

ALABAMA DEPARTMENT OF REVENUE
ADMINISTRATIVE CODECHAPTER 810-3-13
NET INCOME OF INDIVIDUALS - COMPUTATIONS

TABLE OF CONTENTS

| | |
|--------------|-----------------------------------|
| 810-3-13-.01 | Taxable Year |
| 810-3-13-.02 | Maintenance Of Accounting Records |
| 810-3-13-.03 | Method Of Accounting |
| 810-3-13-.04 | Change In Method Of Accounting |

810-3-13-.01 Taxable Year.

(1) Taxable income shall be computed and a return shall be made for a period known as the "taxable year." The taxable year may be a calendar year, a fiscal year, an elected 52-53 week year, or an accounting period of less than twelve months resulting from a change in accounting periods. The taxable year for Alabama purposes must tie to the same tax period the taxpayer utilizes for federal tax purposes.

(2) A taxpayer elects a taxable year when the first federal return is filed. This election must be consistently followed in filing subsequent returns, and all Alabama returns..

(a) A calendar year is the twelve consecutive month period beginning January 1 and ending December 31.

(b) A fiscal year is the twelve consecutive month period ending on the last day of any month other than December.

(c) There is no provision in Alabama income tax law for the 52-53 week year; however, the Department does permit the election of the 52-53 week year. When this election is made, the Department will follow the methods prescribed by the Internal Revenue Service pursuant to 26 U.S.C. §441(f).

(3) An accounting period of less than twelve months is one that results from changing the accounting period from the calendar year to the fiscal year, from fiscal year to calendar year, from one fiscal year to another, when the taxpayer is not in existence for the entire taxable year, when the taxpayer goes out of business, or when there is a change in entity, or for any other reason required for federal purposes.

(4) Effect of election under §40-18-8(j), Code of Ala. 1975, (and 26 U.S.C. §338), for entities filing separate returns. If the

target corporation must change its taxable year to conform to that of a new consolidated parent company for federal purposes, then the same changes will be made for Alabama purposes.

(5) If the taxpayer's accounting period is other than the taxable year as described in this rule, or if the taxpayer has no accounting period or does not keep records, the net income shall be computed on the basis of the calendar year.

(6) For tax years beginning after December 31, 1998, a taxpayer making an election to file an Alabama consolidated return, as provided in §40-18-39, must use the same taxable year as employed for Federal Income Tax purposes.

Author: Angie Cumbie

Statutory Authority: Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-8(j), 40-18-13, 40-19-39, and 26 U.S.C. §§338 and 441.

History: Amended: June 17, 1988; filed July 27, 1988; filed July 22, 1992; October 30, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Amended:** Filed March 31, 2000; effective May 5, 2000. **Amended:** Filed July 13, 2018; effective August 27, 2018.

810-3-13-.02 Maintenance Of Accounting Records.

(1) Each taxpayer must maintain such accounting records as will clearly reflect his income for each accounting period, and must file his returns based on these records.

(2) If the taxpayer does not maintain such accounting records, or if such records do not clearly reflect the income or deductions of the taxpayer for any given taxable year, the Department may prescribe the method and basis for computation of such income. A taxpayer who does not keep adequate accounting records will be required to report his income on the calendar year basis and use the cash receipts and disbursements method of accounting.

(3) For record keeping requirements, see §40-2A-7(a)(1), Code of Ala. 1975.

Author: Rebecca S. Whisenant, Cynthia D. Norwood, Carmen Mills, Anne Glenn

Statutory Authority: Code of Ala. 1975, §§40-18-13, 40-1-5.

History: Amended: June 17, 1988; filed July 27, 1988. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Amended:** Filed March 31, 2000; effective May 5, 2000.

810-3-13-.03 Method Of Accounting.

(1) For tax years beginning after December 31, 1998, a taxpayer making an election to file an Alabama consolidated return, as

provided in §40-18-39, Code of Ala. 1975, must use the same method of accounting as employed for federal income tax purposes.

(2) For tax years beginning after December 31, 1989, a taxpayer must use the same accounting method for Alabama purposes as that used for federal income tax purposes.

Author: Cindy D. Norwood, Jeffrey Taylor, Carmen Mills, Anne Glenn

Statutory Authority: Code of Ala. 1975, §§40-2A-7, 40-18-13.

History: Amended: June 17, 1988; filed July 27, 1988; filed July 22, 1992; October 30, 1992. Filed September 18, 1996; effective October 23, 1996. **Amended:** Filed March 31, 2000; effective May 5, 2000.

810-3-13-.04 Change In Method Of Accounting.

(1) For tax years beginning before January 1, 1990, a taxpayer desiring to change his method of accounting should request permission from the Department of Revenue to make the change. Applications for such change should set forth clearly the nature of the business, the method of accounting used in keeping the books, and the reasons for changing the method of reporting.

(2) For tax years beginning after December 31, 1989, the accounting method used for Alabama purposes will automatically change whenever a different method is permitted or required for federal income tax purposes.

(3) Alabama law has no counterpart to 26 U.S.C. §481; therefore, any increase or decrease in income resulting from a change in accounting method must be taken into account in full in the year of change. There is no provision in Alabama law to defer the effect of a change in accounting method over a number of years. In changing from a cash method of accounting to an accrual method, income accrued but not yet collected as of the close of the year of change shall be added to income actually received in cash during the year, and expenses accrued but not yet paid as of the close of the year shall be added to expenses actually paid during the year. In making a change from accrual to cash method of accounting, items previously reported as income and expenses should be excluded from the cash basis return.

Author: Cindy D. Norwood, Jeffrey Taylor, Carmen Mills, Anne Glenn

Statutory Authority: Code of Ala. 1975, §40-18-13.

History: Amended: June 17, 1988; filed July 27, 1988; filed: July 22, 1992; October 30, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Amended:** Filed March 31, 2000; effective May 5, 2000.