

1 SB9  
2 164216-1  
3 By Senator Sanford  
4 RFD: Finance and Taxation Education  
5 First Read: 03-MAR-15  
6 PFD: 01/27/2015

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8 SYNOPSIS: Under existing law, health savings account  
9 contributions are not exempt from state income  
10 taxation.

11 This bill would provide that health savings  
12 account contributions would be exempt from state  
13 income tax.

14  
15 A BILL  
16 TO BE ENTITLED  
17 AN ACT

18  
19 To amend Section 40-18-19, Code of Alabama 1975,  
20 relating to exemptions from state income tax; to provide that  
21 health savings account contributions would be exempt from  
22 state income tax.

23 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

24 Section 1. Section 40-18-19, Code of Alabama 1975,  
25 is amended to read as follows:

26 "§40-18-19.

1           "(a) The following exemptions from income taxation  
2 shall be allowed to every individual resident taxpayer:

3           "(1) Retirement allowances, pensions and annuities,  
4 or optional allowances, approved by the Board of Control of  
5 the Teachers' Retirement System of Alabama, which exempt  
6 status is set out in Section 16-25-23.

7           "(2) Retirement allowances, pensions and annuities  
8 or optional allowances, approved by the Board of Control of  
9 the Employees' Retirement System of Alabama, which exempt  
10 status is set out in Section 36-27-28.

11           "(3) The first eight thousand dollars (\$8,000) of  
12 any retirement compensation, retirement allowances, pensions  
13 and annuities, or optional allowances, received by any  
14 eligible firefighter, as defined in Sections 36-32-1 and  
15 36-32-2, or his or her designated beneficiary, from any  
16 firefighting agency established in the State of Alabama, but  
17 only if such retirement compensation, retirement allowances,  
18 pensions and annuities, or optional allowances as are awarded  
19 as a result of fire protection services rendered. This  
20 subdivision shall become effective for the taxable years  
21 beginning January 1, 1987, and thereafter following its  
22 passage and approval by the Governor, or upon its otherwise  
23 becoming a law; provided, that for the taxable years beginning  
24 on or after January 1, 1991, all of the pension and retirement  
25 payments shall be exempt from taxation.

1           "(4) The first eight thousand dollars (\$8,000) of  
2 any retirement compensation, retirement allowances, pensions  
3 and annuities, or optional allowances received by any eligible  
4 peace officer, as defined in subsection (11) of Section  
5 36-21-60, or his or her designated beneficiary, from any  
6 police retirement system established in the State of Alabama,  
7 but only if the retirement compensation, retirement  
8 allowances, pensions and annuities, or optional allowances are  
9 awarded as a result of police services rendered. This  
10 subdivision shall become effective for taxable years beginning  
11 January 1, 1984, and thereafter; provided, that for the  
12 taxable years beginning on or after January 1, 1991, all of  
13 the pension and retirement payments shall be exempt from  
14 taxation.

15           "(5) Income received as annuities under the United  
16 States Retirement System from the United States Government  
17 Civil Service Retirement and Disability Fund including income  
18 received from the Tennessee Valley Authority's pension system,  
19 income received as annuities under the United States Foreign  
20 Service Retirement and Disability Fund or income received from  
21 any other United States government retirement and disability  
22 fund.

23           "(6) Beginning January 1, 1991, all payments made on  
24 or after such date to a retiree or his designated beneficiary  
25 under a "defined benefit plan," as defined under Section  
26 414(j) of the Internal Revenue Code of 1986, as amended from

1 time to time, to the extent such payment would be taxable for  
2 federal income tax purposes.

3 "(7) Net income realized by individuals and  
4 partnerships from time to time in the business of conducting a  
5 financial business employing moneyed capital coming into  
6 competition with the business of national banks, but only if  
7 such individuals and partnerships are subject to an excise tax  
8 imposed by this state on or with respect to such income.

9 "(8) In the case of a single person or a married  
10 person not living with husband or wife, a personal exemption  
11 of one thousand five hundred dollars (\$1,500) or, in the case  
12 of a head of a family or a married person living with husband  
13 or wife, a personal exemption of three thousand dollars  
14 (\$3,000), but a husband and wife living together shall receive  
15 only one personal exemption of three thousand dollars (\$3,000)  
16 against their aggregate income, and in case they make separate  
17 returns each must claim a personal exemption of one thousand  
18 five hundred dollars (\$1,500).

