

Business Essentials for State Taxpayers (B.E.S.T.)


Presented to the Ozark Chamber of Commerce

*Alabama Department of Revenue
Thursday – April 7, 2022*

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Understanding that the state's tax structure and filing requirements can appear complicated and confusing to business owners, we are here today to offer you a brief overview of several business tax topics. These are:

- Sales, Use, Lodgings, & Rental Taxes
- Business Personal Property Taxes
- Recordkeeping & Business Expenses
- Business Income Filing Requirements



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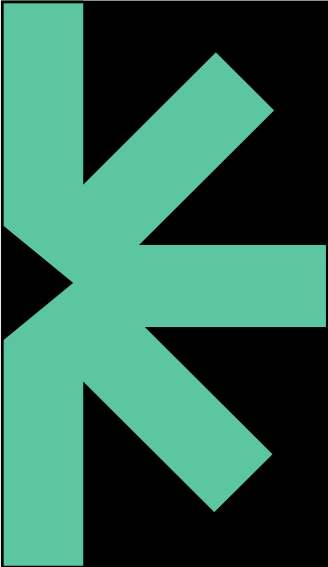
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Disclaimer

The information in this presentation is intended to be an overview. It is not a comprehensive explanation of all aspects of the subject matter, does not represent legal advice, and is not legally binding on the Department. Information regarding taxes and tax administration changes frequently and should always be confirmed through a tax professional.

Please refer to the Alabama Department of Revenue website at revenue.alabama.gov for additional information.



Sales, Use, Lodgings, & Rental Taxes

Business Essentials for State
Taxpayers (B.E.S.T.)

Presented by Donna Mathis

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Purpose of this Section

To inform Alabama taxpayers of the requirements and guidelines for charging, collecting, and remitting the following taxes:

- Sales Tax (SLS)
- Sellers Use Tax (SLU)
- Simplified Sellers Use Tax (SSU)
- Consumers Use Tax (CNU)
- Lodgings Tax (LOG)
- Rental/Leasing Tax (RNT)



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Taxes Administered by the Sales & Use Tax Division

- Sales Tax
- Use Tax (Sellers Use & Consumers Use)
- Lodgings Tax
- Rental/Leasing Tax
- Miscellaneous Taxes
 - Utility
 - Prepaid Wireless Charge
 - Mobile Service
 - Contractors Gross Receipts
 - Dry-Cleaning Fee



Who Must Register for a Tax Account Number?

- **All Retail Businesses** – Businesses which sell tangible personal property to the end user must register for an Alabama Sales Tax Account Number.
- **Places of Amusement** – Business which charge for entertainment or amusement must register for an Alabama Sales Tax Account Number.
- **Lodgings Businesses** – Businesses which provide short term lodgings must register for an Alabama Lodgings Tax Account Number.
- **Rental Businesses** – Businesses which lease tangible personal property must register for an Alabama Rental Tax Account Number.
- **All Other Businesses Not Listed** – Contact your local ADOR Taxpayer Service Center to determine what (if any) state taxes apply.



Registering for a New Tax Account Number

How to Apply for a New State Account Number with the Alabama Department of Revenue:

- Online My Alabama Taxes (MAT) registration –
<https://myalabamataxes.alabama.gov>



Registering for a New Tax Account Number

How to Apply for a New Account Number with the City and/or County:

- State-Administered Localities – registration is included with State registration
- Self-Administered or Privately-Administered Localities – will need to contact the locality directly

List of Non-State Administered localities can be found at:

<http://revenue.alabama.gov/sales-use/tax-rates> and clicking on “City and County Taxes Not Administered by the Alabama Department of Revenue” under Tax Rate Reports



What If No Retail Sales are Being Made?

- The following may require an Alabama Sales Tax Certificate of Exemption (Form ST:EX-A1):

- **All Wholesalers** – Businesses which sell exclusively to retailers, manufacturers, or other wholesalers (may require certificate of exemption).
- **Manufacturers** - Businesses making purchases of raw materials to be included in the final product.

Please contact the Taxpayer Service Center in your area if you have questions.

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Sales Tax

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What is Sales Tax?

- A privilege tax imposed on the retail sale of tangible personal property sold in Alabama by businesses located in Alabama.
- The tax is collected by the seller from their customers and remitted directly to the state, city, and/or county.
- All sales of tangible personal property are retail sales except those defined as wholesale sales.



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State Tax Rates

- | | |
|-----------------------------|-------|
| • General Rate | 4.00% |
| • Consumable Vapor Products | 4.00% |
| • Reduced Rates: | |
| ➤ Automotive | 2.00% |
| ➤ Farm | 1.50% |
| ➤ Machine | 1.50% |
| ➤ Vending | 3.00% |

Please check your local (city and county) tax rates on the ADOR website: <http://revenue.alabama.gov/sales-use/tax-rates/>



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General Terms and Definitions

- **Retail Sales** – Sale of tangible personal property to the consumer or end user. (Excludes certain labor, services, and real estate.)
- **Consumable Vapor Products** – Total gross sales of consumable vapor products that **contain nicotine** should be included under Vapor Products (electronic cigarettes) – 4%. Sales of vapor products that do not contain nicotine should be included under General Sales Tax – 4%.
- **Wholesale Sales/Sales for Resale** – Sale of tangible personal property to licensed merchants, dealers, or other wholesalers for “resale”. (The Seller must maintain a copy of the sales tax license or exemption certificate for these customers.)



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General Terms and Definitions

- **Withdrawals** – Any items purchased tax-exempt and withdrawn for use instead of being sold are subject to sales tax at cost.
- **Over Collections** – Tax collected over and above actual rate. Any over collections must be paid to the State. Same holds true for local sales tax.
- **Exemptions/Exempt Sales** – Non-taxable transactions, vary to types of business, consumer, and items sold.



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What are Sales Tax Exempt Sales?

Commonly-Seen Exemptions:

- **Sales of Exempt Items** – Items specifically exempted by law (Rx drugs, gasoline, motor oil).
- **Sales to Exempt Customers** – Customers specifically exempted by law or have a Certificate of Exemption, Direct pay permit, Government Agencies in Alabama, Federal Government.

Please note that statutorily exempt entities must now obtain an annual exemption certificate.



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What are Sales Tax Exempt Sales?

- **Sales Paid for with Food Stamps** – Applies only to approved food items purchased with Food Stamps. All other items taxable.
- **Out of State Sales** – Generally shipped by common carrier, such as USPS, UPS, or any other carrier that ships for the public.
- **Wholesale Sales/Sales for Resale** – Sales to licensed dealers. Obtain copy of sales tax license or Certificate of Exemption.
- **Certain Labor** – Not all labor is exempt from tax.



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What Labor is Taxable?

Types of Labor and Taxability of Each

- **Repair Labor** – Not taxable provided it is shown as a separate line item on the invoice.
- **Installation Labor** – Condition of sale to install an item. Not taxable provided the labor is broken out or shown as a separate item. If labor is included in the total sum, then the total amount is taxable.
- **Fabrication Labor** – On custom or made to order items, labor can not be deducted. It is part of the cost to manufacture the item.

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**Sellers, Simplified
Sellers, and
Consumers Use Tax**

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What is Sellers Use Tax?

A tax that is imposed on the retail sale of tangible personal property sold in Alabama by businesses located outside of Alabama which have no inventory located in Alabama, but are making retail sales in Alabama via sales offices, agents, or by any significant recurring contact or “nexus” with Alabama.

Nexus in Alabama is having a physical presence in the state. This can be in the form of making deliveries, having sales representatives or service and repair personnel, or some other physical presence.



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What is Simplified Sellers Use Tax?

- §40-23-191, Code of Alabama 1975, entitled the “Simplified Sellers Use Tax Remittance Act” allows “eligible sellers” to participate in a program to collect, report, and remit a flat 8% Simplified Sellers Use Tax (SSUT), on sales made into Alabama.
- An “eligible seller” is one who sells tangible personal property or service into Alabama from an inventory or location outside the state and who has NO physical presence and is not otherwise required by law to collect tax on sales made into the state.
- The collection and remittance of the SSUT relieves the eligible seller and the purchaser from any additional state and local sales or use taxes on the transaction.



