

INSTRUCTIONS FOR THE PREPARATION OF  
ALABAMA DEPARTMENT OF REVENUE  
**Financial Institution Excise Tax**

**2006**

Alabama Financial Institutions Excise Tax law, regulations, forms and instructions are available  
on the Alabama Department of Revenue's Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).

**The Alabama Financial Institutions Excise Tax  
and Alabama Form ET-1, Financial Institution  
Excise Tax Return.**

Alabama Form ET-1 must be filed by taxpayers meeting the definition of financial institution (as defined in Section 40-16-1, *Code of Alabama 1975*) which are doing business in Alabama by engaging in the businesses specified in Section 40-16-4, *Code of Alabama 1975*. See **Section 40-16-1, Definition of Financial Institution** and **Section 40-16-4, Statute Imposing the Alabama Financial Institutions Excise Tax**, below.

According to Section 40-16-5, *Code of Alabama 1975*, the Financial Institutions Excise Tax is assessed for the privilege of engaging in the business of a financial institution in the State of Alabama for the current State Tax Year (the current calendar year - referred to in these instructions as the Excise Tax Year), and the tax is assessed in the current Excise Tax Year.

The Alabama Department of Revenue administers the Alabama Financial Institutions Excise Tax. The Alabama Banking Department regulates all state-chartered banks, trust companies, and various providers of consumer credit.

Form ET-1 is an annual return due on April 15th of each Excise Tax Year. The Financial Institutions Excise Tax is payable on or before April 15th of the Excise Tax Year. The Alabama Taxable Income, computed and reported on the form, is for the last taxable year of the financial institution ended prior to April 1, of the Excise Tax Year.

**Example:** *The 2006 Alabama Form ET-1 is due on April 15, 2006.*

*Payment of the tax liability shown on the 2006 Form ET-1 allows the taxpayer to engage in the business of being a financial institution in the State of Alabama for the 2006 calendar year. If the taxpayer is a calendar year taxpayer, the Alabama Taxable Income computed and shown on the 2006 Form ET-1 is based on the operations of the 2005 calendar year.*

**Section 40-16-1, Definition of Financial Institution.**

Section 40-16-1, *Code of Alabama 1975*, defines the term "financial institution" as follows:

"...(1) FINANCIAL INSTITUTION. Any person, firm, corporation and any legal entity whatsoever doing business in this state as a national banking association, bank, banking association, trust company, industrial or other loan company or building and loan association, and such term shall likewise include any other institution or person **employing moneyed capital coming into competition with the business of national banks**, and shall apply to such person or institution regardless of what business form and whether or not incorporated, whether of issue or not, and by whatsoever authority existing..."

**Section 40-16-4, Statute Imposing the  
Alabama Financial Institutions Excise Tax.**

Section 40-16-4, *Code of Alabama 1975*, imposes an excise tax on financial institutions, specifically, Section 40-16-4(a)(1) states:

"...Every such financial institution engaging in any of the following businesses:

- (i) Banking;
- (ii) Conducting the business of a financial institution as defined in this chapter;

- (iii) Conducting a credit card business through the issuance of credit cards to Alabama residents or businesses; or
- (iv) Conducting a business **employing moneyed capital coming into competition with the business of national banks**

shall pay to the state annually for each taxable year an excise tax measured by its net income allocated and apportioned for the taxable year at the rate of six and one-half percent of the net income..."

**Activities Not Meeting the Definition of  
Financial Institution.**

Simply lending money does not qualify a taxpayer as a financial institution, as the term is defined in Section 40-16-1, *Code of Alabama 1975*. Also, the results of court cases over the years have indicated that "employing moneyed capital coming into competition with the business of national banks" means the competition with the national banks must be serious in nature and the capital employed in the competition must be substantial and similar in size when compared to the capitalization of the national banks. Therefore, generally, small loan companies, personal loan companies, payday loan companies, check cashing companies, automobile financing companies, title loan companies, cash advance companies, pawn shops and companies providing solely mortgage origination services (as opposed to issuing and holding the mortgages) are not considered to be "employing moneyed capital coming into competition with the business of national banks" nor are they considered to be a "financial institution" for purposes of the Alabama Financial Institutions Excise Tax Law.

For purposes of the Alabama Financial Institutions Excise Tax, performance of any one of the following activities, by a person, firm, corporation, or legal entity doing business in the State of Alabama, will not necessarily qualify the taxpayer as a financial institution, as the term is specified in Section 40-16-1, *Code of Alabama 1975*:

1. Those activities required to be licensed under the Alabama Small Loan Act – Title 5, Chapter 18, *Code of Alabama 1975*, concerning loans of \$749 or less;
2. Those activities required to be licensed under the Deferred Presentment Services Act – Title 5, Chapter 18A, *Code of Alabama 1975*, concerning what are sometimes known as payday loans;
3. Those activities required to be licensed under the Alabama Consumer Credit Act – Title 5, Chapter 19, *Code of Alabama 1975*;
4. Those activities required to be licensed under the Alabama Pawnshop Act – Title 5, Chapter 19A, *Code of Alabama 1975*; and,
5. Those activities required to be licensed under the Mortgage Brokers Licensing Act – Title 5, Chapter 25, *Code of Alabama 1975*.

