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Alabama State Tax Collections, 2023

**INCREASES, DECREASES, AND TRENDS
IN THE REVENUES SUPPORTING THE
STATE GOVERNMENT**

*Alabama State Tax Collections, 2023:
Increases, Decreases, and Trends in the Revenues Supporting the State Government*

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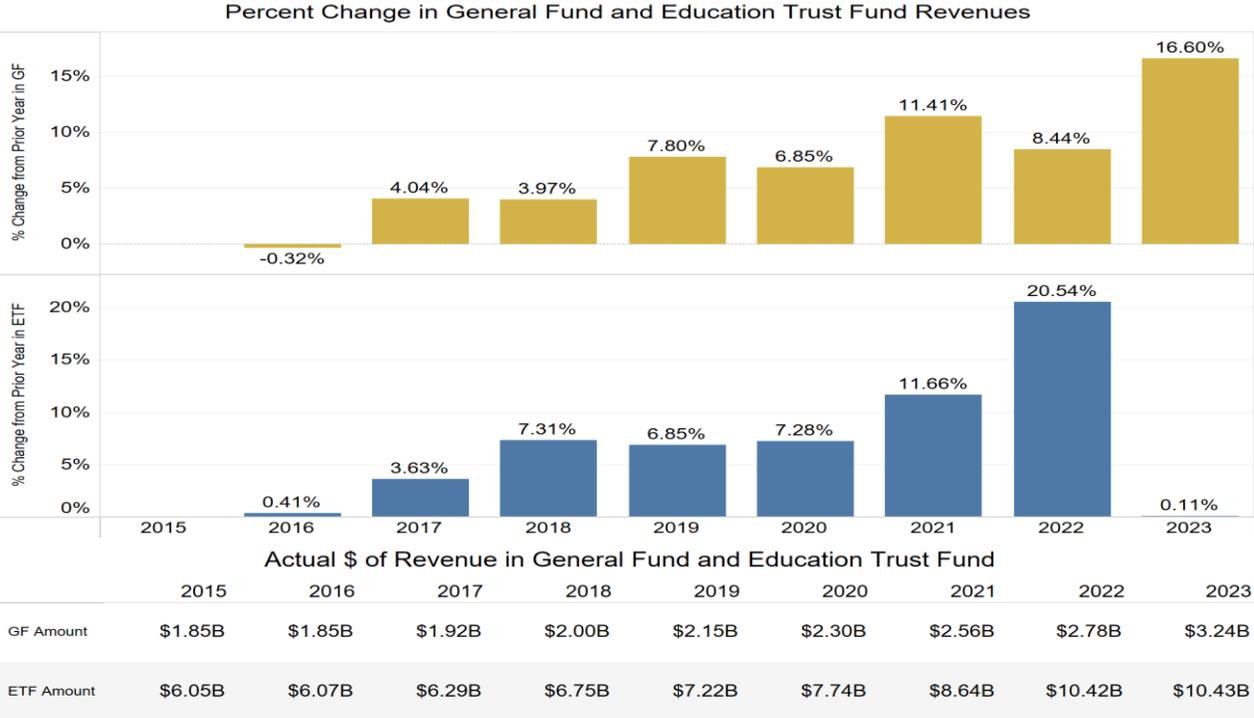
Executive Summary

The 2023 fiscal year, which ended on September 30, was a mixed year for Alabama revenue collections.

After several years of strong growth, Alabama tax collections turned in a mixed performance in 2023, with the General Fund (GF), which supports non-education spending, up substantially. Education Trust Fund (ETF) revenues, meanwhile, were basically flat after increasing by record levels in 2022.

GF collections increased 16.6%, led by a steep rise in revenue from interest on state deposits. The ETF barely budged, up 0.11%, with sales tax revenue increasing but income tax revenue down. That’s according to reports released last month by the state.

Figure 1. Tax collection trends in Alabama’s General Fund and Education Trust Fund



Judging from the 2023 collections, revenue growth in both budgets may slow as pandemic relief tapers and higher interest rates bring down inflation and slow the economy.

The big jump in 2023 for the General Fund was due to an unusual occurrence: rising interest rates were applied to a huge lump of money held in the state treasury for portions of 2023: over \$2 billion in federal relief funds from the American Rescue Plan Act (ARPA) and over \$2.8 billion in Education Trust Fund surplus.

In total, interest on state deposits was up by \$364 million, an increase of more than 900% over 2022 collections.¹ Thus, this bump in GF interest appears to be an aberration and cannot be expected for long-term fiscal sustainability.

Meanwhile, in the ETF, the two main drivers in the fund almost canceled each other out: sales taxes grew \$113 million, up 4.6%, but income tax collections declined \$150 million or 2.1%. Overall, the ETF increased by only \$11.4 million, a 0.11% increase.

Income tax collections, which had rocketed up by over 20% in 2022, fell in 2023.

Why did income tax collections fall at a time of low unemployment and higher wages?

Total income tax receipts, it turns out, were higher than in the prior year, both from individuals, up 0.22%, and corporations, up 7.65%.

However, the state paid out more in refunds in 2023. Individual and corporate tax refunds rose 23.99% and 85.08%, respectively.

Department of Revenue (DOR) officials said that several factors may have contributed to the swing in refunds. First, the surge in the stock market in 2021 led to strong collections and low levels of refunds in FY 2022.

When 2022 turned out to be a down year for the stock market, refunds were large because estimated taxes (which would have been calculated based on 2021 income levels) were inflated.

In addition, a change in state tax law in 2021 allowed what are called Pass-Through Entities (PTE) to pay state income taxes. According to the Association of

¹ Unlike other federal outlays, American Rescue Plan Act funds on deposit in state accounts were allowed to generate interest.

International Certified Professional Accountants, 36 states now allow these PTEs to pay taxes in lieu of business owners. When a PTE, which can be a sole proprietorship, partnership, or LLC, files federal income taxes, it can deduct the full amount of state and local taxes paid. This gets around a \$10,000 cap on state and local tax deductions for individuals, created by the Tax Cuts and Jobs Act of 2017.

In FY 2022, PTE payments increased by \$500 million. At the same time, some business owners continued to make estimated payments on their income taxes. That helped swell tax receipts in 2022 but also resulted in higher levels of refunds. Business owners received refunds of estimated taxes paid and tax credits from the PTEs. As the PTE process becomes more established, the swings aren't expected to be as dramatic. The percentage of collected revenue returned in 2023 was 13%, which was a change from FY 2022 but closer to the normal rate of refunds, according to DOR officials.

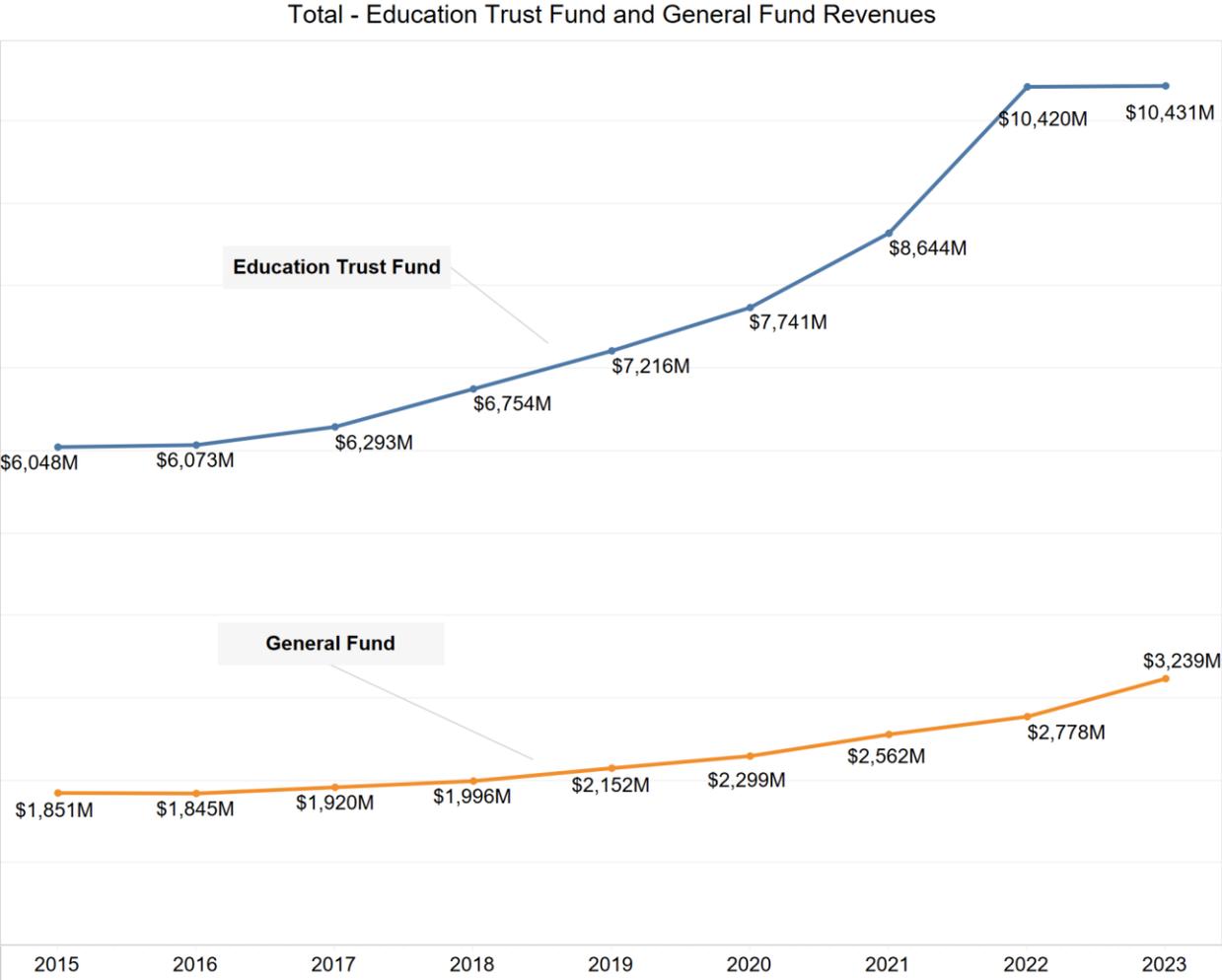
In terms of continuing revenue growth, there will be more headwinds for the EFT in 2024. The State Legislature earlier this year voted to send a one-time rebate to taxpayers (\$300 for couples and \$150 for individuals) based on the extraordinary collections in 2022.² That is expected to cost \$390 million.

