

**What's New for 2023**

Beginning with calendar year 2023, taxpayers may carry forward any unused coal credit for up to 5 years. The coal credit is required to be submitted through MAT( My Alabama Taxes).

**Part A – Alabama Enterprise Zone Credit**

(See §41-23-24): A tax credit is available to qualifying businesses which locate or expand within the designated enterprise zones. Business entities must apply for and be approved by the Alabama Department of Economic and Community Affairs (ADECA) to participate in the Enterprise Zone Program. Questions pertaining to the application of the tax credit should be addressed to the Alabama Department of Revenue, Pass Through Entity Unit, P.O. Box 327900, Montgomery, AL 36132-7900 or call (334) 242-1033. For additional information on the Alabama Enterprise Zone Credit, contact ADECA at the Technical Assistance Section, 401 Adams Avenue, P.O. Box 5690, Montgomery, AL 36103-5690, or call (334) 242-5100.

**Part B – Basic Skills Education Credit**

Sections 40-18-135 through 40-18-139 provide a tax credit to employers who provide approved basic skills education programs to Alabama resident employees. To qualify for the credit, (1) the program must have written approval from the Alabama Department of Education, (2) the employees shall have been continuously employed for at least 16 weeks for at least 24 hours per week, and (3) the employer cannot receive or require reimbursement or any form of remuneration for any cost of education. The credit is 20 percent of the actual costs limited to the employer's income tax liability.

A copy of the document of approval along with a detailed schedule (including actual costs incurred, employee employment period) computing the credit should be provided.

Line 1. Enter the Certification Number assigned by the Department of Education.

Line 2. Enter the name of the employer/firm sponsoring the education program.

Line 3. Enter the name of the approved provider.

Line 4. Mark the appropriate box to indicate whether all participants for whom you are claiming a tax credit were continuously employed by you for at least 16 weeks.

Line 5. If the box on line 4 is marked "yes", mark the appropriate box to indicate if employee(s) for whom you are claiming a tax credit work at least 24 hours each week.

Line 6. If the box on line 4 and 5 is marked "yes" enter the total expenses available for credit.

Line 7. Multiply line 6 by 20% (.20)

**Part C – Coal Credit (MAT Approval Required)**

For the tax years beginning on and after January 1, 1995, every corporation, that is doing business in Alabama, as a producer of coal mined in Alabama, shall be allowed a credit against the tax imposed by Section 40-18-2, in the amount of one dollar (\$1) per ton of increased production of coal over the previous year's production of coal. Such tax credit shall be based on coal produced after January 1, 1995, provided the coal was mined in Alabama as certified by the producer of the coal. The amount of the total credit in any one year shall be based on the number of tons of Alabama coal produced by the corporation in the year which exceeds the number of tons of Alabama coal produced by the corporation in calendar year 1994. In the event a corporation did not produce Alabama coal during calendar year 1994, such corporation must establish a base year by producing Alabama coal for 12 consecutive months. Thereafter, such corporation shall be eligible for the tax credit as specified herein above over the base year production. (Section 40-18-220)

Beginning with calendar year 2023, taxpayers may carry forward any unused coal credit for up to 5 years. The coal credit is required to be submitted through MAT( My Alabama Taxes) NOTE: If the credit you are claiming is from a Partnership or S Corporation, do not submit the credit claim through MAT. The credit claim will be submitted by the Partnership or S Corporation.

**Part D – Full Employment Act of 2011 Credit (MAT Approval Required)**

When submitting a Pre-Certified credit claim in MAT, please attach a list with employee information, name, SSN, Hours per week, hourly wage, hire date, months employed at end of period.

Also, attach a list of full-time employees for the last (2) filing periods.

Sections 40-18-290 through 40-18-293 provide for a tax credit against Alabama

income tax for small businesses which employ 50 or fewer employees and create new jobs paying more than ten dollars (\$10) per hour. Employers will receive an income tax credit equal to one thousand dollars (\$1,000) and shall be available in the tax year during which the employee has completed 12 months of consecutive employment. The employer must have a net increase in the total number of full time employees in Alabama on the last date of each tax year during which employees are hired for which the employer claims a credit, over the number employed in Alabama as of the last day of the tax year immediately preceding the first employment year. The income tax credit may be claimed for employees who are hired following June 9, 2011. This tax credit shall not exceed the amount of the taxpayer's state tax liability for which the credit is claimed. This credit is not refundable or transferable.

