

## General Instructions

This form is to be used only by corporations that have elected to be treated as an S corporation for Federal purposes and conduct business in Alabama. For detailed rules on qualification requirements for Alabama S corporations and rules for computing income, loss, deductions, and credits, see Alabama Department of Revenue Rules 810-3-160 through 810-3-173.

**A copy of Federal Form 1120S** must be attached. Schedules may be attached to support line entries; however, **each line of this form must be completed.** Complete Schedules B, C, D, E, & G or portions thereof where applicable. Refer to instructions below as needed to complete these schedules. All Alabama S corporations must complete Schedule F, computing the Alabama Accumulated Adjustments Account, as well as the information and documents requested in Schedule H.

The return must be dated and signed by an officer of the corporation. **Failure to properly complete the return and attach copies of the Federal 1120S, Alabama Schedule K-1's, and all applicable Nonresident Shareholder Agreement forms may result in the assessment of penalties and additional filing requirements.**

For tax years beginning on or before December 31, 1998, a Federal Qualified Subchapter S Subsidiary that qualifies as an Alabama S corporation should file an Alabama S corporation return separate from the parent and attach both the federal consolidated return and a federal proforma. For tax periods beginning on or after January 1, 1999, Alabama will follow Federal rules, treating the Qualified Subchapter S Subsidiary as a division of the parent. (Act 99-314)

This form is due by the 15th day of the 3rd month after the end of the tax year. An automatic extension of time to file the return (up to a maximum of 6 months) will be granted if: (1) a copy of the **Federal Form 7004** is attached to the return and the return is filed within the six-month period, or (2) **Form 20-E** is filed on or before the due date of the return regardless of whether the corporation files Federal Form 7004.

Mail the completed return to:

**Alabama Department of Revenue  
Individual and Corporate Tax Division  
Pass Through Entity Section  
P. O. Box 327441  
Montgomery, AL 36132-7441**

Make check payable to:

**Alabama Department of Revenue.**

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**CAUTION: Do not attach the Form PTE-C or the Form PTE-C payment to the Form 20S.**

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If the corporation loses its Federal S status, a Form 20C must be filed. Please contact the Alabama Department of Revenue to receive the correct form.

Form 20S and other information are available on the internet at [www.ador.state.al.us](http://www.ador.state.al.us).

## Specific Instructions

### SCHEDULE A

#### Computation of Income and Adjustments

**Line 1.** Enter Ordinary Income (Loss) from Federal 1120S.

**Line 2 - 10.** Enter the adjustments to reconcile federal income to Alabama income.

**Line 2.** State and local net income taxes deducted on the Federal 1120S must be added as a reconciliation item.

**Line 6.** Depreciation allowable on property expensed under IRC §179 for Federal purposes prior to 1990.

**Line 7.** Enter interest income included on Federal 1120S exempt from Alabama tax.

**Line 8.** Enter interest income and/or dividends taxable to Alabama that are exempt from Federal tax.

**Line 9.** Enter the income from interest, dividends, royalties, net short-term capital gain, net long-term capital gain.

**Line 10.** Any other differences between federal and Alabama income (attach schedule).

#### Computation of Deductions

**Line 16.** Enter any other deductions (attach schedule).

**Line 17.** The amount on this line should include only the following:

**a. LIFO Recapture Tax.** If the corporation became an Alabama S corporation after December 31, 1989 and inventoried goods under the LIFO method during its last year as an Alabama C corporation, it may be liable for LIFO recapture and resultant tax thereon. The LIFO recapture tax is figured for the last tax year the corporation was an Alabama C corporation. The LIFO tax is paid in four equal installments. The first installment must be paid no later than the due date (without extension) for filing the corporate return for the last taxable year as a C corporation. The three succeeding installments must be paid not later than the due date (without extension) for the succeeding three years. See §40-18-161, *Code of Alabama 1975*, as amended. Attach computation schedule. For tax years beginning prior to January 1, 2001, a C corporation, which converts to an Alabama S corporation, shall pay tax equal to 5% of its LIFO recapture amount. For tax years beginning after December 31, 2000, a C corporation, which converts to an Alabama S corporation, shall pay tax equal to 6-1/2% of its LIFO recapture amount.

