

INSTRUCTIONS FOR THE PREPARATION OF
ALABAMA DEPARTMENT OF REVENUE
Consolidated Financial Institution Excise Tax

2021

Alabama Financial Institution Excise Tax law, rules, forms and instructions are available on the Alabama Department of Revenue's website at www.revenue.alabama.gov.

What's New for 2020

Act Number 2019-284, established the Financial Institution Excise Tax Reform Act of 2019 passed the Alabama Legislature during the 2019 Regular Session. The Act provided for an estimate payment system; and alternate distribution formula to pay the counties and municipalities; and updated law to provide clarification and reflect current policies and procedures. See Form ET-1 and instructions for complete details.

- § 40-16-1, Code of Alabama 1975, Calculation of Net Income
- § 40-16-3 Code of Alabama 1975, Qualified Corporate Groups electing to file one excise tax return on a consolidated basis shall be assessed no fee for the privilege of filing on a consolidated basis. However, the election to file an Alabama consolidated excise tax return shall be binding on the Department and corporate group for 10 years unless revocation or termination of its federal consolidated return election, effective for tax years beginning on or after January 1, 2020.
- § 40-16-3 Code of Alabama 1975, Provides for the due dates of certain financial institution excise tax returns to correspond to the due dates of federal income tax returns and provides for payments to be made on the original due date of the return. For tax years beginning on or after January 1, 2020, financial institutions can file their income tax returns by the same date as the corresponding federal income tax returns that are required to be filed as provided under federal law. The financial institution's tax liability is due at the same time as the due date of an original return.
- § 40-16-5.1 Code of Alabama 1975, Financial institutions shall pay estimated financial institution excise tax in accordance with 26 U.S.C. 6655 with exceptions as indicated.
- § 40-16-6, Code of Alabama 1975, Modification to simplify revenue distribution.
- § 40-16-10 Code of Alabama extends the carryforward period for net operating losses to a maximum of 15 tax years, while eliminating the financial institution's ability to carryback net operating losses to the prior two tax years. The 15 tax year carryforward period shall only apply to net operating losses incurred in tax years beginning after December 31, 2019. The clarification of the ordering rules applicable to net operating losses provided by 40-16-10 (c) shall apply to all open tax years.

FORM 2220E. Alabama Form 2220E has been developed to provide financial institutions with relief from estimated penalties (See Section 40-16-5.1, Code of Alabama 1975). The new form allows the taxpayer the ability to compute the required Alabama quarterly installments using the optional federal annualization method and the optional federal adjusted seasonal method. See the instructions for Form 2220E, Underpayment of Estimated Tax, for additional information.

FORM ET-8, Application for Extension of Time for Filing Alabama Financial Institution Excise Return. Form ET-8, is no longer required to request an extension of time for filing Alabama financial institution excise return. The due dates of financial institution excise tax returns, effective for tax periods beginning after December 31, 2019, will correspond to the due dates of federal income tax returns and provides for payments to be made on the original due date of the return. For tax years beginning on or after January 1, 2020, financial institutions can file their income tax returns by the same date as the corresponding federal income tax returns that are required to be filed as provided under federal law.

Schedule CP-B, Schedule Composite Payment for Business. The Alabama Department of Revenue now requires the use of Schedule CP-B. Every non-resident owner or shareholder whose income is reported on Form PTE-C, Nonresident Composite Payment Return and include a calculated (5%) withholding of the nonresident owner's distributive share of income is requested to complete Schedule CP-B to claim the composite payment made on the nonresident's behalf.

General Information for Consolidated Filing

Alabama Form ET-1C must be filed by taxpayers meeting the definition of financial institutions (as defined in Section 40-16-1, Code of Alabama 1975) that have prop-

erly elected to file a consolidated financial institution excise tax return.

Form ET-1C is an annual return due the same date as the corresponding federal income tax return that is required to be filed as provided under federal law. The financial institution's tax liability is due at the same time as the due date of an original return. The Alabama taxable income, computed and reported on the form, is for the last taxable year of the financial institution.

In order for the qualified corporate group to be able to file a consolidated return, the financial institution members must meet the definition of a financial institution found in Section 40-16-1 of the Code of Alabama 1975. The members must also meet the ownership requirement and filing requirement specified in Section 40-16-3, Code of Alabama 1975.