Please refer to each of the above-named laws to identify those entities which may be exempted from the licensing requirements of the laws (generally banks are exempted from the licensing requirements).

**Example:** *If the taxpayer is a bank and the bank also performs in the State of Alabama those activities required to be licensed under the Alabama Consumer Credit Act, the taxpayer would meet the definition of "financial institution" specified by Section 40-16-1, Code of Alabama 1975, because it is a bank and banks are specifically included in the definition. But, if the taxpayer is a limited liability company and performs in the State of Alabama only those activities required to be licensed under the Alabama Consumer Credit Act, the*

taxpayer would not meet the definition of "financial institution" as specified in Section 40-16-1, **Code of Alabama 1975**. The taxpayer would be subject to the provisions of the Alabama income tax law, not the provisions of the Alabama Financial Institutions Excise Tax law.

#### **Alabama Treatment of Grantor Trusts Differs from Federal Treatment.**

A common area of noncompliance observed over the last several years involves losses originating in a grantor trust. Alabama tax law does not provide grantor trusts with the same loss flow-through treatment as is provided by federal tax law. The result is that Alabama tax law traps, in the trusts, losses created by grantor trusts involved with equipment leasing – federal tax law allows the losses to flow-through to the grantor of the trusts. Also, Alabama tax law does not allow trusts the disregarded entity treatment provided by federal tax laws.

### **Annual Consolidated Filing Election and Fee.**

Section 40-16-3, **Code of Alabama 1975**, allows qualified corporate groups to file consolidated returns, if a consolidated filing fee of \$6,000 is paid. The consolidated filing election is made on and remittance of the consolidated filing fee is paid with Alabama Form ET-C, Election and Payment of Fee for Filing a Consolidated Financial Institution Excise Tax Return. The election is an annual election, is irrevocable, and must be made by the original due date of the return. The consolidated filing fee cannot be refunded.

In order for a qualified corporate group to be eligible to file a consolidated return, the financial institution members must meet the ownership requirement and the filing requirement, specified in Section 40-16-3, **Code of Alabama 1975**.

**Ownership Requirement of Section 40-16-3.** Includable financial institutions must be connected through stock ownership with a common parent corporation. The financial institutions are includable corporations if:

a. Stock possessing at least 80 percent of the voting power of all classes of stock and at least 80 percent of each class of the nonvoting stock of each of the includable corporations (except the common parent corporation) is owned directly by one or more of the other includable corporations; and

b. The common parent owns directly stock possessing at least 80 percent of the voting power of all classes of stock and at least 80 percent of each class of the nonvoting stock of at least one of the other includable corporations.

**Filing Requirement of Section 40-16-3.** Each member of the qualified corporate group must be a financial institution as defined in Section 40-16-1, **Code of Alabama 1975**, conducting in the State of Alabama the business of a financial institution, as specified in Section 40-16-4, **Code of Alabama 1975**.

**Special Attachment Requirements for a Consolidated Alabama Form ET-1.** When filing a consolidated Alabama Form ET-1, a listing, similar to the federal affiliations schedule, must be provided showing each financial institution member included in the consolidated return, in addition to the member's federal employer identification number. A spreadsheet must also be attached showing for each member, all of the information required to complete the Form ET-1. Please boldly and clearly mark on the face of the completed Alabama Form ET-1 "Consolidated Return."

### **Extension to File Alabama Form ET-1.**

Alabama Form ET-8, Application for Extension of Time for Filing Alabama Financial Institution Excise Return may be used to request an extension of up to 3 months for filing a return.

In order for this application to be approved and remain valid, one-half of the estimated tax due must be paid when the form is filed. If at least 50% of the actual tax due on the return is not paid with the application, the extension will be considered invalid and the return may be subject to the penalties for delinquency.

### **Preparation Instructions.**

**Required Attachments.** For the Financial Institutions Excise Tax return to

be considered complete, a complete copy of the applicable federal income tax return must be attached. Failure to attach the complete federal return and supporting schedules may result in the imposition of delinquent penalties. If the taxpayer was included in a consolidated federal corporate income tax return, attach a copy of the consolidated return along with the accompanying spreadsheets showing the taxpayer's share of the federal affiliated group's: taxable income; schedule M-1, M-2, and M-3 adjustments; assets; liabilities; and shareholder's equity.

At the top, left-hand corner of page 1 check the applicable box if filing an initial, final, or amended return.

**Period Covered - Taxable Year.** Fill in the blanks indicating the beginning and ending dates of the taxable year if the return is for a taxable year other than the 2005 calendar year.

**Taxable Year Indicator.** At the top, right-hand corner of page 1 check the appropriate box indicating if the taxable year is a calendar-year, a fiscal year, or a short-year.

