

ALABAMA DEPARTMENT OF REVENUE  
ADMINISTRATIVE CODECHAPTER 810-3-135  
INCOME TAX CREDITS

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810-3-135-.01	<u>Income Tax Credit For Qualifying Workplace Education Costs In The Basic Skills Education Program.</u>

(1) SCOPE. This regulation sets forth definitions of terms used in regulation 810-3-135-.02 which establishes the computation and limitation of the credit and procedures to be followed.

(2) DEFINITIONS. The following terms have the meaning ascribed to them for the purposes of implementing Code of Ala. 1975, §40-18-135 and associated regulations, unless the context clearly indicates otherwise.

(a) Approved basic skills education program. A basic skills education program that has received written approval from the Alabama Department of Education pursuant to this article.

(b) Basic skills education program. An approved employer provided or employer sponsored education program that enhances basic skills of employees up to and including the twelfth grade functional level.

(c) Costs of education. Direct instructional expenses incurred for or relating to instructors, materials, or equipment used in the qualifying program, or for supplies, textbooks, or salaries, including compensation paid to employees while participating in an approval basic skills education program.

(d) Employee. An individual resident of Alabama who is employed for at least 24 hours per week by the employer seeking the income tax credit and who has been continuously employed for at least 16 weeks.

(e) Employer. A resident or nonresident individual or corporate business, including but not limited to, a subchapter "S" corporation, that is subject to the state income tax.

(f) Employer provided. An approved basic skills education program offered by the employer on the premises of the employer or on premises approved by the Alabama Department of Education.

(g) Employer sponsored. A contractual arrangement with a school, college, university, adult basic skills education program, or other approved provider that offers an approved basic skills education program that is paid for by the employer.

**Author:** Jeff Taylor, V. R. Frost

**Statutory Authority:** Code of Ala. 1975, §40-18-135.

**History: New Rule:** Filed January 4, 1996; effective February 8, 1996.

#### 810-3-135-.02

#### **Reporting And Calculating Credit For Approval Basic Skills Education Program.**

(1) SCOPE. This regulation applies to the computation and limitation of the credit available in the Basic Skills Education Program.

(2) DEFINITIONS. Terms defined in regulation 810-3-135-.01 are incorporated herein by reference for purposes of this regulation, unless the context clearly indicates otherwise.

(3) PROCEDURE. For tax periods beginning on or after January 1, 1993, an income tax credit equal to 20 percent of the actual costs of education of a qualified employee shall be provided to an employer who provides or sponsors a basic skills education program approved by and in compliance with the rules and regulations established by the Alabama Department of Education.

(4) At the time of filing any tax return with the Department in which the education credit is claimed, the person signing the tax return shall file with the Department a statement indicating:

(a) The actual costs of education of qualified employee(s),  
and,

(b) A copy of the current year's "Workplace Education Tax Credit Certificate" and Certificate number issued by the Alabama Department of Education.

(5) The income tax credit available shall be limited to the amount of the employer's income tax liability for the taxable year as computed without regard to this regulation.

(a) In no event may the credit be carried forward or back to a prior or subsequent year.

(6) No income tax credit shall be granted pursuant to this article to any employer of an employee participating in basic skills education program if the employer receives or requires reimbursement or any form of remuneration for any cost of the education.

**Author:** Jeff Taylor, V. R. Frost

**Statutory Authority:** Code of Ala. 1975, §§40-18-135, et seq.

**History: New Rule:** Filed January 4, 1996; effective February 8, 1996.

#### 810-3-135-.03

#### Corporate Income Tax Credit For Alabama Coal Producer.

(1) SCOPE. The department promulgates these rules to implement Act 95-239 and clarify the procedures used by a corporation to establish:

(a) the definitions of terms and procedures used to calculate the credit; and,

(b) the determination of when the credit is available; and,

(c) the calculation of the annual credit available; and,

(d) the information required to be reported to the department in order to utilize the credit.

(2) DEFINITIONS. The following terms have the meaning ascribed to them for purposes of the regulation to implement Act 95-239, unless the context clearly indicates otherwise.

(a) Alabama Coal. Coal produced from a location within Alabama.

(b) Base Year. The calendar year 1994, or if the corporation did not produce coal in Alabama during 1994, a twelve-month consecutive period, subsequent to 1994, during which a corporation produces Alabama coal in each of the twelve consecutive months.

