Alabama Department of Revenue
Individual & Corporate Tax Division

Auburn University Tax Seminars 2014

Individual & Corporate Tax Division
Alabama Department of Revenue
In addition to the Departments website, refund inquiry options now include iPhone and upcoming Android apps.

Refunds will be direct deposit or paper check only.
Refunds

- Additional fraud “tests” have been added which all returns must pass before refunds are released.
- For returns that pass, refunds will be direct deposited into the taxpayer’s account or a check will be mailed.
Identity Theft Protection Programs

To combat the fraud/theft problem, the Department is now implementing an “Identity Theft Protection Program.”

Taxpayers who do not pass the initial identity validation will be sent an “Identity Confirmation Letter”.

Identity Theft Protection Programs

The most important thing you can do for your client is to inform them that this letter is not a scam.

The letter will ask the taxpayer to log onto our website to take an identity confirmation quiz. The taxpayer will be directed to our call center should they not have internet access.
The quiz is based on information associated with the taxpayer and should take no more than two minutes to complete.

The taxpayer will be given three opportunities to pass the quiz. If we cannot confirm the taxpayer’s identity through the quiz, they will be instructed to contact the Department to provide documentation to confirm their identity.
Payment Voucher Issues

Please make sure payments are sent on vouchers for the correct tax and the correct tax year.

Bar codes identify tax form, tax year, tax types and all tax information on the return. Changing information on the voucher will not change the information contained in the bar code.
Corporate Income Tax Issues

- Required documents:
  - Complete federal return as filed with the IRS
  - Supporting schedules, forms and statements
  - Copies of Schedules K-1 for each tax entity the corporation held an interest in during the taxable year
Corporate Income Tax Issues

- Please keep accurate records of any:
  - Carry forwards
  - Payments

- These are our main issues which:
  - cause returns to stop for correction,
  - require us to conduct further research, and
  - require us to request additional information.
Special Audit & Compliance

Conduct Audits Based on Federal Adjustments/Returns

- Will be concentrating on the 2012 tax year for audits in 2015.
- If your client gets a non-filer letter for one year, please make sure that there are not other years that need to be filed also.
- This will save your client money in reduced penalty & interest fees.
Special Audit & Compliance

Conducts Audits Based on Federal Adjustments/Returns

- Also, if your client receives a federal adjustment/audit, they will forward that information to the state in which the client lives.
- If the adjustment affects the state return also, it is advisable to go ahead and file an amended return due to the fact that it takes us 12-18 months to make the adjustment in SAC. This also increases penalties & interest.
Business Privilege Tax

- Remember to attach:
  - the first five pages of the federal return
  - the Alabama apportionment schedule
  - support for exclusions, deductions, net worth
- Required for refund approval
Business Privilege Tax

- Unpaid billing notices are sent for “final assessment”, which requires the taxpayer to appeal to the Alabama Tax Tribunal or Circuit Court.
- Most issues can be settled at the initial billing stage.
Business Privilege Tax

- The date of the ceasing/withdrawal of an entity is the stamped date on the document by the Probate Judge (domestic entities) or the Secretary of State (foreign entities).
- BPT is due each year that the entity is in existence - must withdraw or dissolve to stop incurring tax liability.
Business Privilege Tax

- Please make sure payments are sent on vouchers for the correct tax and the correct tax year.
  - Don’t “white out”
- If a return is submitted electronically that shows tax due, please submit the payment electronically within seven days.
Withholding Tax

- File your withholding tax return first before making a withholding tax payment in MAT. The return and payment are two separate transactions with two different request numbers.
- A payment without a return leads to a failure to file penalty.
- When a return and payment are made in the MAT system, the user will see a message that the transactions are in a “pending” status. The pending status will continue until the transactions are processed.
Withholding Tax

• If your payment is “warehoused”, or set to pay at a later date such as the due date, the payment will reflect the pending status until that date.

