

ALABAMA DEPARTMENT OF REVENUE Annual Report of Project for Capital Credit

For the tax year beginning _____, 19____ and ending _____, 19____.

Attach a separate form to the income tax return for each project.

This form is used for reporting to the Alabama Department of Revenue that the required conditions entitling the investing company or companies to the capital credit as provided by Section 40-18-190 through Section 40-18-203, *Code of Alabama 1975* have been met throughout the period claimed. A project entity completing and filing this form with the project entity's income tax return is stating that the project entity is in compliance with the conditions required to qualify for the capital credit throughout the current tax period.

PART I — IDENTIFICATION OF PROJECT

Project Number: _____

Project Entity: _____ FEIN: _____ SIC Code: _____

Address: _____ Telephone No.: () _____

City: _____ State: _____ ZIP: _____

Project Filing Status: (✓ *only one*) LLC Sole Proprietorship C Corporation S Corporation Estate Partnership

Type Of Project: New Project Expansion Project Small Business Addition Headquarters Facility

Date Project Was Placed In Service: _____

PART II — REPORT OF ANNUAL PROJECT STATUS

1. Number Of New Employees Employed By This Project: _____

2. Average Hourly Wage For New Employees Employed By This Project: _____

3. Average Hourly Compensation Including Benefits For New Employees Employed By This Project: _____

4. Have Minimum Employee And Base Wage Requirements Been Met For Current Year: Yes No

5. Total Number of Years Employee And Wage Requirements Have Not Been Met: _____

PART III — PROJECT STATUS

| | | | |
|--|---|--|---|
| 1. Total Actual Project Costs As Reported On Form INT-2, Line 6 | 1 | | |
| 2. Capital Credit Available For This Tax Year (Line 1 x 5%) <input type="checkbox"/> Short Year <input type="checkbox"/> Part Year | 2 | | |
| 3. Total Project Entity's Income Apportioned To Alabama | 3 | | |
| 4. Project Apportionment Factor From Part IV, Line 26 | 4 | | % |
| 5. Total Income Apportioned To Project In Alabama | 5 | | |
| 6. Nonbusiness Income/(loss) Allocated To The Project In Alabama | 6 | | |
| 7. Special Deductions Allocated To The Project In Alabama | 7 | | |
| 8. Total Project Income Allocated And Apportioned To Alabama | 8 | | |

Under penalties of perjury, I declare that I am duly authorized to complete this form and that I have listed all the recipients. I have examined the above statements and to the best of my knowledge and belief they are true, correct, and complete.

Your Signature: _____ Title: _____ Date: _____

PART IV — APPORTIONMENT FACTORS

| TANGIBLE PROPERTY AT COST FOR PRODUCTION OF BUSINESS INCOME | PROJECT | | ALABAMA | | |
|--|-------------------|-------------|-------------------|-------------|---------|
| | BEGINNING OF YEAR | END OF YEAR | BEGINNING OF YEAR | END OF YEAR | |
| 1 Inventories | | | | | |
| 2 Land | | | | | |
| 3 Furniture And Fixtures | | | | | |
| 4 Machinery And Equipment | | | | | |
| 5 Buildings And Leasehold Improvements | | | | | |
| 6 IDB/IRB Property (at Cost) | | | | | |
| 7 Government Property (at FMV) | | | | | |
| 8 | | | | | |
| 9 Less Construction In Progress (if included) | | | | | |
| 10 Totals | | | | | |
| 11 Average Owned Property (BOY + EOY ÷ 2) | | | | | |
| 12 Annual Rental Expense | \$ | x8 = \$ | | x8 = | |
| 13 Total Average Property | 13a | | 13b | | |
| 14 Project Property Factor — 13a ÷ 13b = Line 14 | | | 14 | ▶ % | |
| SALARIES, WAGES, COMMISSIONS AND OTHER COMPENSATION RELATED TO THE PRODUCTION OF BUSINESS INCOME | 15a | PROJECT | 15b | ALABAMA | 15c |
| 15 Project Payroll Factor — 15a ÷ 15b = 15c | | | | | ▶ % |
| SALES | | PROJECT | | ALABAMA | |
| 16 Destination Sales (see instructions) | | | | | |
| 17 Origin Sales (see instructions) | | | | | |
| 18 Total Gross Receipts From Sales | | | | | |
| 19 Dividends | | | | | |
| 20 Interest | | | | | |
| 21 Rents | | | | | |
| 22 Royalties | | | | | |
| 23 Gross Proceeds From Capital And Ordinary Gains | | | | | |
| 24 Other (Federal 1120, Line _____) | | | | | |
| 25 Project Sales Factor — 25a ÷ 25b = Line 25c | 25a | | 25b | | 25c ▶ % |
| 26 Sum Of Lines 14, 15c, And 25c ÷ 3 = PROJECT APPORTIONMENT FACTOR (Enter here and on Part III, Line 4, Page 1) | | | 26 | ▶ | % |

