

Instructions For Preparation of Alabama
Partnership/Limited Liability Company
Return of Income

2011

A Copy of the Federal Form 1065 must be attached to this return.

**Issues Concerning the Preparation
of the 2011 Alabama Partnership Return**

Qualified Investment Partnerships. The Alabama Legislature passed the Entertainment Industry Incentive Act of 2009 during the regular 2009 legislative session. The law, Act Number 2009-144, created an entity referred to as a Qualified Investment Partnership (QIP). The law creates §40-18-24.2, *Code of Alabama 1975*, which generally defines a QIP as a partnership or other entity classified as a subchapter K entity, or a business trust as defined in §40-18-1, *Code of Alabama 1975*, that for a tax period meets the gross income and asset requirements for a QIP as required by §40-18-24.2; and, for which an authorized officer, partner, member or manager of the entity has certified for the tax period that the entity meets the gross income and asset requirements. Proper certification of a QIP requires the completion of Alabama Schedule QIP-C, Qualified Investment Partnership Certification, which must be filed by the due date of the Alabama partnership income tax return for the entity. The requirements concerning the Alabama QIP are similar to the qualified investment partnership provisions in other states, but are not necessarily the same. Instructions for the preparation of Alabama Schedule QIP-C are available on the Department's website, www.revenue.alabama.gov, along with additional information concerning the Alabama QIP. Alabama Form 65 and Schedule K-1 for Alabama Form 65 have been revised to accommodate the QIP income tax return requirements. An Alabama partnership return filed by a QIP must be indicated by completing the QIP indicator on page one of the Form 65 and on each K-1 accompanying the return. Proposed regulations are on the website.

Composite Payment and Return Requirements for Partnerships. The Entertainment Industry Incentive Act of 2009, Alabama Act Number 2009-144, also created composite payment and return requirements for partnerships. Under the law, a partnership, or other entity classified as a Subchapter K entity, is required to file a composite return and make composite payments on behalf of its nonresident owners or members if there are one or more nonresident owners or members at any time during the taxable year. The law generally exempts Alabama QIPs from the composite payment and return requirement. The instructions for TY 2010 Alabama Form PTE-C, Nonresident Composite Payment Return are available on the Department's website, along with additional information concerning the composite payment and return requirements for partnerships.

Reemployment Act of 2010. The Reemployment Act of 2010, Act Number 2010-557, provides an income tax deduction to employers who hire individuals collecting unemployment or whose unemployment benefits have expired. Employers will receive an income tax deduction up to 50 percent of the gross wages paid to each individual hired from these categories who remains with the employer for 12 consecutive months. The deduction is limited, depending on the wage rates paid to employees and is effective for tax years 2011 and 2012 for employees hired during 2010 and 2011, respectively. This deduction should be reported on Schedule K, Line 15. Regulations to implement the new law are being drafted. For additional information, visit our website at www.revenue.alabama.gov.

Qualifying Employers Deduction for Employee Health Insurance. Act Number 2011-155 modified code Section 40-18-15.3. The modification allows qualifying employers to deduct 100% of the amount they pay as health insurance premiums as part of a qualified employer provided health insurance plan.

Qualifying employers have less than 25 employees. Qualifying employees must meet all three criteria:

1. Alabama residents,

2. Earn no more than \$50,000 of wages, and
3. Report no more than \$75,000 in Alabama Adjusted Gross Income (\$150,000 if married filing jointly).

Because this deduction is not allowed in other states nor on the federal return, it is reported only on Schedule K, line 10 of Form 65 for Alabama purposes.

Decoupling from the Federal Depreciation and Section 179 Expense Deduction Rules. Because the Alabama Legislature decoupled only for the 2008 tax year, only property purchased in 2008 tax year is affected. Depreciation and gain/loss on sale of property purchased in 2008 and not fully depreciated will differ for Alabama and Federal purposes. A schedule of the difference should be attached to the return and the difference reported on Schedule A, line 7.

General Instructions

REQUIRED ATTACHMENTS. To be considered a complete return and not subject to treatment as a delinquent return due to improper preparation the following must be attached:

1. A complete copy of federal Form 1065 including all federal K-1s, statements, and attachments. Voluminous schedules may be omitted; however, a list of all omitted schedules must be attached and provided if requested.
2. Completed Alabama Schedule K-1 for each person or tax entity that was a partner/owner at any time during the taxable year.

