

# Revenue REVIEW

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## 4th Special Session Brings Changes to 2001 LLE and Corporate Tax Filings

During the recent special session, lawmakers made significant changes in Alabama's income tax laws which affect the 2001 tax year and its reporting procedures for subchapter K entities, certain nonresident taxpayers, and corporate income taxpayers.

One of the major changes affecting the 2001 tax year involves a new reporting and payment procedure for subchapter K entities (partnerships and limited liability entities) doing business in Alabama that have nonresident members or partners. Act 2001-1105 (HB5) requires subchapter K entities to file a composite return and make a composite tax payment on behalf of their nonresident members or partners for the 2001 tax year by April 15, 2002, without regard to extensions.

The composite payment will be determined by applying the highest marginal Alabama income tax rate applicable (6.5 percent for corporate partners and 5 percent for non-corporate partners) to the partner's distributive share of the entity's net income apportioned/allocated to Alabama. Payments made by the entities will be considered as payments made by the owners.

For tax years after 2001, subchapter K entities may be relieved of this reporting and payment requirement if nonresident partners or members file a consent agreement with the Alabama Department of Revenue and agree to file and timely pay Alabama taxes. Should the nonresident partner or member fail to file the return or pay the tax, the tax liability would then pass to the subchapter K entity.

Another important change for the 2001 tax year involves the one-time suspension of the corporate income tax deduction for net operating losses for the 2001 tax year. Act 2001-1088 provides an exception to the one-year suspension for corporations that are dissolved and completely liquidated within calendar year 2001. Corporations meeting this exception may use its net operating loss deduction without restriction.

Other provisions noted affecting the 2001 tax year involve stricter standards on how corporations calculate their federal income tax deduction.

Although the majority of changes affected business taxpayers, Act 2001-1088 contained provisions amending Alabama's estimated tax filing procedures relating to individuals. Act 2001-1088 removed the requirement for individual taxpayers to file a "Declaration of Estimated Tax," prior to making estimated tax payments. This change, effective for the 2002 tax year, conforms Alabama's estimated filing procedures more closely to federal requirements. The law change, however, occurred after the 2002 Form ES Individual Estimated Income Tax coupon booklets had been printed and mailed. As a result, the 2002 ES coupon booklets contain the "Declaration" form, but taxpayers are not required to file it. Note that this law change did not affect any filing and payment procedures regarding estimated tax for the 2002 tax year. **Estimated tax returns and payments are still required, only the Declaration filing requirement is removed.**

For the 2002 tax year, business taxpayers will note additional changes enacted by Act 2001-1089 and Act 2001-1105. These new laws address consolidated filing procedures for corporations and expand the definition of Alabama "business" income. *Changes made by Act 2001-1089 and 2001-1105 affect all tax periods beginning after Dec. 31, 2001.*

Detailed summaries of the Act Nos. 2001-1088, 2001-1089, 2001-1105 and 2001-1113 are provided. Copies of the legislative acts may also be downloaded from the department's Web site at [www.ador.state.al.us](http://www.ador.state.al.us).

**For more information concerning Alabama's individual and corporate income tax reporting and filing requirements, contact the department at (334) 242-1000 or visit our Web site at [www.ador.state.al.us](http://www.ador.state.al.us).**

### Summary Points of Tax Legislation

#### Act 2001-1088 (HB2)

- Defines "corporation," which currently includes associations and joint stock companies, as including any other entity classified as an association and taxable as a corporation for federal income tax purposes.

- Defines "disregarded entity" as a limited liability entity that is disregarded for federal income tax purposes or a qualified subchapter S subsidiary as defined in 26 U.S.C. §1361.

- Defines “intangible expenses and costs” as expenses, losses, and costs for, related to, or in connection with the acquisition, use, maintenance, management, ownership, sale, exchange, or disposition of intangible property to the extent that such amounts are allowed as deductions in determining taxable income before operating loss deductions and special deductions for the tax year.

The term includes expenses or losses related to or incurred in connection with factoring or discounting transactions, royalties, patents, technical and copyright licensing fees, and other similar expenses and costs.

Intangible expenses and costs paid for the use of intangible property in Alabama are, to the recipient, income derived from sources within Alabama.

“Intangible property” includes patents, patent applications, trade names, trademarks, service marks, franchises, know-how, formulas, designs, patterns, processes, formats, copyrights, and similar types of intangible assets.

- Defines “interest expenses and costs” as amounts allowed as deductions under IRC Sec. 163. Interest expenses and costs paid to a related member by a subchapter K entity or a corporation, to the extent they are apportioned to Alabama by the payor, are to the recipient related member income derived from sources within Alabama.