The Legislature also voted to lower the sales tax on groceries by one cent. That went into effect in September and is expected to decrease collections by \$152 million in FY 2024. The law also aims to lower the tax by another cent in 2024, but only if the ETF is projected to grow by 3.5% or more in FY 2025. If that cut goes into effect, revenues will be reduced by \$318 million from 2023 levels, according to projections by the Legislative Fiscal Office.

On the positive side of the ledger, Alabama is enjoying close to record low levels of unemployment, increasing labor force participation, and more people employed than ever before. All factors that should lead to continued increases in revenue.

² HB 175, 2023. <https://www.legislature.state.al.us/pdf/SearchableInstruments/2023RS/FiscalNotes/FN-DWSQHN-4.pdf>

Figure 2. Trends in Revenue Totals



The Education Trust Fund

The ETF³ receives the receipts of state sales and use tax, income tax, plus a handful of other revenue streams, as shown below. Income taxes, as well as sales and use taxes, comprise 96% of these sources. Thus, the ETF relies on a strong economy for growth. The ETF can expect to contract when recessions occur.

Figure 3. Education Trust Fund by Source of Revenue, 2023

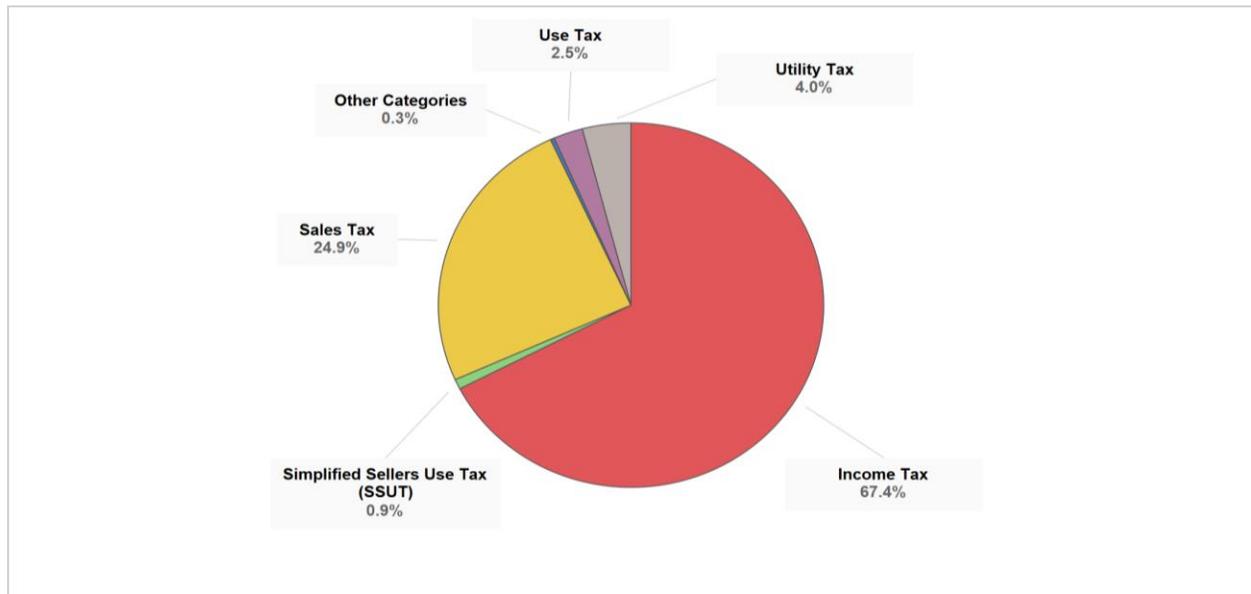


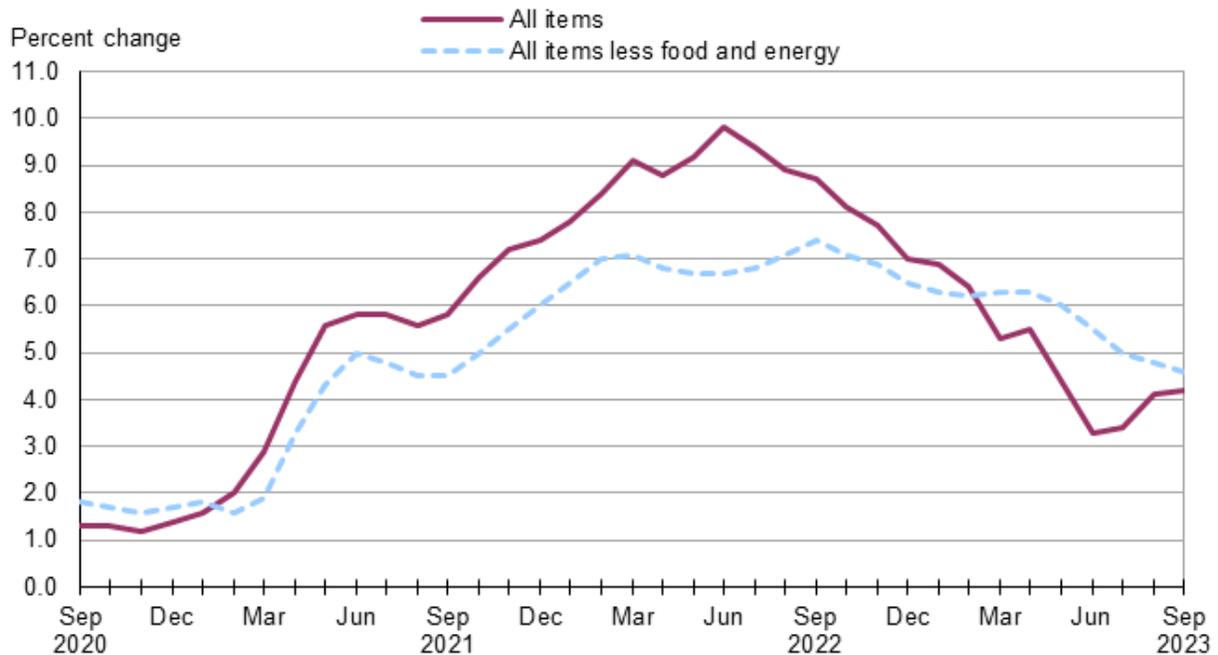
Figure 4. Education Trust Fund Total Revenue and Change

Revenues	FY 2023	Change 2022-2023	% Change 2022-2023
Total	\$10,430,960,185	\$11,428,586	0.11%

³ The Education Trust Fund (ETF) is the largest operating fund of the State. Revenues credited to the ETF are used for the support K-12 education, public library services, performing and fine arts, scholarship programs, the state's education regulatory departments, and two- and four-year colleges and universities. ETF funding also supports non-state agencies that provide educational services, including the arts, disease counseling and education, and youth development. Twelve tax sources are allocated to the ETF, the largest of which are the individual and corporate income tax, sales tax, utility tax, and use tax. http://budget.alabama.gov/education_trust_fund_description/.

In addition, inflation can affect these revenue sources. Higher inflation can drive up the amount collected in sales tax. Still, the higher collections may not represent real growth due to increased costs to the government and the need to raise public employee compensation to keep up with inflation. Figure 5 depicts that the ‘All items’ *Consumers Price Index for All Urban Consumers (CPI-U) for the South Region*⁴ increased 4.2% for the 12 months ending in September 2023 (all-items, less food & energy, were 4.6%).

Figure 5. Percent Change in Consumer Price Index, Sept 2020-Sept 2023



Source: U.S. Bureau of Labor Statistics.

⁴ https://www.bls.gov/regions/southeast/news-release/consumerpriceindex_south.htm

Figure 6 depicts the overall revenue trends for the ETF, showing the trends for the four main revenue categories and a fifth “other” category. The income tax and the sales & use tax categories reflect 96% of the total revenue sources. Figure 7 shows that the income tax decrease in FY 2023 impacted total revenue. The sales & use tax category increase helps to offset that decrease. The following pages will discuss These two major categories in more detail.

Figure 6. Education Trust Fund Revenue Trend

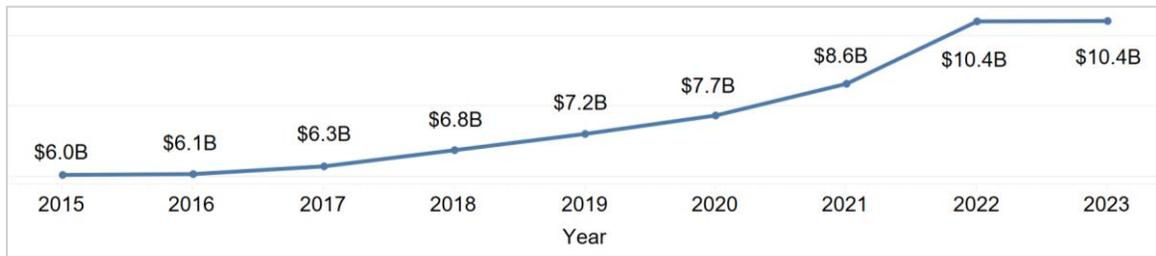
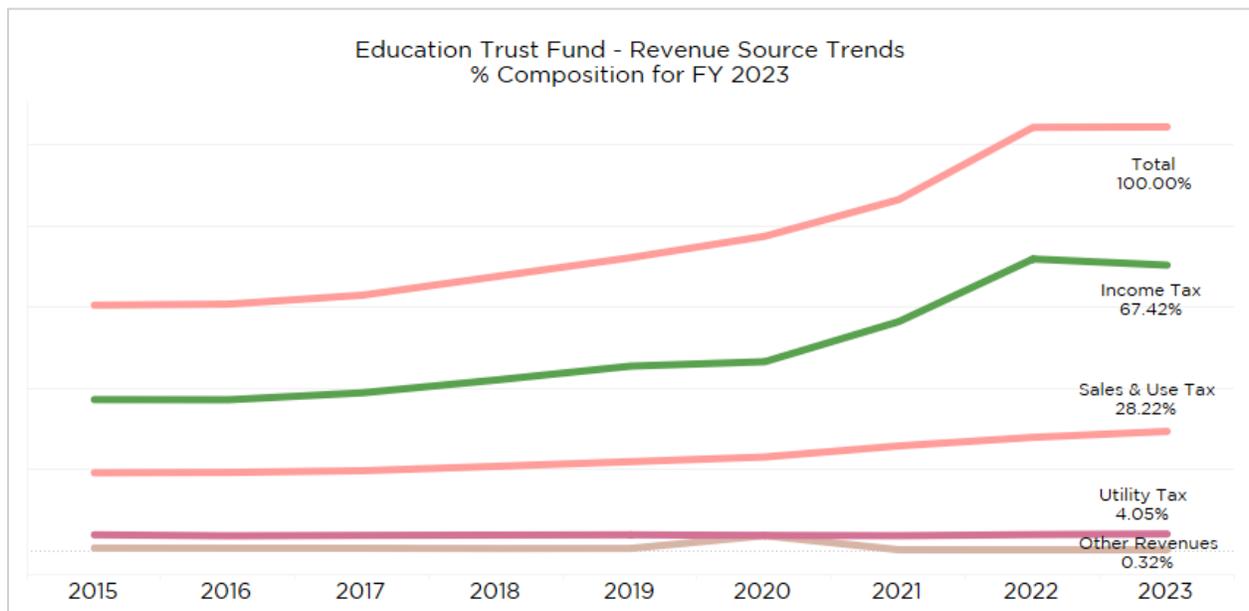


Figure 7. Revenue Sources for ETF, by % of Fund



For a detailed list of all revenues with the ETF, see Table 1 below, which includes, in descending order, a total for FY 2023 revenue, by source, the change from the previous year, the percentage change from the previous year, as well as the percentage of all revenues from the source.