• For example, if you file your return on the 10th of the month and set up your payment for the due date on the 15th of the month, the payment will reflect a “pending” status until processed at the later due date.
Estate Tax Issues

- Remember, Regulation 810-3-25-.11 states …“the provision of 26 U.S.C. §642(h) concerning unused NOL carryovers or excess deductions of the estate or trust shall not apply in the computation of Alabama taxable income for the beneficiary or owner.”
Estate Tax Issues

Therefore, when a final Form 41 is filed for an estate that has either:

• an NOL
• or excess deductions that are allowed at the federal level to be claimed by the individual on Form 1040, these cannot be claimed on the individual Alabama Form 40.

2013 Legislation
Act 2013-064
Alabama Accountability Act of 2013

- The ruling is under appeal.
- The Department will continue to process contributions and credits until appeal has been ruled upon.
- Only nine awarded in 2013; many more expected in 2014.
Act 2013-064
Alabama Accountability Act of 2013

- Effective beginning the 2013-2014 school year;
- 2013 tax year
- Two Tax Credits established by these Acts:
  - Section 8 - Parent Tax Credit
  - Section 9 - SGO Contribution Tax Credit
Eligibility for Credit - A parent is eligible to claim an income tax credit if ALL of the following criteria are satisfied:

1. Parent claims the eligible student as a dependent on his or her Alabama income tax return.
2. Student is enrolled in or assigned to attend a failing school.
Regulation 810-3-60-.01
Eligibility for Parent Tax Credit for Students Enrolled in or Assigned To Attend a Failing School.

3. Parent chooses to transfer the student from the failing school to a non-failing public school or ADOR approved private school; and

4. Parent incurs credible costs related to the transfer of the eligible student.
Section 9
SGO Contribution Tax Credit

Allowable credit for individuals is 100% of donation, or $7,500, whichever is less;
• Subject to 50% of AL tax liability (current year) of the donor,
• or the amount of the donation, whichever is less.
• Any unused allowable credit may be carried over for up to three tax years.
Section 9
SGO Contribution Tax Credit

Allowable credit for corporations is 100% of donation;

- Subject to 50% of AL tax liability (current year) of the donor, or the amount of the allowable credit, whichever is less.
- There are currently nine SGO’s approved to take contributions.
Alabama Accountability Act of 2013

Our website contains the following information on the AAA:

- Participating SGO’s
- Participating Non-Public Schools
Our website DOES NOT contain a list of failing schools.
For more information see http://www.alsde.edu
Alabama State Department of Education
The school is required by law to notify parents if their children are attending a failing school.
Act 2013-066
Irrigation Credit

- Amends original bill (Act 2012-391) to include a 5-year carry forward of the credit.
- Allows a pro-rata share of the credit to be passed through to partners, members, etc. of an LLE.

Original Bill:
- Provides an income tax credit of 20% of the cost of purchase & installation of irrigation equipment or reservoir but not both.
- $10,000 limit
- Must be taken the year the equipment is placed in service.
2014 Legislation
Act 2014-147
Career-Technical Dual Enrollment Program

▫ Provides an income tax credit (individual & business) for contributions made to the Department of Post-Secondary Education for qualifying expenses directly associated with the Career-Tech Dual Enrollment Program.

▫ Courses that give dual high school and college credit at any Alabama Community College System institution.
Act 2014-147
Career-Technical Dual Enrollment Program

- 50% of contribution, but cannot exceed 50% of taxpayer’s income tax liability or $500,000 whichever is less.
- Pass-through entities don’t have a liability, but the contributions flow through to the owners.
- Credit may be claimed by the donor, who cannot be a dependent of another taxpayer.
Act 2014-147
Career-Technical Dual Enrollment Program

- Unused portion carry-forward for three years.
- Cumulative amount of tax credits from this act cannot exceed $5,000,000 annually.
- Tax years beginning after 01/01/2015.
Alabama Limited Liability Company Law of 2014