Instructions For Preparing Annual Report of Project (Form AR)

GENERAL INSTRUCTIONS

This form is used to report to the Alabama Department of Revenue that the conditions required to entitle the project entity to the capital credit as provided by Section 40-18-190 through Section 40-18-203, *Code of Alabama 1975* have been met throughout the period for which the capital credit is claimed. This form shall be filed annually by the project entity stating that the project was, throughout the current tax period for which the capital credit is claimed, in compliance with the conditions required to be met in order to qualify the project for the capital credit and that the sum of all the capital credits utilized to date when added to the capital credit claimed for the current year, does not exceed the capital costs for the qualifying project.

This form is to be attached to the income tax return of the project entity. A separate form should be completed for each project. If you have any questions pertaining to this form and you are filing a corporate income tax return, please call (334) 234-1200. If you are filing a partnership, estate, or individual income tax return, please call (334) 242-1000.

For tracking purposes, the project entity **must** attach a copy of the current allocation of credit schedule as filed with the Form INT, INT-3, or INT-4, whichever is applicable. If the credit flows through one of these entities, list all the eventual recipients of the capital credit for the current tax year on this schedule. For example, if one of the investing companies of a project is a partnership, all partners in the partnership eligible for the capital credit must be listed. Failure to remit this information may delay the processing of the income tax return(s) of any or all recipients of the capital credit.

LINE BY LINE INSTRUCTIONS

Project Number – Enter the number assigned by the Alabama Department of Revenue when the initial report of intent to invest (Form INT) was filed. This number must be on all correspondence with the Department pertaining to the capital project.

Project Entity – Enter the name of the entity receiving the credit. If the qualifying project is a joint venture, a legal project entity must be created in order for the investing companies to receive the capital credit.

Address – Enter the address to which all correspondence regarding this project should be sent.

FEIN – Enter the Federal Employer Identification Number.

SIC Code – Enter the Standard Industrial Classification Code of the project as published by the United States Government Office of Management and Budget.

Project Filing Status – Check the applicable box.

Type of Project – Indicate whether this project is a new project, expansion project, small business addition, or a headquarters facility.

New Project -- A project with capital costs which are not less than \$2,000,000, and at which the predominant trade or business activity conducted will constitute industrial, warehousing, or research activity.

Expansion Project – An expansion of an existing business in Alabama with capital costs which are not less than \$2,000,000, and at which the predom-

inant trade or business activities conducted will constitute industrial, warehousing, or research activity.

Small Business Addition – An addition of any land, building, or other improvement, and all real and personal properties deemed necessary or useful in connection therewith, whether or not previously in existence, to be used as a part of any existing facility of a business located in the state that, prior to the date on which the addition is placed in service, had 100 or fewer employees. Capital costs may not be less than \$1,000,000, and the predominant trade or business activity conducted will constitute industrial, warehousing, or research activity.

Headquarters Facility – A facility which will serve as either the national, regional, or state headquarters for an investing company that conducts significant business operations outside the state of Alabama and will serve as the principal office of the principal operating officer of the qualifying project. Capital costs may not be less than \$2,000,000.

Date Project Was Placed in Service – Enter the date the project was placed in service. Placed in service is defined as the earlier of the date on which either a) the period for depreciation with respect to the project begins; or b) the project begins a specifically designed function for the production of revenues.

Instructions for Part II

Line 1 – Number of New Employees for this Project – Enter the number of new employees hired at this project. New employees are those persons who have not previously been employed at the site on which the project is located in service or have not been employed by the investing company or companies in this state; will be employed full-time as a direct result of the project being placed in service; and will be subject to the personal income tax imposed by Section 40-18-2, *Code of Alabama 1975*, upon commencement of employment at the project. There is a minimum requirement of 20 jobs for new employees at a new project, expansion project, or a headquarters facility. The minimum requirement for a small business addition is 15 jobs for new employees. These jobs must be provided beginning with the date which is not later than one (1) year after the project is placed in service and continuing each year thereafter during the period which the capital credit is available with respect to the qualifying project.

Line 2 – Average Hourly Wage – Enter the average hourly wage of the new employees of the project. The base wage requirement for the project requires that the average hourly wage shall not be less than eight dollars (\$8) per hour. This requirement does not include employees of direct processors of agricultural food products. These employees wages shall be determined by the local labor market.