Table 1. ETF Revenue Sources and Change

Revenues	FY 2023 =	Change 2022-2023	% Change 2022-2023	% of Total 2023
Total	\$10,430,960,185	\$11,428,586	0.11%	100.00%
Income Tax	\$7,032,093,931	(\$150,474,423)	-2.09%	67.42%
Sales Tax	\$2,592,614,517	\$112,958,894	4.56%	24.85%
Utility Tax	\$421,950,643	\$15,463,572	3.80%	4.05%
Use Tax	\$240,194,523	\$15,633,243	6.96%	2.30%
Simplified Sellers Use Tax (SSUT)	\$92,232,439	\$14,606,879	18.82%	0.88%
ABC Board	\$22,597,381	\$249,563	1.12%	0.22%
Use Tax - Remote Sellers	\$18,567,403	\$2,729,038	17.23%	0.18%
Mobile Telecommunications Tax	\$8,089,746	\$212,985	2.70%	0.08%
Transfers and Reversions	\$1,572,999	(\$241,986)	-13.33%	0.02%
Hydroelectric Tax	\$557,070	(\$18,439)	-3.20%	0.01%
Miscellaneous	\$280,047	\$272,734	3729.52%	0.00%
Privilege Licenses	\$113,769	\$247	0.22%	0.00%
Courts Cost	\$52,485	(\$6,955)	-11.70%	0.00%
Insurance Premium Tax	\$0	\$0		0.00%

Income Taxes

The \$157 million decrease in net income tax revenue (See Table 2) was mainly attributable to individual income tax. Specifically, the refunds were \$171 million more in FY 2023 than in FY 2022. The Department of Revenue believes a combination of factors produced the jump in refunds. Strong stock market returns in 2021 triggered high estimated tax payments in 2022. Since the market declined in value in 2022, those high estimates would have resulted in overpaying taxes, triggering refunds in 2023. In addition, some of those estimated taxes paid in 2022 may have been double-paid. A new law allowed income tax payments from Pass-Through Entities. Payments from those entities jumped \$500 million in 2022. Some of those payments duplicated estimated taxes paid by business owners, overpayments that were eventually refunded.

Table 2. Comparison of Income Tax Receipts, Refunds and Totals, 2022 and 2023

	FY 2022	FY 2023	Change	% of Change
Individual Income Tax				
Receipts	\$ 6,808,362,133	\$ 6,823,266,320	\$ 14,904,187	0.22%
Refunds	(715,968,868)	(887,717,062)	171,748,194	23.99%
Net Income Tax (before other expenses)	6,092,393,266	5,935,549,259	(156,844,007)	-2.57%
Corporate Income Tax				
Receipts	1,299,354,755	1,398,806,709	99,451,954	7.65%
Refunds	(101,581,408)	(188,011,649)	86,430,241	85.08%
Net Income Tax (before other expenses)	1,197,773,347	1,210,795,060	13,021,713	1.09%
Source: ETF - State of Alabama Summary of Comparison of Net Receipts				

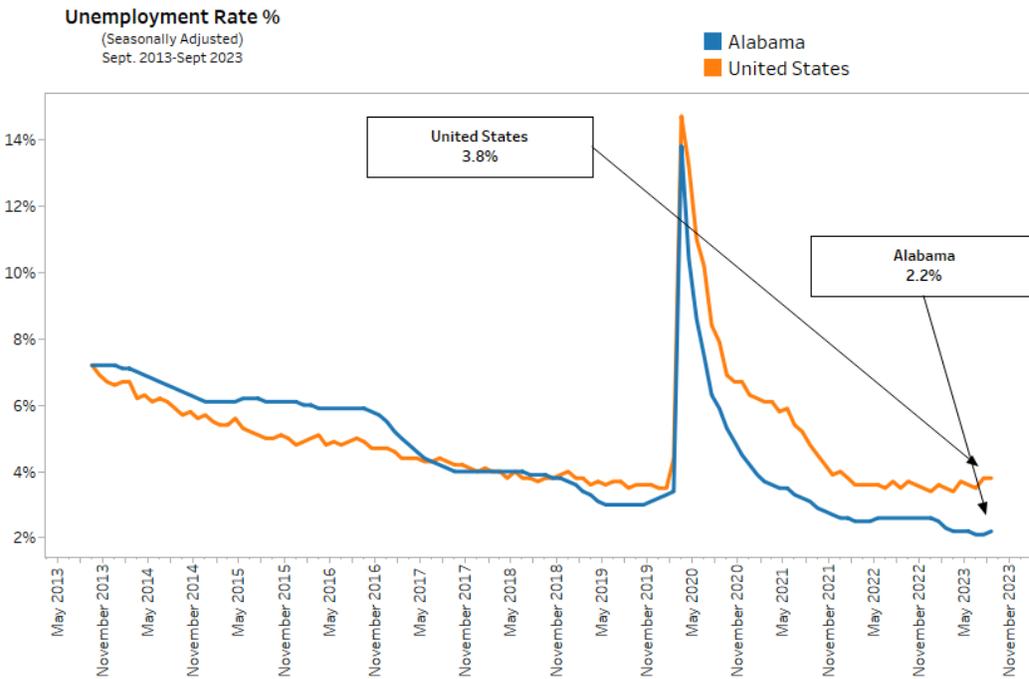
For FY 2024, we can also expect another increase in refunds for individual income taxpayers due to the rebate plan passed by lawmakers in 2023. The plan approved rebates of \$150 for single filers and \$300 for married couples. The cost is estimated at \$393 million.⁵ Checks for those rebates go out in November 2023.

⁵ HB 175 fiscal note, <https://www.legislature.state.al.us/pdf/SearchableInstruments/2023RS/FiscalNotes/FN-DWSQHN-4.pdf>

Helping to offset the increase in individual refunds in FY 2023, individual income tax receipts increased by \$15 million, or 0.22%, while corporate income tax receipts increased by \$99.5 million, or 7.65%. Income tax receipt increases can be attributable to many things, including increases in the number of people working and increases in wages.

For September 2023, the unemployment rate (See Figure 8) for the state is 2.2% (down from 2.6% in 2022). That compares to the US rate of 3.8%. Persistent low unemployment indicates that most people who want a job already have one. However, for companies that need more workers, low unemployment limits their ability to find talent without offering stronger pay and benefit incentives to attract them. That could ultimately be a drag on economic growth.

Figure 8. Trend in Unemployment Rate, Alabama vs. U.S.⁶

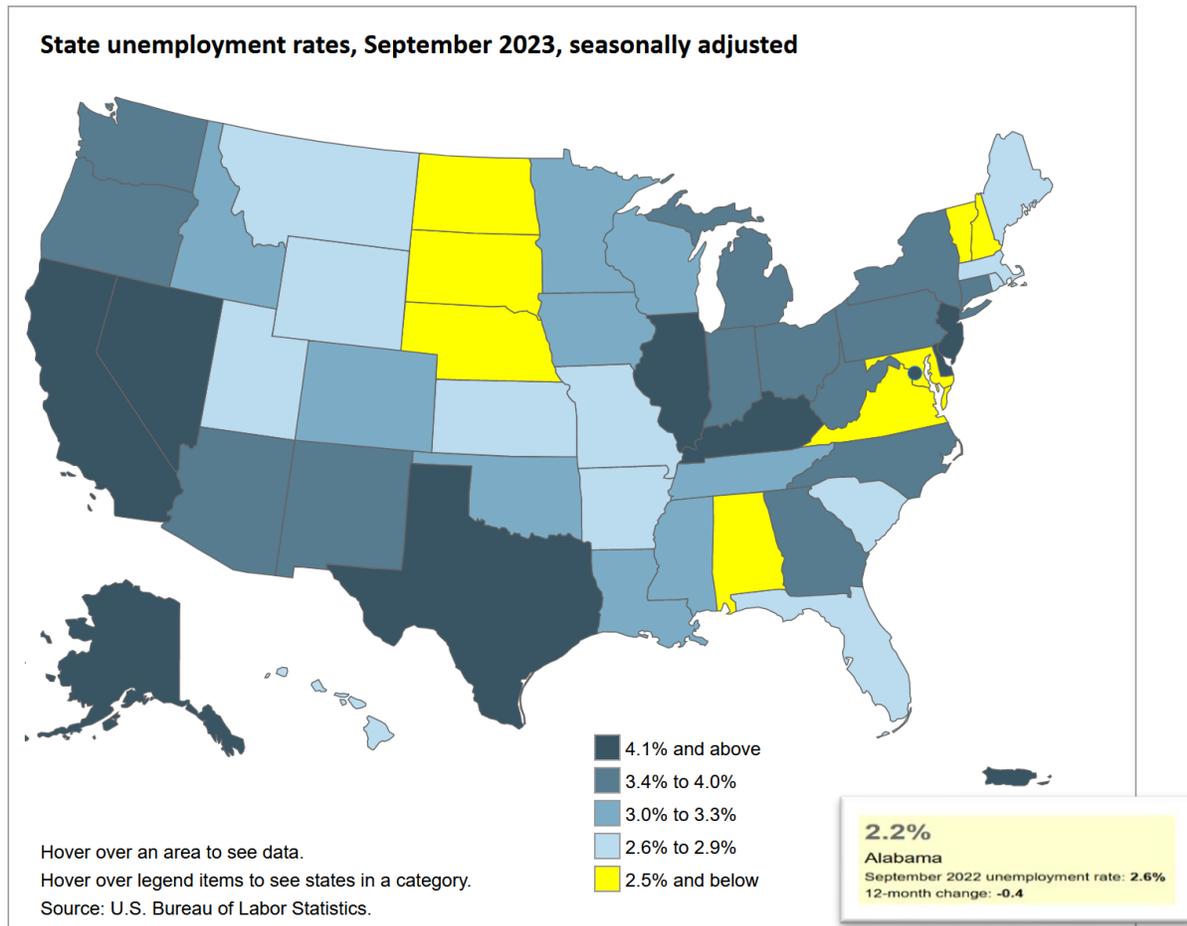


Source: Estimates prepared by the Alabama Department of Labor in Cooperation with the Bureau of Labor Statistics.

