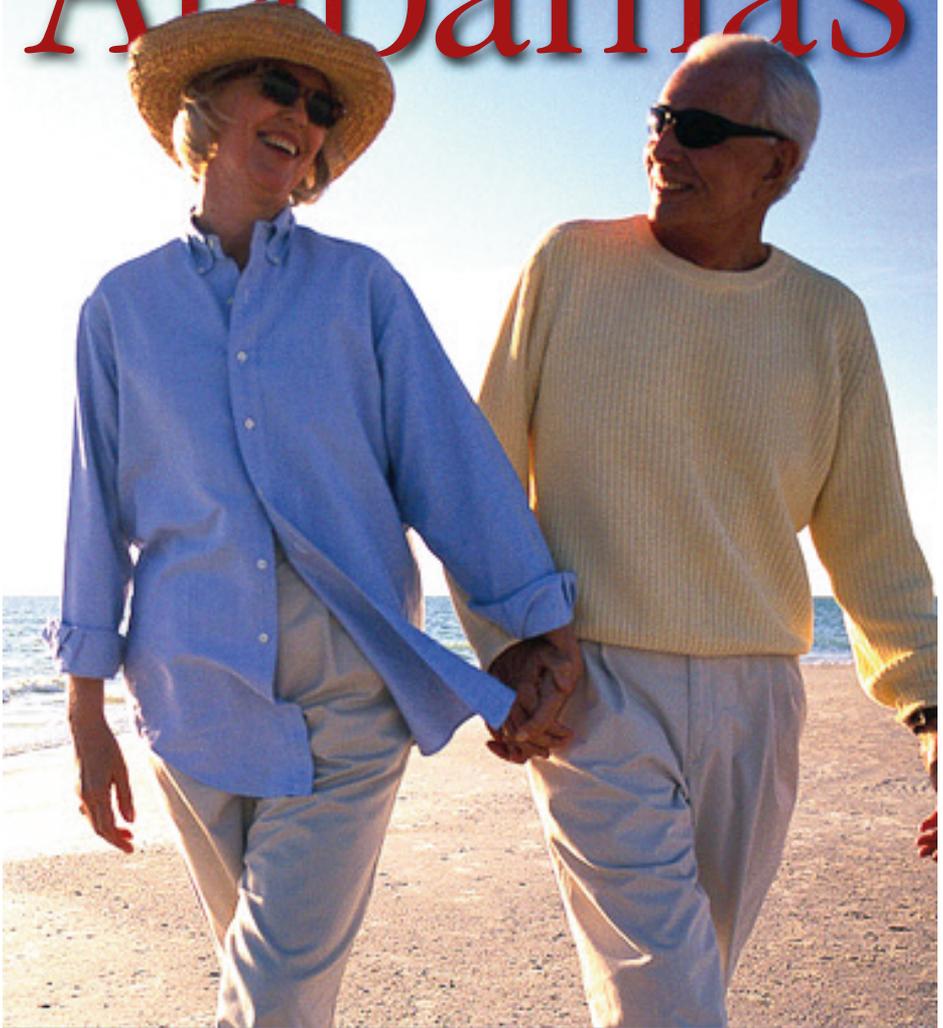


# Alabama's



MARCH 2008

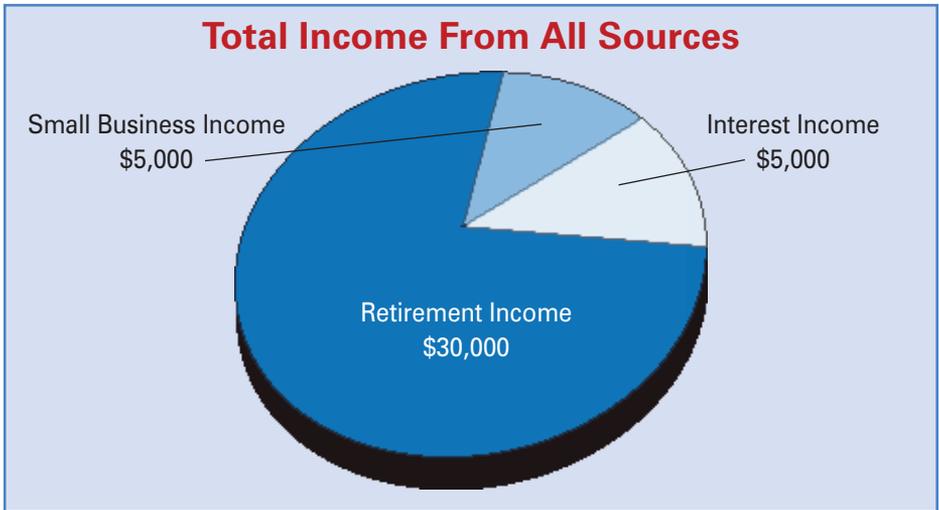
## Retirement Safe Haven

Alabama has long been known for its warm climate and its Southern hospitality. However, Alabama is also becoming more and more well known for its sandy beaches in the south and scenic mountains in the north. Another thing Alabama is becoming more well known for is its increasingly favored status as a retirement destination. One reason for this shift in attitude is the low cost of living in Alabama and a big reason for this low cost of living is the tax system in Alabama. Alabama ranks 48th among all other states in per capita taxation. Alabama's property tax is the lowest in the nation. For this reason retirees are paying closer attention to the possibilities of retiring in Alabama. This brochure has been designed to give prospective retirees a brief overview of Alabama's tax system. We hope you find it helpful.