- Defines “related entity” as (1) a stockholder or a member of the stockholder’s family, if the stockholder and family members own, in the aggregate, at least 50% of the value of the taxpayer’s outstanding stock; (2) a stockholder or a stockholder’s partnership, limited liability company, estate, trust, or corporation, if the stockholder and the stockholder’s entity own, in the aggregate, at least 50% of the value of the taxpayer’s outstanding stock; or (3) a corporation, or a party related to the corporation in a manner that would require an attribution of stock from the corporation to the party or the party to the corporation, if the taxpayer owns at least 50% of the value of the corporation’s outstanding stock.

- Defines “related member” as a person who with respect to the taxpayer is a related entity, a component member of a controlled group of which the taxpayer is also a component, or a person to or from whom there is attribution of stock ownership.

- Amends the definition of “subchapter K entity” to state that such entity does not include a single member limited liability company.

- Requires entities to add back certain expenses among related parties. Corporations and subchapter K entities (a partnership, limited partnership, limited liability partnership, limited liability company, or other entity subject to subchapter K of the Internal Revenue Code) must add back otherwise deductible interest expenses and costs, and intangible expenses and costs, paid, accrued, or incurred to or in connection with transactions with related members, except to the extent that the taxpayer can show that the corresponding item of income was, in the same tax year, subject to a tax based on or measured by the related member’s income (1) in Alabama or another state, or (2) by a foreign nation which has in force an income tax treaty with the United States, if the recipient was a resident of the foreign nation.

These provisions do not limit the deduction of the interest portion of rent paid under lease agreements described in §40-18-35(a)(9).

- Requires that the receipt of the payment by the related member must be reported and included in income for purposes of a tax on net income, and not offset or eliminated in a combined or consolidated return which includes the payor.

- The taxpayer must make the required adjustments unless it establishes that the adjustments are unreasonable or the taxpayer and the Commissioner of Revenue agree to the use of alternative adjustments or computations.

Adjustments do not apply to interest expenses and costs and intangible expenses and costs if the taxpayer establishes that the transaction giving rise to the expenses and costs did not have as a principal purpose the avoidance of any Alabama tax and

the related member is not primarily engaged in the acquisition, use, licensing, maintenance, management, ownership, sale, exchange, or disposition of intangible property or in the financing of related entities.

Transactions having a substantial business purpose and economic substance and containing terms and conditions comparable to a similar arm’s length transaction between unrelated parties will be presumed not to have tax avoidance as its principal purpose, subject to rebuttal by the Commissioner.

The adjustment does not require that a taxpayer add to its net income more than once any interest expenses and costs or intangible expenses and costs that the taxpayer pays, accrues, or incurs to a related member.

- Except for payments described in §§ 40-18-35(a)(4)b (relating to interest income earned on obligations of the State of Alabama or its subdivisions or instrumentalities) and 40-18-35(a)(9) (relating to the interest portion of rent paid under lease agreements relating to obligations issued by the State of Alabama or subdivisions or instrumentalities) no allowance will be made for any item to be deducted more than once, for a deduction of any item that is excluded from income, or for any item to be included in the Alabama taxable income of more than one taxpayer.

- Requires that the portion of federal income tax deductible by a corporation earning income from sources both inside and outside Alabama will be determined by the ratio that the corporation’s taxable income, computed without the deduction, apportioned and allocated to Alabama bears to the corporation’s taxable income, computed without the deduction, apportioned and allocated everywhere. This amendment restores the formula that applied before the law was amended by the 1999 Corporate Income Tax Conformity Act.

- The portion of total deductible interest expense that is classified as non-business interest expense and is not deductible at arriving at apportioned income, but is instead allocated to the situs

of the related nonbusiness income producing assets, is based on the ratio of the average cost (previously, the average value) of the corporation's nonbusiness assets to the average cost (previously, value) of the corporation's total assets.

- Suspends the corporate income tax deduction for NOLs for all tax periods beginning during calendar year 2001. To the extent that an NOL deduction is disallowed by the suspension, the date on which the deduction would otherwise expire will be extended by one year. A corporation dissolved and completely liquidated within calendar year 2001 may use its NOL without restriction.

- Adds a new Section 40-2A-17 to allow the Commissioner of the Department of Revenue to distribute, apportion, or allocate gross income, deductions, credits, or allowances of entities owned or controlled by the same interests if such distribution, apportionment, or allocation is necessary to prevent evasion of Alabama income taxes or to clearly reflect the income of the entities.

- Transactions based on tax planning advice, tax return preparation advice, or tax return preparation services for which an improper contingent fee was paid will be evidence of the evasion of Alabama income taxes. This provision does not apply to contingent fee contracts executed before 2002. A paid tax return preparer or tax planner who provides such services in consideration for an improper contingent fee will be subject to penalty as if the preparer or planner was subject to the federal penalty for aiding and abetting the understatement of tax liability.

