



# Alabama Launches First-in-the-Nation Tax-Friendly Portable Benefits for Independent Contractors and Gig Workers

Insights

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Alabama will soon become the first state in the country to offer a tax-advantaged way for businesses to contribute to benefits for independent contractors as a form of compensation without altering their IC status. Under a new law taking effect December 31, 2025, companies, including application-based entities, can voluntarily contribute to a contractor's portable benefits – like health insurance, retirement savings, and life insurance – with a win-win tax effect: employers can deduct the cost, and workers don't pay taxes on the value received. This novel approach could reshape how businesses support gig workers and freelancers without risking a misclassification finding. Here's what businesses need to know – and some action steps you should consider taking to take advantage of this new law.

## Quick Overview: What Just Happened in Alabama

Senate Bill 86, signed into law earlier on April 10, creates a new framework for “Portable Benefit Accounts” for independent contractors. The law enables Alabama businesses to voluntarily make contributions to eligible portable benefit accounts owned by an independent contractor whom it hires or with whom it enters into a contract for the performance of work.

Importantly, this law is not mandatory. It's a voluntary system designed to give businesses more flexibility to support vendors and gig workers.

While other states have enacted portable benefits programs, Alabama is the first to combine portability with full tax benefits for both sides. For example, Utah and Tennessee have passed portable benefits laws, but Alabama is the first to offer a fully tax-advantaged version – treating the contributions as both 100% tax-deductible for the hiring business and excluded from the contractor's gross income. Read more below.

## Why It Matters for Businesses

This law is a potential game-changer for companies relying on nontraditional workers. Here's why:

- **Attract and Retain Talent:** In a tight labor market, you can stand out to top-tier gig workers and freelancers by contributing to the cost of their portable benefits.

- **Preserve IC Status:** The law explicitly states that participation in this program *does not* alter a worker's classification. Contributions are not considered employee benefits, and businesses do not become subject to Alabama's workers' compensation requirements for employers by contributing.
- **Double Tax Advantage:**
  - **For businesses:** Contributions are treated as deductible business expenses.
  - **For contractors:** The money they receive in benefits contributions is *excluded from their gross income*.

This dual advantage makes it easier for companies to offer meaningful compensation without triggering tax complications or employee misclassification concerns.

## How the Portable Benefit Program Works

Here's how the system is structured:

- IC opens a Portable Benefit Account for the purpose of funding one or more benefit plans.
- Businesses hiring the IC may contribute to the IC's Portable Benefit Account in two ways:
  - either as a form of compensation; or
  - subject to a written agreement between the business and IC as a percentage of funds the business withholds from compensation owed to the IC. The IC can choose to opt out of the agreement at any time.

## What's in It for Independent Contractors

This law offers a significant boost to gig workers and small vendors who typically miss out on employer-sponsored benefits. Under the Alabama model:

- **No tax liability** for the contractor: benefits are excluded from income
- **Account portability:** benefits stay with the IC, not the hiring party
- **Improved financial security:** contractors can build health, retirement, and other benefit resources without dipping into taxed income

## Key Restrictions and Compliance Considerations

Businesses eyeing this opportunity should be aware of some key limitations:

- **Only available to independent contractors:** you must ensure the worker is properly classified.
- **Voluntary contractor opt-in required:** you can't require participation.

- **Compensation substitution:** If the business's contribution will be processed as a percentage to be withheld from compensation due the IC, a written agreement is required.

## Practical Employer Takeaways

If your business works with independent contractors in Alabama, or wants to recruit them more effectively, here are five steps to consider now:

- 1. Audit Your Workforce:** Identify contractors who might benefit from this support and confirm their classification is solid.
- 2. Start Budgeting:** Determine whether and how much you'd want to contribute per contractor.
- 3. Stay tuned:** The state may provide additional guidance in the weeks to come.
- 4. Revise Agreements:** If you plan to participate, make sure contractor agreements clearly and accurately address portable benefit account contributions, especially those calculated as a percentage to be withheld from the contractor's compensation.
- 5. Monitor the Trend:** Other states are watching closely. This could be the start of a broader national move toward portable benefits, so you could be ahead of the curve.

## Conclusion

Please consult your Fisher Phillips attorney, the authors of this Insight, or any attorney in our [Birmingham office](#) to obtain practical advice and guidance on how to adapt to these changes. Please also make sure you are subscribed to [Fisher Phillips' Insight System](#) to get the most up-to-date information.

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