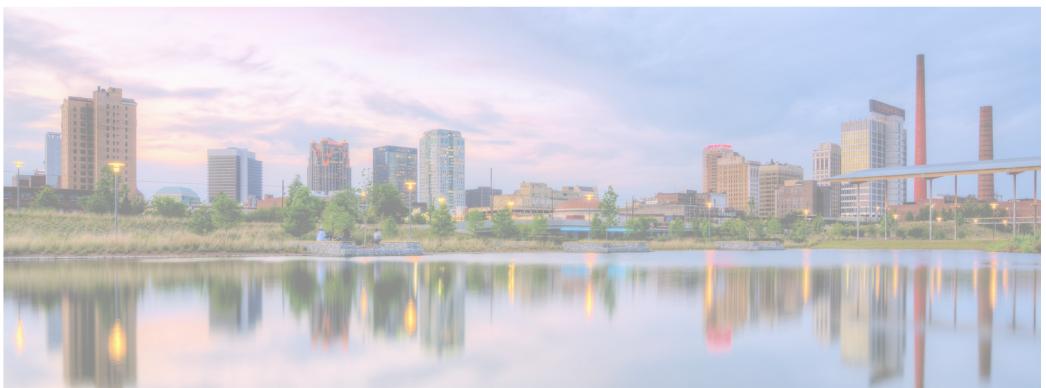
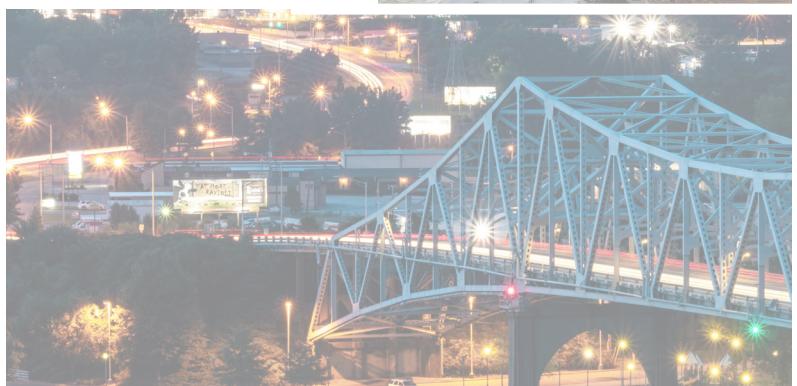
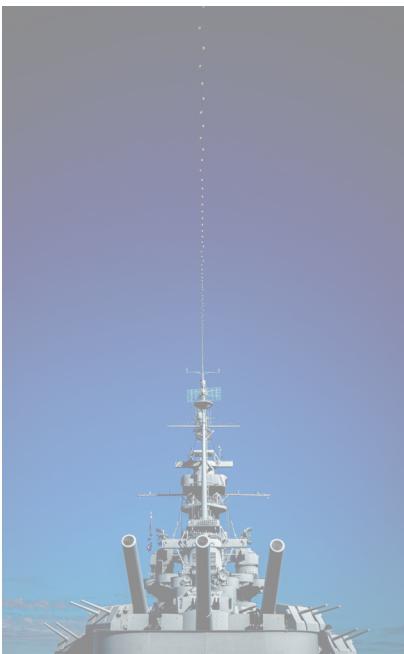




How Alabama Taxes Compare

2025 Edition





**Public Affairs
Research Council
of Alabama®**

How Alabama Taxes Compare, 2025 Edition

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and Sarah Wetmore, Consultant

How Alabama Taxes Compare, 2025

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Contents

| | |
|--|----|
| Executive Summary | 1 |
| Alabama Taxes Compared | 2 |
| Low Rates and Low Wealth = Low Tax Revenues | 5 |
| Taxes as a Percentage of Personal Income | 5 |
| Tax Burden as a Percent of GDP | 6 |
| What We Choose to Tax | 7 |
| Alabama's Tax System Is Not Balanced | 7 |
| The Tax Mix: A Balancing Act | 9 |
| Property Taxes | 9 |
| Income Taxes | 10 |
| Income Tax History | 11 |
| Sales Tax | 12 |
| Taxing Sales Online | 15 |
| Selective Sales Taxes | 16 |
| Conclusion | 17 |

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 all 50 states. The most recent data comes from the 2023 Fiscal Year.

- In FY 2023, adjusted for population, Alabama collected less in state and local taxes than all but two other states, Tennessee and Mississippi, both of which cut taxes significantly in recent years.
- Alabama's per capita property tax collections are the lowest in the nation. That can help owners of homes, farms, and timberland but comes at the cost of a revenue deficit, leaving state and local governments with less to spend providing government services like 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, while technically graduated, does not provide the balancing effect on the regressivity of the entire tax system that graduated income taxes in other states do. Low-income workers begin paying taxes at a lower threshold than in any other state, and brackets top out at a low threshold as well. 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.

Table 1. Alabama Rank in Per Capita Tax Collections, 2023.

Alabama's Rank in Taxes Per Capita

| | 2023 |
|------------------------------|------|
| Property | 50 |
| Total Taxes | 48 |
| Motor Vehicle License | 44 |
| Total Other Taxes | 41 |
| Tobacco Products | 40 |
| Individual Income | 32 |
| Hunting and Fishing License | 29 |
| Corporate Income | 26 |
| General Sales | 25 |
| Total Sales & Gross Receipts | 23 |
| Insurance Premiums | 20 |
| Total Selective Sales | 18 |
| Motor Fuels | 11 |
| Public Utilities Sales | 5 |
| Alcoholic Beverages | 3 |

Alabama Taxes Compared

PARCA's *How Alabama Taxes Compare*, 2025 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 all 50 states.¹

This most recent revenue and expenditure data set covers state and local fiscal years ending between July 1, 2022, and June 30, 2023, identified as the fiscal year 2023. That means the state of Alabama's data is from the fiscal year that ended September 30, 2022.²

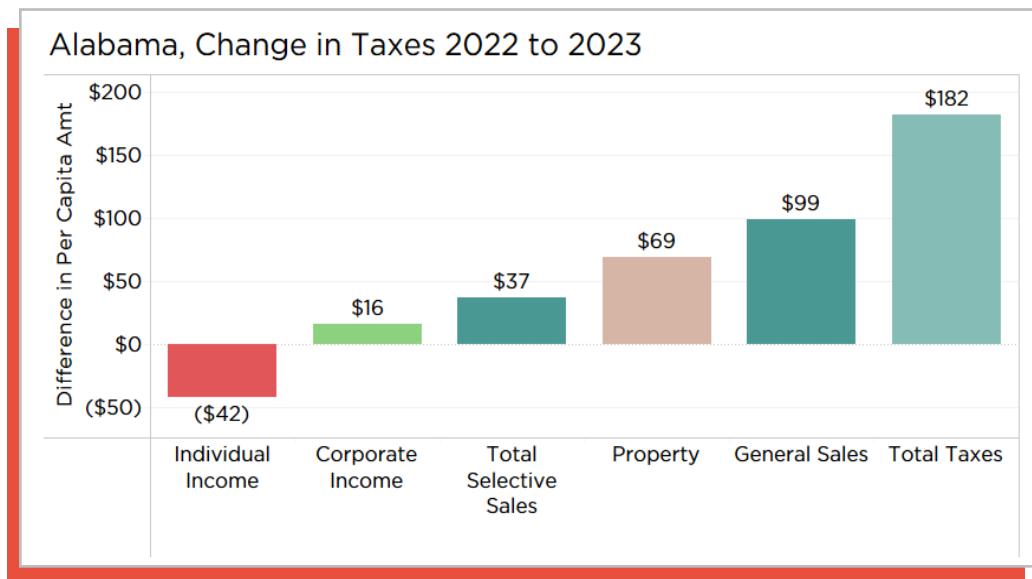
Timing differences in fiscal years typically do not pose a problem for state-to-state comparisons. However, the unusual economic conditions created by the COVID-19 pandemic and the government response to it caused some fluctuations in Alabama's data, particularly with comparisons to other states in the region, which have July-June fiscal years.