INTERNET AVAILABILITY OF LAWS, REGULATIONS, AND FORMS. The Alabama Department of Revenue's website (www.revenue.alabama.gov) has additional information concerning Alabama income tax laws and regulations which apply to partnerships and limited liability companies. Current and prior year forms and instructions, as well as frequently asked questions are also available on the website.

Alabama income tax computation and reporting requirements for partnerships and limited liability companies are based on the federal requirements. See Section 40-18-24, *Code of Alabama 1975*, which states: "...(a) The amount of income, deduction, gain, loss, or credit includable or deductible by an owner of an interest in a subchapter K entity shall be determined in accordance with subchapter K of the Internal Revenue Code, 26 U.S.C., sections 701-761..."

LIABILITY FOR FILING RETURNS. The annual return filing requirement for partnerships and limited liability companies doing business in Alabama is established by Section 40-18-28, *Code of Alabama 1975*.

MULTISTATE SUBCHAPTER K ENTITIES. The Alabama legislature passed HB 434 during the regular 2011 legislative session. With the new law, for tax years beginning on or after December 31, 2010, the Alabama apportionment formula consists of a property factor, payroll factor, and twice the sales factor. HB 434 also changed the sourcing of gross receipts from the sale of intangible assets from cost of performance to market sourcing if the taxpayer's market for the sale is in Alabama. Regulation numbers are pending.

WHO MUST SIGN. Form 65 is not considered a complete return unless it is signed by a general partner or limited liability company member manager of the entity. Where a return is made for a partnership by a receiver, trustee or assignee, the fiduciary must sign the return.

PAID PREPARER AUTHORIZATION. The check box provided above the signature line on page 1 is used to authorize the Department to discuss the Form 65 with the paid preparer. Checking this box can facilitate the process of resolving a problem with the return.

PAID PREPARER INFORMATION. Paid preparers must sign and provide the information requested in the Paid Preparer's section of the form. The signature can be made by hand, by rubber stamp, by mechanical device, or a computer program. The preparer must provide the entity with a copy of the prepared return.

TIME AND PLACE FOR FILING. Returns made on the basis of calendar year shall be filed on or before the 15th day of April following the close of the calendar year. Returns made on the basis of fiscal year shall be filed on or before the 15th day of the fourth month following the close of the fiscal year. If the 15th falls on Saturday or Sunday, the following Monday shall be the last day for filing this return.

EXTENSIONS. A five month extension of time for filing Form 65 is granted automatically.

Mail the completed Alabama Form 65 to:
Alabama Department of Revenue
Individual and Corporate Tax Division
Pass Through Entity Unit
P. O. Box 327441
Montgomery, AL 36132-7441

CAUTION: Do not attach the Form PTE-C, the Form PTE-C payment, or any other completed tax form to the Form 65.

Specific Instructions

SCHEDULE A – Computation of Separately Stated and Nonseparately Stated Income

Line 1. Enter the ordinary business income (loss) from page 1 of the federal Form 1065, U.S. Return of Partnership Income. Attach a copy of the complete federal Form 1065.

Reconciliation to Alabama Basis – Lines 2 through 10

Line 2. Enter the net amount of short-term and long-term capital gains (losses).

Line 3. Enter as a negative amount the amount that salaries and wages were reduced on the federal return as a result of taking any of the different federal employment credits claimed on the federal return.

Line 4. Enter the net amount of income or (loss) from rental real estate activities.

Line 5. Enter the net amount of income or (loss) from other rental activities.

Line 6. Enter the net amount of Internal Revenue Code Section 1231 gain or (loss), but do not include any amount for casualty losses.

Line 7. Enter net adjustments due to the federal Economic Stimulus Act. Schedule of adjustments must be attached to receive deductions.

Line 8. Enter the total amount of other items required to reconcile the federal ordinary business income (loss) to income on an Alabama basis.

Line 9. Net Reconciling Items. Enter the sum of lines 2 through 8.

Line 10. Net Alabama Nonseparately Stated Income or (Loss). Enter the sum of line 1 and line 9. This amount is carried to line 1, Schedule D, Apportionment and Allocation of Income to Alabama.