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Where will I see Simplified Sellers Use Tax?

- Online purchases from remote eligible sellers.
- As a consumer, you should see the following statement on purchase invoices/receipts that are made by eligible sellers:
“Seller has collected the simplified sellers use tax on this transaction(s) and the tax will be remitted on the customer’s behalf to the Alabama Department of Revenue. Seller’s program account number is SSU-RXXXXXXXXX.”
- As a consumer you should not see SSUT charges on invoice/receipts from instate vendors or brick and mortar vendors. Sales tax would be due on these type of transactions.

Remember, if you make an online purchase and the vendor does not charge the applicable Alabama Sales Tax and/or SSUT, you, as the consumer, are required to make a remittance of the Consumer’s Use Tax on the purchase.



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What is Consumers Use Tax?

- Due when merchandise is purchased at retail and brought into Alabama for storage, use, or consumption unless specifically exempted by law.
- Counterpart to sales tax.
- Enacted to prevent vendors located outside the state from having an unfair advantage against in-state vendors who charge sales tax.
- Use tax rates are the same as state sales tax rates.



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Lodgings Tax

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What is Lodgings Tax?

- A privilege tax on persons, firms, and corporations engaged in the renting or furnishing rooms, lodgings, or other accommodations to transients for periods of less than 180 days of continuous occupation.
- This includes, short-term rental of rooms in one's personal home through online rental sites such as, Airbnb, VRBO, Craigslist, and other online portals.
- State Rates: *(Note different rate for North Alabama Mountain Lakes area.)*
 - Lodgings 4%
 - North Alabama* 5%

**North Alabama Mountain Lakes area includes Blount, Cherokee, Colbert, Cullman, DeKalb, Etowah, Franklin, Jackson, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, and Winston counties.*



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Lodgings Tax Exemptions

- Lodgings for a period of 180 continuous days or more.
- Lodgings paid directly by the United States Government.
<https://smartpay.gsa.gov/content/gsa-smartpay-travel-account>
- Federal credit unions.
- Entities that are exempted from the payment of any and all state, county, and municipal taxes.
- Marine slips, places or spaces for tent camping, places or spaces provided for motor homes, travel trailers, self-propelled campers or house cars, truck campers, or similar recreational vehicles commonly known as RVs, that are supplied for a period of 90 continuous days or more in any place. *(Effective October 1, 2019.)*



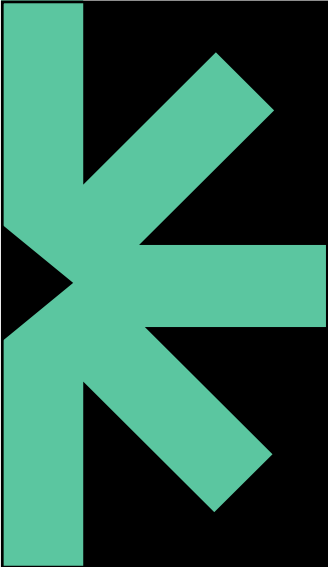
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Lodgings Tax Exemptions

- Effective January 1, 2009, charges for rooms, lodgings or accommodations made in connection with a state-certified production which meets the requirements of Section 41- 7A-45, Code of Alabama 1975, as amended, shall be exempt from the state lodgings tax.
- Certain foreign diplomats and consular officials are exempt from state, county, and municipal lodgings.
- Charges for certain rooms, lodgings, or accommodations supplied by camps, conference centers, or similar facilities are exempt from lodgings tax.



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Rental/Leasing Tax

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What is Rental Tax?

- Privilege tax levied on the lessor for the leasing or renting of tangible personal property. *(Note: It does not include real property.)*
- True Lease vs. Conditional Sales Lease

State Rates:

Automotive vehicles	1.5%
Linens	2.0%
Other	4.0%



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Can Rental Tax be Charged to the Customer?

- Lessors can pass on licenses or privilege taxes by adding such taxes to the leasing price.
- All such amounts constitute gross proceeds subject to the privilege or license tax and shall be included in the monthly taxable gross proceeds subject to the rental tax.
- Rental tax is levied against the lessor and is not a consumer tax.
- A lessor may not pass on such amounts to the lessee on leases of tangible personal property to the State of Alabama, a municipality, or county of the State, unless the flat amount includes both the tax and the leasing fee.



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Rental vs. Sales Tax Example

- Equipment rental of \$100.00 and parts sales of \$100.00. Both rental and sales tax rates total 8% (State 4%, County 1%, City 3%).
- Charge customer rent for equipment \$100 plus \$8.00 “rental tax” for total \$108.00.
Equipment owner reports and pays 8% rental tax on \$108.00 = \$8.64.
- Charge customer for parts purchased \$100.00 plus \$8.00 sales tax for total of 108.00.
Seller reports \$100 sales and remits \$8.00 sales tax collected from customer.



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Rental Tax Exemptions

- The leasing or rental of oxygen or durable medical equipment by a provider to a recipient of benefits under the Medicare or Medicaid program under orders from a duly licensed physician.
- Items used for the treatment of illness or injury or to replace all or part of a limb or internal body part rented or leased by or on behalf of an individual pursuant to a valid prescription and covered by and billed to Medicare, Medicaid, or a health benefit plan.
- Medical supplies that are covered by and billed to Medicare, Medicaid, or a health benefit plan.



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Rental Tax Exemptions

- Alabama lessor rents items located outside of Alabama.
- The gross receipts derived from leases or rentals of tangible personal property are not subject to rental tax when the 4 percent amusement tax applies to the same gross receipts.



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Filing Requirements

- Returns are filed monthly with the following exceptions:
- Can request quarterly filing if total State tax for previous calendar year is less than \$2,400.
- Can request biannual filing if total State tax for previous calendar year is less than \$1,200 or no transactions no more than two 30 consecutive day periods during the preceding calendar year.
- Sales and Rental Tax can request annual filing if total State tax for previous calendar year is less than \$600.



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Filing Requirements

- Report total sales, use, lodgings, or rental income on the appropriate accounts.
- Exempt or non-taxable transactions are reported as a deduction.
- Must file even if there are no transactions for the month. Also known as a zero return.



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Due Dates for Filing Taxes

- Taxes are due the following month or tax period.
- Taxes are delinquent after 4:00 PM Central Time on the 20th of the following month.
- If the 20th of the month falls on a weekend or holiday, taxpayer must file on or before the next working day to be timely filed.
- Penalties are due if not timely filed or timely paid.



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Discount for Timely Filing

Discounts for timely filing are applied on sales and lodgings taxes. There are no discounts on use or rental taxes. The calculations are automatically calculated when filing the returns on My Alabama Taxes (MAT).

- 5% on the first \$100.00 of tax
- 2% on the amount of tax over \$100.00
- Total monthly discount may not exceed \$400.00



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Penalties

- **Failure to Timely File Penalty**
10% of tax due or \$50; whichever is greater
- **Failure to Timely Pay Penalty**
 - 1% of tax due per month; maximum 25% (e.g., income tax returns)
 - Flat rate of 10% of tax due for monthly and quarterly returns (e.g., sales, lodgings, or rental tax returns)
- **Negligence Penalty** (*intentional disregard for rules and/or regulations*)
5% of tax due
- **Fraud Penalty** (*to purposely deceive*)
50% of tax due



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Interest Due

- If the tax is not timely paid, interest is also due and by law cannot be waived.
- The rate of interest changes because it is the same rate as established by the U.S. Secretary of the Treasury under the authority of 26 U.S. Code § 6621.
- Current interest rates can be viewed at:
<https://revenue.alabama.gov/assessments/quarterly-interest-rates/>

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Alabama Tax License- Annual Renewal

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Renewal of Alabama Tax Licenses

Taxpayers are now required to renew the State of Alabama Tax License by December 31 of each year, through MAT, for the tax accounts listed below:

- Sales Tax
- Rental Tax
- Sellers Use Tax
- Simplified Sellers Use Tax
- Lodgings Tax
- Utility Gross Receipts Tax



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Renewal of Alabama Tax Licenses

You will be required to review and/or update the following information:

1. Current Legal Name – must be reviewed.
2. Owner/Officer/Member Information – must be reviewed and/or updated.
3. Phone number(s) – must be reviewed and/or updated.
4. Social security numbers/FEIN's – must be reviewed.
5. Main address must be reviewed.
6. Location address(es) including the d/b/a for each location – must be reviewed and/or updated.



