

Alabama State Tax Collections, 2025

*Increases, Decreases, and Trends in the Revenues
Supporting the State Government*



**Public Affairs
Research Council
of Alabama**



*Alabama State Tax Collections, 2025: INCREASES,
DECREASES, AND TRENDS IN THE REVENUES SUPPORTING
THE STATE GOVERNMENT*

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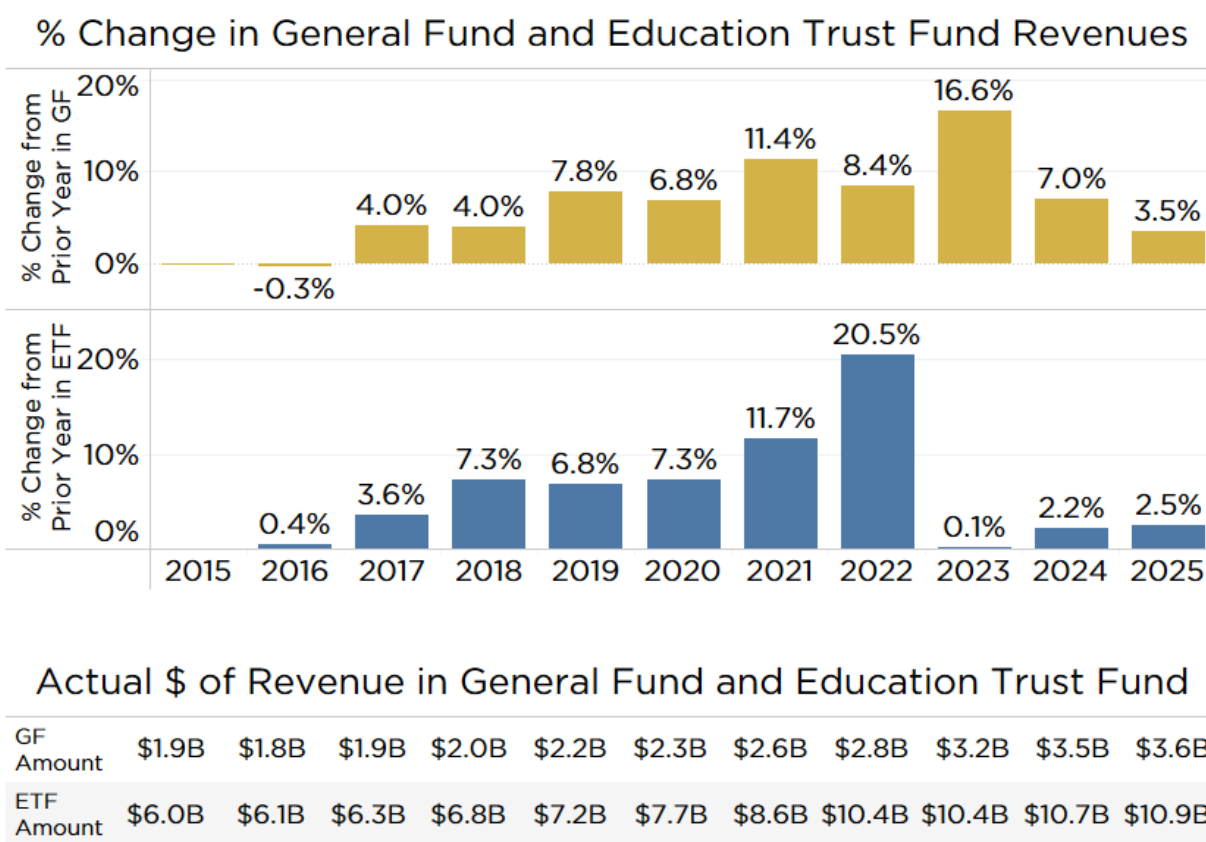
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Executive Summary

As expected, Alabama tax revenues grew much more slowly in 2025, following a period of unusually high growth since 2017. Taxes flowing into the Education Trust (ETF), primarily income and sales taxes, increased 2.49%, around the rate of inflation. Taxes supporting the state General Fund grew at a rate of 3.47%, a faster rate of growth than inflation.

Figure 1. Tax collection trends in Alabama's General Fund and Education Trust Fund

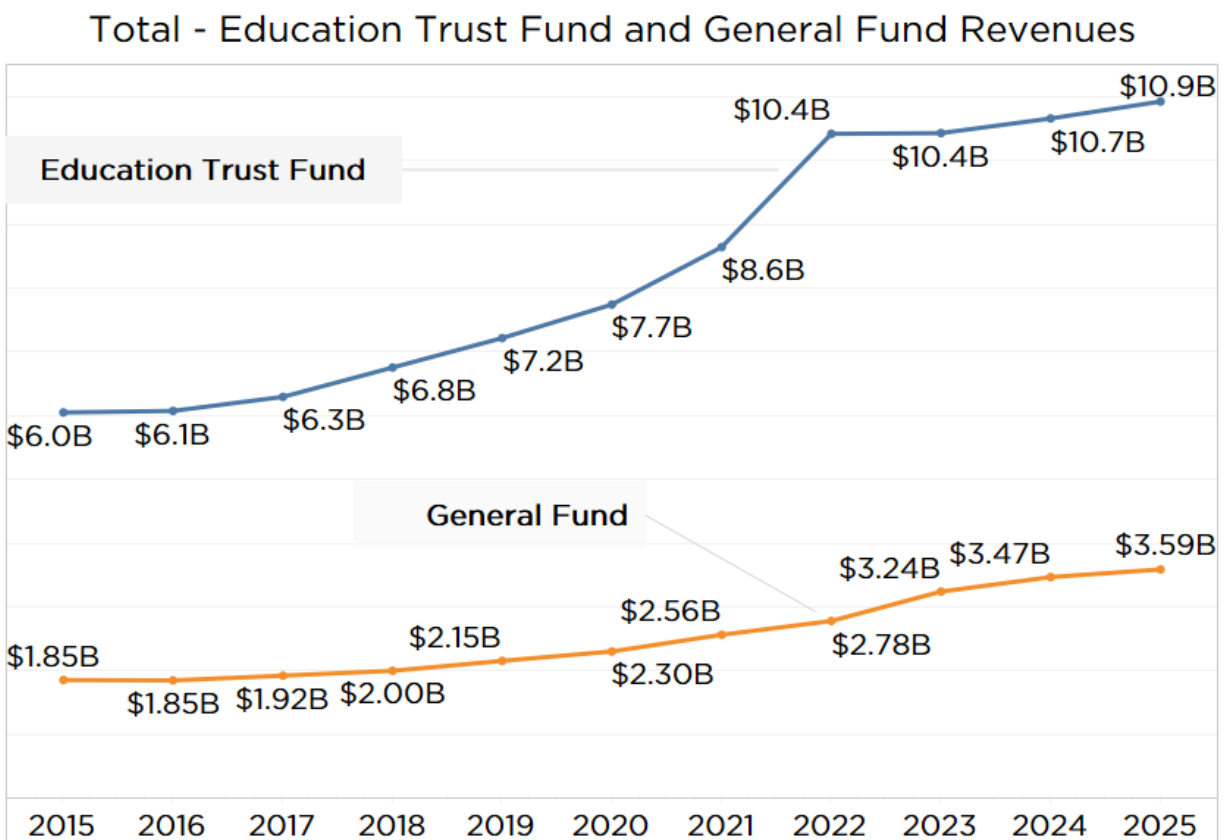


The ETF supports spending on K–12 schools, colleges, and universities. From FY 2021 through FY 2023, the two funds saw unusually high surges of growth related to pandemic-related economic conditions, federal stimulus and relief payments, and shifting employment and consumption patterns.

The Education Trust Fund (ETF), funded by state income and sales taxes, has grown at or below the rate of inflation since 2023. However, in the years immediately preceding, tax collections flowing to the ETF grew at a record-breaking pace. Due to the surpluses saved in those record years and legislative restraint on spending, education budgets can continue to grow at a moderate pace. However, as the last of the pandemic era federal money is spent, local schools will likely need to cut expenses to adjust to tighter budgets.

Meanwhile, growth in the General Fund (GF) still exceeds the rate of inflation, but its growth rate is expected to continue to decline. Revenue from Interest earned on state deposits declined by \$47 million in 2025. In FY 203 and FY 2024, this interest revenue skyrocketed because the state had unprecedented levels of cash on hand from state surpluses and federal stimulus funds. At the same time, interest rates were unusually high. In FY 2025, interest rates edged lower, and the surpluses and federal money are being spent down.

Figure 2. Trends in Revenue Totals, Education Trust Fund and General Fund



Changing Conditions

In the General Fund, declining balances and falling interest rates will put downward pressure on interest on state deposits in FY 2026. Billions of federal dollars made available through the American Rescue Plan Act (ARPA) have to be expended by the end of 2026.

Meanwhile, in the ETF, in FY 2025, sales tax collections increased by only 1.19%. In September of 2025, the state lowered its sales tax on food to 2%. The Legislative Fiscal Office estimated that the reduction would reduce sales tax revenue by \$122 million. Income tax receipts increased 3.14% in FY 2025. Within the income tax total, individual income tax revenue increased by about \$400 million, up by 6%; but corporate income tax collections were down by about \$150 million, about 10%.

On the other hand, income tax collections will likely increase in FY 2026. At the end of June, a measure that exempted overtime pay from the state income tax ended, which will increase collections. At the same time, 2025 saw the passage of the federal One Big Beautiful Bill Act (OBBA). For the most part, OBBA extended tax cuts that were originally passed in the Tax Cuts and Jobs Act of 2017 (TCJA). That Act reduced federal individual and corporate income taxes. Because Alabama allows taxpayers to deduct federal income taxes paid, TCJA and OBBA increased the state income tax revenue. Additional tax changes in OBBA will likely reduce revenue to the federal government but increase revenue to Alabama state government through income taxes.