The election is made by filing Form ET-C (Election to File Consolidated Financial Institution Excise Tax Return). The completed election form must be submitted to the Department on or before the due date, with extensions, for the first taxable year for which the election is applicable.

A QCG, qualified corporate group, may elect to file an Alabama consolidated return. An Alabama consolidated return means an Alabama financial institution excise tax return filed by or on behalf of the members of an QCG. The election is made by filing Form ET-C (Election to File Consolidated Financial Institution Excise Tax Return). The completed election form must be submitted to the Department on or before the due date, with extensions, for the first taxable year for which the election is applicable. In order for financial institution members of a controlled group to be eligible to elect to file on a consolidated basis, the members must meet ownership and filing tests as prescribed in §40-16-3.

The consolidated election is binding and irrevocable for a period of 120 consecutive months (10 years), beginning with the first month of the taxable year for which the election is made and ending with the conclusion of the taxable year in which the 120th consecutive month expires.

In accordance with §40-16-10, for tax periods beginning January 1, 2020, and after, QCG means a group of financial institutions, each member of which is subject to tax under §40-16-1 which are members of a Qualified Group for Federal purposes and files a Federal Consolidated Corporate Income Tax Return. Each member shall allocate and apportion their Alabama taxable income and losses separately, using separate apportionment factors and file using the Proforma Form ET-1. The sum of the separate company Alabama taxable income amounts (Sum of line 15, of all Proforma Forms ET-1) are then brought forward to line 1 of the Alabama Consolidated Financial Institution Excise Tax Return (Form ET-1C) and reported on this single Alabama return for the QCG. Form ET-1C, Consolidated Financial Institution Excise Tax Return, must be filed by all QCGs with a binding consolidated election. All transactions between and among members of the QCG shall be reported on an arm's length basis. In addition to the separate company calculation, there may be additional expense items with limitations based on Alabama consolidated taxable income. (Post-Distribution credits cannot exceed 50% of the Net Financial Institution Excise Tax less Pre-Distribution Credits.)

Financial institutions that file federal Form 1120S (U.S. Income Tax Return for an S Corporation) are not required to file Alabama Form ET-1C nor are they required to make a consolidated election for Alabama purposes. Alabama treats an S Corporation and its qualified subchapter S subsidiaries as one entity.

Estimate/Extension/Informational Requirements for QCG's

All payments made on behalf of or for the QCG are to be paid for and credited to the account of the QCG parent financial institution. Any QCG, which has an Alabama income tax liability of \$500 or more must pay estimated tax. The first payment is due by the 15th day of the 4th month of the taxable year. The 2nd, 3rd, and 4th payments are due by the 15th day of the 6th, 9th, and 12th months, respectively. If an installment is due on a Saturday, Sunday, or state holiday, payments made on the next day that is not a Saturday, Sunday, or legal holiday are considered made on the due date to

the extent the payment is applied against that required installment.

The required installments shall be 25 percent of the required annual payment. Required annual payment generally means the lessor of a) 100 percent of the tax shown on the return for the taxable year, or b) 100 percent of the tax shown on the return for the preceding taxable year. The prior period exception shall not apply if the preceding taxable year was not a taxable year of 12 months or the corporation did not file a return for such preceding taxable year showing a liability for tax. Refer to Alabama Code Section 40-16-5.1.

Form 2220E. Relief from the interest and penalty due on underpayment of estimated tax may be granted to eligible taxpayers who file Alabama Form 2220E and meet one of the exceptions below.

A financial institution computed their required quarterly installments using an approved federal method (**annualized or seasonal**).

A **Large Corporation** is allowed to base its first quarter installment on the prior year tax liability.

Remit estimated tax and extension payments using Form FIE-V if the payment is less than \$750. Payments over \$750 must be remitted electronically. Form FIE-V is not required if the payment is made electronically. To obtain Form FIE-V visit our website at www.revenue.alabama.gov.

Where to File/Payment of Tax

The total amount of the QCG's income tax liability for the period is due on or before the unextended due date of the return. If the return is to be filed under extension, any liability due should be remitted no later than the original due date of the return. Payments of \$750 or more must be made electronically. Payments less than \$750, may be remitted with Form FIE-V. **DO NOT MAIL FORM FIE-V IF THE PAYMENT WAS REMITTED ELECTRONICALLY.**

ELECTRONIC PAYMENT. Section 41-1-20 requires electronic payments for all single business tax payments of \$750 or more. Substantial penalties will be assessed for noncompliance.