- Defines "improper contingent fee" as compensation received by a person or entity subject to the Code of Professional Conduct of the American Institute of Certified Public Accountants, or the applicable state version of the Code, for tax planning advice or tax return advice or preparation rendered after December 31, 2001, that would be improper under terms of the Code.

With respect to a person or entity who is not a certified public accountant, an "improper contingent fee" will be defined

in regulations prescribed by the Alabama Department of Revenue (ADOR) on a basis consistent with the Code.

- Amends law to remove the provision allowing the ADOR, upon request of a taxpayer, to extend the time for payment of tax due for a period not to exceed three months.

- Amends provisions concerning the payment of estimated Alabama corporate income tax and personal income tax to conform more closely to federal provisions. References to "declarations" are removed.

- Adds a new Section 40-18-80.1 to provide for estimated tax payments and penalties for corporations, and references to corporations are removed from statutes concerning estimated tax payments and penalties for individuals.

- Raises net income filing thresholds from \$1,500 to \$1,875 for individuals and from \$3,000 to \$3,750 for married persons filing jointly. The existing filing threshold of \$5,000 in tax liability for corporations continues to apply.

- Adds a new Section 40-2A-18 to clarify that interest on a final assessment accrues from the date of entry of the final assessment on the total amount of its components including tax, interest, and penalty, as one lump sum amount. The statute provides that the amendment is a restatement of current law as it applies to interest accrual after final assessment and that the amended language applies to all open tax years and all subsequent tax years.

- Section 7 of Act 2001-1088 provides that if a nonresident owner of a subchapter K entity certifies in writing, prior to the filing of the entity's income tax return for the first tax year beginning in calendar year 2002, that the nonresident owner has fully paid its Alabama income tax attributable to its share of the entity's net taxable income allocated and apportioned to Alabama with respect to its tax year ending in 2001, the entity will not be required to pay Alabama income tax on behalf of the nonresident owner as is required by Act 2001-1105 (House Bill 5). The bill states that this provision does not apply if House Bill 7 does not become law; however, the provision

should actually refer to House Bill 5.

- *Effective for all tax years beginning subsequent to Dec. 31, 2000.*

### Act 2001-1089 (HB4)

- Restricts the use of consolidated returns by requiring a member corporation to have nexus with the state in order to be included in the Alabama group.

- Requires company-by-company apportionment factors and limits any income or loss for a member of the consolidated group to the part of income or loss apportioned and allocated to Alabama. Each member of the Alabama affiliated group shall be considered a separate taxpayer for purposes of allocation and apportionment.

- Requires the designation of a common parent by members of an Alabama affiliated group if the common parent is not a member of the Alabama affiliated group. The ADOR must be notified as to which member shall serve as the designated, common parent.

- Increases the minimum election period to file an Alabama consolidated return to 120 consecutive calendar months (from 8 years to 10 years).

- Doubles the annual filing fees for the Alabama consolidated return election to amounts ranging from \$5,000 to \$25,000.

- Clarifies the separate return limitation year (SRLY) rules to limit the deductibility of a net operating loss on the Alabama consolidated return to only the amount which would reduce the Alabama taxable income of the separate entity to zero in the situation where the corporation incurred the loss prior to becoming a member of the Alabama affiliated group.

- Gives the Commissioner the power to deny retroactively the consolidation election for the entire group or a particular member of the group if it is established that non-arm's-length transactions have caused a material distortion of income allocated and apportioned to Alabama.

- Allows Alabama affiliated groups presently filing Alabama consolidated returns the option to terminate the prior

election for consolidated filing or to make a re-election under the revised criteria. The ADOR must be notified in writing by March 15, 2002, or the due date, with extensions, of the last consolidated return due to be filed of the decision to opt out of the prior election.

- *Effective for all tax years beginning after Dec. 31, 2001.*

**Act 2001-1105 (HB 5)**

- Adds a new section to Chapter 18 of Title 40 which will probably be codified as §40-18-24.1.

- Generally mandates the filing of a composite income tax return by subchapter K entities doing business in Alabama that have nonresident members or partners.

- ADOR may permit subchapter K entities to file composite returns and make payments on behalf of resident owners.

- "Resident owner" is an individual who is a resident of Alabama or an owner other than an individual who is legally or commercially domiciled in Alabama.

- A "composite return" is an informational return containing information regarding one or more subchapter K entity owner's respective shares of income, deductions, and losses passed through to them as an owner of the entity.

This return should also show any credits to which the owner is entitled or other information needed by the ADOR. (Return is similar to the federal Schedule K-1 of the Form 1065.)

- "Composite payments" are determined by applying the highest marginal Alabama income tax rate applicable (6.5% for corporate partners and 5% for non-corporate partners) to the partner's distributive share of the entity's net income apportioned/allocated to Alabama.

- Requires the subchapter K entity to file with the ADOR an agreement of each nonresident owner to file a return and to make timely payment of all taxes due by the nonresident owner from income relating to the entity.