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Business Personal Property Tax

Business Essentials for State Taxpayers (B.E.S.T.)

Presented by Matthew Sanders

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Purpose of this Section

To inform Alabama taxpayers of the requirements and guidelines for reporting taxable personal property in the state.

We will cover:

- What is taxable personal property
- How and when it is to be reported
- How property tax is calculated



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What is Property (Ad Valorem) Tax?

- Ad Valorem [Latin] - According to the value of
- Tax levied according to the value of the property being taxed
- Property tax is assessed and collected at the county level in Alabama



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What Property Owned by a Business is Taxable?

- Real Property
- Motor Vehicles
- Personal Property



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What is Personal Property?

- Property not permanently affixed to, or part of, the real property
- Examples - furniture, computers and/or equipment
- Everything that is **NOT** real estate is personal property



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Who is Required to Report Personal Property?

- Every individual, firm, or corporation owning business personal property located in Alabama on October 1;
- Every owner of an aircraft based in Alabama; and
- Every holder of a permanent trailer tag issued by the State of Alabama.



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When Should Personal Property Be Reported?

- Between October 1 (lien date) and December 31
- Late returns incur a penalty and fee



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Business Personal Property

- Class II property assessed at 20% of market value
- Property tax is billed one year in arrears on October 1 and due no later than December 31
- Property located in Alabama on October 1 is taxable, unless specifically exempted



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How Do I Obtain a Business Personal Property Return Form?

- Form mailed from the local county office each year
- Local county assessing official's office
- Download the form (ADV-40) from www.revenue.alabama.gov.



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Online Filing

Available to taxpayers each year from
October 1 to January 31

OPPAL.alabama.gov



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What Should Be Included in the Itemized Listing?

- Description of the Property
- Acquisition Date of the Property
- Acquisition Cost of the Property

<u>Type of Property</u>	<u>Date Acquired</u>	<u>Acquisition Cost</u>
10 Dell Computers	05/23/2018	\$10,000
4 Dell Computers	02/12/2020	\$ 5,200

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How Is My Property Tax Calculated?

Example: Assume you have a business with a total asset market value of \$10,000 located in a city with a combined millage rate of 34.5 mills*, the taxes would be:

ASSESSED VALUE CALCULATION

<u>Property Market Value</u>		<u>Assessment Ratio</u>		<u>Assessed Value</u>
\$10,000	X	20%	=	\$2,000

PROPERTY TAX CALCULATION

<u>Property Assessed Value</u>		<u>Millage Rate (as a decimal)</u>		<u>Property Taxes</u>
\$2,000	X	0.0345	=	\$69

**Millage rates vary, depending on location. Millage rates are listed on the ALDOR website or call your local county assessing official.*

Home Businesses

All personal property used in a home-based business, even if the same property is used personally by the homeowner.

Examples:

- A refrigerator is used for your in-home daycare. It is taxable and should be reported on your return at 100% of acquisition cost.
- Computers may be for personal and business use. They are taxable and should be reported at 100% of the acquisition cost.

Supplies

- Stocks of goods intended to be consumed during the normal course of business. **Not** raw materials, goods in process, or inventory held for sale.
- Report either cost of supplies on hand as of October 1, or one month's average cost.
- Examples:
 - Paper used to wrap sandwiches sold by a restaurant
 - Oil used to lubricate machinery in a plant
 - Cleaning supplies used by a janitorial firm



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Reminders

- Property taxed at market value as of October 1, each year
- Business Personal Property reported to local county assessing official's office (Form ADV-40) or through official websites
- All property subject to tax in Alabama must be reported annually



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Recordkeeping and Business Expenses

Business Essentials for State Taxpayers (B.E.S.T.)

Presented by Donna Mathis

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Purpose of this Section

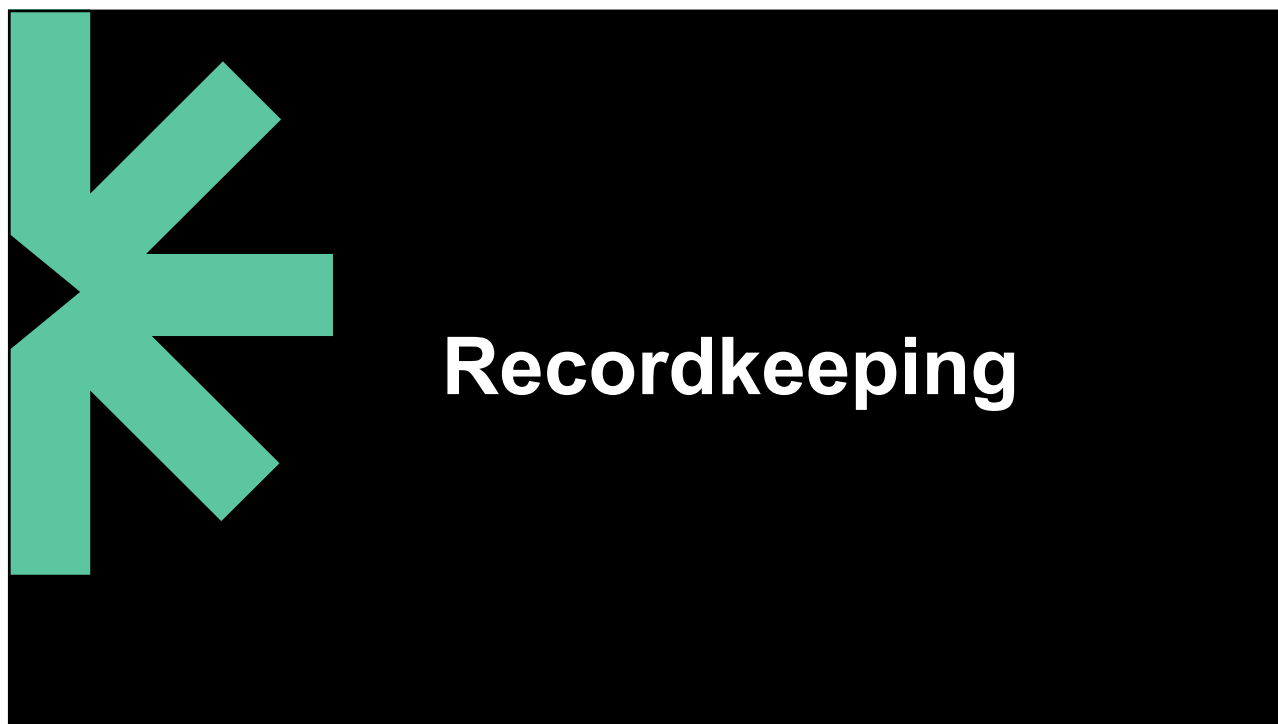
In this section, we will discuss the requirements and guidelines for recordkeeping and determining business expenses.

This presentation will cover:

- Why keep records
- What records to keep and for how long
- Statute of limitations
- Types of business expenses
- How to document business expenses
- Burden of proof



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Why Should I Keep Records?

- To monitor the progress of your business and future planning
- To prepare your financial statements
- To identify sources of income or losses
- To keep track of deductible expenses
- To keep track of your basis in property
- To prepare your tax returns
- To support items reported on your tax returns



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How to Keep Records

- Recordkeeping means keeping documents in an orderly manner, which may take some discipline.
- Recordkeeping systems do not have to be complicated. It can be as simple as using folders or envelopes or a more advanced computer system. Office supply stores also have several options.
- The system should be easy to use.
- There needs to be a good place to store the records.
- The documents should be easy to retrieve.
- The system should work for you and your type of business.
- For more details, see IRS – Publication 583 at [irs.gov](https://www.irs.gov).



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What Kind of Records Should I Keep?

- The business you are in will determine the type of tax records you need to keep.
- All untaxed sales must be verified and documented.
- Copies of sales tax certificates of exemption and/or retail certificates should be kept on file. (*This information makes up the customer tax exempt file.*)



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What Kind of Records Should I Keep?