**b. Built-in Gains Tax.** Corporations which became S corporations after December 31, 1989 may be liable for this tax. The tax is computed by multiplying the net recognized built-in gain of the Alabama S corporation for the taxable year by 5%. Section 40-18-174 defines "net recognized built-in gain," with respect to any taxable year in the 10-year recognition period as the lesser of (i) the amount taxable if only recognized built-in gains/losses were taken into account, or (ii) the corporation's taxable income as determined under §40-18-161 and without regard to the deduction provided by §§40-18-35(14), 35(15) and 35.1. A

net operating loss carryforward that arose in a taxable year for which the corporation was not an Alabama S corporation is allowed as a deduction against the net recognized built-in gain of the Alabama S corporation for the taxable year. The amount of net recognized built-in gain for a taxable year cannot exceed the excess (if any) of the net unrealized built-in gain over the net recognized built-in gain for prior taxable years beginning in the recognition period. "Net unrealized built-in gain" means the amount (if any) by which the fair market value of the assets of the corporation exceeds the aggregate basis of such assets as of the beginning of the first taxable year for which the corporation is treated as an Alabama S corporation. This tax does not apply if a corporation has had an S corporation status under Internal Revenue Code for each of its taxable years. The tax can apply to a corporation that has always been an Alabama S corporation in any case where the S corporation acquires an asset and the basis of the asset in the hands of the Alabama S corporation is determined in whole or in part by reference to the basis of the asset in the hands of the Alabama C corporation. See §40-18-174. Attach computation schedule.

**c. Excess Net Passive Income Tax.** If a S corporation has subchapter C earnings and profits, has passive investment income in excess of 25% of gross receipts, and has taxable income at year end, it must pay a tax on the excess net passive income. The tax is computed by multiplying the excess net passive income by five percent. "Excess net passive income" means an amount which bears the same ratio to the net passive income for the taxable year as (i) the amount by which the passive investment income for the taxable year exceeds 25% of the gross receipts for the taxable year, bears to (ii) the passive investment income for the taxable year. The amount of excess net passive income shall not exceed the S corporation's income for the year as determined under §40-18-161. The term "net passive income" means passive investment income reduced by deductions allowed under Chapter 18, Title 40, *Code of Alabama 1975*. The terms "passive investment income" and "gross receipts" have the same meanings as when used in 26 U.S.C. §1362(d)(3). However, the amount of passive investment income shall be determined without using any recognized built-in gain or loss of the Alabama S corporation for any taxable year in the 10 year recognition period. See §40-18-175. Attach computation schedule.

**Line 18.** Section 41-1-20, *Code of Alabama 1975* 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) 242-1819 or 1-800-322-4106 for further information.

**Line 18d.** Tax Credits. Enter the amount from Schedule G, Line 3.

**Line 21.** If this return is not filed on or before the due date (with extensions), enter a failure to timely file penalty of 10% of the tax due on line 10 or \$50, whichever is greater. Amounts not paid by the due date (with extensions) will be subject to a failure to timely pay tax penalty of 1% per month up to a maximum of 25%.

**Line 24a.** If the amount due is \$25,000 or greater, it must be remitted by electronic funds transfer.

## **SCHEDULE B**

### **Multistate Allocation of Nonbusiness Income**

This schedule is to be completed only if the corporation has activities in another state and has income, losses, expenses, or deductions which are to be allocated ("nonbusiness") rather than apportioned. For a definition of what constitutes "nonbusiness" income, losses, expenses, and deductions and rules for allocating these items, see Rule 810-27-1-4-.01(d). On lines a through h, enter any nonbusiness income or losses, including gains or losses from the disposition of nonbusiness assets. Enter any expenses associated with such income including indirect expenses (such as interest expense prorated to "nonbusiness" assets). If there are any separately stated nonbusiness items, enter on Schedule B. Do not include these items on Schedule A. Enter in Column A each item of nonbusiness income or loss allocated to any state, including Alabama, and the related expenses in Column C. Enter in Column B items allocated to Alabama, and the related expenses in Column D. Enter the net of Columns A and C in Column E, and the net of Columns B and D in Column F.

## **Schedule C**

### **Apportionment Schedule**

Complete this schedule only if the **corporation had activities in any state other than Alabama**. For the definition of activities in other states and instructions for the attribution of property, payroll, and sales, see Rule 810-27-1-4-.01.

**Lines 1-9.** In the appropriate columns for each line item, enter the amounts of tangible property used in the production of business income at the beginning and end of the tax year.

**Line 13.** Enter the amounts of rental expenses for tangible property used in the production of business income both in Alabama and Everywhere. Multiply by 8, and enter the results.

**Line 15.** Divide line 14a by line 14b. Compute the percentage to at least 4 decimal places, for example, 12.3456%. This is the **Alabama Property Factor**.

**Line 16.** Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama and Everywhere on lines 16a and 16b, respectively. Divide the amount on line 16a by the amount on line 16b, and enter the result (to at least 4 decimal places) on line 16c. This is the **Alabama Payroll Factor**.

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**NOTE: Only amounts paid directly to employees are included in the payroll factor.**

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**Line 17.** Enter the amount of sales delivered in Alabama. (See Rule 810-27-1-4-.16.)

**Line 18.** Enter the amount of "throwback" sales shipped from Alabama. (See Rule 810-27-1-4-.16.)

**Line 19.** Enter the totals of lines 17 and 18 in the Alabama column. Enter the total sales in the Everywhere column. If this amount does not correspond to line 1c of Federal Form 1120S, attach an explanation.

