



SYNOPSIS:

Under current law, the first \$6,000 of taxable retirement income for individuals who are 65 years of age or older is exempt from Alabama income taxes.

This bill would phase in an increase in the exemption amount to \$12,000 of taxable income over a three-year period.

A BILL  
TO BE ENTITLED  
AN ACT

Relating to income taxes; to amend Section 40-18-19, Code of Alabama 1975, regarding exemptions from income taxation; to phase in an increase in the exemption amount for taxable retirement income of individuals who are 65 years of age or older to \$12,000 over a three-year period.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Section 40-18-19, Code of Alabama 1975, is hereby amended as follows:

"§40-18-19

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

(1) Retirement allowances, pensions and annuities, or



29 optional allowances, approved by the Board of Control of the  
30 Teachers' Retirement System of Alabama, which exempt status is  
31 set out in Section 16-25-23.

32 (2) Retirement allowances, pensions and annuities, or  
33 optional allowances, approved by the Board of Control of the  
34 Employees' Retirement System of Alabama, which exempt status  
35 is set out in Section 36-27-28.

36 (3) The first eight thousand dollars (\$8,000) of any  
37 retirement compensation, retirement allowances, pensions and  
38 annuities, or optional allowances, received by any eligible  
39 firefighter, as defined in Sections 36-32-1 and 36-32-2, or  
40 his or her designated beneficiary, from any firefighting  
41 agency established in the State of Alabama, but only if such  
42 retirement compensation, retirement allowances, pensions and  
43 annuities, or optional allowances as are awarded as a result  
44 of fire protection services rendered. This subdivision shall  
45 become effective for the taxable years beginning January 1,  
46 1987, and thereafter following its passage and approval by the  
47 Governor, or upon its otherwise becoming a law; provided, that  
48 for the taxable years beginning on or after January 1, 1991,  
49 all of the pension and retirement payments shall be exempt  
50 from taxation.

51 (4) The first eight thousand dollars (\$8,000) of any  
52 retirement compensation, retirement allowances, pensions and  
53 annuities, or optional allowances received by any eligible  
54 peace officer, as defined in ~~subdivision (11) of~~ Section  
55 36-21-60 [\(11\)](#), or his or her designated beneficiary, from any  
56 police retirement system established in the State of Alabama,



57 but only if the retirement compensation, retirement  
58 allowances, pensions and annuities, or optional allowances are  
59 awarded as a result of police services rendered. This  
60 subdivision shall become effective for taxable years beginning  
61 January 1, 1984, and thereafter; provided, that for the  
62 taxable years beginning on or after January 1, 1991, all of  
63 the pension and retirement payments shall be exempt from  
64 taxation.

65 (5) Income received as annuities under the United  
66 States Retirement System from the United States Government  
67 Civil Service Retirement and Disability Fund, including income  
68 received from the Tennessee Valley Authority's pension system,  
69 income received as annuities under the United States Foreign  
70 Service Retirement and Disability Fund, or income received  
71 from any other United States government retirement and  
72 disability fund.

73 (6) Beginning January 1, 1991, all payments made on or  
74 after such date to a retiree or his or her designated  
75 beneficiary under a "defined benefit plan," as defined under  
76 26 U.S.C. § 414(j), to the extent such payment would be  
77 taxable for federal income tax purposes.

78 (7) Net income realized by individuals and partnerships  
79 from time to time in the business of conducting a financial  
80 business employing monied capital coming into competition with  
81 the business of national banks, but only if such individuals  
82 and partnerships are subject to an excise tax imposed by this  
83 state on or with respect to such income.

84 (8) In the case of a single ~~person~~individual or a



85 married ~~person~~individual not living with husband or wife, a  
86 personal exemption of one thousand five hundred dollars  
87 (\$1,500) or, in the case of a head of a family or a married  
88 ~~person~~individual living with husband or wife, a personal  
89 exemption of three thousand dollars (\$3,000), but a husband  
90 and wife living together shall receive only one personal  
91 exemption of three thousand dollars (\$3,000) against their  
92 aggregate income, and in case they make separate returns each  
93 must claim a personal exemption of one thousand five hundred  
94 dollars (\$1,500).

95 (9)-a. Three hundred dollars (\$300) for each  
96 ~~person~~individual, other than husband or wife, dependent upon  
97 the taxpayer, and over half of whose support, for the calendar  
98 year in which the taxable year for the taxpayer begins, was  
99 received from the taxpayer.

100 b. For tax years beginning after December 31, 2006, for  
101 taxpayers with adjusted gross income equal to or less than  
102 twenty thousand dollars (\$20,000), one thousand dollars  
103 (\$1,000) for each ~~person~~individual other than husband or wife,  
104 dependent upon the taxpayer, and over half of whose support,  
105 for the calendar year in which the taxable year for the  
106 taxpayer begins, was received from the taxpayer.