The law does not specify what records must be kept. However, the following may be requested:

Bank Statements,
Deposit Slips &
Canceled Checks

Credit Card
Receipts &
Statements

Paid
Invoices/Statements
(purchases & sales)

Receipts

Payroll
Information

Z-Tapes & Cash
Register Recaps
or other Sales
Documents

Sales Journal

Customer Tax
Exempt Files

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How Long Should I Keep Financial Records?

- Keep records that support an item of income or expense/deduction on a return until the statute of limitations runs out for that return.
- Statute of Limitations – Period of time in which the *State of Alabama* can assess *additional tax*.

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Statute of Limitations

Generally, all returns and amended returns	3 years from the date you file the return
Do not report income that you should report, and it is more than 25% of the gross income shown on return	6 years from the date you file the return
File a fraudulent return	Not limited
Do not file a return	Not limited
Net Operating Loss (NOL)	Until the loss is exhausted

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Business Expenses

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Business Expenses

- To be deductible, a **business expense** must be both ordinary and **necessary**.
- **Ordinary expense** is one that is common and accepted in your trade or business.
- **Necessary expense** is one that is helpful and appropriate for your trade or business.
- For more details, see IRS Publication 535, Business Expenses at [irs.gov](https://www.irs.gov).



Types of Business Expenses

- **Business Start-Up Costs** – These are generally capital expenses.
- **Improvements vs. Maintenance** – Improvements are capitalized vs. maintenance, which is deducted.
- **Depreciation** – Spreads the cost of an asset with a useful life that extends substantially beyond the year it is placed in service.
- **Cost of Goods Sold** = Beginning Inventory + Purchases – Ending Inventory



Types of Business Expenses

- **Payroll** – Wages, employer's contribution to Social Security, Medicare, Unemployment Taxes
- **Business Use of Your Home** – Must meet specific requirements listed in IRS Publication 583 - Starting a Business and Keeping Records (see [irs.gov](https://www.irs.gov))
- **Car and Truck Expenses** – Can use actual expenses or standard mileage rate



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Daily Business Mileage Log

Date	Destination (City, Town or Area)	Business Purpose	Odometer Readings			Business Miles	Personal Miles
			Start	Stop	Miles		

Note: You can keep a mileage log in a notebook and update it by hand or use a spreadsheet to continuously track your mileage. You can also use a mileage-tracking app. The key is to update your records regularly to ensure that they're precise.



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Burden of Proof

- The responsibility of the taxpayer to substantiate entries, deductions, and statements made on tax returns.
- You must be able to prove certain elements (*proof of payment & supporting documentation*) of expenses in order to deduct them.

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How to Prove Certain Business Expenses

	Amount	Time	Place or Description	Business Purpose Business Relationship
Gifts	<ul style="list-style-type: none"> • Cost of the gift (\$25 per person per year) 	<ul style="list-style-type: none"> • Date of the gift 	<ul style="list-style-type: none"> • Description of the gift 	
Transportation	<ul style="list-style-type: none"> • Cost of each separate expense • Car expenses, date you started using it for business • Mileage for each business use 	<ul style="list-style-type: none"> • Date of the expense 	<ul style="list-style-type: none"> • Business destination 	Purpose: Business purpose for the expense Business Relationship: N/A
Travel	<ul style="list-style-type: none"> • Cost of each separate expense for travel, lodging, and meals 	<ul style="list-style-type: none"> • Dates you left and returned for each trip • Number of days spent on business 	<ul style="list-style-type: none"> • Destination or area of travel (name of city, town or other designation) 	Purpose: Business purpose for the expense Relationship: N/A

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When Can an Expense Be Deducted?

- **Cash method** – Deduct business expense in the year paid.
- **Accrual method** – Deduct when:
 1. All events have occurred that fix the fact of liability, and
 2. The liability can be determined with reasonable accuracy.
- Whichever method is used to deduct expenses must be used to recognize income.



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When Can an Expense Be Deducted?

Example – You have work done and are invoiced in 2020 but paid the invoice in January 2021.

- If using the cash method, then the expense is deducted in 2021, when the invoice is paid.
- If using the accrual method, then the expense is deducted in 2020, when the work was done, and the invoice was received.



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Business Income Filing Requirements

Business Essentials for State
Taxpayers (B.E.S.T.)

Presented by Holly Hewitt

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Purpose of this Section

To inform Alabama taxpayers of the requirements and guidelines for filing business income taxes in Alabama. This presentation will:

- Define business entity types
- Provide income filing requirements for each business entity type
- Discuss estimated taxes
- Review penalties and interest due



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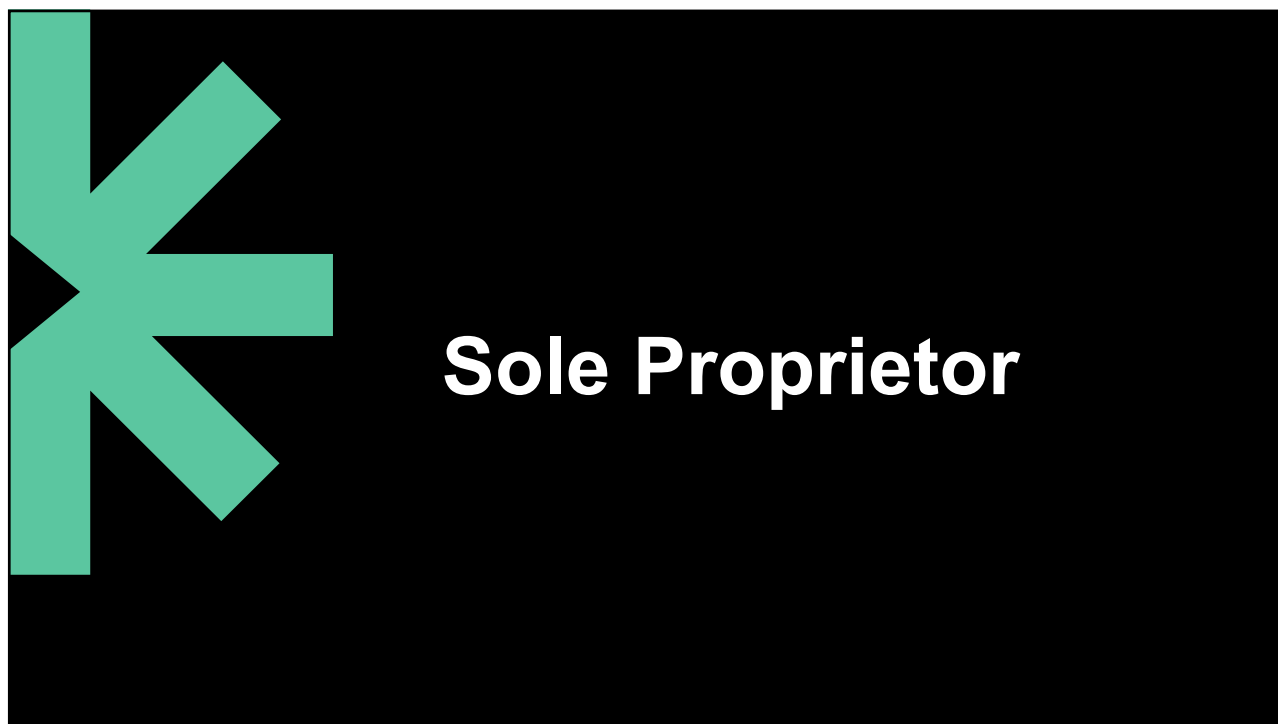
Business Entity Types

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Business Entities Types and Tax Reporting

	Entity Taxed As	Tax Reporting	Due Dates
Sole Proprietor	<ul style="list-style-type: none"> One owner Not a separate taxable entity 	<ul style="list-style-type: none"> For an individual income is reported on the Alabama Form 40, with the required attachments. Income and Expenses reported on Federal Schedule C, Form 40 Schedule E, or Federal Schedule F 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
Partnership	<ul style="list-style-type: none"> Two or more owners/partners Income/loss passes through to owners/partners 	<ul style="list-style-type: none"> Partnership income reported on Form 65, with the required attachments. Partner's share of Income/Loss reported on Schedule K-1 Amount from K-1 is reported on Form 40 Schedule E 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
S Corporation	<ul style="list-style-type: none"> No tax at entity level (<i>see Form 20S for exceptions</i>) Income/loss passes through to owners/shareholders 	<ul style="list-style-type: none"> Income reported on Form 20S, with the required attachments. Partner's share of Income/Loss reported on Schedule K-1 Amount from K-1 is reported on Form 40 Schedule E 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
C Corporation	<ul style="list-style-type: none"> Taxed at entity level 	<ul style="list-style-type: none"> Income reported on Form 20C, with the required attachments. 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.

