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POLICY SPOTLIGHT

Prosperity amid Population Growth in Alabama

Tax, housing, and labor reforms to support a stronger economy

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Americans made nearly 34 million interstate moves between 2018 and 2023, redistributing population, income, and economic activity among the states. Alabama ranked 17th in net interstate migration, gaining nearly 87,000 residents and almost $3 billion in income.[1] Research suggests taxes, economic freedom, and housing supply are key factors behind the state's migration outcomes. Alabama's overall tax competitiveness ranks 37th nationally, its per-capita housing permitting rate is less than half that of neighboring Florida, and it has the 6th-worst licensing burden in the nation.

Tax Policy Reforms

The competitive landscape

Alabama has improved its tax competitiveness since 2025 but remains regionally uncompetitive. Its neighbors now all have flat tax systems or no income tax, and Alabama carries a comparatively high corporate tax burden. Its local income and sales tax burdens are especially high when combined with state rates, and the state also levies a capital stock tax, which falls on business net worth without regard for profitability.

Tennessee	No individual income tax; 6.5% corporate tax rate. More harmful policies: gross receipts tax, capital stock tax.
Mississippi	4% flat income tax rate (falling to 3% by 2030); 4% corporate tax rate. More harmful policies: throwback rule, tangible property tax.
Alabama	5% top income tax rate (up to 7% combined with local taxes); 6.5% corporate tax rate. More harmful policies: capital stock tax, real estate transfer tax.

[1] See Jack Salmon, "Interstate Migration Trends in the United States, 2018–2023: Where Are Americans Moving, and Why?" (Mercatus Policy Brief, Mercatus Center at George Mason University, July 2026). For the full analysis including sources, scan the QR code on the next page.

Recommended reforms

- **Adopt a flat income tax system** with a rate of 4% or 3.5% to remain competitive.
- **Lower the corporate income tax rate to 5%.** Alabama should also raise the NOL carryforward period from 15 to 20 years and abolish the capital stock tax to better align with neighboring states.
- **Restrict or prohibit local income taxes.**
- **End the split-roll property tax system,** which grants tax privileges to residential property while placing a heavier burden on businesses.

Housing Policy Reforms

The supply gap

Alabama issues fewer than 4 housing permits per 1,000 residents annually—less than half the rate of neighboring Florida (approximately 8.5 per 1,000). Tight supply raises housing costs, reduces affordability for incoming residents, and diminishes Alabama's appeal relative to peer states. The barriers are not primarily financial but regulatory. Slow permitting processes impose developer costs that further raise final housing prices.

Recommended reforms

- **Adopt a by-right accessory dwelling unit (ADU) law.** Model Arkansas's ADU reform, which allows ADUs on the same lots as single-family homes while relaxing owner-occupancy and parking requirements.
- **Reduce minimum lot size requirements:** Following recent reforms in Texas and Kansas, Alabama could allow smaller, lower-cost homes while reducing pressure for outward sprawl.
- **Allow HUD Code manufactured homes on residential lots** where site-built homes are permitted. Alabama can emulate Florida, which enacted similar legislation. Alabama should also preempt local requirements that impose redundant inspections or requirements beyond HUD standards. Manufactured housing is a major source of unsubsidized affordable homeownership.

Labor Market Freedom Reforms

The licensing burden

Alabama has a heavily regulated labor market. The state licenses 63 of 102 lower-income occupations studied, with 171 total barriers and 134 total license requirements. Alabama is one of the few Southern states that has not enacted any form of universal licensing recognition. States with greater labor market flexibility generally see stronger job growth, more business formation, and greater in-migration.

Recommended reforms

- **Enact universal licensing recognition of out-of-state licenses.** This would eliminate unnecessary barriers for workers relocating to Alabama.
- **Reduce the overall licensing burden,** prioritizing occupations where Alabama's requirements substantially exceed those of other states.
- **Permit independent contractors to buy employer health coverage without affecting their employment classification.** With this reform, Alabama can empower independent workers to access health insurance at a lower cost while continuing to have the flexibility they value.

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