

Alabama Department of Revenue

News Release

April 2, 2002

Proposed Changes for Subchapter K Composite Return Filers and Nonresident Partners/Owners

Montgomery—During the 4th 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. Specifically, Act 2001-1105 (H.B. 5), passed during the 4th Special Session, required 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.

Legislation now pending in the Alabama Senate may remove the 2001 mandatory composite tax payment requirement for subchapter K entities (partnerships and limited liability entities) doing business in Alabama that have nonresident members or partners, according to State Revenue Commissioner Cynthia Underwood.

The pending legislation (H.B. 486) seeks to relieve subchapter K entities of the composite **payment** requirement only if their nonresident owners/partners report and pay the tax due for the 2001 tax year. **Note, however, that the Alabama composite return is required in all cases.** For the tax to be considered paid, the subchapter K entity will be required to attach a statement from each nonresident owner or partner to the Alabama composite return (Form 65C) certifying that the nonresident owner or partner has fully paid the partner's income tax due to Alabama for the tax year beginning Jan. 1, 2001. **The nonresident partner or owner must determine his/its tax liability to be able to certify to the partnership that the tax has been paid. If the nonresident partner or owner cannot determine his/its liability, then the tax should be paid by the partnership on the composite return (Form 65C).** Should the nonresident partner or

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member fail to file the return or pay the tax, the tax payment liability would then pass to the subchapter K entity.

“Because of the timeframe involved and the impending April 15 reporting date, the department wants to ensure that all affected taxpayers are aware of proposed changes,” explained Underwood.

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.

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