FREE REFERENCE

Alabama business taxes, explained for 2026

Small businesses in Alabama register with the state revenue agency for income tax withholding and sales tax, and with the Alabama Department of Workforce for unemployment tax. Alabama has income tax rates from 2% to 5%, a 4% state sales tax and a $8,000 unemployment wage base for 2026.

QUICK FACTS

- **Income tax.** Income tax rates from 2% to 5% for 2026
- **Sales tax.** 4% state rate, about 9.46% combined with local
- **Unemployment.** Employers pay Alabama unemployment tax on the first $8,000 of each worker's 2026 wages

What taxes does a small business pay in Alabama?

Most Alabama businesses deal with four: federal and state payroll taxes once they hire, sales tax if they sell taxable items, income tax on profit, and the state's annual report or franchise filing for an LLC or corporation, filed with the Secretary of State.

How do I register for payroll taxes in Alabama?

Before your first payroll in Alabama:

1. Get a federal EIN and enroll in EFTPS for federal deposits.
2. Open a Alabama withholding account with the Alabama revenue agency, so you can withhold and pay state income tax.
3. Register for unemployment insurance with the Alabama Department of Workforce. For 2026, the tax applies to the first $8,000 of each employee's wages, at a rate the state sets for new employers and then adjusts to your history.
4. Report each new hire to Alabama's new hire registry, usually within 20 days.

Our state payroll registration guide explains each step, and our payroll service handles it for you.

General information, not tax advice for your situation.

Do I need a Alabama sales tax permit?

If you sell taxable goods or services in Alabama, yes. Register with the Alabama revenue agency before your first taxable sale. Out-of-state sellers need one once they pass Alabama's economic nexus threshold.

SALES TAX IN ALABAMA, MIDYEAR 2026	RATE
State rate	4%
Average local rate	5.46%
Average combined rate	9.46%
Highest local rate	8%

The state sets how often you file. Our sales tax permit guide covers what to have ready, and the sales tax calculator adds tax to a price.

How does Alabama tax business owners?

Profit from a sole proprietorship, LLC, partnership or S-Corp passes through to the owners, who pay Alabama income tax on it at the personal rates: income tax rates from 2% to 5%. Alabama allows a standard deduction of $3,000 single and $8,500 joint, a personal exemption of $1,500 single and $3,000 joint, $1,000 for each dependent and a deduction for the federal income tax you pay. Birmingham and a few other Alabama cities charge an occupational tax on wages, usually 1% or less.

Estimate yours with the Alabama income tax calculator.

Where are Alabama's tax forms and refund status?

- Alabama tax forms
- Alabama revenue agency
- Alabama refund status
- Alabama Department of Workforce

Every state's links are on our state tax forms page.

Which calculators work for Alabama?

- Alabama paycheck calculator: take-home pay after every deduction
- Alabama income tax calculator: your 2026 state income tax
- Payroll cost calculator: what a hire costs you, with Alabama unemployment

Common questions

Do I need a sales tax permit in Alabama?

Yes, if you sell taxable goods or services there. Register with the Alabama revenue agency before your first taxable sale.

What is the Alabama unemployment wage base for 2026?

$8,000. Employers pay Alabama unemployment tax on that much of each employee's wages, at a rate the state assigns.

Does Alabama have a state income tax?

Yes. Alabama has income tax rates from 2% to 5% for 2026.

Who runs payroll taxes in Alabama?

The Alabama revenue agency handles income tax withholding, and the Alabama Department of Workforce handles unemployment tax.

Want payroll handled?

We set it up, run it and file the returns. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

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