OVERVIEW

Alabama offers businesses an attractive taxation environment—one of the nation’s lowest overall tax burdens. In addition, Alabama provides a number of tax incentives designed to assist with a cost-effective start-up and provide continued operational savings.

INCOME TAX

- Corporations’ income tax based on net taxable income derived only from business conducted within the state determined by applying a four-factor formula of property, payroll, and double-weighted sales to total net income.
- Corporate income tax rate of 6.5 percent (Individuals taxed at a rate of 5 percent).
- Full deduction for all federal income taxes apportioned to Alabama creating a significantly reduced net effective rate.
- 15-year carry-forward of net operating losses.

PROPERTY TAX

- Constitutional limit of the state mileage rate on both real and personal property to 6.5 mills (of which 3.0 mills are dedicated to education).
- Business property, both real and personal, taxed on 20 percent of fair market value.
- Inventories and goods-in-process are not taxed.
- Pollution control equipment statutorily exempt from property taxation.
- Exemption of all tangible personal property being warehoused in Alabama for shipment to a destination outside the state.

Tax Summary

<table>
<thead>
<tr>
<th>Tax</th>
<th>State Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax - General</td>
<td>4.00%</td>
</tr>
<tr>
<td>Local levies applicable</td>
<td>yes</td>
</tr>
<tr>
<td>Abatements available</td>
<td>yes</td>
</tr>
<tr>
<td>Sales Tax - Mfg. Machinery</td>
<td>1.50%</td>
</tr>
<tr>
<td>Local levies applicable</td>
<td>yes</td>
</tr>
<tr>
<td>Abatements available</td>
<td>yes</td>
</tr>
<tr>
<td>Property Tax</td>
<td>6.5%</td>
</tr>
<tr>
<td>Assessment %</td>
<td>20%</td>
</tr>
<tr>
<td>Local levies applicable</td>
<td>yes</td>
</tr>
<tr>
<td>Abatements available</td>
<td>yes</td>
</tr>
<tr>
<td>Inventory Tax</td>
<td>No</td>
</tr>
<tr>
<td>Corporate Income Tax Rate*</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

*Deductibility of federal taxes results in a net effective rate of approximately 4.5%

Deductibility of Federal Taxes: Yes-100%

Business Privilege Tax

$.25 to 1.75 per $1,000 of net worth ($15K max)

Pollution Control Exemptions

- Property Tax: yes
- Sales Tax: yes

State Unemployment Insurance

- 2016 Taxable Wage Base: $8,000
- 2016 New Employer Rate %: 2.70%
- 2016 Minimum Rate %: 0.95%
- 2016 Maximum Rate %: 7.10%

Alabama has one of the lowest tax burdens in the U.S.
SALES & USE TAXES

- Four state rate differentials, which include:
  - 1.5 percent rate for manufacturing and farm machinery;
  - 2 percent rate for automotive vehicles;
  - 3 percent rate for food sold through vending machines; and
  - 4 percent general rate for all other items.

- Raw materials used by manufacturers or compounders specifically exempt from sales and use taxation.
  - Pollution control equipment statutorily exempt from taxation.
  - Credit for sales and use tax paid to another state and its subdivisions.
  - Exemption for quality control testing and donations to charitable entities.
  - Abatements by cities, counties, and public authorities may include:

For qualifying industries, all state and the local noneducational portion of construction related transaction (sales and use) taxes associated with constructing and equipping a project. For coal mining projects, half of the state sales and use tax may be abated.

- Utility gross receipts tax exemptions for
  - Sewer costs;
  - Water used in industrial manufacturing in which 50 percent or more is used in industrial processing;
  - Exclusions for utility services used in certain types of manufacturing and compounding processes;
  - An electrolytic or electro-thermal manufacturing or compounding process;
  - Natural gas which becomes a component of tangible personal property manufactured or compounded (but not used as fuel or energy);
  - Natural gas used to chemically convert raw materials prior to the use of such converted raw materials in an electrolytic or electro-thermal manufacturing or compounding process; and
  - Increased utility tax for refurbishments, upgrades, or reopening of a facility.

BUSINESS PRIVILEGE TAX

- Replaces the former franchise tax.

- Capped at $15,000 except for financial institutions and insurance companies. The rate ranges from $.25 to $1.75 for each $1,000 of net worth in Alabama. The minimum privilege tax is $100; the maximum privilege tax is $15,000, except for financial institutions, financial institution groups and insurance companies.
ALABAMA REINVESTMENT AND ABATEMENTS ACT

- New Facility and Expansion
  - Abatement of non-educational portion of sales and use taxes on construction materials.
  - Abatement of non-educational portion of property tax for up to 20 years.

- Existing Facility: Refurbishments, Upgrades, or Placed Back in Service
  - Abatement of non-educational sales and use taxes on construction materials and equipment.
  - Abatement of non-educational property taxes for up to 20 years of the incremental property tax increases.
  - Exemption from taxes for increased utility services for up to 10 years.
  - AIDT worker training.

JOBS ACT INCENTIVES

- Jobs Credit
  - Annual cash refund up to 3 percent of the previous year’s gross payroll for up to 10 years.
  - For companies employing at least 12 percent veterans, up to an additional 0.5 percent credit is available for the wages of veterans.
  - Up to an additional 1 percent job credit is available for companies in targeted counties.

- Investment Credit
  - Credit of up to 1.5 percent of the qualified capital investment expenses for up to 10 years. Credit can be taken against the Alabama income tax liability and/or utility tax liability.
  - Credit is available for up to 15 years for companies selling their output nearby.
  - Five-year carry forward, three-year transferability.

ENTERPRISE ZONE CREDIT / EXEMPTION

- Under certain conditions, an enterprise zone credit (Section 5) or exemption (Section 11) for income tax, sales and use tax, and/or business privilege tax is available for qualified participants.

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