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Sole Proprietor

- A single owner or single member LLC is a sole proprietor by default.
- A sole proprietorship is not a separate taxable entity.
- A sole proprietorship files an Alabama Form 40, with the required attachments including Federal Schedule C or C-EZ, Form 40 Schedule E, or Federal Schedule F (See the form instructions.)
- The Alabama Income Tax Return is due no later than the corresponding Federal Income Tax Return as required to be filed under federal law.



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Sole Proprietor

Form 40 (2020) Page 2

PART I

1	Alimony received	1	00
2	Business income or (loss) (attach Federal Schedule C or C-EZ) (see instructions)	2	00
3	Gain or (loss) from sale of Real Estate, Stocks, Bonds, etc. (attach Schedule D)	3	00
4a	Total IRA distributions	4b	Taxable amount (see instructions)
5a	Total pensions and annuities	5b	Taxable amount (see instructions)
6	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	6	00
7	Farm income or (loss) (attach Federal Schedule F)	7	00
8	Other income (state nature and source — see instructions)	8	00
9	Total other income. Add lines 1 through 8. Enter here and also on page 1, line 7.	9	00

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Sole Proprietor

FORM 40 2020 Alabama Individual Income Tax Return

RESIDENTS & PART-YEAR RESIDENTS

For the year Jan. 1 - Dec. 31, 2020, or other tax year: Beginning: Ending:

Your first name: Initial: Last name: Spouse's first name: Initial: Last name: Present home address (number and street or P.O. Box number): City, town or post office: State: ZIP code: Check if address is outside U.S.: Foreign Country: Your social security number: Check if primary is deceased Primary's deceased date (mm/dd/yyyy): Spouse's social security number: Check if spouse is deceased Spouse's deceased date (mm/dd/yyyy): CHECK BOX IF AMENDED RETURN: []

Filing Status/Exemptions

1 ☐ \$1,500 Single 3 ☐ \$1,500 Married filing separate. Complete Spouse SSN ☐

2 ☐ \$3,000 Married filing joint 4 ☐ \$3,000 Head of Family (with qualifying person). Complete Schedule HOF.

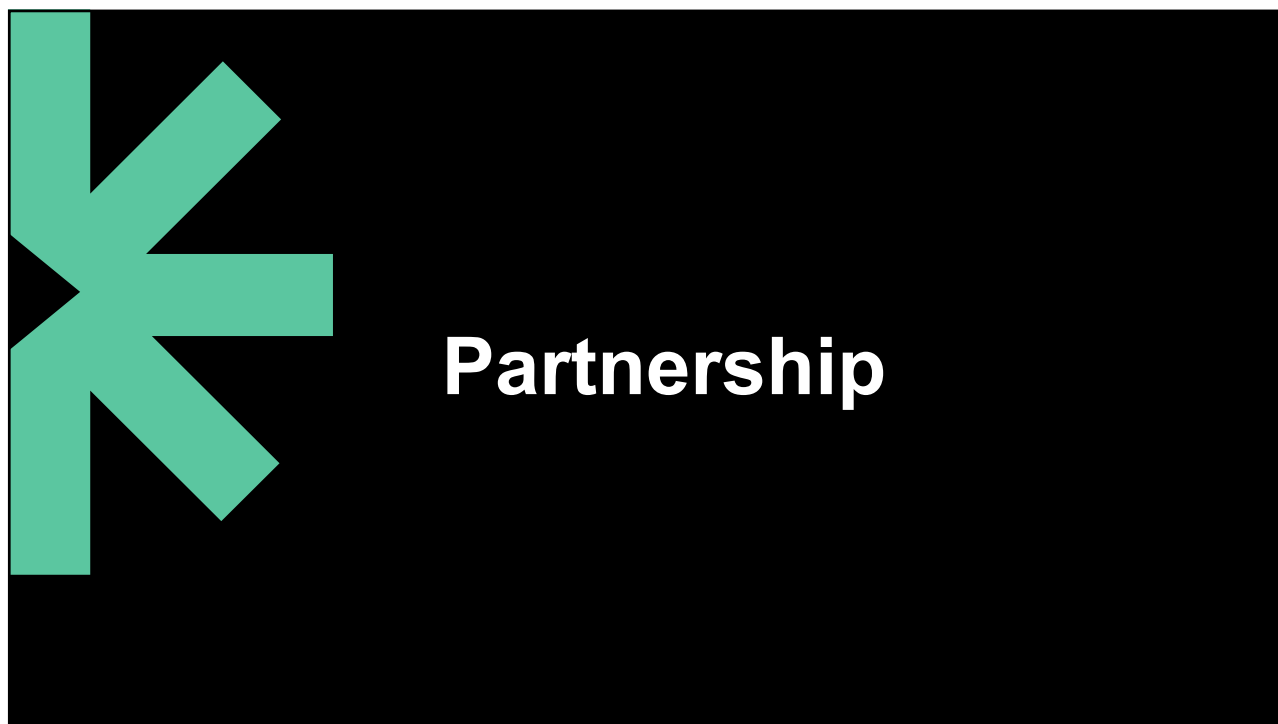
Income and Adjustments

5a	Alabama Income Tax Withheld (from Schedule W-2, line 18, column G)	A - Alabama tax withheld	5a	00
5b	Wages, salaries, tips, etc. (from Schedule W-2, line 18, column I plus J)	B - Income	5b	00
6	Interest and dividend income (also attach Schedule B if over \$1,500)	6	00	
7	Other income (from page 2, Part I, line 9)	7	00	
8	Total income. Add amounts in the income column for line 5b through line 7.	8	00	
9	Total adjustments to income (from page 2, Part II, line 15)	9	00	
10	Adjusted gross income. Subtract line 9 from line 8.	10	00	

Deductions

11 Check box a, if you itemize deductions, and enter amount from Schedule A, line 27. Box a or b MUST be checked

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Partnership

A partnership is the relationship existing between **two or more persons**, who join to carry on a trade or business.

Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business.



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Partnership

- Income/loss of the partnership is reported on Alabama Form 65, with the required attachments. (See the form instructions.)
- Each partner's share of income/loss is filed on the Schedule K-. Each partner then reports their K-1 amount on their own Alabama Form 40 Schedule E.
- *Note: Married couples may file as a sole proprietor if filing Married Filing Joint Return.*
- This informational return is due no later than the corresponding Federal Return, as required to be filed under federal law.



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Types of Partnership

There are four types of partnerships:

- General Partnership
- Limited Liability Company (LLC)
- Limited Partnership (LP)
- Limited Liability Partnership (LLP)



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General Partnership

In a General Partnership, each partner has unlimited personal liability.



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Limited Liability Company (LLC)

An LLC protects the owner from personal liability and all profits/losses are passed through to your personal income without facing corporate taxes.

Depending on the elections made by the LLC and the number of members, the IRS will treat an LLC as either a corporation, partnership, or as part of the LLC owner's tax return (a "disregarded entity").



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Limited Partnership (LP)

An LP has one general partner with unlimited liability and all other partners have limited liability.



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Limited Liability Partnership (LLP)

In an LLP, every owner has limited liability and is protected from the actions of the other partners.