107 c. For tax years beginning after December 31, 2006, for  
108 taxpayers with adjusted gross income in excess of twenty  
109 thousand dollars (\$20,000) and equal to or less than one  
110 hundred thousand dollars (\$100,000), five hundred dollars  
111 (\$500) for each ~~person~~individual other than husband and wife,  
112 dependent upon the taxpayer, and over half of whose support,



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

d. For tax years beginning after December 31, 2021, for taxpayers with adjusted gross income equal to or less than fifty thousand dollars (\$50,000), one thousand dollars (\$1,000) for each ~~person~~individual other than husband or wife, dependent upon the taxpayer, and over half of whose support, for the calendar year in which the taxable year for the taxpayer begins, was received from the taxpayer.

e. For tax years beginning after December 31, 2021, for taxpayers with adjusted gross income in excess of fifty thousand dollars (\$50,000) and equal to or less than one hundred thousand dollars (\$100,000), five hundred dollars (\$500) for each ~~person~~individual other than husband and wife, dependent upon the taxpayer, and over half of whose support, for the calendar year in which the taxable year for the taxpayer begins, was received from the taxpayer.

For the purposes of this section, "dependent" shall mean: ~~A~~a son or daughter of the taxpayer or a descendant of either; a stepson or stepdaughter of the taxpayer; a brother, sister, stepbrother, or stepsister of the taxpayer; the father or mother of the taxpayer or an ancestor of either; a stepfather or stepmother of the taxpayer; a son or daughter of a brother or sister of the taxpayer; a brother or sister of the father or mother of the taxpayer; a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer. As used in this paragraph, the terms "brother" and "sister" include a brother or sister



141 by the half blood. For the purpose of determining whether any  
142 of the foregoing relationships exist, a legally adopted child  
143 of ~~a person~~an individual shall be considered a child of such ~~a~~  
144 ~~person~~that individual by blood.

145 (10) Beginning January 1, 1998, all income, interest,  
146 dividends, gains, or benefits of any kind received from  
147 savings accounts or prepaid tuition contracts administered  
148 under Title 16, Chapter 33C, are exempt from all income  
149 taxation by the state and by all of its political subdivisions  
150 to the extent that the amounts remain on deposit in the PACT  
151 Trust Fund or the ACES Trust Fund, or are used to pay the  
152 designated beneficiary's qualified higher education expenses  
153 as defined in 26 U.S.C. § 529, or are refunded under such  
154 terms as would not carry a penalty under 26 U.S.C. § 529.

155 (11) Beginning January 1, 2016, all income, interest,  
156 dividends, gains, or benefits of any kind received from ABLE  
157 savings accounts administered under Title 16, Chapter 33C, are  
158 exempt from all income taxation by the state and by all of its  
159 political subdivisions to the extent that the amounts remain  
160 on deposit in the ABLE Trust Fund, or are used to pay the  
161 designated beneficiary's qualified disability expenses as  
162 defined in 26 U.S.C. § 529A, or are refunded under such terms  
163 as would not carry a penalty under 26 U.S.C. § 529A, or other  
164 applicable federal law.

165 (12) Beginning January 1, 2018, amounts received by an  
166 individual from sources within a foreign country or countries  
167 which constitute a housing allowance, and earned income  
168 attributable to services performed by such individual received



during the tax period are exempt from all income taxation by the state and by all of its political subdivisions to the extent such income is exempt from federal income tax pursuant to 26 U.S.C. § 911.

(13)-a. Beginning January 1, 2023, through December 31, 2025, the first six thousand dollars (\$6,000) of taxable retirement income.

b. Beginning January 1, 2026, the first eight thousand dollars (\$8,000) of taxable retirement income.

c. Beginning January 1, 2027, the first ten thousand dollars (\$10,000) of taxable retirement income.

d. Beginning January 1, 2028, the first twelve thousand dollars (\$12,000) of taxable retirement income.

~~b-e.~~ e. This exemption may only be claimed by individual taxpayers who are 65 years of age or older.

(b) Of the following personal exemptions allowed resident taxpayers, each nonresident individual taxpayer shall be allowed that proportion thereof that the adjusted gross income received by said nonresident individual taxpayer from sources within the State of Alabama bears to his or her adjusted gross income received from sources within and without the State of Alabama: In the case of a single ~~person~~individual or a married ~~person~~individual not living with husband or wife, a personal exemption of one thousand five hundred dollars (\$1,500) or, in the case of a head of a family or a married ~~person~~individual living with husband or wife, a personal exemption of three thousand dollars (\$3,000), a husband and wife living together shall receive but one personal exemption



197 of three thousand dollars (\$3,000) against their aggregate  
198 income; and, in case they make separate returns, each must  
199 claim a personal exemption of one thousand five hundred  
200 dollars (\$1,500); and the amount in subdivision ~~(9) of~~  
201 ~~subsection~~ (a) (9) for each ~~person~~ individual, other than  
202 husband or wife, dependent upon and receiving his or her chief  
203 support from the taxpayer.

204 (c) The Department of Revenue may enact rules as  
205 necessary to implement and administer the provisions of this  
206 act."

207 Section 2. This act shall become effective on October  
208 1, 2025.