⁶ <https://www2.labor.alabama.gov/LAUS/LAUSTab.aspx>

Another perspective for state unemployment⁷ rates is shown in Figure 9. Alabama's unemployment rate is in the lowest category (2.5% and below) among all states and is shared with only seven other states.

Figure 9. State Unemployment Rates, Sept. 2023, Seasonally Adjusted⁸

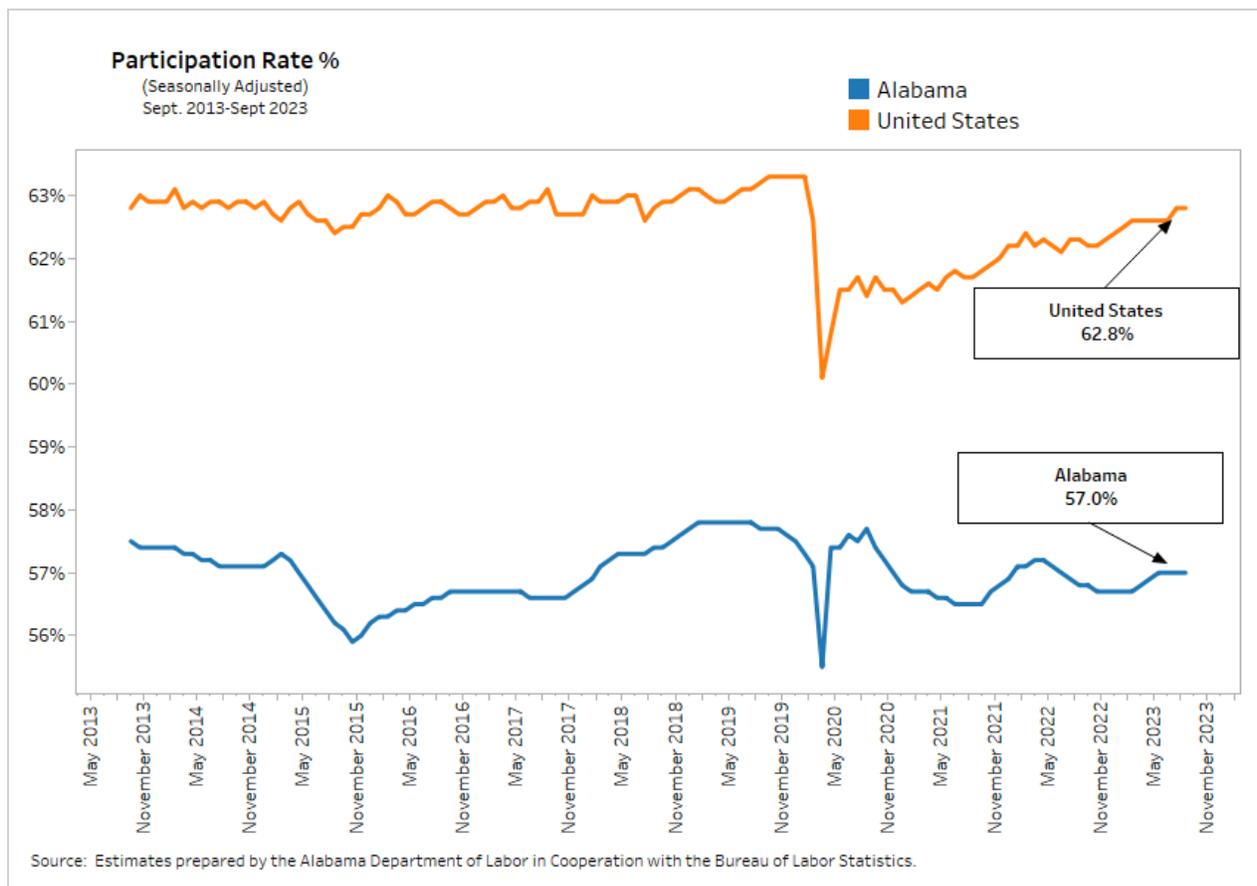


⁷ The unemployment rate represents the number of unemployed as a percentage of the labor force, the noninstitutionalized population 16 and up, excluding retired persons, students, those taking care of children or other family members, and others who are neither working nor seeking work.

⁸ <https://www.bls.gov/charts/state-employment-and-unemployment/state-unemployment-rates-map.htm#>

The labor force participation rate is the number of all employed and all unemployed workers in the state divided by the state’s civilian population.⁹ Figure 10 below shows that Alabama’s labor force participation rate, 57%, continues to lag behind the US rate of 62.8%. However, both the state and national rates saw a slight increase in participation from 2022 to 2023. This suggests that more people are entering the workforce, which can positively affect total earned income in the state and, thus, income tax receipts.

Figure 10. Trends in the Labor Force Participation Rate, U.S. vs. Alabama¹⁰



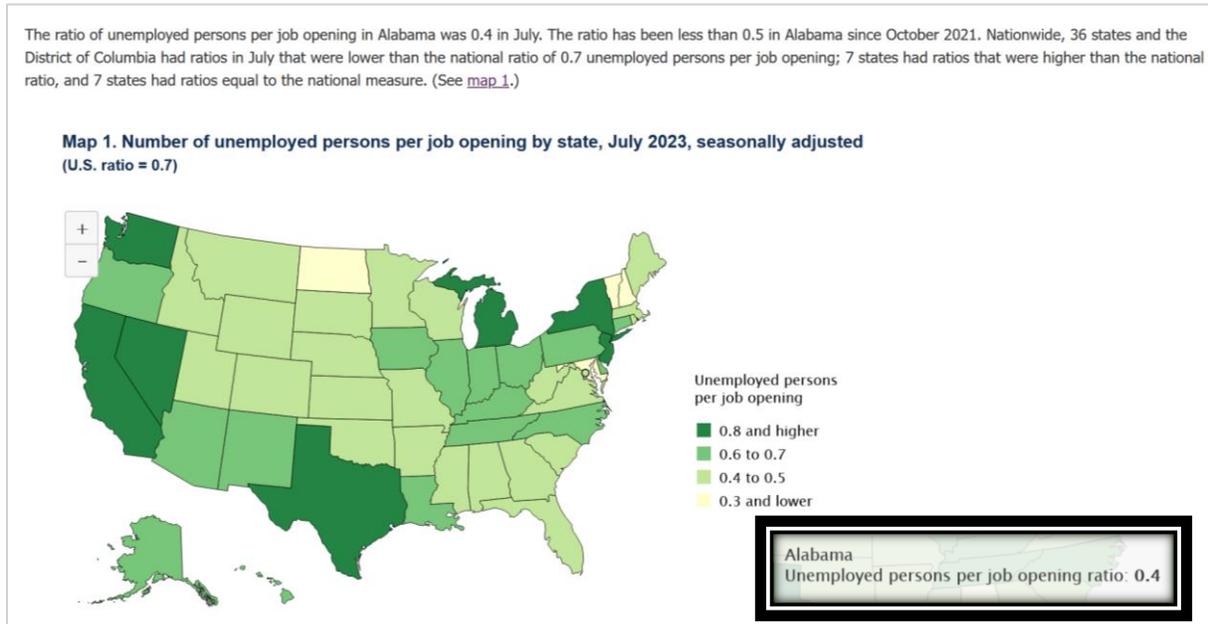
Another aspect of economic data that applies to income tax revenue is the ratio of unemployed persons per job opening. For July 2023, Alabama’s ratio was 0.4

⁹ <https://fred.stlouisfed.org/series/LBSNSA01>

¹⁰ <https://www2.labor.alabama.gov/LAUS/LAUSTab.aspx>

compared to the US ratio of 0.7 unemployed persons per job opening. See Figure 11 below for details.

Figure 11. Ratio of Unemployed Persons to Job Openings



Thus, if every unemployed worker in Alabama was employed in one of the job openings, only 40% of vacant jobs could be filled. The state would still have 60% of jobs to be filled.

There are only a few ways to meet the demand:

- a) more people in the state enter the labor force than leave it
- b) businesses decide not to fill open positions or lay off existing workers
- c) workers move to Alabama from other states.

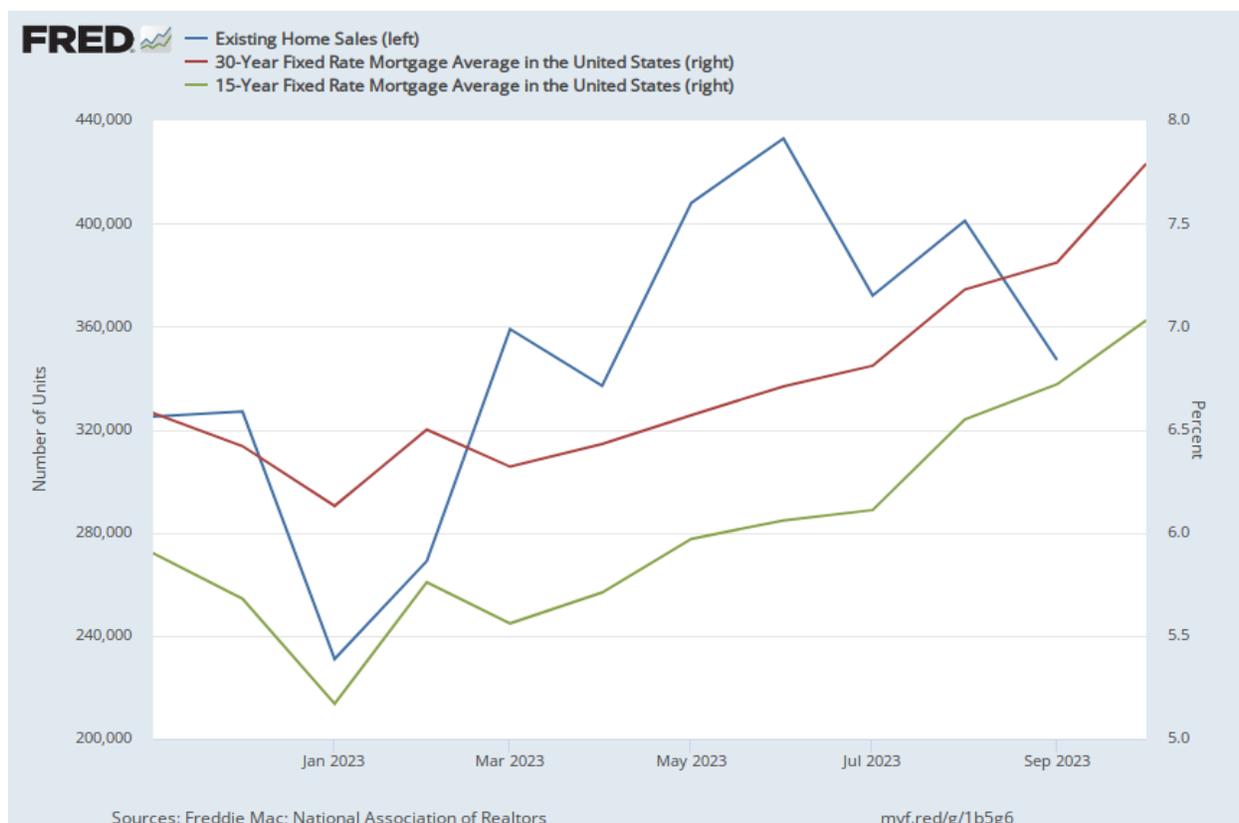
One factor interfering with attracting new workers to move to the state is rising interest rates, which has slowed activity in the housing market.

