

HB527 ENGROSSED



1 HB527

2 RBTICNY-2

3 By Representatives Lomax, Garrett, Rigsby, Crow, Robertson,
4 Rehm, Blackshear, Whitt, Paramore, Hulsey, Reynolds, Lovvorn,
5 Marques

6 RFD: Ways and Means Education

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HB527 Engrossed

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A BILL
TO BE ENTITLED
AN ACT

Relating to taxes; to amend Section 40-18-15, Code of Alabama 1975, to establish an individual income tax deduction for qualified overtime compensation equal to the amount of qualified overtime compensation received during the taxable year, not to exceed one thousand dollars (\$1,000) per taxpayer; to suspend the state portion of the sales and use taxes on food for a two-month period; and to make nonsubstantive, technical revisions to update existing code language to current style.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Section 40-18-15, Code of Alabama 1975, is amended to read as follows:

"§40-18-15

(a) No deduction shall be allowed for any losses, expenses, or interest deferred or disallowed pursuant to 26 U.S.C. § 267 or for any cost required to be capitalized in accordance with 26 U.S.C. § 263A; otherwise, there shall be allowed as deductions:

(1) All ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or



HB527 Engrossed

29 business, as determined in accordance with 26 U.S.C. § 162~~;~~_i

30 (2) Interest paid or accrued within the taxable year on
31 indebtedness, limited to the amount allowable as an interest
32 deduction for federal income tax purposes in the corresponding
33 tax year or period pursuant to the provisions of 26 U.S.C. §§
34 163, 264, and 265~~;~~_i

35 (3) The following taxes paid or accrued within the
36 taxable year:

37 a. Income taxes, Federal Insurance Contribution Act
38 taxes, taxes on self-employment income_i, and estate and gift
39 taxes imposed by authority of the United States or any
40 possession of the United States.

41 b. State and local, and foreign, occupational license
42 taxes, and contributions to state unemployment funds.

43 c. State and local, and foreign, real property taxes.

44 d. State and local personal property taxes.

45 e. The generation-skipping transfer (GST) tax imposed
46 on income distributions by 26 U.S.C. § 2601.

47 f. The taxes described in paragraphs c., d., and e.
48 shall be deductible only to the extent that the taxes are
49 deductible for federal income tax purposes under 26 U.S.C. §
50 164 ~~(relating to taxes)~~.

51 g. In addition, there shall be allowed as a deduction,
52 state and local, and foreign taxes, except income taxes, and
53 taxes imposed by authority of the United States or any
54 possession of the United States, which are paid or accrued
55 within the taxable year in carrying on a trade or business or
56 an activity described in 26 U.S.C. § 212 ~~(relating to expenses~~



HB527 Engrossed

57 for the production of income).

58 h. Notwithstanding paragraph g., any tax described in
59 any paragraph preceding paragraph g. that is paid or accrued
60 in connection with an acquisition or disposition of property
61 shall be treated as part of the cost of the acquired property
62 or, in the case of a disposition, as a reduction in the amount
63 realized on the disposition of that property.

64 (4) Losses sustained during the taxable year and not
65 compensated for by insurance or otherwise if incurred in a
66 trade or business, in accordance with 26 U.S.C. § 165(c)(1).

67 (5) Losses sustained during the taxable year and not
68 compensated for by insurance or otherwise, if incurred in any
69 transaction entered into for profit, though not connected with
70 the trade or business in accordance with 26 U.S.C. §
71 165(c)(2); but, in the case of a taxpayer other than a
72 resident of the state, only as to those transactions within
73 the state.

74 (6) Casualty and theft losses sustained during the
75 taxable year of property not connected with the conduct of a
76 trade or business or a transaction entered into for profit as
77 determined in accordance with ~~subsections (c)(3) and (h) of 26~~
78 U.S.C. § 165(c)(3) and (h). In the case of a nonresident, the
79 deduction shall be allowed only for the losses arising from
80 property located within the State of Alabama and the
81 limitations in 26 U.S.C. § 165 shall be applied with regard
82 only to the taxpayer's Alabama adjusted gross income. No loss
83 shall be allowed if at the time of filing the return, the loss
84 has been claimed on a federal estate tax return.