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Partnership

FORM 65 [Reset Form](#)  Alabama Department of Revenue **2020** 52/53 Week

Partnership/Limited Liability Company Return of Income

Important! You Must Check Applicable Box:

- ☐ Amended Return
- ☐ Initial Return
- ☐ Final Return
- ☐ General Partnership
- ☐ Limited Partnership
- ☐ LLC/LLP
- ☐ Qualified Investment Partnership
- ☐ Public Housing Project
- ☐ Publicly Traded
- ☐ Series LLC

Filing Status: (see instructions)

- ☐ 1. Company operating only in Alabama.
- ☐ 2. Multistate Company – Apportionment (Sch. C).
- ☐ 3. Multistate Company – Separate Accounting (Prior written approval required and must be attached) or Sch. B non-business allocation only.


Federal Audit Change: ☐ Check if the company qualifies for the Alabama Enterprise Zone Credit or the Capital Credit. ☐ During The Tax Year.

UNLESS A COPY OF FEDERAL FORM 1065 IS ATTACHED THIS RETURN IS INCOMPLETE

Caution: Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

1. a. Gross receipts or sales.....	1a	
b. Returns and allowances.....	1b	
c. Balance. Subtract line 1b from line 1a.....	1c	
2. Cost of goods sold (attach Federal Form 1125-A).....	2	
3. Gross Profit. Subtract line 2 from line 1c.....	3	
4. Ordinary income (loss) from other partnerships, estates, and trusts (from Schedule P, line 1d).....	4	
5. Net farm profit (loss) attach Schedule F (Federal Form 1040).....	5	

Schedule K-1 to be filed with Form 65 for Partnerships

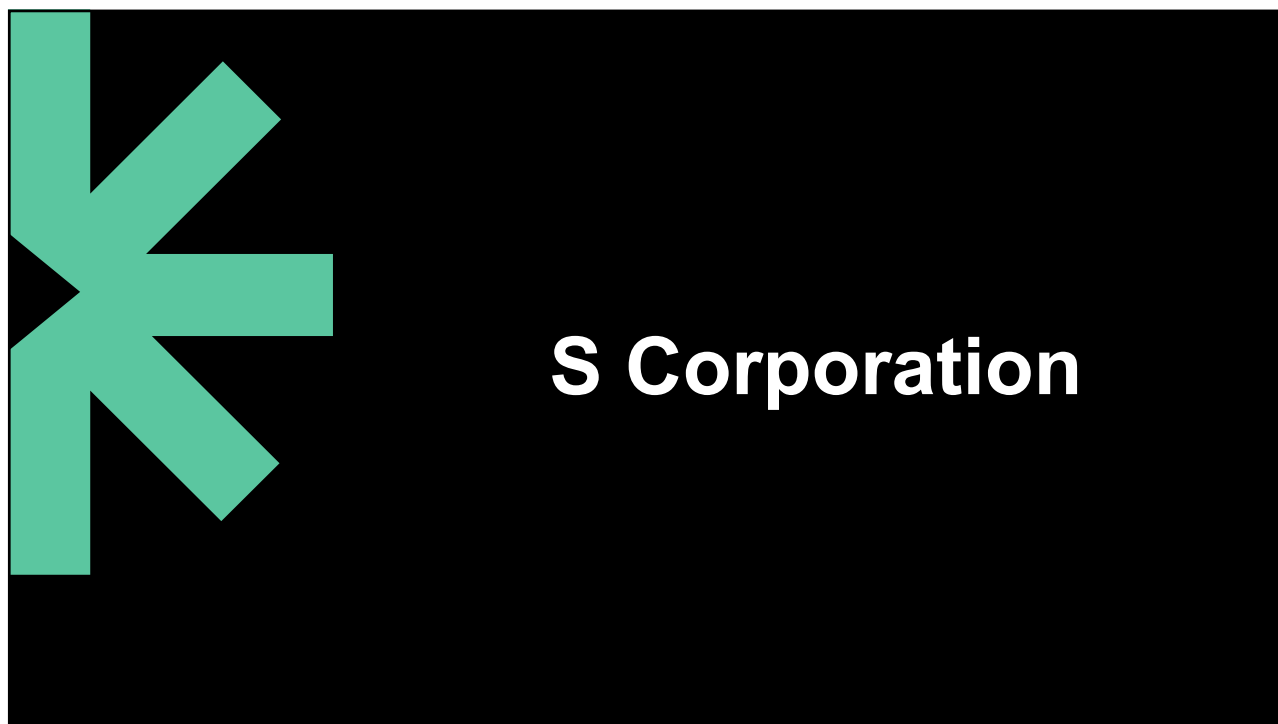
SCHEDULE K-1 [Reset Form](#)  ALABAMA DEPARTMENT OF REVENUE INCOME TAX ADMINISTRATION DIVISION **2020**

Owner's Share of Income, Deductions, Credits, etc.

SEE INSTRUCTIONS

☐ QIP Tax year beginning _____, 2020 and ending _____, 20_____ ☐ Final K-1 ☐ Amended K-1

PART I Information About the Partnership		PART III Partner's Share of Current Year Income, Deductions, Credits, and Other Items	
A	Partnership's Employer Identification Number	Distributive share allocated and apportioned to Alabama	
B	Partnership's name, address, city, state, and zip code	G	Ordinary income (loss)
		H	Net rental real estate income (loss)
		I	Guaranteed payments
		J	Portfolio income
PART II Information About the Partner		Distributive share to be reported by Alabama Residents	
C	Partner's identifying number (Do not use TIN of a disregarded entity)	G2	Ordinary income (loss)
		H2	Net rental real estate income (loss)
		I2	Guaranteed payments
		J2	Portfolio income



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S Corporation
<p>An S Corporation (S Corp) passes income, losses, deductions, and credits through to their shareholders, who report the flow-through of income and losses.</p> <p>This allows an S Corp to avoid double taxation on the corporate income.</p>

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S Corporation

- S Corporations are Pass-Through Entities because the income/loss passes through to the shareholders.
- Each partner's share of income/loss is filed on the Schedule K-1. Each partner then reports their K-1 income/loss on their own Alabama Form 40 Schedule E.
- The income/loss is reported on Alabama Form 20S, with the required attachments. (See the form instructions.)
- Form 20S is due no later than the corresponding federal return, as required to be filed under federal law.

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S Corporation

FORM 20S [Reset Form](#) Alabama Department of Revenue
S Corporation Information/Tax Return

For the year Jan. 1 – Dec. 31, 2020, or other tax year beginning •, 2020, ending • 52/53 Week •

Important Check applicable box:

- ☐ Initial Return
- ☐ Final Return
- ☐ Amended Return


Filing Status: (see instructions)

- ☐ 1. Corporation operating only in Alabama.
- ☐ 2. Multistate Corporation – Apportionment (Sch. C).
- ☐ 3. Multistate Corporation – Separate Accounting (Prior written approval required and must be attached) or Schedule B.

Federal Income	1. a. Gross receipts or sales	1a	
	b. Returns and allowances	1b	
	c. Balance. Subtract line 1b from line 1a	1c	
	2. Cost of goods sold (attach Federal Form 1125-A)	2	
	3. Gross Profit. Subtract line 2 from line 1c	3	
	4. Net gain (loss) from Federal Form 4797, Part II, line 17 (attach Federal Form 4797)	4	
	5. Other income (loss) (attach statement)	5	


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Schedule K-1 to be filed with Form 20S for S Corporations



SCHEDULE K-1
(Form 20S)

[Reset Form](#)



ALABAMA DEPARTMENT OF REVENUE
INCOME TAX ADMINISTRATION DIVISION

Shareholder's Share of
Income, Deductions, Credits, etc.

2020

SEE INSTRUCTIONS

Schedule K-1 to be filed with Form 20S for S Corporations

Tax year beginning _____, 2020 and ending _____, 20____

☐ Final K-1

☐ Amended K-1

PART I Information About the Corporation		PART III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items	
A	Corporation's Employer Identification Number		
B	Corporation's name, address, city, state, and zip code		
		Distributive share allocated and apportioned to Alabama	Distributive share to be reported by Alabama Residents
		G Ordinary income (loss)	G2 Ordinary income (loss)
		H Net rental real estate income (loss)	H2 Net rental real estate income (loss)
		I RESERVED FOR FUTURE USE	I2 RESERVED FOR FUTURE USE
PART II Information About the Shareholder			
C	Shareholder's identifying number	J Portfolio income	J2 Portfolio income

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C Corporation

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C Corporation

A C Corporation is an entity that is separate from its owners. It can make a profit, be taxed, and can be held liable. This structure is independent of its shareholders.



