Factor Percentages</i></b>         |                         | 229.7619%                 |
| Divide by Number of Factors Used                |                         | <u>          </u> ÷ 4     |
| <b>Apportionment Factor Average Percentage:</b> |                         | <u>57.4405%</u>           |

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

|                 | <u>Alabama</u> | <u>Everywhere</u> |
|-----------------|----------------|-------------------|
| <b>Property</b> | 500,000        | 600,000           |
| <b>Payroll</b>  | 000,000        | 000,000           |
| <b>Sales</b>    | 2,500,000      | 7,000,000         |

C must compute its apportionment formula as follows:

|                 |                     |          |
|-----------------|---------------------|----------|
| <b>Property</b> | (500,000)/ 600,000) | 83.3333% |
| <b>Payroll</b>  | (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 ÷ 3  
**Apportionment Factor Average Percentage:** 51.5873%

(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 rata 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 C's apportionable business income. There are no transactions between C and P. C shall apportion his income as follows:

|                 | <u>Alabama</u> | <u>Everywhere</u> |
|-----------------|----------------|-------------------|
| <b>Property</b> | 550,000        | 600,000           |
| <b>Payroll</b>  | 1,800,000      | 2,000,000         |
| <b>Sales</b>    | 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> |
|-----------------|------------------|----------------|------------------|-------------------|
| <b>Property</b> | (20% of 100,000) | 20,000         | (20% of 275,000) | 55,000            |
| <b>Payroll</b>  | (20% of 50,000)  | 10,000         | (20% of 125,000) | 25,000            |
| <b>Sales</b>    | (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> |
|-----------------|----------------------|----------------|----------------------|-------------------|
| <b>Property</b> | (550,000 + 20,000)   | 570,000        | (600,000 + 55,000)   | 655,000           |
| <b>Payroll</b>  | (1,800,000 + 10,000) | 1,810,000      | (2,000,000 + 25,000) | 2,025,000         |
| <b>Sales</b>    | (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 ÷ 4  
**Apportionment Factor Average Percentage:** 54.8157%

Author: Dennice L. Hillard

Authority: §§40-2A-7(a)(5) and 40-18-57, Code of Alabama 1975  
History: New rule: Filed July 30, 2012, effective September 3, 2012.