Separately Stated Items (Related to Business Income)

Line 11. Contributions. Enter as a negative amount the amount of contributions. Enter the same amount on line 2, Schedule K, in the Federal Amount column.

Line 12. Oil and Gas Depletion. Enter as a negative amount the amount of oil and gas depletion. Enter the same amount on line 3, Schedule K, in the Federal Amount column. The amount of oil and gas depletion claimed must be computed in accordance with Section 40-18-16(b).

Line 13. IRC §179 Expense Deduction. Act Number 2008-549, passed by the Alabama Legislature during the first 2008 Special Session, decoupled Alabama income tax laws from the bonus depreciation and additional Section 179 provisions of the federal Economic Stimulus Act of 2008. The Alabama Section 179 expense deduction to be entered on line 13 is computed on lines 4a, 4b, and 4c on Schedule K. Enter on line 13, as a negative amount, the

amount entered in Schedule K, line 4c (Amount to be Apportioned), under the Federal Amount Column.

Line 14. Casualty Losses. Enter as a negative amount the amount of casualty losses. Enter the same amount on line 5, Schedule K, in the Federal Amount column.

Line 15. Portfolio Income or (Loss) Less Expenses. Enter the net amount of income or (loss) resulting from reducing portfolio income by interest expense and other related expenses. Complete Schedule K by entering the gross amount of portfolio income on line 6 (in the Federal Amount column); the interest expense related to the portfolio income on line 7 (in the Federal Amount column); and, the remaining expenses related to the portfolio income on line 8 (in the Federal Amount column). Please provide an explanation of the nature and amounts for the total amount entered on Schedule K, line 8.

Line 16. Other Separately Stated Items. Enter the net amount of other separately stated business items. Attach a statement providing the type and amount of each different separately stated item. Also enter the amount from line 16 on line 9, Schedule K, in the Federal Amount column.

Do not report Small Business Health Insurance Premiums.

Line 17. Net Separately Stated Items. Enter the sum of line 11 through line 16.

Line 18. Total Separately Stated and Nonseparately Stated Items. Enter the sum of line 10 and line 17.

Line 19. Enter the Alabama apportionment factor from Schedule D, line 4. The factor must be entered as percentage, with four decimal places.

Line 20. Nonseparately Stated Income Allocated and Apportioned to Alabama. Enter the amount from Schedule D, line 7. See also the instructions for Schedule K, line 1 (Alabama Amount column).

SCHEDULE B – Allocation of Nonbusiness Income, Loss, and Expense

The purpose of Schedule B is to report nonbusiness income, nonbusiness losses, and nonbusiness expenses, as defined by Section 40-27-1, *Code of Alabama 1975*. Nonbusiness items can be both nonseparately stated items and separately stated items. Nonbusiness items are not subject to the multi-state apportionment requirements of Chapter 27, Title 40, *Code of Alabama 1975*, but are allocated directly to Alabama or another state, in accordance with the Multistate Tax Compact (Chapter 27, Title 40, *Code of Alabama 1975*).

Do not complete Schedule B if the entity operates exclusively in Alabama.

Enter under the Nonseparately Stated Items heading on line 1a, line 1b, and line 1c a description of the nonseparately stated item.

For each nonseparately stated item entered on line 1a, line 1b and line 1c:

1. Enter on Column A the total gross income (from all states – everywhere) from the item.
2. Enter on Column B only the Alabama gross income from the item.
3. Enter on Column C the expenses related to the gross income (everywhere) entered in Column A.
4. Enter on Column D only the expenses related to the Alabama gross income entered in Column B.
5. Enter on Column E the amount resulting from subtracting the expense amount in Column C from the gross income (everywhere) amount in Column A.
6. Enter on Column F the amount resulting from subtracting the Alabama expense amount in Column D from the Alabama gross income amount in Column B.

Enter on Column E, line 1d, the sum of the amounts entered in Column E on line 1a, line 1b, and line 1c. The amount entered in Column E, line 1d is the net amount of nonseparately stated nonbusiness income items for all states (everywhere). The amount entered in Column E, line 1d is also entered in Schedule D, line 2. Please note that when an amount is entered in Schedule D, line 2, income is entered as a negative amount and losses are entered as a positive amount.

