

HOW

Alabama

TAXES

COMPARE

2024

How Alabama Taxes Compare, 2024 Edition

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How Alabama Taxes Compare, 2024 Edition

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Executive Summary

Each year, PARCA uses data from the U.S. Census Bureau’s Annual Survey of State and Local Finances to compare Alabama’s tax collections to the other 50 states. The most recent data comes from the 2022 Fiscal Year.

- In FY 2022, adjusted for population, Alabama collected less in state and local taxes than all but one other state, Tennessee.
- Alabama’s per capita property tax collections are the lowest in the nation. That helps owners of homes, farms, and timberland but creates a revenue deficit, leaving state and local governments with less to spend on providing government services such as education, health, and public safety.
- Alabama’s state and local sales tax rates are among the highest in the U.S., compensating for low property taxes.
- Alabama’s income tax does not provide the balancing effect income taxes in other states do. Low-income workers begin paying taxes at a lower threshold than any other state. At the other end of the spectrum, Alabama is the only state that allows a full deduction for federal income taxes paid, a tax break that benefits high-income earners.

Alabama’s rankings in per capita state and local tax collections were generally consistent with rankings in prior years.

Table 1. Alabama Rank in Per Capita Tax Collections, 2020, 2021, 2022.

	2020	2021	2022
All Taxes	49	49	49
Property	50	50	50
Individual income	35	35	34
Corporate income	25	22	23
Sales and gross receipts	25	20	24
General sales	31	27	28
Selective sales	16	16	18
Alcoholic beverage	3	2	4
Public utilities	5	5	5
Motor fuel	20	14	12
Tobacco products	37	37	41
Other selective sales	32	30	34
Other taxes	29	30	32
Motor vehicle license	43	43	44

Alabama Taxes Compared

PARCA's *How Alabama Taxes Compare, 2024 Edition*, uses data published by the U.S. Census Bureau's Annual Survey of State and Local Finances. The report makes it possible to compare the revenue and expenditures of state and local governments across the 50 states.¹

This most recent revenue and expenditure data set covers state and local fiscal years ending between July 1, 2021, and June 30, 2022, identified as the fiscal year 2022. That means the state of Alabama's data is from the fiscal year that ended September 30, 2021.

The timing differences in fiscal years typically do not pose a problem for state-to-state comparisons. However, the unusual economic conditions created by the COVID-19 pandemic and the government response to it may cause some fluctuations in some comparisons.

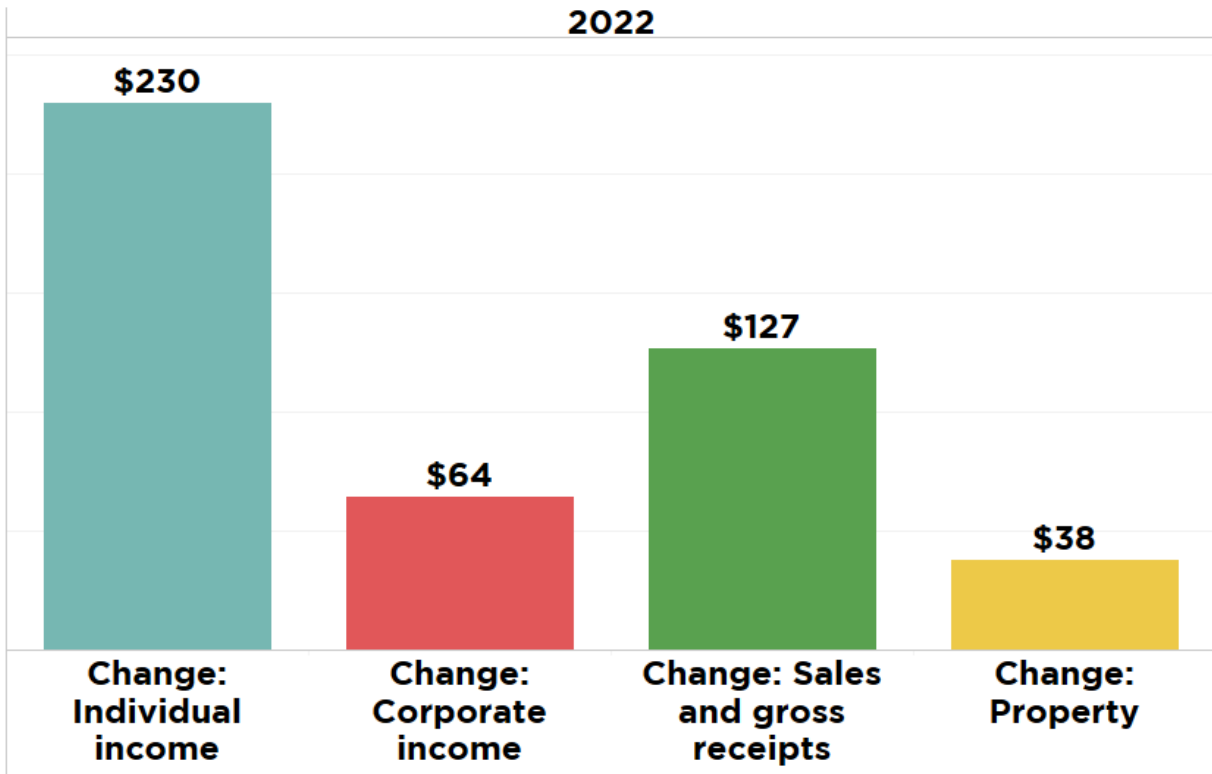
In FY 2022, all states saw a surge in per capita collections as the economy recovered from COVID-19 disruptions, as inflation surged, energy prices and stock markets rose, and travel resumed. States heavily dependent on energy extraction, such as Alaska, North Dakota, and Wyoming, experienced large percentage increases.

PARCA's analysis considers the tax revenues of both local and state governments because states differ on which level of government provides which services.

In FY 2022, Alabama state and local governments collected \$4,711 per resident through sales, property, income, and an array of other taxes. That's up from \$4,237 in 2021, a \$474 per capita gain. Alabama's per capita tax collections increased in all major categories, reflecting a growing economy despite the economic disruptions of the pandemic.

¹ US Census Bureau, "2022 State & Local Government Finance Historical Datasets and Tables," The United States Census Bureau, accessed December, 2024, <https://www.census.gov/data/datasets/2022/econ/local/public-use-datasets.html>

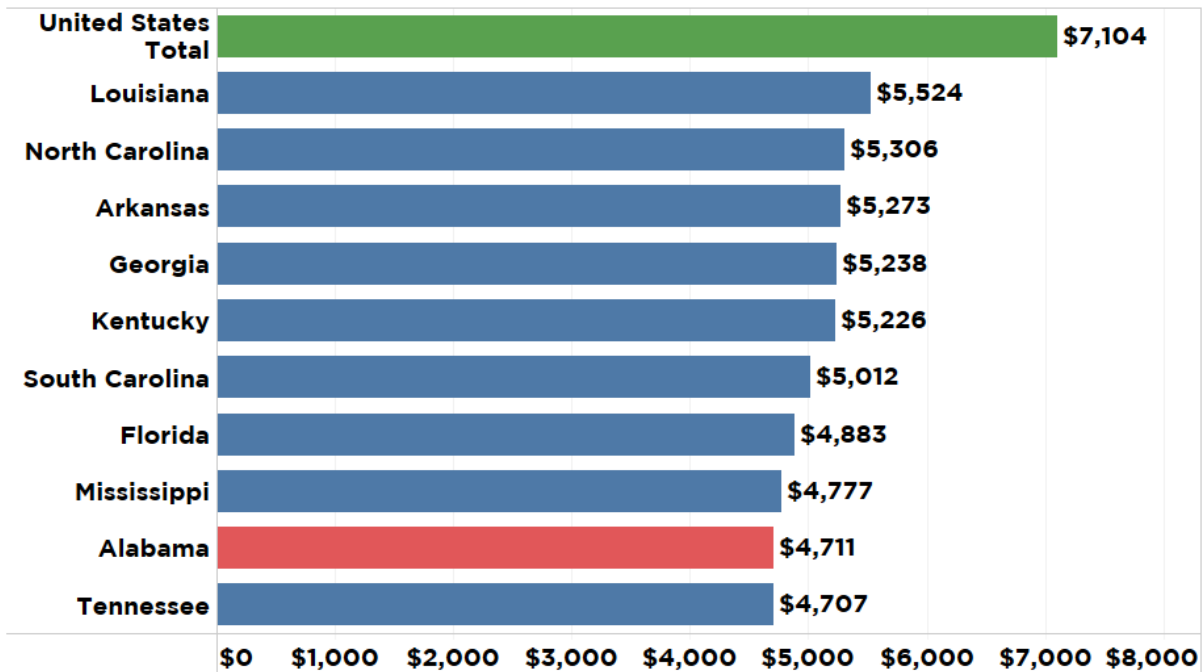
Figure 1. Change in Alabama Per Capita Tax Collections, FY 2021–FY 2022, Source: U.S. Census Bureau.