Line 1. Enter the number full time employees on 12-31-2022.

Line 2. Enter the number full time employees on 12-31-2021.

Line 3. Subtract line 2 from line 1.

Line 4. Enter the number of new employees earning greater than \$10 per hour which qualify for the credit.

Line 5. Multiply line 4 by 1,000.

Line 6. Enter the Pro rata share of credit from Schedule K-1.

Line 7. Enter the credit allowable. Add lines 5 and 6.

**Part E – Veteran's Employment Act (formerly Heroes for Hire Credit) Employer Credit (MAT Approval Required)**

This credit is available to a business that meets the requirements of either the Full Employment Act of 2011 or the Alabama Small Business Jobs Act that hires resident unemployed veterans or combat veterans for a full-time position paying at a minimum \$14 per hour. The credit is \$2000 per qualifying hire and is available in the tax year during which the employee has completed 12 months of consecutive employment. An employer cannot take this credit for any employee who claims a start-up expense credit for themselves allowed under the Veterans Employment Act (formerly Heroes For Hire Credit) Business Start-up Expense Credit.

Line 1. Enter the number of unemployed veterans included in line 4, Part D – Full Employment Credit or line 7, Part N - Alabama Small Business and Agribusiness Jobs Credit.

Line 2. Multiply line 1 by \$2,000.

Line 3. Enter the Pro rata share of credit from Schedule K-1.

Line 4. Enter the credit allowable. Add lines 2 and 3.

**Part F – Veteran's Employment Act (formerly Heroes for Hire Credit) Business Start-Up Expense Credit (MAT Approval Required)**

This credit is available to recently deployed and now discharged unemployed veterans who start their own business. To qualify the business must have a start date after April 2, 2012. The credit is nonrefundable and can be applied against the income tax liability in an amount up to \$2000. The recently deployed unemployed veteran must hold at least a 50 percent ownership interest in the business, which must be located in Alabama and show a net profit of at least \$3,000 for the year in which the credit is taken. The recently deployed unemployed veteran is not allowed to claim this credit for themselves if an employer has claimed a hire credit for him or her under the Veterans Employment Act (formerly Heroes For Hire Credit) shown above in Part F.

Line 1. Enter the name of the Business.

Line 2. Enter the business ID number.

Line 3. Enter the total amount of business start-up expenses.

Line 5. Enter the lesser of line 3 or line 4.

Line 6. Enter the Pro rata share of credit from Schedule K-1.

Line 7. Enter the credit allowable. Add lines 5 and 6.

**Part G – Qualified Irrigation System / Reservoir System Tax Credit (MAT Approval Required)**

Section 40-18-342 provides an income tax credit to any agricultural trade or business for the cost associated with the purchase, installation or conversion related to irrigation systems or the development of irrigation reservoirs and water wells. The credit is equal to 20 percent of the cost of the purchase and installation of any qualified irrigation equipment and any conversion costs related to the conversion of irrigation equipment from fuel to electricity or qualified reservoirs. This credit is limited to only one purchase and installation of qualified irrigation equipment or one qualified

reservoir per taxpayer. The credit shall be equal to a percent of the accrued cost of the qualified irrigation equipment and the cost of constructing the qualified reservoir, as follows: Twenty percent of the accrued cost not to exceed ten thousand dollars (\$10,000). The credit shall not exceed the taxpayer's Alabama income tax liability computed without regard to the credit. The credit shall be taken in the year in which the qualified irrigation equipment or the qualified reservoir is placed in service. The credit may be carried forward for 5 years. Attach the certificate for the Irrigation / Reservoir System Credit.

Line 1. Enter the purchase and installation costs of the irrigation system.

Line 2. Enter the conversion costs to convert from fuel to electricity.

Line 3. Add lines 1 and 2.

Line 4. Multiply line 3 by 20% (.20).

Line 5. Enter the cost of the construction reservoir.

Line 6. Multiply line 5 by 20% (.20).

Line 7. Enter the credit available. Enter the amount from line 4 or line 6.

Line 8. Maximum Credit. The maximum credit is \$10,000.

Line 9. Enter the lesser of line 7 or line 8.

