





Operating a Business in Alabama: Business Income Filing Requirements


Business Essentials for State Taxpayers (B.E.S.T.)

Rev. 06/15/2022

1

B.E.S.T. Webinar Series Housekeeping Reminders

-  Everyone's lines were muted when entering the meeting. This is to prevent background noises from interrupting the presentations. Only the host is able to unmute someone.
-  Click on the Layout button to set your preferred viewing option.
-  If you would like to ask a question about the presentation, please use the Q&A box to send a question to **all panelists** (*not to a particular presenter*). We will respond to your question during the Q&A Session near the end of the presentation.
-  At the conclusion of the webinar, a short evaluation survey will open on your screen. Your feedback is important to us, so thank you in advance for responding to the survey.



2

Disclaimer

The information in this presentation is intended to be an overview. It is not a comprehensive explanation of all aspects of the subject matter, does not represent legal advice, and is not legally binding on the department. Information regarding taxes and tax administration changes frequently and should always be confirmed through a tax professional.

Please refer to the Alabama Department of Revenue website at revenue.alabama.gov for additional information.



3

Purpose of this Webinar

To inform Alabama taxpayers of the requirements and guidelines for filing business income taxes in Alabama. This presentation will:

- Define business entity types
- Provide income filing requirements for each business entity type
- Discuss estimated taxes
- Review penalties and interest due



4



Business Entity Types

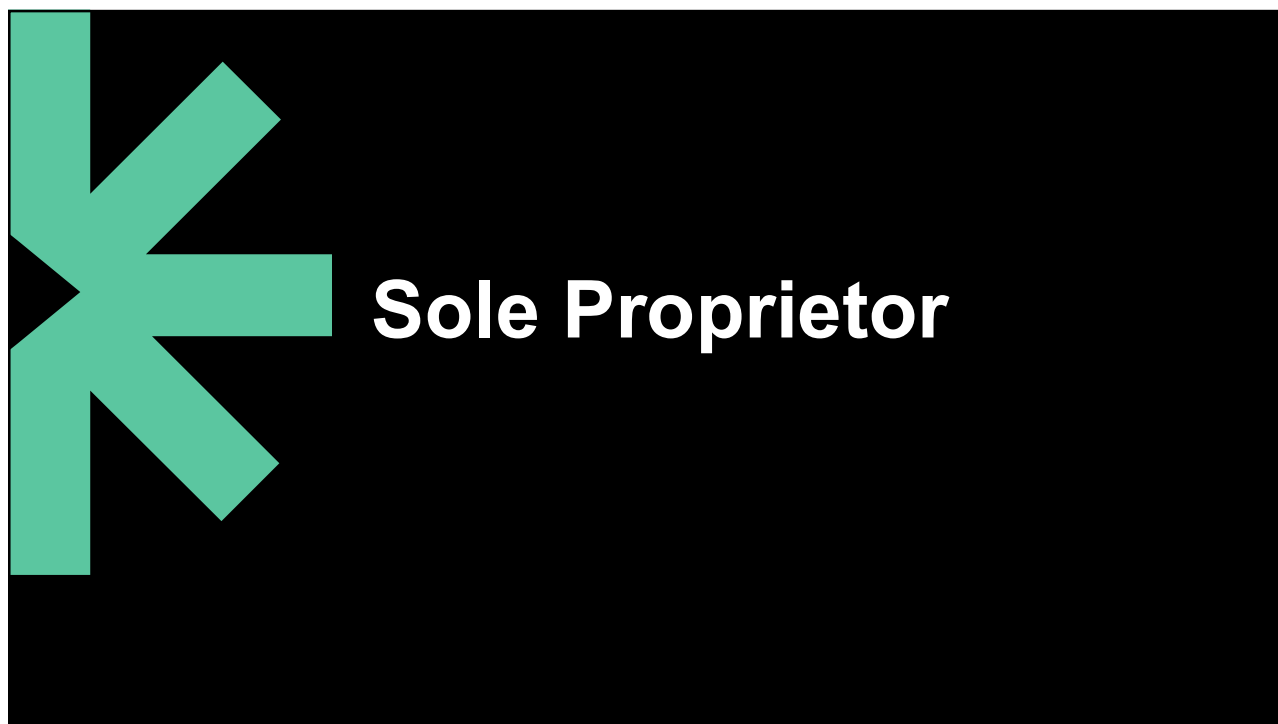
5

Business Entities Types and Tax Reporting

	Entity Taxed As	Tax Reporting	Due Dates
Sole Proprietor	<ul style="list-style-type: none"> One owner Not a separate taxable entity 	<ul style="list-style-type: none"> For an individual income is reported on the Alabama Form 40, with the required attachments. Income and Expenses reported on Federal Schedule C, Form 40 Schedule E, or Federal Schedule F 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
Partnership	<ul style="list-style-type: none"> Two or more owners/partners Income/loss passes through to owners/partners 	<ul style="list-style-type: none"> Partnership income reported on Form 65, with the required attachments. Partner's share of Income/Loss reported on Schedule K-1 Amount from K-1 is reported on Form 40 Schedule E 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
S Corporation	<ul style="list-style-type: none"> No tax at entity level (<i>see Form 20S for exceptions</i>) Income/loss passes through to owners/shareholders 	<ul style="list-style-type: none"> Income reported on Form 20S, with the required attachments. Partner's share of Income/Loss reported on Schedule K-1 Amount from K-1 is reported on Form 40 Schedule E 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
C Corporation	<ul style="list-style-type: none"> Taxed at entity level 	<ul style="list-style-type: none"> Income reported on Form 20C, with the required attachments. 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.