(c) Base Year Production. The number of tons of Alabama coal produced during the base year.

(d) Calendar Year. A period of twelve-months ending on December 31.

(e) Corporation. Includes, but is not limited to, an association or joint stock company as defined in §40-18-1(2), or an Alabama S corporation as defined in §40-18-160(a).

(f) Producer of Coal. A corporation that ultimately owns the right to extract coal which is subject to the Coal Severance Tax imposed by §40-13-2, Code of Ala. 1975.

(3) PURPOSE. The purpose of this regulation is to provide the guidelines necessary to determine when a corporation is qualified for the coal credit and to calculate the credit available.

(4) PROCEDURE.

(a) Credit allowed. For tax periods beginning on or after January 1, 1995, every corporation at is doing business as a producer of coal in Alabama will be allowed a credit against the income tax imposed by §40-18-2, Code of Ala. 1975.

(b) Amount of credit. The credit allowed shall be an amount equal to one dollar (\$1) per ton coal produced during the tax period in excess of the coal produced during the base year of production.

(c) Carry back or carry forward of credit. There is no provision in Act 95-239 for the carry forward or carry back of any utilized coal credit. Any credit in excess of the current year tax liability cannot applied to a prior or subsequent year corporate income tax liability.

1. Example: Corporation ABC produced 75,000 tons of coal during calendar year 1994. In calendar year 1995 ABC produced 100,000 tons of coal. ABC is entitled to a income tax credit of one dollar (\$1) for every ton of coal produced in excess of the base year production or \$25,000. ABC's calendar year 1995 Alabama income tax liability after application of all other credits is \$15,000. The amount of credit excess of the current year liability cannot be applied to a prior or subsequent tax year liability.

(d) Establishment of base year. The credit will not be allowed unless a base year has been established prior to the beginning of the current tax year.

1. Example: Corporation PLM, a calendar year taxpayer, began doing business in Alabama on January 1, 1996. PLM

began producing Alabama coal on September 1, 1996, and produced 5,000 tons for coal per month during the next consecutive twelve-month period. PLM's base year is the twelve-month consecutive period from September 1, 1996, to August 31, 1997. The base year production is 60,000 tons. During calendar year 1997 PLM produced 75,000 tons of Alabama coal. PLM is not entitled to the coal credit for the 1997 tax year since the tax year is comprised of a portion of the base year. PLM will be entitled to the coal credit for the 1998 tax year for each ton of coal produced in excess of the base year production.

(e) Tax period of less than twelve-months. There is no provision in Act 95-239 for the proration of the income tax coal credit. The credit is based on the number of tons of coal produced during the short tax period in excess of the base year production.

1. Example: JKL Corporation base year production is 120,000 tons. JKL files a short tax year return for the period beginning January 1, 1996, and ending June 30, 1996. JKL produced 120,000 tons of Alabama coal during this six month period. JKL is not entitled to the coal credit since the number of tons of coal produced during the tax period did not exceed the base year production of 120,000 tons.

2. Example: Assume the same facts as in the preceding example except Corporation JKL reduced 150,000 tons of Alabama coal during the short tax period. JKL is entitled to a credit of \$30,000.

(f) Statement required to be attached to return. At the time of filing any tax return with the department in which the coal credit is claimed, the person signing the tax return shall file with the Department statement certifying the:

1. base year; and,

2. number of tons of coal produced in Alabama during the base year; and,

3. number of tons of coal produced in Alabama during the current tax period.

(g) In the event two or more corporations are merged.

1. The following procedures will determine the base year and amount of credit available in the event of a merger/acquisition between corporations with and without established base years, the surviving corporation or new corporation shall have as its base year the sum of the previous base years of participants. Upon filing the

first tax return of the new or surviving corporation, the amount of credit available shall be the excess of coal produced during the first tax period over the base year.

2. In the event of a merger/acquisition between corporations having no established base years, the surviving or new corporation must establish a base year as provided within this regulation.

3. In the event that one or more of the corporations have filed a short period return and computed a credit as provided in subsection (4)(e) of this regulation, the surviving or new corporation may only compute the credit based only on Alabama coal produced which was not included in a short year return which such production was used to calculate a coal credit. The excess of Alabama coal (as adjusted) reduced over the base year will be allowed as a credit.

