

ALABAMA DEPARTMENT OF REVENUE
ADMINISTRATIVE CODE

CHAPTER 810-3-135
INCOME TAX CREDITS

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.

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