Electronic Payment Options available:

- **My Alabama Taxes (MAT)** – Taxpayers who have an account with the Alabama Department of Revenue may register and make e-payments using MAT. Visit the Department's website at www.revenue.alabama.gov (click the MAT icon on the home page).

- **ACH Credit** – Taxpayers making e-payments via ACH Credit must be pre-approved by ADOR. To register, complete and submit Form EFT:001 entitled EFT Authorization Agreement Form. Visit our website at www.revenue.alabama.gov for additional information.

Technical assistance with making a payment using ACH Credit, call the toll free hotline (1-877-256-2447) from 8:00 a.m. through 5:00 p.m. (Central Standard Time)

- **Alabama Interactive** – The Department will accept e-payments for estimated and extension payments through Alabama Interactive. Visit www.alabamainteractive.org/taxestimation/ or www.alabamainteractive.org/taxextension/.

Technical assistance with making a payment using Alabama Interactive, call toll free (1-866-353-3468).

Make check or money order payable to: Alabama Department of Revenue

Write the QCG's federal employer identification number, the income tax form number or type of payment (i.e. Form ET-1C, extension payment, estimated tax payment, etc.), and the tax year end on the check. Remit with a properly completed Form FIE-V if the payment is not made electronically. Tax due not paid on or before the due date will be subject to a failure to timely pay penalty of 1% per month, up to 25%, and will accrue interest at the rate provided in §40-1-44.

How to File

DO NOT file Form ET-1C if you are not the parent of the Qualified Corporate Group. Taxpayers filing consolidated Alabama financial institution excise returns will submit completed proforma Forms ET-1 for each separate company included in the consolidated corporate group (including the designated Alabama parent). A proforma Form ET-1 is a completed Form ET-1 with filing status 4 checked. See Alabama Form ET-1 Instructions for general instructions for using Form ET-1 Proforma returns.

REQUIRED ATTACHMENTS. For the return to be considered complete and properly filed, a signed copy of the consolidated federal return (Form 1120) must be at-

tached. Failure to attach the complete consolidated federal return, as filed with the IRS, with the necessary supporting schedules, forms and statements (ex: Schedule D, Schedule UTP, Form 8886, Form 4797, balance sheet, supporting statements for other income and other deductions) may result in the imposition of delinquent and/or frivolous return penalties. In addition to the signed copy of the consolidated federal return, the following are required: 1) Federal Form 851, the federal affiliations schedule should be included and the names of those entities subject to Alabama tax should be identified. The names of the entities subject to Alabama tax can either be underlined or identified by using an (*) asterisk beside the name of the entity. 2) Copies of the supporting schedules, forms and statements filed as an attachment with the consolidated federal form should be included with the Alabama Form ET-1C. This would include items such as the consolidating income spreadsheets (including the column that identifies any eliminations or adjustments that occur as a result of the federal consolidation rules); the consolidating balance sheets (by separate company) for the beginning of the year and the end of the year; supporting statements for other income and other deductions (by separate company). **These supporting statements, forms and schedules should be copies of the actual documents provided to the Internal Revenue Service, not reproduced versions for state tax purposes.** 3) A Proforma U.S. Corporation Income Tax Return Form 1120, with supporting statements, for each separate entity and Schedule FTI to support any differences in Form ET-1, line 1, Federal Taxable Income due to capital gains, charitable contribution and federal SRLY NOLs. The taxpayer is also required to include copies of Schedules K-1 for each entity the financial institution held an interest in during the taxable year. Itemized depreciation schedules are not required to be attached to Form ET-1 but should be maintained and available upon request.

If the parent of the consolidated excise group incurs a current year loss, Schedule PCL, Consolidated Parent Company Loss Allocation Schedule must be included as an attachment to the proforma ET-1 return. The parent company loss allocation must be made in accordance with Alabama excise tax regulation 810-9-1-.01(4)(j)2.

If a consolidated excise group incurs a current year net consolidated loss on Form ET-1C, complete Schedule PCL, Sections C and D to compute the proforma subsidiary consolidated group loss allocation. The consolidated group loss allocation may be carried forward for a maximum of 15 years on the entities that generated the loss.

Period Covered

File the 2020 period (2021 Form) return for calendar year, fiscal year or short year that begins in 2020. Mark the appropriate box at the top of the form for a calendar, fiscal or short year.