4. Example: Corporation BNM and Corporation GHJ are producers of coal as defined in subsection (2)(f) of this regulation and file calendar year return. BNM and GHJ base year production amounts are 500,000 and 100,000 tons of Alabama coal respectively. On July 17, 1996, BNM and GHJ are consolidated into a new corporation, ZAZ Corporation. BNM and GHJ each file corporate income tax return the short tax period ending July 17, 1996. BNM and GHJ produced 600,000 and 125,000 tons of Alabama coal, respectively, during the short tax period ending July 17, 1996. Corporation BNM is entitled to a maximum credit of \$100,000 and corporation GHJ is entitled to a maximum credit of \$25,000 for the short period ending July 17, 1996. For the period beginning July 18, 1996, and ending December 31, 1996, ZAZ Corporation produced 1,000,000 tons of Alabama coal. ZAZ Corporation is entitled to a maximum credit of 400,000.

**Author:** Jeffrey Taylor; Verlon R. Frost

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-57.

**History: New Rule:** Filed January 30, 1996, effective March 5, 1996.

#### 810-3-135-.04

#### **Volunteer Emergency Responders Credit - General Guidelines.**

1. Purpose. This rule sets forth guidelines and procedures for administering the Volunteer Emergency Responders Credit as provided in Chapter 18, Article 23 of Title 40, Code of Ala. 1975.

2. Definitions. For purposes of this rule, all terms except the terms explicitly provided below, are defined in §40-18-480, Code of Ala. 1975.

- a. DEPARTMENT - The Alabama Department of Revenue.
- b. ELIGIBLE DEPARTMENT - An eligible department includes any of the following:
  - i. A volunteer or combination fire department certified by the State Forestry Commission.
  - ii. An organized rescue squad operating as a public corporation and member of the Alabama Association of Rescue Squad.
  - iii. A rescue squad affiliated with a city, town, county, or other state subdivision.
- c. QUALIFYING EMERGENCY RESPONDER - The following individuals qualify as emergency responders:
  - i. Volunteer Firefighter or Volunteer Firefighter II certified by the Alabama Firefighter's Personnel Standards and Education Commission as a firefighter.
  - ii. EMT-Basic, Advanced EMT, or EMT Paramedic licensed by the Alabama Department of Public Health as an emergency medical services provider.

3. Eligibility for Tax Credit. Qualifying emergency responders who are active members of an eligible department and complete the minimum 30 hours of required training each year are eligible to claim the credit amounts as follows:

- i. \$300 credit for a certified Volunteer Firefighter or a licensed EMT-Basic actively serving in an eligible department.
- ii. \$600 credit for a certified Volunteer Firefighter II, a licensed Advanced EMT or EMT-Paramedic actively serving in an eligible department.

A qualifying emergency responder may receive more than one credit if they meet the requirements for each credit separately and submit the necessary documentation to substantiate both credits.

4. Credit Award Process. To apply for the credit, qualifying emergency responders must follow these steps:

- i. Obtain a completed certificate, signed by the certifying supervisor, confirming the qualifying emergency responder meets the qualifications for the credit. If the emergency responder requesting the credit is signing as both the

qualifying emergency responder and the certifying supervisor, additional documentation must be provided to confirm their role as the certifying supervisor.

ii. By signing the certificate, the certifying supervisor attests to having verified the qualifying emergency responder's compliance with the requirements of the statute. Certificates from ineligible departments are not considered to be valid, and emergency responders certified by such departments will be denied the tax credit.

iii. Once the certificate from a qualifying department is obtained, qualifying emergency responders must submit the certificate, along with any supporting documentation, through the department's online system.

iv. Credit claims must be submitted in the name of the individual listed on the certificate even when filing a joint return. Approval from the department must be obtained before the credit can be claimed on the income tax return.

v. If an individual qualifies for more than one credit, a separate certificate must be submitted for each credit to confirm eligibility. A single certificate containing multiple credit claims will not be accepted.

vi. Only credit claims approved through the department's online system will be permitted on the qualifying emergency responder's income tax return. Claims submitted without prior approval through the department's online system will be automatically denied.

6. Refunds and Carryforward. The credit is non-refundable and cannot be carried forward to future tax years. Any unused portion of the credit will be forfeited.

7. Examination of Records. The department may examine records, books, or other relevant information maintained by the taxpayer to verify the credit claim and ensure the correct credit amount is determined.