Line 3 – Average Hourly Compensation Including Benefits – Enter the average hourly compensation of the new employees of the project. The base wage requirement for the project requires that the average hourly compensation shall not be less than ten dollars (\$10) per hour, including benefits. This requirement does not include employees of direct processors of agricultural food products. These employees wages shall be determined by the local labor market.

Line 4 – Indicate if the minimum employee and base wage requirements have been met for the current tax year by checking the applicable box. Pursuant to Section 40-18-193(f), *Code of Alabama 1975*, any investing company that meets the employment and wage requirement by a date which is not later than one year after the date on which the qualifying project is placed in service, but fails to meet such requirements in any subsequent compliance year, may still claim the capital credit for each compliance year in which the employment and wage requirement are met. In no event, however, shall the investing company claim a credit in a compliance year beginning 1) after the third compliance year (whether or not consecutive) in which the investing company fails to meet the employment and wage requirements or 2) more than 19 years after the year in which the

qualifying project is placed in service.

Line 5 – Enter the total number of years the qualifying project did not meet the employee and wage requirements. If the number is greater than three (3), the qualifying project is no longer eligible to receive the capital credit pursuant to Section 40-18-193(f), *Code of Alabama 1975*.

Instructions for Part III

Line 1 – Total Actual Project Costs – Enter the total actual project costs from Form INT-2, line 6.

Line 2 – Capital Credit Available for This Tax Year – Multiply Line 1 by 5%. This amount will normally be the maximum amount available for capital credit for this tax year. Also enter this amount on **Form K-RCC**, line 5. Note: If this is a part year or short tax year then 5% of the total project investment should be reduced by the ratio of number of days in the tax year the project was in service to 365 days. Place the resulting amount on line 2.

If the project has been placed in service during this tax year and has not been in service for the entire year (12 months), the credit available for the part year shall be prorated based on a numerator of which is the number of days the project has been placed in service and the denominator of which is 365. Compute and enter the amount here and on **Form K-RCC**, line 5. Please check the box for part year if this computation is applicable.

If the project entity's income tax return is for a tax period of less than one year, the credit available for the short period shall be prorated based on a ratio, the numerator of which is the number of days in the tax period, and the denominator of which is 365. Compute and enter the amount here and on **Form K-RCC**, line 5. Please check the box for short year if this computation is applicable.

If this is the final year of eligibility for the capital credit and during the initial year the credit was prorated due to a part year or short year, the credit available for the final year shall be prorated based on a numerator of which is 365 less the numerator used in the calculation for the first year and the denominator of which is 365. Compute and enter the amount here and on **Form K-RCC**, line 5. Please check the box indicating part year or short year (as indicated in the initial year of credit) if this computation is applicable.

This computation shall ensure that all entities qualifying for the capital credit shall be allowed the full 240 (i.e., 20 years X 12 months) months of credit.

The method of accounting designated to be used at the project was determined in the written agreement signed by the Alabama Department of Revenue and the Investing Company after the initial report of intent to invest was filed indicating which method is preferred. If the two factor or three factor method was designated, please follow the instructions for Part IV to compute the total project income allocated and apportioned to Alabama. If the separate accounting method was designated in the written agreement, enter the total project income, as computed by this method, on Part III, Line 5 and complete the remainder of Part III and Form K-RCC.

Line 3 – Enter the total income apportioned to Alabama for the project entity from the Alabama income tax return (S corporation – Form 20S, Schedule E, Line 6; C corporation – Form 20C, line 8; Partnership or LLC – Form 65, Schedule A, line 12 (if multistate use Schedule D, line 5); Estate/trust – Form 41, line 5; Sole Proprietorship – Schedule C total income.)

Line 4 – Enter the apportionment factor from Part IV, line 26.

Line 5 – Multiply line 3 by line 4.

Line 6 – Enter the nonbusiness income from the project allocated to Alabama. (Please attach computational schedule, if applicable).

Line 7 – Enter special deductions allocated to the project in Alabama, if applicable (Form 20C, line 10 a-c and Form 65, lines 14 and 15).

Line 8 – Add lines 5 and 6 and subtract line 7.

Instructions for Part IV

The project entity's activity in Alabama is represented by the apportionment percentage. Except for special cases provided for in paragraph (a) of Regulation 810-27-1-4-.18, the apportionment factor consists of the average of three other factors: property, payroll, and sales.

Property Factor – In the appropriate columns enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business (apportionable) income.

