

INSTRUCTIONS FOR THE PREPARATION OF
ALABAMA DEPARTMENT OF REVENUE
S Corporation Information/Tax Return

1996

General Instructions

This form is to be used only by corporations that are Alabama S corporations. Beginning January 1, 1990, an Alabama S corporation is any domestic or foreign corporation qualified to do business or doing business in Alabama which has in effect an election to be an S corporation under U.S.C. § 1362. For detailed rules on qualification requirements for Alabama S corporations and rules for computing separately stated and nonseparately stated income, loss, deductions, and credits, see Alabama Department of Revenue Regulations 810-3-160 through 810-3-173.

A copy of Federal Form 1120S must be attached. Schedules may be attached to support line entries; however, **each line of this form must be completed.**

Complete Schedules B, C, D, & E or portions thereof where applicable. Refer to instructions below as needed to complete these schedules. All Alabama S corporations must complete Schedule F, computing the Alabama Accumulated Adjustments Account, as well as the information and documents requested in Schedule H.

The return must be dated and signed by an officer of the corporation. **Failure to properly complete the return and attach copies of the Federal 1120S, Alabama Schedule K-1's, and all applicable Nonresident Shareholder Agreement forms may result in the assessment of penalties and additional filing requirements.**

This form is due by the 15th day of the 3rd month after the end of the tax year. An automatic extension of time to file the return (up to a maximum of 6 months) will be granted if: (1) a copy of the **Federal Form 7004** is attached to the return and the return is filed within the six-month period, or (2) **Form 20-E** is filed on or before the due date of the return regardless of whether the corporation files Federal Form 7004.

Mail the completed return to:

**Alabama Department of Revenue
Corporate Tax Division
Corporate Income Tax Section
P. O. Box 327430
Montgomery, AL 36132-7430.**

Make check payable to:

Alabama Department of Revenue.

CAUTION: Do not attach the Form 20SC or the Form 20SC payment to the Form 20S.

If the corporation loses its Federal S status, a **Form 20C** must be filed. Please contact the Alabama Department of Revenue in order to receive the correct form.

Specific Instructions

SCHEDULE A

Computation of Separately Stated and Nonseparately Stated Income/Tax

Line 1. Enter Ordinary Income (Loss) from Federal 1120S.

Line 2. Enter the adjustments to reconcile federal nonseparately stated income to Alabama nonseparately stated income, including:

- a. local net income taxes deducted on the Federal 1120S must be added as a reconciliation item.
- f. depreciation allowable on property expensed under IRC section 179 for federal purposes prior to 1990.
- g. any other differences between federal and Alabama income (attach schedule).

Line 5d. Enter the income from interest, dividends, royalties, net short-term capital gain, net long-term capital gain, and other income, less expenses related to these items. Portfolio income (loss) should be adjusted to Alabama basis.

Line 5g. Enter any other separately stated items (attach schedule).

Line 8. The amount on this line should include only the following:

- a. **LIFO Recapture Tax.** If the corporation became an Alabama S corporation after December 31, 1989 and inventoried goods under the LIFO method during its last year as an Alabama C corporation, it may be liable for LIFO recapture and resultant tax thereon. The LIFO recapture tax is figured for the last tax

year the corporation was an Alabama C corporation. The LIFO tax is paid in four equal installments. The first installment must be paid no later than the due date (without extension) for filing the corporate return for the last taxable year as a C corporation. The three succeeding installments must be paid not later than the due date (without extension) for the succeeding three years. See Section 40-18-161, **Code of Alabama 1975**, as amended. Attach computation schedule.

b. Built-in Gains Tax. Corporations which became S corporations after December 31, 1989 may be liable for this tax. The tax is computed by multiplying the net recognized built-in gain of the Alabama S corporation for the taxable year by five percent. Section 40-18-174 defines "net recognized built-in gain," with respect to any taxable year in the 10-year recognition period as the lesser of (i) the amount taxable if only recognized built-in gains/losses were taken into account, or (ii) the corporation's taxable income as determined under Section 40-18-161 and without regard to the deduction provided by Sections 40-18-35(14) and 35.1. A net operating loss carryforward which arose in a taxable year for which the corporation was not an Alabama S corporation is allowed as a deduction against the net recognized built-in gain of the Alabama S corporation for the taxable year. The amount of net recognized built-in gain for a taxable year cannot exceed the excess (if any) of the net unrealized built-in gain over the net recognized built-in gain for prior taxable years beginning in the recognition period. "Net unrealized built-in gain" means the amount (if any) by which the fair market value of the assets of the corporation exceeds the aggregate basis of such assets as of the beginning of the first taxable year for which the corporation is treated as an Alabama S corporation. This tax does not apply if a corporation has had an S corporation status under Internal Revenue Code for each of its taxable years. The tax can apply to a corporation that has always been an Alabama S corporation in any case where the S corporation acquires an asset and the basis of the asset in the hands of the Alabama S corporation is determined in whole or in part by reference to the basis of the asset in the hands of the Alabama C corporation. See Section 40-18-174, **Code of Alabama 1975**. Attach computation schedule.