A retired couple moving to Foley, Alabama, who has an annual income of:

Small Business Income:	\$ 5,000
Interest Income:	5,000
Military Retirement:	<u>30,000**</u>
Total Income:	<u>\$40,000</u>

\*\* Military retirement pay is exempt from income tax.



Could have the following tax expenditures:

		<b>Tax</b>
Total Income:	\$40,000	\$ 0.00
Home:	\$95,000	\$406.25
Groceries Per Year:	\$ 2,400	\$192.00
Typical Automobile:	\$19,800	\$ 96.53
Automobile Registration:		\$ 24.25
Total Tax:		<u>\$719.03</u>

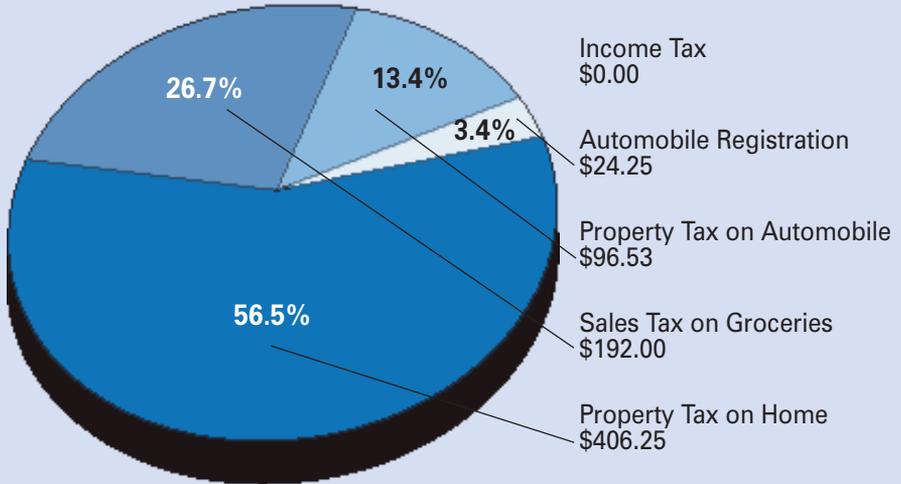
\*These figures are based on the examples shown in this brochure. See following paragraphs for breakdown of these figures.

# Income Tax

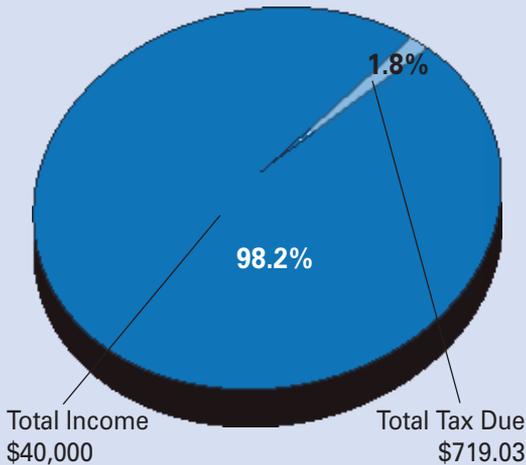
In regard to income tax, Alabama collects an individual income tax with rates ranging from 2 to 5 percent on gross income over \$5,250 for individuals filing separately or \$10,500 for individuals filing jointly.

