

HB527 ENROLLED



1 HB527

2 RBTICNY-3

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

6 RFD: Ways and Means Education

7 First Read: 26-Feb-26



HB527 Enrolled

1 Enrolled, An Act,

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

13 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

16 "§40-18-15

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

22 (1) All ordinary and necessary expenses paid or
23 incurred during the taxable year in carrying on any trade or
24 business, as determined in accordance with 26 U.S.C. § 162-~~r~~;

25 (2) Interest paid or accrued within the taxable year on
26 indebtedness, limited to the amount allowable as an interest
27 deduction for federal income tax purposes in the corresponding
28 tax year or period pursuant to the provisions of 26 U.S.C. §§



HB527 Enrolled

29 163, 264, and 265~~;~~;

30 (3) The following taxes paid or accrued within the
31 taxable year:

32 a. Income taxes, Federal Insurance Contribution Act
33 taxes, taxes on self-employment income, and estate and gift
34 taxes imposed by authority of the United States or any
35 possession of the United States.

36 b. State and local, and foreign, occupational license
37 taxes, and contributions to state unemployment funds.

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

39 d. State and local personal property taxes.

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

42 f. The taxes described in paragraphs c., d., and e.
43 shall be deductible only to the extent that the taxes are
44 deductible for federal income tax purposes under 26 U.S.C. §
45 164 ~~(relating to taxes)~~.

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

53 h. Notwithstanding paragraph g., any tax described in
54 any paragraph preceding paragraph g. that is paid or accrued
55 in connection with an acquisition or disposition of property
56 shall be treated as part of the cost of the acquired property



HB527 Enrolled

57 or, in the case of a disposition, as a reduction in the amount
58 realized on the disposition of that property-; i

59 (4) Losses sustained during the taxable year and not
60 compensated for by insurance or otherwise if incurred in a
61 trade or business, in accordance with 26 U.S.C. § 165(c)(1)-; i

62 (5) Losses sustained during the taxable year and not
63 compensated for by insurance or otherwise, if incurred in any
64 transaction entered into for profit, though not connected with
65 the trade or business in accordance with 26 U.S.C. §
66 165(c)(2); but, in the case of a taxpayer other than a
67 resident of the state, only as to those transactions within
68 the state-; i

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

80 (7) Losses from debts ascertained to be worthless and
81 charged off during the taxable year of ascertainment, if
82 sustained in the conduct of the regular trade or business of
83 the taxpayer-; i

84 (8) A reasonable allowance for the exhaustion, wear, i



HB527 Enrolled

85 and tear of property from which any income is derived,
86 including a reasonable allowance for obsolescence, in
87 accordance with 26 U.S.C. §§ 167 and 168, and an allowance for
88 the amortization of intangibles determined in accordance with
89 26 U.S.C. § 197~~+~~;

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

100 (10) Charitable contributions to the extent allowed for
101 federal income tax purposes under 26 U.S.C. § 170 (relating to
102 charitable contributions and gifts)~~+~~;

103 (11) The deduction allowed to the individual for
104 federal income tax purposes by 26 U.S.C. § 219 (relating to
105 retirement savings)~~+~~;

106 (12) The deduction allowed for federal income tax
107 purposes by 26 U.S.C. § 404 (relating to qualified pension,
108 profit sharing, stock bonus, and annuity plans).

109 (13) For each individual income taxpayer, medical and
110 dental expenses, including amounts paid for medicine and drugs
111 and amounts paid for accident and health insurance, as
112 determined in accordance with 26 U.S.C. § 213~~+~~; provided~~+~~;



HB527 Enrolled

113 ~~however,~~ that the limitation of the deduction to the excess of
114 those expenses over 7.5 percent of adjusted gross income as
115 provided in 26 U.S.C. § 213 shall instead be limited to the
116 excess of those expenses over 4.0 percent of adjusted gross
117 income~~;~~;

118 (14) For each individual income taxpayer, the deduction
119 determined in accordance with 26 U.S.C. § 212 for all the
120 ordinary and necessary expenses paid or incurred during the
121 taxable year for the production or collection of income, or
122 for the management, conservation, or maintenance of property
123 held for the production of income, or in connection with the
124 determination, collection, or refund of any tax~~;~~;