Thirty-year mortgage rates have reached their highest levels in more than two decades. As a result, potential homebuyers appear hesitant. At the same time, many existing homeowners are reluctant to sell, only to assume more costly mortgages required to purchase new homes. In fact, existing home sales dropped to the slowest pace since October 2010. Between lower inventories of homes for sale and higher

borrowing costs, home affordability has emerged as a major issue for would-be buyers.¹¹

Figure 12 is based on data from the National Association of Realtors and shows the relationship between existing home sales and 30-year and 15-year fixed-rate mortgage averages over the past year. Rates have continued to increase steadily, while the sales in recent months have declined. For those who currently have a low interest rate, these higher rates can create hesitancy to move for jobs due to the higher housing costs involved. All of this can and will impact the number of workers for jobs in and around the State of Alabama. Thus, the overall income used as a basis for the income tax could be affected.

Figure 12. Existing Home Sales vs. Interest Rates¹²



¹¹ www.usbank.com/investing/financial-perspectives/investing-insights/interest-rates-impact-on-housing-market.html

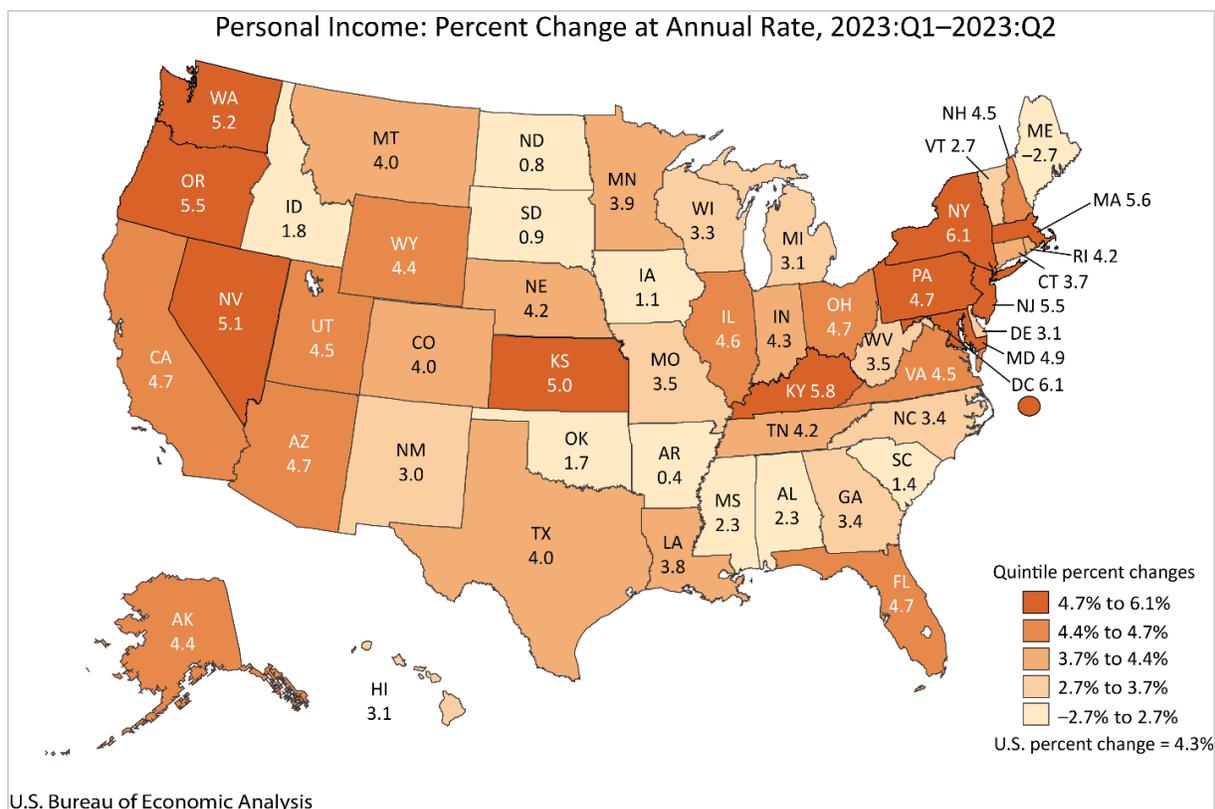
¹² <https://fred.stlouisfed.org/graph/?g=10Ofw#>

Overall, the state continues to have a low unemployment rate, even with the labor-force participation rate rising somewhat during the year.

The existing labor force can only fill 40% of existing job openings. Low unemployment and the shortage of workers could lead to increased pay, which would increase income tax receipts.

Figure 13 shows the percentage change in income annualized from the first to the second quarter of 2023. Income increased in Alabama by 2.3%, while the US saw a 4.3% increase. At the same time, the Consumer Price Index in the South Region increased by 4.2% for all items for the 12 months ending in September 2023 (all items, less food & energy, were 4.6%). Thus, personal income levels are not keeping up with inflation.

Figure 13. Annualized Rate of Personal Income Growth¹³



¹³ <https://www.bea.gov/system/files/stgdpqi2q23.png>

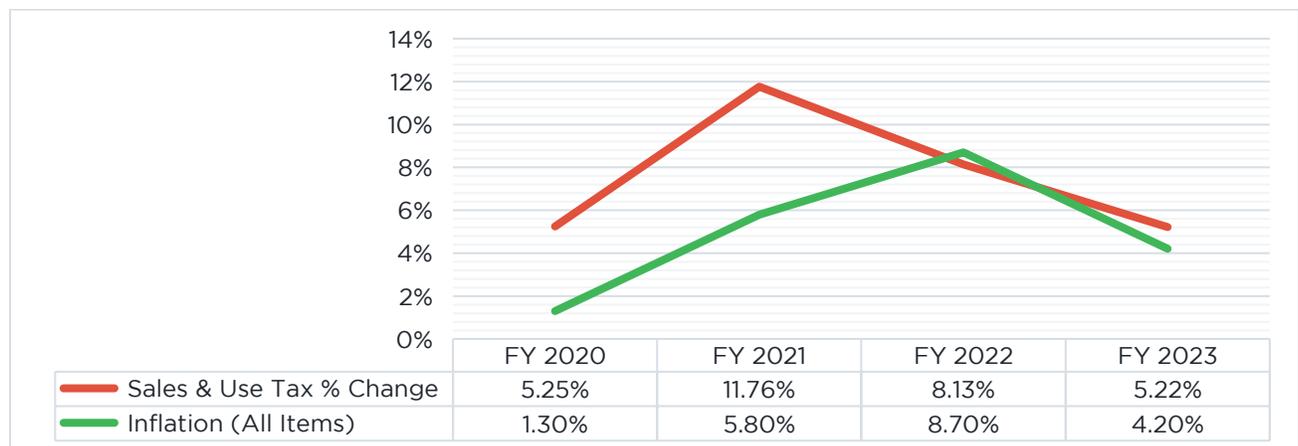
Sales & Use Taxes

Sales and use tax revenues comprised 28.2% of the ETF for FY 2023. These revenues rose \$145.9 million, a 5.2% increase from FY 2022 to FY 2023. This growth helped to offset the reduction in overall income tax revenue for the ETF fund.

Considering the level of inflation from the CPI index, sales and use tax revenues only slightly exceeded the increased item cost. Inflation reduces the purchasing power of a dollar over time, but it can be a natural increase in sales & use tax revenue due to the basis being the cost of purchasing items. However, like anything else, a saturation can be reached where consumers cannot afford to make the same level of purchases anymore due to rising costs.

Figure 14 illustrates the comparison of growth in inflation to growth in sales and use tax revenue for the last four fiscal years. For FY 2020 and FY 2021, sales & use tax increased at a rate substantially higher than the inflation rate. Beginning in FY 2022, that trend reversed where inflation exceeded the sales & use tax growth. FY 2023 demonstrated some growth above inflation for sales & use tax revenue. This trend illustrates why it is important for the state to budget cautiously because, taken alone, the revenues appear to be growing, but the impact on increased costs offsets that to some extent.

Figure 14. Change in Sales and Use vs. Inflation Rate, FY 2020 through FY 2023¹⁴



¹⁴ www.bls.gov/regions/southeast/news-release/consumerpriceindex_south.htm

In addition, the State Legislature lowered the sales tax on groceries from 4% to 3% percent in September. The law calls for the rate to be further lowered to 2% in 2024 if the EFT is estimated to grow by 3.5% or more. The change is expected to decrease sales tax revenue by \$152 million in FY 2024 and, if the rate is further reduced, by \$318 million annually in FY 2025.

Key taxes and their applications:¹⁵

Sales Tax - Gross proceeds from the sale of all taxable items for consumption or other use to consumers (except as specifically exempted by law) within Alabama and the gross receipts from conducting or operating public places of amusement or entertainment.

Use Tax - Excise tax on tangible personal property purchased outside Alabama for storage, use, or other consumption in Alabama.

Simplified Sellers Use Tax (SSUT) - Gross proceeds of sales of tangible personal property from eligible sellers located outside of Alabama selling into the state. Offers a flat statewide tax with no additional local tax collection authority (known as a tax on online purchases – 50% distributed to the state, of which 75% goes to GF and 25% to ETF). Read more about SSUT in PARCA's report, [E-Commerce and Taxation: Questions of Efficiency and Equal Treatment](#).

¹⁵ <https://www.revenue.alabama.gov/all-tax-types/>

The General Fund

The state’s General Fund receives revenue from a multitude of sources. Historically, this tax combination has produced slow growth in revenue over time, which contributed to struggles funding General Fund agencies like Medicaid and the Department of Corrections.