- Does not affect our tax return, but clarifies the formation of LLC's and the relations of members and dealings with third parties via the Secretary of State.
- Beginning January 1, 2017, assessments will be against the LLC rather than the members.
- Adds to the Code of Alabama: Chapter 5a of Title 10A Sections 1.01 to 12.08.
Act 2014-146
Creates the Alabama Tax Tribunal

- Effective 10/01/2014.
- Creates an Independent executive branch agency, the Alabama Tax Tribunal (ATT).
- Replaces the Administrative Law Division (ALD).
- Replaces the Administrative Law Judge (ALJ) within the Department of Revenue for hearing appeals of tax matters of the ADOR as well as other participating cities & counties.
Act 2014-146
Creates the Alabama Tax Tribunal

- Changes the 30-day appeal period from the date it was entered to the date the letter was mailed or personal service, whichever comes earlier.
- Taxpayers will now be able to appeal to the tax tribunal or circuit court if a preliminary assessment is not made final or withdrawn by ADOR within five years.
- Prior law suspends statute indefinitely and taxpayer has no appeal rights.
Act 2014-146
Creates the Alabama Tax Tribunal

- Taxpayers with net worth less than $250,000 do not have to pay disputed tax or post bond on assessments.
  - Was $100,000
- Taxpayer Advocate will now be able to adjust final assessments.
- Requires ADOR attorneys to consult with taxpayer or their attorney before issuing a revenue ruling.
Act 2013-241

Historic Tax Credit

- Provides a tax credit against the tax liability of the taxpayer for the rehabilitation, preservation, and development of historic structures.
- The amount of the tax credit will be approved by the Alabama Historic Commission and administered by the ADOR.
- Taxpayer will be issued a tax credit certificate.
Act 2014-452
Historic Tax Credit

- Amends Act 2013-241 to allow:
  - The credit to be transferred one time:
    - With required paperwork and $1,000 transfer fee to ADOR.
    - Transferee could be subject to corporate income tax (credit recapture).
    - Pass-through entities can now claim the credit.
    - PTE’s may have corporations as members.
Act 2014-452

Historic Tax Credit

- Applies to state portion of Income Tax and state portion of distributable tax for Financial Institution Excise Tax.
- Maximum credit for a commercial project is $5 million.
- Maximum of $20 million of credit reservations per calendar year.
- Retroactive to 05/15/2013.
- Scheduled to end three years from the date of enactment - May 16, 2016.
Act 2014-406
Spousal Deduction

- Permits spouses who live apart for the full year to claim either the optional standard deduction or itemize deductions regardless of the type of deduction claimed by the other spouse.
- Specifically prohibits one spouse from claiming expenses paid by the other spouse.
- Effective July 1, 2014 for tax returns filed for 2014 and after.
Act 2014-413
Adoption Credit

- Refundable tax credit for private intrastate adoption or adoption of a qualified foster child.
- Claimed in the year the adoption becomes final.
- Maximum credit is $1,000 per child.
- Effective January 1, 2014 for 2014 tax year and after.
Act 2014-413
Adoption Credit

Also gives minors adopted after the effective date of this act (April 9, 2014)
• who are at least 14 years old,
• and who are adopted from the Alabama foster care system
$15,000 in post-secondary educational assistance to any public Alabama college or university, two-year college or public trade school.
-Funding for educational assistance will become effective October 1, 2016.
Act 2014-157
Rapid Response to Declared Disasters


Provides for establishing presence, residency, or doing business in the state for out-of-state businesses, including affiliates of in-state businesses, who temporarily provide resources in the state during a state of emergency.
Act 2014-157
Rapid Response to Declared Disasters

- Allows these out-of-state businesses to repair, renovate, install, or provide services relating to infrastructure that has been damaged or destroyed by a disaster.
- Exempts the out-of-state business from income or other business taxes, including use tax on the equipment they bring into the state during a disaster period.
- Period is from 10 days before to 60 calendar days after the end of disaster declaration.
Act 2014-321
Counties and Municipalities Set-off Debt Collection

- Allows counties & municipalities to submit debts owed to them as a result of any administrative or judicial proceeding to ADOR for set-off against income tax refunds.
- Must do so through Association of County Commissions or Alabama League of Municipalities.
- Debt must be at least $25, and the county or municipality can collect an additional $25 fee.
- Effective July 1, 2014.
FORMS
Withholding Tax Exemption Certificate

Form A4-E

To Be Used By Employee’s Who Qualify For An Exemption From Withholding

Form A4-E can only be used by employees who meet both of the following conditions below and their employer has received confirmation from the Alabama Department of Revenue that they qualify for an exemption from the withholding tax requirements.

