

Alabama's tax system is upside down and needs real reform

By Carol Gundlach, senior policy analyst (carol@alarise.org) | January 2026

Alabama's tax structure is among the nation's most unfair and unjust. The state is heavily reliant on regressive sales taxes on consumer goods that account for a larger share of spending for households with low incomes. Our state continues to tax groceries, though at a lower rate than other goods after grocery tax reductions in 2023 and 2025. And Alabama does not tax numerous services that people with higher incomes more often purchase.

Our state's income tax is almost flat for all but the lowest-paid families, so we rely too heavily on steeply regressive sales taxes to fund K-12 schools and higher education. And Alabama gives generous income tax breaks to wealthy individuals and highly profitable corporations. This includes a full deduction for federal income tax (FIT) payments, which provides the largest benefits to the wealthiest few. Alabama is the only state that still allows this deduction.

Alabama's property taxes are capped at low rates, providing huge tax breaks to highly profitable multistate corporations that own much of the timber acreage in the state. And our corporate income tax structure gives big tax breaks to large manufacturers and industries.

The result is an upside-down tax system that requires the most from those with the least. Alabamians with low and moderate incomes pay

nearly 12% of their incomes in state and local taxes on average, while the wealthiest pay just 5.4% on average.

The state's tax structure hurts everyday Alabamians who are struggling to make ends meet. It also fails to generate enough revenue for basic needs like education and health care. Arise members voted to prioritize these essential tax reforms for 2026:

- **Untax groceries** by removing the remaining 2% state sales tax on food.
- **Pursue replacement tax revenue for our public schools and other critical state needs**, including capping or eliminating the federal income tax (FIT) deduction. This break disproportionately slashes taxes for the wealthy and costs our education budget more than \$1 billion each year.
- **Oppose further tax expenditures for private education** while protecting revenue that supports public schools.
- **Explore and support comprehensive income tax reforms** that raise needed revenue to invest in essential state services while reducing taxes overall for Alabamians with low and moderate incomes.