19 "(9) a. Three hundred dollars (\$300) for each  
20 person, other than husband or wife, dependent upon the  
21 taxpayer, and over half of whose support, for the calendar  
22 year in which the taxable year for the taxpayer begins, was  
23 received from the taxpayer.

24 "b. For tax years beginning after December 31, 2006,  
25 for taxpayers with adjusted gross income equal to or less than  
26 \$20,000, one thousand dollars for each person other than

1 husband or wife, dependent upon the taxpayer, and over half of  
2 whose support, for the calendar year in which the taxable year  
3 for the taxpayer begins, was received from the taxpayer.

4 "c. For tax years beginning after December 31, 2006,  
5 for taxpayers with adjusted gross income in excess of \$20,000  
6 and equal to or less than \$100,000, five hundred dollars for  
7 each person other than husband and wife, dependent upon the  
8 taxpayer, and over half of whose support, for the calendar  
9 year in which the taxable year for the taxpayer begins, was  
10 received from the taxpayer.

11 "For the purposes of this section, "dependent" shall  
12 mean: A son or daughter of the taxpayer or a descendant of  
13 either; a stepson or stepdaughter of the taxpayer; a brother,  
14 sister, stepbrother, or stepsister of the taxpayer; the father  
15 or mother of the taxpayer or an ancestor of either; a  
16 stepfather or stepmother of the taxpayer; a son or daughter of  
17 a brother or sister of the taxpayer; a brother or sister of  
18 the father or mother of the taxpayer; a son-in-law,  
19 daughter-in-law, father-in-law, mother-in-law, brother-in-law,  
20 or sister-in-law of the taxpayer. As used in this paragraph  
21 the terms "brother" and "sister" include a brother or sister  
22 by the half blood. For the purpose of determining whether any  
23 of the foregoing relationships exist, a legally adopted child  
24 of a person shall be considered a child of such a person by  
25 blood.

1           "(10) Beginning January 1, 1998, all income,  
2 interest, dividends, gains, or benefits of any kind received  
3 from savings accounts or prepaid tuition contracts  
4 administered under Title 16, Chapter 33C, are exempt from all  
5 income taxation by the state and by all of its political  
6 subdivisions to the extent that the amounts remain on deposit  
7 in the PACT Trust Fund or the ACES Trust Fund, or are used to  
8 pay the designated beneficiary's qualified higher education  
9 expenses as defined in Section 529 of the Internal Revenue  
10 Code of 1986, as amended, or are refunded under such terms as  
11 would not carry a penalty under Section 529 of the Internal  
12 Revenue Code of 1986, as amended.

13           "(11) Beginning January 1, 2016, contributions made  
14 by a taxpayer to his or her health savings account up to the  
15 maximum annual amount allowed pursuant to 26 U.S.C. § 223, as  
16 amended, and any regulations promulgated thereunder.

17           "(b) Of the following personal exemptions allowed  
18 resident taxpayers, each nonresident individual taxpayer shall  
19 be allowed that proportion thereof that the adjusted gross  
20 income received by said nonresident individual taxpayer from  
21 sources within the State of Alabama bears to his or her  
22 adjusted gross income received from sources within and without  
23 the State of Alabama: In the case of a single person or a  
24 married person not living with husband or wife, a personal  
25 exemption of one thousand five hundred dollars (\$1,500) or, in  
26 the case of a head of a family two thousand five hundred

1 dollars (\$2,500) or, in the case of a married person living  
2 with husband or wife, a personal exemption of three thousand  
3 dollars (\$3,000), a husband and wife living together shall  
4 receive but one personal exemption of three thousand dollars  
5 (\$3,000) against their aggregate income; and, in case they  
6 make separate returns, each must claim a personal exemption of  
7 one thousand five hundred dollars (\$1,500); and the amount in  
8 subdivision (9) of subsection (a) for each person, other than  
9 husband or wife, dependent upon and receiving his chief  
10 support from the taxpayer."

11 Section 2. This act shall become effective on the  
12 first day of the third month following its passage and  
13 approval by the Governor, or its otherwise becoming law.