6



7

Sole Proprietor

- A single owner or single member LLC is a sole proprietor by default.
- A sole proprietorship is not a separate taxable entity.
- A sole proprietorship files an Alabama Form 40, with the required attachments including Federal Schedule C or C-EZ, Form 40 Schedule E, or Federal Schedule F (See the form instructions.)
- The Alabama income tax return is due no later than the corresponding federal income tax return as required to be filed under federal law.



8

Sole Proprietor

Form 40 (2020) Page 2

PART I

1	Alimony received	1	00
2	Business income or (loss) (attach Federal Schedule C or C-EZ) (see instructions)	2	00
3	Gain or (loss) from sale of Real Estate, Stocks, Bonds, etc. (attach Schedule D)	3	00
4a	Total IRA distributions	4b	Taxable amount (see instructions)
5a	Total pensions and annuities	5b	Taxable amount (see instructions)
6	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	6	00
7	Farm income or (loss) (attach Federal Schedule F)	7	00
8	Other income (state nature and source — see instructions)	8	00
9	Total other income. Add lines 1 through 8. Enter here and also on page 1, line 7.	9	00

Other Income (See page 12)



9

Sole Proprietor

FORM 40 2020 Alabama Individual Income Tax Return
RESIDENTS & PART-YEAR RESIDENTS

For the year Jan. 1 - Dec. 31, 2020, or other tax year: Beginning: Ending:

Your first name: Initial: Last name: Spouse's first name: Initial: Last name: Present home address (number and street or P.O. Box number): City, town or post office: State: ZIP code: Check if address is outside U.S.: Foreign Country:

Your social security number: Check if primary is deceased Primary's deceased date (mm/dd/yyyy): Spouse's social security number: Check if spouse is deceased Spouse's deceased date (mm/dd/yyyy):

CHECK BOX IF AMENDED RETURN

Filing Status/Exemptions: 1 Single 2 Married filing joint 3 Married filing separate 4 Head of Family (with qualifying person). Complete Schedule HOF.

Income and Adjustments: 5a Alabama Income Tax Withheld (from Schedule W-2, line 18, column G) 5b Wages, salaries, tips, etc. (from Schedule W-2, line 18, column I plus J) 6 Interest and dividend income (attach Schedule B if over \$1,500) 7 Other income (from page 2, Part I, line 9) 8 Total income. Add amounts in the income column for line 5b through line 7. 9 Total adjustments to income (from page 2, Part II, line 15) 10 Adjusted gross income. Subtract line 9 from line 8. 11 Check box a, if you itemize deductions, and enter amount from Schedule A, line 27. Box a or b MUST be checked.



10



11

Partnership
<p>A partnership is the relationship existing between two or more persons, who join to carry on a trade or business.</p> <p>Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business.</p>

12

Partnership

- Income/loss of the partnership is reported on Alabama Form 65, with the required attachments. (See the form instructions.)
- Each partner's share of income/loss is filed on the Schedule K-. Each partner then reports their K-1 amount on their own Alabama Form 40 Schedule E.
- *Note: Married couples may file as a sole proprietor if filing Married Filing Joint Return.*
- This informational return is due no later than the corresponding federal return, as required to be filed under federal law.



13

Types of Partnership

There are four types of partnerships:

- General Partnership
- Limited Liability Company (LLC)
- Limited Partnership (LP)
- Limited Liability Partnership (LLP)



14

General Partnership

In a General Partnership, each partner has unlimited personal liability.



15

Limited Liability Company (LLC)

An LLC protects the owner from personal liability and all profits/losses are passed through to your personal income without facing corporate taxes.

Depending on the elections made by the LLC and the number of members, the IRS will treat an LLC as either a corporation, partnership, or as part of the LLC owner's tax return (a "disregarded entity").



16

Limited Partnership (LP)

An LP has one general partner with unlimited liability and all other partners have limited liability.



17

Limited Liability Partnership (LLP)

In an LLP, every owner has limited liability and is protected from the actions of the other partners.



18

Partnership

FORM 65 [Reset Form](#)  Alabama Department of Revenue CY ☐ FY ☐ SY ☐ 2020 52/53 Week

Partnership/Limited Liability Company Return of Income

Important! You Must Check Applicable Box:

- ☐ Amended Return
- ☐ Initial Return
- ☐ Final Return
- ☐ General Partnership
- ☐ Limited Partnership
- ☐ LLC/LLP
- ☐ Qualified Investment Partnership
- ☐ Public Housing Project
- ☐ Publicly Traded
- ☐ Series LLC

Filing Status: (see instructions)

- ☐ 1. Company operating only in Alabama.
- ☐ 2. Multistate Company – Apportionment (Sch. C).
- ☐ 3. Multistate Company – Separate Accounting (Prior written approval required and must be attached) or Sch. B non-business allocation only.

Federal Audit Change: ☐ Check if the company qualifies for the Alabama Enterprise Zone Credit or the Capital Credit. ☐ Number of Members During The Tax Year:

State in Which Company Was Formed: **Nature of Business:** **Date Qualified in Alabama:** **Number of Nonresident Members Included in Composite Filing:**


UNLESS A COPY OF FEDERAL FORM 1065 IS ATTACHED THIS RETURN IS INCOMPLETE

Caution. Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

1. a. Gross receipts or sales	1a	
b. Returns and allowances	1b	
c. Balance: Subtract line 1b from line 1a	1c	
2. Cost of goods sold (attach Federal Form 1125-A)	2	
3. Gross Profit. Subtract line 2 from line 1c	3	
4. Ordinary income (loss) from other partnerships, estates, and trusts (from Schedule P, line 1d)	4	
5. Net farm profit (loss) attach Schedule F (Federal Form 1040)	5	