In the area of individual income tax, Alabama's income tax laws allow for a personal exemp-

## Percentage of Each Tax to Total Tax Due



## Total Tax Bite



tion and a dependent exemption (if applicable). Alabama allows a \$1,500 personal exemption for each taxpayer and a \$1,500 personal exemption for his or her spouse in addition to a \$300 up to \$1,000 exemption for each dependent claimed. A taxpayer cannot claim himself or herself as a dependent nor can they claim their spouse as a dependent. Also, a foster child cannot be claimed as a dependent on an Alabama income tax return.

Alabama also allows an individual to choose to either itemize his/her deductions or claim the standard deduction. Alabama's

standard deduction is based on your income and filing status. The standard deduction can range from \$2,000 for single individuals to as much as \$7,500 for a couple filing jointly.

### Example:

If a married person earning \$30,000 per year military retirement and \$10,000 per year interest income files jointly with his spouse who earns no income, the following computation can be used as a yardstick to determine the amount of income tax owed:

Other Income:	\$10,000
Military Retirement:	\$30,000 ****
Total Income:	<u>\$40,000</u>
<b>Taxable portion</b> ***	
Total Income:	\$40,000
Less Excluded Income:	<u>\$30,000 ****</u>
Adjusted Gross Income:	\$10,000
Less Standard Deduction:	(\$ 7,500)
Less Personal Exemption:	<u>(\$ 3,000)</u>
Total Taxable Income:	<u>\$ 500</u>
Total Income Tax Due:	<u>\$ 0</u>

\*\*\* This computation is for an example only. Alabama's income tax rate is dependent on filing status (married or single) and level of taxable income. Actual tax due will vary.

\*\*\*\* In regard to the treatment of retirement benefits, Alabama exempts certain retirement pension income from tax. On a national scope these include: "defined benefit plans\*," as defined under section 414(j) of the Internal Revenue Code, military retirement pay, United States Civil Service Retirement System benefits, U. S. Government Retirement Fund benefits, Federal railroad retirement benefits, federal social security benefits, disability retirement payments (and other benefits) paid by the Veteran's Administration, United States Foreign Service Retirement and Disability Fund annuities and Tennessee Valley Authority Pension Systems.

\* Your employer or retirement administrator can tell you if you are participating in a "defined benefit plan."

## Alabama Sales Tax

In the area of sales tax, Alabama levies a 4 percent state sales tax on the sale of goods. Local governments may also levy a sales tax. These rates vary from city to city and from county to county. Generally, the combined state, county and city sales tax rates average from 7 to 10 percent. There are reduced rates for some goods or items. Specifically, the state levy for new and used automobiles is 2 percent. The state levy for farm machinery and mining and manufacturing equipment is 1.5 percent. A 3 percent state rate is levied on the retail selling price of food products sold through vending machines. Services are not taxable. In addition, certain goods or items which are exempt from sales tax include prescription drugs, gasoline, motor oil, etc. Food is taxable.

### Example:

*In the city of Foley, the total sales tax on \$100.00 worth of groceries would be:*

	<b>Rate</b>	<b>Computation</b>	<b>=</b>	<b>Tax</b>
State	4%	\$100 x 4%	=	\$4.00
Baldwin county	2%	\$100 x 2%	=	\$2.00
City of Foley	2%	<u>\$100 x 2%</u>	=	<u>\$2.00</u>
Total Rates & Tax	<u>8%</u>	<u>\$100 x 8%</u>	=	<u>\$8.00</u>

Total cost of the groceries would be \$108.