Thus far, in 2025 Alabama's economy is moderating, with positive but slow growth in GDP compared to other states. Alabama's GDP grew at an annualized rate of 1.2% in the second quarter of 2025, ranking 46th among states. Personal Income growth also ranked 46th, advancing 3.6%. At the same time though, Alabama unemployment is still near record lows, and the number of people working hit an all-time high in May before falling back slightly over the summer.

Alabama's labor force participation continues to lag behind the U.S. rate. That means that fewer Alabamians, in percentage terms, are either working or looking for work. That partially explains why Alabama generates less income and tax revenue per capita than other states.

The State Finance Department predicts that collections in FY 2026 will exceed those in FY 2025 by only 1.82% in the ETF and will decrease by 1.65% in the General Fund.

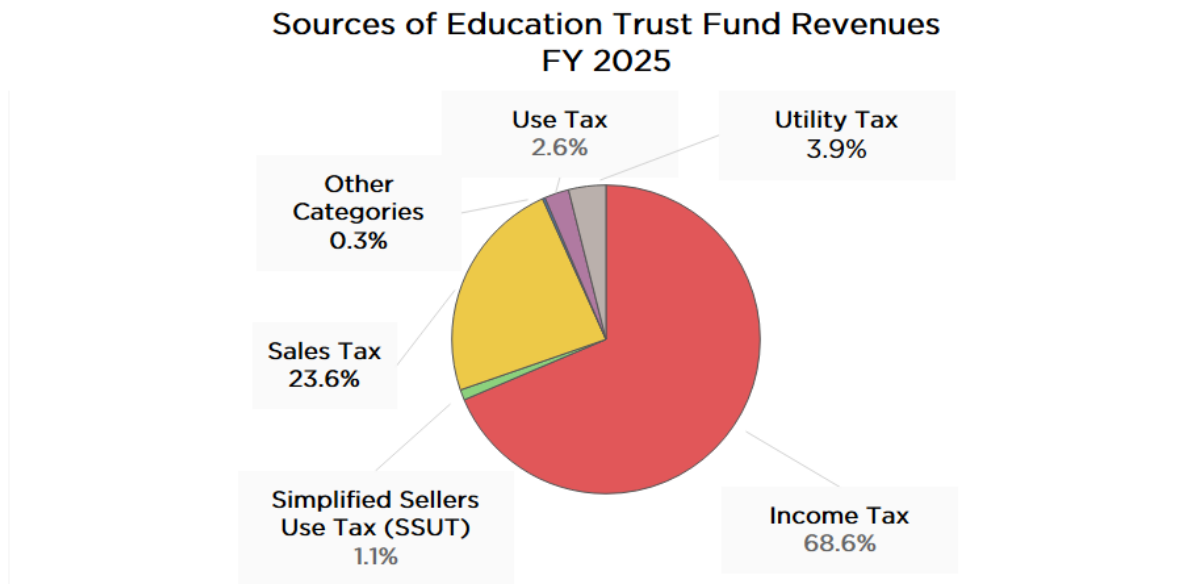
The 2026 GF budget increases spending by \$315 million, to \$3.7 billion, a 9% increase over 2025. That total is slightly more than the final amount collected in 2025. The General Fund is only a small portion of the total operations of General Fund Agencies. General Fund Agencies, including Medicaid, Departments of Health and Mental Health, and Human Resources, receive a significant portion of their money from other state taxes, revenues from state operations, and from the federal government. In total, General Fund agencies are expected to expend \$24 billion in FY 2026.

From the ETF, the Legislature has budgeted \$9.9 billion in spending, \$560 million, or 6% over the 2025 totals. That total is still below the \$10.9 billion collected in FY 2025. To that \$9.9 billion, add federal funds and tuition revenues from universities, and the total appropriation for education is expected to amount to about \$28 billion in FY 2026.

The Education Trust Fund

The ETF¹ receives the receipts of state sales and use tax, income tax, plus a handful of other revenue streams, as shown below. Income taxes, as well as sales and use taxes, comprise 96% of these sources. Thus, the ETF relies on a strong economy for growth. During a recession, the ETF can be expected to contract.

Figure 3. Education Trust Fund by Source of Revenue, 2025



Education Trust Fund Total

Revenues	FY 2025	Change 2024-2025	% Change 2024-2025
Total	10,926,214,619	265,666,027	2.5%

¹ The Education Trust Fund (ETF) is the largest operating fund of the State. Revenues credited to the ETF are used for the support K-12 education, public library services, performing and fine arts, scholarship programs, the state's education regulatory departments, and two- and four-year colleges and universities. ETF funding also supports non-state agencies that provide educational services, including the arts, disease counseling and education, and youth development. Twelve tax sources are allocated to the ETF, the largest of which are the individual and corporate income tax, sales tax, utility tax, and use tax. http://budget.alabama.gov/education_trust_fund_description/.

Additionally, inflation can impact these revenue sources. Higher inflation can drive up the amount of sales tax collected. Still, the higher collections may not represent real growth due to increased costs to the government and the need to raise public employee compensation to keep up with inflation. Figure 4 depicts the ‘All items’ *Consumer Price Index for All Urban Consumers (CPI-U) for the South Region*. Prices increased by 2.6% for the 12 months ending in August 2025 (all items, excluding food & energy, rose by 2.8%). The inflation rate has decreased significantly since 2022 but has trended upward slightly since February.

Figure 4. Percent Change in Consumer Price Index, Sept 2022–Sept 2025

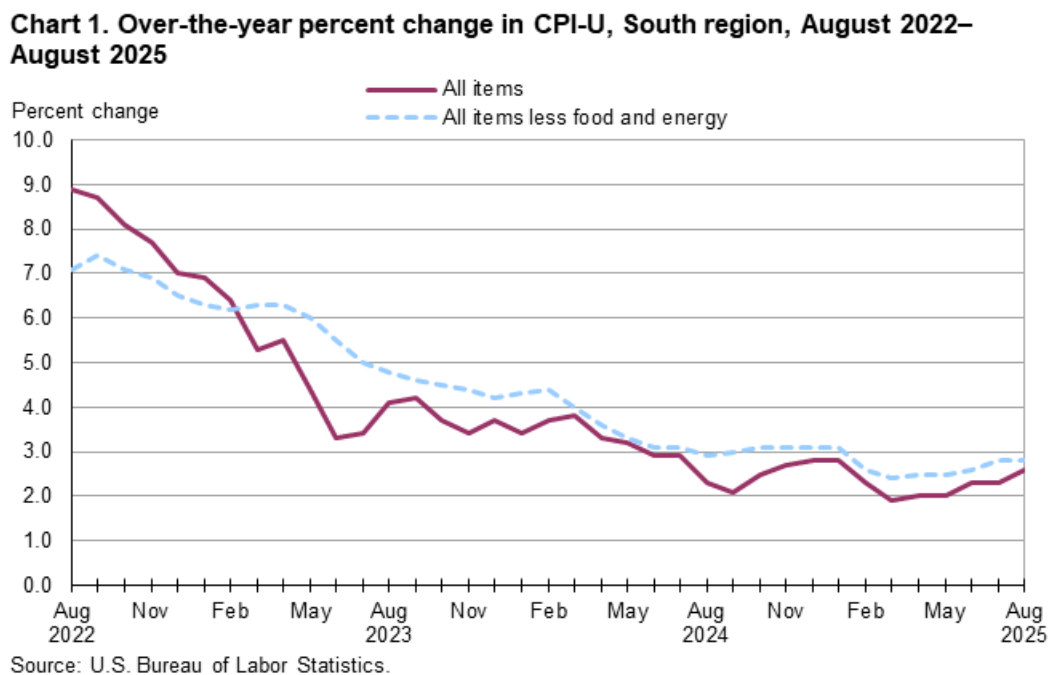
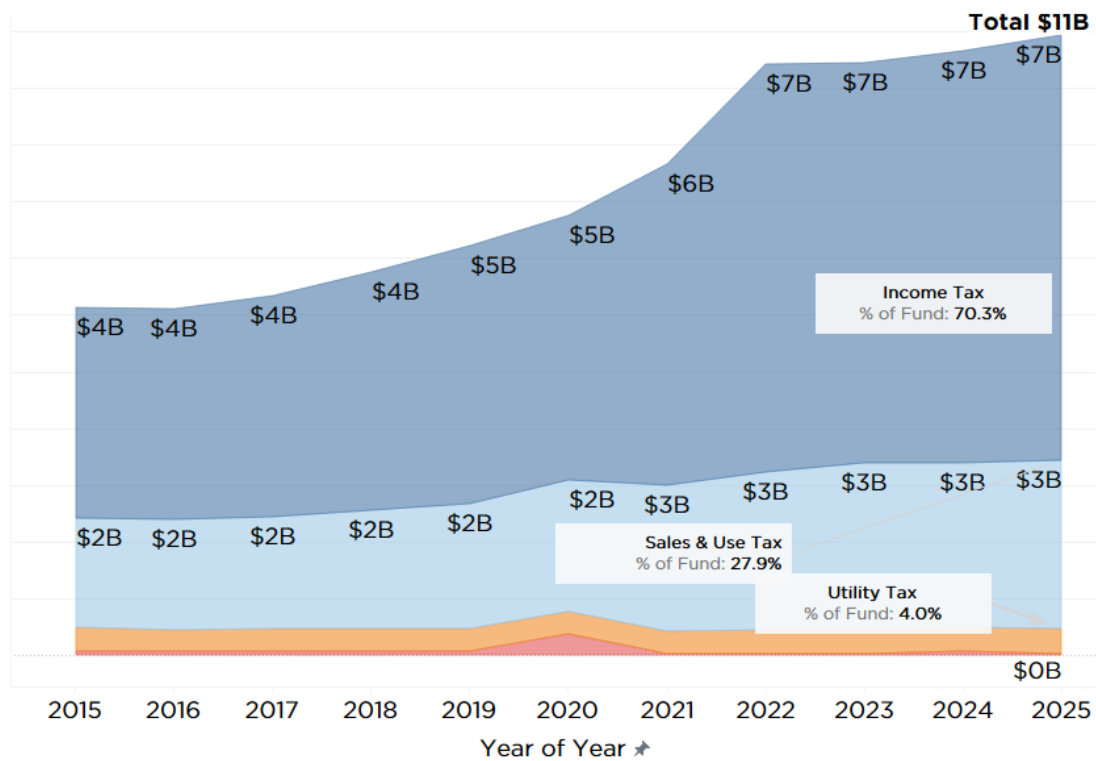


Figure 5 depicts the overall revenue trends for the ETF, showing the trends for the four main revenue categories and a fifth “other” category. The income tax and the sales & use tax categories reflect 95% of the total revenue sources.