**Nature of Business.** Enter the Nature of Business and enter the Nature of Business Code, based on the following table:

#### **Nature of Business Codes**

- 1 – State Bank
- 2 – National Bank
- 3 – State Savings and Loan Association
- 4 – Federal Savings and Loan Association
- 5 – Employing Moneyed Capital Coming into Competition with the Business of National Banks (Section 40-16-1, **Code of Alabama 1975**)
- 6 – Do Not Use
- 7 – Do Not Use
- 8 – Credit Union
- 9 – Production Credit Association
- 10 – Credit Card Company

See also the above section entitled: **Activities Not Meeting the Definition of Financial Institution.**

**FEIN.** Enter the FEIN of the taxpayer, or indicate that a FEIN has been applied for or is not required.

**Taxpayer Name and Address.** Enter the legal name of the taxpayer and the address, as indicated by the form.

**Telephone Number.** Enter the telephone number, including area code.

**State of Incorporation.** Enter the state of incorporation, or if the taxpayer is not a corporation, enter the state in which the tax entity was organized or formed.

**Date of Incorporation.** Enter the date of incorporation or organization.

**Total Assets of Taxpayer.** Enter the total assets of the taxpayer, as reported on the federal income tax return filed by the taxpayer.

**Date Qualified in Alabama.** If the taxpayer was not incorporated or organized in Alabama, please enter the date the taxpayer qualified with the Alabama Secretary of State to conduct business in the State of Alabama.

**Multistate Taxpayer Indicator.** Check the box indicating YES, if the taxpayer conducts business both in Alabama and another state, otherwise check the NO box. If the taxpayer is a multistate taxpayer, the taxpayer is subject to the allocation and apportionment requirements of Alabama Department of Revenue Regulation Number 810-9-1-.05, **Apportionment and Allocation of Net Income of Financial Institutions**. See the Alabama Department of Revenue's web site ([www.revenue.alabama.gov](http://www.revenue.alabama.gov)) for the complete text of the Alabama Financial Institutions Excise Tax regulations.

**Change of Address Indicator.** Please indicate if the address shown on the return represents a new address for the taxpayer.

**Consolidated Alabama Form ET-1 Indicator.** Check yes only if the taxpayer has filed Alabama Form ET-C, Election and Payment of Fee for Filing a

Consolidated Financial Institution Excise Tax Return, and has paid the \$6,000 consolidated filing fee. See **Annual Consolidated Filing Election and Fee**, above.

**Federal Consolidated Return Information.** If the taxpayer is a corporation that is included in a federal affiliated group filing a consolidated federal corporate income tax return, check the YES block and enter the name and federal employer identification number of the common parent corporation. Also, attach a copy of the consolidated federal income tax return along with the accompanying spreadsheets showing the taxpayer's share of the federal affiliated group's: taxable income; schedule M-1, M-2, and M-3 adjustments; assets; liabilities; and shareholder's equity. Check the NO block, if the taxpayer was not included in a federal affiliated group that filed a consolidated federal corporate income tax return.

**EFT Indicator.** Check the EFT indicator if an EFT payment was made to pay the tax liability shown on the return. Upon being notified by the Revenue Department of the EFT tax payment requirements for a tax, taxpayers must then use EFT to make all payments for the tax. Generally, one payment of \$25,000 or more will obligate a taxpayer to the use of EFT for tax payments. More information concerning the EFT tax payment requirements is available on the Alabama Department of Revenue's website ([www.revenue.alabama.gov](http://www.revenue.alabama.gov)).

**Filing Status.** Check the appropriate filing status. Filing Status 1 is used when the taxpayer operates 100% in Alabama. Filing Status 2 is used when the taxpayer operates both in Alabama and another state. Filing Status 3 is used only when the taxpayer has received prior written permission from the Alabama Commissioner of Revenue to use Separate (Direct) Accounting in computing the Alabama Taxable Income.

**Complete lines 1 through 31, and attach detailed schedules as needed.**

Section 40-16-1, **Code of Alabama 1975**, defines net income for a taxable year (net income is referred to as Alabama Taxable Income on the Alabama Form ET-1).

Section 40-16-4, **Code of Alabama 1975**, requires the allocation and apportionment of the net income (taxable income) for a taxable year.

The Alabama Financial Institutions Excise Tax law and the following Alabama Department of Revenue Regulations are available on the Alabama Department of Revenue web site ([www.revenue.alabama.gov](http://www.revenue.alabama.gov)):

Number 810-9-1-.01	Definitions
Number 810-9-1-.02	Returns
Number 810-9-1-.03	Refund Claims
Number 810-9-1-.04	Credits Against the Tax
Number 810-9-1-.05	Apportionment and Allocation of Net Income of Financial Institutions

**LINE 1.** Enter the amount of interest and dividend income from:

- a. Loans and Discounts
- b. Obligations of the United States Government
- c. Obligations of State and Political Subdivisions

**LINE 2.** Enter the amount of dividend income, and complete Schedule A on page 2. Include gross dividend income on this line, even if the taxpayer is entitled to a corresponding Dividends Received Deduction (which would be properly deducted on line 18).

**LINE 3.** Enter the amount of rental income.

**LINE 4.** Enter the gain or (loss) on sale of assets, and complete Schedule B on page 2.

**LINE 5.** Enter the amount of other income, not previously included in lines 1-4 above. Provide a schedule showing the different sources and amounts totaling the amount entered on line 5.

**LINE 6 – Total Income.** Total the amounts entered on lines 1 through 5, and enter the total on line 6.

**LINE 7.** Enter the amount of officer compensation, and complete Schedule

C on page 2.