125 (15) Any expense not exceeding one thousand dollars
126 (\$1,000) actually incurred during the taxable year in
127 constructing on his or her property a family radioactive
128 fallout shelter, as approved and certified by the State
129 Department of Emergency Management, and any amount not
130 exceeding one thousand dollars (\$1,000) which he or she
131 contributed during the taxable year toward the construction of
132 a community radioactive fallout shelter~~;~~;

133 (16) A deduction from the taxpayer's adjusted gross
134 income for state income tax purposes of the total cost of
135 installation for conversion from gas or electricity to wood as
136 the primary energy source for heating their individual
137 domestic homes for the taxable year during which a conversion
138 was completed~~;~~;

139 (17) Alimony and separate maintenance payments, the
140 amount deductible to be the same as the amount deductible for



HB527 Enrolled

141 federal income tax purposes under 26 U.S.C. § 215 ~~(relating to~~
142 ~~alimony payments)~~.i

143 (18) Moving expenses paid or incurred during the
144 taxable year as allowed under 26 U.S.C. § 217 (relating to
145 moving expenses). However, in applying 26 U.S.C. § 217, the
146 term "new principal place of work" means only places of work
147 located within the State of Alabama.i

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

155 (20) Notwithstanding subdivision (1), the deduction for
156 expenses of travel, entertainment, and meals shall be
157 determined in accordance with 26 U.S.C. § 274.i

158 (21) The deduction allowed by 26 U.S.C. § 179 ~~(relating~~
159 ~~to expensing certain depreciable property)~~, provided that no
160 deduction shall be allowed under subdivision (8) for any
161 amount allowed as a deduction under this subdivision.i

162 (22) The deduction allowed by 26 U.S.C. § 195 ~~(relating~~
163 ~~to amortization of start-up expenditures)~~, but in the case of
164 a nonresident, only if the principal place of business of the
165 business investigated, created, or acquired is located in the
166 State of Alabama.i

167 (23) The deduction allowed by subdivision (1), to the
168 extent that it consists of unreimbursed employee business



HB527 Enrolled

169 expenses, and the deduction allowed by subdivision (14) shall
170 be allowed only to the extent that the aggregate of the
171 deductions exceeds 2 percent of adjusted gross income~~;~~;

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

180 (25) The amount of any aid or assistance, whether in
181 the form of property, services, or monies, provided to the
182 State Industrial Development Authority pursuant to Section
183 41-10-44.8(d) in order to induce an approved company to
184 undertake a major project within the state~~;~~;

185 (26) The amount of premiums paid pursuant to a
186 qualifying insurance contract for qualified long-term care
187 coverage~~;~~;

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

190 (28) The amount, up to five thousand dollars (\$5,000)
191 per annum, contributed subsequent to December 31, 2007, to the
192 Alabama Prepaid Affordable College Tuition Program or the
193 Alabama College Education Savings Program as defined in
194 Chapter 33C of Title 16. If the taxpayer makes a nonqualified
195 withdrawal as defined by ~~Section 529 of the Internal Revenue~~
196 ~~Code (26 U.S.C. § 529)~~, the amount of the nonqualified



HB527 Enrolled

197 withdrawal, plus 10 percent of the amount withdrawn, shall be
198 added back to the income of the contributing taxpayer in the
199 year the nonqualified withdrawal was distributed~~;~~ and

200 (29) For tax years beginning on and after January 1,
201 2026, and ending December 31, 2028, qualified overtime
202 compensation received during the taxable year, not to exceed
203 one thousand dollars (\$1,000) per taxpayer. For purposes of
204 this deduction, qualified overtime compensation shall be
205 defined and calculated pursuant to the provisions of 26 U.S.C.
206 § 225. An individual taxpayer shall be allowed the deduction
207 for qualified overtime compensation, regardless of whether the
208 taxpayer itemizes income tax deductions in calculating the
209 income tax imposed pursuant to Section 40-18-5.

210 (b) (1) In lieu of the deductions allowable to
211 individual taxpayers, as provided in subdivision (a) (1)~~of~~
212 ~~subsection (a)~~ to the extent of unreimbursed employee business
213 expenses, and as provided in subdivisions (a) (2), (3), (5),
214 (6), (10), (13), (14), (15), (16), (19), (22), and (26)~~of~~
215 ~~subsection (a)~~, the taxpayer may elect to take the optional
216 standard deduction of 20 percent of the adjusted gross income
217 or two thousand dollars (\$2,000), whichever is the lesser.
218 Taxpayers filing jointly as defined in Section 40-18-27 may
219 elect to take the optional standard deduction of 20 percent of
220 the adjusted gross income or four thousand dollars (\$4,000),
221 whichever is the lesser.