Figure 5. Revenue Sources for ETF, by % of Fund



For a detailed list of all revenues in the ETF, see Table 1 below, which includes, in descending order, a total for FY 2025 revenue, revenue by source, the change from the previous year, the percentage change from the previous year, and the percentage of all revenues from the source.

Table 1. ETF Revenue Sources and Change

<u>Education Trust Fund - Revenue Results, 2025</u>				
Revenues	FY 2025	Change 2024-2025	% Change 2024-2025	Percent of Total 2025
Total	10,926,214,619	265,666,027	2.5%	100.0%
Income Tax	7,495,179,540	228,050,614	3.1%	68.6%
Sales Tax	2,574,138,300	30,195,931	1.2%	23.6%
Utility Tax	424,999,487	-813,688	-0.2%	3.9%
Use Tax	259,780,417	23,452,378	9.9%	2.4%
Simplified Sellers Use Tax (SSUT)	119,171,865	13,786,342	13.1%	1.1%
ABC Board	20,335,788	-1,125,358	-5.2%	0.2%
Use Tax - Remote Sellers	22,298,529	1,885,548	9.2%	0.2%
Mobile Telecom Tax	8,540,671	438,493	5.4%	0.1%
Transfers and Reversions	1,008,209	-30,745,782	-96.8%	0.0%
Hydroelectric Tax	486,469	482,883	13468.7%	0.0%
Miscellaneous	66,600	30,893	86.5%	0.0%
Privilege Licenses	147,159	25,215	20.7%	0.0%
Courts Cost	61,387	1,642	2.7%	0.0%

Income Taxes

There are two components of income taxes: individual income taxes and corporate income taxes. Individual income taxes are the largest source of revenue, generating \$6.4 billion in tax revenue, and they grew at a rate of 6%, more than twice the rate of inflation. In FY 2025, corporate income tax collections decreased by \$143 million, or

10%, to \$1.2 billion. However, that 10% decrease in 2025 followed a 14% increase in corporate income tax collections in FY 2024.

On July 1, 2025, the state ended a measure that exempted overtime pay from income taxes, an exemption that had been in place since January 2024.² That should increase revenue collected by the income tax in FY2026.

Looking ahead, the passage of the One Big Beautiful Bill earlier this year may lead to increased tax collections in Alabama in the coming years. Because Alabama taxpayers and businesses can deduct federal income taxes when figuring their state income tax bill, Alabama tax collections rise when federal taxes go down. For the most part, the federal legislation extended tax changes made during the first Trump administration, federal tax cuts that boosted Alabama tax receipts. Some additional tax cuts were included in the bill, which may result in lower federal taxes, but increase the amount of income available for Alabama to tax.

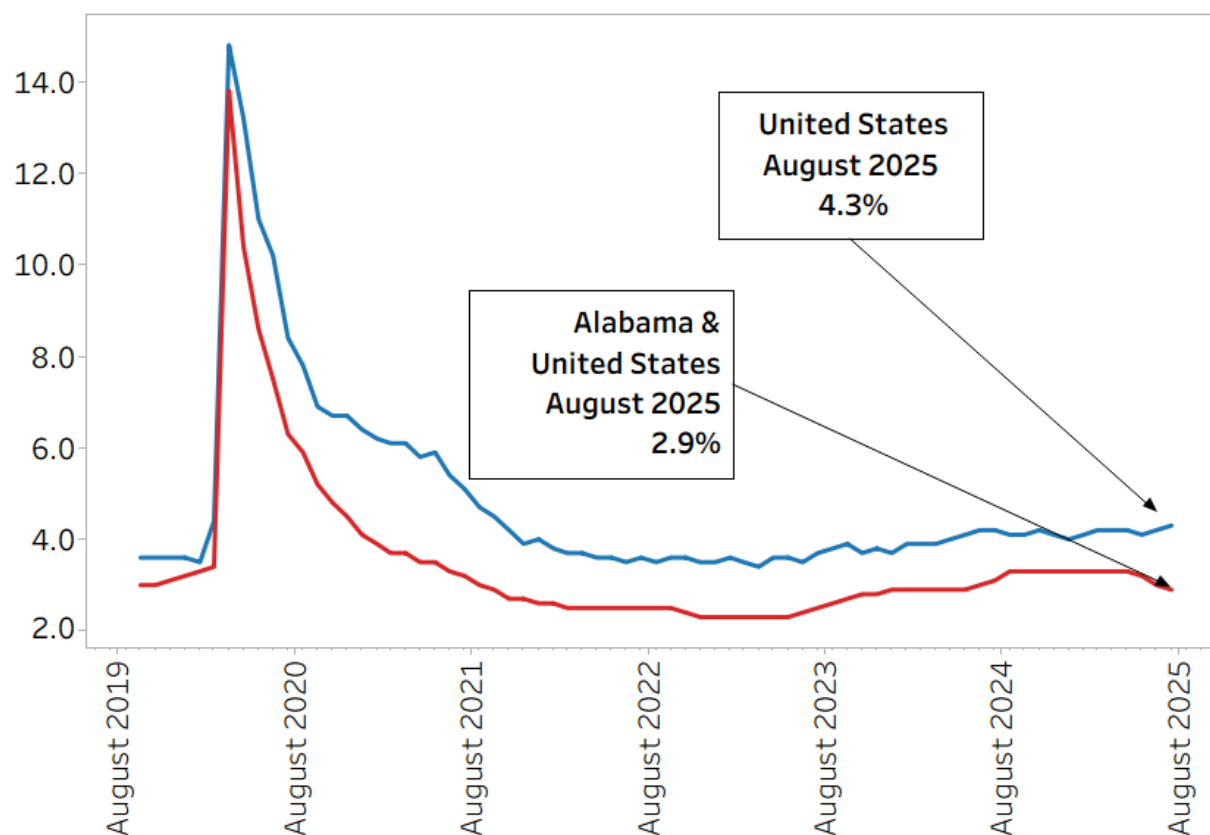
Underlying Conditions

In general, income tax collections are based on how many people are working and how much people earn. Alabama's unemployment rate has been consistently lower than the national unemployment rate. Additionally, Alabama's population and its workforce have grown in recent years.

Seasonally adjusted, Alabama's unemployment rate was 2.9% in September 2024 compared to 4.1% nationally.

² <https://arc-sos.state.al.us/ucp/L1280257.A11.pdf>

Figure 6. Trend in Unemployment Rate, Alabama vs. U.S.³

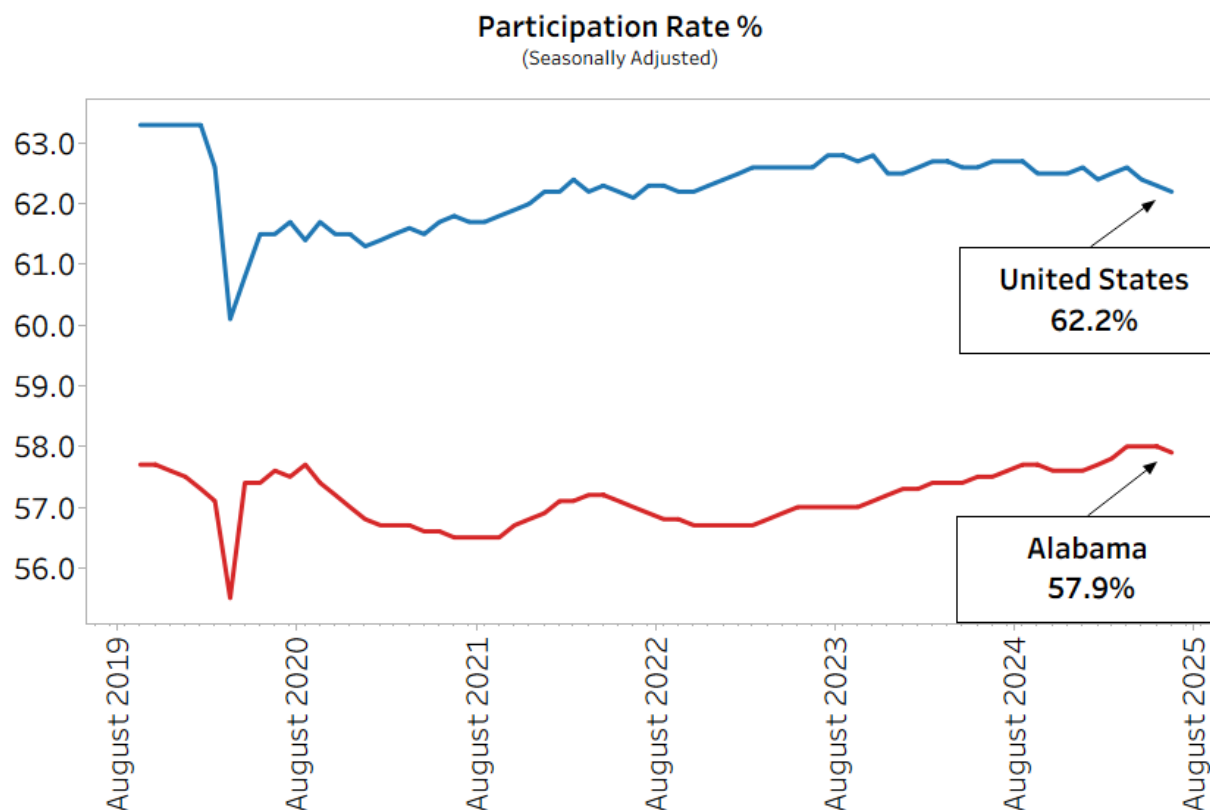


Despite that low unemployment rate, Alabama has a smaller share of its population who are employed than other states.