HB527 Engrossed

85 (7) Losses from debts ascertained to be worthless and
86 charged off during the taxable year of ascertainment, if
87 sustained in the conduct of the regular trade or business of
88 the taxpayer;i

89 (8) A reasonable allowance for the exhaustion, wear,l
90 and tear of property from which any income is derived,
91 including a reasonable allowance for obsolescence, in
92 accordance with 26 U.S.C. §§ 167 and 168, and an allowance for
93 the amortization of intangibles determined in accordance with
94 26 U.S.C. § 197;i

95 (9) In the case of mines, oil, and gas wells, other
96 natural deposits and timber, a reasonable allowance for
97 depletion and for depreciation of improvements, according to
98 the peculiar condition in each case based upon the cost,
99 including the cost of development not otherwise deducted, such
100 reasonable allowance in all cases to be made under rules and
101 regulations to be prescribed by the Department of Revenue;
102 and, in the case of leasehold interests, the deduction allowed
103 by this section shall be equitably apportioned between the
104 lessor and the lessee;i

105 (10) Charitable contributions to the extent allowed for
106 federal income tax purposes under 26 U.S.C. § 170 (relating to
107 charitable contributions and gifts);i

108 (11) The deduction allowed to the individual for
109 federal income tax purposes by 26 U.S.C. § 219 (relating to
110 retirement savings);i

111 (12) The deduction allowed for federal income tax
112 purposes by 26 U.S.C. § 404 (relating to qualified pension,



HB527 Engrossed

113 profit sharing, stock bonus, and annuity plans).

114 (13) For each individual income taxpayer, medical and
115 dental expenses, including amounts paid for medicine and drugs
116 and amounts paid for accident and health insurance, as
117 determined in accordance with 26 U.S.C. § 213~~7~~1 provided~~7~~
118 ~~however~~, that the limitation of the deduction to the excess of
119 those expenses over 7.5 percent of adjusted gross income as
120 provided in 26 U.S.C. § 213 shall instead be limited to the
121 excess of those expenses over 4.0 percent of adjusted gross
122 income~~7~~i

123 (14) For each individual income taxpayer, the deduction
124 determined in accordance with 26 U.S.C. § 212 for all the
125 ordinary and necessary expenses paid or incurred during the
126 taxable year for the production or collection of income, or
127 for the management, conservation, or maintenance of property
128 held for the production of income, or in connection with the
129 determination, collection, or refund of any tax~~7~~i

130 (15) Any expense not exceeding one thousand dollars
131 (\$1,000) actually incurred during the taxable year in
132 constructing on his or her property a family radioactive
133 fallout shelter, as approved and certified by the State
134 Department of Emergency Management, and any amount not
135 exceeding one thousand dollars (\$1,000) which he or she
136 contributed during the taxable year toward the construction of
137 a community radioactive fallout shelter~~7~~i

138 (16) A deduction from the taxpayer's adjusted gross
139 income for state income tax purposes of the total cost of
140 installation for conversion from gas or electricity to wood as



HB527 Engrossed

141 the primary energy source for heating their individual
142 domestic homes for the taxable year during which a conversion
143 was completed~~;~~;

144 (17) Alimony and separate maintenance payments, the
145 amount deductible to be the same as the amount deductible for
146 federal income tax purposes under 26 U.S.C. § 215 ~~(relating to~~
147 ~~alimony payments)~~;

148 (18) Moving expenses paid or incurred during the
149 taxable year as allowed under 26 U.S.C. § 217 (relating to
150 moving expenses). However, in applying 26 U.S.C. § 217, the
151 term "new principal place of work" means only places of work
152 located within the State of Alabama~~;~~;