Pandemic-related inflation in the United States peaked during mid-2022 and continued at an elevated level into 2023. The impact of this elevated inflation is now incorporated in Alabama's state and local tax collection data in this report. The across-the-board increases in per capita tax collections seen in last year's report did not recur in FY2023. Per capita revenue was down overall in some states as the unusual inflation, low unemployment, high consumer spending, and strong stock market returns associated with the economic conditions during the pandemic started to unwind. Specifically, declines nationwide in individual income tax revenue were not entirely offset by continued gains in total sales and gross receipts taxes.

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

In FY 2023, Alabama state and local governments collected \$4,930 per resident through sales, property, income, and an array of other taxes. That's up from \$4,748 in 2021, a \$182 per capita or 3.8% gain. Alabama's per capita tax collections increased in all major categories, except individual income taxes.

Figure 1. Change in Alabama Per Capita Tax Collections, FY 2022- FY 2023, Source: U.S. Census Bureau.



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

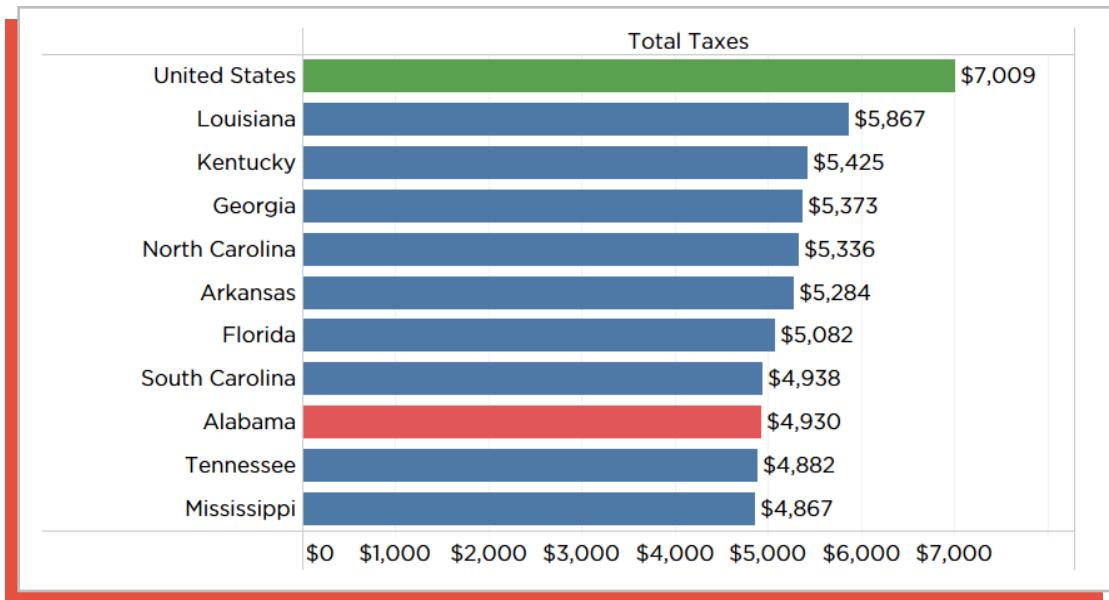
For most of the past thirty years, Alabama has consistently ranked last in the Southeast and last in the U.S. in terms of per capita tax collections. In recent years, Alabama has traded that last-place spot back and forth

¹US Census Bureau, "2023 State & Local Government Finance Historical Datasets and Tables," The United States Census Bureau, accessed November 2025, <https://www.census.gov/data/datasets/2023/econ/local/public-use-datasets.html>.

²In the context of this report for ease of comparison to other states, the data from Alabama will be referred to as "fiscal year 2023" even though they are technically from the state's fiscal year 2022.

with Tennessee thanks to tax-cutting measures in that state. This year, according to the Census survey, Tennessee relinquished the bottom spot to Mississippi, and Alabama was third from last. Mississippi passed deep income tax cuts in 2022, the first portion of which went into effect in 2023.³ Mississippi collected \$63 less per capita, and Tennessee collected \$48 less per capita than Alabama. Tennessee's phase-out of its individual income tax on dividends was completed in 2023.

Figure 2. Total State and Local Taxes Collected Per Capita, 2023, Southeastern States and U.S. Average⁴



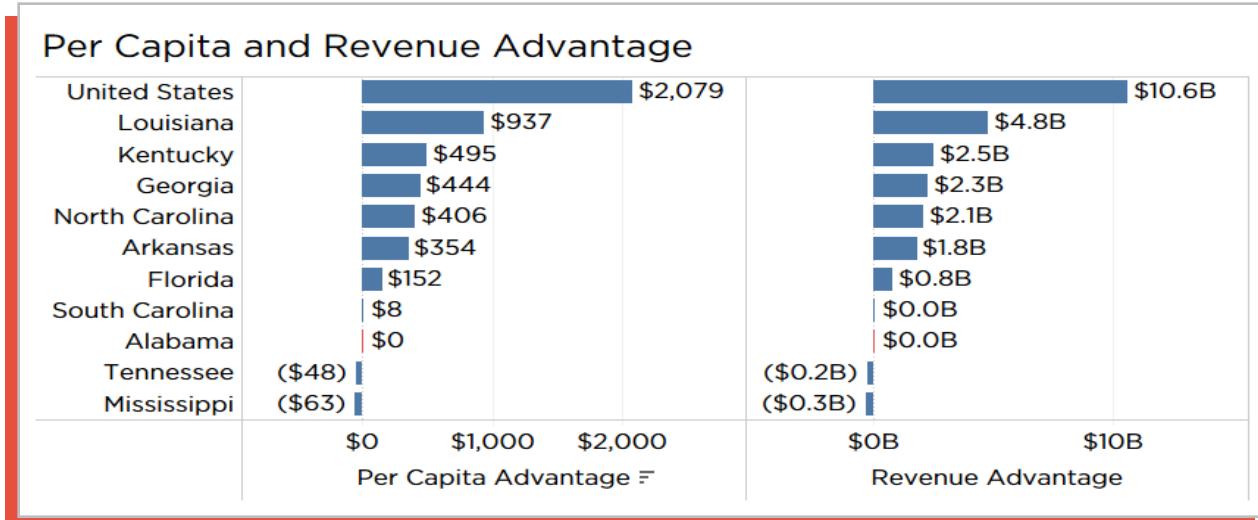
The average per capita total state and local taxes collected for Southeastern states was \$5,198, \$268 per resident higher than Alabama. The median value for U.S. states was \$6,524 per capita, \$1,594 more per resident than Alabama.