The agreement would require nonresident owners which are subchapter K entities or an Alabama S corporation to comply

with the law under this section or Section 40-18-176. Nonresident owners other than Subchapter K entities or Alabama S corporations would agree to be subject to personal jurisdiction in Alabama for purposes of collection of taxes, interest, and penalties.

- Agreements are due to be filed at the time the annual return is required for the subchapter K entity's first taxable year and for any taxable year in which the entity had a nonresident owner for which an agreement had not previously been filed.

- Requires the subchapter K entity to pay within 60 days of notification any taxes due from nonresident owners who have filed a consent under this section and who fail to timely pay the amounts due.

- Payments made by the entity are considered as payments by the owners.

- **For the first tax year beginning on or after January 1, 2001, every subchapter K entity with nonresident owners must file a composite return and make a composite payment on behalf of the nonresident owners**

**when the annual return is due to be filed, without regard to extensions. (See Notice to Partnerships, Limited Partnerships, Limited Liability Partnerships, and Limited Liability Companies Doing Business in Alabama.)**

- Extends the due date for filing of nonresident agreements through Jan. 1, 2003, for entities which timely file the composite return and make the composite payment.

- *Effective for all tax years beginning on or after Jan. 1, 2001.*

**Act 2001-1113 (HB 7)**

- Amends the definition of "business income" for purposes of the Multistate Tax Compact in order to overrule the Alabama Supreme Court's August 2000 decision in *Uniroyal Tire Company v. Alabama Department of Revenue*.

- Defines "business income" as: Income arising from transactions or activities in the course of the taxpayer's trade or

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## Statement of Gross Tax Collections

FYTD 2002 Through End of First Quarter  
(October, November, December 2001)

	FYTD '01-'02	FYTD '00-'01	% Change
Business Privilege Tax	\$ 3,469,738	\$ 3,339,899	3.89
Gasoline	95,034,524	93,719,686	1.40
Income Tax (Corporate)	31,288,074	37,416,898	(16.38)
Income Tax (Ind.)	479,260,505	504,516,639	(5.01)
Motor Fuels (Diesel)	29,886,054	30,032,150	(0.49)
Oil & Gas Privilege	9,739,723	17,976,569	(45.82)
Oil & Gas Production	3,471,755	6,552,087	(47.01)
Sales	389,692,893	381,356,498	2.19
Use	46,520,242	49,324,328	(5.68)
Utility Gross Receipts	72,102,293	71,969,170	0.18
<b>Subtotal (Listed Taxes)</b>	<b>1,160,465,801</b>	<b>1,196,203,924</b>	<b>(2.60)</b>
<b>Subtotal (Other Taxes)</b>	<b>151,102,542</b>	<b>146,196,906</b>	<b>3.36</b>
<b>Total All Taxes</b>	<b>\$1,311,568,343</b>	<b>\$1,342,400,830</b>	<b>(2.30)</b>

## Tax Season 2002

# Alabama Individual Income Tax Filing Update

### Correction Notice for 2001 Tax Booklet Instructions

The Alabama Department of Revenue urges taxpayers to take note of recent changes made in certain federal line item references contained in the instruction sections of the Alabama Form 40, Alabama Form 40A, and Alabama Form 40NR tax booklets.

Changes made in the order of certain federal line items occurred after the department had begun printing the state income tax booklets.

#### FORM 40A (Short Form)

On Part IV page 2, line one of the Alabama Form 40A:

##### Reads:

Form 1040EZ—Enter the amount from line 10.

##### Should be:

Form 1040EZ—Enter the amount from line 11.

##### Reads:

Form 1040A—Enter the amount from line 33.

##### Should be:

Form 1040A—Enter the amount from line 34.

#### Form 40 Instruction Booklet

Instructions for Part V, Page 2—Federal Tax Liability

##### Reads:

(2) Form 1040EZ—Enter the amount from line 10.

##### Should be:

(2) Form 1040EZ—Enter the amount from line 11.

##### Reads:

(3) Form 1040A—Enter the amount from line 33.

##### Should be:

(3) Form 1040A—Enter the amount

from line 34.

#### Form 40NR Instruction Booklet

Instructions for Part IV, Page 2—Federal Income Tax Deductions, line 5a

##### Reads:

(2) Form 1040EZ—Enter the amount from line 10.

##### Should be:

(2) Form 1040EZ—Enter the amount from line 11.

##### Reads:

(3) Form 1040A—Enter the amount from line 33.

##### Should be:

(3) Form 1040A—Enter the amount from line 34.

### Filing Reminders

#### FORM 40V—Payment Voucher

If you owe additional tax, be sure to complete a FORM 40V and include it along with your check or money order. (If you pay by credit card, do not complete the FORM 40V.) Complete a FORM 40V for both paper-filed and electronically-filed returns. The Form 40V will be used by the department to identify your tax payment by check or money order, apply it, and match it to your return for processing.