Line 10. Enter the pro rata share of credit from Schedule K-1. Enter the FEIN of the entity. If credit is from more than one entity, attach schedule.

Line 11. Credit allowable. Add line 9 and line 10.

### **Part H – 2013 Alabama Historic Rehabilitation Tax Credit (MAT Approval Required)**

Act Number 2014-452 amends Act 2013-241. The act provides an income tax credit against the tax liability of the taxpayer for the rehabilitation, preservation, and development of historic structures. The credit is equal to 25% of the qualified rehabilitation expenditures for certified historic structures. The act also provides a tax credit equal to 10% of the qualified rehabilitation expenditures for qualified pre-1936 non-historic structures. No tax credit claimed for any certified rehabilitation may exceed \$5,000,000 for all allowable property types except a certified historic residential structure, and \$50,000 for a certified historic residential structure. The entire credit may be claimed by the taxpayer in the taxable year in which the certified rehabilitation is placed in service. This credit is not refundable, but any unused portion of the credit may be carried forward for up to 10 additional tax years.

Enter the amount of the Rehabilitation, Preservation and Development of Historic Structures Credit from the tax credit certificate.

### **Part I – Credit For Taxes Paid To Foreign Country**

Section 40-18-21 provides a tax credit for taxes paid to a foreign country by the pass through entity. The amount of the credit allowable is 50 percent of the taxpayer's proportionate share of the income taxes paid or accrued to a foreign country by the entity; or the tax calculated at the Alabama tax rates on the taxpayer's proportionate share of the entity's income derived from the foreign country, whichever is less. A schedule should be completed for each partner detailing the amounts required for each partner to complete Schedule OC on the Form 40 return. This statement should include the country's name, the partner's pro rata share of the entity and of the foreign income, and the pro rata share of the foreign income tax allocated to that partner.

The amount of the deduction on Schedule K-1 should be 50% of the proportionate share of the income taxes paid or accrued to a foreign country by the entity so that the amounts on the K-1 will equal the maximum credit allowable on Schedule PC.

### **Part J – Career-Technical Dual Enrollment Credit**

Act 2014-147 provides an income tax credit, equal to 50 percent of contributions, to entities that make contributions for qualifying educational expenses directly associated with the Career-Technical Dual Enrollment Program as defined by the State Board of Education for tax years beginning January 1, 2015. Such credit shall not exceed an amount greater than 50 percent of the taxpayer's total Alabama income tax liability and in no case more than \$500,000 for any given tax year.

A copy of the Department of Postsecondary Education Tax Credit Certification must be attached to claim the credit.

Line 1. Enter the amount from the Department of Postsecondary Education Tax Credit Certification.

Line 2. Multiply Line 1 by 50% (.50).

Line 3. Enter the Maximum Credit.

Line 4. Enter the lesser of line 2 or line 3.

### **Part K – Investment Credit (Alabama Jobs Act) (MAT Approval Required)**

Act 2023-24 provides for an investment credit in an amount up to 1.5% of the capital investment incurred as of the beginning of the incentive period. The incentive period shall begin no earlier than the placed-in-service date and not to exceed 10 years. In any one year, if the credit exceeds the amount of taxes that are allowed to be offset by the project agreement, the incentivized company may carry the credit forward,

to the extent allowed in the project agreement. No carryforward shall be allowed for more than 5 years. All or part of the first three years of the investment credit may be transferred by the incentivized company and applied by another person or company. A transfer of the credit shall be made by written, notarized contract. No such transfer shall occur before the contract is approved by the Secretary of Commerce. **Note: Allocation of this credit is required to be submitted through MAT after approval from the Department of Commerce. If credit is used to offset the Nonresident Composite Tax, Schedule NRA-IC must be submitted through MAT.**

### **Part L – Alabama Accountability Act Credit (MAT Approval Required)**

Act 2022-390 amends Act 2015-434. This act authorizes a tax credit for contributions to entities that provide educational scholarships to qualifying schools. The credit is equal to 100% of the total contributions made to a scholarship granting organization for educational scholarships during the taxable year for which the credit is claimed up to 100% of the tax liability of the taxpayer. The credit may be carried forward for 3 years.