Alabama's \$182 gain in per capita tax collections between 2022 and 2023 ranked fourth out of the 10 Southeastern states, trailing Florida, Kentucky and Tennessee.

Figure 3 presents two sets of comparisons: 1) the per capita advantage enjoyed by most 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.

Figure 3. Southeastern States' Per Capita Tax Collection and Revenue Advantage Over Alabama, 2023



³Legislation to eliminate Mississippi's income tax entirely was enacted in 2025.

⁴This comparison considers tax revenues but does not consider lottery proceeds or other revenue generated through charges or fees.

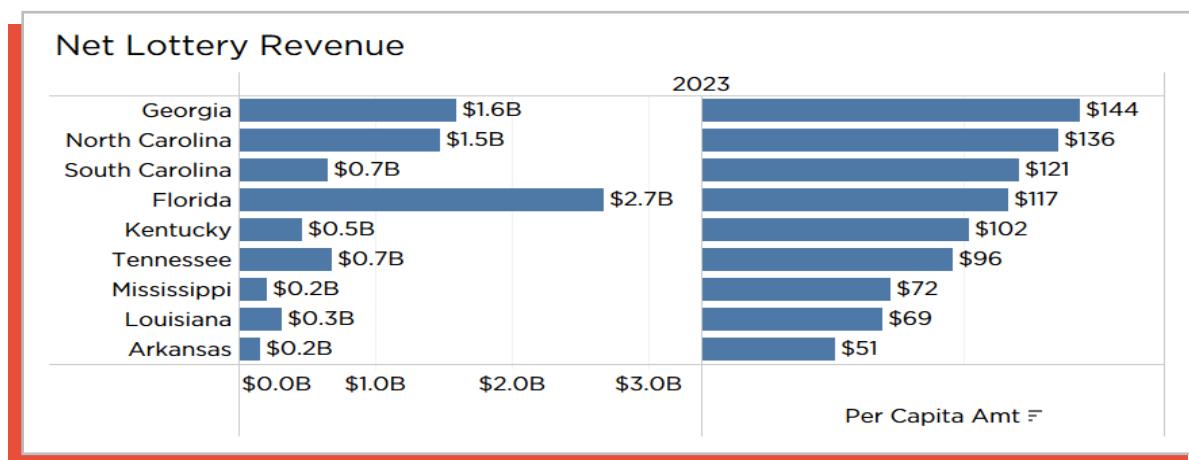
For instance, with the same tax base and tax rates as North Carolina, Alabama would bring in an additional \$2.1 billion in taxes. Arkansas, a state with less wealth and economic activity than Alabama, nevertheless collects \$354 more in taxes per capita than Alabama.

IF ALABAMA COLLECTED TAXES AT ARKANSAS' RATE, THE STATE WOULD HAVE AN ADDITIONAL \$1.8 BILLION TO FUND EDUCATION, HEALTH CARE, HIGHWAYS, PUBLIC SAFETY....

If Alabama collected taxes at Arkansas' rate, state and local governments would have an additional \$1.8 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, in 2023, states with lotteries generated \$107 per capita of proceeds available to spend on public purposes.

Figure 4. State Lottery Proceeds Per Capita, 2023⁵



⁵Income and Apportionment of State-Administered Lottery Funds, U.S. Census Bureau, 2023. Proceeds are the amount available to spend after paying commissions, administration, and awarding of prizes. <https://www.census.gov/data/tables/2023/econ/state/historical-tables.html>

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 economic base than most other states.

ALABAMA HAS TAX RATES THAT ARE LOWER THAN MOST OTHER STATES AND AN ECONOMIC BASE THAT IS SMALLER THAN MOST OTHER STATES.

In 2024, Alabama had the 8th highest poverty level among U.S. states, with 15% of residents living below the federal poverty level.⁶

Adjusted for population, the state's Gross Domestic Product, the total value of all goods and services produced, ranked No. 47 among U.S. states in 2023.

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.⁷

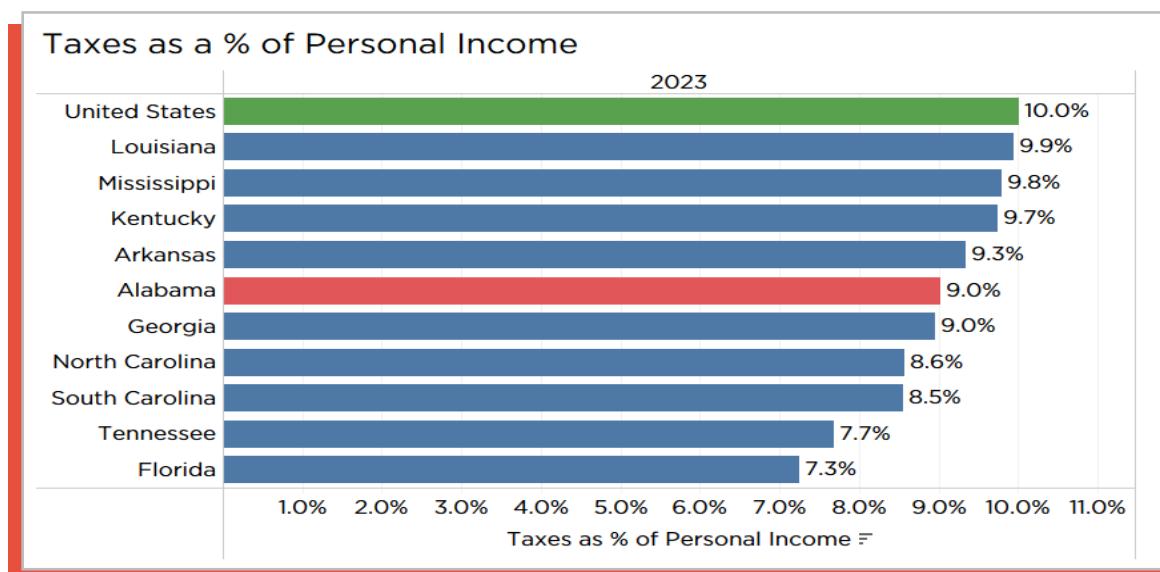
All those factors drive down the resources available and simultaneously increase the need for additional government resources to invest in improving individuals' health, education, and skills.

Taxes as a Percentage of Personal Income

Alabama may collect less taxes per capita, but it does not necessarily have the lowest tax burden. There are many 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 38th in the country, with state and local tax collections amounting to 9% of state residents' total personal income. The national average is 10%.

