

1 BEFORE THE STATE BOARD OF TAX APPEALS
2 STATE OF ARIZONA
3 100 North 15th Avenue - Suite 140
4 Phoenix, Arizona 85007
5 602.364.1102

6)
7 CENTRAL NEWSPAPERS, INC. &) Docket No. 1936-05-I
8 SUBSIDIARIES,)
9)
10 Appellant,)
11)
12 vs.) NOTICE OF DECISION:
13) FINDINGS OF FACT AND
14 ARIZONA DEPARTMENT OF REVENUE,) CONCLUSIONS OF LAW
15)
16 Appellee.)
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26 The State Board of Tax Appeals, having considered all evidence and arguments presented, and
27 having taken the matter under advisement, finds and concludes as follows:

28 FINDINGS OF FACT

29 Central Newspapers, Inc. ("Central") is engaged, through its subsidiaries, in newspaper
30 publishing, primarily in the metropolitan areas of Phoenix, Arizona, and Indianapolis, Indiana. Central and
31 a number of consenting affiliated corporations, including Phoenix Newspapers, Inc. ("PNI"), Central
32 Newsprint Company ("Central Newsprint"), Bradley Paper Company ("Bradley"), and Indiana
33 Newspapers, Inc. ("INI") (collectively, "Appellant"), elected to file an Arizona consolidated return for tax
34 years ending December 31, 1995 through December 31, 1999 ("Audit Period") pursuant to A.R.S. § 43-
35 947.

36 Central Newsprint, Bradley and/or INI were general partners of the Ponderay Newsprint Company
37 ("Ponderay") during the Audit Period.¹ Ponderay is a Washington general partnership operating a paper
38 mill in the State of Washington. During the years at issue, Ponderay sold newsprint to PNI.

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1 Corporate members of Appellant's affiliated group own 13.5 % of Ponderay, and the Department
2 argues that their proportionate share of Ponderay's sales should be included in the numerator of the sales
3 factor because such sales are attributable to affiliated corporations that are part of a single Arizona
4 taxpayer. In addition to this statute, the Department cites to a number of Arizona corporate tax rulings in
5 support of its treatment of Ponderay's sales.

6 The Board has previously determined that Ponderay is not a part of Appellant's unitary business
7 group,² and the Department concedes that Ponderay is not part of Appellant's affiliated group. Further,
8 as Appellant points out, Ponderay is not a *corporation*, and thus, not part of a "*single taxpayer*" under
9 A.R.S. § 43-947, and the corporate tax rulings cited by the Department are irrelevant because they apply
10 to *Arizona* partnerships. Ponderay is a *Washington* partnership.

11 For the foregoing reasons, in the context of this particular case, the Board can find no theory
12 under which Arizona can tax Ponderay -- an out of state vendor -- a Washington partnership with no
13 nexus to Arizona -- on its sales into Arizona. Accordingly, the Board concludes that Ponderay's sales to
14 PNI should not be included in the numerator of the Arizona sales factor of the apportionment formula.

15 CONCLUSIONS OF LAW

16 Ponderay's sales to PNI should not be included in the numerator of the Arizona sales factor of
17 the apportionment formula.

18 ORDER

19 THEREFORE, IT IS HEREBY ORDERED that the appeal is granted, and the final order of the
20 Department is vacated.

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² See, *Phoenix Newspapers, Inc. and Affiliates*, 1884-02-1 (July 15, 2003).