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C Corporation

- C Corporations are taxed at the entity level.
- Income is reported on Alabama Form 20C, with the required attachments. (See the form instructions.)
- Form 20C is due no later than the corresponding federal return as required to be filed under federal law.



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C Corporation

FORM 20C **Reset Form** Alabama Department of Revenue **2020**

Corporation Income Tax Return

For the year January 1 – December 31, 2020, or other tax year beginning •, 2020, ending •

Check applicable box:

- ☐ PL 86-272
- ☐ Initial return
- ☐ Final return
- ☐ Amended return
- ☐ Federal audit change

Filing Status: (see instructions)

- ☐ 1. Corporation operating only in Alabama.
- ☐ 2. Multistate Corporation – Apportionment (Sch. D-1).
- ☐ 3. Multistate Corporation – Percentage of Sales (Sch. D-2).
- ☐ 4. Multistate Corporation – Separate Accounting (Prior written approval required and must be attached).
- ☐ 5. Proforma Return – files as part of Alabama Affiliated Group.

1 FEDERAL TAXABLE INCOME (see instructions)

1	Federal Net Operating Loss (included in line 1)	1	
2	Reconciliation adjustments (from line 26, Schedule A)	2	
3	Federal taxable income adjusted to Alabama Basis (add lines 1, 2 and 3)	3	
4	Net nonbusiness income/loss – Everywhere (from Schedule C, line 2, col. E)	4	
5	Net nonbusiness income (add lines 4 and 5)	5	
6	Apportionable income (add lines 4 and 5)	6	
7	Alabama apportionment factor (from line 27, Schedule D-1)	7	%
8	Income apportioned to Alabama (multiply line 6 by line 7)	8	
9	Net nonbusiness income/loss – Alabama (from Schedule C, line 2, col. F)	9	
10	Alabama income before federal income tax deduction (line 8 plus line 9)	10	
11a	Federal income tax deduction (refund) (from line 12, Schedule F)	11a	

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Entity Classification Election

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Entity Classification Election – Form 8832

- Disregarded entities such as LLC's will need to choose how they want to be treated for tax purposes.
- An entity uses Federal Form 8832 to elect how it will be classified for federal tax purposes.
- If a domestic entity election is not made, it will default to either a partnership (two or more members) or a disregarded entity separate from its owner (single owner).
- The State of Alabama will follow the federal entity classification election.
- These forms can be found on the IRS website <https://www.irs.gov/>.



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Important Notice

Effective January 1, 2021, and thereafter, a taxpayer can file as an Electing Pass-Through Entity.

For more information on Electing Pass-Through Entities, see <https://revenue.alabama.gov/individual-corporate/electing-pass-through-entities/>



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What is Estimated Tax?

Estimated tax is a quarterly payment of taxes due based on the filer's reported earned income for the current period.



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Estimated Taxes Individual/Pass-Through Entities

General rule: In most cases, you must pay Alabama estimated taxes for the current year if **both** of the following apply:

1. You expect to owe at least \$500 in Alabama income tax for the current year, after subtracting withholding and credits and
2. You expect your withholding plus your credits to be less than the smaller of:
 - 90% of the tax to be shown on your current year tax return, **or**
 - 100% of the tax shown on your previous year's tax return

For Individual - See Form 2210AL

For Pass-Through Entity - See Form 2220AL

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Estimated Taxes Individual/Pass-Through Entities

Estimated taxes may be paid in full (by January 15th) or in equal installments on or before:

- April 15th
- June 15th
- September 15th
- January 15th

Failure to file estimated taxes by the due dates may result in an estimated tax penalty.

See <https://revenue.alabama.gov/individual-corporate/electing-pass-through-entities/> for Electing Pass-Through Entity guidance.

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Estimated Taxes - Corporations

- A corporation that has an Alabama income tax liability in excess of \$500 must pay estimated tax.
- The required installments shall be 25% of the required annual payment.
- The required annual payment generally means:
 - The lesser of 100% of the tax shown on the return for taxable year, **or**
 - 100% of the tax shown on the return of the corporation for the preceding taxable year.



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Estimated Taxes - Corporations

Payment due dates:

- 1st payment is due by the 15th day of the 4th month of the taxable year.
- 2nd payment is due by the 15th day of the 6th month of the taxable year.
- 3rd payment is due by the 15th day of the 9th month of the taxable year.
- 4th payment is due by the 15th day of the 12th month of the taxable year.

See Form 2220AL - Underpayment of Estimated Taxes by Corporations.



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Penalties and Interest Due

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Penalties

- **Failure to Timely File Penalty**
10% of tax due or \$50; whichever is greater
- **Failure to Timely Pay Penalty**
 - 1% of tax due per month; maximum 25% (e.g., income tax returns)
 - Flat rate of 10% of tax due for monthly and quarterly returns (e.g., sales, lodgings, or rental tax returns)
- **Negligence Penalty** (*intentional disregard for rules and/or regulations*)
5% of tax due
- **Fraud Penalty** (*to purposely deceive*)
50% of tax due



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Interest Due

- If the tax is not timely paid, interest is also due and by law cannot be waived.
- The rate of interest changes because it is the same rate as established by the U.S. Secretary of the Treasury under the authority of 26 U.S. Code § 6621.
- Current interest rates can be viewed at:
<https://revenue.alabama.gov/assessments/quarterly-interest-rates/>

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Helpful Links on ALDOR's Website

Presented by Arleen Alexander

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An official website of the United States government. [Here's how you know](#)

Individuals Businesses Professionals MOTOR VEHICLE MY ALABAMA TAXES CONTACT

Alabama Department of Revenue

SERVICES FORMS LEGAL NEWSROOM ABOUT

Accounting for Alabama's Future

Help Center | Individual Income Tax Forms | Make a Payment | Where's My Refund? | Register My Vehicle

revenue.alabama.gov

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Alabama Department of Revenue

SERVICES FORMS LEGAL NEWSROOM ABOUT

Services

The Alabama Department of Revenue administers many services for taxpayers. Information for each division, along with some of the services from each, can be found below:

Income Tax

Income Tax is responsible for the administration of individual income tax, business privilege tax, corporate income tax, partnerships, S-Corporation, fiduciary and estate tax, financial institution excise tax, and withholding tax for businesses and individuals.

[Where's My Refund?](#)
[Due Dates](#)
[Taxpayer Service Centers](#)
[Tax Laws](#)
[Schedule an Appointment](#)

[Visit Division](#)

Motor Vehicle Division

The Motor Vehicle Division is responsible for the issuance of vehicle titles, maintenance of vehicle records, the administration of the Mandatory Liability Insurance law, and the issuance of motor vehicle regulatory licenses.

[Mandatory Liability Insurance](#)
[RFP & IPTA Information](#)
[Request Motor Vehicle Records](#)
[License Plate and Registration Information](#)
[Title Information](#)
[Motor Vehicle License Information](#)

[Visit Division](#)

Business & License Tax

Business & License Tax administers and collects taxes for motor fuels, severance, and tobacco as well as various licenses for businesses and motor fuels.

[Assessment Procedures](#)
[Business Licensing](#)
[Environmental Taxes](#)
[Motor Fuels](#)
[Fair-Market Pool Tax & State Horse Wagering Fee](#)
[Severance Taxes](#)
[Tobacco Taxes](#)

[Visit Division](#)

Sales & Use Tax

Sales & Use Tax administers, collects and refunds several different taxes, including sales tax and consumers tax, and is responsible for administering, collecting, and enforcing these tax types.

