



ALABAMA DEPARTMENT OF COMMERCE

Alabama Taxes and Tax Incentives

Revised 07/16/2015 – Alabama Department of Commerce/Alabama Department of Revenue

- **Income Taxes**
 - 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 Taxes**
 - Constitutional limit of the state mileage rate on both real and personal property to 6.5 mills (of which 3 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.
- **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.

- **Jobs Act Incentives**
 - 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 selling their output nearby.
 - Five-year carry forward, three-year transferability.

- **Sales and Use Taxes**
 - Four state rate differentials, which include:
 - A 1.5 percent rate for manufacturing and farm machinery;
 - A 2 percent rate for automotive vehicles;
 - A 3 percent rate for food sold through vending machines; and
 - A 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 non-educational 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.
 - 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.
- **Income Tax Capital Credit** (available through December 31, 2015)
 - Five percent (5%) of the total capital costs of a qualifying project, available each year for twenty (20) years. Projects with certain investment and employee levels may carry forward the capital credit up to four years and delay the start of the credit up to three years.
 - Credit begins in the year the qualifying project is "placed in service."
 - The qualifying project must constitute:
 - An "industrial, warehousing, or research activity" defined in the 2007 North American Industry Classification System (NAICS) as listed in the legislation;
 - Any process or treatment facility which recycles, reclaims, or converts materials which include solids, liquids, or gases, to a reusable product;
 - Headquarters facilities as defined in NAICS 551114;
 - Data processing centers;
 - Certain warehousing and logistics projects in NAICS Subsector 493;
 - Renewable energy facilities;
 - Research & development facilities;
 - Projects owned by utilities that produce electricity from alternative energy resources; or

- Projects owned by utilities that produce electricity from hydropower production.
- Certain investment, employment and minimum wage thresholds apply but most project thresholds are reduced within "Favored Geographic Areas."
- **Enterprise Zone Credit/Exemption**
 - Under certain conditions, an enterprise zone credit (Section 5) or exemption (Section 11) for income tax, sales and use tax, and/or business privilege tax is available for qualified participants.
- **Full Employment Act of 2011**
 - Businesses with 50 or fewer employees may receive a one-time income tax credit equal to \$1,000 per new job paying over \$10 per hour.
- **Heroes for Hire Credit**
 - A one-time \$1,000 income tax credit for each recently deployed, and now discharged, unemployed veteran hired and a \$2,000 income tax credit to recently deployed, and now discharged, unemployed veterans who start their own businesses. Employer must also meet the requirements of the Full Employment Act of 2011.