

Alabama Department of Revenue

News Release

Jan. 25, 2002

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

Montgomery—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

—MORE—

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.

Copies of the legislative acts and detailed summaries of Act Nos. 2001-1088, 2001-1089, 2001-1105 and 2001-1113 may be downloaded from the department's Web site at 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.

Contact for more information:

ADOR Media Affairs Office: Carla A. Snellgrove or Carolyn Blackstock:
(334) 242-1390; FAX: (334) 242-0550