**Author:** Preeti Gratz and Mollie Harry

**Statutory Authority:** Section 40-2A-7(a)(5) and Chapter 18 of Article 23 of Title 40, Code of Ala. 1975.

**History: New Rule:** Published January 31, 2025; effective March 17, 2025.

#### 810-3-135-.05

#### Employer Tax Credit - General Guidelines.

(1) Purpose. This rule sets forth guidelines and procedures to be used by the department in the administration of the Employer Tax



Credit as codified in Article 28 of Chapter 18 of Title 40, Code of Ala. 1975.

(2) Definitions.

(a) For purposes of this rule, all terms except the terms explicitly provided below, are defined in Act 2024-303.

(b) DEPARTMENT - The Alabama Department of Revenue.

(3) Eligibility for Tax Credit. The credit is an incentive for employers that provide childcare services to their employees and incur expenses related to childcare at eligible childcare facilities as defined in the Act. To be eligible for the credit, an employer must have paid or incurred qualified childcare expenditures during the tax year for providing these services to employees.

(a) An employer must meet the requirements of Act 2024-303, make a timely reservation through the Department's online system, and incur eligible expenses, to be eligible for the tax credit.

i. Small businesses that meet these requirements are eligible to claim a credit for 100 percent of eligible expenses up to six hundred thousand dollars per year, not to exceed the amount of credit reserved through the online system.

ii. All other employers that meet these requirements may claim a credit for 75 percent of eligible expenses up to six hundred thousand dollars per year, not to exceed the amount of credit reserved through the online system.

(b) The Taxpayer is required to submit proof of eligible expenses incurred related to providing these benefits by March 1 of each year, beginning with 2026 calendar year. No payments or reimbursements for expenses for children older than five years are allowed. The tax credit must be claimed for the tax year during which the eligible expenses are incurred by the employer.

(c) The tax credit must not be awarded to employers who cannot demonstrate that they prioritize the payment of eligible expenses for the benefit of employees who are eligible for the earned income tax credit under the Internal Revenue Code of 1986, as amended.

(d) Except for employers who are childcare providers as defined in Act 2024-303, the employer tax credit is nonrefundable, nontransferable, and cannot be carried forward. The credit is refundable for employers who are childcare providers.

(4) Credit Reservation. All credits must be awarded on a first-come, first-served basis until the annual aggregate limit is reached.

(a) Beginning March 1, 2025, employers may reserve a credit allocation for eligible expenses through the department's online system.

(b) At least 25 percent of the total amount of tax credits must be reserved for awards to small businesses or employers that are headquartered in rural areas.

(c) If the reserved credits for small businesses or rural employers are not fully allocated by July 1 of each calendar year, the remaining funds must be allocated to other applicants.

(d) Taxpayers with partial credit allocations or without an allocation will be prioritized based on reservation submission order. Any disallowed credits from ineligible taxpayers will be allocated to the next qualified taxpayer pursuant to the first-come, first-served basis.

(5) Credit Award Process. Taxpayers who receive a credit allocation must submit a credit claim through the department's online system by March 1 of each year, beginning with the 2026 calendar year.

(a) The credit claim must include required documentation to support the taxpayer's eligible expenses.

i. For direct payments to childcare facilities, include copies of paid invoices from the childcare facility showing each participating child's name and dates of service, along with a copy of the written agreement between the childcare facility and employer. The written agreement must include terms of service, payment structure, and allocation specifics for the employee's child(ren).

ii. For reimbursements to employees for childcare expenses, include copies of paid invoices from the employee that contains name of childcare facility, each participating child's name and dates of service. Reimbursement can be in the form of cash or payroll reimbursements or through stipends. Reimbursements must be supplemented by corresponding expense claims. If stipends were provided, copies of agreements or documentation specifying the amount, purpose, and confirmation that the stipend is exclusively for childcare use must be included.

iii. For employer-owned or operated childcare facility expenses, include a detailed ledger listing all costs associated with the facility and copies of invoices for the corresponding expenses.

iv. For equipment purchases for childcare facility, include receipts for any equipment purchases made to support the childcare facility and a description of each item purchased.

(b) Employers who do not secure a credit reservation will not qualify to claim the credit.

(c) Incomplete or unsubstantiated claims will be automatically denied.

(d) Employers must provide documentation demonstrating that the employer prioritizes supporting employees eligible for the Earned Income Tax Credit (EITC) under the Internal Revenue Code.

