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Commissioner

# State of Alabama Department of Revenue

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## NOTICE

**To All License Commissioners, Probate Judges, and Other County Officials charged with the registration and collection of sales and use taxes on any automotive vehicle, motorboat, truck trailer, trailer, semitrailer, travel trailer or manufactured home taxed under Code of Alabama 1975, Section 40-23-101 and Section 40-23-102:**

Effective immediately, taxpayers should be allowed credit for any sales tax that is legally imposed by another state on the purchase of an automotive vehicle. Alabama is a reciprocal state and will acknowledge sales taxes paid to any state, as indicated on taxpayer bills of sale, invoices, etc.

Please be advised that taxpayers who purchase an automobile in South Carolina that will be registered in Alabama will pay South Carolina sales tax at the time of purchase. However, the South Carolina sales tax required to be paid on automobiles by requirement of their law is now capped at \$500. Please note that these types of automobile purchases are not subject to the new South Carolina Infrastructure Maintenance Fee. Therefore, the taxpayers should be allowed credit for the sales tax paid to South Carolina.

Code of Alabama 1975, Section 40-27-1, Article V.1, provides that each purchaser liable for a use tax on tangible personal property shall be entitled to full credit for the combined amount or amounts of legally imposed sales or use taxes paid by him with respect to the same property to another state and any subdivision thereof. The credit shall be applied first against the amount of any use tax due to the state, and any unused portion of the credit shall then be applied against the amount of any use tax due a subdivision.

Notwithstanding Code of Alabama 1975, Section 40-23-65 and 40-23-106, credit for legally imposed sales and use taxes paid to any other state or its subdivisions will be allowed against Alabama use tax due even if that state does not allow credit for sales and use taxes paid to Alabama or its subdivisions.

The total credit allowed cannot exceed the taxes due the state of Alabama or its subdivisions. Any amount of tax paid to another state or its subdivisions which exceeds the amount of tax due Alabama with respect to the same property may then be credited against any local taxes due with respect to the same property. If the legally imposed taxes paid to another state or its subdivisions exceed the taxes due Alabama and its subdivisions, no further credit shall be allowed.

If you should have any questions concerning this notice, please contact the Sales and Use Tax Division at (334) 242-1490.

Attachment

**EXAMPLE:**

The following example is provided to illustrate how credit shall be allowed for legally imposed taxes paid to other states and their subdivisions:

Purchase Price of Item A: \$4,000 (no tax paid to another state or its subdivisions)

Purchase Price of Item B: \$6,000 (7% total tax paid to another state and its subdivisions)

Total Purchases: \$10,000

Assume that the local use taxes levied by Alabama subdivisions and applicable to Items A and B total 2 percent. (Local tax rates in Alabama vary.)

State of Alabama Use Tax Due on Items A and B: \$400 (4% x \$10,000)

Use Tax Due Subdivisions of Alabama on Items A and B: \$200 (2% x \$10,000)

Maximum Available Credit: \$420 (7% x \$6,000)

Alabama State Use Tax Eligible for Offset: \$240 (4% x \$6,000)

Local Use Taxes of Alabama Subdivisions Eligible for Offset: \$120 (2% x \$6,000)

Actual Allowable Credit (Total State and Local Taxes Eligible for Offset): \$360

State Use Tax Due Alabama after allowance of allowable credit:

\$160 ([4% x \$10,000] less \$240 = \$160)

Local Use Tax Due Alabama Subdivisions after allowance for allowable credit:

\$ 80 ([2% x \$10,000] less \$120 = \$ 80) (a)

- (a) In this example, 4 percent Alabama use tax totaling \$400 is due on the total purchases of \$10,000. The taxpayer is entitled to credit for up to \$420 in legally imposed taxes paid to another state and its subdivisions with respect to Item B; however, the actual allowable credit cannot exceed total taxes due Alabama and its subdivisions with respect to Item B.
- (b) The taxpayer must pay Alabama state use tax of \$160 (\$400 tax due on all purchases less credit of \$240 for taxes paid to another state and its subdivisions since the credit can only be applied to Alabama tax due on Item B). The balance of \$180 shall be applied against local use taxes due Alabama subdivisions with respect to Item B.
- (c) The taxpayer must pay local use tax to Alabama subdivisions of \$80 (\$200 local tax due on all purchases less credit for \$120). The \$60 in taxes paid to another state and its subdivisions with respect to Item B in excess of total taxes due Alabama and its subdivisions on Item B cannot be used as a credit against taxes due Alabama and its subdivisions with respect to Item A)