19

Schedule K-1 to be filed with Form 65 for Partnerships

SCHEDULE K-1 [Reset Form](#)  ALABAMA DEPARTMENT OF REVENUE INCOME TAX ADMINISTRATION DIVISION **2020**

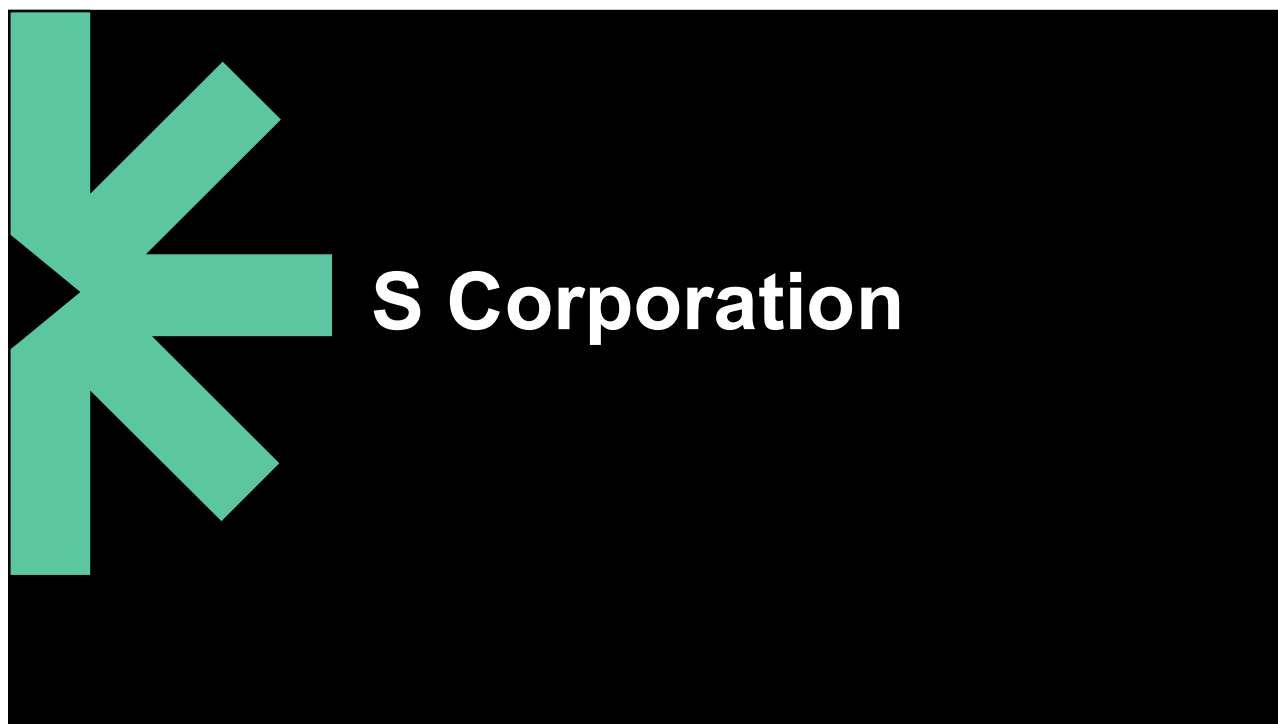
Owner's Share of Income, Deductions, Credits, etc.

SEE INSTRUCTIONS

☐ QIP Tax year beginning , 2020 and ending , 20 ☐ Final K-1 ☐ Amended K-1

PART I Information About the Partnership		PART III Partner's Share of Current Year Income, Deductions, Credits, and Other Items	
A	Partnership's Employer Identification Number	Distributive share allocated and apportioned to Alabama	
B	Partnership's name, address, city, state, and zip code	G	Ordinary income (loss)
		H	Net rental real estate income (loss)
		I	Guaranteed payments
		J	Portfolio income
PART II Information About the Partner		Distributive share to be reported by Alabama Residents	
C	Partner's identifying number (Do not use TIN of a disregarded entity)	G2	Ordinary income (loss)
		H2	Net rental real estate income (loss)
		I2	Guaranteed payments
		J2	Portfolio income

20



21

S Corporation

An S corporation (S Corp) passes income, losses, deductions, and credits through to their shareholders, who report the flow-through of income and losses.

This allows an S Corp to avoid double taxation on the corporate income.



22

S Corporation

- S corporations are pass-through entities because the income/loss passes through to the shareholders.
- Each partner's share of income/loss is filed on the Schedule K-1. Each partner then reports their K-1 income/loss on their own Alabama Form 40 Schedule E.
- The income/loss is reported on Alabama Form 20S, with the required attachments. (See the form instructions.)
- Form 20S is due no later than the corresponding federal return, as required to be filed under federal law.



23

S Corporation

FORM 20S [Reset Form](#) Alabama Department of Revenue
S Corporation Information/Tax Return

For the year Jan. 1 – Dec. 31, 2020, or other tax year beginning •, 2020, ending • 52/53 Week •

Important
Check applicable box:
☐ Initial Return
☐ Final Return
☐ Amended Return


Filing Status: (see instructions)
☐ 1. Corporation operating only in Alabama.
☐ 2. Multistate Corporation – Apportionment (Sch. C).
☐ 3. Multistate Corporation – Separate Accounting (Prior written approval required and must be attached) or Schedule B.

Federal Income	1. a. Gross receipts or sales	1a	
	b. Returns and allowances	1b	
	c. Balance. Subtract line 1b from line 1a	1c	
	2. Cost of goods sold (attach Federal Form 1125-A)	2	
	3. Gross Profit. Subtract line 2 from line 1c	3	
	4. Net gain (loss) from Federal Form 4797, Part II, line 17 (attach Federal Form 4797)	4	
	5. Other income (loss) (attach statement)	5	




24

Schedule K-1 to be filed with Form 20S for S Corporations



SCHEDULE K-1
(Form 20S)

[Reset Form](#)



ALABAMA DEPARTMENT OF REVENUE
INCOME TAX ADMINISTRATION DIVISION

Shareholder's Share of
Income, Deductions, Credits, etc.

