



House Insurance Reported Substitute for HB106

A BILL

TO BE ENTITLED

AN ACT

Relating to catastrophe savings accounts; to amend Sections 40-18-310, 40-18-311, and 40-18-312, Code of Alabama 1975; to provide further for the expenditures that may be paid from a catastrophe savings account; and to provide further for caps on how much can be contributed to a catastrophe savings account.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Sections 40-18-310, 40-18-311, and 40-18-312, Code of Alabama 1975, are amended to read as follows:

"§40-18-310

As used in this article, the following terms shall have the following meanings:

(1) CATASTROPHE SAVINGS ACCOUNT. A regular savings account or money market account established by an insurance policyholder who is a state income taxpayer for residential property in this state to cover: (i) an insurance deductible under an insurance policy for the taxpayer's legal residence property that covers hurricane, rising floodwaters, or other catastrophic windstorm event damage or by an individual to

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cover self-insured losses for the taxpayer's legal residence from a hurricane, rising floodwaters, or other catastrophic windstorm event; (ii) the annual cost of a FORTIFIED endorsement to supplement an insurance policy; or (iii) the cost of mitigation actions that would reduce the risk of hurricane, rising floodwaters, or other catastrophic windstorm event damage, including, but not limited to, costs associated with reroofing and obtaining evaluation services to qualify for a FORTIFIED designation, collectively, "Qualified Catastrophe Expenses." The account must be labeled as a catastrophe savings account in order to qualify as a catastrophe savings account as defined in this article. A taxpayer may establish only one catastrophe savings account and shall specify that the purpose of the account is to cover the ~~amount of insurance deductibles and other uninsured portions of risks of loss from hurricane, rising floodwater, or other catastrophic windstorm event~~ Qualified Catastrophe Expenses.

(2) WINDSTORM EVENT. Windstorms, cyclones, hurricanes, tornadoes, high winds, and hail, and similar perils not normally among those covered under most property casualty insurance policies but obtainable through the purchase of wind, wind and hail, storm or windstorm coverage, or all."

"§40-18-311

(a) An individual taxpayer is allowed a deduction against income earned for state income tax purposes imposed pursuant to Section 40-18-5, for amounts contributed to a

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catastrophe savings account in accordance with subsection (c) and all interest income earned by a catastrophe savings account is exempt from the tax imposed pursuant to Section 40-18-5.

(b) A catastrophe savings account is not subject to attachment, levy, garnishment, or legal process in this state.

(c) The total amount that may be contributed to a catastrophe savings account must not exceed any of the following:

(1) In the case of an individual whose qualified deductible is less than or equal to one thousand dollars (\$1,000), two thousand dollars (\$2,000), plus amounts to cover other Qualified Catastrophe Expenses not to exceed fifteen thousand dollars (\$15,000).

(2) In the case of an individual whose qualified deductible is greater than one thousand dollars (\$1,000), the amount equal to the lesser of fifteen thousand dollars (\$15,000) or twice the amount of the taxpayer's qualified deductible plus amounts to cover other Qualified Catastrophe Expenses not to exceed fifteen thousand dollars (\$15,000).

(3) In the case of a self-insured individual who chooses not to obtain insurance on his or her legal residence, two hundred fifty thousand dollars (\$250,000), but in no event may the amount contributed exceed the value of the individual taxpayer's legal residence.

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(d) If a taxpayer contributes in excess of the limits provided in subsection (c), the taxpayer shall withdraw the amount of the excess contributions and include that amount in Alabama income for purposes of Section 40-18-5 in the year of withdrawal."

"§40-18-312

(a) A distribution from a catastrophe savings account must be included in the income of the taxpayer unless the amount of the distribution is used to cover ~~qualified catastrophe expenses~~ Qualified Catastrophe Expenses.

(b) No amount is included in income, pursuant to subsection (a), if the ~~qualified catastrophe expenses~~ Qualified Catastrophe Expenses of the taxpayer during the taxable year are equal to or greater than the aggregate distributions during the taxable year.

(c) If aggregate distributions exceed the ~~qualified catastrophe expenses~~ Qualified Catastrophe Expenses during the taxable year, the amount otherwise included in income must be reduced by the amount of the distributions for ~~qualified catastrophe expenses~~ Qualified Catastrophe Expenses.

(d) (1) The tax paid pursuant to Section 40-18-5, attributable to a taxable distribution must be increased by two and one-half percent of the amount which is includable in income.

(2) This additional tax does not apply if any of the following occur:

a. The taxpayer no longer owns a legal residence that qualifies pursuant to Chapter 7.

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b. The distribution is from an account conforming with subdivision (3) of subsection (c) of Section 40-18-311 and is made on or after the date on which the taxpayer attains the age of 70.

~~(3) If a taxpayer receives a nontaxable distribution under this subsection, the taxpayer must not make further contributions to any catastrophe savings account.~~

(e) If a taxpayer who owns a catastrophe savings account dies, his or her account is included in the income of the person who receives the account, unless that person is the surviving spouse of the taxpayer. Upon the death of the surviving spouse, the account is included in the income of the person who receives the account. The additional tax in subsection (d) does not apply to distribution on death of the taxpayer or the surviving spouse."

Section 2. The provisions of this act apply to tax years beginning on or after January 1, 2026.

Section 3. This act shall become effective on October 1, 2025.