Specific Instructions

At the top, left-hand corner of page 1 check all applicable boxes if filing an initial, final, amended return or federal audit change. Check the amended return box if the financial institution is amending the return for any reason other than changes that resulted from an IRS audit. Check the federal audit change box if the financial institution is amending the return due to changes that resulted from an IRS audit. NOTE: All applicable lines on pages 1 through 4 of the amended returns should be completed in full and accurately and include a detailed explanation for filing the amended return, supporting documentation to validate amended changes, and computation of additional amount due or refund due. Blank or partially completed revenue forms require special handling that delays processing and cause unnecessary expenses. Failure to comply with the Revenue Department's requirements may result in the assessment of interest, penalty and/or other actions. Amended proforma Form ET-1 returns, filing status 4, must be included, for the amended Form ET-1C to be considered complete. Alabama Code Section 40-16-10.

At the top, right-hand corner of page 1, check the appropriate box indicating a calendar year, fiscal year or short year return.

A **calendar tax year** is considered to have 12 consecutive months, beginning January 1 and ending December 31.

A **fiscal tax year** is considered to have 12 consecutive months ending on the last day of any month except December.

A **short tax year** is a tax year of less than 12 months.

In the top center block of page 1, enter the QCG's Alabama parent's federal business code number, its federal employer identification number (FEIN), and its name and mailing street address, suite, floor, etc., if applicable, city, state, country (if not US) and

9-digit zip code. Below the address enter the state of incorporation, date of incorporation, the date the financial institution qualified to do business in Alabama, and the nature of business being conducted in Alabama. Check the block and enter the name and federal employer identification number of the federal parent. Check the block and enter the name and federal employer identification number of the Alabama parent.

If the Alabama Form 2220E (which is used to compute underpayment of estimated taxes based on an allowable federal method) is attached, check the box.

Enter the qualified corporate group's total combined assets. Total combined assets is the sum of each separate entity's tax year end assets before eliminations.

BE SURE TO FILL OUT ALL APPLICABLE LINES ON PAGE 1 even if detailed schedules are attached. Failure to properly complete the return may result in delinquency penalties.

Line 1. Alabama taxable income (sum of all Proforma Forms ET-1, line 15).

Line 2. Enter the amount of total tax due (6.5% of line 1).

Line 3. Enter the sum from Schedule EC of the proforma returns included in the consolidated excise group. Post-Distribution credits cannot exceed 50% of the Net Financial Institution Excise Tax less Pre-Distribution Credits. (sum of all Proforma Forms ET-1, line 17) For additional instructions for separate company computations for Schedule EC, please see the Schedule EC instructions.

Line 4. Enter the amount of net tax due to Alabama (line 2 less line 3).

Line 5a. Enter the tax overpayment carried over from the prior period.

Note: *If these payments were made by any financial institution other than the QCG parent financial institution, please attach a detailed list showing the name of the financial institution who made the payment, including the FEIN of the financial institution and the amount paid.*

Line 5b. Enter the amount of estimated tax payments made for this tax period.

Line 5c. Enter the sum of composite payments claimed on the proforma Form ET-1 returns made on behalf of the taxpayer. **Schedule CP-B must be completed and attached to each proforma Form ET-1 if you are claiming a composite payment.** Refer to Schedule CP-B instructions for additional information.

Line 5d. Enter the amount of any extension payments.

Line 5e. This line is only to be used if the taxpayer is filing an AMENDED RETURN. The amount shown should be any payments made with the original return and/or any payments made because of adjustments to the return by the Alabama Department of Revenue.

Line 5f. Total Payments (add lines 5a through 5e and enter the total).

Line 6a. Credit to 2021 estimated tax. Enter the amount of the overpayment to be carried over to the 2021 estimated taxes.

Once the election is made to apply an overpayment to the next year's estimated tax, the election may not be changed. The amount of overpayment applied to the estimated tax for the following year will not be refunded until after the following year's tax return has been filed.

Line 6b. Penalty Due – Enter the sum of penalty boxes (late payment estimate penalty and other penalties).

Late Payment Estimate (Form 2220E)

Enter amount from Form 2220E, Part II, line 4a. Estimated tax payments not paid by each quarterly due date will be subject to an underpayment penalty – determined by applying the underpayment rate established by 26 U.S.C. §6621 (as provided by Alabama Code Section 40-16-5.1) to the underpayment for the period of underpayment. In addition, the 10% penalty provided for in Alabama Code Section 40-2A-11 applies to estimated tax payments not paid by the quarterly due date.