2020

SEE INSTRUCTIONS

Schedule K-1 to be filed with Form 20S for S Corporations

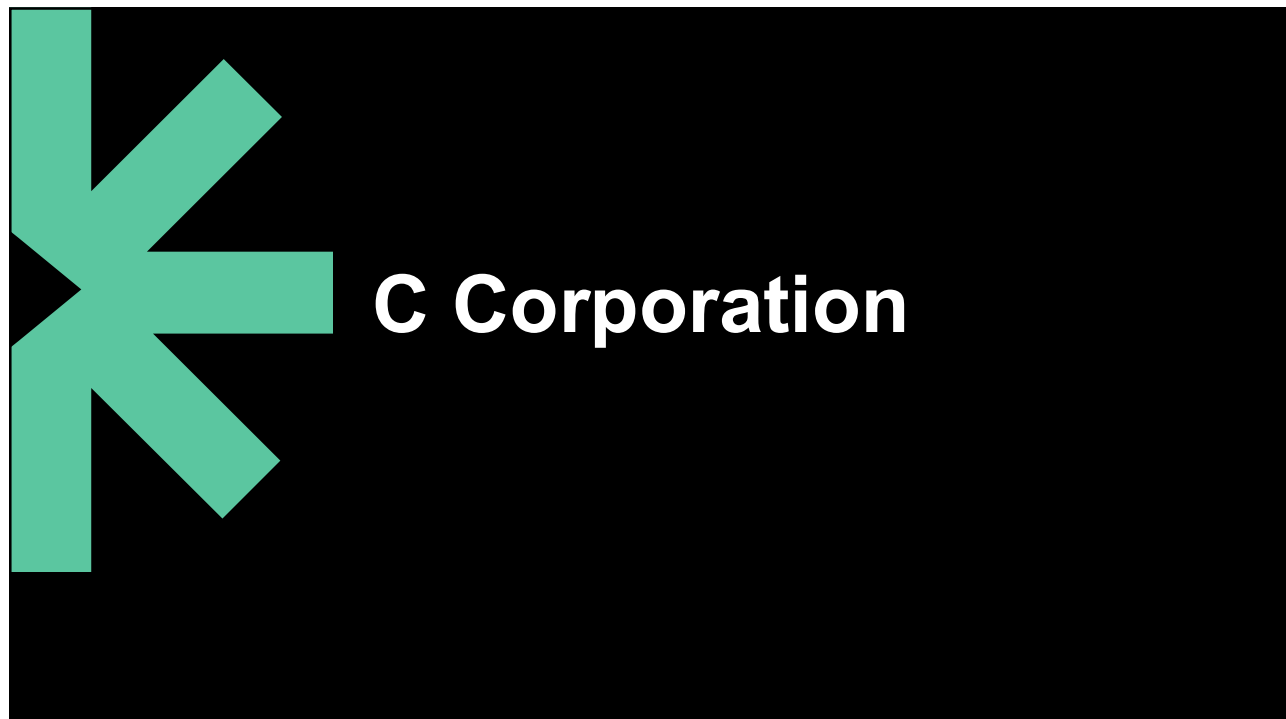
Tax year beginning _____, 2020 and ending _____, 20____

☐ Final K-1

☐ Amended K-1

PART I Information About the Corporation		PART III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items	
A	Corporation's Employer Identification Number		
B	Corporation's name, address, city, state, and zip code		
		G	G2
		Distributive share allocated and apportioned to Alabama	Distributive share to be reported by Alabama Residents
		Ordinary income (loss)	Ordinary income (loss)
		•	•
		Net rental real estate income (loss)	Net rental real estate income (loss)
		•	•
PART II Information About the Shareholder		I	I2
C	Shareholder's identifying number	RESERVED FOR FUTURE USE	RESERVED FOR FUTURE USE
		J	J2
		Portfolio income	Portfolio income
		•	•

25



26

C Corporation

A C corporation is an entity that is separate from its owners. It can make a profit, be taxed, and can be held liable. This structure is independent of its shareholders.



27


C Corporation

- C corporations are taxed at the entity level.
- Income is reported on Alabama Form 20C, with the required attachments. (See the form instructions.)
- Form 20C is due no later than the corresponding federal return as required to be filed under federal law.



28

C Corporation

FORM 20C **Reset Form**  Alabama Department of Revenue **2020**

Corporation Income Tax Return

For the year January 1 – December 31, 2020, or other tax year beginning •, 2020, ending •

Check applicable box:

- ☐ PL 96-272
- ☐ Initial return
- ☐ Final return
- ☐ Amended return
- ☐ Federal audit change

Filing Status: (see instructions)

- ☐ 1. Corporation operating only in Alabama.
- ☐ 2. Multistate Corporation – Apportionment (Sch. D-1).
- ☐ 3. Multistate Corporation – Percentage of Sales (Sch. D-2).
- ☐ 4. Multistate Corporation – Separate Accounting (Prior written approval required and must be attached).
- ☐ 5. Proforma Return – files as part of Alabama Affiliated Group.