Enter on Column F, line 1d, the sum of the amounts entered in Column F on line 1a, line 1b, and line 1c. The amount entered in Column F, line 1d is the net amount of nonseparately stated nonbusiness income items to be allocated only to Alabama. The amount entered in Column F, line 1d is also entered in Schedule D, line 6.

Enter under the Separately Stated Items heading on line 1e, line 1f, and line 1g a description of the separately stated item.

For each separately stated item entered on line 1e, line 1f and line 1g:

1. Enter on Column A the total gross income (from all states – everywhere) from the item.
2. Enter on Column B only the Alabama gross income from the item.
3. Enter on Column C the expenses related to the gross income (everywhere) entered in Column A.
4. Enter on Column D only the expenses related to the Alabama gross income entered in Column B.
5. Enter on Column E the amount resulting from subtracting the expense amount in Column C from the gross income (everywhere) amount in Column A.
6. Enter on Column F the amount resulting from subtracting the Alabama expense amount in Column D from the Alabama gross income amount in Column B.

Enter on Column E, line 1h, the sum of the amounts entered in Column E on line 1e, line 1f, and line 1g. The amount entered in Column E, line 1h is the net amount of separately stated nonbusiness income items for all states (everywhere). The amount entered in Column E, line 1h is also entered in Schedule K, line 11 (Federal Amount column).

Enter on Column F, line 1h, the sum of the amounts entered in Column F on line 1e, line 1f, and line 1g. The amount entered in Column F, line 1h is the net amount of separately stated nonbusiness income items to be allocated only to Alabama. The amount entered in Column F, line 1h is also entered in Schedule K, line 11 (Alabama Amount).

SCHEDULE C — Apportionment Factor Schedule

Do not complete Schedule C if the entity operates exclusively in Alabama. Enter 100% on Schedule C, line 27.

The Alabama business activity of a partnership or limited liability company is represented by its Alabama apportionment factor. With the exception of those special cases referred to in Alabama Department of Revenue Regulation 810-27-1-4-.18, the Alabama apportionment factor generally consists of the average of: the Alabama property factor; the Alabama payroll factor; and, the Alabama sales factor at double weight.

If any factor is not utilized in the production of business income it shall be eliminated and the denominator reduced accordingly.

Alabama Department Revenue Regulation 810-27-1-14-.09 generally explains the Alabama apportionment factor. Regulations 810-27-1-14-.10 through .12 generally explain the Alabama property factor. Regulations 810-27-1-14-.13 and .14 generally explain the Alabama payroll factor, and Regulations 810-27-1-4-.15 through .17 generally explain the Alabama sales (gross receipts) factor.

The use of separate or direct accounting must be approved in writing by the Department.

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. List any other real or tangible personal property used in production of business income. If more than two items, attach a schedule and enter the totals on line 8.

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 value of property in Alabama and Everywhere. See Reg. 810-27-1-4-.12 for rules regarding computations other than beginning and end of year values.

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 Alabama and Everywhere. 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 amounts on lines 11 and 12 in the End of Year column for Alabama.

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

Line 14. Divide the amount on line 13a by the amount on line 13b. Compute the percentage to four decimal places, for example, 12.3456%, and enter the percentage on line 14. The percentage entered on line 14 is the ALABAMA PROPERTY FACTOR.

PAYROLL FACTOR

Line 15a. Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama. NOTE: Only amounts paid directly to employees are included in the payroll factor computations for line 15a and line 15b.

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

Line 15c. Divide the amount on line 15a by the amount on line 15b, and enter the number on line 15c, as a four decimal place percentage. The percentage entered on line 15c is the ALABAMA PAYROLL FACTOR.

SALES FACTOR

Amounts entered in this schedule cannot be negative.

Line 16. Enter gross receipts from Alabama destination sales except sales to the U.S. government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations both within and without Alabama (See Alabama Department of Revenue regulation number 810-27-1-4-.16.).

Line 17. Enter the amount of sales shipped from an Alabama origin to any state or foreign country where this company is not taxable. Also enter total sales to the U.S. government shipped from Alabama (See Alabama Department of Revenue regulation number 810-27-1-4-.16.).

Line 18. In the Alabama column enter the total of lines 16 and 17. In the Everywhere column enter total sales for everywhere. If this amount does not correspond with line 1 of federal Form 1065, attach an explanation and reconciliation.

