



**House Ways and Means Education Reported Substitute
for HB217**

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A BILL
TO BE ENTITLED
AN ACT

Relating to gross income; to amend Section 40-18-14,
Code of Alabama 1975; to exclude hours worked above 40 in any
given week from gross income.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Section 40-18-14, Code of Alabama 1975, is
amended to read as follows:

"§40-18-14

(a) The term "gross income" as used herein:

(1) Includes gains, profits and income derived from
salaries, wages, or compensation for personal services of
whatever kind, or in whatever form paid, including the
salaries, income, fees, and other compensation of state,
county, and municipal officers and employees, or from
professions, vocations, trades, business, commerce or sales,
or dealings in property whether real or personal, growing out
of ownership or use of or interest in such property; also from
interest, royalties, rents, dividends, securities, or
transactions of any business carried on for gain or profit and
the income derived from any source whatever, including any
income not exempted under this chapter and against which
income there is no provision for a tax. The term "gross
income" as used herein also includes alimony and separate



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29 maintenance payments to the extent they are includable in
30 gross income for federal income tax purposes under 26 U.S.C. §
31 71 (relating to alimony and separate maintenance payments).
32 The term "gross income" as used herein also includes any
33 amount included in gross income under 26 U.S.C. § 83 at the
34 time it is so included under 26 U.S.C. § 83.

35 (2) For purposes of this chapter, the reductions in tax
36 attributes required by 26 U.S.C. § 108 shall be applied only
37 to the net operating losses determined under this chapter and
38 the basis of depreciable property. The basis reductions of
39 depreciable property shall not exceed the basis reductions for
40 federal income tax purposes. All other tax attribute
41 reductions required by 26 U.S.C. § 108 shall not be
42 recognized.

43 (3) Gross income does not include the following items
44 which shall be exempt from income tax under this chapter:

45 a. Amounts received under life insurance policies and
46 contracts paid by reason of the death of the insured in
47 accordance with 26 U.S.C. § 101;

48 b. Amounts received, other than amounts paid by reason
49 of the death of the insured, under life insurance, endowment
50 or annuity contracts, determined in accordance with 26 U.S.C.
51 § 72;

52 c. The value of property acquired by gift, bequest,
53 devise, or descent, but the income from such property shall be
54 included in the gross income, in accordance with 26 U.S.C. §
55 102;

56 d. Interest upon obligations of the United States or



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57 its possessions; or securities issued under provisions of the
58 Federal Farm Loan Act of July 18, 1916;

59 e. Any amounts received by an individual which are
60 excludable from gross income under 26 U.S.C. § 104 (relating
61 to compensation for injuries or sickness) or 26 U.S.C. § 105
62 (relating to amounts received under accident or health plans);

63 f. Interest on obligations of the State of Alabama and
64 any county, municipality, or other political subdivision
65 thereof;

66 g. The rental value of a parsonage provided to a
67 minister of the gospel to the extent excludable under 26
68 U.S.C. § 107;

69 h. Income from discharge of indebtedness to the extent
70 allowed by 26 U.S.C. § 108;

71 i. For each individual resident taxpayer, or each
72 husband and wife filing a joint income tax return, as the case
73 may be, any gain realized from the sale of a personal
74 residence of the taxpayer shall be excluded to the extent
75 excludable for federal income tax purposes under 26 U.S.C. §
76 121;

77 j. Contributions made by an employer on behalf of an
78 employee to a trust which is part of a qualified cash or
79 deferred arrangement (as defined in 26 U.S.C. § 401(k)(2), or
80 5 U.S.C. § 8437) under which the employee has an election
81 whether the contribution will be made to the trust or received
82 by the employee in cash and contributions made by an employer
83 for an employee for an annuity contract, which contributions
84 would be excludable from the gross income (for federal income



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85 tax purposes) of the employee in accordance with the
86 provisions of 26 U.S.C. § 403(b). The limitations imposed by
87 26 U.S.C. § 402(g) shall apply for purposes of this paragraph;

88 k. Amounts that an employee is allowed to exclude from
89 gross income for federal income tax purposes pursuant to 26
90 U.S.C. § 125 (relating to cafeteria plans) and 26 U.S.C. § 132
91 (relating to certain fringe benefits); and

92 l. Amounts paid or incurred by an employer on behalf of
93 an employee if the amounts may be excluded from gross income
94 for federal income tax purposes by an employee pursuant to 26
95 U.S.C. § 129 (relating to dependent care expenses).

96 m. 1. Amounts received by a full-time hourly waged paid
97 employee as compensation for work performed in excess of 40
98 hours in a week.

99 2. The exemption provided pursuant to this paragraph
100 shall be available for tax years that begin after December 31,
101 2023, and end prior to January 1, 2027.

102 (4) The term "gross income," in the case of a resident
103 individual, includes income from sources within and outside
104 Alabama, including without limitation, the resident's
105 proportionate share of any income arising from a Subchapter K
106 entity, Alabama S corporation, or estate or trust, regardless
107 of the geographic source of the income. The term gross income,
108 in the case of a nonresident individual, includes only income
109 from property owned or business transacted in Alabama. For
110 purposes of this article, proportionate share shall be defined
111 by reference to (i) the status of the individual owner as a
112 partner or member of a Subchapter K entity, shareholder of an



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113 Alabama S corporation, or beneficiary of an estate or trust,
114 and (ii) the allocable interest in that entity owned by the
115 individual.

116 (b) The Department of Revenue may adopt rules to
117 provide for the administration of the provisions of this
118 section."

119 **Section 2.** This act shall become effective on **January**
120 **1, 2024,** following its passage and approval by the Governor,
121 or its otherwise becoming law.