**LINE 8.** Enter the amount of salaries and wages.

**LINE 9.** Enter the amount of repairs.

**LINE 10.** Enter the amount of bad debt deduction, and complete Schedule D on page 2.

Section 40-16-1(2)(e), **Code of Alabama 1975**, provides for the deduction of bad debt by the direct charge off method. Section 40-16-1(2)(h), **Code of Alabama 1975**, provides for a reasonable deduction of bad debts using the reserve method, in the discretion of the Department of Revenue. The requirements of appropriate regulatory authorities and regulations and rulings of the Internal Revenue Service will be considered. Any adjustment to the deductions or provisions for the reserve for bad debts by the federal Internal Revenue Service must be made to similar deductions on the Alabama Financial Institutions Excise Tax returns, the adjustment will be made in the current year by increasing or decreasing the applicable deduction, so that in all cases the reserve balances will be identical for federal income tax and Alabama Financial Institutions Excise Tax purposes. Taxpayers using the direct charge off method or the reserve method must, when requested in writing by the Alabama Department of Revenue, provide a schedule detailing the amounts charged off – identifying each loan for which a bad debt deduction is claimed.

**LINE 11.** Enter the amount of rent expense incurred.

**LINE 12 – Taxes.** Enter the actual amount of taxes paid in 2005, and complete Schedule E on page 2. Taxes are deductible only in the year paid and only when levied on the taxpayer claiming the deduction. Do not include any payment for the Alabama Financial Institution Excise Tax or any taxes taken as a credit on line 33. The federal income tax deduction must be taken only on line 28, not line 12.

**LINE 13.** Enter the amount of interest incurred during the year, in accordance with Internal Revenue Code §§163, 264 and 265.

**LINE 14 – Contributions.** Enter the amount claimed as the charitable contribution deduction, as allowed by Section 40-16-1(2), **Code of Alabama 1975**. The charitable contribution deduction is limited to 5% of net income without benefit of the charitable contribution deduction. The charitable contribution limitation is computed at the group member level, when a consolidated Alabama Form ET-1 is filed by a qualified corporate group.

**LINE 15.** Enter the amount claimed as depreciation, and complete Schedule G on page 2. Depreciation will be computed as directed in Alabama Department of Revenue Regulation Number 810-3-15-.05, Depreciation, Amortization, and Section 179 Expense, which states: "...there shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear...in accordance with 26 U.S.C. §§167 and 168...intangible assets which are used in a trade or business or held for the production of income may be amortized in accordance with 26 U.S.C. §197...A deduction is allowable for the amortization of start-up expenditures in accordance with 26 U.S.C. §195, ...a taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to a capital account in accordance with 26 U.S.C. §179. Also, Alabama tax law does not provide grantor trusts with the same loss flow-through treatment (disregarded entity treatment) as is allowed by federal tax law.

**LINE 16.** Enter the deduction for advertising.

**LINE 17.** Enter the deduction for pension, profit sharing plans, etc.

**LINE 18 – Dividends Deduction.** Enter the amount claimed as the dividends received deduction allowed by Section 40-16-1(2)(g), **Code of Alabama 1975**. In order to qualify, these amounts must be either (1) paid by a corporation organized and existing under the laws of the State of Alabama, or (2) dividends in liquidation paid from capital. Please also note, Section 40-16-1(2)(i) and (j) allows savings and loan associations and credit unions a deduction for amounts paid out as dividends on withdrawable shares.

**LINE 19.** Enter the amount of deductions, determined in accordance with

federal Internal Revenue Code Section 162, not previously deducted on lines 7 through 18. Please provide an explanation of the different types and amounts of deductions claimed on line 19.

**LINE 20 – Total Deductions.** Enter the total of the deductions claimed on lines 7 through 19.

**LINE 21 – Net Income or (Loss).** Subtract line 20 (Total Deductions) from line 6 (Total Income).

**LINE 22 – Net Nonbusiness (Income) or Loss.** Enter the net nonbusiness income or (loss) from line 2, Column E, Schedule K on page 2. Net nonbusiness income is entered as a negative amount in computing total apportionable income. Net nonbusiness expense or loss is entered as a positive amount in computing total apportionable income.

**LINE 23 – Apportionable Income.** Enter the sum of line 21 (Net Income or (Loss) and line 22 (Net Nonbusiness (Income) or Loss).

**LINE 24 – Alabama Apportionment Factor.** Enter the percentage from line 26, Schedule L on page 4.

**LINE 25 – Income Apportioned to Alabama.** Enter the result from multiplying line 23 (Apportionable Income) by line 24 (Alabama Apportionment Factor).

**LINE 26 – Net Nonbusiness Income or (Loss) Allocated to this State.** Enter the net nonbusiness income or (loss) from line 2, Column F, Schedule K on page 4. Net nonbusiness income is entered as a positive amount in computing Alabama Taxable Income, and net nonbusiness expense or loss is entered as a negative amount.

**LINE 27 – Alabama Income before Federal Income Tax Deduction.** Enter the sum of line 25 (Income Apportioned to Alabama) and line 26 (Net Nonbusiness Income or (Loss) Allocated to this State).

