

Alabama Passes Significant Income Tax and COVID-19 Relief

On Friday, February 12, 2021, Governor Kay Ivey signed Act 2021-1, which paved the way for tax relief for businesses and individuals. The various changes to the Alabama tax system will significantly affect both large and small businesses in the state as well as exempting all federal COVID-19 stimulus and relief payments from taxable income.

Highlights of the Legislation

Businesses

- PPP loan forgiveness is treated as non-taxable income to the recipient. The expenses funded by the PPP loan funds are deductible.
- Effective January 1, 2021, Alabama converts to the single sales factor apportionment for multi-state businesses.
- The "throwback rule" when determining apportionment factors for multi-state businesses has been repealed.
- For international taxpayers, the Global Intangible Low-Taxed Income (GILTI) has been decoupled.

Also passed on February 12 was [House Bill 192](#), which reinstates and expands the credits and incentives under the Growing Alabama Act (which expired in 2020). The new law expands the available credits to the financial institutions excise tax, the insurance premium tax, and the public utility license tax. The annual cap for the credits was increased from \$10 million to \$20 million. The credit is available for corporations and individuals who contribute cash to state and local economic development organizations that create economic growth in industrial sites, industrial and research parks, inland ports and intermodal facilities, and STEM marketing and accelerator programs. The new law also extends the dates and increases the cap on job credits for the Alabama Jobs Act.

The Alabama Electing Pass-Through Entity Tax Act: For tax years beginning on or after January 1, 2021, any Alabama S corporation or partnership or LLC may elect to be taxed as an electing pass-through entity. An electing pass-through entity will pay income tax at the highest individual marginal rate. The owners, members, partners, or shareholders will not be liable for the income tax/financial institutions excise tax otherwise imposed on their pro rata or distributive shares of the electing pass-through entity's income.

Individuals

- All COVID-19 federal stimulus and relief payments are not considered taxable income.

If you have questions about how this taxpayer-friendly legislation will affect you or your business, please reach out to your Jackson Thornton tax advisor.