**Note: Reserving a tax credit requires the use of the Department's online portal for taxpayers, My Alabama Taxes. Once logged into MAT, a taxpayer will need to select "Report a donation to an SGO" from the menu on the right margin of the page and follow a short series of instructions/steps to record their donation and reserve their portion of the credit.**

### **Part M – Port Credit**

Act 2016-102 provides an income tax credit in an amount equal to \$50 per TEU, \$3 per net ton, or \$0.04 per kilogram for air freight multiplied by the port user's cargo volume in the 12 month period for which the commission has granted approval for the port user to claim the port credit minus the port users base cargo volume. The port credit shall only be available to the extent that a port facility user ships more than 105 percent of its cargo volume from the 12 month period immediately preceding the port facility user's application. The port credit shall only be available to the extent a port facility user ships more than 10 TEUs, for cargo measured by TEU, more than 75 net tons, for cargo measured by net ton, or more than 15,000 kilograms for air cargo measured by kilograms. This credit is not refundable, but any unused portion of the credit may be carried forward for up to 5 additional tax years.

### **Part N – Growing Alabama Credit (MAT Approval Required)**

Act Number 2023-24 and Section 40-18-417.4 authorize a tax credit to Pass-Through Entities that make cash contributions to local economic development organizations approved by the Renewal of Alabama Commission. The credit is the amount of the cash contribution made not to exceed 50% of the Pass-Through Entities income tax liability for the current year. The cash contribution cannot exceed the amounts approved by the commission. This credit is nontransferable and may be carried forward for up to five years.

### **Part O – Apprenticeship Tax Credit (MAT Approval Required)**

Act Number 2016-314 passed the Alabama Legislature during the 2016 Regular Session. This act provides for a tax credit for employers that employ an apprentice. Eligible employers that employ an apprentice for at least seven full months of the prior taxable year are allowed a credit. For tax years beginning on or after January 1, 2020 through December 31, 2025, the credit is One Thousand Two-Hundred and Fifty Dollars (\$1,250) per qualifying apprentice for up to 10 apprentices employed; An additional credit of up to \$500 is available to the employer for each apprentice who is 18 years old or younger and meet the certain youth-registered or industry-recognized apprenticeship criteria at the time the credit is claimed. This credit is nontransferable, nonrefundable, and not available for an individual apprentice for more than four taxable years. The credit is required to be submitted through MAT.

### **Part P – 2017 Alabama Historic Rehabilitation Tax Credit (MAT Approval Required)**

Act 2017-380 provides a refundable income tax credit against the tax liability of the taxpayer for the rehabilitation, preservation, and development of historic structures. The credit is equal to 25% of the qualified rehabilitation expenditures for certified historic structures. No tax credit claimed for any certified rehabilitation may exceed \$5,000,000 for all allowable property types except a certified historic residential structure, and \$50,000 for a certified historic residential structure. The entire credit must be claimed by the taxpayer in the taxable year in which the certified rehabilitation is placed in service. This credit is refundable and transferable but cannot be carried forward. Any tax credits granted to or transferred to a pass-through entity shall be claimed at the entity level.

## **Part Q – Railroad Modernization Act of 2019 (MAT Approval Required)**

Section 37-11C-4 of the Code of Alabama provides for a refundable tax credit equal to 50 percent of an eligible taxpayer's qualified railroad rehabilitation expenditures. Alabama Act 2022-341 changes the administering agency from the Department of Commerce to the Department of Revenue, extends the sunset date for five years through tax year 2027 and increase the annual cap on income tax credits. Taxpayers must obtain pre-certification from the Department of Revenue prior to claiming the credit on their income tax return. For the calendar years 2023-2027, the aggregate amount of all tax credits that may be reserved in any year shall not exceed four million five hundred thousand dollars (\$4,500,000) plus any amount of previous reservations of tax credits that were rescinded during the calendar year. However, that in no event shall a total of more than twenty-two million five hundred thousand dollars (\$22,500,000) be reserved by the department during the period of August 1, 2022 through August 1, 2027. For more information regarding eligibility and qualifications, please contact [incentives@commerce.alabama.gov](mailto:incentives@commerce.alabama.gov) or 334-242-0400.