**LINE 28 – Federal Income Tax Deduction (Refund).** Enter the amount of the federal income tax deduction or (refund) from line 7, Schedule M on page 5.

The federal income tax (FIT) paid can be deducted only to the extent that it is applicable to the financial institution's income earned in the State of Alabama. Any allocation which is necessary shall be determined by applying the ratio of the taxpayer's income in Alabama, before any federal income tax deduction or net operating loss (NOL) deduction, from the financial business to the total company income, before any federal income tax deduction or NOL deduction. In the case of corporations, the FIT deduction shall be apportioned on the same basis as provided by Alabama Department of Revenue Regulation Number 810-3-35-.01, except that such tax must be paid during the taxable year.

**LINE 29 – Alabama Income before Net Operating Loss (NOL).** Enter the amount resulting from subtracting line 28 (Federal Income Tax Deduction (Refund)) from line 27 (Alabama Income before Federal Income Tax Deduction).

**LINE 30 – Alabama NOL Deduction.** Enter the Alabama NOL deduction (not to exceed taxable income). A net operating loss is the excess of allowable deductions over the gross income of a taxpayer during a taxable year. Attach a supporting schedule showing the amount of NOL incurred for each period (by group member if a consolidated return is filed) and the amount of such loss absorbed in each period (by group member if a consolidated return is filed). If a NOL originates during a year that a consolidated Alabama Form ET-1 is filed, the NOL originated must be attributed to the group member or members incurring the loss. Subsequent carry back or carryforward of the net operating loss must still be member-specific. The NOL incurred by one group member must never be used to offset the income of another group member.

A net operating loss for a financial institution will be carried back two years, then forward to the eight succeeding taxable years in chronological order. The law regarding computing and applying net operating loss carrybacks and carry-

overs is similar to federal income tax law concerning net operating losses. Federal rules and decisions will be considered by the Alabama Department of Revenue in these matters.

**LINE 31 – Alabama Taxable Income.** Enter the result of subtracting line 30 (Alabama NOL Deduction) from line 29 (Alabama Income before Net Operating Loss).

**LINE 32 – Financial Institution Excise Tax.** Enter the amount of tax due by multiplying line 31 (Alabama Taxable Income) by the rate of 6-1/2%, as specified in Section 40-16-4, *Code of Alabama 1975*.

**LINE 33 – Less Taxes Used as Credits.** Enter the amount of taxes used as credits against the Financial Institution Excise Tax, and complete Schedule F, **Taxes Used as Credits**, on page 2).

There may be taken as a direct credit against the Alabama Financial Institutions Excise Tax the amounts of taxes (other than the Financial Institution Excise Tax and certain license taxes) levied on the financial institution by the State of Alabama or its political subdivisions. Any tax payment claimed as a direct credit against the Financial Institutions Excise Tax may not be also taken as a deduction on line 12.

**The taxes which may currently be claimed as credits rather than as deductions are:**

1. State, county and city sales and use taxes paid on tangible personal property purchased and paid for by the financial institution for its consumption;
2. State utility taxes paid on telephone, electrical power, gas or water;
3. Rental or leasing taxes paid directly to the State of Alabama for the privilege of leasing tangible personal property to others within the State of Alabama;
4. Increases in the city or county license taxes imposed upon financial institutions between July 10, 1943 and October 1, 1951.

**Credits will not be allowed for any taxes not levied directly on the financial institution. Examples of such indirect taxes are:**

1. State, county or city sales or use taxes on items purchased for resale such as checks, promotional items or equipment;
2. Gross receipts taxes levied on the seller;
3. Rental or leasing taxes paid to others;
4. Federal taxes of any nature; and
5. Taxes paid to contractors or others on equipment attached to real property or in the construction of buildings, etc.

**LINE 34 – Balance of Tax after Credits.** Enter the balance of tax remaining after credits. Subtract line 33 (Less Taxes Used as Credits) from line 32 (Financial Institution Excise Tax).

**LINE 35 – Less Previous Payments.** Enter the amount of any previous payments.

**LINE 36 – Balance of Tax Due with this Return or (Overpayment).** Enter the result of subtracting line 35 (Less Previous Payments) from line 34 (Balance of Tax after Credits). A negative amount represents an overpayment.

**LINE 37 – Interest from April 15 to Date of Payment.** Enter the amount of interest due on the amount entered on line 36 as the balance of tax due. Compute the interest as IRS rates from April 15 of the Excise Tax Year until the date of payment. The Alabama interest rate is the same as provided in IRC Section 6621.

**LINE 38 – Penalty.** Enter the total amount of the penalty for failure to timely file the return and the penalty for failure to timely pay the tax shown due on the return, as specified in Section 40-2A-11, *Code of Alabama 1975*. The penalty for failure to timely file an Alabama Financial Institutions Excise Tax return by the due date is 10% of the tax shown due with the return or \$50, whichever is greater. The penalty for failure to timely pay the amount of tax shown due on an Alabama Form ET-1 equals to 1% of the amount of tax shown due on the return for each month the tax is unpaid – not to exceed 25% of the amount shown due on the return.