c. Excess Net Passive Income Tax. If an S corporation has subchapter C earnings and profits, has passive investment income in excess of 25% of gross receipts, and has taxable income at year end it must pay a tax on the excess net passive income. The tax is computed by multiplying the excess net passive income by five percent. "Excess net passive income" means an amount which bears the same ratio to the net passive income for the taxable year as (i) the amount by which the passive investment income for the taxable year exceeds 25% of the gross receipts for the taxable year, bears to (ii) the passive investment income for the taxable year. The amount of excess net passive income shall not exceed the S corporation's income for the year as determined under Section 40-18-161, **Code of Alabama 1975**. The term "net passive income" means passive investment income reduced by deductions allowed under Chapter 18, Title 40, **Code of Alabama 1975**. The terms "passive investment income" and "gross receipts" have the same meanings as when used in 26 U.S.C. Section 1362(d)(3). However, the amount of passive investment income shall be determined without using any recognized built-in gain or loss of the Alabama S corporation for any taxable year in the 10 year recognition period. See Section 40-18-175, **Code of Alabama 1975**. Attach computation schedule.

Combine the tax due from a, b, and c above and enter on line 8. DO NOT compute 5% of line 7.

Line 9. Section 41-1-20, **Code of Alabama 1975** requires the use of Electronic Funds Transfer (EFT) for all single tax payments of \$25,000 or more. Taxpayers must register to use EFT and substantial penalties can be assessed for noncompliance. Call the Alabama Department of Revenue EFT Hotline at (334) 242-1819 or 1-800-322-4106 for further information.

Line 9d. Tax Credits. Enter the amount from Schedule G, Line 4.

Line 12. If this return is not filed on or before the due date (with extensions), enter a failure to timely file penalty of 10% of the tax due on line 10 or \$50, whichever is greater. Amounts not paid by the due date (with extensions) will be subject to a failure to timely pay tax penalty of 1% per month up to a maximum of 25%.

Line 15a. If the amount due is \$25,000 or greater, it must be remitted by electronic funds transfer.

SCHEDULE B

Multistate Allocation of Nonbusiness Income

This schedule is to be completed only if the corporation has activities in another state and has income, losses, expenses, or deductions which are to be allocated ("nonbusiness") rather than apportioned. For a definition of what constitutes "nonbusiness" income, losses, expenses, and deductions and rules for allocating these items, see Regulation 810-27-1-4-.01(d).

On lines a through h, enter any nonbusiness income or losses, including gains or losses from the disposition of nonbusiness assets. Enter any expenses associated with such income including indirect expenses (such as interest expense prorated to "nonbusiness" assets). If there are any separately stated nonbusiness items, enter on Schedule B. Do not include these items on Schedule A.

Enter in Column A each item of nonbusiness income or loss allocated to any state, including Alabama, and the related expenses in Column C. Enter in Column B items allocated to Alabama, and the related expenses in Column D. Enter the net of Columns A and C in Column E, and the net of Columns B and D in Column F.

SCHEDULE C

Apportionment Schedule

Complete this schedule only if the corporation had activities in any state other than Alabama. (See note below.) For the definition of activities in other states and instructions for the attribution of property, payroll, and sales, see Regulation 810-27-1-4-.01.

Lines 1-9. In the appropriate columns for each line item, enter the amounts of tangible property used in the production of business income at the beginning and end of the tax year.

Line 13. Enter the amounts of rental expenses for tangible property used in the production of business income both in Alabama and Everywhere. Multiply by 8, and enter the results.

Line 15. Divide line 14a by line 14b. Compute the percentage to at least 4 decimal places, for example, 12.3456%. This is the **Alabama Property Factor**.

Line 16. Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama and Everywhere on lines 16a and 16b, respectively. Divide the amount on line 16a by the amount on line 16b, and enter the result (to at least 4 decimal places) on line 16c. This is the **Alabama Payroll Factor**.

Line 17. Enter the amount of sales delivered in Alabama. (See Regulation 810-27-1-4-.16.)

Line 18. Enter the amount of "throwback" sales shipped from Alabama. (See Regulation 810-27-1-4-.16.)

Line 19. Enter the totals of lines 17 and 18 in the Alabama column. Enter the total sales in the Everywhere column. If this amount does not correspond to line 1c of Federal Form 1120S, attach an explanation.

Line 20. Enter the amount of gross proceeds from the sale of assets.

Line 21. Enter the amount of interest income from business assets (such as accounts receivable).