Line 1 – Inventories

Line 2 – Land

Line 3 – Furniture and fixtures

Line 4 – Machinery and equipment

Line 5 – Buildings and leasehold improvements

Line 6 – Property financed through industrial development boards or by industrial revenue bonds issued by municipalities. **All Industrial Development Board property utilized by the taxpayer will be included at its original cost basis.**

Line 7 – Government Property – All government property (whether local, state, or federal), when such property is made available for use by the taxpayer, will be reported at its current fair market value.

Line 8 – Any other real or tangible property used in production of business income.

Line 9 – Less Construction in progress (if included in the amounts on lines 1 through 8).

Line 10 – Enter in each column the totals of lines 1 through 9.

Line 11 – Enter in the appropriate column the average (beginning of year plus end of year values divided by 2) value of property in Project and Alabama.

Line 12 – In the Beginning of Year columns, enter the amount of expense for the rental of real or tangible personal property used in the production of business income in Project and Alabama. Annualize for short-period returns. Multiply the annual rent expense by 8 and enter the result in the End of Year column. This is the capitalized rental value.

Line 13a – Add the amount on lines 11 and 12 in the End of Year column for Project.

Line 13b – Add the amounts on lines 11 and 12 in the End of Year column for Alabama.

Line 14 – Divide the amount on line 13a by the amount on line 13b and enter the percentage on line 14. This is the **PROJECT PROPERTY FACTOR**.

Payroll Factor

Line 15a – Enter the amount of wages or other compensation paid to employees for the production of business income in Project.

Line 15b – Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama. (Include officers' salaries.)

Line 15c – Divide the amount on line 15a by the amount on line 15b and enter the percentage on line 15c. This is the **PROJECT PAYROLL FACTOR**.

Sales Factor

Line 16 – Enter the gross receipts from Project destination sales except sales to the U.S. government. This includes total gross receipts from Project-related sales of tangible property shipped to Alabama from locations within Alabama.

Line 17 – Enter the amount of sales shipped from a Project origin to any state or foreign country where the corporation is not taxable. Also enter total sales to the U.S. government shipped from Project.

Line 18 – In the Project column, enter the total of lines 16 and 17. In the Alabama column enter total sales for Alabama.

Line 19 – Enter in the appropriate columns the gross business dividends, if any.

Line 20 – Enter in the appropriate columns the gross business interest income.

Line 21 – Enter in the appropriate columns the gross business income from rents.

Line 22 – Enter in the appropriate columns the gross business income from royalties.

Line 23 – Enter in the appropriate columns the gross receipts from the sale of disposition of assets used in the business.

Line 24 – Enter in the appropriate columns the amounts of other business gross receipts and identify the nature of such receipts and their location in the federal return.

Line 25a – Total the Project column for lines 18 through 24.

Line 25b – Total the Alabama column for lines 18 through 24.

Line 25c – Divide the amount on line 25a by the amount on line 25b and enter the percentage on line 25c. This is the **PROJECT SALES FACTOR**.

Line 26 – Add lines 14, 15c, and 25c. Divide by 3. This is the **PROJECT APPORTIONMENT PERCENTAGE**. (If any factor is not utilized in the production of income, it shall be eliminated and the denominator reduced accordingly.)

Project Entity instructions for Form K-RCC

If the project is a joint venture (Partnership, LLC, S corporation, etc.) the project entity must complete lines 1-3, 5 and 6 on the Form K-RCC for each investing company. Each recipient must receive a copy of their Form K-RCC and instructions for the recipient on the back of the form. If the project is not a joint venture, the project entity must complete lines 1-7 on Form K-RCC using the instructions for the recipient to complete lines 4 and 7. In this case, the recipient's percentage of allocation will be 100%.

Note: If the project entity is an S corporation or an estate/trust, the entity may apply part or all of the credit to its income tax return liability and distribute only the remaining credit. If only part of the capital credit has been applied, attach a computational schedule showing the amount of capital credit and related income utilized and how the remaining distributive share was computed. The amount applied to the tax liability of an S corporation or an estate/trust shall not be distributed to the shareholders or beneficiaries.

Line 1 – Enter the income apportioned to the Project in Alabama (from Form AR, Part III, Line 8).

Line 2 – Enter the recipient's percentage of allocation (as reported on the Form INT-2, Form INT-3, or Form INT-4).

Line 3 – Multiply line 1 by line 2.

Line 4 – To be completed by the recipient.

Line 5 – Enter the amount of capital credit available to the project for this tax year (from Form AR, Part III, Line 2).

Line 6 – Multiply line 5 by line 2.

Line 7 – To be completed by the recipient.