

Alabama

Highlights

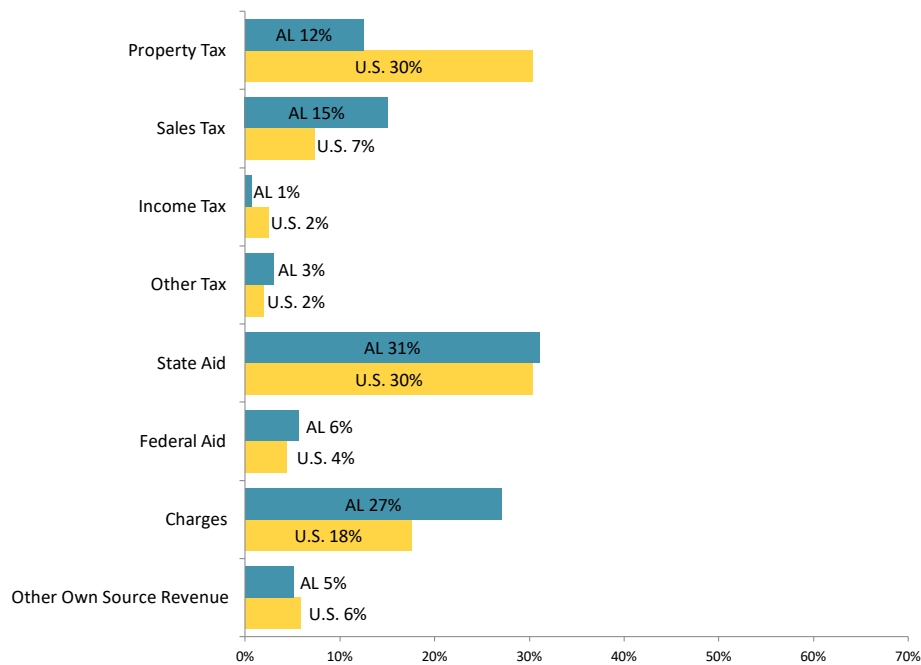
Local government reliance on the property tax is very low in Alabama compared to that of the rest of the United States. After state aid, Alabama's local governments rely most heavily on charges, followed by sales taxes and property taxes, which comprise 15 percent and 12 percent of Alabama's local general revenue respectively (figure AL-1).

Alabama has a classified property tax system, with four different classes of property that have different assessment ratios. Residential property, which is included in Class 3, is assessed at 10 percent of market value. This means that a home valued at \$100,000 is assessed at \$10,000.

Constitutional limits play a major role in the state's property tax policy. Provisions that would be state statutes in many other states are part of Alabama's constitution. In November 2022, Alabamian voters approved a ballot measure to replace Alabama's *Constitution of 1901* with the *Alabama Constitution of 2022* and a companion amendment (Swetlik 2022). Alabama's constitution is the longest in the United States at over 373,000 words (Alabama Secretary of State; Public Affairs Research Council of Alabama 2022). In reaction to excesses during Reconstruction, it severely limits actions of local governments. Property tax classification is part of the state's constitution, as are the various property tax rate and levy limits.

Figure AL-1

Sources of Local General Revenue, Alabama and U.S., 2020



Source: U.S. Census via Significant Features of the Tax

Property Tax Reliance

Alabama ranks either 50th or 51st among the states and DC in property taxes per capita, property tax as a percentage of personal income, property tax as a percentage of state-local revenue, and the effective tax rate on a median-value owner-occupied home (table AL-1).

Table AL-1
Selected Alabama Property Tax Statistics, 2020¹

	Alabama	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$632	\$1,810	51
Property tax percentage of personal income	1.4%	3.1%	51
Total property tax as percentage of state-local revenue	6.6%	16.6%	51
Median owner-occupied home value ²	\$149,600	\$229,800	45
Median real estate taxes paid for owner-occupied home ²	\$608	\$2,551	51
Effective tax rate, median owner-occupied home ³	0.4%	1.1%	50

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2016–2020.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Property taxes are levied by the state government as well as by counties, municipalities, and school districts.

Assessment is primarily conducted by the state's 67 counties (table AL-2). The state's classification system employs four different classes: utilities; residential, agricultural, forest, and historic; private cars and trucks; and all other, including business personal property. Class 3 (residential, agricultural, forest, and historic) has the lowest assessment ratio (10 percent), while Class 1 (utilities) has the highest assessment ratio (30 percent).

Property eligible for current use includes not only agricultural and forest, but also homestead and historic property.

The Alabama Department of Revenue directs all tax assessors to reappraise property values at their full market value (Significant Features of the Property Tax).

Limits on Property Taxation

Alabama employs various property tax rate limits and a levy limit. All are part of the state's constitution.

Detailed property tax limits apply to property taxation by the state, counties, municipalities, and school districts. State property taxation is limited to 6.5 mills. Counties are limited to 5 mills for general purposes and 2.5 mills for debt service. Municipalities may levy 10 mills for debt service and an

additional 5 mills for other purposes. School districts are required to levy a minimum of 10 mills (Significant Features of the Property Tax).

The levy limit applies to properties by class. For example, Class 3 property, which includes residential property, cannot be subject to total property taxation of more than 1 percent. If taxation initially exceeds these limits, the amount of each taxing jurisdiction shall be reduced proportionately (Significant Features of the Property Tax).

Tax Relief and Incentives

Alabama has several property tax relief programs, but no circuit breaker. The standard homestead exemption on the 6.5 mill statewide property tax on \$4,000 of assessed valuation means a homestead appraised at \$40,000 and assessed at 10 percent pays no state property tax. An exemption from state-level property taxes is also granted at 100 percent for homeowners over 65 years of age with limited income, or those who are retired due to permanent and total disability, regardless of age, or who are blind. Local property tax exemptions are also available.