Line 19. Enter in the appropriate columns gross business income from dividends.

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 gross business income from royalties.

Line 23. Enter in the appropriate columns the gross receipts from the sale or disposition of assets used in the business. See Alabama Department of Revenue regulation number 810-27-1-4-.15 for exclusion of amounts which would distort the factor.

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

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

Line 25b. Total the Everywhere columns for lines 18 through 24.

Line 25c. Divide the amount on line 25a by the amount on line 25b, and enter the number on line 25c, as a four decimal place percentage. The percentage entered on line 25c is the ALABAMA GROSS RECEIPTS FACTOR.

Line 26. Enter amount from line 25c.

Line 27. Add lines 14, 15c, 25c and 26. Divide by 4 (except as noted below). Enter here and on line 4, Schedule D.

Note: If any factor is not utilized in the production of income (there is a zero amount in **both** Alabama and Everywhere columns), it shall be eliminated and the denominator reduced accordingly. If the entity only has a sales factor then divide by 2.

SCHEDULE D – Apportionment and Allocation of Income to Alabama

Line 1. Enter the Net Alabama Nonseparately Stated Income or (Loss) from Schedule A, line 10.

Line 2. Enter the amount of Nonseparately Stated (Income) or Loss Treated as Nonbusiness Income from Schedule B, Column E, line 1d. Enter a loss amount as a positive amount and an income amount as a negative amount.

Line 3. Enter the sum of the amounts entered in line 1 and line 2.

Line 4. Enter the apportionment factor from Schedule C, line 27.

Line 5. Income or (Loss) Apportioned to Alabama. Multiply the amount in line 3 by the percentage in line 4.

Line 6. Nonseparately Stated Income or (Loss) Allocated to Alabama as Nonbusiness Income. Enter the amount from Schedule B, Column F, line 1d.

Line 7. Nonseparately Stated Income Allocated and Apportioned to Alabama. Enter the sum of the amounts entered in line 5 and line 6. The amount in line 7 should also be entered in Schedule A, line 20 and in Schedule K, line 1 (Apportioned Amount column).

SCHEDULE E — Additional Information Required

All partnerships and limited liability companies must provide the information required for Schedule E, lines 1 through 9.

SCHEDULE K – Distributive Share Items

Line 1. Alabama Nonseparately Stated Income. Enter on the Apportioned Amount column the Nonseparately Stated Income or (Loss) Allocated and Apportioned to Alabama from Schedule D, line 7.

Line 2. Contributions. Enter in the Federal Amount column (as a positive amount) the contributions entered on Schedule A, line 11. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of contributions entered in the Federal Amount column.

Line 3. Oil and Gas Depletion. Enter in the Federal Amount column (as a positive amount) the oil and gas depletion entered on Schedule A, line 12. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of oil and gas depletion entered in the Federal Amount column.

Line 4. IRC §179 Expense Deduction. Act Number 2008-549, passed by the Alabama Legislature during the first 2008 Special Session, decoupled Alabama income tax laws from the bonus depreciation and additional Section 179 provisions of the federal Economic Stimulus Act of 2008. Alabama income tax laws will continue to be tied to the federal depreciation rules without consideration of the changes implemented by the Economic Stimulus Act of 2008. For

purposes of these instructions, Alabama-allowed depreciation means depreciation computed in accordance with the federal depreciation rules without consideration of the changes made to Section 168 by the federal Economic Stimulus Act of 2008. The amount of §179 expense deduction for Alabama income tax purposes is computed on Schedule K, lines 4a through 4c.

Line 4a. Amount Allowed on federal Form 1065. Enter on line 4a, in the Federal Amount Column, the total amount of §179 expense deduction claimed on the federal return. Nothing should be entered in the Apportionment Factor Column or the Apportioned Amount Column for line 4a.

Line 4b. Adjustments Required. Enter on line 4b, the net amount of the following two items:

1. Enter as a negative amount, the federal Section 179 carryover amount resulting from Alabama's decoupling from the provisions of the 2008 federal Economic Stimulus Act.

2. Enter as a positive amount, the amount of Alabama Section 179 expense deduction carryover from TY 2008.

Attach the computations to the return.