#### Credit Card Payment Option

If you owe additional tax, you may be able to use your credit card to pay your taxes. Alabama taxpayers can use their Discover/NOVUS, MasterCard, or American Express card by making a toll-free phone call to the state's service provider, Official Payments Corporation, at 1-800-2PAY-TAX. New this year is the option to pay by Internet, by logging on to [www.officialpayments.com](http://www.officialpayments.com). A charge customer pays a convenience fee for using the credit card payment service. This fee is paid directly to Official Payments Corporation based on

the amount of your tax payment. The state receives no part of the convenience fee.

#### Federal Tax Liability Deduction

If you claim a federal tax liability deduction on your 2001 Alabama income tax form, you must attach a copy of page 2 of your 2001 FEDERAL FORM 1040 or page 1 of your 2001 FEDERAL FORM 1040A or 1040EZ, or a copy of your TELEFILE Schedule. **Taxpayers are cautioned to enter only the federal income tax liability amount from the federal returns, not the amount of federal income tax withheld for the tax year.**

#### Federal Income Tax Refund

If you received a federal income tax refund last year, do not report the refund on your 2001 Alabama income tax return. Starting this year, taxpayers are no longer required to report their previous tax year's federal refund. Changes made in the calculation of one's federal income tax liability no longer require the reporting of the federal income tax refund as an income item on the Alabama return.

#### Federal Advanced Tax Credit (Federal Rebate)

If you received a federal tax rebate from the Internal Revenue Service in 2001, you must report the amount you received on your Alabama 2001 tax return. Note that the federal advanced tax credit will not be shown as an income item on your Alabama return. It will, instead, be used to calculate the amount of your total federal income tax deduction under the "deductions" section of your 2001 Alabama return.

#### Consumer Use Tax Reporting Line Item

Taxpayers who purchased items online or through catalog or mail-order sales during 2001 and did not pay any sales or use tax to the out-of-state retailer are

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# 2001 Legislation Highlights

The following synopses highlight significant revenue-related legislation passed during the 4th Special Session 2001 of the Alabama Legislature.

## **2001-986 (H. 21)** Chambers County Ad Valorem Tax

Extends the special ad valorem tax of two mills for public libraries until Sept. 30, 2013. *Subject to voter approval.*

## **2001-1088 (H. 2)** Restorative Measures/Revisions in Corporate Taxation

Amends various existing state corporate income tax laws and enacts several new provisions in state law so as to, inter alia: disallow deductions for certain intangible property; revise the state deduction for federal income tax paid to a calculation based on ratio of Alabama income to total income; provide that allocation of interest from nonbusiness income be based on asset cost instead of value; allow certain business income, deductions, credits, or allowances between two or more businesses owned or controlled by the same interest to be allocated by the Department of Revenue, if justified, to prevent tax evasion; and authorizes certain pass-through entities not to pay certain income taxes on behalf of nonresident owners who have already paid the taxes. Some new statutes address the accrual of interest on final assessments, treatment for "nonresident owners" and "subchapter K entity," and revised tax payment provisions for business under certain circumstances. *Effective for all tax years beginning subsequent to Dec. 31, 2000.*

## **2001-1089 (H. 4)** Limitations on Consolidated Filing

Amends Section 40-18-39, *Code of Alabama 1975* to, inter alia: limit the use of the consolidated corporate income tax return election to only those members of

an Alabama affiliated group who are subject to Alabama income tax and have a defined nexus with the state; require a separate calculation of apportionment factors for each group member; provide clarification for certain losses; increase certain annual filing fees; provide state authority to deny consolidation so as to avoid the occurrence of material distortions of income from certain transactions; and allow affiliated groups presently filing Alabama consolidated returns under present law an option either to terminate their election or to begin a new election subject to this act. *Effective for all tax years beginning after Dec. 31, 2001.*

## **2001-1090 (H. 62)** Cellular/Mobile

Telecommunications Laws; Compliance with Federal Law

Amends state Utility Gross Receipts tax and Cellular Telecommunications tax laws to: bring Alabama taxation statutes on mobile telecommunications sources into compliance with current federal statutes; include interstate toll telephone service within the definition of telephone services which are subject to the Utility Gross Receipts tax and the Utility Service Use tax; lower the rate of state tax on telephone service to 6%, *effective April 1, 2002*, and raise the tax rate on mobile telecommunications service to 6%, *effective Feb. 1, 2002*; provide for distribution of the additional state tax collected; provide for retention by service providers a certain percentage of tax collected, as a cost for collection of tax for the state; and to add new Section 40-21-125 to provide for a tax on mobile radio communications.

