(1) **The Alabama Accumulated Adjustments Account.**

(a) The Alabama Accumulated Adjustments Account (AAAA) is an account maintained for an Alabama S corporation which details the amounts of earnings, profits, losses, gains and deductions which have been previously included by the individual shareholders on their respective income tax returns. It is used to compute the tax effect of distributions made by Alabama S corporations which have accumulated earnings and profits.

(b) For tax years beginning after December 31, 1990, and before January 1, 1997, the adjustments to the Alabama Accumulated Adjustments Account included:

1. The amounts of earnings, profits, losses, gains and deductions attributed to Alabama and includible by the nonresident shareholders on their respective returns, and

2. The entire amounts of earnings, profits, losses, gains and deductions includible by the Alabama resident shareholders on their respective returns.

(c) For tax years beginning on or after January 1, 1997, the adjustments to the Alabama Accumulated Adjustments Account include the entire earnings, profits, losses, gains and deductions of the S corporation to the extent includible by the individual shareholders on their respective returns.

1. If an item of income is subject to allocation and apportionment, the adjustment is an amount that is in proportion to the amount of the income reportable on the shareholder’s return bears to the amount of income allocated and apportioned to Alabama and required to be included in the shareholder’s return.

(2) **Adjustments to the Alabama Accumulated Adjustments Account.** The AAAA is equal to zero on the first day of the first year the corporation is an Alabama S corporation.

(a) The balance of the account is increased by the following amounts:


2. Any nonseparately stated income, except exempt income as defined in §40-18-14, as computed under §40-18-162(a)(2), and
3. Any oil and gas depletion deduction in excess of the basis of the wells being depleted.

   (b) The balance of the account is decreased by the following amounts:

   1. Any separately stated loss and deductions, as computed under §40-18-162(a)(1),
   2. Any nonseparately stated loss and deductions, as computed under §40-18-162(a)(2),
   3. Any deduction for oil and gas depletion to the extent such deduction does not exceed the proportionate share of the adjusted basis of such property allocated to the shareholder, and
   4. Any distribution of the type described in Rule 810-3-165-.01, subdivisions (1)(a) or (1)(b).

   (c) For tax years beginning after December 31, 1996, in applying the rules of §40-18-166 to distributions, the AAAA for the end of the taxable year will be determined without regard to the net loss for the taxable year.

(3) AAAA Adjustment Upon Redemption of Stock. If the Alabama S corporation redeems parts of its stock, the AAAA will be decreased by an amount which bears the same ratio to the balance in such account as the number of shares redeemed in such redemption bears to the total number of shares of the S corporation issued and outstanding immediately before the redemption. For example, if the S corporation should redeem one-half of its stock, the AAAA would be reduced by one-half.

(4) Election Concerning Distribution Treatment. An Alabama S corporation may, with the consent of all affected shareholders, elect to have all distributions treated as distributions first from the accumulated earnings and profits, rather than as distributions of amounts from the AAAA. See Rule 810-3-165-.01(3).

   (a) The term "affected shareholder" means any shareholder who receives a distribution from the Alabama S corporation during the taxable year of the corporation.

   (b) The consent may be in any form which clearly reflects the shareholder's election under §40-18-166(b) to treat actual distributions as being first from accumulated earnings and profits, rather than a tax-free distribution from the Alabama Accumulated Adjustments Account, and must be notarized or otherwise authenticated before some officer authorized to administer oaths.
(c) The consent must be attached to the return (Form 20S) of the Alabama S corporation for the taxable year.

(d) This election and consent will not affect the requirement under §40-18-162 for the shareholder to include his or her prorata share of the corporation's income, gains, losses and deductions attributed to Alabama in his or her Alabama individual income tax return.

(5) In administering and interpreting this regulation, the Department will consider administrative rulings and judicial decisions in respect to the similar provisions of the Internal Revenue Code and Regulations thereunder.

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Authority: §§40-2A-7(a)(5) and 40-18-166, Code of Alabama 1975