**LINE 39 – Total Amount Due.** Enter the sum of line 36 (Balance of Tax Due or (Overpayment)), line 37 (Interest), and line 38 (Penalty).

**LINE 40 – Amount Remitted with this Return.** Enter the amount remitted with this return. If the taxpayer is not required to make the payment using EFT, attach a check made payable to: Alabama Department of Revenue-FIET. Boldly record on the payment the taxpayer's federal identification number, Form ET-1, and the tax year.

**Schedule A – Dividend Income.** For the dividends reported on line 2, page 1, please provide each of the corporations paying the dividends and whether the corporation is organized and existing under Alabama law (a domestic corporation) or is a foreign corporation. Attach additional schedules as needed.

**Schedule B – Gain or (Loss) on Sale of Assets.** Please provide for each sale included in the amount reported on line 4, page 1, the description, sales price, cost, depreciation/amortization, and gain or (loss). Attach additional schedules as needed.

**Schedule C – Compensation of Officers.** Please provide for each officer whose compensation was included in the amount reported on line 7, page 1, the officer name, title, stock ownership, and compensation. Attach additional schedules as needed.

**Schedule D – Bad Debts (Reserve Method).** In the appropriate columns, for the 6 prior years, enter the amounts of accounts receivable at the end of the year, sales on account, amount added to reserve, amount charged against reserve and the reserve for bad debts at the end of the year.

**Schedule E – Taxes Deducted.** Enter the required information for the taxes actually paid during the taxable year. The total amount for Schedule E must agree with the amount entered on line 12, page 1. Attach additional schedules as needed.

**Schedule F – Taxes Used as Credits.** Enter the required information for each category of taxes used as an allowable credit. The total for Schedule F must agree with the amount entered on line 33, page 1. Attach additional schedules as needed. The taxpayer must provide a complete listing of the taxes used as credits, in the format required by the Alabama Department of Revenue, upon receiving a written request from the Department.

**Schedule G – Depreciation.** Provide a summary listing of the depreciable assets. The total for Schedule G must agree with the amount entered on line 15, page 1. The taxpayer must provide a complete listing supporting the depreciation deduction, providing the information required for Schedule G for each depreciable asset, upon receiving a written request for the information from the Alabama Department of Revenue.

**Schedule H – Balance Sheets.** Complete the balance sheet shown on Schedule H, providing the amounts at the beginning of the taxable year and the end of the taxable year for assets, liabilities and stockholders' equity. If the taxpayer is filing a consolidated Alabama Form ET-1, a spreadsheet must be provided showing each group member's share of each item. If the taxpayer is a part of a federal affiliated group filing a consolidated federal corporate income tax return, a spreadsheet must be provided showing each group member's share of each item, as shown on the balance sheet for the federal corporate income tax return.

**Schedule I – Reconciliation of Income Per Books to Income Per Return.** Provide the information required for Schedule H. If the taxpayer is filing a consolidated Alabama Form ET-1, a spreadsheet must be provided showing each group member's share of each item. If the taxpayer is a part of a federal affiliated group filing a consolidated federal corporate income tax return, a spreadsheet must be provided showing each group member's share of each item, as shown on the Schedule M-1 for the federal corporate income tax return.

**Schedule J – Analysis of Unappropriated Retained Earnings Per Books.** Provide the information required for Schedule J. If the taxpayer is fil-

ing a consolidated Alabama Form ET-1, a spreadsheet must be provided showing each group member's share of each item. If the taxpayer is a part of a federal affiliated group filing a consolidated federal corporate income tax return, a spreadsheet must be provided showing each group member's share of each item, as shown on the Schedule M-2 for the federal corporate income tax return.

**Schedule K – Allocation of Nonbusiness Income, Loss, and Expense.** Enter on Schedule K all items of nonbusiness income, nonbusiness loss, and nonbusiness expense. These items are excluded from apportionable income and are allocated either to Alabama or to another state. See Alabama Department of Revenue Regulation Number 810-9-1-.05, **Apportionment and Allocation of Net Income of Financial Institutions**, for a discussion of the classification of income and expense into business and nonbusiness categories and the assignment of nonbusiness items to specific jurisdictions.

Beside the line number in Schedule K, enter the item description.

In Column A enter the total amount of gross income or loss to be excluded from apportionable income.

In Column B enter the amount of gross income or loss allocable to Alabama.

Enter total nonbusiness expense in Column C and any nonbusiness expense allocable to Alabama in Column D. Nonbusiness expense may exceed nonbusiness income and in fact may exist when there is no nonbusiness income.

Subtract Column C from Column A, and enter the remainder in Column E. Subtract Column D from Column B, and enter the remainder in Column F.

Add the amounts in Columns E and F, and enter the totals on line 2. Carry the total of Column E to page 1, line 22. Carry the total of Column F to page 1, line 26.

**Schedule L – Alabama Apportionment Factor.** The financial institution's business activity in Alabama is represented by the Alabama Apportionment Factor, which is computed as the average of: the property factor; the payroll factor; and, the receipts factor. See Alabama Department of Revenue Regulation Number 810-9-1-.05, **Apportionment and Allocation of Net Income of Financial Institutions**, for detailed instructions regarding the items to be included in the numerator and the denominator of each of these factors.