In the discussion that follows, Alabama’s per capita collections are compared with those of other Southeastern states. In general, Alabama’s approach to government and taxation is more similar to other Southeastern states than to the governments in other regions.

For most of the past thirty years, Alabama has consistently ranked last in the Southeast and last in the U.S. in terms of per capita tax collections. In recent years, Alabama has traded that last-place spot back and forth with Tennessee, thanks to tax-cutting measures in that state. This year, according to the Census survey, Tennessee returned to the bottom spot, collecting \$4 less per capita than Alabama. Tennessee’s income tax on dividends continues to decrease as the state phases it out.

Figure 2. Total State and Local Taxes Collected Per Capita, 2022, Southeastern States and U.S. Average²



The average per capita total for Southeastern states was \$5,066, \$355 per resident higher than Alabama. The median value for U.S. states was \$6,673 per capita, \$1,962 more per resident than Alabama.

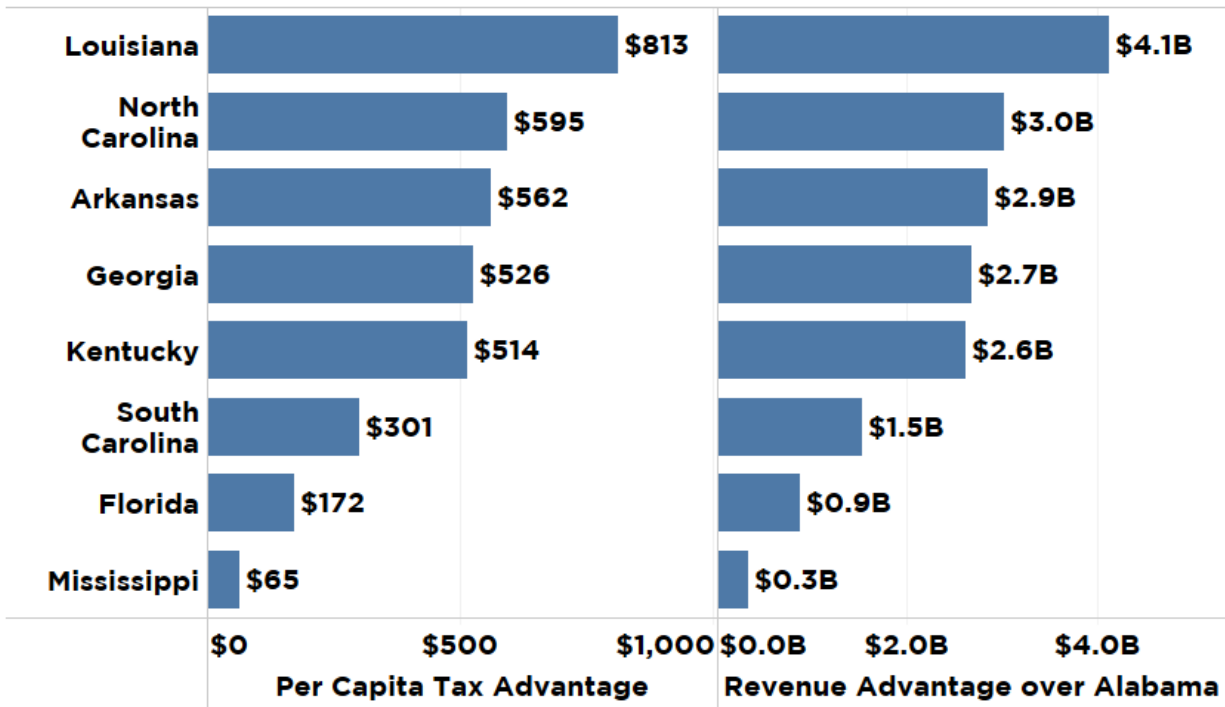
Alabama's \$474 gain in per capita tax collections between 2021 and 2022 ranked sixth out of the 10 Southeastern states, trailing Louisiana, Georgia, South Carolina, Kentucky, and Florida.

Figure 3 presents two sets of comparisons: 1) the per capita advantage enjoyed by other Southeastern states over Alabama and 2) the revenue advantage that the level of taxation provides those other states.

The revenue advantage is each state's per capita tax advantage multiplied by Alabama's population. In other words, if Alabama's tax system produced the same level of revenue per capita as the comparison state, Alabama would have that much more to spend on providing services to its residents.

² This comparison considers tax revenues but does not consider lottery proceeds or other revenue generated through charges or fees.

Figure 3. Southeastern States' Per Capita Tax Collection and Revenue Advantage Over Alabama, 2022



For instance, with the same tax base and tax rates as North Carolina, Alabama would bring in an additional \$3 billion in taxes. If Alabama collected taxes at the same per capita rate as South Carolina, it would have an additional \$1.5 billion to spend.

Arkansas, a state with less wealth and economic activity than Alabama, nevertheless collects \$562 more per capita than Alabama.

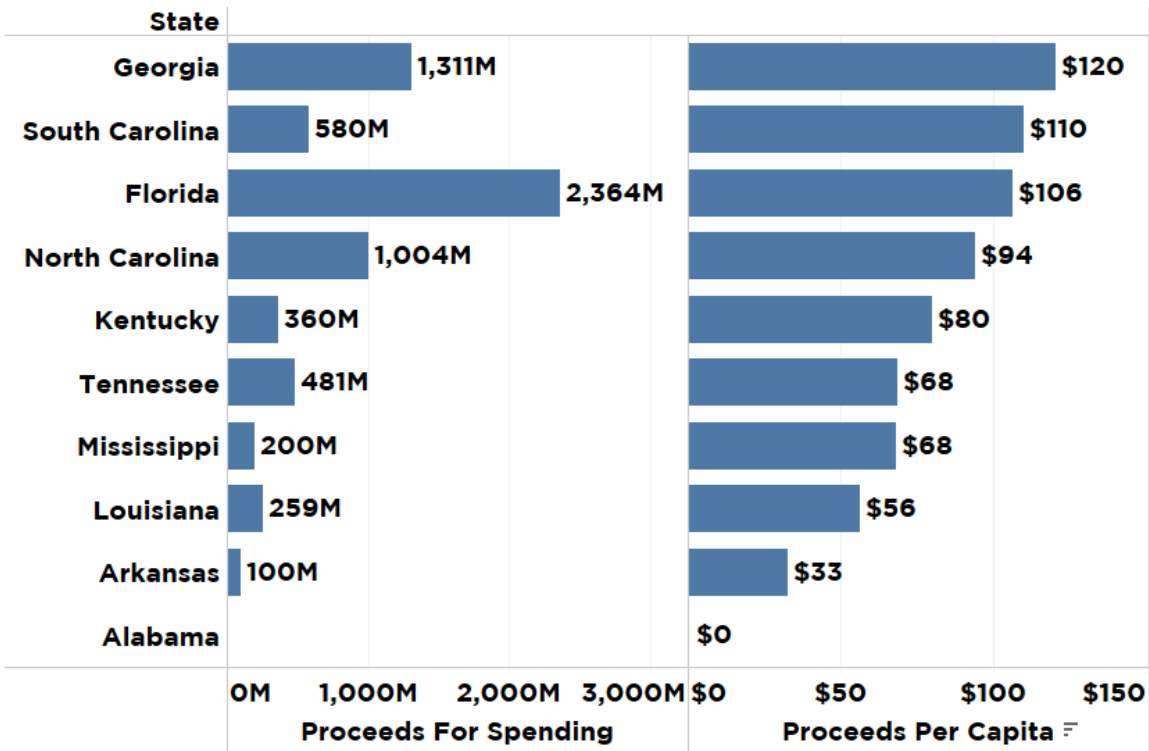
If Alabama collected taxes at Arkansas' rate, the state would have an additional \$2.9 billion to fund education, health care, highways, public safety...

If Alabama collected taxes at Arkansas' rate, state and local governments would have an additional \$2.9 billion in state dollars to fund education, health care, highways, public safety, and the broad spectrum of state and local services governments provide.

