

**Issues Concerning the Preparation of the
2017 Alabama S Corporation Income Tax Return**

Schedule PC. The Alabama Department of Revenue requires the use of Schedule PC, Pass Through Credits, when claiming tax credits. The schedule allows the taxpayer to compute the total amount of tax credits allowable. The amounts entered on the Schedule PC will carry over to the Form 20S, page 1, line 32d and/or Schedule K, line 22. This schedule must be submitted with the return to receive credit(s).

Nexus. Act 2015-505 establishes a factor presence nexus standard for nonresident business activity. Substantial nexus in Alabama is established if any of the following thresholds are exceeded during the tax period: \$50,000 of property, \$50,000 of payroll, \$500,000 of sales, or 25% of total property, total payroll or total sales.

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 1120S 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 shareholder at any time during the taxable year.

Paid Preparer Information. The check box provided above the signature line on page 2 is used to authorize the Department to discuss Form 20S with the paid preparer. Checking this box can facilitate the process of resolving a problem with the return. 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. The Alabama Form 20S is due by the 15th day of the 3rd month after the end of the tax year. Returns or payments bearing a U.S. Postal Service cancellation no later than midnight of the due date will be considered timely filed.

Mail returns with payments to:
Alabama Department of Revenue
Pass Through Entity
P.O. Box 327444
Montgomery, AL 36132-7444

Mail returns without payments to:
Alabama Department of Revenue
Pass Through Entity
P.O. Box 327441
Montgomery, AL 36132-7441

Extensions. Any extension of time to file an income tax return allowed by federal income tax purposes will be recognized for Alabama purposes. However, the extension of time for filing the return is not an extension of time for payment of tax. The amount of tax due must be paid on or before the due date of the return without regard to the extension of time to file the return.

Make check payable to Alabama Department of Revenue and enclose completed Form PTE-V only if you are making a payment with Form 20S. Do not attach Form PTE-C or the Form PTE-C payment to the Form 20S.

Specific Instructions

File the 2017 return for calendar year, fiscal year, or short year that begins in 2017. Mark the appropriate box at the top of the form for a calendar, fiscal or short year.

At the top, right-hand corner of page 1, check the appropriate box indicating a calendar year, fiscal year, or short year return. A **calendar tax year** is 12 consecutive

months, beginning January 1 and ending December 31. It is not appropriate for 52/53 week filers. A **fiscal tax year** is 12 consecutive months ending on the last day of any month except December. A **short tax year** is a tax year of less than 12 months. A **52/53 week tax year** is a fiscal tax year that varies from 52 to 53 weeks that ends on a set day of the week but does not have to end on the last day of a month.

Filing Status. Check the appropriate filing status. ONLY ONE BOX can be checked. Filing status 1 is for companies operating only in Alabama. Filing status 2, Multi-state company, is for taxpayers whose business activity in Alabama is represented by the apportionment percentage (has operations in Alabama and one or more states). Filing status 3, Separate (Direct) Accounting, should only be used by taxpayers that are directly allocating income/loss and have received prior permission from the Alabama Commissioner of Revenue or taxpayers that are only allocating nonbusiness items (Sch. B).

Lines 1 – 20. Enter the amounts from the entity's Federal Form 1120S. Attach all Federal Schedules.

Line 21. Subtract Line 20 from Line 6.

Line 22. Enter the amount of Alabama Nonseparately Stated Reconciliations from Schedule A, Line 12.

Line 23. Add lines 21 and 22.

Line 24. Enter the amount of 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 25. Enter the sum of the amounts entered in line 23 and 24.

Line 26. Enter the apportionment factor from Schedule C, line 27.

Line 27. Income or (Loss) Apportioned to Alabama. Multiply the amount in line 25 by the percentage in line 26.

Line 28. Enter the amount from Schedule B, Column F, line 1d.

Line 29. Enter 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 29 as an attachment to the return.

Line 30. Enter the sum of the amounts entered in lines 27, 28, and 29. This amount should also be entered on Schedule K, Line 1.