The labor force participation rate is the number of employed and unemployed workers in the state, divided by the state's civilian population. Figure 7 below shows that Alabama's labor force participation rate, 58%, continues to lag behind the US rate of 62%. However, Alabama has made some progress on closing the gap with the nation as a whole. This suggests that more people are entering the workforce, which can positively affect total earned income in the state and, thus, income tax receipts. At the same time, as the population ages and people live longer in retirement, the proportion of the population in the labor force is subject to downward pressure.

³ <https://www2.labor.alabama.gov/LAUS/LAUSTab.aspx>

Figure 7. Trends in the Labor Force Participation Rate (Seasonally adjusted), U.S. vs. Alabama⁴



The state continues to enjoy low unemployment, even as more people enter the workforce and drive up the labor-force participation rate. The number of job openings in Alabama continues to exceed the number of unemployed people in the state.

According to figures from the U.S. Bureau of Labor Statistics, there are twice as many job openings in Alabama as there are unemployed persons. Alabama has one of the highest rates of job openings to unemployed persons in the U.S.

Thus, Alabama still has untapped potential to draw more discouraged workers into

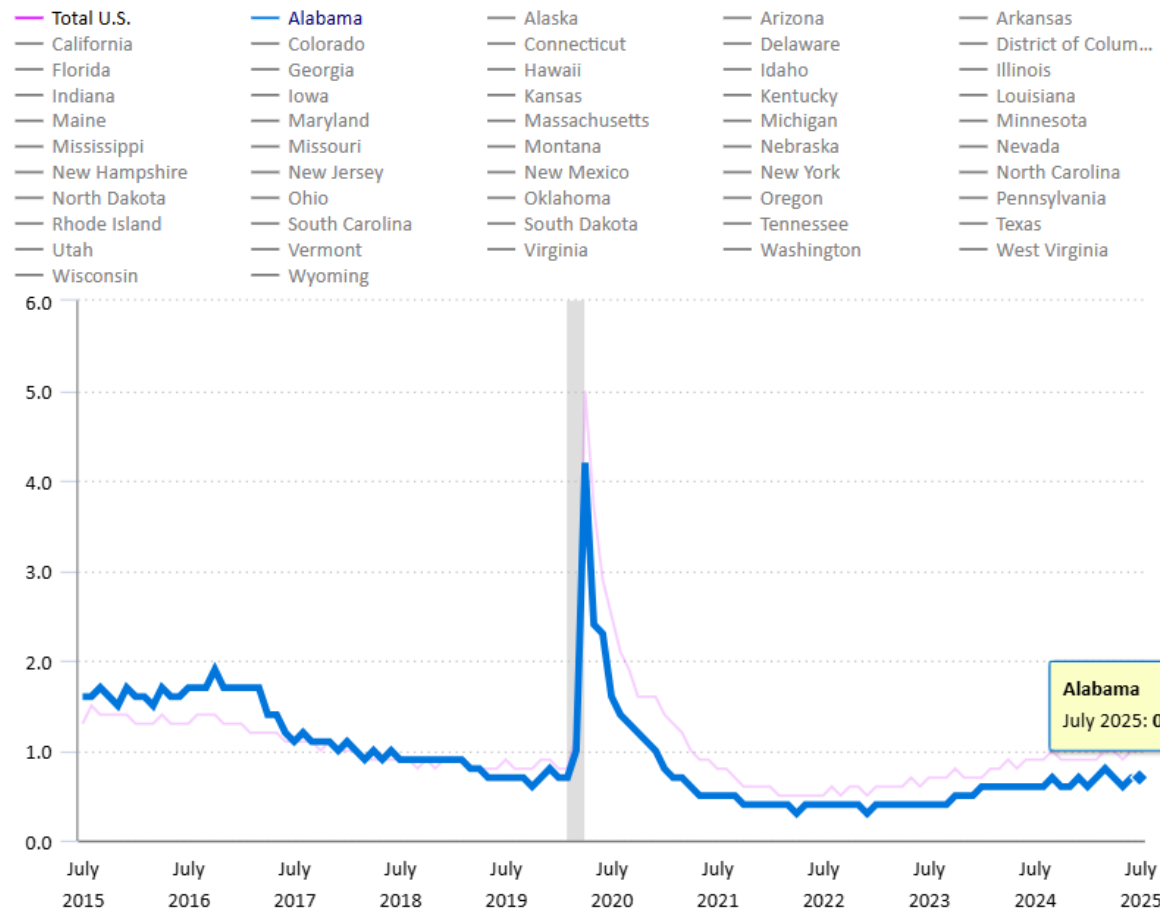
⁴ <https://www2.labor.alabama.gov/LAUS/LAUSTab.aspx>

the workforce to meet demand. By doing so, the individuals and the state would benefit from higher earnings and tax revenues.

Figure 8. Ratio of job seekers to job openings.⁵

Number of unemployed persons per job opening by state, July 2015 to July 2025, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Shaded areas represent recessions as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

⁵ <https://www.bls.gov/charts/state-job-openings-and-labor-turnover/unemployed-persons-per-job-opening-by-state.htm>

Sales & Use Taxes

Sales and use tax revenue increased in FY 2025, up 2.4% overall. The state sales tax, a 4% levy on purchases, was up just 1.2%, bringing in about \$30 million more than it did in 2024. The Use tax, generally a tax on purchases made out of state, was up substantially by 19.2% over 2024.

For FY 2026, the state lowered its state sales tax on groceries to 2%. Analysts in the Legislative Services Office estimate that the 1% reduction in the grocery tax will result in a decrease of \$122 million in collections. The trajectory of the sales tax in FY 2026 will be affected by the state of the economy. If unemployment remains low, wages increase, and consumers spend with confidence, then revenues will rise; however, uncertainty about the direction of the economy clouds that forecast.

In contrast to the slow growth in sales tax revenue, the revenue generated by the Simplified Seller's Use Tax (SSUT) has continued to rise. The SSUT applies an 8% tax to consumer transactions made over the Internet. Half of the revenue is allocated to the state, and half to local governments. The ETF receives 25% of the state's share of the SSUT, with the rest going to the General Fund. The SSUT's contribution to the EFT increased to \$119 million, up \$14 million, or 13%, from 2024. Growth in the SSUT has continued to outpace the growth in the general sales tax. Most of the benefits of that increase flow to the General Fund, but the ETF benefits as well.

Key taxes and their applications:⁶

Sales Tax - Gross proceeds from the sale of all taxable items for consumption or other use to consumers (except as specifically exempted by law) within Alabama, and the gross receipts from conducting or operating public places of amusement or entertainment.

Use Tax - Excise tax on tangible personal property purchased outside Alabama for storage, use, or other consumption in Alabama.

⁶ <https://www.revenue.alabama.gov/all-tax-types/>

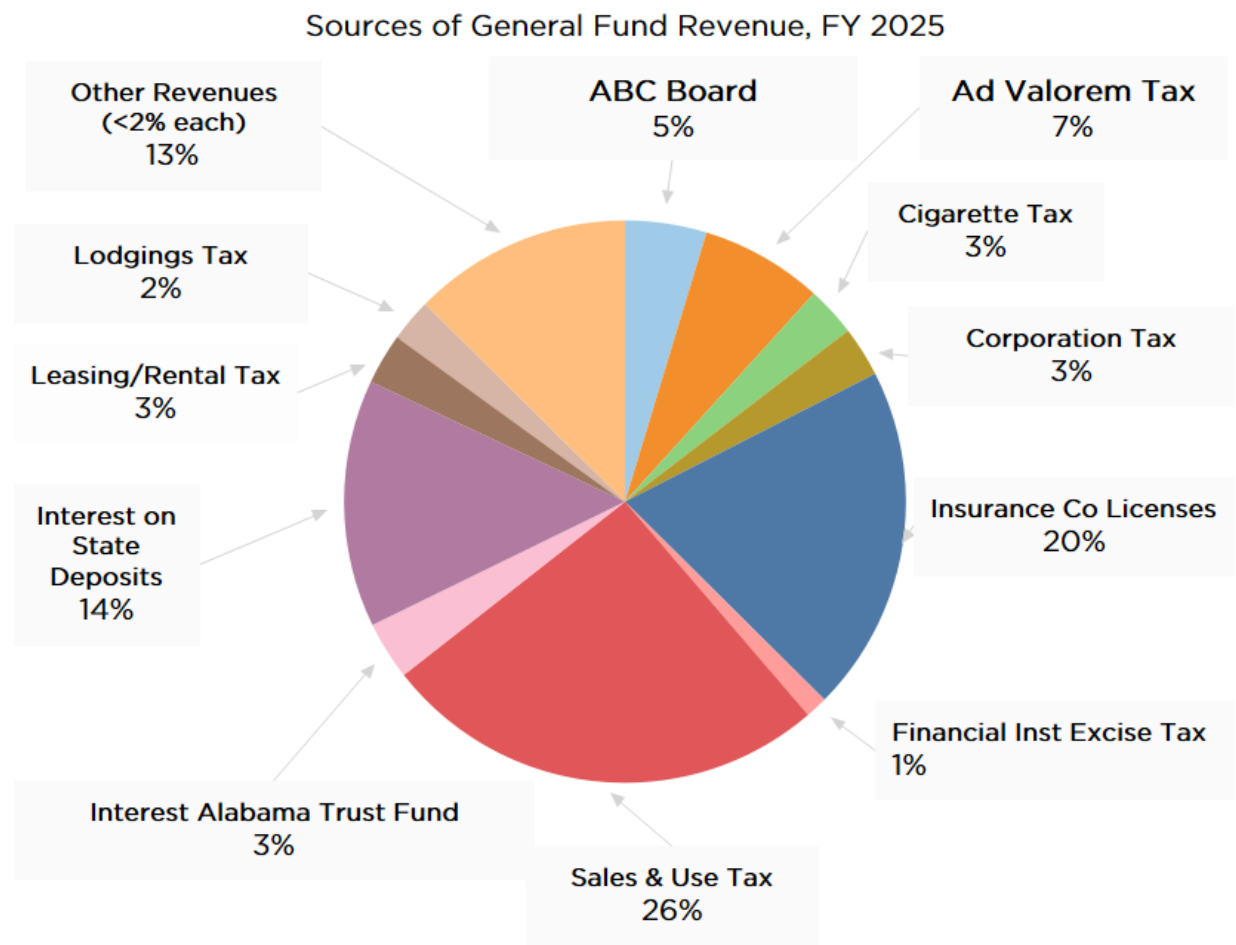
Simplified Sellers Use Tax (SSUT) - Gross proceeds of sales of tangible personal property from eligible sellers located outside of Alabama selling into the state. Offers a flat statewide tax on sales made over the internet with no additional local tax collection authority. (50% distributed to the state, of which 75% goes to GF and 25% to ETF). Read more about SSUT in PARCA's report, [E-Commerce and Taxation: Questions of Efficiency and Equal Treatment](#).

