

Alabama State Tax Guide for Retirees

State tax rates and rules for income, sales, property, estate, and other taxes that impact retirees.

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ALABAMA

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The Bottom Line

**Flag of
Alabama**

Most Tax-Friendly

If you're a college football fan, perhaps you've thought about retiring to Alabama. But there are also non-football reasons to spend your golden years in the Yellowhammer State—like relatively low taxes for retirees. While most people end up paying the highest income tax rate, it's not too bad at only 5%. Plus, Social Security benefits and payments from traditional pension plans (i.e., defined benefit plans) are exempt.

Alabama also boasts the second-lowest median property tax rate in the country. Plus, all homeowners age 65 or older are exempt from *state* property taxes.

But Alabama fumbles when it comes to sales taxes. At 4%, the state rate is low, but some local governments tack on up to 7.5% in additional sales taxes. As a result, the state-wide average combined (state and local) sales tax rate is 9.24%, which is the fifth-highest in the nation.

Income Tax Range

Low: 2% (on up to \$1,000 of taxable income for married joint filers and up to \$500 for all others)

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High: 5% (on more than \$6,000 of taxable income for married joint filers and more than \$3,000 for all others)

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Some Alabama municipalities also impose occupational taxes on salaries and wages.

Taxation of Social Security Benefits

Social Security benefits are not taxed by the state.

Tax Breaks for Other Retirement Income

Income from federal government, designated Alabama state and local government, and military retirement plans is exempt.

In addition, payments from traditional pension plans (i.e., defined benefit plans) are exempt, whether they are from private sector or out-of-state government plans.

Railroad Retirement benefits are also exempt.

Sales Tax

4% state levy. Localities can add as much as 7.5% to that, and the average combined rate is 9.24%, according to the Tax Foundation.

Groceries: Taxable

Clothing: Taxable

Motor Vehicles: Taxable (2% state rate; additional local taxes may apply)

Prescription Drugs: Exempt

Real Property Taxes

All homeowners 65 or older are exempt from the state portion of property taxes.

Taxpayers age 65 and older with net taxable income of \$12,000 or less on their combined (taxpayer and spouse) federal income tax return are exempt from all property taxes on their principal residence.

Annual Car Taxes and Fees **Kiplinger** (<https://www.kiplinger.com>)

An annual vehicle registration fee and property tax based on the car's value are imposed.

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Estate and Inheritance Taxes

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