1 FEDERAL TAXABLE INCOME (see instructions)

1	Federal Net Operating Loss (included in line 1)	1	
2	Reconciliation adjustments (from line 26, Schedule A)	2	
3	Federal taxable income adjusted to Alabama Basis (add lines 1, 2 and 3)	3	
4	Net nonbusiness (income)/loss – Everywhere (from Schedule C, line 2, col. E)	4	
5	Net nonbusiness (income)/loss – Everywhere (from Schedule C, line 2, col. E)	5	
6	Apportionable income (add lines 4 and 5)	6	
7	Alabama apportionment factor (from line 27, Schedule D-1)	7	%
8	Income apportioned to Alabama (multiply line 6 by line 7)	8	
9	Net nonbusiness (income)/loss – Alabama (from Schedule C, line 2, col. F)	9	
10	Alabama income before federal income tax deduction (line 8 plus line 9)	10	
11a	Federal income tax deduction (refund) (from line 12, Schedule F)	11a	



29

Entity Classification Election

30

Entity Classification Election

- Entities such as LLC's will need to choose how they want to be treated for tax purposes.
- An entity uses Federal Form 8832 **or** Federal Form 2553 to elect how it will be classified for federal tax purposes.
- If a domestic entity election is not made, it will default to either a partnership (two or more members) or a disregarded entity separate from its owner (single owner).
- The state of Alabama will follow the federal entity classification election.
- These forms can be found on the IRS website [irs.gov](https://www.irs.gov).



31

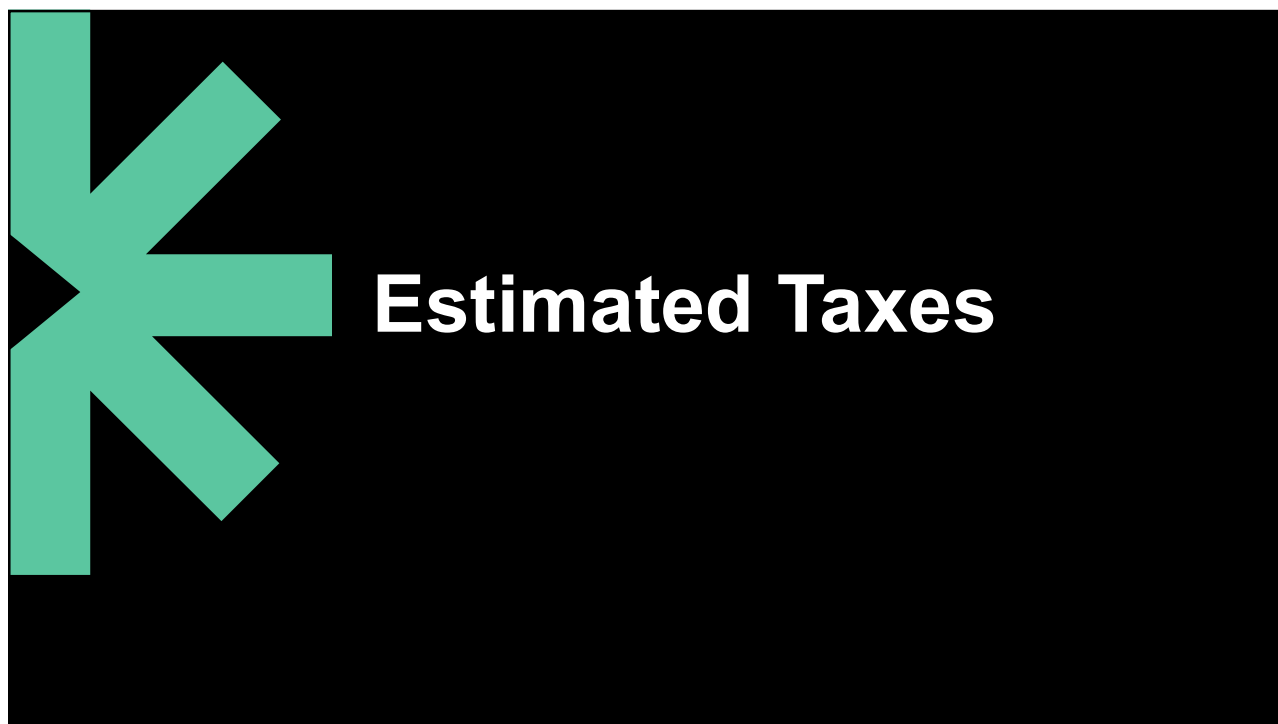
Important Notice

Effective January 1, 2021, and thereafter, a taxpayer can file as an **electing pass-through entity**.

For more information on electing pass-through entities, see <https://revenue.alabama.gov/individual-corporate/electing-pass-through-entities/>



32



33

What is Estimated Tax?

Estimated tax is a quarterly payment of taxes due based on the filer's reported earned income for the current period.



34

Estimated Taxes Individual/Pass-Through Entities

General rule: In most cases, you must pay Alabama estimated taxes for the current year if **both** of the following apply:

1. You expect to owe at least \$500 in Alabama income tax for the current year, after subtracting withholding and credits and
2. You expect your withholding plus your credits to be less than the smaller of:
 - 90% of the tax to be shown on your current year tax return, **or**
 - 100% of the tax shown on your previous year's tax return

For Individual - See Form 2210AL

For Pass-Through Entity - See Form 2220AL



35

Estimated Taxes Individual/Pass-Through Entities

Estimated taxes may be paid in full (by January 15) or in equal installments on or before:

- April 15
- June 15
- September 15
- January 15

Failure to file estimated taxes by the due dates may result in an estimated tax penalty.

See <https://revenue.alabama.gov/individual-corporate/electing-pass-through-entities/> for electing pass-through entity guidance.



36

Estimated Taxes - Corporations

- A corporation that has an Alabama income tax liability in excess of \$500 must pay estimated tax.
- The required installments shall be 25% of the required annual payment.
- The required annual payment generally means:
 - The lesser of 100% of the tax shown on the return for taxable year, **or**
 - 100% of the tax shown on the return of the corporation for the preceding taxable year.



37

Estimated Taxes - Corporations

Payment due dates:

- 1st payment is due by the 15th day of the 4th month of the taxable year.
- 2nd payment is due by the 15th day of the 6th month of the taxable year.
- 3rd payment is due by the 15th day of the 9th month of the taxable year.
- 4th payment is due by the 15th day of the 12th month of the taxable year.

