

Alabama Taxes and Incentives

Alabama's Capital Investment Tax Credit

The Capital Investment Tax Credit program allows an income tax credit of up to 5 percent of initial capital costs of qualifying projects to new and expanding companies. The credit is available each year, for 20 years, beginning in the year the qualifying project is "placed in service"*. The current rate of taxation in the State of Alabama for corporations is 6.5%. Alabama allows the deduction of federal income taxes apportioned and paid to Alabama from the gross apportioned and allocated income, creating a lower net effective income tax rate. The capital credit can effectively eliminate the Alabama income tax liability generated by a qualifying project.

- Companies eligible: Any trade or business described in 1997 North American Industry Classification System (NAICS), Sectors 31 (other than National Industry 311811), 32, 33, and 42; subsector 511; Industry Groups 5142 and 5415; Industries 54138, 54171; and National Industry 514191 and includes such trades and businesses as may be hereafter reclassified in any subsequent publication of the North American Industry Classification System, or any process or treatment facility which recycles, reclaims, or converts materials, which includes solids, liquids, or gases, to a reusable product. In addition, headquarters facilities may qualify.
- Criteria for businesses to qualify for the capital credit incentive are:
 - Small Business Additions (additions to existing facilities and which investing company has 100 or fewer full-time employees in Alabama prior to date addition placed in service):
 - Creation of 15 new jobs;
 - Investment of \$1,000,000.
 - All other Businesses (new and expanding):
 - Creation of 20 new jobs;
 - Investment of \$2,000,000.
 - Headquarters Facilities:
 - Creation of 20 new jobs;
 - Investment of \$2,000,000.
 - A Project located in a Favored Geographic Area** (new and expanding):
 - Creation of 5 new jobs;
 - Investment of \$500,000
 - All Businesses:
 - An average wage requirement of \$8.00 per hour or an average total compensation of not less than \$10.00 per hour, including benefits, is required. There is an exception for direct processors of agricultural food products.

*Prior to the date the qualifying project is "placed in service," the company must notify the Alabama Department of Revenue of its intent to claim the incentives under Section 40-18-190 et. seq., Code of Alabama 1975. Effective June 4, 1999, the "written statement of intent" to claim the capital credit (Form INT) must "include the notification acknowledgment letter from the director" (of the Alabama Development Office) per Section 41-9-202.1, Code of Alabama 1975.

**A Favored Geographic Area is:

- (a). Any area designated as an enterprise zone by law or that is governed by the Alabama Enterprise Zone Act.
- (b). Any Alabama county which is considered to be less developed. This designation is comprised of counties ranked forty-fifth through sixty-seventh, inclusive, using the following factors:
 - (i) Percent change in population over the most recent five-year period.
 - (ii) Personal per capita income in the last calendar year for which data is available.
 - (iii) The average percent employed over the last 12 months for which data is available.

Favored Geographical Areas are ranked as of every January 1.

Alabama Enterprise Zone Credit

To stimulate business and industrial growth in depressed areas of the state, Alabama offers certain tax credit incentives to businesses that locate or expand within a designated enterprise zone. The program is administered by the Alabama Department of Economic and Community Affairs (ADECA), who determines whether the project meets the requirements for the program and must certify such to the Alabama Department of Revenue. Qualified participants will be eligible for a credit that may be applied against the income or business privilege taxes or sales and use taxes, where applicable.

Employer Education Credit

A tax credit is statutorily available to employers who provide basic skills education programs to Alabama resident employees. The credit is 20 percent of the actual costs limited to the employer's income tax liability. Program must receive written approval from the Alabama Department of Education.

Tax Structure and Abatements

The following is a brief summary of the major state and local taxes applicable to foreign (incorporated outside the State of Alabama) and domestic corporations operating a plant in Alabama.

Property Tax

All non-exempt property in Alabama is classified and assessed at 20% of fair and reasonable market value for manufacturers. The rate of tax per one thousand dollars of assessed value is \$6.50 (includes \$3.00 for schools). Local levies also apply.

Exemptions: Property Tax

- Raw Materials and Finished Products
- Air and Water Pollution Control Devices
- Industrial or Research Projects in SICs 20-39 and 50-51, Industrial Group 737, and Industry Numbers 0724, 4613, 8731, 8733, and 8734 may obtain an abatement of up to 10 years from property taxes levied for non-educational purposes. Property taxes levied for educational purposes are not abatable. The Tax Incentive Reform Act of 1992 (Chapter 9B, Title 40, Code of Alabama 1975) empowers cities, counties, industrial development boards, and other similar public bodies to grant such exemptions for new projects and major additions to existing projects. There is no minimum amount of investment required to qualify a new project for abatement. An addition, however, to an existing project requires an investment of the lesser of 30% of the original cost of the existing facility or \$2 million.

Business Privilege Tax

The tax applies to all corporations, limited liability entities, including disregarded entities, which do business in Alabama or are organized under the laws of Alabama. The tax accrues as of January 1 of every taxable year and is due March 15. However, in the case of a taxpayer organized during the year, qualifying during the year, or doing business in Alabama for the first time, the tax accrues as of the date of organization, qualification, or beginning to do business and is due 30 days thereafter.

