

# Sales & Use Tax Incentives

**Alabama's sales and use tax laws contain several provisions which give Alabama an advantage over other states.**

The Alabama sales and use tax law is found in Chapter 23, Title 40, [Code of Alabama 1975](https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/Coatoc.htm) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/Coatoc.htm>). The Alabama sales and use tax law provides for rate differentials, abatements, exemptions for specific items, and certain exemptions and credits for qualifying industries.

## Sales and Use Tax Rate Differentials

- General state rate: 4%
- State manufacturing and farm machinery rate: 1.5%
- Automotive rate: 2%

In addition to the state taxes, most cities and counties also levy their own sales and use taxes, which provide similar rate differentials.

**Search for local sales and use tax rates:**

[Local Sales and Use Tax Rates \(/tax-rates/\)](#)

## Sales and Use Tax Abatements

Alabama has tax abatement programs that allow qualifying industries to receive abatements of state and non-educational county and city construction-related sales and use taxes.

**Learn more about tax abatements:**

[Tax Abatements \(/tax-abatements/\)](#)



# Sales and Use Tax Exemptions

- **Pollution Control Equipment:** Equipment or materials purchased primarily for the control, reduction, or elimination of air or water pollution are exempt from sales and use tax under Alabama law (Sections [40-23-4\(a\)\(16\)](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-23-4.htm>) and [40-23-62-\(3\)](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-23-62.htm>)).
- **Raw Materials:** Tangible personal property used by manufacturers or compounders as an ingredient or component part of their manufacturing or compounded product are specifically exempt from sales and use tax under Alabama law (Sections [40-23-1\(a\)\(9\)b](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-23-1.htm>) and [40-23-60\(4\)b](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-23-60.htm>)).
- **Quality Control Testing and Donations to Charitable Entities:** The withdrawal, use, or consumption of a manufactured product by the manufacturer for use in quality control testing or to be donated to certain charitable entities are exempt from the state sales tax under Alabama law (Section [40-23-1\(e\)](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-23-1.htm>)). See also Alabama Department of Revenue Regulation 810-6-5-.26.
- **Utility Gross Receipts Tax Exclusion:** Alabama law (Sections [40-21-83](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-21-83.htm>) and [40-21-103](#) (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/40-21-103.htm>)) allows exclusions from the utility gross receipts tax and the utility service use tax if electricity or natural gas is used in an electrolytic or electrothermal manufacturing or compounding process, which include:
  - Sewer costs;

- Water used in industrial manufacturing in which 50% or more is used in industrial processing;
- The furnishing of electricity to a manufacturer or compounder for use in an electrolytic or electrothermal manufacturing or compounding process, provided it is separately metered;
- Natural gas which becomes a component of tangible personal property manufactured or compounded (but not used as a fuel or energy); and
- Natural gas used by a manufacturer or compounder to chemically convert raw materials in an electrolytic or electrothermal manufacturing or compounding process, provided it is separately metered.

Other exemptions for sales and use taxes are described:

**Sales and Use Tax Laws**  
(<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/Coatoc.htm>)

## Sales Tax Enterprise Zone Exemption

This exemption is offered to help encourage economic growth in areas considered to have depressed economies (Section [41-23-30](https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/41-23-30.htm), Code of Alabama 1975 (<https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/41-23-30.htm>)). To qualify for this incentive, a business must meet detailed requirements concerning site location and employee qualifications.

**Learn more about the Enterprise Zone Program:**

**Enterprise Zone Program** (</enterprise-zone-incentives/>)

# Credit Against Utility Taxes Paid for Certain Approved Companies

The Alabama Jobs Act ([Sections 40-18-376](#)).

(<https://alisondb.legislature.state.al.us/alison/codeofalabama/1975/coatoc.htm>) allows an approved company that has been awarded an investment credit to utilize the credit against certain utility taxes. Contact [incentives@commerce.alabama.gov](mailto:incentives@commerce.alabama.gov) (<mailto:incentives@commerce.alabama.gov>) for qualification inquiries under the Alabama Jobs Act.

**Learn more about Sales and Use Tax:**

[Sales and Use Tax \(/sales-use/\)](#)