

**HB341 ENROLLED**



1 HB341

2 JPURUYF-2

3 By Representatives Starnes, Rehm, Shaw, Bolton, Stubbs,  
4 Fincher, Mooney, Oliver, Ingram, Paschal, Lipscomb, Smith,  
5 Brown, Sorrells, Marques, Robertson, Hammett, Treadaway,  
6 Kirkland, Colvin, Stadthagen, DuBose, Shaver, Hulsey

7 RFD: Ways and Means Education

8 First Read: 29-Jan-26



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1 Enrolled, An Act,

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3 Relating to exemptions from state income taxation; to  
4 amend Section 40-18-19, Code of Alabama 1975; to exempt the  
5 first \$5,000 of taxable income earned from inactive duty  
6 training from state income tax for individuals that serve in  
7 the Alabama National Guard; and to make nonsubstantive,  
8 technical revisions to update the existing code language to  
9 current style.

10 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

11 Section 1. Section 40-18-19, Code of Alabama 1975, is  
12 amended to read as follows:

13 "§40-18-19

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

16 (1) Retirement allowances, pensions and annuities, or  
17 optional allowances, approved by the Board of Control of the  
18 Teachers' Retirement System of Alabama, which exempt status is  
19 set out in Section 16-25-23.

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

24 (3) The first eight thousand dollars (\$8,000) of any  
25 retirement compensation, retirement allowances, pensions and  
26 annuities, or optional allowances, received by any eligible  
27 firefighter, as defined in Sections 36-32-1 and 36-32-2, or  
28 his or her designated beneficiary, from any firefighting



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29 agency established in the State of Alabama, but only if such  
30 retirement compensation, retirement allowances, pensions and  
31 annuities, or optional allowances ~~as~~ are awarded as a result  
32 of fire protection services rendered. This subdivision shall  
33 become effective for the taxable years beginning January 1,  
34 1987, and thereafter ~~following its passage and approval by the~~  
35 ~~Governor, or upon its otherwise becoming a law;~~ provided, that  
36 for the taxable years beginning on or after January 1, 1991,  
37 all of the pension and retirement payments shall be exempt  
38 from taxation.

39 (4) The first eight thousand dollars (\$8,000) of any  
40 retirement compensation, retirement allowances, pensions and  
41 annuities, or optional allowances received by any eligible  
42 peace officer, as defined in ~~subdivision (11) of~~ Section  
43 36-21-60 (11), or his or her designated beneficiary, from any  
44 police retirement system established in the State of Alabama,  
45 but only if the retirement compensation, retirement  
46 allowances, pensions and annuities, or optional allowances are  
47 awarded as a result of police services rendered. This  
48 subdivision shall become effective for taxable years beginning  
49 January 1, 1984, and thereafter; provided, that for the  
50 taxable years beginning on or after January 1, 1991, all of  
51 the pension and retirement payments shall be exempt from  
52 taxation.

53 (5) Income received as annuities under the United  
54 States Retirement System from the United States Government  
55 Civil Service Retirement and Disability Fund, including income  
56 received from the Tennessee Valley Authority's pension system,



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57 income received as annuities under the United States Foreign  
58 Service Retirement and Disability Fund, or income received  
59 from any other United States government retirement and  
60 disability fund.

61 (6) Beginning January 1, 1991, all payments made on or  
62 after such date to a retiree or his designated beneficiary  
63 under a "defined benefit plan," as defined under 26 U.S.C. §  
64 414(j), to the extent such payment would be taxable for  
65 federal income tax purposes.

66 (7) Net income realized by individuals and partnerships  
67 from time to time in the business of conducting a financial  
68 business employing monied capital coming into competition with  
69 the business of national banks, but only if such individuals  
70 and partnerships are subject to an excise tax imposed by this  
71 state on or with respect to such income.

72 (8) In the case of a single person or a married person  
73 not living with husband or wife, a personal exemption of one  
74 thousand five hundred dollars (\$1,500) or, in the case of a  
75 head of a family or a married person living with husband or  
76 wife, a personal exemption of three thousand dollars (\$3,000),  
77 but a husband and wife living together shall receive only one  
78 personal exemption of three thousand dollars (\$3,000) against  
79 their aggregate income, and in case they make separate returns  
80 each must claim a personal exemption of one thousand five  
81 hundred dollars (\$1,500).

82 (9)-a. Three hundred dollars (\$300) for each person,  
83 other than husband or wife, dependent upon the taxpayer, and  
84 over half of whose support, for the calendar year in which the



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85 taxable year for the taxpayer begins, was received from the  
86 taxpayer.

87           b. For tax years beginning after December 31, 2006, for  
88 taxpayers with adjusted gross income equal to or less than  
89 twenty thousand dollars (\$20,000), one thousand dollars  
90 (\$1,000) for each person other than husband or wife, dependent  
91 upon the taxpayer, and over half of whose support, for the  
92 calendar year in which the taxable year for the taxpayer  
93 begins, was received from the taxpayer.

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

102           d. For tax years beginning after December 31, 2021, for  
103 taxpayers with adjusted gross income equal to or less than  
104 fifty thousand dollars (\$50,000), one thousand dollars  
105 (\$1,000) for each person other than husband or 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           e. For tax years beginning after December 31, 2021, for  
110 taxpayers with adjusted gross income in excess of fifty  
111 thousand dollars (\$50,000) and equal to or less than one  
112 hundred thousand dollars (\$100,000), five hundred dollars



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113 (\$500) for each person other than husband and wife, dependent  
114 upon the taxpayer, and over half of whose support, for the  
115 calendar year in which the taxable year for the taxpayer  
116 begins, was received from the taxpayer.

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

132 (10) Beginning January 1, 1998, all income, interest,  
133 dividends, gains, or benefits of any kind received from  
134 savings accounts or prepaid tuition contracts administered  
135 under Title 16, Chapter 33C, are exempt from all income  
136 taxation by the state and by all of its political subdivisions  
137 to the extent that the amounts remain on deposit in the PACT  
138 Trust Fund or the ACES Trust Fund, or are used to pay the  
139 designated beneficiary's qualified higher education expenses  
140 as defined in 26 U.S.C. § 529, or are refunded under such



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141 terms as would not carry a penalty under 26 U.S.C. § 529.

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

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

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

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

164 (14) Beginning January 1, 2027 through December 31,  
165 2029, the first five thousand dollars (\$5,000) of income  
166 received by a member of the Alabama National Guard as payment  
167 for inactive duty training (IDT) as described in 37 U.S.C. §  
168 206.



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

188 (c) The Department of Revenue may enact rules as  
189 necessary to implement and administer the provisions of this  
190 ~~act~~section."

191 Section 2. This act shall become effective on October  
192 1, 2026.



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Speaker of the House of Representatives

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President and Presiding Officer of the Senate

House of Representatives

I hereby certify that the within Act originated in and was passed by the House 10-Feb-26, as amended.

John Treadwell  
Clerk

Senate

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**07-Apr-26**

Amended and Passed

House

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**07-Apr-26**

Concurred in Senate  
Amendment