The tally of tax collections does not include lottery proceeds. Only five states (Alabama, Utah, Nevada, Hawaii, and Alaska) do not have lotteries. On

average, states that have lotteries generate \$87 per capita of proceeds available to spend on public purposes.

Figure 4. State Lottery Proceeds Per Capita, 2022³



Low Rates and Low Wealth = Low Tax Revenues

Our low tax revenue per capita results from two primary factors: lower tax rates than most other states and a smaller wealth base than most other states.

Alabama has tax rates that are lower than most other states and a base of wealth that is smaller than most other states.

In 2022, Alabama had the 8th highest poverty level among U.S. states, with 16% of residents living below the federal poverty level.⁴

³ Income and Apportionment of State-Administered Lottery Funds, U.S. Census Bureau, 2022. Proceeds are the amount available to spend after paying commissions, administration, and awarding of prizes. <https://www.census.gov/data/tables/2022/econ/state/historical-tables.html>

⁴ U.S. Census Bureau, "Poverty Status in the Past 12 Months," 2023. American Community Survey, ACS 1-Year Estimates Subject Tables, Table S1701, 2022, accessed on Dec. 11, 2024, [https://data.census.gov/table/ACSST1Y2023.S1701?t=Income and Poverty&g=010XX00US\\$0400000](https://data.census.gov/table/ACSST1Y2023.S1701?t=Income and Poverty&g=010XX00US$0400000).

Adjusted for population, the state's Gross Domestic Product, the total value of all goods and services produced, ranks No. 47.

Compared to other states, Alabama has lower levels of educational attainment, a lower percentage of its population in the workforce, and a higher percentage of its population receiving disability.

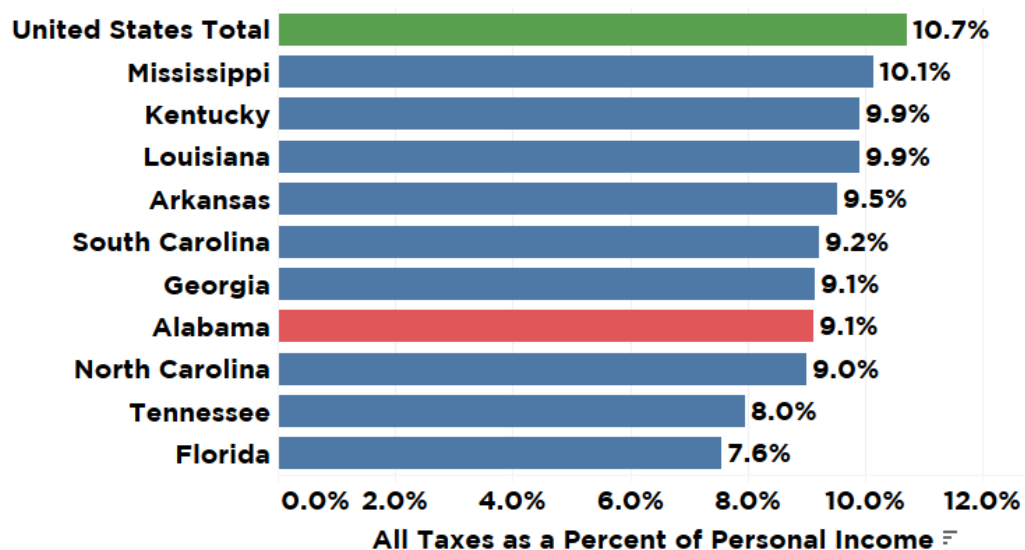
All those factors drive down the resources available and simultaneously increase the need to invest in improving individuals' health, education, and skills.

Taxes as a Percentage of Personal Income

Alabama may collect less in taxes per capita, but it does not necessarily have the lowest tax burden. There are a couple of ways to measure tax burden. One is to compare all taxes to the state's total personal income.

Comparing total personal income to total state and local taxes collected, Alabama ranks No. 38 in the country, with state and local tax collections amounting to 9% of state residents' total personal income. The national average is 10.7%.

Figure 5. Taxes as a Percent of Personal Income, 2022. Source: Census Bureau and U.S. Bureau of Economic Analysis.⁵



⁵ U.S. Bureau of Economic Analysis, "[SAINCI State annual personal income summary: personal income, population, per capita personal income](#)" (accessed Monday, December 4, 2024).

The states ranked below Alabama have higher personal income per capita than Alabama, so despite collecting less as a percentage of total personal income, all those states raise more revenue per capita than Alabama. They can produce high tax revenues with less tax effort.

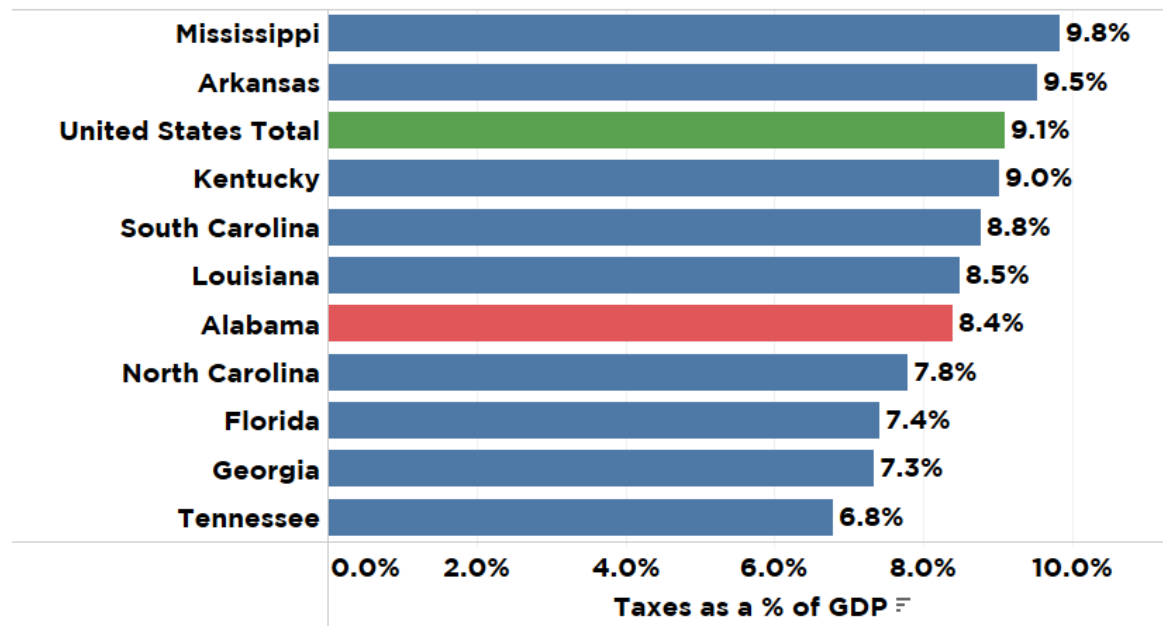
Mississippi's total personal income is lower than Alabama's, but its state and local government tax collections equaled 10.1% of Mississippi's total personal income for 2021. Because of that greater tax effort, Mississippi state and local governments have more to spend on a per capita basis than those in Alabama.

Tax Burden as a Percent of GDP

Another way of measuring the tax burden is to calculate tax collections as a percentage of each state's gross domestic product (GDP), the total value of goods and services produced in the state.

Alabama's tax collections amount to 8.4% of its GDP. The U.S. average for state and local taxes as a percentage of GDP for 2022 was 9.1%. Alabama ranks No. 33 in taxes as a percentage of GDP.

Figure 6. Taxes as a Percentage of state Gross Domestic Product, 2022. Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis.⁶



⁶ U.S. Bureau of Economic Analysis, "[SAGDP1 State annual gross domestic product \(GDP\) summary](#)" (accessed Thursday, December 12, 2024)

As with the personal income measure, states such as Tennessee, Georgia, North Carolina, and Florida have a higher economic output level than Alabama per capita. Thus, those states can tax at a lower percentage of economic activity and still yield higher tax revenues.

What We Choose to Tax

While a state’s tax base and tax rates are primary drivers of the total revenue collected, a state’s tax system is also affected by the mix of taxes it applies.

Every state has a unique blend of taxes. Most states depend on a combination of the three principal tax sources: income, property value, and sales transactions (what we earn, own, and buy).