Figure 5. Taxes as a Percent of Personal Income, 2023. Source: Census Bureau and U.S. Bureau of Economic Analysis.⁸



⁶U.S. Census Bureau, "Poverty Status in the Past 12 Months," 2024. American Community Survey, ACS 1-Year Estimates Subject Tables, Table S1701, 2024, accessed on November 24, 2025, [https://data.census.gov/table/ACSST1Y2024.S1701?i=Income+and+Poverty&g=010XX00US\\$0400000](https://data.census.gov/table/ACSST1Y2024.S1701?i=Income+and+Poverty&g=010XX00US$0400000).

⁷U.S. Census Bureau, "State Profiles: Alabama," 2024, accessed on November 24, 2025. <https://data.census.gov/profile/Alabama?g=040XX00US01>.

⁸U.S. Bureau of Economic Analysis, "SAINC1 State annual personal income summary: personal income, population, per capita personal income" (accessed November 24, 2025).

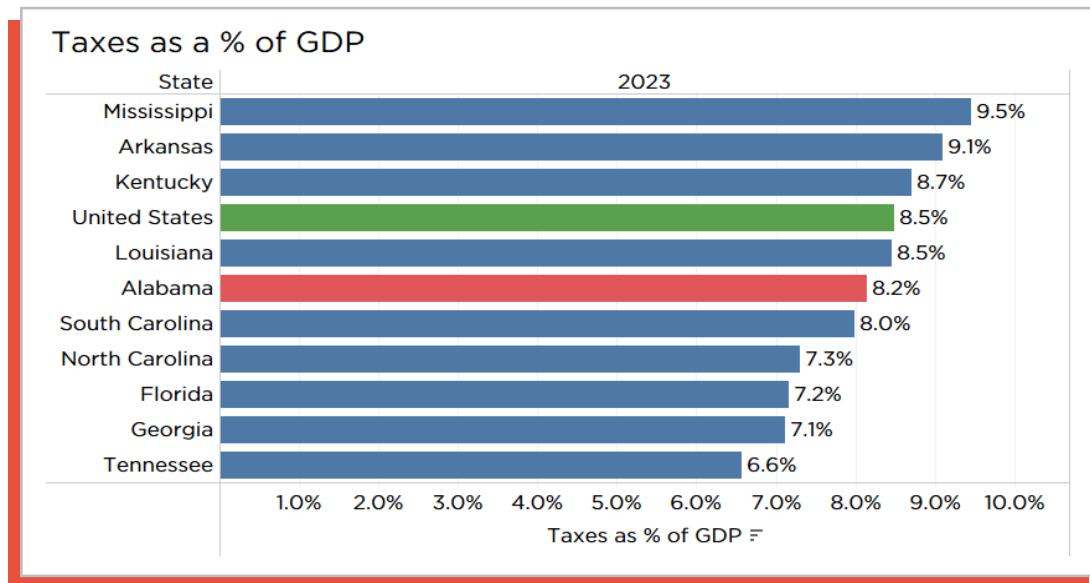
The states ranked below Alabama have higher personal income per capita than Alabama, so despite collecting less as a percentage of total personal income, they raise more revenue per capita than Alabama. They can produce higher tax revenues with less tax effort.

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 8.2% of its GDP. The U.S. average for state and local taxes as a percentage of GDP for 2023 was 8.8%. Alabama ranks No. 30 in taxes as a percentage of GDP.⁹

Figure 6. Taxes as a Percentage of GDP, 2022. Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis.⁹



As with the personal income measure, states like Georgia, North Carolina, South 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.



⁹U.S. Bureau of Economic Analysis, "SAGDP1 State annual gross domestic product (GDP) summary" (accessed November 24, 2025).

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.

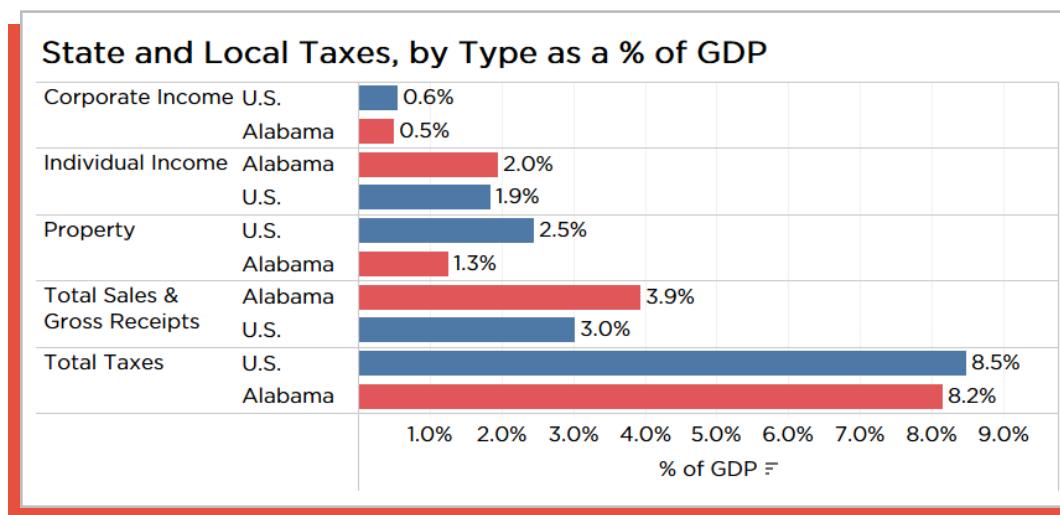
Every state has a unique blend of taxes. Most states and localities together depend on a combination of the three principal tax sources: income, property value, and sales transactions (what we earn, own, and buy).

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 and Gross Domestic Product, Alabama and U.S. Compared, 2023. Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis.*



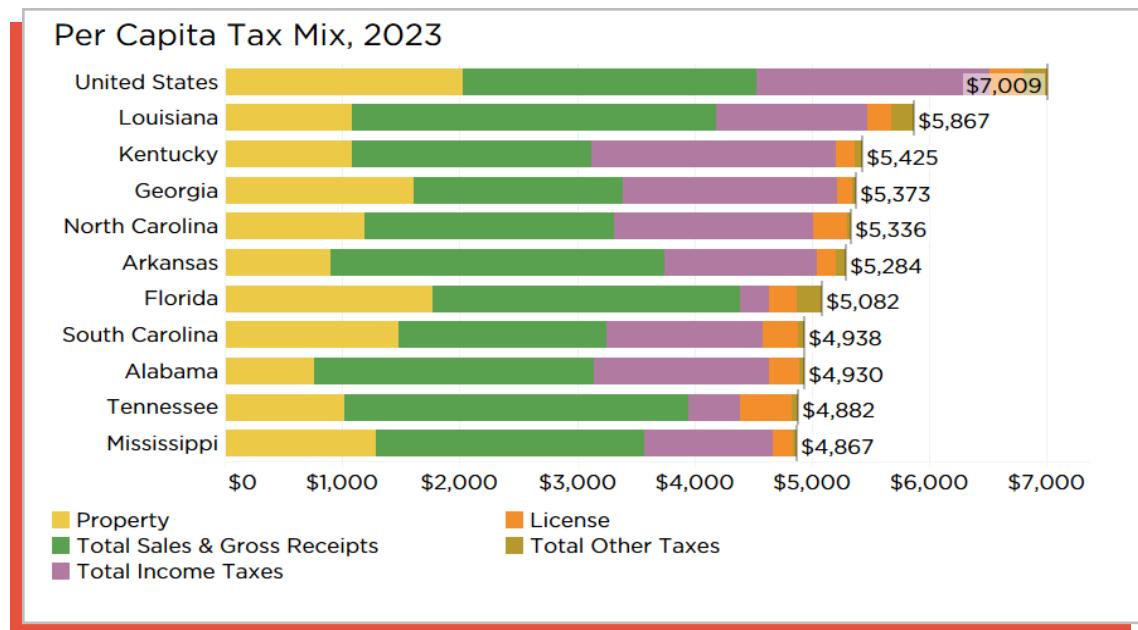
Property taxes are particularly low in Alabama. As a percentage of GDP, Alabama's property taxes equal only 1.3% of GDP, compared to 2.5% in the average state.