See Form 2220AL - Underpayment of Estimated Taxes by Corporations.



38



39

Penalties
<ul style="list-style-type: none">• Failure to Timely File Penalty 10% of tax due or \$50; whichever is greater• Failure to Timely Pay Penalty<ul style="list-style-type: none">➤ 1% of tax due per month; maximum 25% (e.g., income tax returns)➤ Flat rate of 10% of tax due for monthly and quarterly returns (e.g., sales, lodgings, or rental tax returns)• Negligence Penalty (<i>intentional disregard for rules and/or regulations</i>) 5% of tax due• Fraud Penalty (<i>to purposely deceive</i>) 50% of tax due

40

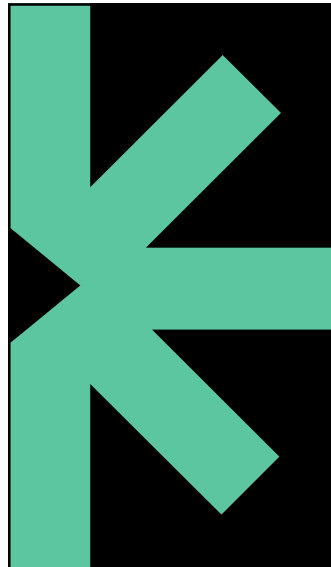
Interest Due

- If the tax is not timely paid, interest is also due and by law cannot be waived.
- The rate of interest changes because it is the same rate as established by the U.S. Secretary of the Treasury under the authority of 26 U.S. Code § 6621.
- Current interest rates can be viewed at:
<https://revenue.alabama.gov/assessments/quarterly-interest-rates/>

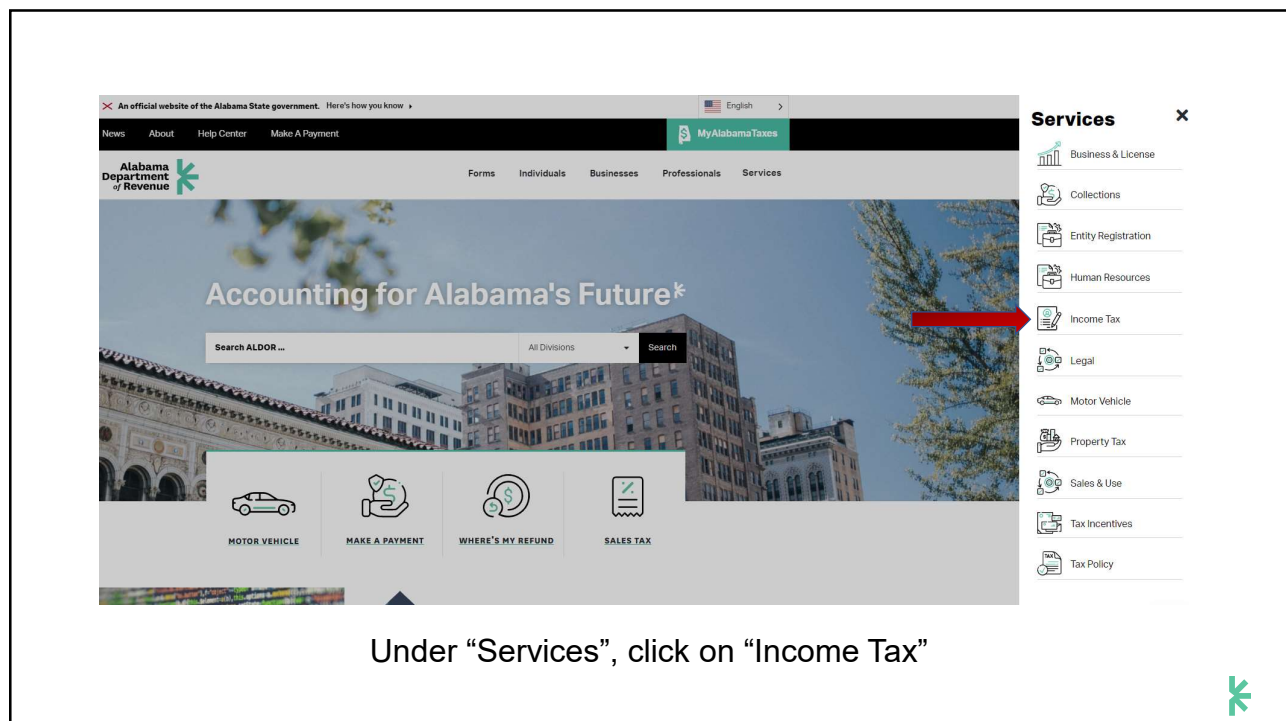
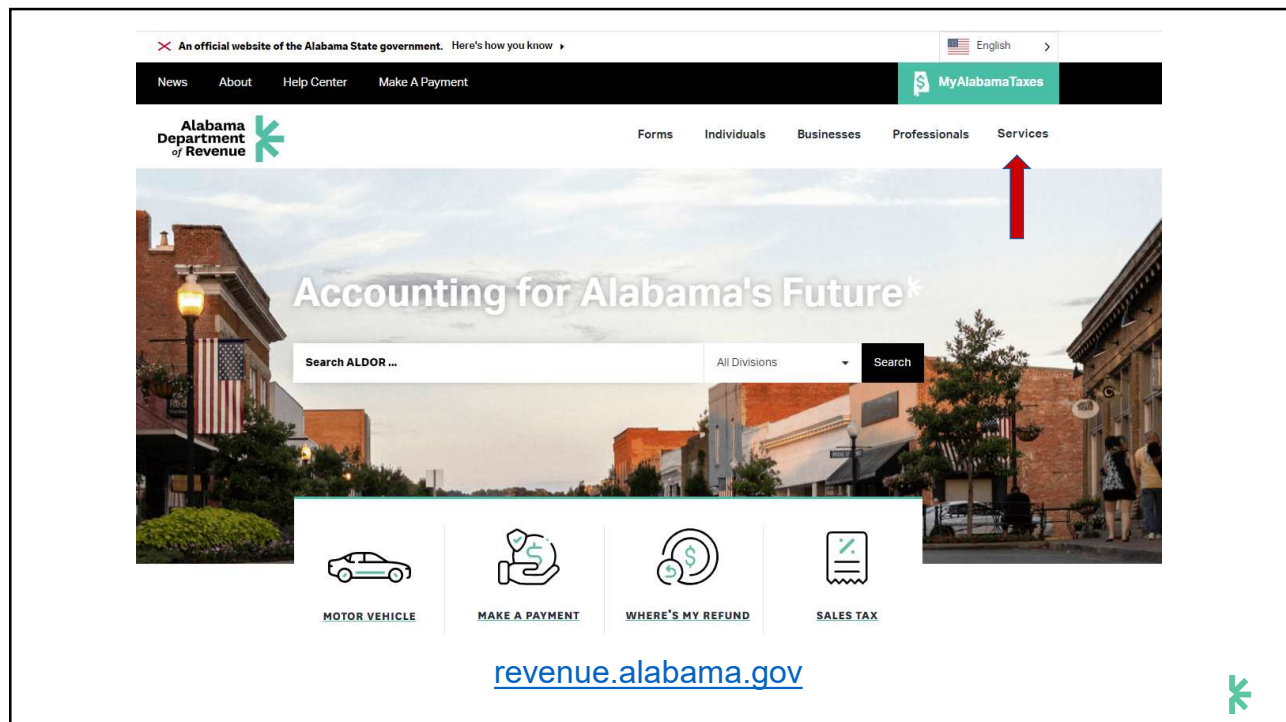