For purposes of the Alabama Financial Institutions Excise Tax, "business income" is income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. For purposes of administering the Alabama Financial Institutions Excise Tax, the income of the taxpayer is business income unless clearly classifiable as nonbusiness income, and non-business income means all income other than business income.

**Property Factor:**

For purposes of computing the property factor, real and tangible personal property mean, respectively, property on which the taxpayer may claim depreciation for federal income tax purposes, or property to which the taxpayer holds legal title and on which no other person may claim depreciation for federal income tax purposes (or could claim depreciation if subject to federal income tax). Real and tangible personal property do not include coin, currency, or property acquired in lieu of or pursuant to a foreclosure.

For purposes of computing the property factor, loans include any extension of credit resulting from direct negotiations between the taxpayer and its customer, or the purchase, in whole or in part, of such extension of credit from another or both. Loans include participation, syndications, and leases treated as loans for federal income tax purposes. Loans are valued at their outstanding principal balance, without regard to any reserve for bad debts. Credit card

receivables are valued at their outstanding principal balance, without regard to any reserve for bad debts.

In the appropriate rows and columns, enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business income, in Alabama at the beginning of the taxable year, in Alabama at the end of the taxable year, in total for the taxpayer at the beginning of the taxable year, and in total for the taxpayer at the end of the taxable year, for:

- Loan and credit card receivables,
- Premises and fixed assets,
- Other real estate owned, and
- Other real and tangible personal property.

**LINE 5 – Totals.** Enter in each column the totals of lines 1 through 4.

**LINE 6 – Average Value.** Enter in the appropriate column the average value of property in Alabama and Everywhere. Compute the average by totaling the beginning amounts and ending amounts, for the Alabama columns and the Everywhere columns, and then dividing each by 2.

**LINE 7 – Annual Rental Expense.** In the Alabama and Everywhere 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. Annualize for short-period returns. For both the Alabama column and the Everywhere column, multiply the annual rental expense by 8, and enter the result in the appropriate Alabama End of Year column or Everywhere End of Year column. The amounts entered in the End of Year columns represent the capitalized rental value.

**LINE 8a – Total Average Property for Alabama.** Add the amounts on lines 6 and 7 in the Alabama End of Year column.

**LINE 8b – Total Average Property Everywhere.** Add the amounts on lines 6 and 7 in the Everywhere End of Year column.

**LINE 9 – Alabama Property Factor.** Divide the amount on line 8a (Total Average Property for Alabama) by the amount on line 8b (Total Average Property Everywhere), and enter the percentage on line 9.

**Payroll Factor:**

In computing the payroll factor include wages, salaries, commissions and any other form of remuneration paid to employees (including officers of corporations) for personal services that are included in such employee's gross income under the federal Internal Revenue Code. In the case of employees not subject to the federal Internal Revenue Code (e.g., those employed in foreign countries), the determination of whether such payments would constitute gross income to such employees under the federal Internal Revenue Code shall be made as though such employees were subject to the federal Internal Revenue Code.

**LINE 10a.** Enter in the Alabama column, the amount of wages, salaries and other compensation paid to employees for the production of business income in Alabama.

**LINE 10b.** Enter in the Everywhere column, the total amount of wages, salaries, and other compensation the taxpayer paid to employees for the production of business income.

**LINE 10c – Alabama Payroll Factor.** Divide the amount on line 10a by the amount in line 10b and enter the percentage on line 10c.

**Receipts Factor:**

**LINE 11.** Enter in the appropriate columns the receipts from lease or rental of real property.

**LINE 12.** Enter in the appropriate columns the receipts from lease or rental of tangible personal property.

**LINE 13.** Enter in the appropriate columns the amounts of interest from loans secured by real property.

**LINE 14.** Enter in the appropriate columns the amounts of interest from loans not secured by real property.

**LINE 15.** Enter in the appropriate columns the net gains from the sale of

loans.

**LINE 16.** Enter in the appropriate columns the amounts of interest from credit card receivables and fees charged to card holders.

**LINE 17.** Enter in the appropriate columns the net gains from the sale of credit card receivables.

**LINE 18.** Enter in the appropriate columns the amounts of credit card issuer's reimbursement fees.

**LINE 19.** Enter in the appropriate columns receipts from merchant discount.

**LINE 20.** Enter in the appropriate columns the amounts of loan servicing fees from loans secured by real property.

**LINE 21.** Enter in the appropriate columns the amounts of loan servicing fees from loans not secured by real property.

**LINE 22.** Enter in the appropriate columns the amounts of interest, dividends, net gains, and other income from investment and trading assets and activities.

**LINE 23.** Enter in the appropriate columns the receipts of sales of tangible personal property.

**LINE 24.** Enter in the appropriate columns the amounts of other business receipts, identify the nature and amounts of the different types of receipts, and provide how the receipts are reported on the federal income tax return.

**LINE 25a – Total Alabama Receipts.** Total the amounts entered in the Alabama column for lines 11 through 24.

**LINE 25b – Total Receipts Everywhere.** Total the amounts entered in the Everywhere column for lines 11 through 24.

**LINE 25c – Alabama Receipts Factor.** Divide the amount on line 25a (Total Alabama Receipts) by the amount on line 25b (Total Receipts Everywhere), and enter the percentage on line 25c.