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 revenue than most states.

Compared to prior years, the U.S. as a whole in 2023 had a lesser dependence on personal income tax at 1.9% of GDP, reflecting many states' income tax cuts. While Alabama's personal income tax reliance as a percentage of GDP also declined, to 2.0% from 2.2% in 2022, it was a smaller decline than in states that cut income taxes.

Figure 8 compares Alabama's state and local tax mix to the United States as a whole and to 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 8. Mix of Taxes Per Capita in the Southeast, 2023, 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 property tax collections overall.

FLORIDA COMPENSATES FOR NO PERSONAL INCOME TAXES WITH HIGHER PER CAPITA PROPERTY AND SALES TAX COLLECTIONS.

Meanwhile, other states exhibit their own unique mixes. Florida has no personal income tax, but makes up for it with high property and sales tax collections per capita. For the most part, Tennessee has eliminated its individual 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.

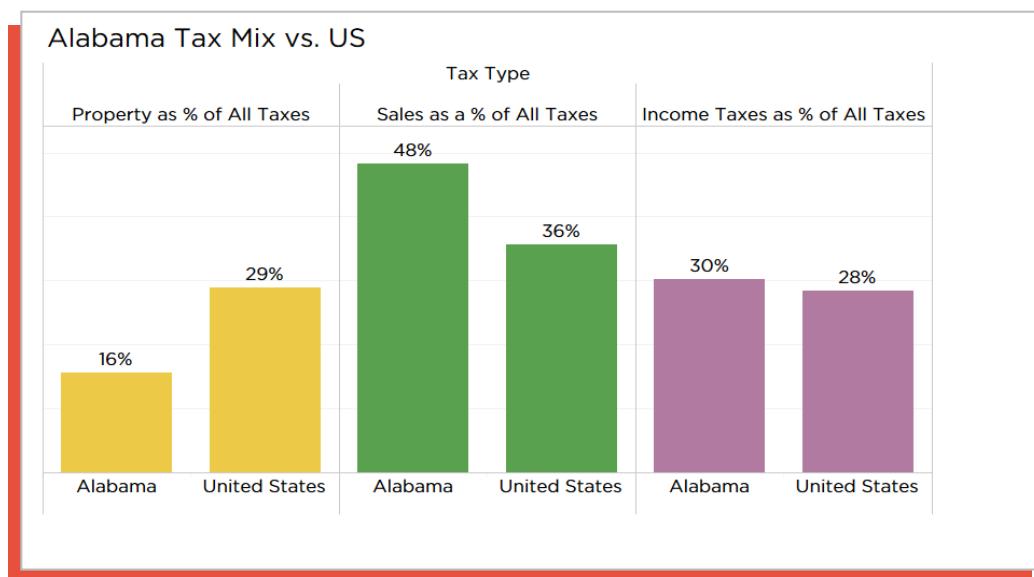
A sound tax structure avoids burdening any one group too heavily. Most states take measures to protect households with low incomes from over-taxation to encourage economic advancement.

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 29% of revenue, mostly going to fund schools and other local governments. Property taxes account for only 16% of state and local revenue in Alabama, leading to a greater reliance on sales taxes.

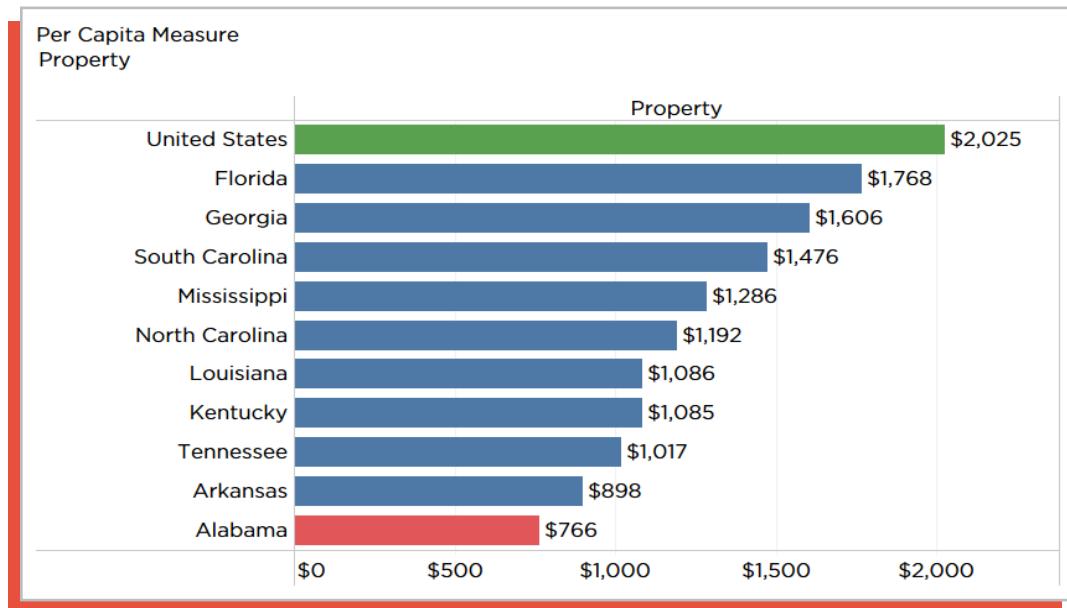
Figure 9. Principal tax sources as a percentage of state and local tax revenues, all states vs. Alabama, 2023. Source: U.S. Census Bureau, PARCA Calculations.



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. Per Capita State and Local Property Tax Collections, 2023. Source: U.S. Census Bureau, PARCA Calculations.



The mechanisms for raising property taxes embedded in the Alabama Constitution make increasing rates or generating 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. This 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. These properties are taxed on just 10% of their value. Their property tax bills can be 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 such 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.