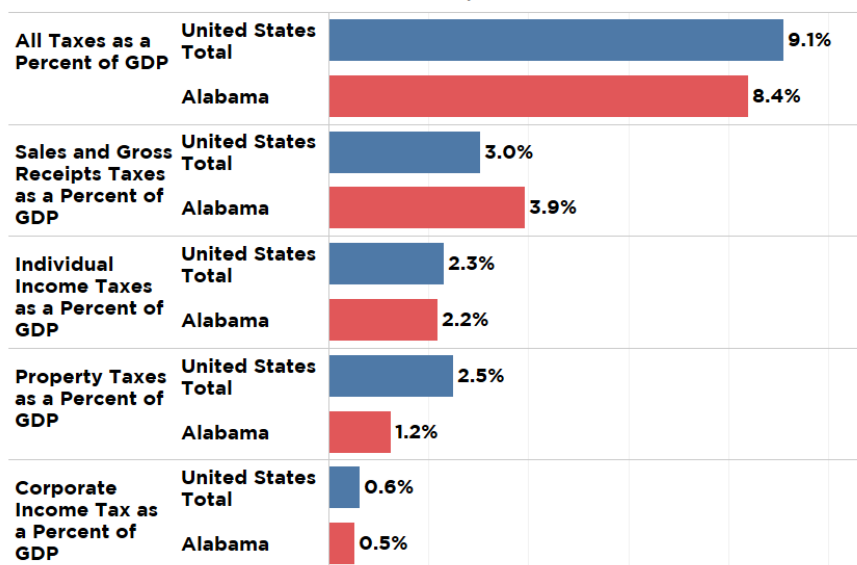
A tax system that is balanced among these three sources promotes fairness and stability.

Alabama’s Tax System Is Not Balanced

Figure 7 compares Alabama’s tax mix to that of the average U.S. state. The relative share of each tax is expressed as a percentage of GDP. Alabama’s overall tax burden is lighter, a smaller share of GDP, than the average U.S. state.

Figure 7. Types of Taxes as a percentage of Gross Domestic Product, Alabama and U.S. Compared, 2022. Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis.

State and Local Taxes as a Percent of GDP, 2022

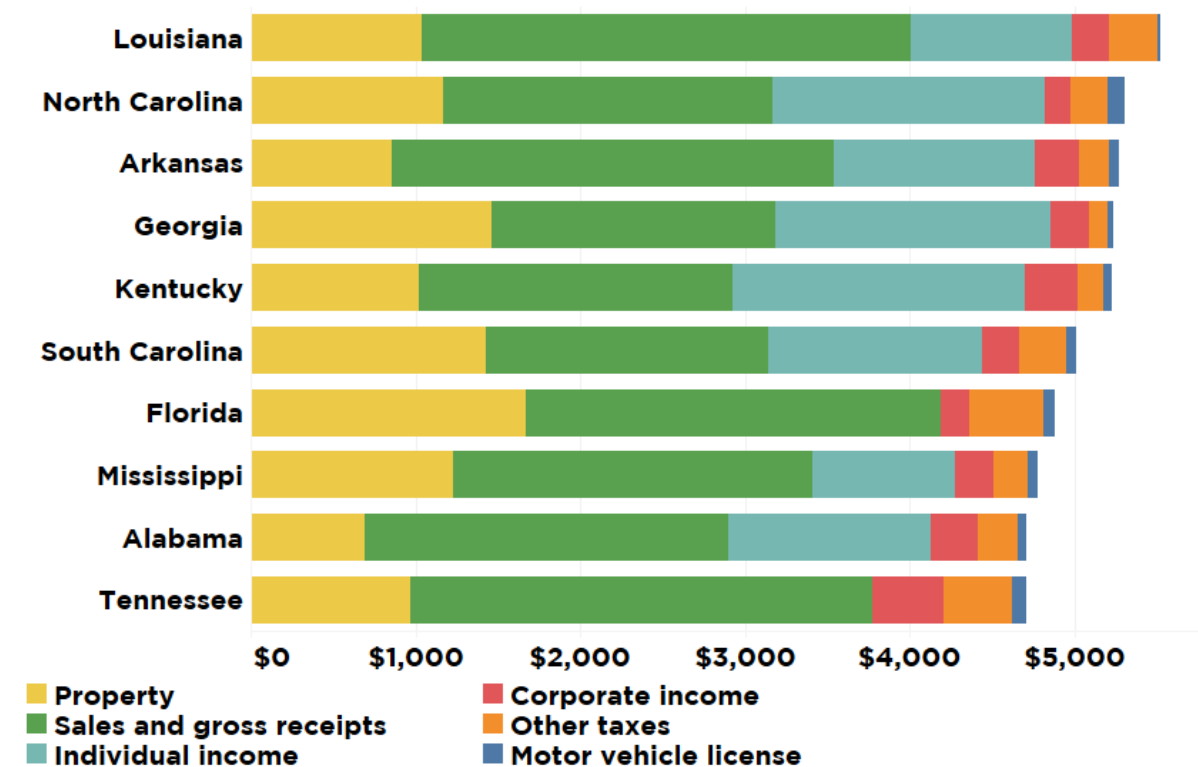


State and local property taxes are particularly low. As a percentage of GDP, Alabama’s property taxes equal only 1.2% of GDP, compared to 2.5% in the average state. Alabama’s per capita property tax collections could be doubled and still be below the U.S. average.

On the other hand, Alabama’s sales and gross receipts tax is a higher share of GDP than the average state, indicating that Alabama depends more heavily on sales taxes to produce tax revenue than most states.

Figure 8 compares Alabama’s state and local tax mix with other Southeastern states, expressed on a per capita basis. The chart shows the different blend of taxes each state uses to produce total state and local tax revenues.

Figure 88. Mix of Taxes Per Capita in the Southeast, 2022, by tax source. Source: U.S. Census Bureau, PARCA Calculations.



The portion of the bar representing Alabama’s property taxes, colored yellow, is shorter than the yellow section in any other state, reflecting lower per capita tax collections overall.

Florida compensates for no income taxes with higher per capita property and sales tax collections.

Meanwhile, other states exhibit their own unique mixes. Florida has no income tax but makes up for it with high property and sales tax collections per capita. For the most part, Tennessee has eliminated its income tax, but higher per capita property, sales, corporate income, and other taxes narrow the gap with Alabama's total per capita collections.

The Tax Mix: A Balancing Act

Although Alabama collects less in state and local taxes per resident than almost every other state, that does not guarantee low taxes for all. Because of the imbalance in the tax structure, taxes fall more heavily on some groups than others.

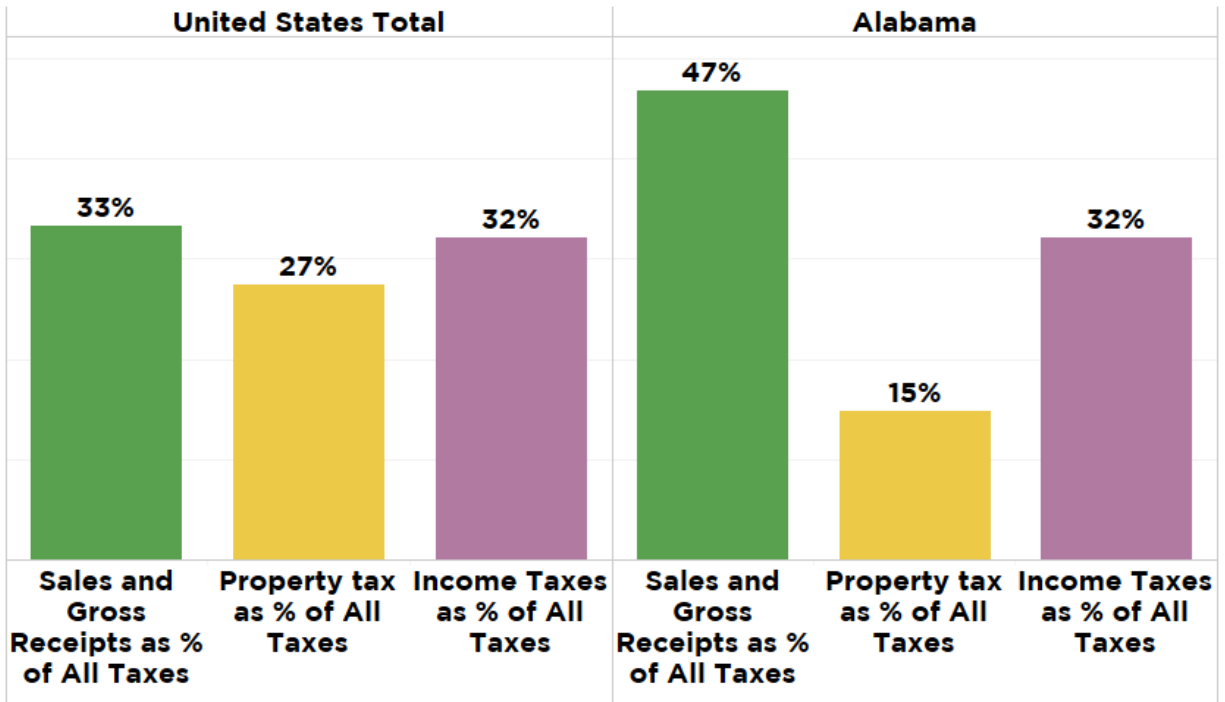
A sound tax structure avoids burdening any particular group too heavily. Most states take measures to protect households with low incomes from taxation to encourage economic advancement.