However, in recent years, legislators have shifted some growth taxes into the General Fund, which has led to more stable growth. This year, that stable growth was augmented by a highly unusual combination of circumstances.

Figure 15. General Fund Revenue Sources, by percentage contribution

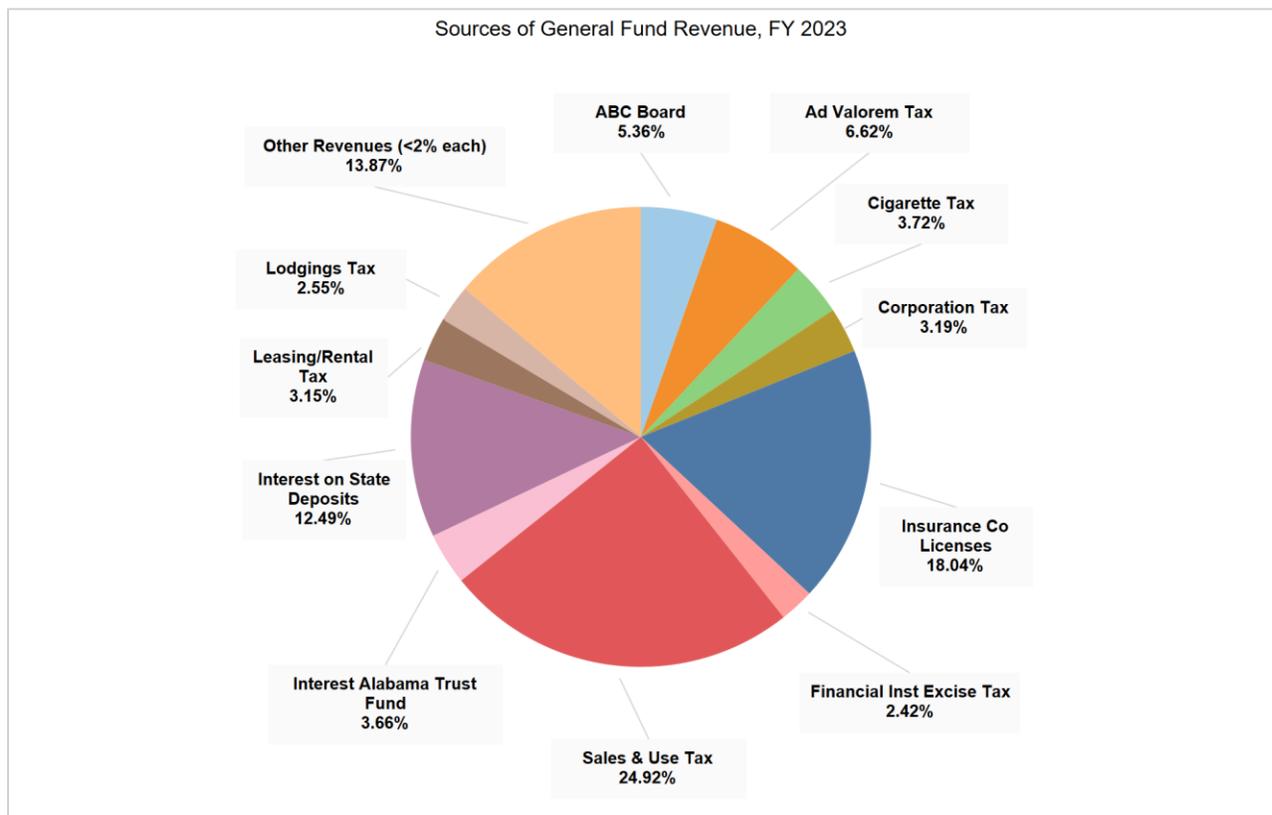


Figure 16. General Fund Total and Change, 2023

Revenues	Fy 2023	Change 2022-2023	% Change 2022-2023
Total for Source of Fund	\$3,238,848,919	\$461,097,928	16.60%

Thanks to continued growth in the Simplified Sellers Use Tax and the state's Use Tax, the broad category of sales and use taxes now makes up 25% of the General Fund (See Figure 15). Under this category, the General Fund receives 75% of the Simplified Sellers Use Tax, 53% of the State Use Tax, plus a percentage of the sales tax on automobiles, boats, and manufactured homes.

Insurance company licenses come in second as a source of revenue, providing 18% of GF revenue. And, in 2023, interest on state deposits jumped to third place as a revenue source. Together, these sources account for 54.6% of GF receipts.

Ad valorem taxes, ABC board revenues, and a number of other revenue streams comprise the balance, as shown in Figure 15.

As a result, the GF is reliant on a broader spectrum of revenue sources than the ETF. FY 2023 represented a 16.6% increase in GF revenues compared to FY 2022, a \$461.1 million increase (See Figure 16).

Figure 17. General Fund Trend

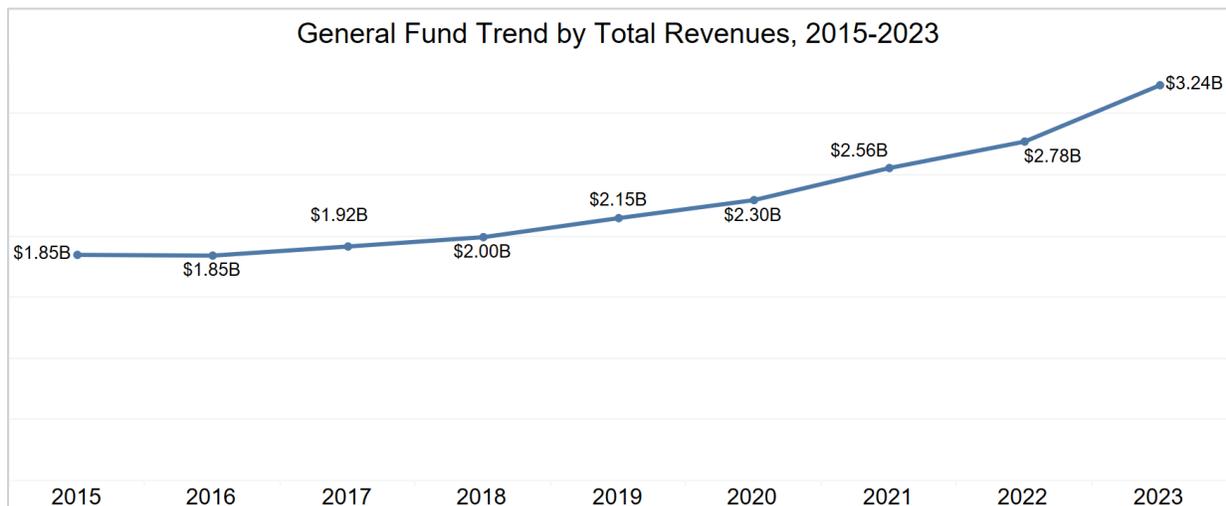
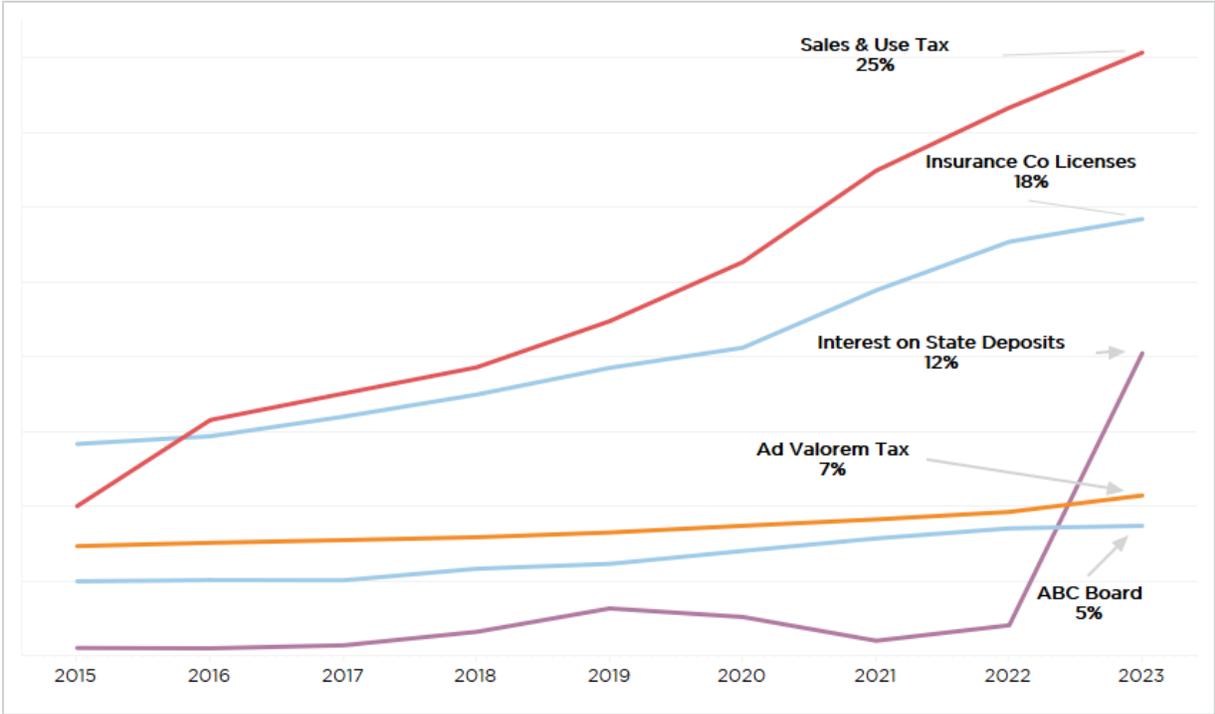


Figure 18 depicts the trends for the five largest categories of revenue: sales and use tax, insurance company licenses, interest on state deposits, ad valorem tax, and ABC board, which together comprise 54.6% of all GF revenues. It makes it apparent that the interest on state deposits had the largest percentage increase in FY 2023, while the other four categories had smaller increases.

Figure 18. Revenue Trends from Major Sources and 2023 Percentage Contribution to General Fund



For a detailed list of all revenues with the GF, see Table 3, which includes, in descending order, a total for FY 2023 revenue, the change in amount from the previous year, the percentage change from the previous year, as well as the percentage composition to all revenues in the fund.