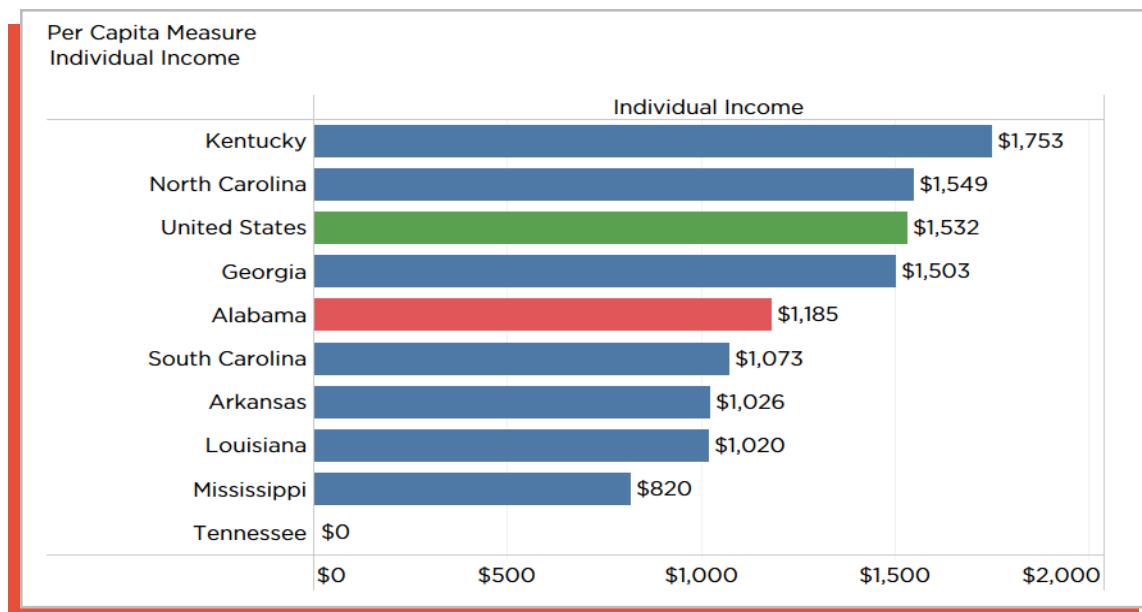
Under the current property classification system, businesses and utilities would bear any increase in property tax rates more heavily. Increases would also likely be passed along to consumers and to renters since apartments are considered commercial property. Higher tax bills for utilities would likely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

Income Taxes

In 2023, Alabama's individual income tax revenue per capita ranked 32nd out of the 43 states that collected income taxes at that time.

*IN 2023, ALABAMA'S INDIVIDUAL INCOME TAX REVENUE PER CAPITA RANKED
32ND OUT OF THE 43 STATES THAT COLLECT INCOME TAXES.*

Figure 11. Per Capita State and Local Individual Income Tax Collections, 2023. Source: U.S. Census Bureau, PARCA Calculations.



In 30 states, the personal income tax is progressive, applying a higher rate to individuals with higher income levels.¹⁰ The income tax can therefore serve to balance 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. Through deductions and exemptions, most states shield the lowest-income workers from taxation.

In Alabama, 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 next to nothing for low-income Alabamians but is generous to high earners. Allowing individuals the deduction for federal income taxes results in \$818 million less in state income tax collections. Alabama is the only state to allow both individuals and corporations to fully deduct federal income taxes paid when calculating state income taxes. The corporate income tax deduction reduces state revenues by \$139.6 million.¹¹

Federal deductibility also produces a curious effect. State tax collections go up when federal taxes go down since 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.

¹⁰Timothy Vermeer, "State Individual Income Tax Rates and Brackets, 2023," Tax Foundation, February 1, 2023. Accessed December 2, 2025. Eleven states had flat income taxes in 2023 and two states, New Hampshire and Washington, tax dividend and interest income and capital gains income, respectively.

¹¹REPORT ON ALABAMA TAX EXPENDITURES, Legislative Services Agency, Fiscal Division. February 2024, pp. 14, 18. https://alison.legislature.state.al.us/2024_Tax_Expenditure_Report

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 \$216.¹² 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.¹³

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 allowed standard deductions of \$14,600 for individuals in 2024 and \$29,200 for married couples filing jointly. Thirty-two states use this federal adjusted gross income level as the 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 2024, a single Alabamian with a poverty-level income of \$15,060 would owe \$488. A family of three (two parents and one dependent) with income at the federal poverty threshold (\$25,820 in 2024) would owe \$586. 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.¹⁴

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, 15 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).¹⁵ 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.

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..

¹²U.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/ALPCPI>, December 6, 2021.

¹³Arise, "The Alabama Tax & Budget Handbook."

¹⁴"NCCP | 50-State Policy Tracker," accessed November 22, 2022, <http://www.nccp.org/tools/policy/>

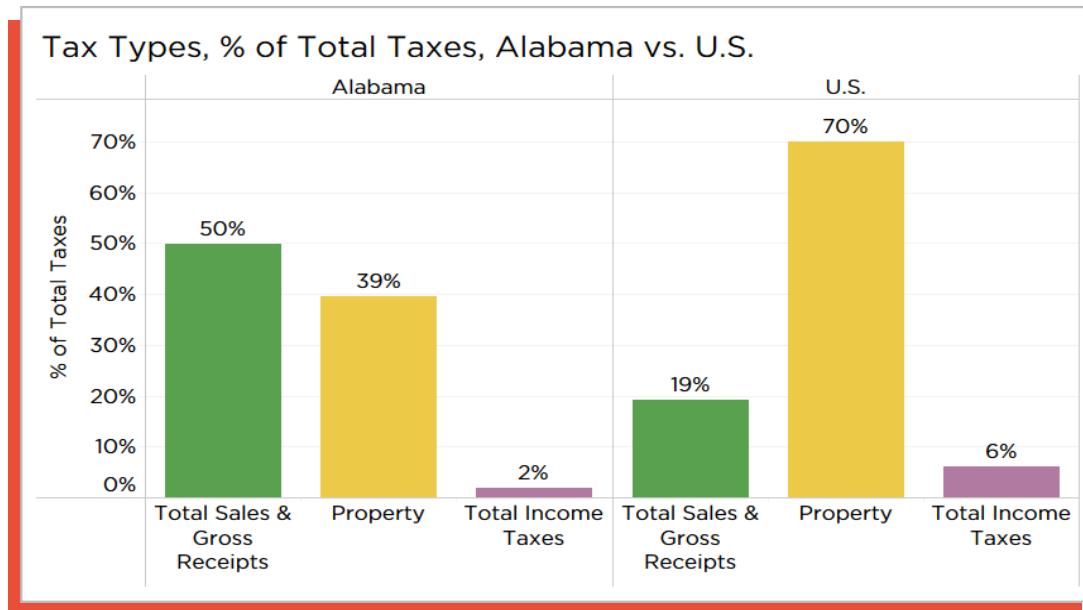
¹⁵"Interactive Map: States Should Continue Enacting and Expanding Child Tax Credits and Earned Income Tax Credits | Center on Budget and Policy Priorities," August 28, 2025, <https://www.cbpp.org/research/state-budget-and-tax/states-should-continue-enacting-and-expanding-child-tax-credits-and>.