The General Fund

The state’s General Fund receives revenue from a multitude of sources. Historically, this tax combination has resulted in slow revenue growth over time, contributing to struggles in funding General Fund agencies, such as Medicaid and the Department of Corrections.

However, in recent years, legislators have shifted some growth taxes into the General Fund, leading to more stable growth. For the past three years, that stable growth has been augmented by high revenue from interest on state deposits, a function of high interest rates applied to a large pool of cash and reserves. In FY 2025, those revenue gains began to subside.

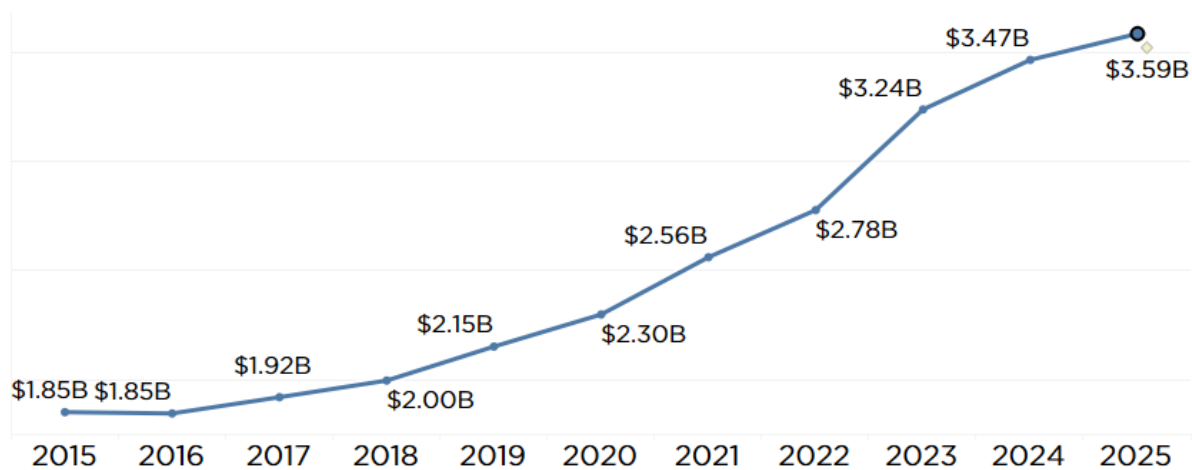
Figure 9. General Fund Revenue Sources, by percentage contribution, 2025



Revenues	FY 2025	Change 2024-2025	% Change 2024-2025
Total	3,586,265,403	120,118,105	3.5%

In FY 2025, the biggest contributors to the 3.5% increase in overall revenue were continued gains in Insurance Company Taxes and growth in the SSUT. Revenues from interest declined.

Figure 10. General Fund Trend by Total Revenues, 2015-2025



Major components

The changes the Legislature made to the composition of taxes flowing into the General Fund have provided growth and stability to the fund. About a decade ago, a portion of the use tax was shifted to the General Fund. When a sales tax on online transactions was established, the bulk of that revenue was routed to the General Fund. Those two consumption taxes together, the Simplified Sellers Use Tax and the state's use tax, now make up 26% of the General Fund (See Figure 9). The General Fund receives 75% of the Simplified Sellers Use Tax, 53% of the State Use Tax, plus a percentage of the sales tax on automobiles, boats, and manufactured homes.

Insurance company licenses come in second as a source of revenue, providing 20% of GF revenue.

In 2025, interest on state deposits continued to rank third as a revenue source, accounting for \$510 million, or 14% of the fund's revenue.

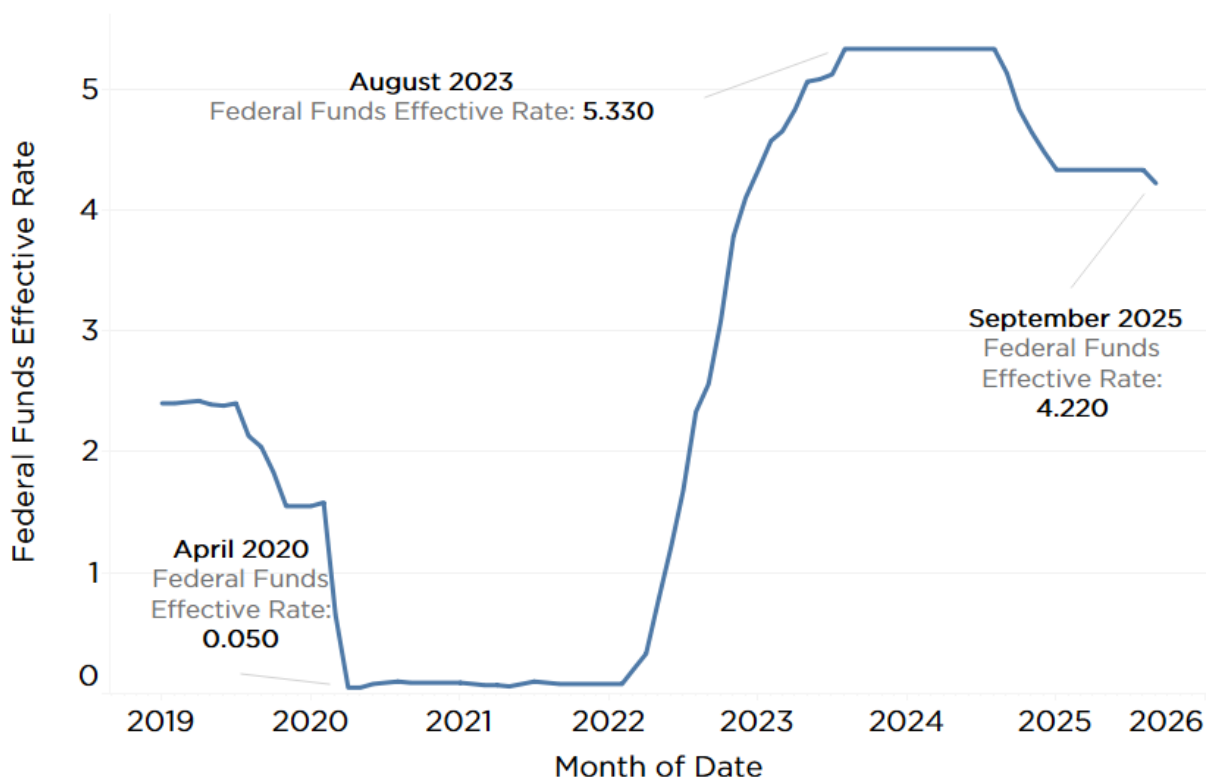
Unusual Growth in Interest Income

After peaking in FY 2024, revenue from interest declined in FY 2025. Revenue from interest on state deposits and interest on the Alabama Trust Fund was down by a combined total of \$52 million. The total from the two sources, which brought in over \$630 million, was still significantly higher than historical norms, but is anticipated to continue declining.

During the pandemic, the U.S. Federal Reserve lowered the target effective federal funds rate, the rate at which financial institutions charge each other to borrow money, to near zero to lower the cost of borrowing and stimulate the economy. However, as inflation surged in 2022, the Federal Reserve raised interest rates to slow the economy and restrain surging prices. As inflation has eased, the Fed has lowered interest rates.

Figure 11. Federal Funds Effective Rate, 2019-Sept. 2025, Source Federal Reserve Bank

Fed Funds



At the same time, large surpluses accumulated in state accounts as income and sales taxes surged and as federal recovery and stimulus funds flowed through the state.

Inflation has cooled, and the Federal Reserve has begun to lower its target interest rates. Budget surpluses are decreasing, and most of the extra federal money in state accounts is being spent. As interest rates continue to decline, revenue from interest will retreat. The State Finance Department has predicted the General Fund will bring in less revenue in FY 2026 than it did in FY 2025.