Line 31. DO NOT compute based on the amount shown on Line 30 or enter the Form PTE-C (composite) payment. Any amount on this line should include only the following:

a. LIFO Recapture Tax. For additional information see §40-18-161 *Code of Alabama 1975* if converted to an S corporation after December 31, 1989.

b. Built-in Gains Tax. Corporations which became S corporations after December 31, 1989 may be liable for this tax. For additional information see §40-18-174 *Code of Alabama 1975*.

c. Excess Net Passive Income Tax. If an S corporation has subchapter C earnings and profits, passive investment income in excess of 25% of gross receipts, and taxable income at year end, it must pay a tax on the excess net passive income. For additional information see §40-18-175 *Code of Alabama 1975* and Rule 810-3-174-.02.

NOTE: You are required to submit a computation schedule. Failure to submit the schedule may result in the assessment of penalties and additional filing requirements.

Line 32. Tax Payments and Credits

a. Enter the amount of tax carried over from last year plus any estimated tax payments made with Form PTE-V (attach schedule).

b. Enter the amount of tax paid prior to filing Form 20S.

c. This line is only to be used if a taxpayer is filing an AMENDED RETURN. The amount shown should be any payments made with the original return and/or any payments made because of adjustments to the return by the Alabama Department of Revenue.

d. Tax Credits. Enter the amount of credit used to offset tax. (See instructions for

Schedule PC for the order in which these credits should be applied).

e. Enter total payment and credits (add Lines 32a, 32b, 32c, and 32d).

Line 33. Subtract Line 32e from Line 31. Enter as either a positive or negative number.

Line 34. Calculation of any reductions of refund or additions to tax.

a. Enter the amount of the overpayment you wish to apply to next year's estimated tax.

b. If this return is not filed on or before the due date (with extension), enter a failure to timely file penalty of 10% of the tax due on Line 31 or \$50 whichever is greater. Tax amounts not paid by the due date will be subject to a failure to timely pay penalty of 1% per month up to a maximum of 25%. Estimated taxes not paid by each due date will be subject to an underpayment of estimated tax penalty in an amount determined by applying the underpayment rate established under 26 U.S.C. §6621, as provided in §40-2A-11.

c. Enter the amount of interest due on the balance of tax due. This is to be computed from the due date (without extension) of this return to the date paid. The Alabama interest rate is the same as provided in 26 U.S.C. §6621.

d. Enter the total of Lines 34a, 34b and 34c.

Lines 35. Add Line 33 to Line 34d, if the result is a positive number, this is the amount you owe. If the result is a negative number, this is the amount of your refund. If paying by check or money order, Form PTE-V must accompany payment.

If the amount due is \$750 or greater, it must be remitted by electronic funds transfer. Section 41-1-20, *Code of Alabama 1975* requires the use of Electronic Funds Transfer (EFT) for all single business tax payments of \$750 or more.

Schedule A – Nonseparately Stated Reconciliation Adjustments

The Alabama income tax laws are similar, but not identical, to the federal income tax laws. It is necessary to make certain adjustments to reconcile federal ordinary business income (loss) to total income from all allocations computed in accordance with Alabama income tax laws and rules. Use Schedule A to reconcile such differences.

Multistate entities must not use Schedule A to make adjustments for non-apportionable (nonbusiness) items. Adjustments for these items must be made on Schedule B.

Additions to Federal Taxable Income:

Line 1: Enter the amounts of state and/or local taxes based on net income or measured by net income which have been deducted on the federal return.

Line 2. Addback otherwise deductible related member interest or intangible expenses and costs except to the extent the entity establishes that the expense satisfies an exception in Section 40-18-24. (Schedule PAB must be attached).

Line 3. Other items required to be added back to federal taxable income to arrive at Alabama taxable income should be entered on this line. Attach supporting documentation.

Line 4. Enter any gain attributable to property purchased and subject to the bonus depreciation or additional 179 expense as allowed by the 2008 Federal Economic Stimulus Act.

Line 5. Total amounts reported on lines 1 through 4.

Deductions from Federal Taxable Income:

Line 6. Enter expenses not deductible on the federal income tax return due to an election to claim a federal tax credit, i.e., jobs credit, etc.

Line 7. Enter the amount of refunds of state and/or local taxes on net income which have been refunded and included in federal income (only if not netted in line 1 above).

Line 8. Enter the amount of aid or assistance provided to the Alabama State Industrial Development Authority pursuant to Section 41-10-44.8(d).