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 over a third of state and local taxes.

In most other states, the property tax is the primary tax source for local governments. Figure 12 uses the Census Survey data for local government tax collections only. Alabama's local governments depend much more heavily on sales taxes.

Across the country, 70% of local tax revenue comes from property taxes. In Alabama, only 39% 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, half of local tax revenue comes from sales and gross receipts taxes.

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



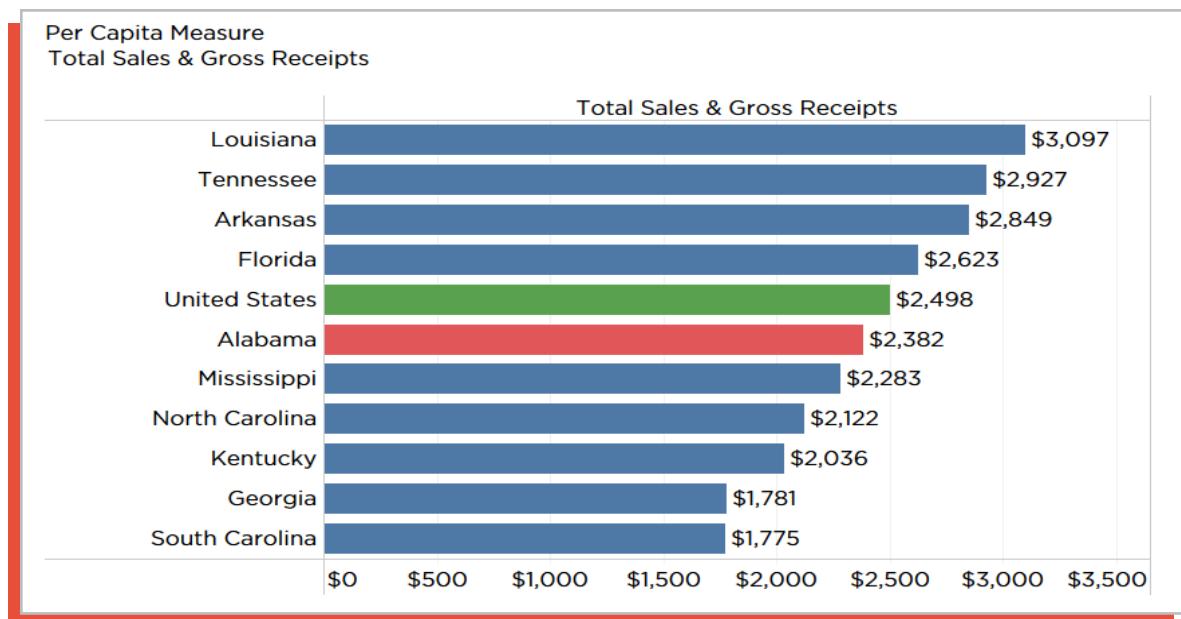
When state and local tax collections are combined, Alabama's per capita state and local sales tax collections are below the national average.

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 has a lower average rate, but benefits from a heavy infusion of out-of-state tourism dollars and has a higher level of economic activity.

According to calculations by the Tax Foundation, Alabama has the fifth-highest combined state and local sales tax rates in the country at a weighted average of 9.44%.¹⁶

¹⁶Jared Walczak, "State and Local Sales Tax Rates, Midyear 2025," Tax Foundation, July 8, 2025, <https://taxfoundation.org/data/all/state/sales-tax-rates/>.

Figure 13. Per Capita Sales and Gross Receipts, 2023. Source: U.S. Census Bureau, PARCA Calculations.



Sales taxes tend to be regressive since those with lower incomes 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 like 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.¹⁷ However, in its 2023 session, the Alabama Legislature voted to reduce the state sales tax on store-bought food items from 4% to 3%.¹⁸ The rate was lowered again as of September 1, 2025 to 2% from 3% per legislation passed in the 2025 legislative session.¹⁹

Reduction or elimination of the sales tax on groceries has long been sought in Alabama 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.

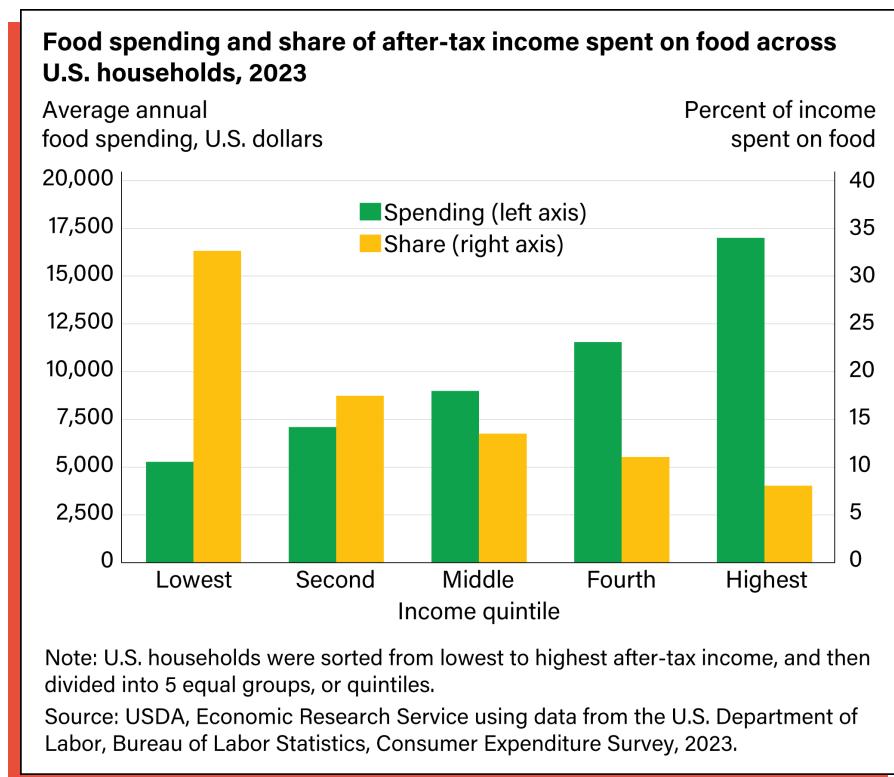
According to U.S. Department of Agriculture 2023 estimates, the 20% of households with the lowest income spent \$5,278 on food, representing 32.6% of after-tax income. Meanwhile, the 20% of households with the highest income spent an average of \$16,996 on food, representing 8.1% of after-tax income.

¹⁷"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

¹⁸Act 2023-554, <https://arc-sos.state.al.us/ucp/L1286222.AI1.pdf>

¹⁹Act 2025-305, <https://arc-sos.state.al.us/ucp/L1825878.AI1.pdf>. Neither bill was in effect in Alabama as of when the data included in this report were collected.

