

Instructions to Pass-Through Entity

General Instructions. The Alabama Schedule K-1 is a required attachment to the Alabama Form 65 and the Alabama Form 20S. The Alabama Schedule K-1 is similar to the federal Schedule K-1 in that it is used to report the pass-through entity owners' share of income, deductions, credits and other items.

The format of the Alabama Schedule K-1 differs from that of the federal Schedule K-1; therefore, the federal Schedule K-1 cannot serve as a substitute for the Alabama Schedule K-1.

Heading Information. Enter in the upper left area of the form whether the pass-through entity is a Subchapter K entity or an Alabama S corporation. If the Subchapter K entity is a Qualified Investment Partnership (QIP), only check QIP. Provide the tax period information if the return is filed for other than the 2015 calendar year. Enter in the upper right area of the form if the Schedule K-1 is either a final K-1 or an amended K-1.

Part I – Information About the Pass-Through Entity.

Enter on line A the pass-through entity's Federal Employer Identification Number. Enter on line B the pass-through entity's name and mailing address (street address, city, state and zip code).

Part II – Information About the Pass-Through Entity Owner.

Line C. Enter the pass-through entity owner's social security number or federal identification number.

Line D. Enter the name of the pass-through entity owner.

Line E. Enter the street address of the pass-through entity owner.

Line F. Enter the city, state, and zip code for the pass-through entity owner.

Line G. If the pass-through entity is an Alabama S corporation, line G does not apply. Otherwise, check the appropriate box to indicate if the pass-through entity owner is a general partner or limited liability company member manager or if the pass-through entity owner is a limited partner or a non-manager member of a limited liability company.

Line H. State whether the partner is an individual, an S corporation, a C corporation, an estate, a trust, a partnership, a disregarded entity, an exempt organization, a foreign government, or a nominee (custodian). If the entity is a limited liability company (LLC) and it is treated as other than a disregarded entity for federal income tax purposes, the partnership must enter the LLC's classification for federal income tax purposes (that is, a corporation or partnership). If the partner is a nominee indicate the type of entity the nominee represents: I – Individual; C – Corporation; F – Estate or Trust; P – Partnership; DE – Disregarded Entity; E – Exempt Organization; IRA – Individual Retirement Arrangement; or FGOV – Foreign Government. Check the box if the owner is a nominee.

Line I. Enter the pass-through entity owner's percentage of profit and (loss) sharing during the tax year.

Line J. Check the appropriate box to indicate if the pass-through entity owner is a nonresident and/or a single member LLC along with the name and FEIN of owner.

Schedule NRA applies only to S corporations. Check the box indicating that an Alabama Schedule NRA has been filed for a nonresident shareholder.

Line K. Enter the amount of the owner's basis at the end of the year.

Line L. Enter the pass through entity owner's pro rata share of the credit reported on Schedule K, Line 15. Credits shall be identified by the following codes and claimed in the order below:

A: Alabama Enterprise Zone Credit

B: Basic Skills Education Credit

C: Coal Credit

D: Full Employment Act of 2011 Credit

E: Alabama New Markets Development Credit

F: Heroes for Hire Tax Credit Act of 2012 Employee Credit

G: Heroes for Hire Tax Credit Act of 2012 Business Start-Up Expense Credit

H: Qualified Irrigation System/Reservoir System Credit

I: Rehabilitation, Preservation and Development of Historic Structures Credit

J: Credit for Taxes Paid to Foreign Country

K: Dual Enrollment Credit

L: Alabama Accountability Tax Credit

M: Capital Credit

If additional space is needed, please provide the requested information as an attachment to the Alabama Schedule K-1.

Part III – Owner's/Shareholder's Share of Current Year Alabama Income, Deductions, Credits, and Other Items.

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 resident and nonresident partners/shareholders. The second column of Part III should be completed for resident partners/shareholders only. This column should include the resident's share of income (loss) from all sources, including income (loss) earned from other states.