Line 4c. Amount to be Apportioned. Enter as a positive amount on line 4c, in the Federal Amount Column, the difference between the amounts entered on line 4a and 4b in the Federal Amount Column. Nothing should be entered in the Apportionment Factor Column or the Apportioned Amount Column for line 4a or line 4b. Enter in the Apportionment Factor Column for line 4c the Alabama Apportionment Factor from Schedule C, line 27. Enter in the Apportioned Amount column for line 4c the amount that results from multiplying the apportionment factor by the amount entered in the Federal Amount Column for line 4c.

Line 5. Casualty Losses. Enter in the Federal Amount column (as a positive amount) the casualty losses entered on Schedule A, line 14. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of casualty losses entered in the Federal Amount column.

Line 6. Portfolio Income. Enter in the Federal Amount column the gross amount of portfolio income related to the net amount entered on Schedule A, line 15. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of portfolio income entered in the Federal Amount column.

Line 7. Interest Expense Related to Portfolio Income. Enter in the Federal Amount column the interest expense related to the portfolio income entered on line 6. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of interest expense entered in the Federal Amount column.

Line 8. Other Expenses Related to Portfolio Income. Enter in the Federal Amount column the expenses (other than interest expense) related to the portfolio income entered on line 6 – attach a statement identifying the nature and amounts of the other expenses. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of other expenses entered in the Federal Amount column.

Line 9. Other Separately Stated Business Items. Enter in the Federal Amount column the amount entered on Schedule A, line 16. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of other separately stated business items entered in the Federal Amount column.

Small business health insurance premiums should not be reported here but on line 10.

Line 10. Small Business Health Insurance Premiums. Enter nothing in the Federal Amount column. Enter nothing in the Apportionment Factor column. Enter in the Apportioned Amount column 100% of the health insurance premiums paid during the taxable year that qualify, under Act Number 2011-

155, as health insurance premiums on qualifying employees in connection with an employer-provided health insurance plan. Attach a computation of the amount entered on Line 10 as an attachment to the return.

Line 11. Separately Stated Nonbusiness Items. Enter in the Federal Amount column the amount entered on Schedule B, Column E, line 1h. Enter nothing in the Apportionment Factor column. Enter in the Apportioned Amount column the amount entered on Schedule B, Column F, line 1h. Attach a statement identifying the nature and amounts of the separately stated nonbusiness items.

Line 12. Composite Payment Made on Behalf of Owner. Enter nothing in the Federal Amount column and the Apportionment Factor column. Enter in the Apportioned Amount column the amount of total composite payments made on behalf of the owners.

Line 13. U.S. Taxes Paid. Enter the amount of U.S. income taxes paid, if any, in the Federal Amount column. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of U.S. income taxes paid entered in the Federal Amount column.

Line 14. Alabama Exempt Income. Enter the total amount of Alabama exempt income in the Federal Amount column. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of Alabama exempt income entered in the Federal Amount column.

Line 15. Reemployment Act of 2010 deduction. Enter nothing in the Federal amount column. Enter nothing in the apportionment factor column. Enter in the Apportioned Amount column the amount of qualified wages as allowed by Act Number 2010-557. Attach a computation of the amount entered on line 15 as an attachment to the return.

Line 16. Property Distributions to Owners. Enter in the Federal Amount column and the Apportioned Amount column the amount of property distributed to owners. Enter 100% in the Apportionment Factor column.

Line 17. Guaranteed Payments to Partners. Enter in the Federal Amount column the total amount of guaranteed payments to partners from the Federal Form 1065, Schedule K. Enter in the Apportionment Factor column the apportionment factor from Schedule C, line 27. Enter in the Apportioned Amount column the amount that results from multiplying the apportionment factor by the amount of guaranteed payments to partners entered in the Federal Amount column.

Form 65, Page 4. Required Entity Information. Please provide the requested information concerning the entity filing the Alabama partnership income tax return.

ALABAMA SCHEDULE K-1 – Owner’s Share of Alabama Income, Deductions, Credits, etc.