153 (19) Any expense not exceeding thirty-five thousand
154 dollars (\$35,000) actually incurred during the taxable year in
155 removing from his or her property any architectural or
156 transportation barriers to handicapped persons with
157 nonambulatory and semiambulatory disabilities~~;~~; provided~~,~~
158 ~~however,~~ that any improvements resulting from that expense
159 shall not be eligible to be capitalized for depreciation~~;~~;

160 (20) Notwithstanding subdivision (1), the deduction for
161 expenses of travel, entertainment, and meals shall be
162 determined in accordance with 26 U.S.C. § 274~~;~~;

163 (21) The deduction allowed by 26 U.S.C. § 179 ~~(relating~~
164 ~~to expensing certain depreciable property)~~, provided that no
165 deduction shall be allowed under subdivision (8) for any
166 amount allowed as a deduction under this subdivision~~;~~;

167 (22) The deduction allowed by 26 U.S.C. § 195 ~~(relating~~
168 ~~to amortization of start-up expenditures)~~, but in the case of



HB527 Engrossed

169 a nonresident, only if the principal place of business of the
170 business investigated, created, or acquired is located in the
171 State of Alabama~~;~~;

172 (23) The deduction allowed by subdivision (1), to the
173 extent that it consists of unreimbursed employee business
174 expenses, and the deduction allowed by subdivision (14) shall
175 be allowed only to the extent that the aggregate of the
176 deductions exceeds 2 percent of adjusted gross income~~;~~;

177 (24) The reasonable medical and legal expenses paid or
178 incurred by the taxpayer in connection with the adoption of a
179 minor. For purposes of this subdivision, medical expenses
180 shall include any medical and hospital expenses of the adoptee
181 and the adoptee's biological mother which are incident to the
182 adoptee's birth and subsequent medical care and which, in the
183 case of the adoptee, are paid or incurred before the petition
184 is granted~~;~~;

185 (25) The amount of any aid or assistance, whether in
186 the form of property, services, or monies, provided to the
187 State Industrial Development Authority pursuant to Section
188 41-10-44.8(d) in order to induce an approved company to
189 undertake a major project within the state~~;~~;

190 (26) The amount of premiums paid pursuant to a
191 qualifying insurance contract for qualified long-term care
192 coverage~~;~~;

193 (27) The amount deductible by the taxpayer in
194 accordance with 26 U.S.C. § 162(h)~~;~~;

195 (28) The amount, up to five thousand dollars (\$5,000)
196 per annum, contributed subsequent to December 31, 2007, to the



HB527 Engrossed

197 Alabama Prepaid Affordable College Tuition Program or the
198 Alabama College Education Savings Program as defined in
199 Chapter 33C of Title 16. If the taxpayer makes a nonqualified
200 withdrawal as defined by ~~Section 529 of the Internal Revenue~~
201 ~~Code (26 U.S.C. § 529)~~, the amount of the nonqualified
202 withdrawal, plus 10 percent of the amount withdrawn, shall be
203 added back to the income of the contributing taxpayer in the
204 year the nonqualified withdrawal was distributed; and

205 (29) For tax years beginning on and after January 1,
206 2026, and ending December 31, 2028, qualified overtime
207 compensation received during the taxable year, not to exceed
208 one thousand dollars (\$1,000) per taxpayer. For purposes of
209 this deduction, qualified overtime compensation shall be
210 defined and calculated pursuant to the provisions of 26 U.S.C.
211 § 225. An individual taxpayer shall be allowed the deduction
212 for qualified overtime compensation, regardless of whether the
213 taxpayer itemizes income tax deductions in calculating the
214 income tax imposed pursuant to Section 40-18-5.