Figure 14. Percentage of income spent on food, by income level, USDA estimate²⁰



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. The combined rate of state and local sales taxes is 10% in those areas (now reduced to 8% 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.²¹

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 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 23rd 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.²² 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 online sales. Internet 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.²³

²⁰ "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>

²¹ Act 2025-305 allows local governments to reduce their own taxes on groceries, but forbids any increases. Ralph Chapoco, "Alabama state grocery tax to fall 1% on Monday," Alabama Reflector, August 31, 2025.

²² Alt, R. (2017, August, Updated Jan. 2018). Sales Taxation of Services, Retrieved Oct. 30, 2020, from <https://www.taxadmin.org/sales-taxation-of-services>.

²³ South Dakota v. Wayfair, Inc. 585 U.S. 162 (2018). https://www.supremecourt.gov/opinions/17pdf/17-494_j4el.pdf

Since then, taxes on online sales have continued to climb, with \$185 million collected in FY 2020, which grew to \$477 million in FY2025.²⁴ 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 9.44% 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.

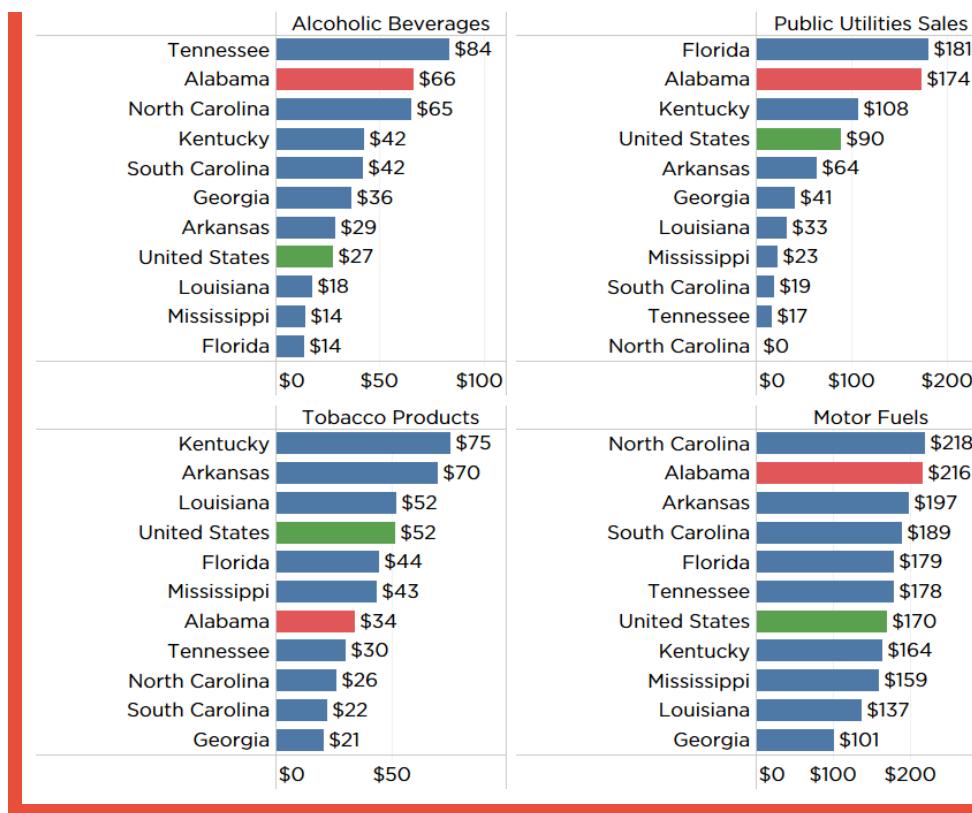
Larger cities in Alabama, which are centers of commerce and depend more heavily on the sales tax for revenue, point out that the current scheme creates an advantage for online retailers since those retailers collect an 8% tax. In comparison, Alabama-based retailers in cities often collect a 10% tax.

Smaller cities and counties with a lesser sales tax base tend to support the current population-based system since SSUT revenue is a new and added source of revenue for them.²⁵

Selective Sales Taxes

Alabama governments sometimes turn to selective sales taxes (sometimes called excise taxes or “sin” taxes in other states) to avoid passing a general tax increase. For example, Alabama ranks high in per capita collections of taxes on alcoholic beverages (No. 3 in the U.S.) and public utilities (No. 5 among U.S. states).

Figure 15. Per Capita Selective Sales Collections in the Southeast, 2023. Source: U.S. Census Bureau, PARCA Calculations.



According to the Census survey, Alabama ranked 11th in the U.S. in per capita motor fuel tax collections in 2023, 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 ranked No. 25, far below the national average. Gasoline tax rates in North Carolina, Georgia, and Florida were higher.²⁶ According to the latest AAA survey, Alabama's gas prices rank 40th in the U.S.²⁷

²⁴Thomas Spencer, “State Tax Revenues Cool in FY 2025,” Public Affairs Research Council of Alabama (blog), October 28th, 2025

²⁵Thomas 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/>.

²⁶Adam Hoffer, Jessica Dobrinsky-Harris, “Gas Taxes by State, 2023,” Tax Foundation, August 15, 2023.

²⁷“AAA Fuel Prices,” accessed December 2, 2025, <https://gasprices.aaa.com/state-gas-price-averages/>.

In 2023, per capita revenue on tobacco products ranked No. 40 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 as of 2025. According to the Campaign for Tobacco-Free Kids, the average tax rate among states during 2025 was \$2.01 per pack, not counting local tobacco taxes, which can be substantial.²⁸

Conclusion

Across the United States, tax collections grew at a higher-than-average rate in 2021 and 2022 as the economy recovered from the COVID-19 pandemic and was spurred by federal stimulus spending. However, as the economy returned to a longer-term normal in 2023, those across-the-board increases ceased, and some states saw decreases in revenue. Alabama and its peer states, other than South Carolina, still saw per capita increases in revenue, but they were smaller than in the prior two years.

The extra infusion of revenue has been particularly helpful in Alabama, where sales taxes captured increased spending. But as elevated collections slow, it will remain important for policymakers to keep in mind that the state and local governments have underinvested in services for many years because of an underproductive tax system. The history of low investment is particularly important to remember as Alabama's peer states continue to cut taxes and local elected officials face pressure to follow suit.

The Alabama Legislature has eliminated 2 cents of the four-cent sales tax on food, providing tax relief. This was a fitting response by lawmakers to high inflation. Targeting the relief in ways that provided benefits for low-income households was an additional positive step. The legislature has also budgeted responsibly and saved surplus funds for long-term investment.

Above all, the most economically efficient way to grow tax revenues is to build the health, wealth, and prosperity of the state and its residents. Thus, Alabamians face a choice: the ability to make investments in education and other programs that improve residents' affluence and grow the economy requires more resources. Will Alabama take the steps to enable economic growth and a more efficient tax system and prosperous Alabama in the longer term? Or will the trends of the last 30 years that give the state a higher tax burden but lower tax collections than half of its peers prevail?

²⁸"STATE CIGARETTE EXCISE TAX RATES," accessed December 2, 2024, <https://assets.tobaccofreekids.org/factsheets/0097.pdf>. For more on local rates, see <https://assets.tobaccofreekids.org/factsheets/0267.pdf>.