**Line 20.** Enter the amount of gross proceeds from the sale of assets.

**Line 21.** Enter the amount of interest income from business assets (such as accounts receivable).

**Line 22.** Enter the amount of gross income from the rental of business assets.

**Line 23.** Enter the amount of gross income from other business sources.

**Line 24.** Total the Alabama and Everywhere column for lines 19 through 23. Divide the amount on line 24a by the amount on 24b, and enter the result (to at least 4 decimal places) on line 24c. This is the **Alabama Sales Factor**.

**Line 25.** Add lines 15, 16c, and 24c. Divide the total by 3, and enter the result (to at least 4 decimal places) on line 25 and on line 4, Schedule E. If any of the factors are not used in the production of business income, see Rule 810-27-1-4-.09. This is the **Alabama Apportionment Factor**.

## **SCHEDULE D**

### **Apportionment of Federal Income Tax**

Any federal income tax liability of the S corporation will be passed through to the shareholders as a separately stated deduction. If the corporation had activities in any state other than Alabama, the amount of the liability must be apportioned. Please follow line instructions.

## **SCHEDULE E**

### **Apportionment and Allocation of Income to Alabama**

Complete this schedule only if the corporation had income or business activities in another state. Line 7 is the total income attributed to Alabama.

## **SCHEDULE F**

### **Alabama Accumulated Adjustments Account**

This schedule computes the Accumulated Adjustments Account for Alabama (AAAA). The AAAA may not equal the Accumulated Adjustments Account of Federal Form 1120S. Please follow line instructions. See §40-18-166, *Code of Alabama 1975*.

## **SCHEDULE G**

Complete Schedule G only if any tax credit detailed below will be taken at the S corporation level. All credits detailed below are provided on a pass-through basis for all shareholders of eligible S corporations. If any credit will be passed through to the shareholders, follow instructions below.

### **1. Basic Skills Employer Education Tax Credit:**

Section 40-18-135 through 40-18-139 provide for a tax credit of 20 percent of the actual cost of an employer provided or sponsored Approved Basic Skills Education Program. The program must be to enhance the basic skills of employees up to and including the twelfth grade functional level. The employees must be Alabama residents, work at least 24 hours per week for at least 16 weeks. The employer must receive written approval from the Alabama Department of Education. A detailed schedule of education expenses, employee names, and the hours each employee worked per week must be attached to return. For additional information about the program, contact Alabama Department of Education at 800-392-8086. The credit is available on a pass-through basis. For detailed information on how to compute the tax credit on a pass-through basis, contact Alabama Department of Revenue at 334-242-1000.

## **2. Coal Tax Credit**

Section 40-18-220 provides for a tax credit for coal produced in Alabama after January 1, 1995. The credit will be \$1 per ton of increased coal production in Alabama over the previous year's coal production in Alabama. A detailed schedule of computations must be attached. Enter total coal credit for this tax year on Line 2. Balance not used for the year will be allowed as a flow-through credit to the shareholders. For additional information, contact the Alabama Department of Revenue at 334-242-1000.

## **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 must be approved by the Alabama Department of Revenue prior to the project entity taking the credit. The capital credit is available on a pass-through basis for all shareholders of an S corporation that is eligible to receive the capital credit. Each shareholder's credit is the lesser of the shareholder's share of the capital credit available or the shareholder's tax liability generated by or arising out of the qualifying project and is applied **after all deductions, exemptions and other credits have been taken**.

The S corporation is required to complete and attach Form AR with the Form 20S return in order for the shareholders 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 shareholders 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.ador.state.al.us](http://www.ador.state.al.us) under the Tax Incentives page, or contact the Department at P.O. Box 327001, Montgomery, AL 36132-7001 or 334-242-1175.

**Enterprise Zone Credit** (See §41-23-24): a tax credit is available to qualifying businesses which locate or expand within the designated enterprise zones. The credit is available on a pass-through basis for all shareholders of an S corporation that is eligible to receive the credit, and the credit will be distributed to each shareholder based on their distributive share. The company should advise each shareholder of the amount of his/her income subject to this credit. Any shareholder taking the credit is required to complete and attach Schedule EZ-K1 to their respective income tax return. Each S corporation is required to complete and attach Schedule EZ with the Form 20S return.

Business entities eligible for the credit must be approved by the Alabama Department of Economic and Community Affairs (ADECA) and must also receive certification annually from ADECA. For additional information on the Alabama Enterprise Zone Credit, contact ADECA at Technical Assistance Section, 401 Adams Avenue, P.O. Box 5690, Montgomery, AL 36103-5690, 334-242-5370. Questions pertaining to the application of the tax credit should be addressed to Alabama Department of Revenue, P.O. Box 327001, Montgomery, AL 36132-7001, 334-242-1175.