215 (b) (1) In lieu of the deductions allowable to
216 individual taxpayers, as provided in subdivision (a)(1) ~~of~~
217 ~~subsection (a)~~ to the extent of unreimbursed employee business
218 expenses, and as provided in subdivisions (a)(2), (3), (5),
219 (6), (10), (13), (14), (15), (16), (19), (22), and (26) ~~of~~
220 ~~subsection (a)~~, the taxpayer may elect to take the optional
221 standard deduction of 20 percent of the adjusted gross income
222 or two thousand dollars (\$2,000), whichever is the lesser.
223 Taxpayers filing jointly as defined in Section 40-18-27 may
224 elect to take the optional standard deduction of 20 percent of



HB527 Engrossed

225 the adjusted gross income or four thousand dollars (\$4,000),
226 whichever is the lesser.

227 (2) For tax years beginning after December 31, 2006,
228 the optional standard deduction shall be determined as
229 follows:

230 a. The standard deduction for married taxpayers filing
231 jointly with adjusted gross income of twenty thousand dollars
232 (\$20,000) or less shall be seven thousand five hundred dollars
233 (\$7,500). For married taxpayers filing jointly with adjusted
234 gross income of greater than twenty thousand dollars
235 (\$20,000), the standard deduction shall be reduced by one
236 hundred seventy-five dollars (\$175) for each five hundred
237 dollars (\$500) of adjusted gross income in excess of twenty
238 thousand dollars (\$20,000). Notwithstanding the preceding
239 sentence, the standard deduction shall not be less than four
240 thousand dollars (\$4,000) for married taxpayers filing
241 jointly.

242 b. The standard deduction for married taxpayers filing
243 separate returns with adjusted gross income of ten thousand
244 dollars (\$10,000) or less shall be three thousand seven
245 hundred fifty dollars (\$3,750). For married taxpayers filing
246 separate returns with adjusted gross income of greater than
247 ten thousand dollars (\$10,000), the standard deduction shall
248 be reduced by eighty-eight dollars (\$88) for each two hundred
249 fifty dollars (\$250) of adjusted gross income in excess of ten
250 thousand dollars (\$10,000). Notwithstanding the preceding
251 sentence, the standard deduction shall not be less than two
252 thousand dollars (\$2,000) for married taxpayers filing



HB527 Engrossed

253 separate returns.

254 c. The standard deduction for head of family taxpayers
255 with adjusted gross income of twenty thousand dollars
256 (\$20,000) or less shall be four thousand seven hundred dollars
257 (\$4,700). For head of family taxpayers with adjusted gross
258 income of greater than twenty thousand dollars (\$20,000), the
259 standard deduction shall be reduced by one hundred thirty-five
260 dollars (\$135) for each five hundred dollars (\$500) of
261 adjusted gross income in excess of twenty thousand dollars
262 (\$20,000). Notwithstanding the preceding sentence, the
263 standard deduction shall not be less than two thousand dollars
264 (\$2,000) for head of family taxpayers.

265 d. The standard deduction for single taxpayers with
266 adjusted gross income of twenty thousand dollars (\$20,000) or
267 less shall be two thousand five hundred dollars (\$2,500). For
268 single taxpayers with adjusted gross income of greater than
269 twenty thousand dollars (\$20,000), the standard deduction
270 shall be reduced by twenty-five dollars (\$25) for each five
271 hundred dollars (\$500) of adjusted gross income in excess of
272 twenty thousand dollars (\$20,000). Notwithstanding the
273 preceding sentence, the standard deduction shall not be less
274 than two thousand dollars (\$2,000) for single taxpayers.

275 (3) For tax years beginning after December 31, 2018,
276 the optional standard deduction shall be determined as
277 follows:

278 a. The standard deduction for married taxpayers filing
279 jointly with adjusted gross income of less than twenty-three
280 thousand dollars (\$23,000) shall be seven thousand five



HB527 Engrossed

281 hundred dollars (\$7,500). For married taxpayers filing
282 jointly, the standard deduction shall be reduced further by
283 one hundred seventy-five dollars (\$175) for each five hundred
284 dollars (\$500) of adjusted gross income in excess of
285 twenty-three thousand dollars (\$23,000). Notwithstanding the
286 preceding sentence, the standard deduction shall not be less
287 than four thousand dollars (\$4,000) for married taxpayers
288 filing jointly.