Property Taxes

Alabama's state and local property tax collections are lower than any other state, creating an imbalance in the state's tax system.

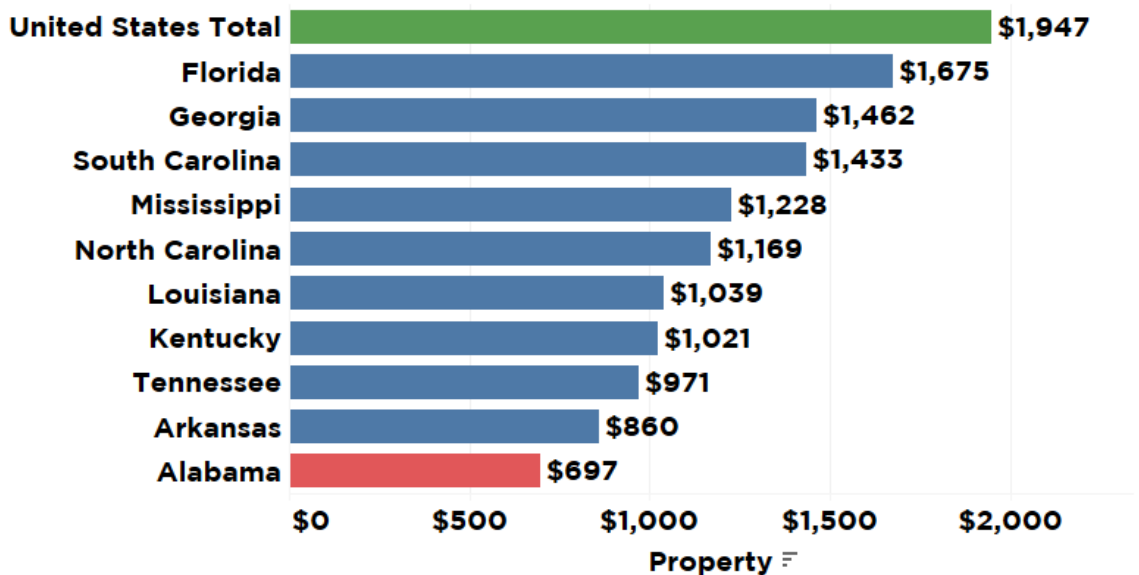
When all state and local revenue across the U.S. is considered, property taxes generate 27% of revenue. Property taxes account for only 15% of state and local revenue in Alabama, leading to a greater reliance on sales taxes.

Figure 9. Principal tax sources as a percentage of state and local tax revenues, all states vs. Alabama, 2022. Source: U.S. Census Bureau, PARCA Calculations.



Alabama's property taxes are low not only in comparison to all states but also in comparison to peer states in the Southeast.

Figure 10 11. Per Capita State and Local Property Tax Collections, 2022. Source: U.S. Census Bureau, PARCA Calculations.



The mechanisms for raising property taxes embedded in the Alabama Constitution make raising rates or adequate revenue through the property tax difficult. Local property tax increases must be recommended by a local government body, approved for the ballot by the state legislative delegation, and voted on by the affected voters.

Even if voters approve a rate change, Alabama's constitutional property tax classifications and caps limit the revenue generated. That is particularly true in communities with limited commercial property, where the land is mostly in homes or in agriculture.

Alabama's low property taxes primarily benefit those who own homes, farms, and timberland. Those properties are taxed on just 10% of their value. Their property tax bills are further reduced through homestead exemptions and valuations based on the current use of the property rather than current market prices for the land and buildings.

Meanwhile, taxes on commercial and industrial property are double that of residences or farms because that property is taxed on 20% of its value. Property owned by utilities is taxed on 30% of its value, three times the residential or agricultural property rate.

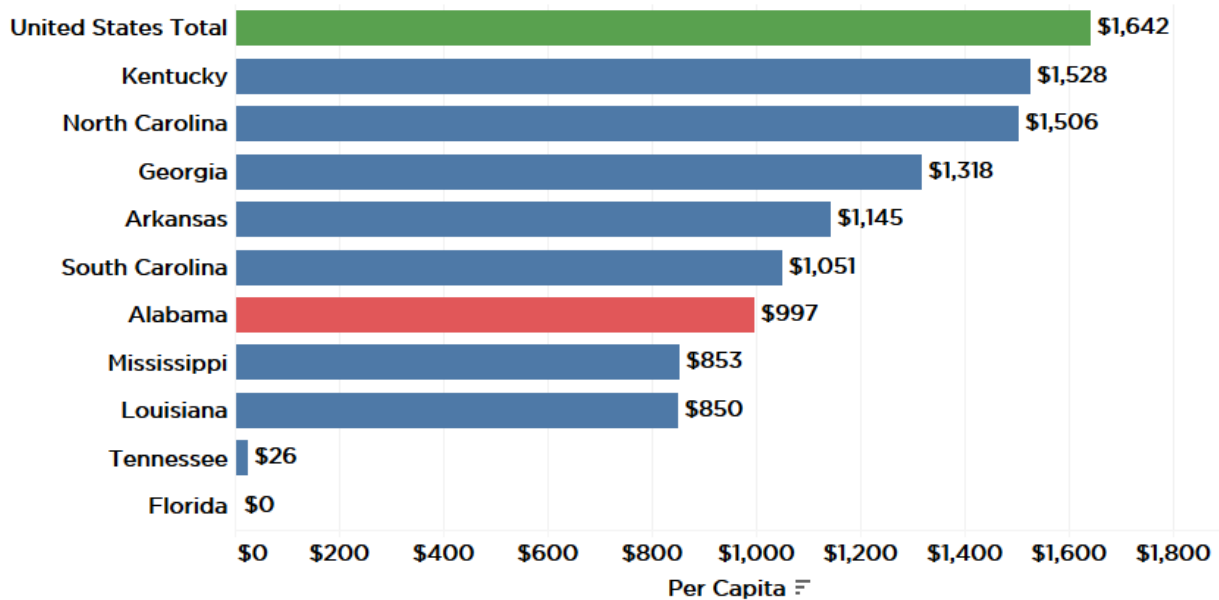
Under the current property classification system, businesses and utilities would bear an increase in property tax rates more heavily. Increases would also likely be passed along to consumers and to renters, as apartments are considered commercial property. And higher tax bills for utilities would likely be passed along to ratepayers.

Income Taxes

In 2022, Alabama's income tax revenue per capita ranked 35th out of the 43 states that collect income taxes.

In 2021, Alabama's income tax revenue per capita ranked 34th out of the 43 states that collect income taxes.

Figure 11. Per Capita State and Local Individual Income Tax Collections, 2022. Source: U.S. Census Bureau, PARCA Calculations.



In many states, the income tax is progressive, applying a higher rate to individuals with higher income levels. The income tax can serve as a balance against the regressive nature of other taxes.

However, in Alabama, several features of the tax interfere with the potentially progressive nature of the tax. Alabama sets the lowest threshold for taxing income in the U.S., requiring poverty-level families to pay income taxes.

A single individual earning just over \$4,500 annually is subject to the income tax. After earning \$12,500, a family of three (two parents and a child) starts paying income taxes. For that family, all income above \$15,500 in earnings is subject to the top state tax rate of 5%.

On the other hand, Alabama gives an unusual break to high-income earners: It allows a full deduction for federal income tax paid. That break does nothing for low-income Alabamians but is generous to high earners. Allowing the deduction for federal income taxes results in \$818 million less in state income tax collections.⁷ Alabama is the only state to allow both individuals and corporations to fully deduct federal income taxes paid when calculating state income taxes.