Line 9. Other items required to be added back to federal taxable income to arrive at Alabama taxable income should be entered on this line. Supporting documentation should be attached if an amount is reported on line 9.

Line 10. Enter any difference in the Federal recapture amount (reported on line 35, Part IV, Form 4797) and the Alabama recapture amount due to the basis difference resulting from Alabama's decoupling from the provisions of the 2008 Federal Economic Stimulus Act or the additional Section 179 expense deduction having been taken as allowed by the 2008 Federal Economic Stimulus Act. Identify the items of property on an attachment to the return.

Line 11. Sum the deductions reported on lines 6 through 10.

Line 12. Subtract line 11 from line 5 and enter the result on line 12. If line 11 is larger than line 5 enclose the amount on line 12 in parentheses. Carry the amount on line 12 to page 1, line 22.

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 multistate 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 on page 1, line 24. Please note that when an amount is entered in page 1, line 24, 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 on page 1, line 28.

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 B, line 1h, the sum of the amounts entered in Column B on line 1e, line 1f, and line 1g. The amount entered in Column B, line 1h is also entered on Schedule K, Line 11.

Enter on Column D, line 1h, the sum of the amounts entered in Column D on line 1e, line 1f, and line 1g. The amount entered in Column D, line 1h is also entered on Schedule K, Line 18.

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).

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.

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 multistate Alabama S corporation is represented by its Alabama apportionment factor. If any factor is not utilized in the production of business income it shall be eliminated and the denominator reduced.

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 Rule 810-27-1-.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 Rule number 810-27-1-.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 Rule number 810-27-1-.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 1120S, 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 Rule number 810-27-1-.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 page 1, Line 26.

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 of Federal Income Tax

Line 1. Enter the amount of federal income tax, if any, from the federal Form 1120S.

Line 2. Enter the total of line 27 and line 28, page 1.

Line 3. Enter the amount of federal taxable income adjusted to Alabama basis from line 23, page 1.

Line 4. Divide the amount on Line 2 by the amount on Line 3, and enter the resulting amount as a percentage on Line 4.

Line 5. Multiply the amount of federal income tax attributed to this corporation as shown on line 1 by the federal income tax ratio as shown on line 4. Enter the amount on Line 5 on Schedule K, Line 17.

Schedule E – Alabama Accumulated Adjustments Account

The AAAA is an account of the S corporation that is adjusted for the S period in a manner similar to adjustments under Ala. Code Section 40-18-164. This account measures undistributed Alabama taxable income during the period the S election is effect. Ala. Code Sections 40-18-164(c) (4) and 40-18-166(a) (1). The AAAA also serves a purpose after termination of a corporation's S status, because distributions may be treated as non-dividends to the extent of the corporation's AAA during the post termination period Ala. Code Section 40-18-172.

The computation of the AAAA balance commences on the first day of the corporation's S period, and is only adjusted during that period. The AAAA may not equal the Accumulated Adjustments Account of federal Form 1120S. Adjustments to the AAAA should include the entire earnings, profits, losses, gains and deductions of the S corporation. See also §40-18-166, *Code of Alabama 1975*.

Schedule DE. Disregarded Entity Schedule

List all qualified subchapter S subsidiaries (Q-Sub)/disregarded entities in which the entity holds full ownership interest of 100%. For each entity, provide the name, FEIN, income/(loss) from all sources, and Alabama source income/(loss). Attach additional schedules as necessary. Attribution of ownership rules of 26 USC §267 apply.

Schedule G – Other Information

All S corporations must complete Schedule G providing the required information.

K – Shareholder's Distributive Share Items

Line 1. Alabama Ordinary income. Enter on the Apportioned Amount column the Alabama Ordinary income from page 1, line 30.

Lines 2-21 (except lines 11, 17 and 18). Enter the federal amount of the items described below as adjusted for Alabama income tax law in Column A, and the apportionment factor from Schedule C, line 27 in Column B. Column C is the income apportioned to Alabama. It is calculated by multiplying the amount in Column A by the amount in Column B. An attachment should be included to explain any adjustments made. See suggested format at the end of this section.

Line 2. Net rental real estate income (loss). Enter the net rental real estate income (loss) from the Federal Form 1120S, Schedule K as adjusted to Alabama basis. Attach

Federal Form 8825.