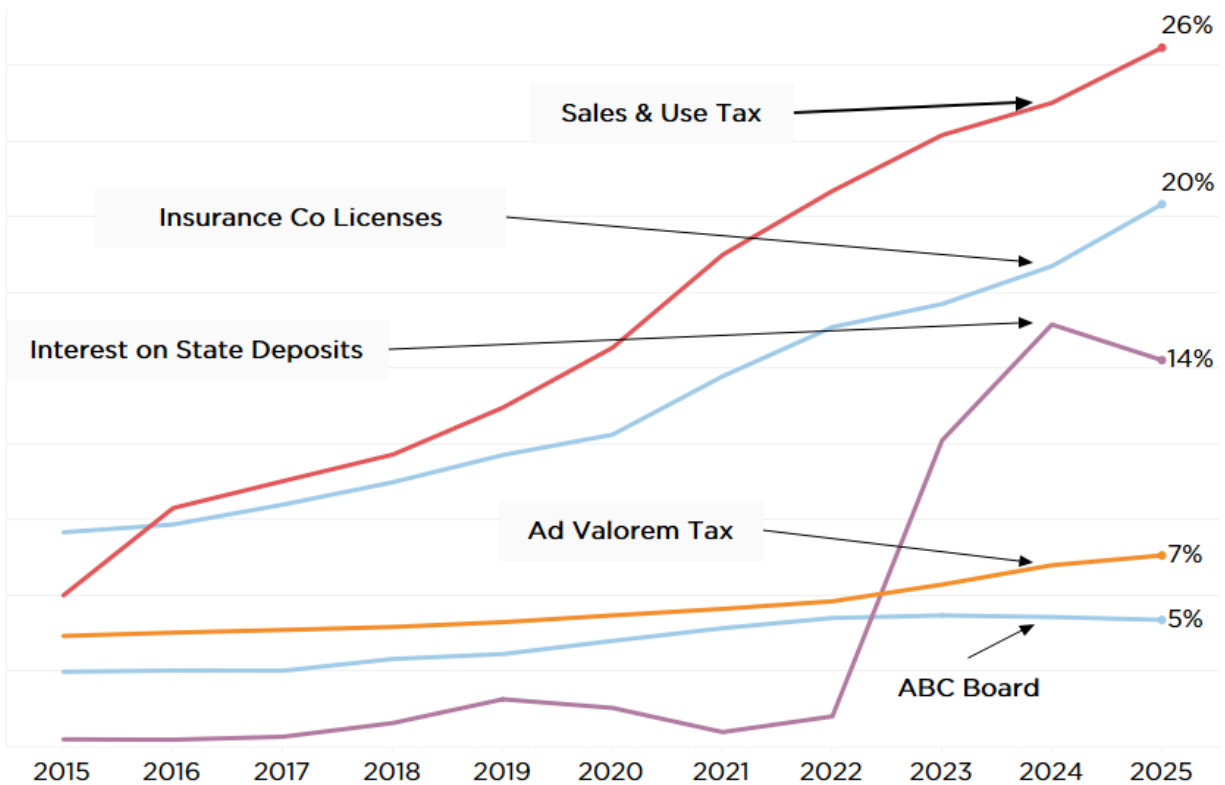
Trends in Revenue Sources Feeding the General Fund

Ad valorem taxes, Alcoholic Beverage Control Board (ABC) revenues, and several other revenue streams also contribute to the General Fund.

Figure 12 depicts the trends for the five largest categories of revenue: sales and use tax, insurance company licenses, interest on state deposits, ad valorem tax, and ABC board, which together comprise 54.6% of all GF revenues. It makes it apparent that the interest on state deposits had the largest percentage increase in FY 2023 and 2024, while the other four categories had smaller increases.

Figure 12. Revenue Trends from Major Sources and 2025 Percentage Contribution to General Fund

General Fund Trend by Major Categories, 2015-2025



For a detailed list of all revenues with the GF, see Table 3, which includes, in descending order, a total for FY 2025 revenue, the change in amount from the previous year, the percentage change from the previous year, as well as the percentage composition of total GF revenues.

Table 2. General Fund Revenue Sources, Change, and Percentage of Fund, 2025

Revenues	FY 2025	Change 2024-2025	% Change 2024-2025	Percent of Total 2025 =
Total	3,586,265,403	120,118,105	3.5%	100%
Insurance Co Licenses	716,072,700	81,746,198	12.9%	20%
Interest on State Deposits	510,334,219	-47,005,560	-8.4%	14%
Simplified Sellers Use Tax (SSUT)	357,515,596	41,359,027	13.1%	10%
Use Tax	315,074,799	16,258,750	5.4%	9%
Ad Valorem Tax	252,735,923	12,958,911	5.4%	7%
ABC Board	167,688,001	-3,784,346	-2.2%	5%
Sales Tax	156,700,037	5,437,145	3.6%	4%
Interest Alabama Trust Fund	120,125,402	-5,204,968	-4.2%	3%
Leasing/Rental Tax	106,650,403	-2,321,549	-2.1%	3%
Corporation Tax	103,321,330	-224,529	-0.2%	3%
Cigarette Tax	102,866,862	-6,881,494	-6.3%	3%
Lodgings Tax	87,294,613	3,749,673	4.5%	2%
Use Tax - Remote Sellers	66,895,637	5,656,627	9.2%	2%
Courts Costs	66,587,607	1,139,078	1.7%	2%
Motor Vehicle Licenses	55,254,639	2,235,469	4.2%	2%
Financial Inst Excise Tax	45,578,705	10,130,926	28.6%	1%
Abandoned Property	45,000,000	0	0.0%	1%
Transfers and Reversions	40,532,229	-4,268,523	-9.5%	1%
Mortgage Tax	40,368,382	6,859,291	20.5%	1%
Auto Title Tax	22,467,485	793,384	3.7%	1%
Sales Tax Discount-Parks Bonds	21,173,585	3,821,364	22.0%	1%
Public Safety	21,132,121	591,594	2.9%	1%
Oil and Gas Production Tax	19,562,144	-5,102,708	-20.7%	1%
Deed Record Tax	19,560,222	1,368,026	7.5%	1%
Pari-Mutuel Betting	18,214,633	6,947,558	61.7%	1%
Securities Commission	17,976,259	2,071,515	13.0%	1%
Driver's License Fees	17,349,596	-503,051	-2.8%	0%
Mobile Telecommunications Tax	12,581,343	877,016	7.5%	0%
Tobacco Tax	10,646,750	-22,932	-0.2%	0%
Privilege Licenses	10,508,309	1,690,282	19.2%	0%
Oil Company Licenses	8,953,381	50,501	0.6%	0%
Miscellaneous Receipts	6,745,281	-2,436,254	-26.5%	0%
Freight Line Equipment	5,916,957	271,391	4.8%	0%
Use Tax Discount	5,272,283	308,830	6.2%	0%
Public Utilities Receipts	5,233,475	-8,558,921	-62.1%	0%
Vapor Products	3,837,490	272,828	7.7%	0%
Tobacco Settlement	1,978,833	-93,502	-4.5%	0%
Manufactured Home Registration	501,480	-12,540	-2.4%	0%
Judicial Admin. Fees	72,011	-1,765	-2.4%	0%
Hazardous Waste Fees	-32,487	-60,105	-217.6%	0%

Sales & Use Taxes

In some previous charts and graphs, the sales & use tax category combines sales tax, use tax, and SSUT. These taxes, along with other revenue sources, are defined in [*A Legislator's Guide to Alabama Taxes*](#).⁷ The following sections reference pages in the March 2023 edition of that publication.

Sales tax is a “tax imposed on the gross proceeds from the sale of all taxable items to individuals and/or corporations within the state and on the gross proceeds from conducting or operating public places of amusement or entertainment” (p.119-120).

The General Fund receives only a small portion of the tax, which is derived from the sales of automobiles, boats, and manufactured homes. For FY 2025, sales tax (along with sales tax discount – parks bonds) amounted to \$178 million, increasing by \$11 million, or 7%. In FY 2024, collections were down; therefore, FY 2025 represents a rebound. It represented 5% of all GF revenues. For comparison, the general sales tax deposited in the ETF was \$2.6 billion in 2025.

The use tax is a “tax paid on items purchased outside Alabama for consumption or use inside the state” (p.139-140). For FY 2025, use tax (along with use tax discounts and use tax for remote sellers) increased by almost \$22 million, or 6%. It represented \$387 million, or 11% of all GF revenues. The General Fund receives 53% of the state use tax, and 47% goes to the ETF.

Simplified Sellers Use Tax (SSUT) is a “tax authorized in lieu of sales and use taxes otherwise due by or on behalf of Alabama customers who have purchased items from an eligible seller who participates in the Simplified Sellers Use Tax Remittance Program that were shipped or otherwise delivered into Alabama by the eligible seller” (p.122). For FY 2025, SSUT's contribution to the General Fund grew by \$41 million, or 13%. It represented 10% of all GF revenues.

The SSUT was a new source of revenue for the ETF and GF beginning in FY 2016. Currently, 25% of SSUT revenue is distributed to the ETF, while 75% is distributed to

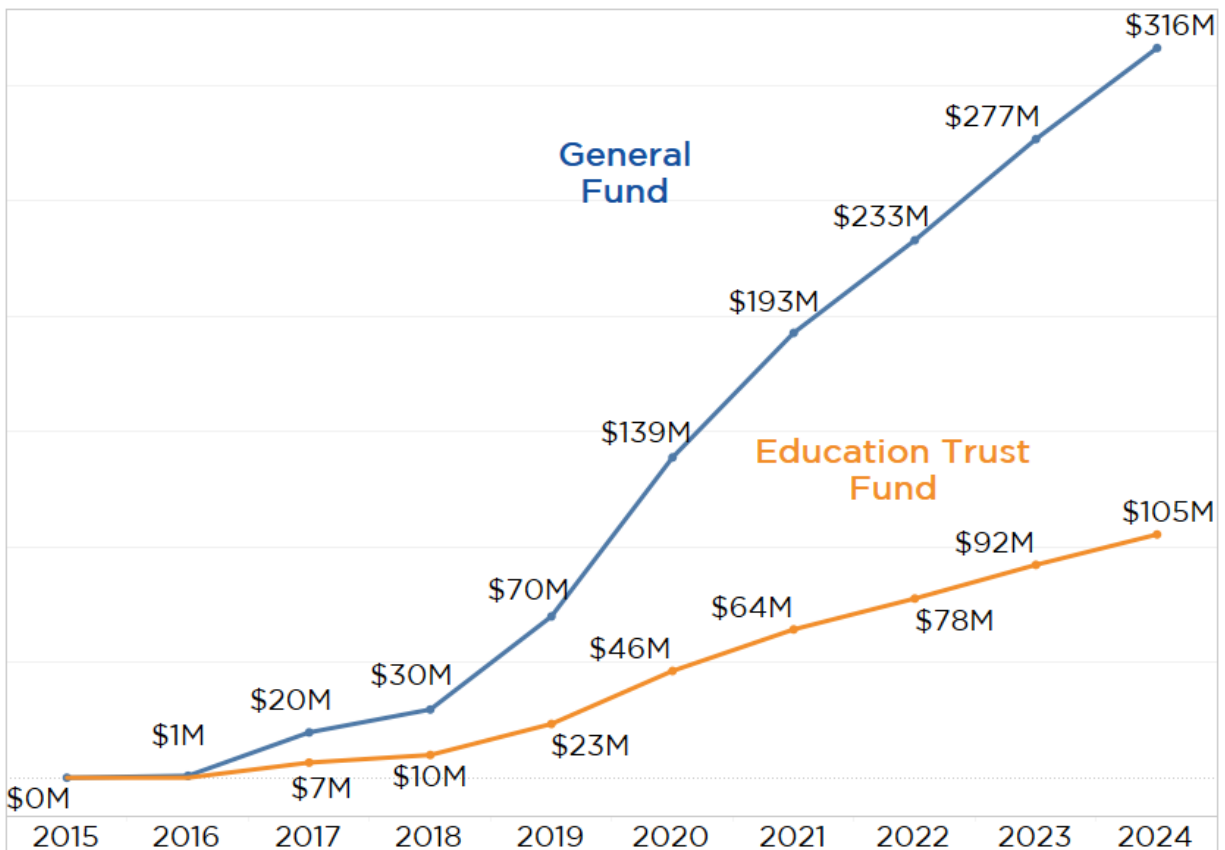
⁷ <https://alison.legislature.state.al.us/LSA-fiscal-archive-publications>