⁷ Report on Alabama Tax Expenditures, Legislative Services Agency, Fiscal Division. February 2024. [chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://alison.legislature.state.al.us/files/pdf/lisa/Fiscal/TaxExpenditure/ExpendReport2024.pdf](https://alison.legislature.state.al.us/files/pdf/lisa/Fiscal/TaxExpenditure/ExpendReport2024.pdf)

Federal deductibility also produces a curious effect. State tax collections go up when federal taxes go down, because companies and individuals get a smaller deduction for federal taxes paid.

Income Tax History

The current-day implications of Alabama's income tax are very different from when it was created. Alabama's income tax was created during the Great Depression and was only applied to the wealthy at the time. Authorized by a 1933 constitutional amendment, the Alabama income tax has just three tax brackets, brackets set up in the 1935 enabling legislation.

- The first \$500 of income is taxed at 2%.
- Income between \$500 and \$2,999: 4%
- Income above \$3,000: 5%

Those tax brackets were supposed to create a progressive income tax that rises in percentage terms as the taxpayer's ability to pay rises. But, because of the dramatic change in the value of money, they are almost meaningless today.

Also unchanged are the personal exemptions of \$1,500 for single adults and \$3,000 for married couples, created by the 1935 law that implemented the tax.

That meant married couples with \$3,000 of taxable income didn't pay income taxes. In 1935, personal per capita income was only \$216.⁸ Thus, very few married couples or individuals made enough to be subject to the tax. In 1935, only 7,000 Alabamians earned enough to owe income tax, one-quarter of 1% of the population.⁹

A standard deduction was added later. In 2022, Legislation raised the standard and dependent deductions. For low-income households, deductions and exemptions shield the first \$4,500 for a single individual and the first \$12,500 in income for a family of three (two parents and a dependent child) from income taxes.

Contrast that with the federal income tax, which allows standard deductions of \$13,850 for individuals in 2023 and \$27,700 for married couples filing jointly. Thirty-two states use this federal adjusted gross income level as the

⁸ U.S. Bureau of Economic Analysis and Federal Reserve Bank of St. Louis, Per Capita Personal Income in Alabama [ALPCPI], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/ALRPIPC>

⁹ Arise, "The Alabama Tax & Budget Handbook."

starting point for figuring state taxes. Other states set their own thresholds, all of which, in the end, compute to a higher income tax threshold than Alabama's.

In 2023, a single Alabamian with a poverty-level income of \$14,580 would owe \$468. A family of three (two parents and one dependent) with income at the federal poverty threshold (\$24,860 in 2023) would owe \$528. Since then, other states have adjusted their exemptions and standard deductions. Alabama continues to tax income at the lowest level threshold in the United States.¹⁰

In addition, the federal government provides child tax credits worth up to \$2,000 per child and an earned income tax credit, reducing or eliminating working families' tax liability. The tax credit payment is designed to offset the burden of other taxes and to help support the family.

According to the Center for Budget and Policy Priorities, 14 states have enacted a state-level child tax credit, and 31 states have enacted their own versions of the federal Earned Income Tax Credit (EITC).¹¹ Alabama has neither.

Taking into account exemptions and standard deductions, an Alabama family of four begins paying income taxes on anything earned over \$12,500.

While Alabama does little to spare low-income households from the income tax burden, it provides a break that primarily benefits high-earning households. Alabama allows taxpayers to deduct the full amount they pay in federal income taxes. Alabama is the only state where federal income taxes are fully deductible.

Since upper-income taxpayers pay a greater percentage of income in federal taxes, those higher earners get a larger break on Alabama income taxes. Meanwhile, the federal government has much larger deductions and exemptions, so the lowest-income workers pay little to no federal taxes.

¹⁰ "NCCP | 50-State Policy Tracker," accessed November 22, 2022, <http://www.nccp.org/tools/policy/>

¹¹ "Interactive Map: States Should Continue Enacting and Expanding Child Tax Credits and Earned Income Tax Credits | Center on Budget and Policy Priorities," March 26, 2024, <https://www.cbpp.org/research/state-budget-and-tax/states-should-continue-enacting-and-expanding-child-tax-credits-and>.

The deductibility of the federal income tax also creates unintended consequences. When federal taxes go down for individuals, their state taxes go up.

The income tax rate and the deductibility of federal income taxes are both embedded in the Alabama Constitution, so any change to the rate would require an amendment.

If desired, Alabama can change the standard deduction legislatively and create a system of credits.

Sales Tax

Because of the difficulty of raising property taxes, Alabama state and local governments have heavily relied on the sales tax.

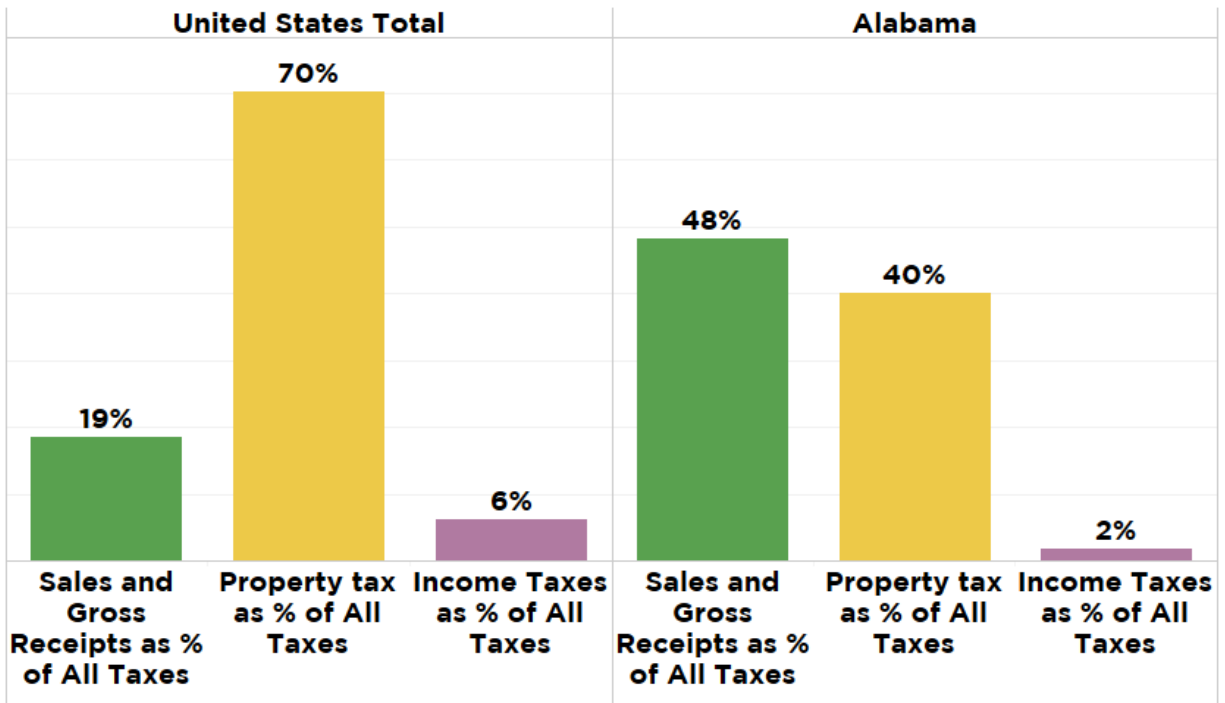
Alabama state and local governments have developed a heavy reliance on the sales tax.

As noted, almost half of the revenue collected by Alabama state and local governments comes from sales taxes. Across the U.S., sales taxes account for just a third of state and local taxes.

In most other states, property tax is the primary tax source for local governments. Figure 12 uses the Census Survey data for local government tax collections. Alabama's local governments depend much more heavily on sales taxes. Local governments in Alabama collect more per capita sales than any other Southeastern state except Louisiana.

Across the country, 70% of local tax revenue comes from property taxes. In Alabama, only 40% of local revenue comes from property taxes. Nationally, only 19% of local revenue comes from sales tax. In some states, local governments do not levy sales taxes. In Alabama, almost half of local tax revenue comes from sales and gross receipts taxes.