Line 3a. Other gross rental income (loss). Enter other gross rental income (loss) from the Federal Form 1120S, Schedule K as adjusted to Alabama basis.

Line 3b. Expenses from other rental activities. Enter expenses from other rental activities the Federal Form 1120S, Schedule K.

Line 3c. Other Net Rental Income (loss). Subtract Line 3b from line 3a.

Line 4. Interest Income. Enter the total amount of interest from the Federal Form 1120S, Schedule K.

Line 5. Dividends. Enter the total amount of dividends from the Federal Form 1120S, Schedule K.

Line 6. Royalties. Enter the total amount of Royalties from the Federal Form 1120S, Schedule K.

Line 7. Net short-term capital gain (loss). Enter the total amount of Net short-term capital gain (loss) from the Federal Form 1120S, Schedule K as adjusted to Alabama basis.

Line 8. Net long-term capital gain (loss). Enter the total amount of Net long-term capital gain (loss) from the Federal Form 1120S, Schedule K as adjusted to Alabama basis.

Line 9. Net Section 1231 gain (loss). Enter the total amount of Net Section 1231 gain (loss) from the Federal Form 1120S, Schedule K as adjusted to Alabama basis. Attach Federal Form 4797.

Line 10. Other Income. Enter the total amount of Other Income from the Federal Form 1120S, Schedule K as adjusted to Alabama basis.

Line 11. Nonbusiness Items. Enter in the Apportioned Amount column the amount entered on Schedule B, Column B, line 1h. Attach a statement identifying the nature and amounts of the separately stated nonbusiness items.

Line 12. Section 179 Deduction. Enter as a positive amount the IRC §179 expense deduction entered on Federal Form 1120S, Schedule K.

Line 13a. Contributions. Enter as a positive amount the contributions entered on Federal Form 1120S, Schedule K.

Line 13b. Investment interest expense. Enter the investment interest expense from Federal Form 1120S, Schedule K.

Line 14. Other deductions. Enter other deductions from Federal Form 1120S, Schedule K.

Line 15. Oil and Gas Depletion. Enter as a positive amount the oil and gas depletion entered on Federal Form 1120S, Schedule K.

Line 16. Casualty Losses. Enter as a positive amount the casualty losses entered on Federal Form 1120S, Schedule K.

Line 17. U.S. Taxes Paid. Enter the amount of U.S. income taxes paid, from Schedule D, Line 5.

Line 18. Nonbusiness Items. Enter in the Apportioned Amount column the amount entered on Schedule B, Column D, line 1h. Attach a statement identifying the nature and amounts of the separately stated nonbusiness items.

Line 19a. Tax-exempt interest income. Enter the total amount of tax exempt interest income from the Federal Form 1120S, Schedule K.

Line 19b. Other tax-exempt income. Enter the total amount of other tax exempt interest income from the Federal Form 1120S, Schedule K.

Line 19c. Nondeductible Expenses. Enter the total amount of Nondeductible Expenses from the Federal Form 1120S, Schedule K.

Line 20. Distributions. Enter the amount of distributions to owners.

Line 21a. Investment income. Enter the total amount of Investment Income from the Federal Form 1120S, Schedule K.

Line 21b. Investment expenses. Enter the total amount of Investment expense from the Federal Form 1120S, Schedule K.

Line 21c. Other items and amounts. The total amount of other items and amounts from the Federal Form 1120S, Schedule K. Attach supporting documentation.

Line 22. Total Credits. Enter nothing in the Federal Amount column and the Apportionment Factor column. Enter in the Apportioned Amount column total credits allocated to shareholders from Schedule PC, Part P, Line 5.

Line 23. 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 24. Repayment of loans from shareholders. Enter the total amount of loans from shareholders from the Federal Form 1120S, Schedule K.

Line 25. Dividend distributions paid from accumulated earnings and profits. Enter the total amount of Dividend distributions paid from accumulated earnings and profits from the Federal Form 1120S, Schedule K. Attach supporting documentation.

Any adjustments made to lines 2, 3a, 7, 8, 9 or 10 of Schedule K should have an accompanying explanation. A suggested format is shown below:

Item	Federal amount	Adjustment	AL amount
Net short term capital loss	(3,000.00)	(2,000.00)	(5,000.00)

Explanation: total amount claimed in year of loss for AL