## **2001-1105 (H. 5)** Filing by Nonresident Business Owners

Provides further for the filing of certain state income tax returns by nonresident owners of a subchapter K entity; establishes criteria for the filing of composite returns and backup withholding by

LLE's; requires filing by nonresident owners of consent agreements with the state certifying that appropriate return and tax payment will be made; and clarifies responsibilities for payment of income taxes by these entities. *Effective for all taxable years beginning on or after Jan. 1, 2001.*

## **2001-1113 (H. 7)** Revised Definition of "Business Income"

Provides further for the definition of "Business Income" for purposes of the Multistate Tax Compact so as to overrule the Alabama Supreme Court decision in *Uniroyal Tire Company v. Alabama Department of Revenue*. *Effective for taxable years beginning after Dec. 31, 2001.*

## 4th Special Session

*(Continued from page 4)*

business; or income from tangible or intangible property if the acquisition, management, or disposition of the property constitute integral parts of the taxpayer's trade or business operations; or gain or loss resulting from the sale, exchange, or other disposition of real property or of tangible or intangible personal property, if the property while owned by the taxpayer was operationally related to the taxpayer's trade or business carried on in Alabama, or operationally related to sources within Alabama, or the property was operationally related to sources outside this state and to the taxpayer's trade or business carried on in Alabama; or gain or loss resulting from the sale, exchange, or other disposition of stock in another corporation if the activities of the other corporation were operationally related to the taxpayer's trade or business carried on in Alabama while the stock was owned by the taxpayer. A taxpayer may have more than one trade or business in determining whether income is business income.

• *Effective for all tax years beginning after Dec. 31, 2001.*

# Administrative Rules

**Effective Dec. 26, 2001:**

**Amended:**

810-6-5-.09 Leasing and Rental of Tangible Personal Property

**Effective Jan. 2, 2002:**

**Adopted:**

- 810-5-9-.01 International Fuel Tax Agreement
- 810-5-9-.02 Base Jurisdiction Determination for Applicants Under the International Fuel Tax Agreement and Qualified Motor Vehicle Defined
- 810-5-9-.03 Filing an Application with the Base Jurisdiction
- 810-5-9-.04 IFTA License Design and Content
- 810-5-9-.05 Credentials in Lieu of IFTA Decals
- 810-5-9-.06 Guidelines for Filing a Request for Additional IFTA Decals
- 810-5-9-.07 Qualified and Exempt Motor Vehicles
- 810-5-9-.08 Displaying IFTA Decals and Renewal Credentials
- 810-5-9-.09 Transfer of IFTA Decals
- 810-5-9-.10 IFTA Quarterly Fuel Use Tax Reports
- 810-5-9-.11 Alabama Department of Revenue to Process Decal and License Requests and Issue Credentials

## IRS Interest Rate Lowered to 6% for Quarter Beginning Jan. 1, 2002

The quarterly interest rate for the calendar quarter beginning Jan. 1, 2002, will be lowered to six percent (6% a.p.r.) for underpayments, according to Internal Revenue Service News Release No. 2001-113.

According to §40-1-44, *Code of Alabama 1975*, the Alabama Department of Revenue will calculate interest on underpayments and overpayments (where applicable) at the same annual rate (6%), with the exception of land sold by the state for taxes, which shall be calculated at 12% as provided for under §40-5-9.

- 810-5-9-.12 IFTA Replacement Decals
- 810-5-9-.13 Closing an IFTA Account
- 810-5-9-.14 Petition for Refund for Fees Erroneously Paid for IFTA Decals

## Tax Filing Update

*(Continued from page 5)*

able to report and pay the Alabama consumer use tax due when filing their 2001 tax year return. This is the second year that the department has offered this convenient payment and reporting procedure to taxpayers. Note that the state use tax rate is the same as the state sales tax rate.

Items subject to use tax are the same items that would be subject to sales tax if purchased in Alabama. Examples of taxable items and reporting procedures are detailed in the instruction booklets.

### New Checkoffs

The 2001 return offers a new refund donation checkoff and a new Alabama election campaign fund checkoff to taxpayers.

Act 2001-465 established the new checkoff donation designated for the Alabama Breast and Cervical Cancer Research

Program. Donations will be distributed to the University of Alabama at Birmingham's Comprehensive Cancer Center Research Program to be used in the fight against breast and cervical cancer.

The Libertarian Party is the new Alabama election campaign fund checkoff featured on the 2001 return, provided in accordance with §17-16-2 and §40-18-146, *Code of Alabama 1975*.

### E-Filing Update

On January 16, 2002, the department kicked off its fifth electronic filing season. "Last year, 445,933 Alabamians took advantage of Alabama's electronic filing option, comprising 25.6 percent of the total 2000 individual income tax returns filed during the 2001 filing season," said State Revenue Commissioner Cynthia Underwood.