the GF. Over the past eight fiscal years, SSUT has increased to account for 10% of all GF revenues (1% for the ETF).

As shown in the graph below, SSUT has been an unwavering source of growth for both funds. Online sales sharply increased during the pandemic, and that growth has continued. However, the rate of growth from online sales is slowing somewhat. FY 2025's increase of 13% is slower than that of FY 2024 (14%), FY 2023 (19%), FY 2022 (20.8%), and FY 2021 (38.9%).

Overall, by designating 75% of SSUT to the GF, the State has provided an additional steady source of income to fund the GF program expenditures.

Figure 13. Simplified Seller's Use Tax Contribution to General Fund and Education Trust Fund



Insurance Company Licenses

Identified in state reports as “Insurance company licenses,” this tax is a sales tax on insurance policy premiums: “a premium tax imposed on the amount of premiums written by an insurer and fees imposed for the privilege of providing insurance within the state.”⁸ This represents the largest source of GF revenue, at \$716 million, or 20.0% of the GF total.

In 2025, revenue from the tax increased by \$82 million, representing a 13% increase. Growth in the tax suggests that more policies are being written, the value of insured property is increasing, and the cost of insurance is rising. More frequent and expensive losses due to increased climate-change-related extreme weather have helped drive up premium costs, as have the rising cost of new cars and general inflation on building materials.

Another factor driving up insurance premium taxes is that a greater share of the residents have obtained health insurance in recent years. According to the U.S. Census Bureau’s Small Area Health Insurance Estimates (SAHIE), 10% of Alabamians were uninsured in 2023 compared to 12% in 2020. Subsidies that encouraged more people to pay for health insurance through the federal health care exchange may have helped drive that percentage down. However, those subsidies may end, and if so, the number of insured would drop, as would the tax revenue produced.

Other Revenue Changes of Note

Ad Valorem or property taxes were up by \$12 million, or 5.4%, reflecting the rising value of real estate. The increase might have been greater. In FY 2023 and FY 2024, property tax revenue to the General Fund increased 11% in 2023 and 12% in FY 2024. Lawmakers have enacted measures in recent years that may be decreasing the rate of increase. Act No. 2022-53 was in effect for FY 2025. It allows an exemption of up to \$40,000 of the market value of business tangible personal property from state property taxes. Another measure (Act 2024-344) caps the maximum increase on the assessed value of property at 7% per year. The cap does not apply to new

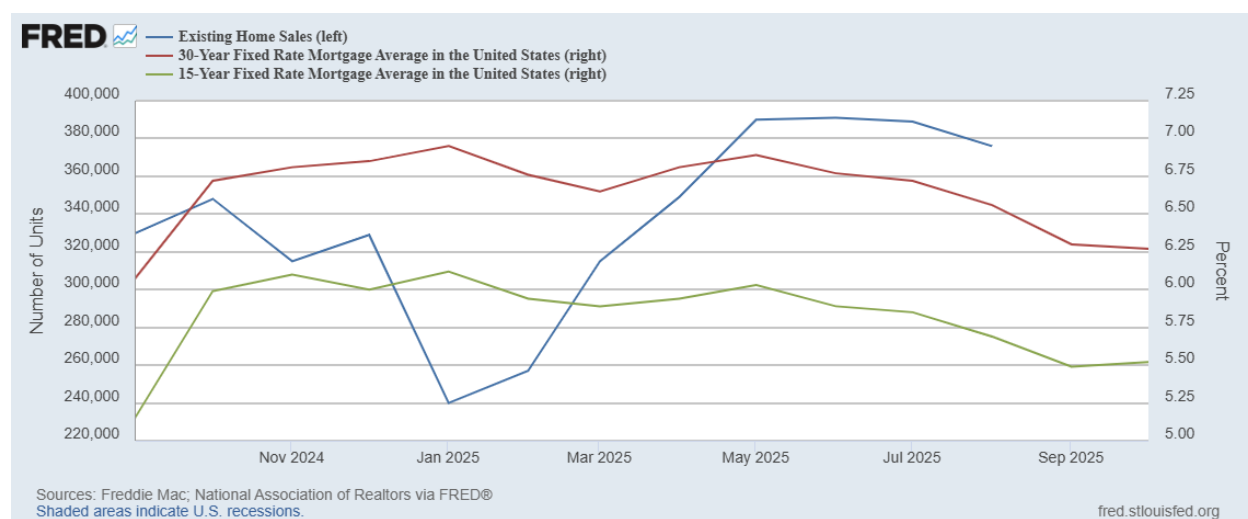
⁸ *A Legislator’s Guide to Alabama Taxes*, <https://alison.legislature.state.al.us/LSA-fiscal-archive-publications>.

construction or property transfers. That measure applies to property collections starting in October of this year.

After two down years, taxes related to real estate transactions increased, indicating increasing sales and home values. The mortgage tax increased 20.5%, up nearly \$7 million to \$40 million. The Deed Record Tax increased by \$1.3 million or 7.5%.

Home sales posted a strong increase for the first half of the year but slowed after June amid economic uncertainty and inflation fears. Interest rates on mortgages continue to trend lower, which should eventually encourage more home sales.

Figure 14. Existing Home Sales vs. Interest Rates



Source: Federal Reserve Bank of St. Louis⁹

Revenue from the financial excise tax jumped 28.6%, increasing \$10 million to \$46 million. However, FY 2024 collections were lower due to an unusual level of refunds in that year. Putting aside that unusual refund activity, gross collections actually would have been lower in FY 2025 than in 2024.

Taxes on pari-mutuel betting have been increasing sharply since 2020, and in FY 2025 jumped by \$7 million, a 62% increase, for a total of \$18 million. The state's dog racing tracks are able to offer betting on simulcasts of horse-racing from around the

⁹ <https://fred.stlouisfed.org/graph/?g=10Ofw#>

country. Additionally, operators continue to add new technology that now allows betting on horse races that occurred in the past.

The lodging tax was up 4.5% or \$3.7 million, reaching a total of \$87 million, indicating an increase in tourism.

Cigarette taxes continued their long-term decline, declining by \$7 million, or 6%. Still, Cigarette taxes brought in \$103 million in FY 2025. Taxes on vapor products increased by 8%, but the tax only generated \$4 million.

Oil and gas production taxes dropped another 20%, following a 25% decrease in FY 2024. That continued a decline following a 2022 spike in energy prices that drove up those revenues in 2022.

The Bigger Picture

The revenue flowing into the General Fund and the Education Trust Fund presents only a portion of the state government spending in Alabama. In addition to funds earmarked for the GF and ETF, other state revenue streams flow directly to government agencies.

Table 4 below presents the total appropriations for fiscal years 2019 through 2025.

The “state budgeted funds” column represents the amounts appropriated from the GF and ETF, primarily derived from state taxes. The “federal and earmarked state funds” column represents additional funds provided by the federal government, as well as money generated by fees, tuition, charges for services, and taxes designated by law for certain uses. These funds are also appropriated by the Legislature, even though the use of that money is already pre-determined. The “total funds” column represents the sum of “state budgeted” and “earmarked” funds.

Some examples of earmarked funds going directly to state agencies include:

- Taxes on motor fuels that flow directly to the Alabama Department of Transportation (ALDOT) for highway building.
- Tuition collected by state colleges and universities.
- Federal funds for various departments, including transportation, Medicaid, education, and social services.

Table 3. General Fund, ETF, Earmarked State Taxes, and Federal Appropriations

		State Budgeted Funds	Federal Funds + Earmarked State Taxes and Revenues	Total
General Fund Agencies	2019	\$2.19B	\$13.76B	\$15.94B
	2020	\$2.30B	\$14.51B	\$16.81B
	2021	\$2.64B	\$14.85B	\$17.49B
	2022	\$3.13B	\$15.94B	\$19.07B
	2023	\$3.56B	\$17.53B	\$21.09B
	2024	\$3.63B	\$18.57B	\$22.20B
	2025	\$3.85B	\$19.74B	\$23.59B
	2026	\$3.81B	\$20.56B	\$24.37B
Education Trust Fund Agencies	2019	\$6.99B	\$9.64B	\$16.63B
	2020	\$7.13B	\$9.84B	\$16.97B
	2021	\$7.77B	\$11.01B	\$18.79B
	2022	\$9.00B	\$11.04B	\$20.04B
	2023	\$11.17B	\$14.74B	\$25.91B
	2024	\$11.32B	\$15.09B	\$26.40B
	2025	\$11.64B	\$17.06B	\$28.70B
	2026	\$9.91B	\$18.08B	\$27.99B

Rolling Reserve Act

An additional check against overspending is the Rolling Reserve Act. Budgeted expenditures in the ETF increase are capped by a formula based on the ETF's historical growth rate. The cap prevents lawmakers from overspending during periods of growth and, likewise, preserves funds for periods of decline or maintaining the status quo.