Must be completed if taxpayer utilizes Form 2220E, as an alternative method to compute penalty and interest, as a result of underpayment of estimated tax. If estimate penalty is not calculated, estimate penalty will be calculated based on equal quarterly installments.

Other (Penalty on Tax)

If the return is not filed on or before the due date (with extensions), enter a delinquent penalty of 10% of the tax due or \$50, whichever is greater. Taxes not paid by the original due date will be subject to a late payment penalty of 1% per month for each month or fraction thereof that the tax remains unpaid, up to 25%, as provided in §40-2A-11.

Line 6c. Interest Due – Enter the sum of interest boxes (estimate interest and interest on tax).

Estimate Interest (Form 2220E)

Enter amount from Form 2220E, Part II, line 4b. Estimated tax payments not paid by each quarterly due date will be subject to interest on the underpayment – determined by applying the underpayment rate established by 26 U.S.C. §6621 (as provided by Alabama Code Section 40-16-5.1) to the underpayment for the period of underpayment.

Must be completed if taxpayer utilizes Form 2220E, as an alternative method to compute penalty and interest, as a result of underpayment of estimated tax. If estimate interest is not calculated, estimate interest will be calculated based on equal quarterly installments.

Interest on Tax

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

Line 6d. TOTAL REDUCTIONS. Enter the sum of lines 6a through 6c.

Line 7. Enter the amount of tax due, or the amount to be refunded. Refunds should be entered as a negative or in parenthesis.

ELECTRONIC PAYMENT INDICATOR. Check the box if the payment shown due on this return was made electronically. Payments of \$750 or more must be made electronically.

Signature

The return must be signed by an authorized officer of the corporation. If the property or business is being operated by a receiver trustee in bankruptcy, or an assignee, such person shall sign for the corporation. Enter the date signed and the title of the person whose signature is affixed. If the return is prepared by anyone other than an employee of the taxpayer, enter the signature and identification information of the preparer.

Paid Preparer Authorization

Above the return signature area is a check box which can be used to authorize the Alabama Department of Revenue to discuss the Alabama Form ET-1C and its attachments with the paid preparer – who is identified in the Paid Preparer's Use Only section of the return. **To represent the taxpayer before the Alabama Department of Revenue for tax matters related to the return, this box must be checked.**

Paid Preparer Information

Anyone who is paid to prepare the Alabama Form ET-1C must sign and provide the information requested in the Paid Preparer's Use Only section of the Form ET-1C. The signature can be made by hand, rubber stamp, mechanical device, or a computer software program. Paid preparers must provide the taxpayer with a copy of the prepared return.

Any questions concerning the preparation of the Alabama Form ET-1C should be directed to the Corporate Income Tax Section, 334-242-1170, option 6.

Alabama Financial Institution Excise Tax law, rules, forms and instructions are available on the Alabama Department of Revenue's website at www.revenue.alabama.gov.

Enter the taxpayer's representative to contact for information concerning the return along with the contact person's email address and telephone number. If the paid preparer will represent the taxpayer for tax matters related to the return, the authorization box on the return must be checked in addition to being notated on this line.

Mail Consolidated Returns and Payments to:

Alabama Department of Revenue
Income Tax Administration Division
Financial Institution Excise Unit
P.O. Box 327437
Montgomery, AL 36132-7437

Instructions for Schedule AS

The information requested on this schedule is needed to identify each member of the QCG that is subject to the Alabama Corporation Income Tax and which

may also be subject to the Alabama Business Privilege Tax.

If the QCG includes more members than the schedule can accommodate, make additional copies as needed and attach behind page 2 of Form ET-1C.

Attach a copy of Federal Form 851, Affiliations Schedule.

Complete Schedule AS, Alabama Affiliations Schedule, for each year a consolidated return is filed.

Column A – List all names of parent and subsidiary financial institutions included in the Alabama Consolidated Income Tax Return or the Qualified Corporate Group members.

Column B – List the Federal Employer Identification Number (FEIN) for each financial institution listed.

Column C – List the tax year end (MM/DD/YYYY) for each company included in Schedule AS.

Column D – Enter the Alabama Taxable Income for each financial institution listed.

Column E – Indicate whether this corporation is new to the Federal Consolidated Group.