



## OVERVIEW

Alabama offers businesses an attractive taxation environment—one of the nation’s lowest overall tax burdens. In addition, Alabama provides a number of tax incentives designed to assist with a cost-effective start-up and provide continued operational savings.

## INCOME TAX

- Corporations’ income tax based on net taxable income derived only from business conducted within the state determined by applying a four-factor formula of property, payroll, and double-weighted sales to total net income.
- Corporate income tax rate of 6.5 percent (Individuals taxed at a rate of 5 percent).
- Full deduction for all federal income taxes apportioned to Alabama creating a significantly reduced net effective rate.
- 15-year carry-forward of net operating losses.

## PROPERTY TAX

- Constitutional limit of the state millage rate on both real and personal property to 6.5 mills (of which 3.0 mills are dedicated to education).
- Business property, both real and personal, taxed on 20 percent of fair market value.
- Inventories and goods-in-process are not taxed.
- Pollution control equipment statutorily exempt from property taxation.
- Exemption of all tangible personal property being warehoused in Alabama for shipment to a destination outside the state.

Tax Summary	
Tax	Data
Sales Tax - General	4.00%
Local levies applicable	yes
Abatements available	yes
Sales Tax - Mfg. Machinery	1.50%
Local levies applicable	yes
Abatements available	yes
Property Tax	6.5
Assessment %	20%
Local levies applicable	yes
Abatements available	yes
Inventory Tax	no
Corporate Income Tax Rate*	6.5%
*Deductibility of federal taxes results in a net effective rate of approximately 4.5%	
Deductibility of Federal Taxes	Yes-100%
Business Privilege Tax	
\$ .25 to 1.75 per \$1,000 of net worth (\$15K max)	
Pollution Control Exemptions	
Property Tax	yes
Sales Tax	yes
State Unemployment Insurance	
2018 Taxable Wage Base	\$8,000
2018 New Employer Rate %	2.70%
2018 Minimum Rate %	0.59%
2018 Maximum Rate %	6.74%

Alabama has one of the lowest tax burdens in the U.S.





## SALES & USE TAXES

- Four state rate differentials, which include:
  - / 1.5 percent rate for manufacturing and farm machinery;
  - / 2 percent rate for automotive vehicles;
  - / 3 percent rate for food sold through vending machines; and
  - / 4 percent general rate for all other items.
- Raw materials used by manufacturers or compounders specifically exempt from sales and use taxation.
  - / Pollution control equipment statutorily exempt from taxation.
  - / Credit for sales and use tax paid to another state and its subdivisions.
  - / Exemption for quality control testing and donations to charitable entities.
  - / Abatements by cities, counties, and public authorities may include:

For qualifying industries, all state and the local noneducational portion of construction related transaction (sales and use) taxes associated with constructing and equipping a project. For coal mining projects, half of the state sales and use tax may be abated.

- Utility gross receipts tax exemptions for
  - / Sewer costs;
  - / Water used in industrial manufacturing in which 50 percent or more is used in industrial processing;
  - / Exclusions for utility services used in certain types of manufacturing and compounding processes;
  - / An electrolytic or electro-thermal manufacturing or compounding process;
  - / Natural gas which becomes a component of tangible personal property manufactured or compounded (but not used as fuel or energy);
  - / Natural gas used to chemically convert raw materials prior to the use of such converted raw materials in an electrolytic or electro-thermal manufacturing or compounding process; and
  - / Increased utility tax for refurbishments, upgrades, or reopening of a facility.

## BUSINESS PRIVILEGE TAX

- Replaces the former franchise tax.
- Capped at \$15,000 except for financial institutions and insurance companies. The rate ranges from \$.25 to \$1.75 for each \$1,000 of net worth in Alabama. The minimum privilege tax is \$100; the maximum privilege tax is \$15,000, except for financial institutions, financial institution groups and insurance companies.



## ALABAMA REINVESTMENT AND ABATEMENTS ACT

- New Facility and Expansion
  - / Abatement of non-educational portion of sales and use taxes on construction materials.
  - / Abatement of non-educational portion of property tax for up to 20 years.
- Existing Facility: Refurbishments, Upgrades, or Placed Back in Service
  - / Abatement of non-educational sales and use taxes on construction materials and equipment.
  - / Abatement of non-educational property taxes for up to 20 years of the incremental property tax increases.
  - / Exemption from taxes for increased utility services for up to 10 years.
  - / AIDT worker training.

## ALABAMA JOBS ACT

- Jobs Credit
  - / Annual cash refund up to 3 percent of the previous year's gross payroll for up to 10 years.
  - / For companies employing at least 12 percent veterans, up to an additional 0.5 percent credit is available for the wages of veterans.
  - / Up to an additional 1 percent job credit is available for companies in targeted counties.
- Investment Credit
  - / Credit of up to 1.5 percent of the qualified capital investment expenses for up to 10 years. Credit can be taken against the Alabama income tax liability and/or utility tax liability.
  - / Credit is available for up to 15 years for companies in a Targeted County selling their output nearby.
  - / Five-year carry forward, three-year transferability.

## ALABAMA RENEWAL ACT

- Growing Alabama Credit: Incentive to provide a source of funds for site preparation and public infrastructure needs of existing industrial sites.
- Port Credit: Incentive to stimulate economic growth through new job creation, capital investment and increased cargo shipping.

*Updated August 2018*