Figure 12 12. Local taxes from three principal sources, U.S. average vs. Alabama



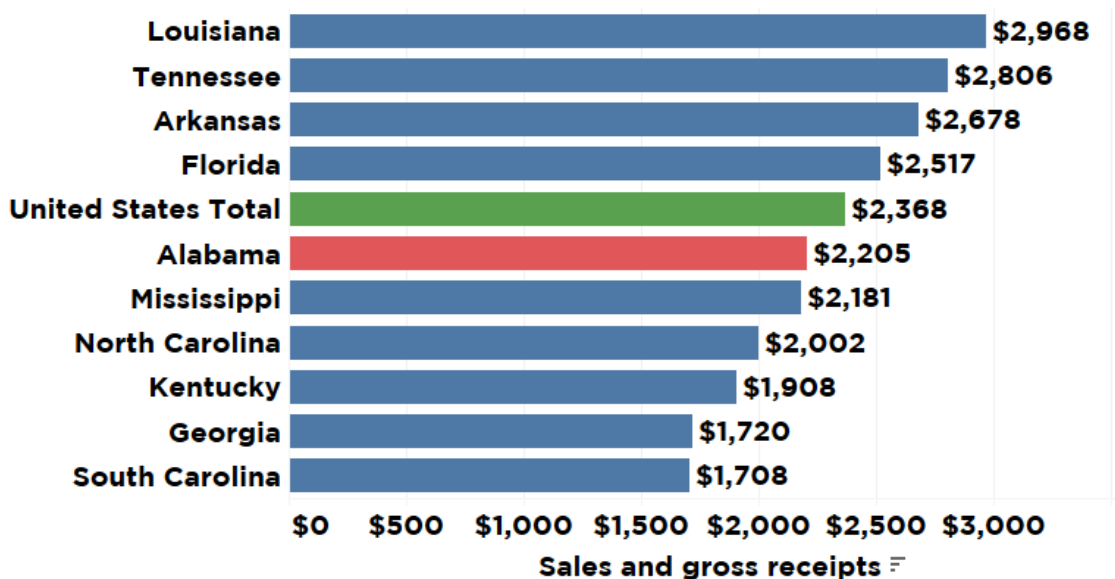
When state and local tax collections are combined, Alabama’s per capita state and local sales tax collections are below the national average.

Alabama’s per capita collections trailed Louisiana, Tennessee, and Arkansas, which have slightly higher average sales tax rates. Alabama’s per capita collections also trail Florida’s, which benefits from a heavy infusion of out-of-state tourism dollars and has a higher level of economic activity and wealth.

According to calculations by the Tax Foundation, Alabama has the sixth-highest combined state and local tax rates in the country at a weighted average of 9.29%.¹²

¹² Jared Walczak, “State and Local Sales Tax Rates, Midyear 2024,” Tax Foundation, July 9, 2024, <https://taxfoundation.org/data/all/state/2024-sales-tax-rates-midyear/>.

Figure 13 13. Per Capita Sales and Gross Receipts, 2022. Source: U.S. Census Bureau, PARCA Calculations.



Sales taxes tend to be regressive, as those with lower incomes tend to spend a higher percentage of their income on goods and services subject to the sales tax.

Attempting to counter the regressive nature of the tax, many states exempt items such as groceries and medicine from the sales tax. Until 2023, Alabama was one of three states that fully applied sales tax to food purchased for home consumption without providing any offsetting relief for low- and moderate-income families.¹³

However, in its 2023 session, the Alabama Legislature voted to reduce the state sales tax on store-bought food items from 4% to 3%.¹⁴

Reduction or elimination of the sales tax on groceries has long been sought because the sales tax, especially the taxes on groceries, falls disproportionately on low- and moderate-income families. Those families spend a greater share of their incomes on basic necessities; therefore, a greater share of those families' incomes goes to paying state and local taxes.

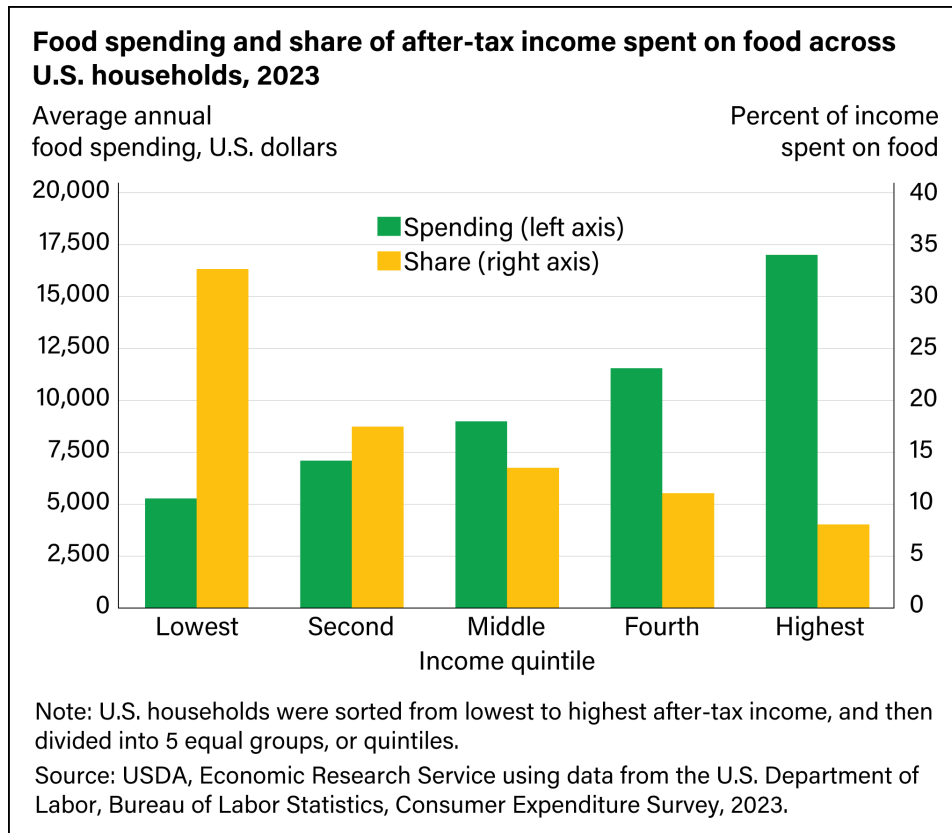
According to U.S. Department of Agriculture 2023 estimates, the 20% of households with the lowest income spent 5,278 on food, representing 32.6% of after-tax income. Meanwhile, the 20% of households with the highest

¹³ "Alabama and Utah Join Growing Number of States Moving to Reduce or Eliminate Sales Taxes on Groceries | Center on Budget and Policy Priorities," September 28, 2023. www.cbpp.org/blog/alabama-and-utah-join-growing-number-of-states-moving-to-reduce-or-eliminate-sales-taxes-on

¹⁴ Act 2023-554, <https://arc-sos.state.al.us/ucp/L1286222.All.pdf>

income spent an average of \$16,996 on food, representing 8.1% of after-tax income.

Figure 14 14. Percentage of income spent on food, by income level, USDA estimate¹⁵



The Legislature’s decision to reduce the sales tax on food provides some relief for consumers struggling with inflation and will disproportionately benefit those with the lowest incomes. However, the reduction in the state sales tax on groceries does not affect local sales taxes on groceries. In large metro areas, over half the sales taxes are local. So, the combined rate of state and local sales taxes is 10% (now reduced to 9% on groceries). Because property taxes are procedurally difficult to raise and their productivity is capped, it would be difficult for municipalities to follow suit and reduce or eliminate the sales tax on food.

Some states counter the regressive effects of their sales taxes using a progressive income tax system. Some states effectively pay back the taxes low-income households pay on groceries and medications through targeted tax credits or deductions. This is a method of compensating for the regressive

¹⁵ “Food Spending as a Share of Income Declines as Income Rises.” Accessed December 5, 2023. <http://199.135.94.241/data-products/chart-gallery/gallery/chart-detail/?chartId=58372>

nature of the sales tax. It is a more targeted way to create balance than eliminating the sales tax on groceries for everyone.

Despite high sales tax rates, Alabama's per capita state and local sales tax collections rank 24th among the 50 states. Alabama's sales taxes are not as productive as other states because of the smaller base of economic activity and because Alabama's sales tax is narrow compared to most states.

Alabama applies its tax to almost all sales of goods, but it does not apply the tax to most kinds of business, professional, computer, personal, and repair services. In recent decades, a greater share of economic activity has shifted toward consuming such services. According to a survey by the Federation of Tax Administrators, Alabama taxes 42 out of 176 categories of services.¹⁶ The median state applies the sales tax to 60 different services.

Other states also allow more forms of gambling than Alabama and apply a tax to that activity, bolstering the sales and gross receipts taxes in those states.

