

HB268 INTRODUCED



1 HB268
2 96Z9PPM-1
3 By Representative Moore (P)
4 RFD: Ways and Means Education
5 First Read: 13-Feb-25



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SYNOPSIS:

Under current law, lottery prize proceeds are subject to state income tax. This bill would exempt these proceeds from the state income tax.

A BILL
TO BE ENTITLED
AN ACT

Relating to income tax, to amend Section 40-18-19, Code of Alabama 1975, to exempt lottery proceeds from state income taxation.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Section 40-18-19, Code of Alabama 1975, is amended to read 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 optional allowances, approved by the Board of Control of the Teachers' Retirement System of Alabama, which exempt status is set out in Section 16-25-23.

(2) Retirement allowances, pensions and annuities, or optional allowances, approved by the Board of Control of the



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29 Employees' Retirement System of Alabama, which exempt status
30 is set out in Section 36-27-28.

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

46 (4) The first eight thousand dollars (\$8,000) of any
47 retirement compensation, retirement allowances, pensions and
48 annuities, or optional allowances received by any eligible
49 peace officer, as defined in subdivision (11) of Section
50 36-21-60, or his or her designated beneficiary, from any
51 police retirement system established in the State of Alabama,
52 but only if the retirement compensation, retirement
53 allowances, pensions and annuities, or optional allowances are
54 awarded as a result of police services rendered. This
55 subdivision shall become effective for taxable years beginning
56 January 1, 1984, and thereafter; provided, that for the



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57 taxable years beginning on or after January 1, 1991, all of
58 the pension and retirement payments shall be exempt from
59 taxation.

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

68 (6) Beginning January 1, 1991, all payments made on or
69 after such date to a retiree or his designated beneficiary
70 under a "defined benefit plan", as defined under 26 U.S.C. §
71 414(j), to the extent such payment would be taxable for
72 federal income tax purposes.

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

79 (8) In the case of a single person or a married person
80 not living with husband or wife, a personal exemption of one
81 thousand five hundred dollars (\$1,500) or, in the case of a
82 head of a family or a married person living with husband or
83 wife, a personal exemption of three thousand dollars (\$3,000),
84 but a husband and wife living together shall receive only one



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85 personal exemption of three thousand dollars (\$3,000) against
86 their aggregate income, and in case they make separate returns
87 each must claim a personal exemption of one thousand five
88 hundred dollars (\$1,500).

89 (9) a. Three hundred dollars (\$300) for each person,
90 other than husband or wife, dependent upon the taxpayer, and
91 over half of whose support, for the calendar year in which the
92 taxable year for the taxpayer begins, was received from the
93 taxpayer.

94 b. For tax years beginning after December 31, 2006, for
95 taxpayers with adjusted gross income equal to or less than
96 twenty thousand dollars (\$20,000), one thousand dollars
97 (\$1,000) for each person other than husband or wife, dependent
98 upon the taxpayer, and over half of whose support, for the
99 calendar year in which the taxable year for the taxpayer
100 begins, was received from the taxpayer.

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

109 d. For tax years beginning after December 31, 2021, for
110 taxpayers with adjusted gross income equal to or less than
111 fifty thousand dollars (\$50,000), one thousand dollars
112 (\$1,000) for each person other than husband or wife, dependent



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113 upon the taxpayer, and over half of whose support, for the
114 calendar year in which the taxable year for the taxpayer
115 begins, was received from the taxpayer.

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

124 For the purposes of this section, "dependent" shall
125 mean: A son or daughter of the taxpayer or a descendant of
126 either; a stepson or stepdaughter of the taxpayer; a brother,
127 sister, stepbrother, or stepsister of the taxpayer; the father
128 or mother of the taxpayer or an ancestor of either; a
129 stepfather or stepmother of the taxpayer; a son or daughter of
130 a brother or sister of the taxpayer; a brother or sister of
131 the father or mother of the taxpayer; a son-in-law,
132 daughter-in-law, father-in-law, mother-in-law, brother-in-law,
133 or sister-in-law of the taxpayer. As used in this paragraph
134 the terms "brother" and "sister" include a brother or sister
135 by the half blood. For the purpose of determining whether any
136 of the foregoing relationships exist, a legally adopted child
137 of a person shall be considered a child of such a person by
138 blood.

139 (10) Beginning January 1, 1998, all income, interest,
140 dividends, gains, or benefits of any kind received from



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141 savings accounts or prepaid tuition contracts administered
142 under Title 16, Chapter 33C, are exempt from all income
143 taxation by the state and by all of its political subdivisions
144 to the extent that the amounts remain on deposit in the PACT
145 Trust Fund or the ACES Trust Fund, or are used to pay the
146 designated beneficiary's qualified higher education expenses
147 as defined in 26 U.S.C. § 529, or are refunded under such
148 terms as would not carry a penalty under 26 U.S.C. § 529.

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

159 (12) Beginning January 1, 2018, amounts received by an
160 individual from sources within a foreign country or countries
161 which constitute a housing allowance, and earned income
162 attributable to services performed by such individual received
163 during the tax period are exempt from all income taxation by
164 the state and by all of its political subdivisions to the
165 extent such income is exempt from federal income tax pursuant
166 to 26 U.S.C. § 911.

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



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169 b. This exemption may only be claimed by individual
170 taxpayers who are 65 years of age or older.

171 (14) All proceeds from a prize won in any state
172 lottery.

173 a. The exemption provided by this subdivision will be
174 void upon the ratification of a statewide constitutional
175 amendment authorizing games of chance.

176 b. The exemption provided by this subdivision shall be
177 effective beginning with the tax year that begins January 1,
178 2026.

179 (b) Of the following personal exemptions allowed
180 resident taxpayers, each nonresident individual taxpayer shall
181 be allowed that proportion thereof that the adjusted gross
182 income received by said nonresident individual taxpayer from
183 sources within the State of Alabama bears to his or her
184 adjusted gross income received from sources within and without
185 the State of Alabama: In the case of a single person or a
186 married person not living with husband or wife, a personal
187 exemption of one thousand five hundred dollars (\$1,500) or, in
188 the case of a head of a family or a married person living with
189 husband or wife, a personal exemption of three thousand
190 dollars (\$3,000), a husband and wife living together shall
191 receive but one personal exemption of three thousand dollars
192 (\$3,000) against their aggregate income; and, in case they
193 make separate returns, each must claim a personal exemption of
194 one thousand five hundred dollars (\$1,500); and the amount in
195 subdivision (9) of subsection (a) for each person, other than
196 husband or wife, dependent upon and receiving his or her chief



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197 support from the taxpayer.

198 (c) The Department of Revenue may enact rules as
199 necessary to implement and administer the provisions of this
200 act.

201 Section 2. This act shall become effective on October
202 1, 2025.