For example, a multistate entity has \$100,000.00 of income and 27% is allocated to Alabama. The entity has a nonresident and resident partner/shareholder each receiving 50% of income (loss). On Schedule K-1, the entity would report \$13,500.00 in Column 1, Box M, for **both the nonresident partner/shareholder and resident partner/shareholder**. The entity would report \$50,000.00, income (loss) from all sources, in Column 2, Box M, for the resident partner/shareholder.

Line M. Enter the pass-through entity owner's pro rata share of the nonseparately stated income allocated and apportioned to Alabama.

Line N. Line N applies only to owners of subchapter K entities.

Enter the pass-through entity owner's pro rata share of guaranteed payments apportioned to Alabama.

Line O. Enter the pass-through entity owner's pro rata share of the section 179 expense apportioned to Alabama.

Line P. Enter the pass-through entity owner's pro rata share of the interest expense related to portfolio income apportioned to Alabama.

Line Q. Enter the pass-through entity owner's pro rata share of the portfolio income apportioned to Alabama. Check the box if the entity is a QIP and the income is tax exempt for the nonresident owner.

Line R. Enter the pass-through entity owner's pro rata share of the portfolio income apportioned to Alabama. Check the box if the entity is a QIP and the income is tax exempt for the nonresident owner.

Line S. Enter the pass-through entity owner's pro rata share of the charitable contributions apportioned to Alabama.

Line T. Enter the pass-through entity owner's pro rata share of the other separately stated business items apportioned to Alabama. The nature and amount of each different separately stated business item must be provided to the pass-through entity owner with the Alabama Schedule K-1. Check the box if any portion of income is Alabama exempt income.

Line U. Enter the amount of the Alabama composite payment made

on behalf of the pass-through entity owner.

Line V. Enter the pass-through entity owner's pro rata share of the U.S. income taxes paid by the pass-through entity and apportioned to Alabama, if any.

Line W. Enter the pass-through entity owner's pro rata share of the casualty losses apportioned to Alabama.

Line X. Enter the amount of withdrawals and distributions made to the pass-through entity owner.

Line Y. Enter the pass-through entity owner's pro rata share of the small business health insurance premiums.

Line Z. Enter the pass-through entity owner's pro rata share of the oil and gas depletion apportioned to Alabama. The computation of the amount reported on Line Z of the Alabama Schedule K-1 must be provided to the pass-through entity owner with the Alabama Schedule K-1.

Line AA. Enter the pass-through entity owner's pro rata share of separately stated nonbusiness items allocated to Alabama. The pass-through entity owner must be provided with the nature and amounts of the different separately stated nonbusiness items reported on Line AA.

Line AB. Enter the pass-through entity owner's pro rata share of income exempt from Alabama income taxation. The pass-through entity owner must be provided with the nature and amounts of the different Alabama exempt income reported on Line AB.

Instructions to Pass-Through Entity Owner

Important Information for pass-through entity owners that are not individuals. Pass-through entity owners that are not individuals, but are corporations or subchapter K entities can create nexus (a presence subjecting the pass-through entity owner to Alabama income taxation) in Alabama by having an ownership interest in a pass-through entity doing business in Alabama. Also, having an ownership interest in a pass-through entity doing business in Alabama can subject the pass-through entity owner (which is a corporation or subchapter K entity) to the requirements of the Alabama Multistate Tax Compact. The Alabama Department of Revenue's Web site (www.revenue.alabama.gov) has additional information available concerning Alabama income tax laws and regulations; the Alabama Multistate Tax Compact; Alabama tax forms and instructions; as well as, frequently asked questions should you need to conduct more in-depth research.

The remainder of these instructions are directed toward pass-through entity owners that are individual taxpayers.

Note: Nonresident owners/shareholders would report income (loss) allocated and apportioned to Alabama as stated in Part III, Column 1 of Schedule K-1. Resident owners/shareholders are required to report income from sources within and outside Alabama as indicated on Part III, Column 2 of Schedule K-1.

Line L. Pass through Entity owners who are individuals would claim this amount on Schedule OC and/or Schedule NTC of Form 40 or Form 40NR. Refer to page 1, Line L instructions for applicable codes and ordering of credits.