(1) You incurred no tax liability for income tax imposed under Section 40-18-71 in the prior year. This means you filed a valid income tax return in the preceding year and had a zero tax liability. A zero tax liability does not mean you got a refund; it means you had no tax liability for that year and that you received 100% of your withholdings if any were withheld on your behalf. If you did not file a prior year return, you do not qualify and will need to file Form A4 instead.

(2) You anticipate you will not have an income tax liability in the coming year. If your situation has changed or your income has increased from the prior year, you may not qualify and will need to file Form A4 instead of Form A4-E.

Note: Any employee who intentionally furnishes a false or fraudulent withholding exemption certificate which prevents income tax withholding as required by Section 40-18-71 has committed an affirmative act of willful intent for felony tax evasion.

Part I – To be completed by the employee

Employee Name

Employee Social Security Number

Street Address

City

State

ZIP Code

Under penalties of perjury, I certify that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete and that I meet both conditions under the law to qualify for exemption from Alabama withholding tax. I further grant my employer the authority to confirm this exemption with the Alabama Department of Revenue.

Employee’s Signature

Date

Part II – To be completed by the employer

Date Confirmation received from the Alabama Department of Revenue for this employee:

Employer Name

Employer Identification Number (EIN)

Address

City

State

ZIP Code

To receive confirmation that the employee is entitled to file Form A4-E, an employer can log into their MAT (My Alabama Taxes) account on the Department’s website and send a secure message to verify the employee's status or they may call the Withholding Tax Section directly at 334-242-1300 for an immediate response. An employer may contact the Department for additional information on obtaining a MAT account if they do not have one. If an employer receives confirmation that the employee qualifies for exemption, the employer is not required to withhold Alabama income tax from the wages of the employee. Once confirmation has been received from the Department, an employer should maintain Form A4-E on file for their records. If the employee does not qualify for the exemption, an employer is required to withhold at the highest rate until the employee has submitted a Form A4 reflecting the proper exemption to which they are entitled.
Withholding Tax

- The Form A4-E exemption certificate requires Departmental approval to verify an employee is eligible to be exempt from withholding.
- The employer should contact the Withholding Tax Section for approval as soon as possible after receiving an A4-E.
Withholding Tax

• This can be done either by sending a message through their MAT account or by calling 334-242-1300.

• They can receive immediate approval/denial by calling the Department.

• Sending a message via MAT could take a few days.
Requirements for approval:

- The employee filed an income tax return in the preceding year and had a zero tax liability.

- A zero tax liability means they had no tax liability for the prior year and that they received 100% of their withholdings back.

- They anticipate they will not have an income tax liability in the coming year.

- If they did not file a prior year return, they do not qualify and will need to file Form A4 instead.
Public Law 111-97
Military Spouses Residency Relief Act

Spousal Income not subject to Alabama Withholding if:

The spouse is in the jurisdiction solely to be with the service member serving in compliance with military orders.

Regulation 810-3-2-.01 Individuals Subject to Alabama Income Tax has been amended to include these federal military spouse taxation changes.
Withholding Tax Exemption Certificate

ALABAMA DEPARTMENT OF REVENUE
50 North Ripley Street • Montgomery, AL 36104 • InfoLine (334) 242-1300
www.revenue.alabama.gov

Nonresident Military Spouse
Withholding Tax Exemption Certificate

Form A4-MS is to be used only for employees claiming exemption from Alabama’s income tax withholding requirements based on the conditions set forth under the Military Spouses Residency Relief Act (P.L. 111-97).