Table 3. General Fund Revenue Sources, Change, and Percentage of Fund, 2023

Revenues	Fy 2023	Change 2022-2023	% Change 2022-2023	Percent of Total 2023
Total for Source of Fund	\$3,238,848,919	\$461,097,928	16.60%	100.00%
Insurance Co Licenses	\$584,440,292	\$30,453,392	5.50%	18.04%
Interest on State Deposits	\$404,602,014	\$364,228,282	902.14%	12.49%
Use Tax	\$289,075,611	\$16,715,099	6.14%	8.93%
Simplified Sellers Use Tax (SSUT)	\$276,697,316	\$43,820,638	18.82%	8.54%
Ad Valorem Tax	\$214,269,126	\$22,089,008	11.49%	6.62%
ABC Board	\$173,591,676	\$3,432,781	2.02%	5.36%
Sales Tax	\$152,038,233	\$6,527,063	4.49%	4.69%
Cigarette Tax	\$120,475,811	(\$11,694,787)	-8.85%	3.72%
Interest Alabama Trust Fund	\$118,659,764	(\$3,840,051)	-3.13%	3.66%
Corporation Tax	\$103,450,258	\$4,452,347	4.50%	3.19%
Leasing/Rental Tax	\$101,923,183	\$3,089,164	3.13%	3.15%
Lodgings Tax	\$82,430,243	\$5,058,835	6.54%	2.55%
Financial Inst Excise Tax	\$78,540,392	\$4,922,941	6.69%	2.42%
Courts Costs	\$64,233,346	\$4,042,935	6.72%	1.98%
Use Tax - Remote Sellers	\$55,702,280	\$8,187,074	17.23%	1.72%
Motor Vehicle Licenses	\$51,825,246	\$971,622	1.91%	1.60%
Transfers and Reversions	\$46,864,039	(\$14,249,709)	-23.32%	1.45%
Abandoned Property	\$45,000,075	(\$240)	0.00%	1.39%
Mortgage Tax	\$35,639,392	(\$21,101,831)	-37.19%	1.10%
Oil and Gas Production Tax	\$33,066,619	(\$6,199,456)	-15.79%	1.02%
Sales Tax Discount-Parks Bonds	\$28,178,023	(\$492,069)	-1.72%	0.87%
Auto Title Tax	\$21,734,803	(\$771,420)	-3.43%	0.67%
Public Safety	\$19,012,074	\$1,602,406	9.20%	0.59%
Driver's License Fees	\$17,741,321	\$764,804	4.51%	0.55%
Deed Record Tax	\$17,110,174	(\$3,032,680)	-15.06%	0.53%
Public Utilities Receipts	\$16,787,140	(\$1,987,174)	-10.58%	0.52%
Securities Commission	\$15,384,940	\$794,390	5.44%	0.48%
Mobile Telecommunications Tax	\$11,679,445	\$425,924	3.78%	0.36%
Tobacco Tax	\$11,129,174	(\$308,728)	-2.70%	0.34%
Oil Company Licenses	\$8,868,942	\$31,039	0.35%	0.27%
Pari-Mutuel Betting	\$8,258,155	\$3,036,862	58.16%	0.25%
Privilege Licenses	\$6,960,691	\$623,759	9.84%	0.21%
Miscellaneous Receipts	\$5,860,836	\$502,138	9.37%	0.18%
Freight Line Equipment	\$5,613,463	\$239,113	4.45%	0.17%
Use Tax Discount	\$5,584,644	(\$1,005,252)	-15.25%	0.17%
Vapor Products	\$3,426,262	\$44,178	1.31%	0.11%
Tobacco Settlement	\$2,379,437	(\$271,508)	-10.24%	0.07%
Manufactured Home Registration	\$498,388	(\$8,623)	-1.70%	0.02%
Judicial Admin. Fees	\$75,122	\$1,805	2.46%	0.00%
Hazardous Waste Fees	\$40,930	\$4,068	11.03%	0.00%
Inheritance Tax	\$0	\$1,152	-100.00%	0.00%

Sales & Use Taxes

In some previous charts and graphs, the sales & use tax category combines sales tax, use tax, and SSUT. All three of these sources of revenue in the GF grew in FY 2023, as shown in Table 3. These taxes, along with other revenue sources, are defined in [A](#)

Legislator's Guide to Alabama Taxes.¹⁶ The following sections reference pages in the March 2023 edition of that publication.

Sales Tax is a “tax imposed on the gross proceeds from the sale of all taxable items to individuals and/or corporations within the state and on the gross proceeds from conducting or operating public places of amusement or entertainment” (p.119-120). The General Fund just gets a sliver of the tax, a portion coming from the sales of automobiles, boats, and manufactured homes. For FY 2023, sales tax (along with sales tax discount – parks bonds) amounted to \$180 million, growing by over \$6 million, or 3.46%. It represented 5.56% of all GF revenues. For comparison, the general sales tax deposited in the ETF was \$2.6 billion in 2023.

Likewise, the above *Guide* defines Use Tax as a “tax is paid on items purchased outside Alabama for consumption or use inside the state” (p.139-140). For FY 2023, use tax (along with use tax discount, and use tax – remote sellers) grew by almost \$24 million, or 7.32%. It represented \$350 million, or 10.82% of all GF revenues. The General Fund receives 53% of the state use tax, and 47% goes to the ETF.

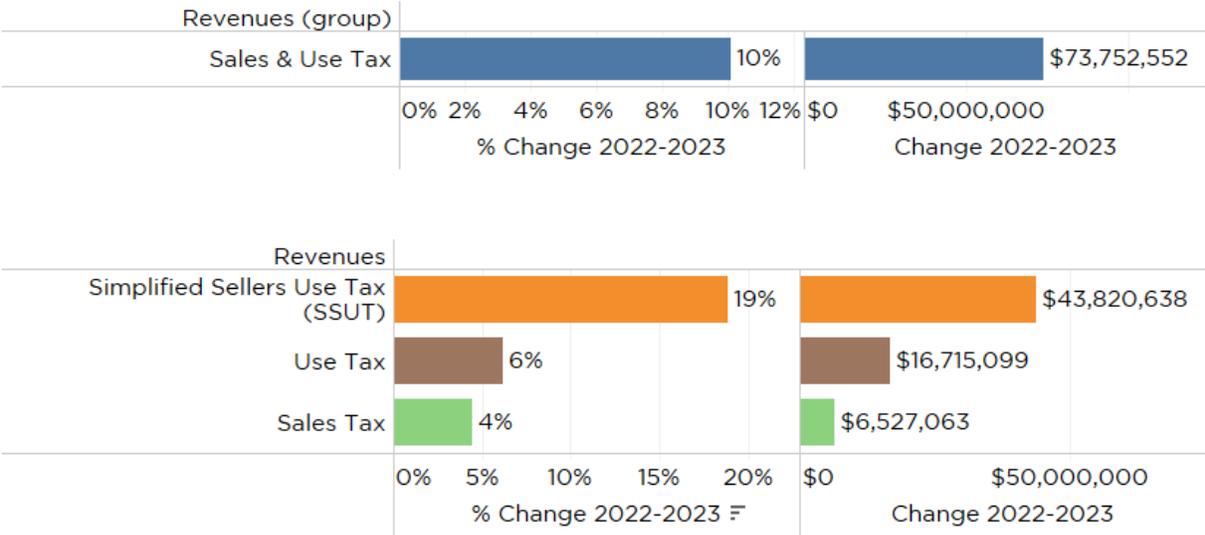
Simplified Sellers Use Tax (SSUT) is a “tax authorized in lieu of sales and use taxes otherwise due by or on behalf of Alabama customers who have purchased items from an eligible seller who participates in the Simplified Sellers Use Tax Remittance Program that were shipped or otherwise delivered into Alabama by the eligible seller” (p.122). For FY 2023, SSUT grew by \$43.8 million, or 18.82%. It represented 8.54% of all GF revenues.

Figure 19 depicts the percentage change by revenue source and the amount of increase in 2023. The blue bar represents the sales and use tax category as a group; the principal tax sources in that category are then listed below that.

For the sales and use tax category, the GF grew by \$73.8 million, or 10%. This is healthy growth, as the sales & use tax category now represents 25% of all GF revenues.

¹⁶ <https://alison.legislature.state.al.us/LSA-fiscal-archive-publications>

Figure 19. Sales and Use Taxes in the General Fund, by Percentage Change 2022-2023



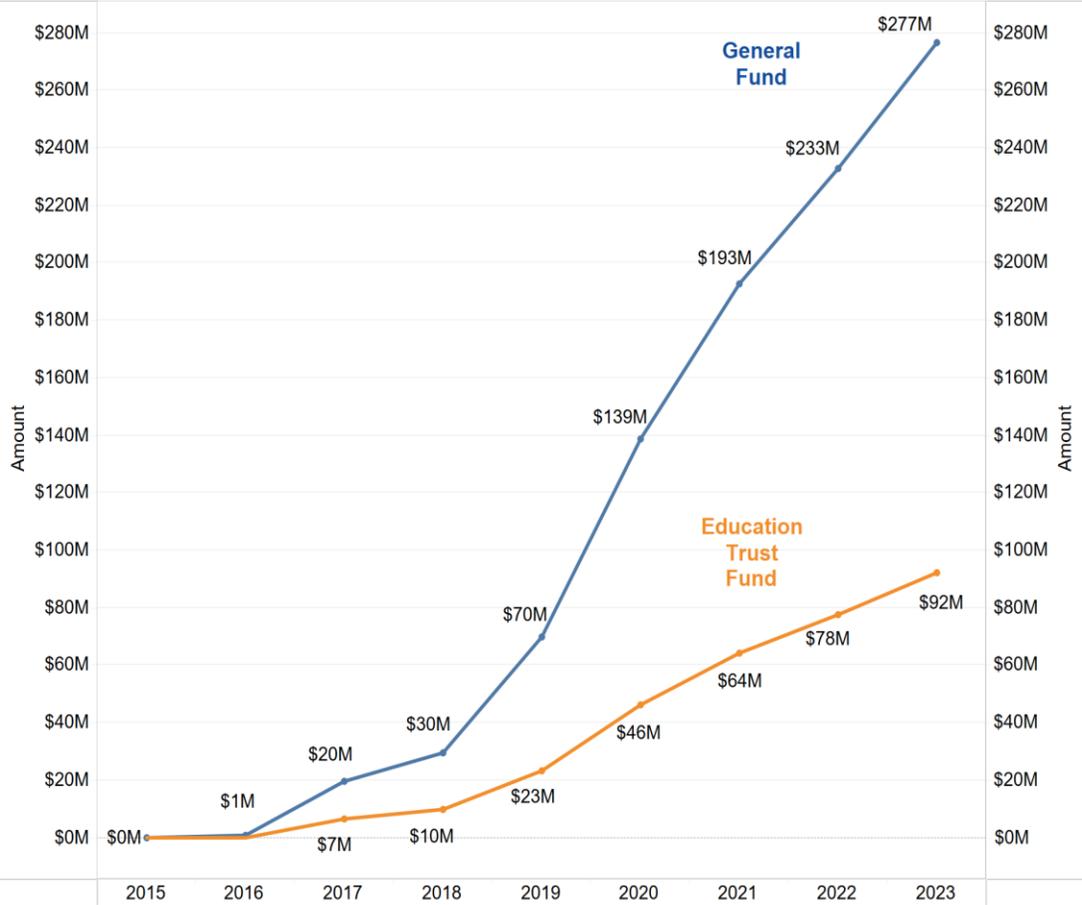
In Figure 20, the SSUT is separated from other sales and use taxes to highlight its impact on state revenues since its inception.

