

State Taxes other than License Fees Payable by Corporations Operating in Alabama

Charter Fee for Domestic Corporations - A fee paid only upon incorporation in Alabama. The total charge is \$85 including a \$10 charge for filing to reserve a corporate name.

Business Privilege Tax - The tax rate is based on net worth, adjusted for exclusions and additions. The rate is based on the ability to pay and is determined by the company's federal taxable income from Alabama operations according to the following:

If taxable income is:		
at least	but less than	the tax rate is
	\$1.00	\$0.25 per \$1,000
\$1.00	\$200,000	\$1.00 per \$1,000
\$200,000	\$500,000	\$1.25 per \$1,000
\$500,000	\$2,500,000	\$1.50 per \$1,000
\$2,500,000		\$1.75 per \$1,000

Income Tax - The corporate income tax rate in Alabama is 6.5%. The tax is imposed on the entire net income after deductions for federal income tax. A credit is allowed for income taxes paid to other states.

Taxable income for corporations doing business both in and out of Alabama is based on receipts from property located in Alabama and from business transacted in the state. Alabama has adopted the Uniform Division of Income Act, which prescribes a three-factor formula involving tangible property, payroll and sales to allocate business income to the taxing state.

Where this method is deemed inequitable, the corporation may petition for separate accounting, exclusion or addition of one or more factors to the formula or the use of some other acceptable allocation method. As with most other corporate taxes in Alabama, amounts spent for pollution control devices used in the state are deductible in calculating net income.

Ad Valorem Property Tax - All taxable property within Alabama is divided into four classes (see "Birmingham, Alabama Property Tax Classifications" at the beginning of this section). Counties and municipalities may use assessment

ratios different from the state with some restrictions. Taxation on Class II property for any tax year is limited to 1½% of its fair market value. Exemptions to ad valorem tax include:

All stocks of goods, wares and merchandise including work in progress.

All articles manufactured in Alabama and in the hands of the producer or manufacturer or of a licensed warehouseman holding them for the manufacturer (limited to one year, also includes work in progress).

All products or materials when stored by a textile manufacturer at or near the plant for the purpose of using such materials in the finished product of the plant.

Personal property which is consigned to or housed in a storage facility for ultimate shipment out of Alabama for a period of 36 months following consignment or storage (manufacturing and/or packaging is permissible during the period).

All devices and components used, acquired or constructed for the control of air and water pollution.

Subject to approval by appropriate government officials, abatements are allowed for new industries for a period of up to ten years. These apply to all except state, county and municipal school district taxes. Land may not be exempted. In addition, the City of Birmingham is allowed by state law to exempt new industries for up to 15 years.

Sales and Use Tax - The general rate is 4% on gross receipts from retail sales of new or used tangible personal property and on the consumption or use in Alabama of such property purchased outside the state. Exceptions include machinery and parts used for mining or manufacturing (1½% of gross sales proceeds), agricultural machinery and parts (1½% of net trade difference if purchased within the state; 1½% of the gross sales price if imported) and automotive vehicles (2% of the net trade difference). Credit is permitted for taxes paid



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on property imported from a state having a reciprocal agreement with Alabama. Materials or products which become an ingredient or component part of products sold by a manufacturer are treated as though they were purchased at wholesale by the producer of the final product and thus are not subject to retail sales tax. Sales tax exemptions include:

Transportation, where the Alabama Public Service Commission fixes rates.

Coal or coke, when sold for use in the production of by-products, heat or power.

Electricity, water and gas where the Alabama Public Service Commission fixes rates (see Utilities Tax below).

Water and air pollution control devices and parts when used in Alabama.

Municipalities are permitted to levy additional use taxes, although many do not.

License Tax on Rental of Tangible Personal Property - A tax of 4% is levied on the rental of tangible personal property except automotive vehicles, truck trailers, house trailers (1½%) and linen and garments (2%). The sale of such property to another who intends to rent it to others is considered to be wholesale trade and not subject to the Alabama Sales or Use Tax.

Utilities Gross Receipts Tax - The State of Alabama levies a privilege or license tax on the gross receipts derived from the sale of electricity, natural gas, certain intra-state telephone and telegraph services and water sold for uses other than industrial processes.

A complimentary use tax is imposed upon the consumption of these utilities' services and is collected from the purchaser through regular billings. These are based on the following schedule:

<i>Monthly billing</i>	<i>Tax Base</i>
Under \$40,000	4% of gross sales
\$40,000-under \$60,000	1,600 + 3% of amount
Over \$60,000	\$2,200 + 2% of amount over

Exclusions to the state utility tax include:

Electricity furnished for use in electrolytic or electro thermal manufacturing processes. Natural gas used as a "chemical raw material" in manufacturing tangible personal property (except as a fuel for such processes) and natural gas used to chemically convert raw materials prior to use in electrolytic or electro thermal processes.

Electricity purchased for use in a process for the isotopic enrichment of uranium when purchased from a subsidiary of the corporation engaged in such enrichment.

Unemployment Compensation Contribution - Alabama employers pay UI contributions, according to an experience-rating schedule, on the first \$8,000 in wages paid to an employee during a calendar year. New employers pay at a 2.7% rate and the normal range is .5% to 3.6% (absolute range is 0.59% to 6.19%). Adjustments may be made if the UI trust fund falls below statutory levels.

Forest Products Severance Tax - A privilege tax is levied on the severing of timber or other forest products for sale by owners, lessees, concessionaires or contractors. The rates vary according to the type of wood or product. A rate equal to 50% of the tax imposed on the severer is placed on processors and manufacturers who obtain timber within Alabama regardless of where the manufacturing takes place.

Coal and Lignite Severance Tax - Operations severing coal from Alabama are subject to a privilege tax equal to \$.135 per ton and a severance tax of \$.200 per ton. Thus, there is a total tax of \$.335 per ton of coal mined in Alabama.

Financial Institution's Excise Tax - Banks, banking associations, trust companies, building and loan associations, industrial or other loan companies doing business in Alabama are subject to an excise tax based on their net income. The excise tax assessment is 6.5% of taxable income. Multi-state corporations must allocate an apportion income to the State of Alabama.



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Insurance Premiums Tax - A tax is levied on transactions of insurance businesses operating in Alabama according to the schedule, which follows.

Fire and casualty	3.6% of gross premiums less returned premiums and prescribed dividends
Wet or ocean marine	.75% of 1% of gross underwriting profit
Life	2.3% of premiums of >\$25k face value; 1% on policies <\$25k
Health	0.5% of premiums on group plans <50 participants; 1.6% on all other

Workers' Compensation - Worker's Compensation in Alabama is not a tax per se in that premiums are paid to a private insurance carrier of the employer's choice rather than the State. Evidence of such insurance coverage is required by law. The statewide average premium for workers' compensation is \$7.13 per \$100 in wages

Other Taxes - Other state taxes payable by corporations are generally industry or activity-specific. Information on these taxes and fees is available from the [Alabama Department of Revenue](#), 4112 Gordon Persons Building, 50 North Ripley Street, Montgomery, AL 36132.



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