41

Helpful Links on ALDOR's Website



42



► **Professionals**

▼ **Taxes Administered**

*Income Tax is responsible for the administration of individual income tax, business privilege tax, corporate income tax, partnerships, S-Corporation, fiduciary and estate tax, financial institution excise tax, and withholding taxes. For a complete listing of forms, visit the **forms** page.*

Business Privilege Tax

Individual Income Tax

Corporate Income Tax

Financial Institution Excise Tax

Fiduciary & Estate

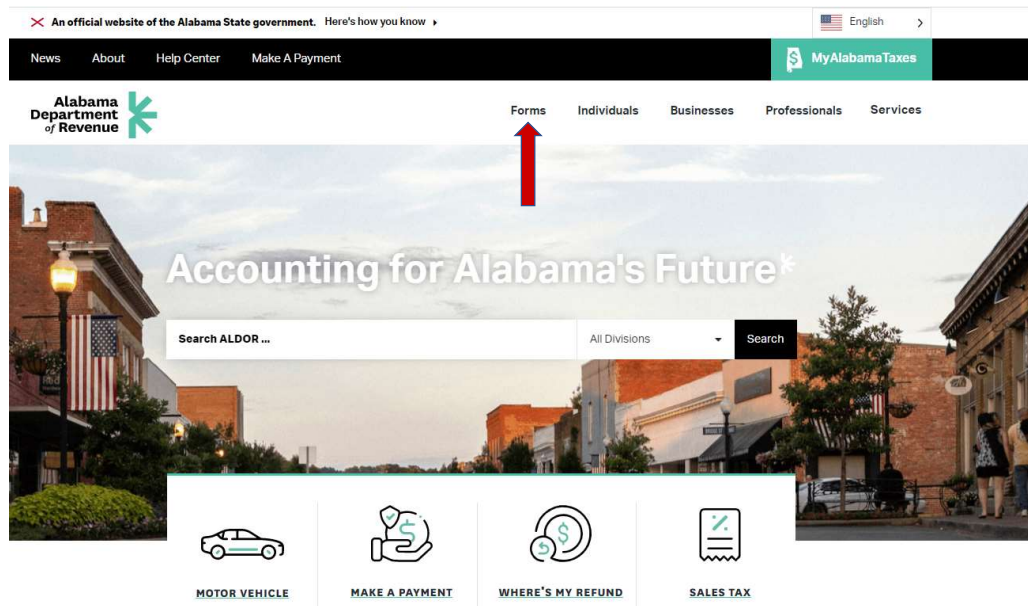
Partnerships

S-Corporations

Withholding Tax



45



From the homepage (revenue.alabama.gov), click on “Forms”



46

An official website of the Alabama State government. Here's how you know

English

News About Help Center Make A Payment

MyAlabama Taxes

Alabama Department of Revenue

Forms Individuals Businesses Professionals Services

Forms

All forms will download as a PDF. Please refer to the list of mailing addresses for the appropriate forms.
For income tax form orders, please use this contact form.

Homepage > Search A/DOR ... All Divisions

Filter Forms

ADV-40

Apply filter

Form Year

2021

Categories

Personal Property

Service

Property Tax

Remove filters

Showing (1) out of (1) Forms

Form Number	Form Title	Form Year	Download
ADV-40	Tangible Personal Property Return	2021	Download

www.revenue.alabama.gov/forms

*To find a particular form, add as much information as possible in the filters

47

Alabama Department of Revenue Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the state to assist you. Contact information for the service centers can be found at:

<https://www.revenue.alabama.gov/help-center/>

48

Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the State to assist you. Contact information for the Service Centers can be found at:

<https://revenue.alabama.gov/taxpayer-service-centers/>



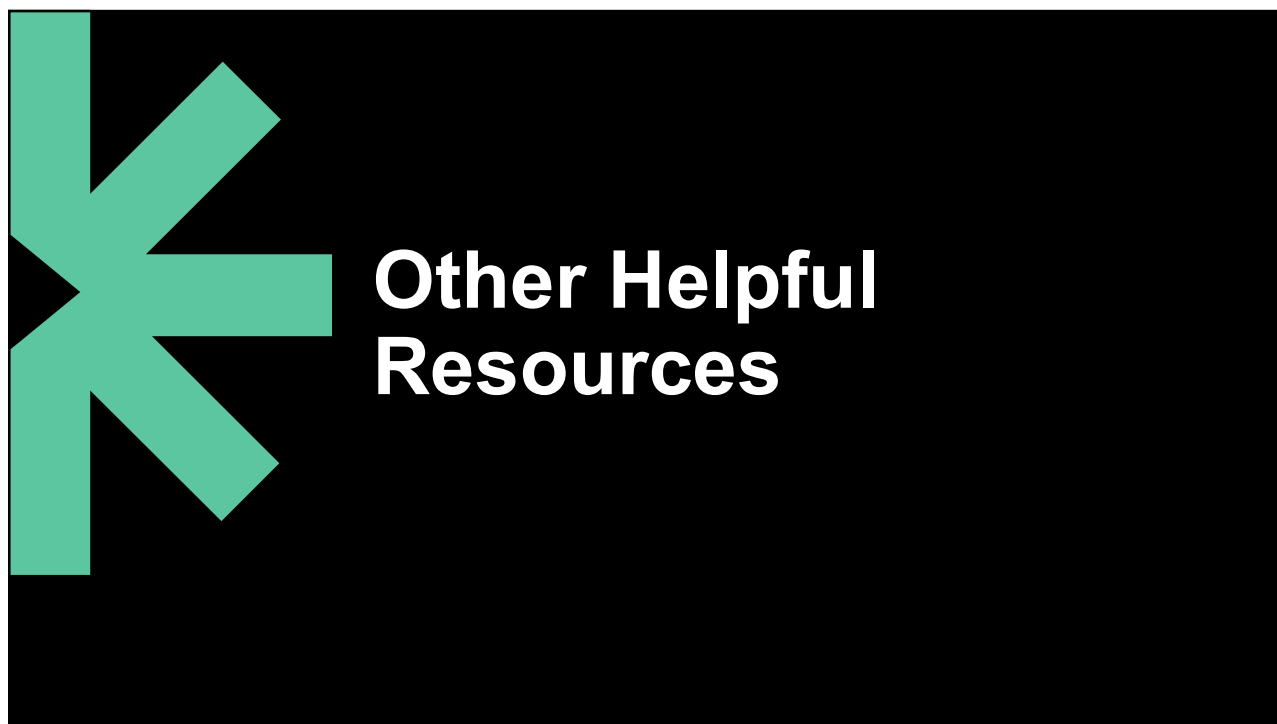
49

Alabama Department of Revenue Contact Numbers

- 334-242-1170, Option #1 – Individual Income Tax
- 334-242-1170, Option #7 – Withholding Tax
- 334-242-1170, Option #6 – Corporate Tax
- 334-242-1170, Option #8 – Business Privilege Tax
- 334-242-1170, Option #6 – Pass-Through Entity
- 334-242-1189 – Certificate of Compliance
- 334-242-1584 – Business Registration
- 334-242-1490 – Sales and Use Tax



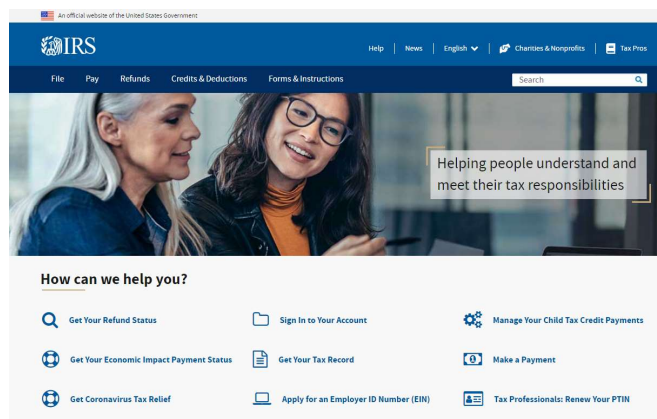
50



51

Internal Revenue Service

- www.irs.gov/
- IRS Forms: 1-800-829-3676
- IRS Assistance: 1-800-829-1040
- FEIN: Submit Federal Form SS4 by mail or fax; or go to www.irs.gov/ and search for EIN online



52

Internal Revenue Service - Resources

- [IRS Small Business & Self-Employed Tax Center](#) – The links on this webpage provide important information for all small businesses and self-employed individuals.
- [Publication 5557 - A Guide to Starting a Small Business](#)
- [Publication 4591 - Small Business Federal Tax Responsibilities](#)
- [Publication 583 - Starting a Business and Keeping Records](#)
- [Publication 334 - Tax Guide for Small Businesses](#)



53

Internal Revenue Service - Resources

The IRS has a series of [Small Business Tax Workshops](#) available online that are free and contain useful federal tax information for new business owners and employers. The topics include:

- [Federal Taxes and Your New Business](#)
- [Schedule C and Other Small Business Taxes](#)
- [Business Use of Your Home](#)
- [Federal Taxes When Hiring Employees or Independent Contractors](#)
- [Managing Payroll to Withhold the Correct Amount of Tax](#)



54

Thank you for being ALDOR's B.E.S.T.!

B.E.S.T. Webinar presentations can be found at

<https://www.revenue.alabama.gov/b-e-s-t/webinar-series-schedule/>

Also available are B.E.S.T. Learning Modules at

<https://www.revenue.alabama.gov/b-e-s-t/watch-learning-modules-online/>



55

Questions?

Please use the Q&A feature in Webex to ask
the presenter questions or
email Carol.Murphy@revenue.alabama.gov after the webinar.



56