Alabama statute authorizes property tax abatements for economic development, which can be granted by multiple authorities for up to 10 years. These include, but are not limited to, municipal industrial boards, downtown redevelopment authorities, county industrial development boards, county industrial development authorities, tax increment financing authorities, and municipal medical clinic boards. The granting of these abatements reduces the ad valorem tax revenue to the state as well as to local governmental entities. Such abatements are authorized only for noneducational millages.

The Small Business Relief and Revitalization Act of 2022 (House Bill 82) provides an exemption of up to \$40,000 of market value from the state business personal property tax. Counties and municipalities may also provide an equivalent exemption from local taxes by resolution or ordinance.

Table AL-2
Alabama Property Tax Features, 2021

Feature	Alabama	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	17
Circuit breaker property tax relief program	No	31

Sources: Significant Features of the Property Tax

Key Property Tax History

State taxation in Alabama has two distinct historical periods. The first period, spanning from statehood through Reconstruction (1819 to 1874), was characterized by traditional reliance on the property tax as controlled by statute. The second period, from 1875 to the present, has been characterized by constitutional limits on both state and local property taxation and debt.

Major changes to the property tax occurred in the twentieth century to gradually erode yield. These changes included reducing the assessment ratios, creating homestead exemptions and economic development abatements, and introducing current use. Most of the changes have been constitutional amendments, as no property tax can be levied without specific constitutional authorization.

In the 1970s, a class action suit was brought to the federal court challenging Alabama's variable assessment of property values for tax purposes, with assessment ratios ranging from near 0 to 30 percent. In *Weissinger v. Boswell*, the court agreed that this was a deficiency by U.S. constitutional standards and ordered uniform statewide assessment. But in 1978, Amendment 373 created four statewide classes of property. This was accepted by the court and procedures were set in place for uniform administration statewide. The net effect was that assessment ratios have been reduced to around 15 percent on average. In addition, Amendment 373 implemented current use for Class 3 property. By statute, current use may be granted to a homeowner whose dwelling has unreasonably increased in value; to cropland, pastureland, and timberland; and to historic buildings and sites. Amendment 373 was also referred to as the "Lid Bill" because it placed a maximum yield that could ever be collected as property tax by class of property from any combination of state and local millage rates.

Lynch v. Alabama, filed in 2008, charged that underfunding of the state's K-12 public education system was based on clauses of the constitution written after Reconstruction with the specific intent to limit funding for schools attended by Black children. The suit was dismissed as the court ruled that plaintiffs did not prove violation of the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution or of Title VI of the Civil Rights Act of 1964. U.S. District Judge C. Lynwood Smith Jr.'s ruling concluded that "plaintiffs have proved a disparity in funding among the state's public school systems, but not a disparity along racial lines" (SchoolFunding.Info).

Alabama is one of many states that has been impacted by challenges to commercial property tax valuations under the dark store assessment theory (Farmer 2016). Starting in 2013, Lowe's Home Centers began filing property tax appeals in Alabama. In 2016, the legislature passed a measure to counter property tax appeals, SB 128, which authorized counties to hire outside counsel to handle the appeals (Sharp 2016; Webb 2016). In 2018, Alabama enacted a law that blocks the use of dark stores as comparable sales when appealing valuations of commercial or industrial properties. Act No. 2018-265 states, "it shall be inadmissible for a taxpayer to introduce evidence in support of an appraisal or opinion using a comparable sale or lease of property that either was vacant when sold or contains use or deed restrictions that prohibit the property, on which a building or structure sits, from being used for the purpose for which the building or structure was designed, constructed, altered, renovated, or modified." According to a report by the *Alabama Daily News*, in 2016 the Alabama Department of Revenue entered

into a two-year, \$200,000 contract with a private law firm to provide litigation support to counties and in 2019, entered into a new, larger two-year contract. In 2019, 20 counties were facing challenges to big box store valuations as well as challenges from owners of low-income housing properties (Sell 2019).

Recent Developments

Developers of low-income housing who qualify for Low Income Housing Tax Credits (LIHTCs) have been challenging their valuations in Alabama, arguing the properties are subject to restriction on income and rent and should not be valued like conventional housing complexes (Sell 2019). In 2020, an Alabama circuit court ruled in favor of the developers, finding the land use restrictive agreements (LURA) may not be ignored in valuing low-income housing projects (*Glenbrook at Oxmoor I, LLC v. Magee*, No. CV-2017-900036 (Ala. Cir. Ct. Jefferson County, Bessemer Div. January 29, 2020)).

In *Douglas v. Roper*, No. 1200503 (Ala. June 24, 2022), the Supreme Court of Alabama ruled that counties must return the surplus funds that are generated from selling properties for delinquent taxes. The court concluded that property owners have a vested right to recover the equity in their property above the debt they owe for overdue taxes. This ruling may lay the ground for thousands of taxpayers across the state who have lost equity in such sales to file a class action lawsuit. According to the Pacific Legal Foundation that filed an amicus brief in the case, there are at least 11 states across the U.S. that have laws similar to Alabama's (Whites-Koditscheck 2022).

In 2022, Governor Kay Ivey signed two bills providing personal property tax relief to businesses. House Bill 82, the Small Business Relief and Revitalization Act of 2022, provides an exemption of up to \$40,000 of market value from the state business personal property tax (Office of the Governor, State of Alabama 2022a). Counties and municipalities may provide an equivalent exemption against local taxes by resolution or ordinance. This eliminates the state portion of the business personal property tax for 75 percent of small businesses in Alabama (Addleman 2022). House Bill 400 exempts from ad valorem taxation the grain bins used exclusively for the purpose of storing, holding, drying, preserving, or otherwise preparing grain for market (Office of the Governor, State of Alabama 2022b).

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