Part I – To be completed by the employee

EMPLOYEE NAME

EMPLOYEE SOCIAL SECURITY NUMBER

MILITARY SERVICEMEMBER’S NAME

SERVICEMEMBER’S SOCIAL SECURITY NUMBER

ADDRESS WHERE BOTH CURRENTLY RESIDE:
STREET ADDRESS

CITY

STATE

ZIP CODE

In order to qualify for this exemption, the employee must be able to answer True to all of the following conditions. If not, they will not qualify to use this form and will need to complete the Form A4 instead.

1. My Spouse is an active duty military servicemember ........................................... [ ] True [ ] False
2. I am not a military servicemember ............................................................... [ ] True [ ] False
3. My Spouse’s current military orders assign him/her to a location in/near Alabama . . . [ ] True [ ] False
4. I am present in/near Alabama solely to be with my servicemember Spouse ............................................................... [ ] True [ ] False
NEW Individual Schedule

Schedule AAC-
Alabama Adoption Tax Credit.
Taxpayer must file NTC (Net Tax Calculation)
if claiming this credit.
NEW Pass-Through Forms

• PTE-R - Request for Relief of Composite Payment
• Schedule G (Form 41) - Grantor Statement of Income, Deductions, and Credits
• ESBT (Form 41) - Electing Small Business Trust
PTE-R
Request for Relief of Composite Payment

- Standardizes the requests for composite relief.
- Must be filed and approved before the filing date of the return.
- Requires extenuating circumstances such as:
  - Unusual structure
  - Large NOL losses at tax paying level
  - Relief is not granted for convenience
Schedule G for Form 41

- Required for grantor trusts.
- Replaces Schedule K and K-1 for grantor trusts.
- Allows ADOR to trace the flow of income, therefore reducing the amount of correspondence with fiduciary taxpayers.
- Only applicable lines should be completed.
- Attach explanation for anything out of the ordinary.
In general, an ESBT is treated as a single trust for administrative purposes (one FEIN & one return) but is treated as two separate trusts for income tax purposes.
Schedule ESBT for Form 41
Electing Small Business and Qualified Subchapter S Trusts

- The stock in one or more S Corporations is treated as one trust.
- All other assets in the ESBT are treated as another trust.
Personnel Changes

Ronnie Bedsole is retiring as of December 31, 2014. Send your congratulation emails to:
ronnie.bedsole@revenue.alabama.gov

Drew Lancaster is in training to take over as the fiduciary go-to person. His email is:
roy.lancaster@revenue.alabama.gov
**2014 Changes (20C)**

*Form 20C*

**Corporation Income Tax Return**

For the year January 1 - December 31, 2014, or other tax year beginning [ ] , 2014, ending [ ]

<table>
<thead>
<tr>
<th>Check applicable box:</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ] PL 86-272</td>
</tr>
<tr>
<td>[ ] Initial return</td>
</tr>
<tr>
<td>[ ] Final return</td>
</tr>
<tr>
<td>[ ] Amended return</td>
</tr>
<tr>
<td>[ ] Address change</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Filing Status: (see instructions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ] 1. Corporation operating only in Alabama.</td>
</tr>
<tr>
<td>[ ] 2. Multistate Corporation – Apportionment (Sch. D-1).</td>
</tr>
<tr>
<td>[ ] 3. Multistate Corporation – Percentage of Sales (Sch. D-2).</td>
</tr>
<tr>
<td>[ ] 4. Multistate Corporation – Separate Accounting (Prior written approval required and must be attached).</td>
</tr>
<tr>
<td>[ ] 5. Proforma Return – files as part of Alabama Affiliated Group.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FEDERAL BUSINESS CODE NUMBER</th>
<th>FEDERAL EMPLOYER IDENTIFICATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAME</td>
<td></td>
</tr>
<tr>
<td>ADDRESS</td>
<td></td>
</tr>
<tr>
<td>CITY, STATE, COUNTRY (IF NOT U.S.)</td>
<td>9-DIGIT ZIP CODE</td>
</tr>
<tr>
<td>STATE OF INCORPORATION</td>
<td>DATE OF INCORPORATION</td>
</tr>
<tr>
<td></td>
<td>DATE QUALIFIED IN ALABAMA</td>
</tr>
<tr>
<td></td>
<td>NATURE OF BUSINESS IN ALABAMA</td>
</tr>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Common parent corporation: (See page 4, “Other Information,” number 5.)