Line M. Pass-through entity owners that are individuals would report this amount, less any amount shown on Line Y, on Schedule E of the Alabama Form 40 or Alabama Form 40NR.

Line N. Line N applies only to owners of subchapter K entities.

Pass-through entity owners that are individuals would report this amount on Schedule E of the Alabama Form 40 or Alabama Form 40NR.

The entire amount of guaranteed payments received by the owner of the subchapter K entity should be reported on this line of the Schedule K-1, if the owner is an Alabama resident individual. The apportioned amount of the guaranteed payments received by the owner of the subchapter K entity should be reported on this line, if the owner is an individual, but not an Alabama resident.

Line O. Pass-through entity owners that are individuals would claim

this amount on the Form 4562, Depreciation and Amortization, which accompanies the individual's Alabama Form 40 or Alabama Form 40NR.

Line P. Pass-through entity owners that are individuals would report this amount on the Alabama Form 4952A that accompanies the individuals Alabama Form 40 or Alabama Form 40NR.

Line Q. Pass-through entity owners that are individuals would report this amount on the appropriate schedule of the Alabama Form 40 or Alabama Form 40NR filed by the individual, depending upon the nature of the portfolio income. Accompanying the Alabama Schedule K-1 should be an explanation of the different types and amounts of portfolio income making up the amount on Line Q.

Line R. Pass-through entity owners that are individuals would claim this amount on Schedule A of the Alabama Form 40 or Alabama Form 40NR, depending upon the nature of the expense. Accompanying the Alabama Schedule K-1 should be an explanation of the different types and amounts of expenses making up the amount on Line R.

Line S. Pass-through entity owners that are individuals would claim this amount on Schedule A of the Alabama Form 40 or Alabama Form 40NR.

Line T. Pass-through entity owners that are individuals would report or claim these items on the appropriate schedule of the Alabama Form 40 or Alabama Form 40NR, filed by the individual, depending upon the nature of the other separately stated business item. Accompanying the Alabama Schedule K-1 should be an explanation of the different types and amounts of other separately stated business items making up the amount on Line T.

Line U. Pass-through entity owners that are individuals would claim this amount on the Alabama Form 40 or Alabama Form 40NR.

Line V. Pass-through entity owners that are individuals would report this amount on the Alabama Form 40 or Alabama Form 40NR.

Line W. Pass-through entity owners that are individuals would claim this amount on the Form 4684 that accompanies the Alabama Form 40 or Alabama Form 40NR.

Line X. Pass-through entity owners that are individuals would report the portion of this amount that represents reportable income on the Schedule D accompanying the Alabama Form 40 or Alabama Form 40NR. Accompanying the Alabama Schedule K-1 should be a detailed explanation of the amount on Line X.

Line Y. Pass through owners should subtract the amount shown on line Y from the amount shown on line M. This figure represents the additional health insurance deduction allowed for small business employers with Alabama employees. For more information on this deduction, see §40-18-15.3.

Line Z. Pass-through entity owners that are individuals should claim this amount on Schedule E of the Alabama Form 40 or Alabama Form 40NR. Accompanying the Alabama Schedule K-1 should be a computation of the amount reported on Line Z. Alabama income tax law concerning oil and gas depletion differs from the federal law. Care should be exercised in claiming this deduction to ensure that the proper amount is deducted.

Line AA. Pass-through entity owners that are individuals would report or claim this amount on the Alabama Form 40 or Alabama Form 40NR, depending upon the nature of the separately stated nonbusiness items. Accompanying the Alabama Schedule K-1 should be an explanation showing the different types of nonbusiness items and amounts making up the amount reported on Line AA.

Line AB. Pass-through entity owners that are individuals are encouraged to disclose the amount of Alabama exempt income on the Alabama Form 40 or Alabama Form 40NR, filed by the individual. Accompanying the Alabama Schedule K-1 should be an explanation showing the different types of Alabama exempt income items and amounts making up the amount reported on Line AB.