

Instructions to Pass-Through Entity

General Instructions. The Alabama Schedule K-1 is a required attachment to the Alabama Form 65 and the Alabama Form 20S. The Alabama Schedule K-1 is similar to the federal Schedule K-1 in that it is used to report the pass-through entity owners' share of income, deductions, credits and other items.

The format of the Alabama Schedule K-1 differs from that of the federal Schedule K-1; therefore, the federal Schedule K-1 cannot serve as a substitute for the Alabama Schedule K-1.

Heading Information. Enter in the upper left area of the form whether the pass-through entity is a Subchapter K entity or an Alabama S corporation. Provide the tax period information if the return is filed for other than the 2014 calendar year. Enter in the upper right area of the form if the Schedule K-1 is either a final K-1 or an amended K-1. Also indicate if the entity qualifies as a Qualified Investment Partnership (QIP).

Part I – Information About the Pass-Through Entity.

Enter on line A the pass-through entity's Federal Employer Identification Number. Enter on line B the pass-through entity's name and mailing address (street address, city, state and zip code).

Part II – Information About the Pass-Through Entity Owner.

Line C. Enter the pass-through entity owner's social security number or federal identification number.

Line D. Enter the name of the pass-through entity owner.

Line E. Enter the street address of the pass-through entity owner.

Line F. Enter the city, state, and zip code for the pass-through entity owner.

Line G. If the pass-through entity is an Alabama S corporation, line G does not apply. Otherwise, check the appropriate box to indicate if the pass-through entity owner is a general partner or limited liability company member manager or if the pass-through entity owner is a limited partner or a non-manager member of a limited liability company.

Line H. State whether the partner is an individual, an S corporation, a C corporation, an estate, a trust, a partnership, a disregarded entity, an exempt organization, a foreign government, or a nominee (custodian). If the entity is a limited liability company (LLC) and it is treated as other than a disregarded entity for federal income tax purposes, the partnership must enter the LLC's classification for federal income tax purposes (that is, a corporation or partnership). If the partner is a nominee, use one of the following codes after the word "nominee" to indicate the type of entity the nominee represents: I – Individual; C – Corporation; F – Estate or Trust; P – Partnership; DE – Disregarded Entity; E – Exempt Organization; IRA – Individual Retirement Arrangement; or FGOV – Foreign Government. Check the box if the owner is a nominee.

Line I. Enter the pass-through entity owner's percentage of profit and (loss) sharing during the tax year.

Line J. Check the appropriate box to indicate if the pass-through entity owner is a nonresident or a single member LLC along with the name and FEIN of owner.

Line K. Enter the amount of the owner's basis at the end of the year.

Line L. Enter the pass-through entity owner's pro rata share of credit reported on Schedule CR, Form 65 or Schedule G, Form 20S on the corresponding line. Include appropriate calculation schedules.

Part III – Owner's/Shareholder's Share of Current Year Alabama Income, Deductions, Credits, and Other Items.

Please note: The term "gross income," in the case of a resident individual, includes income from sources within and outside Alabama, and in the case of a nonresident individual, includes only income from property owned or business transacted in Alabama. The Alabama K-1 has two columns in some boxes of Part III. The first column of Part III is income allocated and apportioned to Alabama. This column should be completed for both residents and nonresident

partners/shareholders. The second column of Part III should be completed for resident partners/shareholders only. This column should include the resident's share of income (loss) from all sources, including income (loss) earned from other states.

For example, a multistate entity has \$100,000.00 of income and 27% is allocated to Alabama. The entity has a nonresident and resident partner/shareholder each receiving 50% of income (loss). On Schedule K-1, the entity would report \$13,500.00 in Column 1, Box M, for **both the nonresident partner/shareholder and resident partner/shareholder**. The entity would report \$50,000.00, income (loss) from all sources, in Column 2, Box M, for the resident partner/shareholder.

Line M. Enter the pass-through entity owner's pro rata share of the nonseparately stated income allocated and apportioned to Alabama.

Line N. Line N applies only to owners of subchapter K entities.

Enter the pass-through entity owner's pro rata share of guaranteed payments apportioned to Alabama.

Line O. Enter the pass-through entity owner's pro rata share of the section 179 expense apportioned to Alabama.

Line P. Enter the pass-through entity owner's pro rata share of the interest expense related to portfolio income apportioned to Alabama.

Line Q. Enter the pass-through entity owner's pro rata share of the portfolio income apportioned to Alabama. Check the box if the entity is a QIP and the income is tax exempt for the nonresident owner.

Line R. Enter the pass-through entity owner's pro rata share of the other expenses related to portfolio income apportioned to Alabama. Interest expense must not be included in this amount. The pass-through entity owner must be provided with the nature and amounts of the different expenses reported on Line R with the Alabama Schedule K-1.

Line S. Enter the pass-through entity owner's pro rata share of the charitable contributions apportioned to Alabama.

Line T. Enter the pass-through entity owner's pro rata share of the other separately stated business items apportioned to Alabama. The nature and amount of each different separately stated business item must be provided to the pass-through entity owner with the Alabama Schedule K-1. Check the box if any portion of income is Alabama exempt income.

Line U. Enter the amount of the Alabama composite payment made on behalf of the pass-through entity owner.

Line V. Enter the pass-through entity owner's pro rata share of the U.S. income taxes paid by the pass-through entity and apportioned to Alabama, if any.

Line W. Enter the pass-through entity owner's pro rata share of the casualty losses apportioned to Alabama.

Line X. Enter the amount of withdrawals and distributions made to the pass-through entity owner.

Line Y. Enter the pass-through entity owner's pro rata share of the small business health insurance premiums.

Line Z. Enter the pass-through entity owner's pro rata share of the oil and gas depletion apportioned to Alabama. The computation of the amount reported on Line Z of the Alabama Schedule K-1 must be provided to the pass-through entity owner with the Alabama Schedule K-1.

Line AA. Enter the pass-through entity owner's pro rata share of separately stated nonbusiness items allocated to Alabama. The pass-through entity owner must be provided with the nature and amounts of the different separately stated nonbusiness items reported on Line AA.

Line AB. Enter the pass-through entity owner's pro rata share of income exempt from Alabama income taxation. The pass-through entity owner must be provided with the nature and amounts of the different Alabama exempt income reported on Line AB.