In June 2023, Governor Ivey signed an amendment to the Rolling Reserve Act into law. Before that, excess funds were transferred to a) the ETF Budget Stabilization Fund and b) the ETF Advancement and Technology Fund. The new 2023 Act established an additional savings fund, known as the Educational Opportunities Reserve Fund. The new law also lays out a new formula for budget caps in future years.

If a recession or other event causes a contraction in revenues, Alabama is well-positioned to weather a downturn.

The Legislature has replenished Rainy Day Funds and has created an additional savings account that can be tapped if revenues slow or decline.

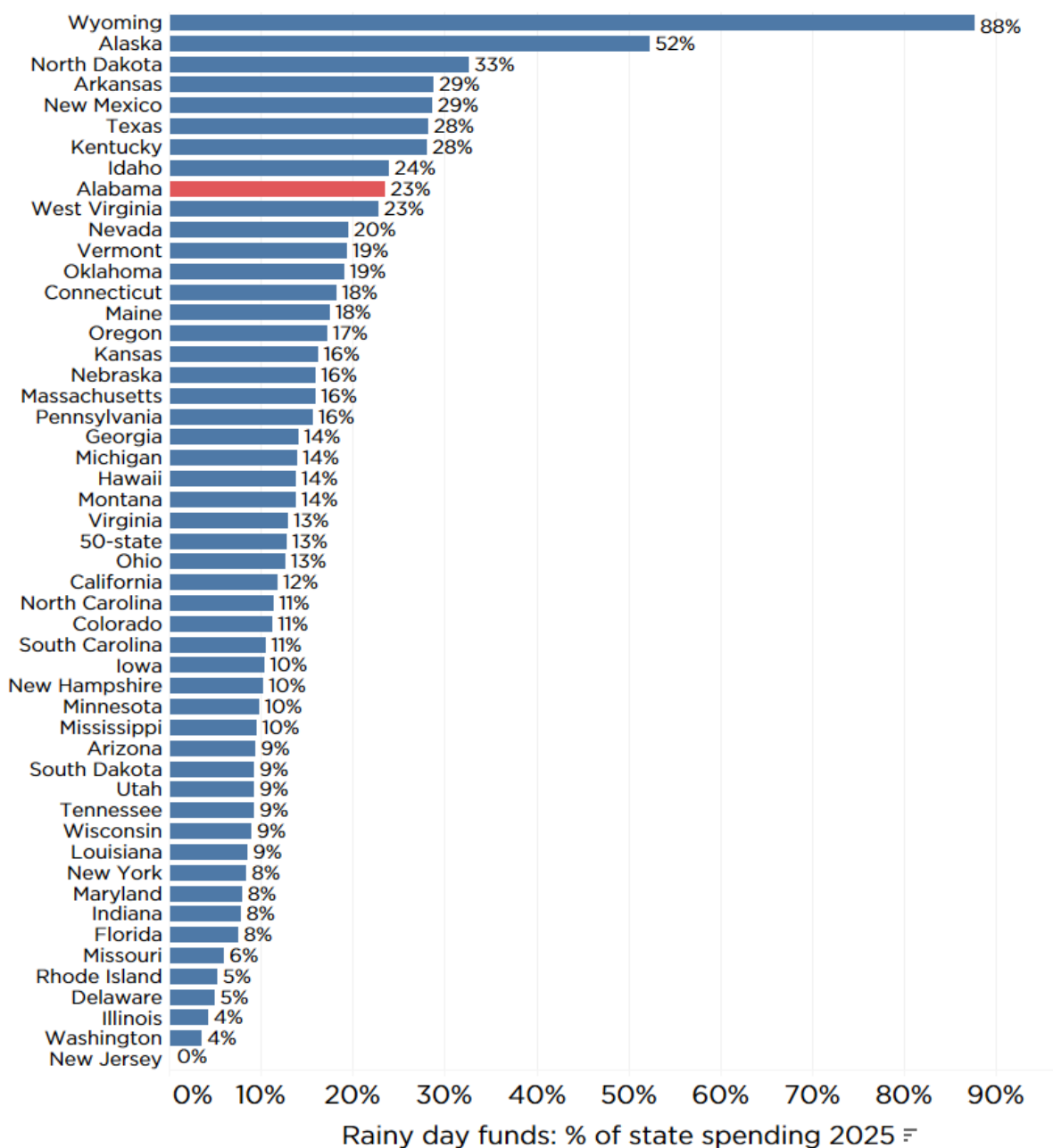
Table 4. State Reserve fund balances as of Oct. 2025

Reserve Fund	FY 2024	FY 2025	FY 2026
ETF Budget Stabilization Fund	\$710M	\$827M	\$959M
ETF Advancement & Technology	\$1.75B	\$1.66B	\$1.12B
ETF Educational Opportunities Reserve Fund	\$767M	\$1.12B	\$1.04B
GF Budget Reserve	\$150M	\$150M	\$150M
ETF Rainy Day	\$726M	\$735M	\$756M
GF Rainy Day	\$326M	\$363M	\$385M
Total	\$4.43B	\$4.86B	\$4.41B

According to the 2025 Pew Charitable Trust’s “Fiscal 50: State Trends and Analysis,” Alabama’s level of reserves is in the top 10 of states in terms of reserves as a percentage of operating revenues.

According to Pew, Alabama could run 86 days on its Rainy Day reserves compared to the 50-state median of 47 days. This continues an upward trend that began in FY 2014.

Figure 15. Percentage of General Fund Spending represented by the Rainy Day Fund¹⁰



¹⁰ <https://www.pew.org/en/research-and-analysis/data-visualizations/2014/fiscal-50/reserves-and-balances>

Conclusion

Between October 2024 and October 2025, state government tax collections grew more slowly than in any year since 2017. The slower growth was expected.

Since 2017, Alabama has enjoyed a lower unemployment rate than the U.S. average, reaching historic lows just prior to the pandemic. Following the pandemic, record levels of fiscal stimulus and a quicker-than-expected economic recovery eventually led to rising wages. Supply chain disruptions and elevated demand sparked inflation. All those factors led to a surge in revenue for both the Education Trust Fund and the General Fund. While inflation cut into the buying power of those new revenues, the gains were substantial. The Federal Reserve attempted to tame inflation by raising interest rates. That had the unintended consequence of producing additional state revenue through interest on the overflowing state deposits.

Choices made by legislators have helped conserve and extend the state's budgetary winning streak. The Rolling Reserve Act prevented overspending when revenues soared. Lawmakers also sent most of a new tax on Internet Sales, the Simplified Seller's Use Tax, to the General Fund. The increasing volume of internet sales, along with other changes, has led to growth in the General Fund, which has traditionally struggled to keep pace with mounting expenses in non-education areas of government.

In FY 2025, collections returned to historic patterns. An additional 1% reduction in the sales tax will decrease sales tax collections; however, income tax collections are expected to rise as overtime earnings return to being taxed at the normal income rate and as federal taxes are reduced.

Unemployment remains low, and demand for workers in Alabama remains high. During the first half of the year, Alabama's GDP and personal income growth were positive, but the state trailed the national average on both measures. Population growth in the state will likely be reduced because of the crackdown on undocumented migrants and the curtailment of legal means of international immigration. However, most of Alabama's population growth in recent years has been driven by domestic migration, as people move into Alabama from other states. As interest rates trend lower, additional homebuilding and sales could provide an economic boost.

At the same time, cuts in federal government spending will leave Alabama with choices to make. As the federal government decreases its share of funding for Medicaid and Supplemental Nutrition Assistance Program (SNAP), the state will have to decide whether to reduce costs and further shrink the rolls of recipients or contribute more state money to preserve benefits. As the last of the Covid-19 recovery education funding is spent, state and local officials will have to decide whether and how to maintain beneficial programs.

Fortunately, the state's strong reserves and robust job market position it to meet challenges on the horizon.



Public Affairs Research Council of Alabama

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The Public Affairs Research Council of Alabama, PARCA, is Alabama’s trusted source for non-partisan, non-ideological research, founded in 1988 by former Governor Albert Brewer.

WHAT WE BELIEVE

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

HOW WE WORK

We conduct *non-ideological 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 nonprofit 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.

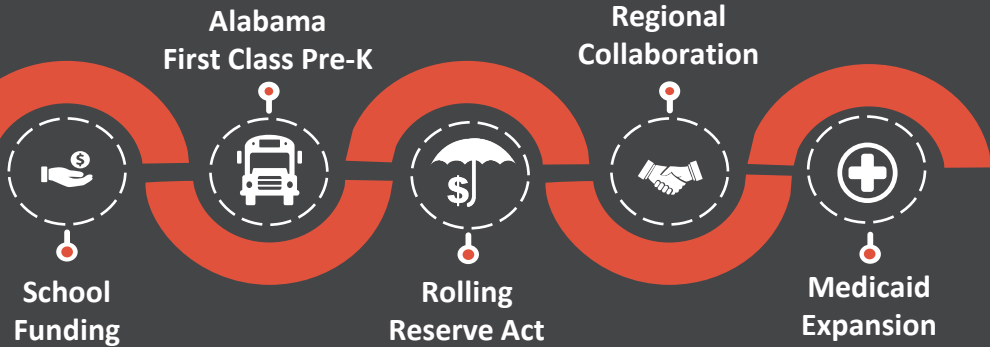
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Good leaders use good information to make sound policies. This is what PARCA provides: trustworthy, non-ideological data, policy research, and evaluation so that public decisions might be made, and public money, both tax dollars and charitable donations, might be spent, informed by fact, not rhetoric.



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