# Motor Vehicle Registration and Title

New residents are required to license their vehicles within 30 days. Individuals registering passenger cars or pickup trucks must pay an annual \$23 motor vehicle registration fee plus a \$1.25 issuance fee\*. The registration fee for a motorcycle is \$15 and \$12 for a privately owned utility or travel trailer. Registration fees for motor homes are based upon the gross weight of the vehicle. Registration of automobiles, pickup trucks, motorcycles, and utility and travel trailers is performed under a staggered renewal system based upon the first initial of the owner's last name. The fees are calculated based on the purchase date of the vehicle or upon the date the vehicle enters the state. In Alabama, registration of automobiles, pickup trucks, utility and travel trailers is performed by the probate judge or license commissioner in each county; however, in some counties the tax assessor, tax collector or county revenue commissioner is responsible for licensing. Also, these county officials process applications for title. The title fee is \$18.00.

## Example:

Automobile Registration	\$23.00
Issuance Fee	+ \$ 1.25 *
Total	<hr/> \$24.25
Motor homes (12,000 lbs. gross wt)	\$50.00 **
Issuance Fee	+ \$ 1.25
Total	<hr/> \$51.25

\* Local rates vary.

\*\* This figure is an approximate figure; it would be the maximum amount for the motor home shown.

An Alabama driver's license is valid for four years. A first time driving test costing \$5.00 is required for an Alabama license. Any license renewal will cost \$23.00.

Residents are required to affirm that the vehicle(s) being registered is insured pursuant to Alabama's motor vehicle liability insurance laws, and to provide their driver's license number.

## Property Tax

In addition to registration fees, ad valorem or property taxes also apply to automobiles. Alabama's property appraisal is based on a fair and reasonable market value. The state property tax is 6.5 mills (.0065) for both real and personal property. Local tax rates vary. The term "real property" refers to land and all things attached to it, and the term "personal property" refers to all property other than real property and includes such property as automobiles, recreational vehicles, and motorcycles. Home appliances and home furnishings in addition to personal items such as jewelry, etc. are not subject to Alabama property taxes. Real and personal property owned in Alabama is assessed on a ratio formula based on the use of the property. For example, single family, owner occupied residential property and agricultural property is assessed at 10 percent; private use passenger automobiles and pickup trucks are assessed at 15 percent; property owned by and used in or by utilities is assessed at 30 percent; and all other property which does not fall into one of the above categories is assessed at 20 percent, such as business real estate or business personal property.

Local taxing authorities such as counties and cities may also impose a property tax. County and city millage rates levied on the assessed value of property vary from city to city and from county to county. However, these rates are uniform within a county or city. The annual property tax due on

an automobile valued at \$10,000 and used for private purposes by the owner would total approximately \$60-\$65 based on an average combined state, county and city millage rate of 40 mills. Using the combined millage rate of 40 mills shown in the above example, the total real property tax on residential real estate with a market value of \$100,000 would total approximately \$275 – \$350 per year, depending upon the homestead exemption claimed and the location and area where you choose to live. Property taxes are assessed at the local level by the county tax assessor and are also collected at the local level usually by the county tax collector. Once you have determined the particular area of the state where you would like to move, you may wish to contact the area Chambers of Commerce and request specific information for particular counties and cities.

As a homeowner, you are entitled to a homestead exemption. This exemption applies to the homeowner’s principal residence and any property surrounding the homestead up to 160 acres. To assist you in determining which homestead exemption is applicable to your situation, the various homestead exemptions are outlined below:

■ Homeowners who are less than 65 years of age are entitled to a maximum \$4,000 (in assessed value) homestead exemption. The state exemption is \$4,000. County exemptions vary from \$2,000 to \$4,000 of assessed value for the regular homestead. The first \$2,000 exemption applies to all county taxes, except countywide and school district taxes. The optional \$2,000 exemption applies to all county taxes, provided that taxes levied for countywide district schools or city school districts must be approved by resolution of the governing bodies and boards of the school system. Municipalities may grant an exemption up to \$4,000 in the assessed value from municipal property tax provided that taxes levied for school districts must be approved by resolution of the governing bodies and boards of the school system. City or municipality exemptions vary among the different tax jurisdictions within a county; however, the city exemption cannot be greater than \$4,000.

■ Homesteads whose owners are more than 65 years old are totally exempt from all state ad valorem taxation.