Computation

The tax base is the net worth of the taxpayer apportioned to Alabama. Tax rates are graduated and based on the federal taxable income apportioned to Alabama. The rate ranges from \$.25 to \$1.75 for each \$1000 of net worth in Alabama. The minimum privilege tax is \$100 and the maximum privilege tax is \$15,000. However, higher caps apply for financial institutions and insurance companies.

Income Tax

The current rate of taxation in the State of Alabama for corporations is 6.5 %. Alabama allows the deduction of federal income taxes apportioned and paid to Alabama from the gross apportioned and allocated income, creating a lower net effective income tax rate.

Sales and Use Tax

	Alabama Rate
Machinery used for manufacturing	1.5%
General rate	4.0%
Automobiles	2.0%

Local levies may also apply.

Credit is permitted for sales and use taxes paid to another state or subdivision thereof. The total credit allowed cannot exceed the total amount of Alabama state or local sales and use tax liability.

Materials or products that become an ingredient or component part of products sold by a manufacturer are treated as purchased at wholesale and are exempt from tax at that time.

Exemptions: Sales and Use Tax

If a company qualifies and is granted a tax abatement under the Tax Incentive Reform Act of 1992 (see discussion under Property Taxes), construction-related transaction taxes (sales and use taxes), and mortgage and recording taxes can be abated. Any local tax that is used for educational purposes, however, may not be abated. Also, air and water pollution control devices are exempt from sales and use taxes.

Inventory Tax

Alabama exempts property tax on inventory of goods, wares and merchandise that is offered for sale. However, inventory that is used for lease or rental purposes is subject to the property tax. Materials that are to be compounded or manufactured and are stocked at plants or furnaces for manufacturing purposes are also exempt.

Utility Exemptions

Alabama law allows for an exclusion from the utility gross receipts tax and utility service use tax for utility services used in certain types of manufacturing and compounding process. Processes using electricity or natural gas in electrolytic or electrothermal manufacturing or compounding process may qualify for an exemption.

Grants and Other Financing Incentives

Industrial Development Grant Program (Site Preparation)

Alabama Act Number 91-635, as amended by *Alabama Act Numbers 97-645, 99-590 and 99-591*, authorizes the State Industrial Development Authority to sell bonds to make grants to counties, municipalities, local industrial development boards or authorities or economic development councils or authorities, airport authorities, port authorities or public corporations to pay for site preparation for land owned or possessed by lease by these entities.

In order to be eligible for an industrial development grant, the activity occupying the project site must be a *Qualifying Project*. *Qualifying Project* is defined as:

- A project to be sponsored or undertaken by one or more investing companies
- at which the predominate trade or business activity conducted will constitute industrial, warehousing, or research activities, or development and testing service providers.
 - which qualifies as a headquarters facility.

The size of the grant depends upon the amount of capital investment:

<u>Capital Costs</u>		<u>Percentage of Capital Cost</u>
Less than	\$ 200,000	5.0%
\$ 200,000 to	\$ 499,999	3.5% (minimum \$10,000)
\$ 500,000 to	\$ 999,999	2.5% (minimum \$20,000)
\$ 1,000,000 to	\$ 1,999,999	1.5% (minimum \$28,000)
\$ 2,000,000 to	\$ 9,999,999	1.0% (minimum \$32,000)
\$10,000,000 to	\$24,999,999	0.75% (minimum \$100,000; maximum \$150,000)
\$25,000,000 or greater		Maximum \$150,000

Act 99-351 (the Act) requires entities seeking an Industrial Development Grant or certain other incentives to notify the Director of the Alabama Development Office (the Director) of the general parameters of the Qualifying Project (Project). The Act requires the Director to transmit a letter acknowledging receipt of the notification (Notification Acknowledgement Letter).

Infrastructure funds are available for extension of water, sewer and road facilities. Programs include the **Alabama Infrastructure Grant Program** and other funding through Alabama Department of Economic and Community Affairs, Community Development Block Grants, and state/federal governments.

The **Alabama Industrial Access Road and Bridge Program** provides financial assistance to communities for industrial access to new and expanding industries. The program allows for the construction of roads, bridges, etc. on public right-of-ways in conjunction with industrial projects.

Industrial Revenue Bonds

In Alabama, Industrial Revenue Bonds (IRBs) may be used as long-term financing of up to 100% of a project for:

- Acquisition of land, buildings, site preparation and improvements;
- Construction of buildings;
- Acquisition and installation of furnishings, fixtures and equipment;
- Capitalizable soft costs (e.g., architectural and engineering, interest incurred during construction, cost associated with bond issuance, etc.).

Typically, tax-exempt IRBs have interest rates ranging from 70-85% of prime and are limited to \$10 million per single issuance and \$40 million total maximum per company. Taxable IRBs have an interest rate equal to conventional loans and have no limit. Terms for both are normally 10-20 years and can finance up to 100% of the project costs. The principal and interest on the bonds are paid solely from the funds derived from leasing or selling the facilities to the user company. Under most circumstances, upon complete payment of the bond issue, the lessee or user company acquires ownership of the industrial facility for a nominal sum.

The state has more than 2,300 commercial lending sources with assets of over \$61.3 billion. The **Alabama Economic Development Loan Program** is used to work with commercial lenders for projects in non-entitlement communities.