**LINE 26 – Alabama Apportionment Factor.** Divide by 3 the sum of percentages on line 9 (Alabama Property Factor), line 10c (Alabama Payroll Factor), and line 25c (Alabama Receipts Factor). Enter the resulting percentage here and on line 24, page 1.

City and County Distribution Information Required by Section 40-16-6. Located on the bottom of page 4 is an area for providing the information required by Section 40-16-6, **Code of Alabama 1975**, which states: "...any financial institution which conducts its business in more than one municipality or in more than one county in this state shall, ...report in detail the percentage of its total business in the state conducted in each municipality and in each such county..." The proceeds from the Financial Institution Excise Tax collections are then distributed to those localities based on the city and county distribution information provided by the taxpayers. Please attach additional schedules as needed.

**Schedule M – Federal Income Tax.** Schedule M is used to compute the amount of the financial institution's federal income tax deduction allowable for (apportioned to) Alabama and to offset that deduction with the amount of any refund received in the taxable year.

If the taxpayer is a member of a federal affiliated group which files a consolidated federal corporate income tax return, check the appropriate block to indicate the election made under IRC §1552. Attach a copy of the workpaper showing the computations made in allocating the consolidated tax liability to the separate members in the affiliated group.

**LINE 1 – Federal Income Tax Deduction to be Apportioned.** Taxpayers filing separate federal returns should enter on line 1 the amount of payment forwarded to the Internal Revenue Service (or share of the payment forwarded to the Internal Revenue Service if included in a consolidated return).

**LINE 2 – Alabama Income.** Enter the amount from line 27, page 1 (Alabama Income before Federal Income Tax Deduction).

**LINE 3 – Adjusted Total Income.** Enter the amount from line 21, page 1 (Net Income or Loss).

**LINE 4 – Federal Income Tax Apportionment Factor.** If the amounts on lines 2 and 3 are greater than zero, divide the amount on line 2 (Alabama Income) by the amount on line 3 (Adjusted Total Income), and enter the percentage on line 4. If the amount on line 2 (Alabama Income) or line 3 (Adjusted Total Income) are zero or less than zero, enter zero on line 4.

**LINE 5 – Federal Income Tax Deduction Apportioned to Alabama.** Multiply the amount on line 1 (Federal Income Tax Deduction to be Apportioned) by the percentage on line 4 (Federal Income Tax Apportionment Factor) and enter the result on line 5.

**LINE 6 – Refund of Federal Income Tax Deducted in Prior Year.** Enter the amount of any federal income tax refund received, if a tax benefit was received when it was originally deducted. If a financial institution takes a deduction for federal income tax on its Alabama return and in a subsequent taxable year all or a portion of the tax previously claimed as a deduction is refunded by the Internal Revenue Service, the taxpayer is required to recognize the refund on its Alabama return to the extent of the benefit received in the prior year.

**LINE 7 – Net Federal Income Tax Deduction or Refund.** Subtract line 6 (Refund of Federal Income Tax Deducted in Prior Year) from line 5 (Federal Income Tax Deduction Apportioned to Alabama). If line 5 is larger than line 6, enter the net federal income tax deduction on line 7 and enter the same amount on line 28, page 1. If line 6 is larger than line 5, enter the net federal income tax refund on line 7 and enter the same amount, as a negative number, on line 28, page 1.

**ELECTRONIC FUNDS TRANSFER.** Section 41-1-20 requires the use of Electronic Funds Transfer (EFT) for all single tax payments of \$25,000 or more. Taxpayers must register to use EFT and substantial penalties can be assessed for noncompliance. Call the Alabama Department of Revenue EFT

Hotline at (334) 242-0192 (option #7) or 1-800-322-4106 for further information.

**SIGNATURE.** The Alabama Form ET-1 must be signed by an authorized officer of the corporation. Enter the date signed and the title of the person whose signature is affixed.

**PAID PREPARER AUTHORIZATION.** Above the return signature area is a check box which can be used to authorize the Alabama Department of Revenue to discuss the Alabama Form ET-1 and its attachments with the paid preparer – who is identified in the Paid Preparer's Use Only section of the return. Checking the box can facilitate the process of resolving a problem when information on the return is missing or incomplete.

**PAID PREPARER INFORMATION.** Anyone who is paid to prepare the Alabama Form ET-1 must sign and provide the information requested in the Paid Preparer's Use Only section of the Form ET-1. The signature can be made in hand, by rubber stamp, by mechanical device, or a computer software program. Paid preparers must provide the taxpayer with a copy of the prepared return.

**Mail Return and Payment to:**

Alabama Department of Revenue  
FIET Returns  
P. O. Box 327439  
Montgomery, AL 36132-7439

Any questions concerning the preparation of the Alabama Form ET-1 should be directed to the Consolidated Business Tax Compliance Unit at (334) 353-9448.

Alabama Financial Institutions Excise Tax law, regulations, forms and instructions are available on the Alabama Department of Revenue's Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).