[Tax Rates](#)
[Assessment Procedures](#)
[E-Filed, Payments, & Assistance](#)
[Due Date Calendar](#)
[Information for Local Governments](#)
[Schedule an Appointment](#)

[Visit Division](#)

Go to: <https://revenue.alabama.gov/services/>

- Income Tax
- Motor Vehicle Division
- Business & License Tax
- Sales & Use Tax
- Office of Taxpayer Advocacy
- Property Tax
- Entity Registration & Processing Services
- Collection Services
- News & Publications
- Taxpayer Programs

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Go to:
revenue.alabama.gov

Click on “Businesses”

You can also file and
pay taxes at:
myalabamataxes.alabama.gov

The screenshot shows the Alabama Department of Revenue website. The top navigation bar includes links for Individuals, **Businesses** (circled in red), and Professionals. Below this is the department's logo and a secondary navigation bar with links for SERVICES, FORMS, LEGAL, NEWSROOM, and ABOUT. A breadcrumb trail shows 'Home > Businesses'. The main content area features a list of quick links on the left, including 'COVID-19 Updates', 'My Alabama Taxes', 'Taxpayer Service Centers', 'About Alabama', 'B.E.S.T. Resources', 'Tax Incentives', 'Register an Entity', and 'Certificate of Compliance'. To the right, there are three columns of links: 'Income Tax' (listing various tax types and forms), 'Sales & Use' (listing sales tax information), and 'Follow Us' (with social media icons for Facebook, Twitter, and YouTube).



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Go to:
revenue.alabama.gov

Click on “FORMS”

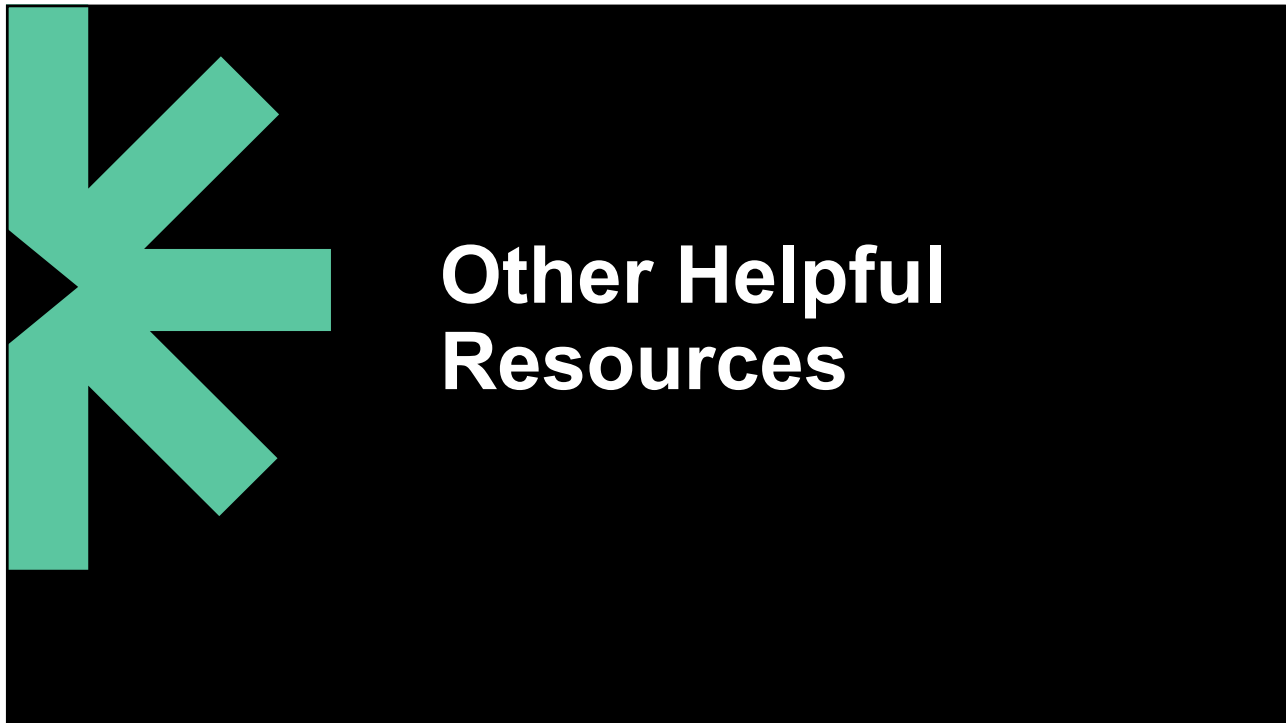
Type the form name or
number in the Search
bar.

The screenshot shows the Alabama Department of Revenue website, specifically the 'FORMS' section. The top navigation bar includes links for Individuals, Businesses, Professionals, MOTOR VEHICLE, MY ALABAMA TAXES, CONTACT, and a search icon. Below this is the department's logo and a secondary navigation bar with links for SERVICES, **FORMS** (circled in red), LEGAL, NEWSROOM, and ABOUT. A breadcrumb trail shows 'Home > Forms'. The main content area provides instructions on how to search for forms and a table listing various forms. A red arrow points to the search bar, which contains the text 'as'.

Number	Title	Division	Category	Year
2020 Form 65 Instructions	2020 Partnership Limited Liability Company Return of Income	Income Tax	S-Corp and Partnership LLC	2020
2020 Schedule K-1 (Form 65 Only) Instructions	Owner's Share of Income, Deductions, Credits, etc.	Income Tax	S-Corp and Partnership LLC	2020
MV 40-12-265-1	Application for Replacement Credentials	Motor Vehicle	Registration (MV)	2020
2019 Form 65 Instructions	2019 Partnership Limited Liability Company Return of Income	Income Tax	S-Corp and Partnership LLC	2019
2019 Schedule K-1 (Form 65 Only) Instructions	Owner's Share of Income, Deductions, Credits, etc.	Income Tax	S-Corp and Partnership LLC	2019
Federal Income Tax Deduction Worksheet IRC Section 965	Federal Income Tax Deduction Worksheet IRC Section 965	Income Tax	Corporate Tax	2018
2018 Form 65 Instructions	2018 Partnership Limited Liability Company Return of Income	Income Tax	S-Corp and Partnership LLC	2018



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Alabama Department of Revenue Contact Numbers	
• 334-242-1170, Option #1	Individual Income Tax
• 334-242-1170, Option #7	Withholding Tax
• 334-242-1170, Option #6	Corporate Tax
• 334-242-1170, Option #8	Business Privilege Tax
• 334-242-1170, Option #6	Pass-Through Entity
• 334-242-1189	Certificate of Compliance
• 334-242-1584	Business Registration
• 334-242-1490	Sales and Use Tax

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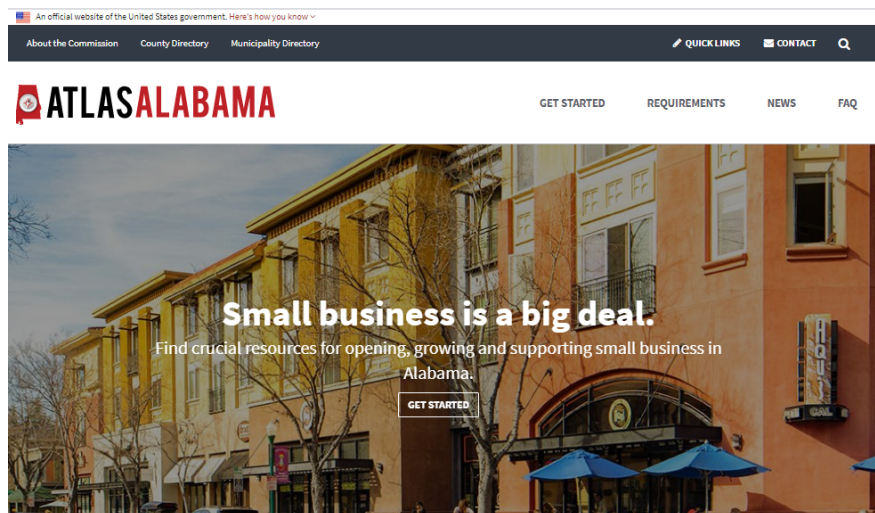


Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the State, including one in Dothan, to assist you. Contact information for the Service Centers can be found at:

<https://revenue.alabama.gov/taxpayer-service-centers/>

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[AtlasAlabama.gov](https://atlasalabama.gov)

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Thank you!

B.E.S.T. Webinar presentations can be found at
<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/b-e-s-t-webinar-schedule/>

Also available are B.E.S.T. Learning Modules at
<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/watch-modules-online/>



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Questions?



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