222 (2) For tax years beginning after December 31, 2006,
223 the optional standard deduction shall be determined as
224 follows:



HB527 Enrolled

225 a. The standard deduction for married taxpayers filing
226 jointly with adjusted gross income of twenty thousand dollars
227 (\$20,000) or less shall be seven thousand five hundred dollars
228 (\$7,500). For married taxpayers filing jointly with adjusted
229 gross income of greater than twenty thousand dollars
230 (\$20,000), the standard deduction shall be reduced by one
231 hundred seventy-five dollars (\$175) for each five hundred
232 dollars (\$500) of adjusted gross income in excess of twenty
233 thousand dollars (\$20,000). Notwithstanding the preceding
234 sentence, the standard deduction shall not be less than four
235 thousand dollars (\$4,000) for married taxpayers filing
236 jointly.

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

249 c. The standard deduction for head of family taxpayers
250 with adjusted gross income of twenty thousand dollars
251 (\$20,000) or less shall be four thousand seven hundred dollars
252 (\$4,700). For head of family taxpayers with adjusted gross



HB527 Enrolled

253 income of greater than twenty thousand dollars (\$20,000), the
254 standard deduction shall be reduced by one hundred thirty-five
255 dollars (\$135) for each five hundred dollars (\$500) of
256 adjusted gross income in excess of twenty thousand dollars
257 (\$20,000). Notwithstanding the preceding sentence, the
258 standard deduction shall not be less than two thousand dollars
259 (\$2,000) for head of family taxpayers.

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

270 (3) For tax years beginning after December 31, 2018,
271 the optional standard deduction shall be determined as
272 follows:

273 a. The standard deduction for married taxpayers filing
274 jointly with adjusted gross income of less than twenty-three
275 thousand dollars (\$23,000) shall be seven thousand five
276 hundred dollars (\$7,500). For married taxpayers filing
277 jointly, the standard deduction shall be reduced further by
278 one hundred seventy-five dollars (\$175) for each five hundred
279 dollars (\$500) of adjusted gross income in excess of
280 twenty-three thousand dollars (\$23,000). Notwithstanding the



HB527 Enrolled

281 preceding sentence, the standard deduction shall not be less
282 than four thousand dollars (\$4,000) for married taxpayers
283 filing jointly.

284 b. The standard deduction for married taxpayers filing
285 separate returns with adjusted gross income of less than ten
286 thousand five hundred dollars (\$10,500) shall be three
287 thousand seven hundred fifty dollars (\$3,750). For married
288 taxpayers filing separate returns, the standard deduction
289 shall be reduced further by eighty-eight dollars (\$88) for
290 each two hundred fifty dollars (\$250) of adjusted gross income
291 in excess of ten thousand five hundred dollars (\$10,500).

292 Notwithstanding the preceding sentence, the standard deduction
293 shall not be less than two thousand dollars (\$2,000) for
294 married taxpayers filing separate returns.

295 c. The standard deduction for head of family taxpayers
296 with adjusted gross income of less than twenty-three thousand
297 dollars (\$23,000) shall be four thousand seven hundred dollars
298 (\$4,700). For head of family taxpayers, the standard deduction
299 shall be reduced further by one hundred thirty-five dollars
300 (\$135) for each five hundred dollars (\$500) of adjusted gross
301 income in excess of twenty-three thousand dollars (\$23,000).

302 Notwithstanding the preceding sentence, the standard deduction
303 shall not be less than two thousand dollars (\$2,000) for head
304 of family taxpayers.

305 d. The standard deduction for single taxpayers with
306 adjusted gross income of less than twenty-three thousand
307 dollars (\$23,000) shall be two thousand five hundred dollars
308 (\$2,500). For single taxpayers, the standard deduction shall



HB527 Enrolled

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

314 (4) For tax years beginning after December 31, 2021,
315 the optional standard deduction shall be determined as
316 follows:

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

328 b. The standard deduction for married taxpayers filing
329 separate returns with adjusted gross income of less than
330 twelve thousand seven hundred fifty dollars (\$12,750) shall be
331 four thousand two hundred fifty dollars (\$4,250). For married
332 taxpayers filing separate returns, the standard deduction
333 shall be reduced further by eighty-eight dollars (\$88) for
334 each two hundred fifty dollars (\$250) of adjusted gross income
335 in excess of twelve thousand seven hundred fifty dollars
336 (\$12,750). Notwithstanding the preceding sentence, the



HB527 Enrolled

337 standard deduction shall not be less than two thousand five
338 hundred dollars (\$2,500) for married taxpayers filing separate
339 returns.