289 b. The standard deduction for married taxpayers filing
290 separate returns with adjusted gross income of less than ten
291 thousand five hundred dollars (\$10,500) shall be three
292 thousand seven hundred fifty dollars (\$3,750). For married
293 taxpayers filing separate returns, the standard deduction
294 shall be reduced further by eighty-eight dollars (\$88) for
295 each two hundred fifty dollars (\$250) of adjusted gross income
296 in excess of ten thousand five hundred dollars (\$10,500).
297 Notwithstanding the preceding sentence, the standard deduction
298 shall not be less than two thousand dollars (\$2,000) for
299 married taxpayers filing separate returns.

300 c. The standard deduction for head of family taxpayers
301 with adjusted gross income of less than twenty-three thousand
302 dollars (\$23,000) shall be four thousand seven hundred dollars
303 (\$4,700). For head of family taxpayers, the standard deduction
304 shall be reduced further by one hundred thirty-five dollars
305 (\$135) for each five hundred dollars (\$500) of adjusted gross
306 income in excess of twenty-three thousand dollars (\$23,000).
307 Notwithstanding the preceding sentence, the standard deduction
308 shall not be less than two thousand dollars (\$2,000) for head



HB527 Engrossed

309 of family taxpayers.

310 d. The standard deduction for single taxpayers with
311 adjusted gross income of less than twenty-three thousand
312 dollars (\$23,000) shall be two thousand five hundred dollars
313 (\$2,500). For single taxpayers, the standard deduction shall
314 be reduced further by twenty-five dollars (\$25) for each five
315 hundred dollars (\$500) of adjusted gross income in excess of
316 twenty-three thousand dollars (\$23,000). Notwithstanding the
317 preceding sentence, the standard deduction shall not be less
318 than two thousand dollars (\$2,000) for single taxpayers.

319 (4) For tax years beginning after December 31, 2021,
320 the optional standard deduction shall be determined as
321 follows:

322 a. The standard deduction for married taxpayers filing
323 jointly with adjusted gross income of less than twenty-five
324 thousand five hundred dollars (\$25,500) shall be eight
325 thousand five hundred dollars (\$8,500). For married taxpayers
326 filing jointly, the standard deduction shall be reduced
327 further by one hundred seventy-five dollars (\$175) for each
328 five hundred dollars (\$500) of adjusted gross income in excess
329 of twenty-five thousand five hundred dollars (\$25,500).
330 Notwithstanding the preceding sentence, the standard deduction
331 shall not be less than five thousand dollars (\$5,000) for
332 married taxpayers filing jointly.

333 b. The standard deduction for married taxpayers filing
334 separate returns with adjusted gross income of less than
335 twelve thousand seven hundred fifty dollars (\$12,750) shall be
336 four thousand two hundred fifty dollars (\$4,250). For married



HB527 Engrossed

337 taxpayers filing separate returns, the standard deduction
338 shall be reduced further by eighty-eight dollars (\$88) for
339 each two hundred fifty dollars (\$250) of adjusted gross income
340 in excess of twelve thousand seven hundred fifty dollars
341 (\$12,750). Notwithstanding the preceding sentence, the
342 standard deduction shall not be less than two thousand five
343 hundred dollars (\$2,500) for married taxpayers filing separate
344 returns.

345 c. The standard deduction for head of family taxpayers
346 with adjusted gross income of less than twenty-five thousand
347 five hundred dollars (\$25,500) shall be five thousand two
348 hundred dollars (\$5,200). For head of family taxpayers, the
349 standard deduction shall be reduced further by one hundred
350 thirty-five dollars (\$135) for each five hundred dollars
351 (\$500) of adjusted gross income in excess of twenty-five
352 thousand five hundred dollars (\$25,500). Notwithstanding the
353 preceding sentence, the standard deduction shall not be less
354 than two thousand five hundred dollars (\$2,500) for head of
355 family taxpayers.