Line 22. Enter the amount of gross income from the rental of business assets.

Line 23. Enter the amount of gross income from other business sources.

Line 24. Total the Alabama and Everywhere column for lines 19 through 23. Divide the amount on line 24a by the amount on 24b, and enter the result (to at least 4 decimal places) on line 24c. This is the **Alabama Sales Factor**.

Line 25. Add lines 15, 16c, and 24c. Divide the total by 3, and enter the result (to at least 4 decimal places) on line 25 and on line 5, Schedule E. If any of the factors are not used in the production of business income, see Regulation 810-27-1-4-.09. This is the **Alabama Apportionment Factor**.

SCHEDULE D

Apportionment of Federal Income Tax

Any federal income tax liability of the S corporation will be passed through to the shareholders as a separately stated deduction. If the corporation had activities in any state other than Alabama, the amount of the liability must be apportioned. The liability apportioned to Alabama will be used in determining the nonresident shareholder's share of the federal tax deduction. Please follow line instructions.

SCHEDULE E

Apportionment and Allocation of Income to Alabama

Complete this schedule only if the corporation had income or business activities in another state. (See note below.) The state/territory/foreign jurisdiction net income taxes deducted on the federal return must be added back on Line 3. Line 8 is the total income attributed to Alabama. This amount will be used in determining the nonresident shareholder's share of nonseparately stated income of the S corporation to be reported on the Schedule K-1.

SCHEDULE F

Alabama Accumulated Adjustments Account

This schedule computes the Accumulated Adjustments Account for Alabama (AAAA). The AAAA may not equal the Accumulated Adjustments Account of Federal Form 1120S. If the corporation operates exclusively in Alabama, complete lines 1, 2, 4, 5, and 6. If the corporation operates in another state and apportions income, complete lines 1, 3, 4, 5, and 6. Please follow line instructions. See Section 40-18-166, **Code of Alabama 1975**.

NOTE: If the corporation has only Alabama resident shareholders and operates in another state, Schedules C and E do not need to be completed

SCHEDULE G

1) Employer Education Tax Credit:

Sections 40-18-135 through 40-18-139 provides a tax credit of 20 percent of the actual cost of an employer provided or sponsored Approved Basis Skills Education Program. The program must be to enhance the basis skills of employees up to and including the twelfth grade functional level, the employees must be Alabama residents, work at least 24 hours per week for at least 16 weeks, and the employer must receive written approval from the Alabama Department of Education.

Attach a detailed schedule of education expenses, employee names, and the hours each employee worked per week. For additional information contact the Alabama Department of Revenue, Corporate Income Tax Section at (334) 242-1200 or the Alabama Department of Education, Adult Education Division at (334) 242-8181.

2) Coal Tax Credit:

Act 95-239 provides a tax credit for coal produced in Alabama after January 1, 1995. The credit will be \$1 per ton of increased coal production in Alabama over the previous year's coal production in Alabama. A detailed schedule of computations must be attached. For additional information contact the Alabama Department of Revenue, Corporate Income Tax Section at (334) 242-1200.

3) Capital Tax Credit:

Act No. 95-187 provides a tax credit with respect to income arising out of a project undertaken by certain new businesses to be located in Alabama with a capital cost of at least \$2,000,000, and to certain expansions of certain existing small businesses already located in Alabama with a capital cost of at least \$1,000,000. The credit will be 5 percent of the capital cost of the project for a period of 20 years. A statement of intent must be filed with the Department before the property is placed into service.

When taking the credit, a copy of Forms AR and K-RCC, if applicable, must be attached. If any remaining credit is to flow through to the shareholders, a copy of Form K-RCC must be attached for each shareholder, showing their share of the tax credit.

For additional information or the forms needed to claim the credit, contact the Alabama Department of Revenue, Gordon Persons Building, Room 4112, 50 North Ripley Street, Montgomery, AL 36132, (334) 242-1175.

Enterprise Zone Credit (Alabama Code Section 41-23-24): To stimulate business and industrial growth in depressed areas of Alabama, a credit is available to qualifying corporations, partnerships, and proprietorships which locate or expand within the designated enterprise zones.

Although this credit is available to S corporations, it **should not** be included on Schedule G. It should be claimed on the shareholders' individual income tax return.

Act No. 96-206 provides for certain exemptions from certain taxes levied by the State of Alabama.

For additional information regarding the Alabama Enterprise Zone Act or the necessary forms to claim this credit, contact The Alabama Department of Economic and Community Affairs, Planning and Development Division, 401 Adams Avenue, P.O. Box 5690, Montgomery, AL 36103-5690, (334) 242-5100, or The Alabama Department of Revenue, Corporate Income Tax Section, P.O. Box 327430, Montgomery, AL 36132-7430, (334) 242-1200.