Please note: The term “gross income,” in the case of a resident individual, includes income from sources within and outside Alabama, and in the case of a nonresident individual, includes only income from property owned or business transacted in Alabama. The Alabama K-1 has two columns in some boxes of Part III. The first column of Part III is income allocated and apportioned to Alabama. This column should be completed for both residents and nonresident partners. The second column of Part III should be completed for resident partners only. This column should include the resident partner’s share of income (loss) from all sources, including income (loss) earned from other states.

To be considered a complete return, the Alabama Form 65 must be accompanied by a properly completed Alabama Schedule K-1 for each person or tax entity that was a partner/owner of the partnership/limited liability company at any time during the taxable year. Visit the Alabama Department of Revenue’s website (www.revenue.alabama.gov) to obtain a copy of the Alabama Schedule K-1 and the form preparation instructions for the Alabama Schedule K-1. **COMPLETED ALABAMA SCHEDULE K-1 THAT CONTAINS ALL INFORMATION REQUESTED FOR EACH OWNER MUST BE ATTACHED TO FORM 65.**

PASS THROUGH CREDITS

Capital Credit – Sections 40-18-190 through 40-18-203 provide for a tax credit against Alabama income tax with respect to income generated by or arising out of a qualifying project. A statement of intent to invest in a qualifying project must be filed prior to the qualifying project being placed in service and an accounting practices agreement for the qualifying project must be executed prior to utilizing the credit.

The partnership/limited liability company is required to complete and attach Form AR with the Form 65 return in order for the partners/members to be eligible to receive the capital credit on their respective income tax returns. Form AR must include a list of all recipients and their distributive share of the qualifying project. All partners/members of the investing company that are eligible for the capital credit must complete and attach Form K-RCC to their respective income tax returns to take the capital credit.

For further information regarding the capital credit and the necessary forms to claim the capital credit, visit the Alabama Department of Revenue’s website at www.revenue.alabama.gov under the Tax Incentives page, or contact the Department at P.O. Box 327001, Montgomery, AL 36132-7001 or 334-242-1175.

Alabama Enterprise Zone Credit – (See §41-23-24): a tax credit is available to qualifying businesses which locate or expand within the designated enterprise zones. Business entities must apply for and be approved by the Alabama Department of Economic and Community Affairs (ADECA) to participate in the Enterprise Zone Program. Further, business entities must be certified, by ADECA, on an annual basis, to be eligible to claim the Alabama Enterprise Zone Credit. For additional information on the Alabama Enterprise Zone Credit, contact ADECA at the Technical Assistance Section, 401 Adams Avenue, P.O. Box 5690, Montgomery, AL 36103-5690, or call the office at (334) 242-5370. Questions pertaining to the application of the tax credit should be addressed to the Alabama Department of Revenue, P.O. Box 327001, Montgomery, AL 36132-7001, or call the office at (334) 242-1175.

Domestic Production Activities Deduction

Internal Revenue Code Section 199

Added by the American Jobs Creation Act of 2004 (P.L. 108-357), Internal Revenue Code Section 199 allows taxpayers the Domestic Production Activities Deduction – which is a deduction for income attributable to domestic production activities. The deduction is effective for tax years beginning in 2005 and thereafter. According to federal income tax law, a taxpayer engaged in a qualified production activity (QPA) may claim a deduction against gross income equal to the applicable percentage of its qualified production activities income, with certain limitations.

Alabama Income Tax Treatment (Issued: January 1, 2006)

Individuals:

Individual taxpayers subject to the Alabama individual income tax law are not allowed to claim the Domestic Production Activities Deduction in computing the taxpayer’s Alabama taxable income. The deduction is not allowed to individual taxpayers even if the individual taxpayer is an owner or shareholder of a pass-through entity which has gross receipts derived from qualifying production activities (QPA). Unlike Alabama’s corporate income tax, Alabama’s individual income tax is not directly tied to federal taxable income. A statutory change to Alabama’s individual income tax law would be required to conform to the federal deduction.

Pass-through Entities:

Alabama pass-through entities (S corporations, subchapter K entities, and trusts) do not take the Domestic Production Activities Deduction, but rather report (as a separately stated item) the information required for computing the Domestic Production Activities Deduction to pass-through entity owners and shareholders.

Corporations:

Corporations subject to Alabama corporate income tax law are allowed the deduction. The computation of corporate taxable income according to Alabama income tax law is tied to federal taxable income (see Section 40-18-33, *Code of Alabama 1975*).