Name: [ ] FEIN

[ ] Notification of Final IRS change

[ ] Federal Form 1120-REIT filed

[ ] 2220AL Attached
2014 Changes (20C)

- The company should file their return with a 0% apportionment factor and zero tax due.
- This box simply allows a corporation that is registered with the Alabama Secretary of State to meet the requirement to file an income tax return while reporting no Alabama nexus.
Modernized Electronic Filing – MeF
Modernized Electronic Filing (MeF) Helpful Hints – Approved Vendors

Make sure that your vendor is approved and also any supporting forms and schedules.

Some vendors do not support every form and/or schedule. Ex: Support 20C but not CPT.

Business MeF Approved Vendors -
http://revenue.alabama.gov/incometax/corpfilevendors.cfm

Individual MeF Approved Vendors -
http://revenue.alabama.gov/incometax/PC_ONLINE.cfm
Modernized Electronic Filing (MeF) Helpful Hints - Acknowledgements

If e-filed return is rejected by federal, the state return is not sent to the state.

Alabama reject codes will begin with AL followed by the form number and error.

All other reject codes are from IRS. Ex: STATE-903

A separate submission needs to be sent for each return filed. You will receive a separate acknowledgement for each return you e-file.
Attachments including supporting documentation can be scanned, attached and e-filed with individual tax returns.

Please make sure to reduce the file size of pdf.
Modernized Electronic Filing (MeF) Form 41 - Fiduciary

Form 41 is now available for e-file through Drake and TaxSlayer.
Check our software vendor page for updates.
Modernized Electronic Filing (MeF)  
Form 20C – PL 86-272

If a taxpayer qualifies for PL 86-272, check the checkbox.

The entire return should be completed with the apportionment factor.

Enter 0 (zero) for tax due.
Modernized Electronic Filing (MeF)  
Form 20C – Inactive

Inactive in Alabama and everywhere
- The Inactive Entity checkbox must be checked.
- Only the return information at the top of 20C, Page 1 and the paid preparer information at the bottom should be completed.
- No other part of the return can be entered. If you have other schedules/lines that can be completed, you do not meet this requirement.

Inactive in Alabama but still active in other states -
For the apportionment factor, the zero apportionment checkbox must be checked and the everywhere portion of the apportionment factors must be completed.
Modernized Electronic Filing (MeF)
CPT and PPT – New Schedules

BPT-NW (Net Worth)  BPT-NWI (Net Worth-Individual)
Balance Sheet for Forms CPT and PPT required for electronic filing. For Disregarded Entities whose single member is an individual required for electronic filing.

Only needed if taxpayer is not required to complete the Schedule L on federal return.
Modernized Electronic Filing (MeF) Contacts

Tavares Mathews – Individual MeF (40 and 40NR)
tavares.mathews@revenue.alabama.gov
334-353-9497

Missy Gillis – Business MeF (20S, 65, PTEC and 41)
melissa.gillis@revenue.alabama.gov
334-353-9178

Nicci Adams – Business MeF (20C, 20CC, CPT and PPT)
nicci.adams@revenue.alabama.gov
334-353-0685

Veronica Jennings – Mef Development and Web Service, Manager
veronica.jennings@revenue.alabama.gov
334-353-9440
QUESTIONS

- Business Privilege Tax 334-242-9800
- Corporate Income Tax 334-242-1200
- Individual Income Tax 334-242-1000
- Pass Through Entity 334-242-2100
- Special Audit and Compliance 334-242-1500
- Withholding Tax 334-242-1300