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

351 d. The standard deduction for single taxpayers with
352 adjusted gross income of less than twenty-five thousand five
353 hundred dollars (\$25,500) shall be three thousand dollars
354 (\$3,000). For single taxpayers, the standard deduction shall
355 be reduced further by twenty-five dollars (\$25) for each five
356 hundred dollars (\$500) of adjusted gross income in excess of
357 twenty-five thousand five hundred dollars (\$25,500).
358 Notwithstanding the preceding sentence, the standard deduction
359 shall not be less than two thousand five hundred dollars
360 (\$2,500) for single taxpayers.

361 (c) A deduction is allowable for the amount of federal
362 income tax paid or accrued within the taxable year. In the
363 case of a nonresident taxpayer, the amount of federal income
364 tax deductible to Alabama shall be determined by the ratio



HB527 Enrolled

365 that the amount of adjusted gross income received from sources
366 within the State of Alabama bears to the amount of adjusted
367 gross income received from sources within and outside the
368 State of Alabama.

369 (d) If separate returns are filed by husband and wife
370 and one spouse elects to claim the optional standard
371 deduction, the other spouse must also claim the optional
372 standard deduction, unless, for the tax returns filed for the
373 2014 and subsequent tax years, the spouses have lived apart
374 for the entire year. In this case, each spouse may claim
375 either the optional standard deduction or itemized deductions.
376 Neither spouse may claim a deduction for expenses paid by the
377 other spouse.

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

379 (1) The deductions allowed in subdivisions (a)(1), (2),
380 (3), (4), (5), (7), (8), (9), (11), (12), (19), (21), (23),
381 and (25) ~~of subsection (a)~~ shall be allowed only to the extent
382 that they are paid or incurred in carrying on a trade or
383 business within the State of Alabama and the deduction allowed
384 by Section 40-18-15.2 shall be allowed only to the extent it
385 arose from a trade or business carried on in Alabama-;

386 (2) The deductions allowed by subdivisions (a)(2), (3),
387 (5), (8), (9), (14), and (19) ~~of subsection (a)~~ shall be
388 allowed only to the extent arising from property located in
389 Alabama or transactions producing income that is subject to
390 tax in the State of Alabama-; and

391 (3) The amount of the deductions allowed by
392 subdivisions (a)(2), (3), (6), (10), (13), (15), (16), (17),



HB527 Enrolled

393 (19), (24), and (26) ~~of subsection (a)~~ (and not allowed by
394 subdivisions (1) or (2) ~~of this subsection~~), or by subsection
395 (b) if the taxpayer elects the standard deduction, shall be
396 limited to the amount determined by multiplying the total of
397 such deductions by a fraction, the numerator of which is the
398 taxpayer's adjusted gross income determined using the rules
399 provided in subdivisions (1) and (2) ~~of this subsection~~ and
400 the denominator of which is the taxpayer's adjusted gross
401 income determined under Section 40-18-14.2. The deduction
402 allowed in subdivision (a) (17) ~~of subsection (a)~~ shall not be
403 subtracted in calculating either the numerator or denominator
404 in the previous sentence.

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

407 Section 2. (a) Notwithstanding any other provision of
408 law to the contrary, for the period beginning May 1, 2026
409 through June 30, 2026, the state portion of the sales and use
410 taxes on food levied pursuant to Sections 40-23-2(6) and
411 40-23-61(d), Code of Alabama 1975, shall be suspended.

412 (b) The Department of Revenue may adopt rules to
413 implement this section.

414 Section 3. Section 1 of this act shall become effective
415 on October 1, 2026. Section 2 of this act shall become
416 effective immediately.



HB527 Enrolled

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Speaker of the House of Representatives

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 31-Mar-26, as amended.

John Treadwell
Clerk

Senate

08-Apr-26

Passed