## **Part R – Innovate Alabama Tax Credit (MAT Approval Required)**

Act Number 2023-33 authorizes a tax credit to corporations that make cash contributions to economic development organizations (EDO) approved by Innovate Alabama. The act allows the approved tax credit to be taken against the state portion of the financial institution excise tax. Approved tax credits are granted up to the amount of cash contributed, however, total cash contributions cannot exceed the amount approved by Innovate Alabama for a specific EDO. The credit cannot exceed 50% of the corporation's income tax liability for the current year and any unused credit may be carried forward for up to five years. The tax credit is not transferable to another taxpayer. To report a cash contribution to an approved Innovate Alabama EDO, log in to your MAT account to complete the contribution submission.

## **Part S – Income Tax Capital Credit (MAT Approval Required)**

The capital credit is available to investing companies and their owners involved in a qualified project undertaken by certain new businesses to be located in the state and certain expansions of certain existing businesses. To qualify for the capital credit, the project entity must be registered with and approved by the Commissioner's Office of the Alabama Department of Revenue by 12/31/2015. The capital credit claimed for the tax year shall not exceed 5 percent of the actual capital costs, as defined in the law, of the new business or expansion of an existing business for each of 20 years. The capital credit shall be provided to each investing company and its shareholders, partners, members, owners, or beneficiaries on Form K-RCC provided by the reporting company. Each owner of the investing company will be allowed a capital credit according to the distributive share, whether or not distributed, of the project's Alabama taxable apportionable income.

This capital credit CANNOT be carried forward or back by any recipient. The capital credit is limited to the individual's current tax year liability and is applied after all other deductions, losses, or credits permitted under Titles 40 and 41, Code of Alabama 1975. Form AR-PTE is required to be submitted through MAT. The project entity is the entity approved for the capital credit.

**Form K-RCC distributions must be submitted in MAT for each owner by following directions for claiming a credit. Log in your MAT account select "Submit Credit Claim" and select Capital Credit. Enter each partner's share of available credit from the Form K-RCC. Then upload the partner's Form K-RCC documents for support. The Form K-RCC must also be attached to the Form 65 or Form 20S with Schedule PC when the return is filed. The return should include a copy of the Form K-RCC that was received from the distributing entity to verify the credit.**

Lines 1a-1g. Enter the Project Number(s) assigned by the Alabama Department of Revenue, and the amount of credit claimed from Schedule K-RCC, Part III, line 5 or Form AR, Part III, line 2.

Line 2. Enter the amount of the total Capital Credit allowable from Schedule K-RCC, Part III, line 5 or Form AR, Part III, line 2

**Note: Form AR-PTE must be submitted through MAT if the entity is the project entity. Once logged into MAT, a taxpayer will need to select "Submit a Capital Credit Annual Report" from the menu on the right margin of the page and follow a short series of instructions/steps. A report must be filed for each Capital Credit project.**

## **Part T – Summary**

Line 1. Add Part A, Line 1, Part B, Line 7, Part C, Line 6; Part D, Line 7, Part E, Line 4; Part F, Line 7; Part G, Line 11; Part H, Line 2, Part I, Line 6, Part J, Line 4; Part K, Line 2, Part L, Line 5; Part M, Line 1; Part N, Line 4, Part O, Line 3, Part P, Line 2, Part Q, Line 1, Part R, Line 4 and Part S, Line 2. **Subchapter K entities: Enter the amount from Line 1 on Line 5.**

Line 2. Enter tax due from Form 20S, Page 1, Line 31.

Line 3. Enter the credits to be used on Form 20S, Page 1, line 32. Credits cannot exceed the tax liability.

Line 4. Enter the total of Lines 3a and 3i. Enter this amount on Form 20S, page 1, line 32.

Line 5. Subtract line 4 from line 1.

Line 6. Enter the amount of the 2017 Alabama Historic Rehabilitation Tax Credit. S Corporations: Subtract Part S, line 3g from Part P, Line 2. Subchapter K entities: Enter the amount from Part P, line 2. Enter this amount on Form 65, line 32.

Line 7. Enter the amount of the Railroad Modernization Credit of 2019. S Corporations subtract Part S, line 3h from Part Q, line 1.

Subchapter K entities: Enter the amount from Part Q, Line 1. Enter this amount on Form 65, Line 33.

Line 8. Add Lines 6 and Line 7.

Line 9. Subtract Line 8 from Line 5. Enter this amount on Schedule K, Line 21.