

1 217551-2 : n : 02/16/2022 : WME / kmc

2  
3 HOUSE WAYS AND MEANS EDUCATION COMMITTEE SUBSTITUTE FOR HB162

4  
5  
6  
7  
8 SYNOPSIS: Currently, certain types of retirement  
9 income is taxable as income.

10 This bill would provide that up to \$6,000 of  
11 taxable retirement income is exempt from income tax  
12 for individuals who are 65 years of age or older.

13  
14 A BILL

15 TO BE ENTITLED

16 AN ACT

17  
18 To amend Section 40-18-19, Code of Alabama 1975,  
19 relating to exemptions from state income taxation; to provide  
20 that up to \$6,000 of taxable retirement income is exempt from  
21 state income tax for individuals who are 65 years of age or  
22 older.

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.

26                         "(4) The first eight thousand dollars (\$8,000) of  
27 any retirement compensation, retirement allowances, pensions

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

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

21 "(6) Beginning January 1, 1991, all payments made on  
22 or after such date to a retiree or his designated beneficiary  
23 under a "defined benefit plan," as defined under Section  
24 414(j) of the Internal Revenue Code of 1986, as amended from  
25 time to time, to the extent such payment would be taxable for  
26 federal income tax purposes.

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

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

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

22                         "b. For tax years beginning after December 31, 2006,  
23 for taxpayers with adjusted gross income equal to or less than  
24 \$20,000 twenty thousand dollars (\$20,000), one thousand  
25 dollars (\$1,000) for each person other than husband or wife,  
26 dependent upon the taxpayer, and over half of whose support,

1 for the calendar year in which the taxable year for the  
2 taxpayer begins, was received from the taxpayer.

3 "c. For tax years beginning after December 31, 2006,  
4 for taxpayers with adjusted gross income in excess of ~~\$20,000~~  
5 twenty thousand dollars (\$20,000) and equal to or less than  
6 ~~\$100,000~~ one hundred thousand dollars (\$100,000), five hundred  
7 dollars (\$500) for each person other than husband and wife,  
8 dependent upon the taxpayer, and over half of whose support,  
9 for the calendar year in which the taxable year for the  
10 taxpayer begins, was 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.

26 "(10) Beginning January 1, 1998, all income,  
27 interest, dividends, gains, or benefits of any kind received

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

11 "(11) Beginning January 1, 2016, all income,  
12 interest, dividends, gains, or benefits of any kind received  
13 from ABLE savings accounts administered under Title 16,  
14 Chapter 33C, are exempt from all income taxation by the state  
15 and by all of its political subdivisions to the extent that  
16 the amounts remain on deposit in the ABLE Trust Fund, or are  
17 used to pay the designated beneficiary's qualified disability  
18 expenses as defined in Section 529A of the Internal Revenue  
19 Code of 1986, as amended, or are refunded under such terms as  
20 would not carry a penalty under Section 529A of the Internal  
21 Revenue Code of 1986, as amended, or other applicable federal  
22 law.

23 "(12) Beginning January 1, 2018, amounts received by  
24 an individual from sources within a foreign country or  
25 countries which constitute a housing allowance, and earned  
26 income attributable to services performed by such individual  
27 received during the tax period are exempt from all income

1 taxation by the state and by all of its political subdivisions  
2 to the extent such income is exempt from federal income tax  
3 pursuant to 26 U.S.C. Section 911.

4                   "(13) a. Beginning January 1, 2023, the first six  
5                   thousand dollars (\$6,000) of taxable retirement income.

6                   "b. This exemption may only be claimed by individual  
7                   taxpayers who are 65 years of age or older.

8                   "(b) Of the following personal exemptions allowed  
9 resident taxpayers, each nonresident individual taxpayer shall  
10 be allowed that proportion thereof that the adjusted gross  
11 income received by said nonresident individual taxpayer from  
12 sources within the State of Alabama bears to his or her  
13 adjusted gross income received from sources within and without  
14 the State of Alabama: In the case of a single person or a  
15 married person not living with husband or wife, a personal  
16 exemption of one thousand five hundred dollars (\$1,500) or, in  
17 the case of a head of a family or a married person living with  
18 husband or wife, a personal exemption of three thousand  
19 dollars (\$3,000), a husband and wife living together shall  
20 receive but one personal exemption of three thousand dollars  
21 (\$3,000) against their aggregate income; and, in case they  
22 make separate returns, each must claim a personal exemption of  
23 one thousand five hundred dollars (\$1,500); and the amount in  
24 subdivision (9) of subsection (a) for each person, other than  
25 husband or wife, dependent upon and receiving his or her chief  
26 support from the taxpayer."

Section 2. The Department of Revenue may enact rules as necessary to implement and administer the provisions of this act.

Section 3. This act shall become effective on the first day of the third month following its passage and approval by the Governor, or its otherwise becoming law.