■ Homeowners over 65 years of age who have an annual adjusted gross income of less than \$12,000 as reflected on the most recent state income tax return, or those homeowners retired due to a disability or blindness are entitled to an exemption up to \$5,000 of assessed value for county tax.

■ Homeowners who are totally disabled or who are 65 years of age with a federally adjusted net taxable income of \$7,500 or less are exempt from all state, county, and city property tax.

Alabama has no real estate transfer tax.

**Examples:\***

*If you have a \$125,000 home located in the city of Foley; the taxes would be:*

$$\begin{array}{r} \$ 125,000 \text{ value of the home} \\ \times \quad 10\% \text{ (.10) assessment ratio for single family owner occupied residence.} \\ \hline \$ 12,500 \text{ assessed value of the home} \end{array}$$

$$\begin{array}{r} \$ 12,500 \text{ assessed value of the home} \\ \times \quad .0065 \text{ (6.5 state millage rate)} \\ \hline \$ 81.25 \text{ state property tax due.} \end{array}$$

\$ 12,500 assessed value of the home  
 x .0095 (21.0 Baldwin county millage rate\*)  
 \$ 118.75 Baldwin county taxes due.

\$ 12,500 assessed value of home  
 x .005 (5.0 City of Foley millage rate\*)  
 \$ 62.50 Foley city tax due.

\* Local millage rates will vary.

Total taxes due:

\$ 81.25 State  
 118.75 Baldwin county  
 62.50 City of Foley  
 \$262.50 Total Annual Ad Valorem Tax Due

Less Homestead Exemption

\$ 4,000 Maximum allowed assessed value  
 x .0065 (6.5 state millage rate)  
 \$ 26 State homestead exemption

\$ 2,000 Maximum allowed assessed value  
 x .0095 (9.5 county millage rate less exclusion for schools)  
 \$ 19 County homestead exemption

Total homestead exemption: \$26 + \$19 = \$45.00  
 (There is no exemption for the city of Foley)

\$ 262.50 Total Ad Valorem Tax due  
 - 45.00 Less Homestead exemption  
 \$ 217.50 Total annual tax due after homestead exemption

*If you have a 2008 Accord EX with a market value of \$21,200.*

Private Use Automobiles and Pickup Trucks (including leased, when there is a purchase option) are assessed at 15%

Assessed Value:	\$21,200 x 15% = \$3,180			Tax
Foley city millage rate	.005	x	\$3,180	= \$ 15.90
Baldwin county millage rate	.021	x	3,180	= 66.78
State rate	.0065	x	3,180	= 20.67
Total millage rates & taxes	<b>.0325</b>	x	\$3,180	= <b>\$103.35</b>

# Estate Tax

**A**labama does not have an inheritance tax and does not impose an estate tax after 12/31/04.

## Gasoline and Motor Fuels Tax

**E**ach gallon of gasoline purchased in Alabama includes the state fuel excise tax of \$.16 per gallon. Motor fuel (diesel) includes the state fuel excise tax of \$.19 per gallon.

In addition to the state fuel excise tax on gasoline, the Department of Agriculture and Industries collects a \$.02 per gallon inspection fee on every gallon of gasoline purchased in Alabama.

Local taxing authorities may also levy a local fuel tax on purchases of gasoline and motor fuel. These rates vary.

**T**he Revenue Department sincerely appreciates this opportunity to be of service, and if additional information is needed, please do not hesitate to write or call. You may address your inquiry to the Alabama Department of Revenue, Office of Taxpayer Advocacy, Room 4118 Gordon Persons Building, 50 North Ripley Street, Post Office Box 327005, Montgomery, AL 36132-7005; telephone: (334) 242-1055; TDD number (334) 242-3061. Also, the Alabama Department of Economic and Community Affairs (ADECA), a separate state agency, offers a free information booklet to retirees who are considering moving to Alabama. The booklet features an information listing for each of Alabama's 67 counties and includes such information as highway systems; recreational, health care, and educational facilities; average housing costs and related expenses; transportation systems; county and city population totals; climate information, etc. This booklet may prove helpful to you in making a relocation decision. If you would like to receive this booklet, please call ADECA toll-free at 1-800-235-4757.

For more detailed information on Alabama taxes, visit our Web site at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).