356 d. The standard deduction for single taxpayers with
357 adjusted gross income of less than twenty-five thousand five
358 hundred dollars (\$25,500) shall be three thousand dollars
359 (\$3,000). For single taxpayers, the standard deduction shall
360 be reduced further by twenty-five dollars (\$25) for each five
361 hundred dollars (\$500) of adjusted gross income in excess of
362 twenty-five thousand five hundred dollars (\$25,500).
363 Notwithstanding the preceding sentence, the standard deduction
364 shall not be less than two thousand five hundred dollars



HB527 Engrossed

365 (\$2,500) for single taxpayers.

366 (c) A deduction is allowable for the amount of federal
367 income tax paid or accrued within the taxable year. In the
368 case of a nonresident taxpayer, the amount of federal income
369 tax deductible to Alabama shall be determined by the ratio
370 that the amount of adjusted gross income received from sources
371 within the State of Alabama bears to the amount of adjusted
372 gross income received from sources within and outside the
373 State of Alabama.

374 (d) If separate returns are filed by husband and wife
375 and one spouse elects to claim the optional standard
376 deduction, the other spouse must also claim the optional
377 standard deduction, unless, for the tax returns filed for the
378 2014 and subsequent tax years, the spouses have lived apart
379 for the entire year. In this case, each spouse may claim
380 either the optional standard deduction or itemized deductions.
381 Neither spouse may claim a deduction for expenses paid by the
382 other spouse.

383 (e) In the case of a nonresident individual:

384 (1) The deductions allowed in subdivisions (a)(1), (2),
385 (3), (4), (5), (7), (8), (9), (11), (12), (19), (21), (23),
386 and (25) ~~of subsection (a)~~ shall be allowed only to the extent
387 that they are paid or incurred in carrying on a trade or
388 business within the State of Alabama and the deduction allowed
389 by Section 40-18-15.2 shall be allowed only to the extent it
390 arose from a trade or business carried on in Alabama;i

391 (2) The deductions allowed by subdivisions (a)(2), (3),
392 (5), (8), (9), (14), and (19) ~~of subsection (a)~~ shall be



HB527 Engrossed

393 allowed only to the extent arising from property located in
394 Alabama or transactions producing income that is subject to
395 tax in the State of Alabama~~;~~ and

396 (3) The amount of the deductions allowed by
397 subdivisions (a)(2), (3), (6), (10), (13), (15), (16), (17),
398 (19), (24), and (26) ~~of subsection (a)~~ (and not allowed by
399 subdivisions (1) or (2) ~~of this subsection~~), or by subsection
400 (b) if the taxpayer elects the standard deduction, shall be
401 limited to the amount determined by multiplying the total of
402 such deductions by a fraction, the numerator of which is the
403 taxpayer's adjusted gross income determined using the rules
404 provided in subdivisions (1) and (2) ~~of this subsection~~ and
405 the denominator of which is the taxpayer's adjusted gross
406 income determined under Section 40-18-14.2. The deduction
407 allowed in subdivision (a)(17) ~~of subsection (a)~~ shall not be
408 subtracted in calculating either the numerator or denominator
409 in the previous sentence.

410 (f) Nothing in this section shall allow any item to be
411 deducted more than once."

412 Section 2. (a) Notwithstanding any other provision of
413 law to the contrary, for the period beginning May 1, 2026
414 through June 30, 2026, the state portion of the sales and use
415 taxes on food levied pursuant to Sections 40-23-2(6) and
416 40-23-61(d), Code of Alabama 1975, shall be suspended.

417 (b) The Department of Revenue may adopt rules to
418 implement this section.

419 Section 3. Section 1 of this act shall become effective
420 on October 1, 2026. Section 2 of this act shall become

HB527 Engrossed



421 effective immediately.