(6) Employee Payroll information. The employer is required to submit the participating employee's wages for the tax year for which the expenses have incurred. If the employee was paid overtime or bonuses, the employee's hourly wage and hours worked should be submitted.

(7) Examination of Records. The Department may examine records, books, or other relevant information maintained by the taxpayer for the purpose of computing and determining the correct amount of the credit.

**Author:** Preeti Gratz and Kelly Graham

**Statutory Authority:** §40-2A-7(a)(5), Article 28 of Chapter 18 of Title 40, Code of Ala. 1975 and Act 2024-303.

**History: New Rule:** Published January 31, 2025; effective March 17, 2025.

## 810-3-135-.06

### Facility Tax Credit - General Guidelines.

(1) Purpose. This rule sets forth guidelines and procedures to be used by the department in the administration of the Facility Tax Credit as codified in Article 28 of Chapter 18 of Title 40, Code of Ala. 1975.

(2) Definitions. For purposes of this rule, all terms except the terms explicitly provided below, are defined in Act 2024-303.

(a) DEPARTMENT - The Alabama Department of Revenue.

(3) Eligibility for Tax Credit. A childcare provider that owns a qualifying childcare facility with an Alabama Quality STARS rating and serves eligible children may receive a tax credit. The credit is calculated based on the facility's STAR quality rating and the average monthly number of eligible children during the qualifying tax year. To be eligible for the tax credit, the childcare provider must meet the requirements of Act 2024-303 and make a timely reservation through the department's online system.

(a) The reservation must include the estimated tax credit allocation based on the childcare facility's quality rating and the estimated average monthly number of eligible children for the qualifying tax year, not to exceed \$25,000 per year for each childcare facility.

(b) The tax credit amount is determined as follows:

(i) If the childcare facility has a five-star STARS quality rating, the tax credit is calculated at \$2,000 per eligible child.

(ii) If the childcare facility has a four-star STARS quality rating, the tax credit is calculated at \$1,750 per eligible child.

(iii) If the childcare facility has a three-star STARS quality rating, the tax credit is calculated at \$1,500 per eligible child.

(iv) If the childcare facility has a two-star STARS quality rating, the tax credit is calculated at \$1,250 per eligible child.

(v) If the childcare facility has a one-star STARS quality rating, the tax credit is calculated at \$1,000 per eligible child.

(4) Credit Reservation. All credits must be awarded on a first-come, first-served basis until the annual aggregate limit of \$5 million is reached.

(a) Beginning March 1, 2025, childcare providers may reserve credit allocations online through the department's online system.

(b) At least 25 percent of the total amount of tax credits must be reserved for awards to facilities operating exclusively in rural areas.

(c) If the reserved credits for rural childcare providers are not fully allocated by July 1 of each calendar year, the remaining funds must be allocated to other applicants.

(d) Taxpayers with partial allocations or without an allocation is prioritized based on reservation submission order. Any disallowed credits from taxpayers is allocated to the next qualified taxpayer pursuant to the first-come, first-served basis.

(5) Credit Award Process. Eligible childcare providers who reserve a tax credit allocation must submit a credit claim through the online system by March 1 of each year, beginning with the 2026 calendar year to determine the actual award. Childcare providers who do not secure a credit reservation will not qualify to claim the credit.

(a) The following documentation is required when submitting the Facility Tax credit claim:

(i) A copy of the childcare facility's quality rating certificate issued by the Alabama Department of Human Resources.

(ii) The average monthly number of eligible children enrolled during the tax year for which the credit is being claimed. The average monthly number of eligible children must be calculated by adding the average number of eligible children for each month of the tax year and dividing the total by twelve. The average number of eligible children for each month must be calculated by adding the average number of eligible children for each day of the month and dividing by the number of days in the month.

(b) Incomplete or unsubstantiated applications is automatically denied.

(6) Refunds and Carryforward. If the amount of the tax credit exceeds the childcare provider's Alabama tax liability, the excess amount must be refunded to the childcare provider. Unused tax credits cannot be transferred or carried forward to subsequent tax years.

(7) Examination of Records. The department may examine records, books, or other relevant information maintained by the taxpayer for the purpose of computing and determining the correct amount of the credit.

**Author:** Preeti Gratz and Kelly Graham

**Statutory Authority:** §40-2A-7(a)(5), Article 28 of Chapter 18 of Title 40, Code of Ala. 1975 and Act 2024-303.

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