SSUT was a new source of revenue for the ETF and GF beginning in FY 2016. Currently, 25% of SSUT revenue is distributed to the ETF, while 75% is distributed to the GF. In eight fiscal years, SSUT has risen to represent 9% of all GF revenues (1% for the ETF).

As shown in the graph below, SSUT has been an unwavering source of growth for both funds. This online tax revenue expansion is predicted to continue as online purchasing grows, but the growth rate will likely slow. FY 2023’s increase of 18.8% already showed signs of slowing from FY 2022 (20.8%) and FY 2021 (38.9%). However, the convenience of online shopping helps to ensure its continued utilization, if not continued growth.

Overall, by designating 75% of SSUT to the GF, the State has provided an additional steady source of income to fund the GF program expenditures.

Figure 20. Simplified Seller's Use Tax Contribution to General Fund and Education Trust Fund



Insurance Company Licenses

Insurance company licenses represent the largest source of GF revenue, \$584.4 million, or 18.0%. It increased by \$30.5 million, or 5.5%, in FY 2023. This represents “a premium tax imposed on the amount of premiums written by an insurer and fees imposed for the privilege of providing insurance within the state.”¹⁷ Continued growth in the source of revenue suggests more or a greater value of assets are being insured within the State of Alabama.

¹⁷ *A Legislator's Guide to Alabama Taxes*, <https://alison.legislature.state.al.us/LSA-fiscal-archive-publications>

Interest on State Deposits

The revenue category for interest on state deposits increased by \$364 million in FY 2023, representing 12.5% of all GF revenue. In FY 2022, this category represented only 1.5% of all GF revenue.

This increase in interest revenue was due to rising interest rates and the state treasury holding on deposit over \$2 billion in federal Covid-19 recovery funds from the American Rescue Plan Act. In addition, the state earned interest on a nearly \$3 billion surplus from the EFT that was not appropriated until June. Unlike most federal aid to states, ARPA funds were allowed to generate interest.

Thus, although this bump in GF interest is a nice aberration, it cannot be expected for long-term fiscal sustainability.

Other Revenue Changes of Note

Changes in other revenue sources reflect changes in economic conditions. Property taxes were up by \$17 million, or 11%, reflecting the rising value of real estate. But two taxes tied to real estate sales were down, reflecting the drop in sales volume due to higher interest rates. The mortgage tax decreased by \$21 million, or 37%, and the Deed Record Tax decreased by \$3 million or 15%.

Cigarette taxes continued their long-term decline, declining by \$12 million, or 9%. After spiking along with high oil prices in 2022, the oil and gas production tax fell by \$6 million, down 16%. Lodging taxes were up by \$5 million, increasing by almost 7%.

The Bigger Picture

The revenue flowing into the General Fund and the Education Trust Fund presents only a portion of the state government spending in Alabama. In addition to funds earmarked for the GF and ETF, other state revenue streams flow directly to agencies within the government.

Table 4 below depicts the total appropriations for FY 2019 through FY 2024.

The “state budgeted funds” column represents the amounts that are appropriated from the GF and ETF, primarily derived from state taxes. The “federal and earmarked

state funds” column represents additional funds provided by the federal government, as well as money generated by fees, tuition, charges for services, and taxes designated by law for certain uses. These funds are also appropriated by the Legislature, even though the use of that money is already pre-determined. The “total funds” column represents “state budgeted” and “earmarked” funds added together.

Some examples of earmarked funds going directly to state agencies include:

- Taxes on motor fuels that flow directly to the Alabama Department of Transportation (ALDOT) for highway building.
- Tuition collected by state colleges and universities.
- Federal funds for various departments, including transportation, Medicaid, education, and social services.

Table 4. Total Appropriations¹⁸

Fund	Year	State Budgeted Funds	Federal and State Earmarked Funds	Total Funds
General Fund	2019	\$2.19B	\$13.76B	\$15.94B
	2020	\$2.30B	\$14.51B	\$16.81B
	2021	\$2.64B	\$14.85B	\$17.49B
	2022	\$3.13B	\$15.94B	\$19.07B
	2023	\$3.56B	\$17.53B	\$21.09B
	2024 ¹⁹	\$3.34B	\$15.09B	\$18.43B
Education Trust Fund	2019	\$6.99B	\$9.64B	\$16.63B
	2020	\$7.13B	\$9.84B	\$16.97B
	2021	\$7.77B	\$11.01B	\$18.79B
	2022	\$9.00B	\$11.04B	\$20.04B
	2023	\$11.17B	\$14.74B	\$25.91B
	2024 ¹⁹	\$8.80B	\$15.09B	\$23.89B

¹⁸ One note of caution: one should not add the General Fund and Education Trust Fund appropriations together to create a grand total of state spending. Some funds are double-counted. For example, Alabama Medicaid may be authorized to send money to the Department of Public Health. The appropriation bill would also authorize that amount to be spent by Public Health.

¹⁹ Enacted budget

In comparing the FY 2024 “state budgeted funds” appropriations shown above for the General Fund with the FY 2023 GF actual results, the FY 2024 appropriations are \$3.35 billion compared to \$3.24 billion actually received. Thus, the State expects to receive approximately 3.3% more in revenue for the General Fund in FY 2024. Compared to the 16.6% increase realized in FY 2023, this appears to be a measured projection.

In comparing the FY 2024 “state budgeted funds” appropriations shown above for the Education Trust Fund with the FY 2023 ETF actual results, the FY 2024 appropriations are \$8.8 billion compared to \$10.4 billion actually received. Thus, the State expects to receive approximately 15.65% less in revenue for the Education Trust Fund in FY 2024. Compared to the small 0.11% increase in FY 2023, this appears to be a conservative projection.

Rolling Reserve Act

An additional check against overspending is the Rolling Reserve Act. Budgeted expenditures in the ETF are capped by a formula based on the ETF’s historical growth rate. The cap keeps lawmakers from overspending in periods of growth and, likewise, preserves funds for periods of decline or level funding.

In June 2023, Governor Ivey signed an amendment to the Rolling Reserve Act into law. Before that, excess funds were transferred to a) ETF Budget Stabilization Fund and b) ETF Advancement and Technology Fund. The new 2023 Act created an additional savings fund called the Educational Opportunities Reserve Fund. The new law also lays out a new formula for the budget caps in future years.²⁰

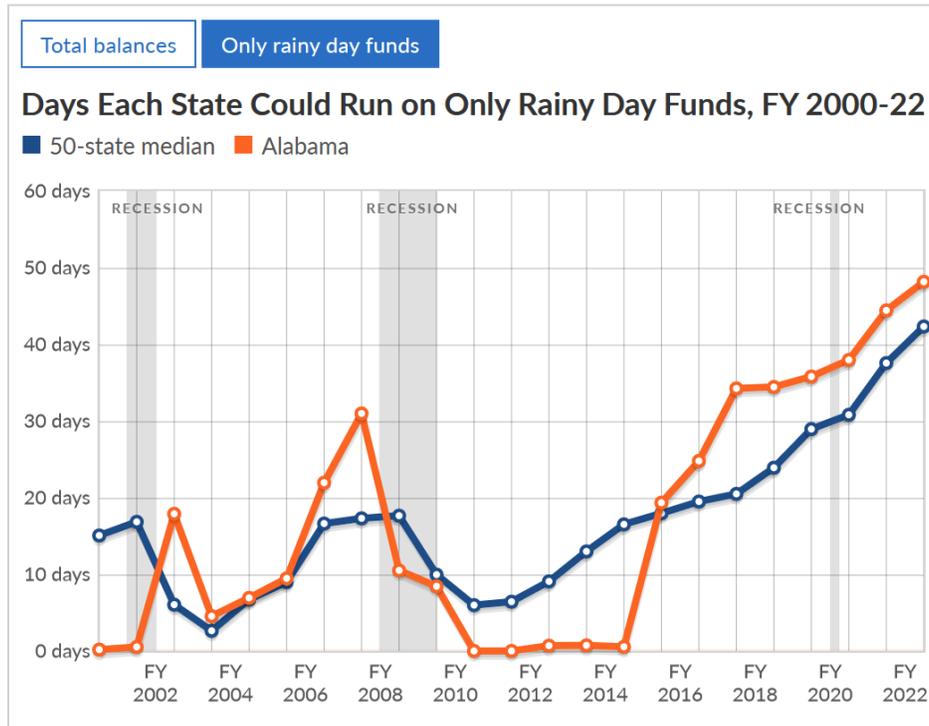
A Rainy Day

If a recession or other event does cause a contraction in revenues, Alabama is positioned well to weather a downturn, according to the 2022 Pew Charitable Trust analysis.

²⁰ <https://www.al.com/educationlab/2023/06/12-things-alabama-changed-for-schools-teachers-students-in-2023-legislative-session.html>

According to Pew, Alabama could run 48.2 days with the amount in reserves compared to the 50-state median of 42.3 days. This continues an upward trend that began in FY 2014.

Figure 21. Alabama Rainy Day Fund Compared to Median State²¹



²¹ <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>

Conclusion

In summary, the General Fund had strong results in FY 2023 with its 16.6% increase over the prior year, while the Education Trust Fund remained slightly above level with only a 0.11% increase. For FY 2024, budget appropriations appear conservative compared to these actual results.

Things to watch include:

- the rate of inflation and how that affects the economy and other economic indicators, including the housing market
- the Federal Reserve and future interest rate decisions
- revenues and their ability to grow beyond inflation rates
- the updated Rolling Reserve Act and the addition of a third savings fund, as well as the new formula for budget caps
- the impact on overall revenue from the ETF due to the income tax rebate to be issued this fall for individual state taxpayers
- the reduction of the sales tax on food items from 4% to 3%
- the level of revenues from interest on state deposits with the remaining federal funds that are eligible, as well as any result from interest rate changes
- SSUT and whether its growth continues to slow

Overall, the State appears to be poised for the future with the existing and additional savings account, as well as the ability to control expense growth through conservative appropriations.



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