A new feature to this year's Alabama e-filing lineup is direct deposit. Direct deposit of refunds for electronically-filed returns is now available. Visit the department's Web site at [www.ador.state.al.us](http://www.ador.state.al.us) for more information or discuss this e-filing feature with your tax preparer.

## Interest Rates By Calendar Quarter

*(Established by: 26 USCA §6621; §40-1-44, Code of Alabama 1975)*

	1ST QTR	2ND QTR	3RD QTR	4TH QTR
<b>1982</b>	20%	20%	20%	20%
<b>1983</b>	16%	16%	11%	11%
<b>1984</b>	11%	11%	11%	11%
<b>1985</b>	13%	13%	11%	11%
<b>1986</b>	10%	10%	9%	9%
<b>1987</b>	9%	9%	9%	10%
<b>1988</b>	11%	10%	10%	11%
<b>1989</b>	11%	12%	12%	11%
<b>1990</b>	11%	11%	11%	11%
<b>1991</b>	11%	10%	10%	10%
<b>1992</b>	9%	8%	8%	7%
<b>1993</b>	7%	7%	7%	7%
<b>1994</b>	7%	7%	8%	9%
<b>1995</b>	9%	10%	9%	9%
<b>1996</b>	9%	8%	9%	9%
<b>1997</b>	9%	9%	9%	9%
<b>1998</b>	9%	8%	8%	8%
<b>1999</b>	7%	8%	8%	8%
<b>2000</b>	8%	9%	9%	9%
<b>2001</b>	9%	8%	7%	7%
<b>2002</b>	6%			

# GIS Project Underway

State Revenue Commissioner Cynthia Underwood announces the Alabama Department of Revenue's participation in the statewide implementation of the Geographic Information Systems Project, or GIS.



State Revenue Commissioner Cynthia Underwood addresses agency GIS users at the first kickoff meeting.

"The Geographic Information System is a computerized, visual method of managing land-related data," says Underwood. "It offers the ability to combine data from more than one agency into a statewide database. Data can be shared from county to county, from state to county, between state agencies and departments, and between state and federal agencies."

Project Coordinator Allen Elrod, of the Alabama Department of Revenue Property Tax Division, explains the significance of this system. "Many local and state agencies are already using GIS technology for industry recruitment, environmental purposes, disaster relief management, data integration, revenue and taxation. For state and county property tax uses, a parcel-level geographic information system can display the complete history of a parcel of land. With approximately 55% of the state's parcels already in digital form, we would

like to see the system used statewide."

During the 2001 Regular Legislative Session, the Alabama Department of Revenue received an appropriation for fiscal year '02 to develop and implement a statewide GIS. Elrod explains his hopes for



Revenue's Property Tax Division Director Bill Bass explains the department's utilization of the GIS.

the future of the program.

"This is a long-term project which will take at least three to five years to achieve a basic level of operation. I believe that a project of this magnitude requires not only the participation of all involved parties, but also the inclusion of each party's unique expertise in GIS.

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### GIS Vision Statement:

**A Spatial Data Infrastructure that will support the use and development of Geographic Information Systems for state agencies, city and county government, as well as federal and private stakeholders in the economic growth, social progress, and environmental quality of the state of Alabama.**

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"To that end, in accordance with the mandate of the Legislature's appropriation, the department's first action will be to contract a professional consulting firm to per-

form a survey of current GIS capabilities and a needs assessment of state agencies and county and municipal governments, and to write a strategic business plan for implementing a statewide GIS system.

"This assessment will provide us with



"Approximately 80% of the information governments use is related to geography, a fact which clearly demonstrates the state's need for a Geographic Information System." — Allen Elrod, State GIS Coordinator.

two very useful tools. The first tool will be a current status of GIS information systems of the previously-mentioned agencies. The second, most important tool will be feedback from these agencies on their willingness to participate in a cooperative partnership that will benefit all of Alabama. A statewide GIS program will be successful only with the willing participation and development of partnerships of the involved agencies."

The first of several statewide agency meetings to introduce plans for the GIS was held Sept. 27, 2001, in the Old Archives Chamber of the State Capitol. ADOR representatives attending were State Revenue Commissioner Cynthia Underwood, Property Tax Division Director Bill Bass, and Statewide GIS Project Coordinator Allen Elrod.

