

INSTRUCTIONS FOR THE PREPARATION OF
ALABAMA DEPARTMENT OF REVENUE
Pass Through Entity
Shareholder's Statement of Income and Deductions

2017

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

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

Heading Information. Provide the tax period information if the return is filed for other than the 2017 calendar year. Enter in the upper right area of the form if the Schedule K-1 is either a final K-1 or an amended K-1.

Part I – Information about the Pass-Through Entity.

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

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

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

Line D. Enter the name, the street address, city, state and zip code for the pass-through entity owner.

Line E1. State whether the shareholder is an individual, an estate, a trust, a disregarded entity, an exempt organization, or a nominee (custodian). If the Shareholder is a nominee indicate the type of entity the nominee represents: I – Individual; C – Corporation; F – Estate or Trust; P – Partnership; DE – Disregarded Entity; E – Exempt Organization; IRA – Individual Retirement Arrangement; or FGOV – Foreign Government. Check the box if the owner is a nominee.

Line E2. Enter the shareholder's percentage of stock ownership.

Line E3. Check the box if an Alabama Schedule NRA has been filed for a nonresident shareholder.

Line E4. Check the appropriate box to indicate if the pass-through entity owner is a nonresident. If a nonresident, provide the state of legal residence.

Line F. Enter the pass through entity owner's pro rata share of the credit reported on Schedule K, Line 22. Credits shall be identified by the following codes and claimed in the order below:

- A: Alabama Enterprise Zone Credit
- B: Basic Skills Education Credit
- C: Coal Credit
- D: Full Employment Act of 2011 Credit
- E: Alabama New Markets Development Credit
- F: Heroes for Hire Tax Credit Act of 2012 Employee Credit
- G: Heroes for Hire Tax Credit Act of 2012 Business Start-Up Expense Credit
- H: Qualified Irrigation System/Reservoir System Credit
- I: Rehabilitation, Preservation and Development of Historic Structures Credit
- J: Credit for Taxes Paid to Foreign Country
- K: Dual Enrollment Credit
- L: Alabama Jobs Act – Investment Credit
- M: Alabama Accountability Tax Credit
- N: Alabama Renewal Act – Port Credit
- O: Alabama Small Business and Agribusiness Jobs Credit
- P: Apprenticeship Tax Credit Act of 2016
- Q: Capital Credit

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

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

Please note: The term "gross income," in the case of a resident individual, includes income from sources within and outside Alabama, and in the case of a nonresident individual, includes only income from property owned or business transacted in Alabama. The Alabama K-1 has two columns in some boxes of Part III. The first column of Part III is income allocated and apportioned to Alabama. This column should be completed for both resident and nonresident shareholders. The second column of Part III should be completed for resident shareholders only. This column should include the resident's share of income (loss) from all sources, including income (loss) earned from other states.

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

Line G – Enter the pass-through entity owner's pro rata share of the ordinary income (loss) apportioned to Alabama from Schedule K, Line 1.

Line G2 – Alabama residents only-subtract the pro rata share of Business Health Insurance Premium Deduction (page 1, line 29) from the pro rata share of federal ordinary business income (page 1, line 23).

Line H – Enter the pass-through entity owner's pro rata share of net rental real estate income (loss) apportioned to Alabama from Schedule K, Lines 2 and 3c.

Line I – Reserved for Future Use.

Line J – Enter the pass-through entity owner's pro rata share of the portfolio income apportioned to Alabama from Schedule K, Lines 4-6.

Line K – Enter the pass-through entity owner's pro rata share of net capital gain (loss) apportioned to Alabama from Schedule K, Lines 7-9.

Line L – Enter the pass-through entity owner's pro rata share of other income (loss) apportioned to Alabama from Schedule K, Line 10.

Line M – Enter the pass-through entity owner's pro rata share of the nonbusiness items apportioned to Alabama from Schedule K, Line 11 minus Line 18. The nature and amount of each different separately stated business item must be provided to the pass-through entity owner with the Alabama Schedule K-1.

Line N – Enter the pass-through entity owner's pro rata share of the section 179 expense apportioned to Alabama from Schedule K, Line 12.

Line O – Enter the pass-through entity owner's pro rata share of the charitable contributions apportioned to Alabama from Schedule K, Line 13a.

Line P – Enter the pass-through entity owner's pro rata share of the investment interest expense apportioned to Alabama from Schedule K, Line 13b.

Line Q – Enter the pass-through entity owner's pro rata share of other deductions apportioned to Alabama from Schedule K, Line 14.

Line R – Enter the pass-through entity owner's pro rata share of oil and gas depletion apportioned to Alabama from Schedule K, Line 15.

Line S – Enter the pass-through entity owner's pro rata share of casualty losses apportioned to Alabama from Schedule K, Line 16.

Line T – Enter the pass-through entity owner's pro rata share of tax-exempt income apportioned to Alabama from Schedule K, Lines 19a and 19b.

Line U – Enter the pass-through entity owner's pro rata share of nondeductible expenses apportioned to Alabama from Schedule K, Line 19c.

Line V – Enter the pass-through entity owner's pro rata share of distributions apportioned to Alabama from Schedule K, Line 20.

Line W – Enter the pass-through entity owner's pro rata share of investment in-

come apportioned to Alabama from Schedule K, Line 21a.

Line X – Enter the pass-through entity owner's pro rata share of investment expenses apportioned to Alabama from Schedule K, Line 21b.

Line Y – Enter the pass-through entity owner's pro rata share of other items and amounts apportioned to Alabama from Schedule K, Line 21c.

Line Z. Enter the amount of the Alabama composite payment made on behalf of the pass-through entity owner.

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

Line AB. Enter the pass-through entity owner's pro rata share of repayment of loans from shareholders apportioned to Alabama from Schedule K, Line 24.

Line AC. Enter the pass-through entity owner's pro rata share of dividends distributions paid from accumulated earnings and profits apportioned to Alabama from Schedule K, Line 25.

Instructions to Pass-Through Entity Owner

Important information for pass-through entity owners that are not individuals.

Pass-through entity owners that are not individuals can create nexus (a presence subjecting the pass-through entity owner to Alabama income taxation) in Alabama by having an ownership interest in a pass-through entity doing business in Alabama.

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

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

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

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

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

Line I. Reserved for Future Use.

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

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

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

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

Line N. Pass-through entity owners that are individuals would claim this amount on the Form 4562, Depreciation and Amortization, which accompanies the individual's Alabama Form 40 or Alabama Form 40NR.

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

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

Line Q. Pass-through entity owners that are individuals would report or claim these items on the appropriate schedule of the Alabama Form 40 or Alabama Form 40NR, as filed by the individual, depending upon the nature of the other deductions.

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

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

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

Line U. Pass-through entity owners that are individuals are encouraged to disclose the amount of nondeductible expenses on the Alabama Form 40 or Alabama Form 40NR, filed by the individual.

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

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

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

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

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

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

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

Line AC. These dividends should be reported to shareholders on Form 1099-DIV. Pass-through entity owners that are individuals would report this amount on the appropriate schedule of the Alabama Form 40 or Alabama Form 40NR filed by the individual.