Taxing Sales Online

States, including Alabama, are pursuing various options for broadening the sales tax to capture the sales activity transacted on the Internet. Those transactions have, up until recently, been generally off-limits to taxation. In 2015, Alabama created the Simplified Sellers Use Tax (SSUT), which captures some of the sales tax revenue from online sales. Further changes to that law were made in 2018. In June 2018, the U.S. Supreme Court issued a ruling that bolstered states' abilities to tax online sales.

Since then, taxes on online sales have continued to climb, with \$185 million collected in FY 2020, \$257 million in FY2021, \$311 million in 2022, and 369 in FY 2023. This tax source was particularly important during the pandemic, as consumers increasingly turned to online shopping and delivery.

The SSUT's rate of 8% on online purchases is lower than the weighted average sales tax of 9.24% levied on in-store purchases across the state. The tax collections are submitted to the Alabama Department of Revenue. Half of the tax flows to the state; the other half is distributed to cities and counties based on a population-based formula.

¹⁶ Alt, R. (2017, August. Updated Jan. 2018). Sales Taxation of Services, Retrieved Oct. 30, 2020, from <https://www.taxadmin.org/sales-taxation-of-services>.

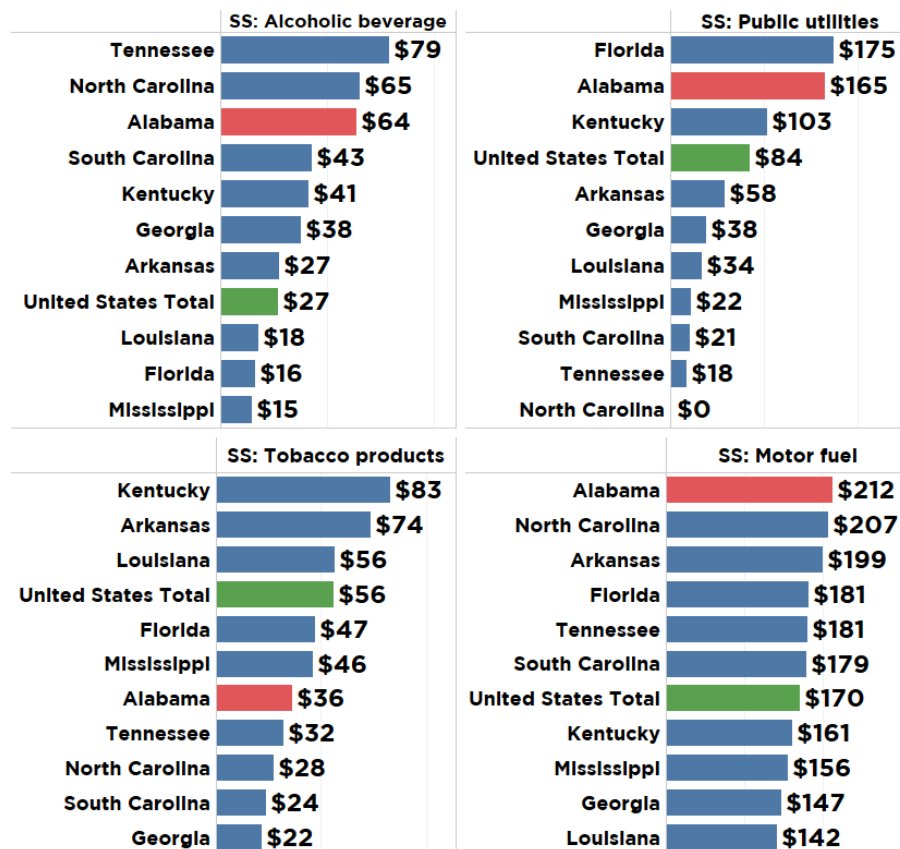
Larger cities, which tend to be centers of commerce and depend on the sales tax for revenue, point out that the current scheme creates an advantage for online retailers since those retailers collect an 8% tax. In comparison, Alabama-based retailers often collect a 10% tax.

Smaller cities and counties with less of a sales tax base tend to support the current population-based system because SSUT revenue is a new and added source of revenue for them.¹⁷

Selective Sales Taxes

Alabama governments sometimes turn to selective sales taxes to avoid passing a general tax increase. For example, Alabama ranks high in per capita collections of taxes on alcoholic beverages (No. 4 in the U.S.) and public utilities (No. 5 among U.S. states).

Figure 1515. Per Capita Selective Sales Collections in the Southeast, 2022. Source: U.S. Census Bureau, PARCA Calculations.



¹⁷ Thomas Spencer, "E-Commerce and Taxation: Questions of Efficiency and Equal Treatment," *Public Affairs Research Council of Alabama* (blog), May 22, 2023, <https://parcalabama.org/e-commerce-and-taxation-questions-of-efficiency-and-equal-treatment/>.

According to the Census survey, Alabama ranks 12th in the U.S. in per capita in motor fuel tax collections in 2022, which is something of a mystery. It may stem from Alabama being a transportation crossroads and receiving significant pass-through traffic compared to its resident population. The high rank does not correspond with Alabama's motor fuel tax rates. According to the American Petroleum Institute's most recent survey, Alabama's gasoline tax ranks No. 25, far below the national average. Gasoline tax rates in North Carolina, Georgia, and Florida are higher.¹⁸ According to the latest AAA survey, Alabama's gas prices rank 41st in the U.S.¹⁹

In 2022, per capita revenue on tobacco products ranked No. 41 in the U.S. Alabama's state-level cigarette tax rate remains relatively low, at 67.5 cents a pack, ranking No. 41 among U.S. states. According to the Campaign for Tobacco-Free Kids, the average tax rate among states is \$1.96 per pack.²⁰ That does not factor in local tobacco taxes.

Conclusion

Alabama's state tax collections have grown at an unusually high rate in recent years, spurred by a recovering economy, record low unemployment, and federal stimulus in the aftermath of the COVID-19 pandemic. That extra infusion of cash is particularly helpful in Alabama, where sales taxes capture increased spending.

Elevated inflation rates also drive up the numerical total of tax collections. However, that also means that governments face soaring costs. Thus, the impact of the revenue increases is partially negated by the need to increase spending to provide the same level of services.

The Alabama Legislature has eliminated one cent of the four-cent sales tax on food, providing tax relief in light of high inflation. That was a fitting response from lawmakers. Targeting that relief in ways that provided benefits for low-income households was also a positive step. The Legislature also budgeted responsibly and saved surplus funds for long-term investment.

But as conditions trend toward normal, it will be important to remember the state has underinvested for a long time compared to other states. And our tax

¹⁸ "Regional Gasoline Motor Fuel Taxes," 2022. <https://www.api.org/-/media/Files/Statistics/State-Motor-Fuel-Notes-Summary-january-2022.pdf>

¹⁹ "AAA Fuel Prices," accessed December 13, 2024, <https://gasprices.aaa.com/state-gas-price-averages/>.

²⁰ "State Cigarette Excise Tax Rates," accessed December 13, 2024, <https://www.tobaccofreekids.org/fact-sheets/tobacco-taxes>

system continues to be engineered to produce lower tax revenues per capita than other states.

The ideal way to grow tax revenues is to build the health, wealth, and prosperity of the state and its residents. Educational attainment is the best predictor of prosperity, health, wealth, and prosperity. Low rates of educational attainment are correlated with poor health, higher rates of poverty, unemployment, and involvement with the criminal justice system.

In the long run, Alabama must be able to make sustainable, competitive investments in programs proven to improve health, education, and economic growth. Otherwise, we will end up paying the bills for neglect.



Public Affairs Research Council of Alabama

WHO WE ARE

The Public Affairs Research Council of Alabama is a nonpartisan research organization focused on helping state and community leaders make better-informed public policy decisions.

WHAT WE BELIEVE

State and community leaders make better-informed decisions when provided with unbiased, nonpartisan data and resources about the topics they care about the most.

HOW WE WORK

We conduct *nonpartisan research* on issues affecting the people of Alabama so state and community leaders, and others, can make better-informed decisions based on facts, not rhetoric.

We *independently evaluate* the efficacy of public programs and services.

We offer technical and research assistance for public and nonprofit partners to help them integrate the use of *accurate data* into their work.

We engage in *meaningful dialogue* with state and community leaders and others on the topics Alabamians care about the most.



WHY WE MATTER

There are many groups and organizations vying for the attention of state and community leaders. It's often hard to identify what's real from alternative facts and partisan-leaning talking points. Our founders started the Public Affairs Research Council of Alabama more than three decades ago to counter the rising tide of misinformation. They recognized then, and it remains true today, that emotional appeals and fiery rhetoric often lead to indecision and false choices.

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