## REQUIRED MONTHLY RETURNS TAX ACTIVITY

- 10<sup>th</sup>**
- Medicaid-related tax return and payment due for nursing facilities.
  - Tobacco use tax return and payment due.
- 15<sup>th</sup>**
- Gasoline information return due from carriers, transporters, and warehouses.
  - Lubricating oils information return due from carriers, transporters, and warehouses.
  - Motor carrier mileage tax return and payment due.
  - Oil and gas production tax and privilege tax return and payment due two months following month of production.
  - Withholding return and payment due from those employers required to remit on a monthly basis.
- 20<sup>th</sup>**
- Aviation fuel tax return and payment due.
  - Cellular telecommunication services tax return and payment due.
  - Coal severance tax return and payment due.
  - Coal transporters and purchasers returns due.
  - Contractors' gross receipts tax return and payment due.
  - Gasoline tax return and payment due.
  - Local solid minerals tax returns and payments due.
  - Lodgings tax return and payment due.
  - Lubricating oils tax return and payment due.
  - Medicaid tax return and payment due from pharmaceutical service providers.
  - Motor fuel tax return and payment due.
  - Pari-mutuel pool tax return and payment due.
  - Rental or leasing tax return and payment due.
  - Sales tax (state and local) return and payment due.
  - Tobacco tax (state and county) return and payment due.
  - Underground and aboveground storage tank trust fund charge due.
  - Use tax return and payment due.
  - Utility gross receipts tax return and payment due.
- 30<sup>th</sup>**
- Hazardous waste fee return and payment due.

Last day of

month • State horse wagering fee return and payment due.

## QUARTERLY/ANNUAL TAX ACTIVITY

(March, April, May 2002)

### March

- 1**
- Freight line equipment return due.
  - Public utility property tax return delinquent after this date.
  - Business Privilege and Corporate Shares tax return (Form PSA) due for corporations.
- 15**
- Corporate income tax return and information return due (for calendar-year taxpayers).

### April

- 1**
- Annual Dry Cleaning Trust Fund fee return and payment due by wholesalers of dry cleaning agents.
  - Quarterly Dry Cleaning Trust Fund fee return and payment due.
  - Utility license (2.2%) third quarterly payment due.
- 15**
- Declaration of estimated personal income tax and first installment due.
  - Financial institutions' excise tax return and payment due.
  - Business Privilege and Corporate Shares tax return (Form PSA) due for limited liability entities.
  - First installment of estimated corporate income tax due (for calendar-year taxpayers).

NOTE: Other fiscal-period taxpayers pay their corporate estimated tax on the 15th day of the fourth, sixth, ninth and twelfth months of their tax year and file their return on the 15th day of the third month following the close of their tax year.

- Partnership income tax return due.
- Personal income tax return and payment due.

### 20

- Quarterly sales tax return and payment due.
- Quarterly use tax return and payment due.
- Quarterly rental or leasing tax return and payment due.

### 30

- Forest products' severance tax return and payment due.
- Quarterly withholding return and payment due from employer.
- Quarterly IFTA tax return and payment due.

# 2002 Changes for Cellular, Mobile Radio, Phone Service Customers

Recent legislation passed by the Alabama Legislature during its 4th Special Session resulted in several changes affecting how cellular telephone, mobile radio services, and "regular" telephone service customers will be taxed beginning Feb. 1, 2002, announced State Revenue Commissioner Cynthia Underwood.

Cellular telephone customers will see an increase in the rate of tax applied to their monthly cellular service charges. Effective February 1, the Cellular Telecommunications Services Tax rate will increase from 4 percent to 6 percent on all monthly cellular service charges.

Beginning February 1, monthly airtime charges for all commercial mobile radio services, such as beepers and pagers, and other one-way and two-way communication services, will be taxed at 6 percent. Previously, monthly airtime charges for those types of services were not taxed under the State Utility Gross Receipts Tax or the State Utility Service Use Tax provi-

sions. These changes are effective for customer bills dated on or after February 1.

Telephone (landline) customers will also see a change in their long-distance billing in February. Act 2001-1090 provides that interstate toll telephone services will be taxable under the Alabama Utility Gross Receipts Tax and the Utility Service Use Tax laws. The rate is set at 6.7 percent during February and March. Intrastate calls (long-distance calls made within Alabama) are already taxed at 6.7 percent. Beginning April 1, the rate for both intrastate and interstate long-distance calls and charges for local telephone service will decrease to 6 percent. This will parallel the 6 percent rate imposed on all cellular airtime charges.

On Jan. 16, 2002, the Alabama Department of Revenue mailed notices to all telephone service utility tax account holders and all Alabama providers of commercial mobile radio services detailing recent changes made in Alabama's Cellular Telecommunications Tax, the State Utility

Gross Receipts Tax, and the State Utility Service Use Tax and how these changes will affect their particular customers. Copies of the notices are posted on the department's Web site at [www.ador.state.al.us](http://www.ador.state.al.us) under the Sales, Use, and Business Tax page.

For more information concerning recent changes made in Alabama's Cellular Telecommunications Services Tax, Utility Gross Receipts Tax, and the Utility Service Use Tax, contact the Alabama Department of Revenue Sales, Use, and Business Tax Division at (334) 242-1490 or visit the department's Web site at [www.ador.state.al.us](http://www.ador.state.al.us).

## Notice

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