

HB527 INTRODUCED



1 HB527

2 XDIPJE7-1

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



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SYNOPSIS:

Under existing law, certain items are deductible from taxable income for Alabama individual income taxes. There is no current deduction allowed for qualified overtime compensation.

This bill would establish an Alabama individual income tax deduction for qualified overtime compensation equal to the amount of qualified overtime compensation received by a taxpayer during the taxable year, not to exceed one thousand dollars (\$1,000) per taxpayer, effective for tax years beginning on or after January 1, 2025 through December 31, 2027.

This bill would also make nonsubstantive, technical revisions to update the existing code language to current style.

A BILL
TO BE ENTITLED
AN ACT

Relating to income 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



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29 taxable year, not to exceed one thousand dollars (\$1,000) per
30 taxpayer; and to make nonsubstantive, technical revisions to
31 update existing code language to current style.

32 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

35 "§40-18-15

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

41 (1) All ordinary and necessary expenses paid or
42 incurred during the taxable year in carrying on any trade or
43 business, as determined in accordance with 26 U.S.C. § 162-i

44 (2) Interest paid or accrued within the taxable year on
45 indebtedness, limited to the amount allowable as an interest
46 deduction for federal income tax purposes in the corresponding
47 tax year or period pursuant to the provisions of 26 U.S.C. §§
48 163, 264, and 265-i

49 (3) The following taxes paid or accrued within the
50 taxable year:

51 a. Income taxes, Federal Insurance Contribution Act
52 taxes, taxes on self-employment income, l and estate and gift
53 taxes imposed by authority of the United States or any
54 possession of the United States.

55 b. State and local, and foreign, occupational license
56 taxes, and contributions to state unemployment funds.



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

58 d. State and local personal property taxes.

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

61 f. The taxes described in paragraphs c., d., and e.
62 shall be deductible only to the extent that the taxes are
63 deductible for federal income tax purposes under 26 U.S.C. §
64 164 ~~relating to taxes~~.

65 g. In addition, there shall be allowed as a deduction,
66 state and local, and foreign taxes, except income taxes, and
67 taxes imposed by authority of the United States or any
68 possession of the United States, which are paid or accrued
69 within the taxable year in carrying on a trade or business or
70 an activity described in 26 U.S.C. § 212 ~~relating to expenses~~
71 for the production of income~~.~~.

72 h. Notwithstanding paragraph g., any tax described in
73 any paragraph preceding paragraph g. that is paid or accrued
74 in connection with an acquisition or disposition of property
75 shall be treated as part of the cost of the acquired property
76 or, in the case of a disposition, as a reduction in the amount
77 realized on the disposition of that property~~;~~;

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

81 (5) Losses sustained during the taxable year and not
82 compensated for by insurance or otherwise, if incurred in any
83 transaction entered into for profit, though not connected with
84 the trade or business in accordance with 26 U.S.C. §



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85 165(c)(2); but, in the case of a taxpayer other than a
86 resident of the state, only as to those transactions within
87 the state-;i

88 (6) Casualty and theft losses sustained during the
89 taxable year of property not connected with the conduct of a
90 trade or business or a transaction entered into for profit as
91 determined in accordance with ~~subsections (c)(3) and (h) of~~ 26
92 U.S.C. § 165 (c)(3) and (h). In the case of a nonresident, the
93 deduction shall be allowed only for the losses arising from
94 property located within the State of Alabama and the
95 limitations in 26 U.S.C. § 165 shall be applied with regard
96 only to the taxpayer's Alabama adjusted gross income. No loss
97 shall be allowed if at the time of filing the return, the loss
98 has been claimed on a federal estate tax return-;i

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

103 (8) A reasonable allowance for the exhaustion, wear, and
104 and tear of property from which any income is derived,
105 including a reasonable allowance for obsolescence, in
106 accordance with 26 U.S.C. §§ 167 and 168, and an allowance for
107 the amortization of intangibles determined in accordance with
108 26 U.S.C. § 197-;i

109 (9) In the case of mines, oil, and gas wells, other
110 natural deposits and timber, a reasonable allowance for
111 depletion and for depreciation of improvements, according to
112 the peculiar condition in each case based upon the cost,



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113 including the cost of development not otherwise deducted, such
114 reasonable allowance in all cases to be made under rules and
115 regulations to be prescribed by the Department of Revenue;
116 and, in the case of leasehold interests, the deduction allowed
117 by this section shall be equitably apportioned between the
118 lessor and the lessee-;i

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

122 (11) The deduction allowed to the individual for
123 federal income tax purposes by 26 U.S.C. § 219 (relating to
124 retirement savings)-;i

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

128 (13) For each individual income taxpayer, medical and
129 dental expenses, including amounts paid for medicine and drugs
130 and amounts paid for accident and health insurance, as
131 determined in accordance with 26 U.S.C. § 213-;L provided-
132 however-; that the limitation of the deduction to the excess of
133 those expenses over 7.5 percent of adjusted gross income as
134 provided in 26 U.S.C. § 213 shall instead be limited to the
135 excess of those expenses over 4.0 percent of adjusted gross
136 income-;i

137 (14) For each individual income taxpayer, the deduction
138 determined in accordance with 26 U.S.C. § 212 for all the
139 ordinary and necessary expenses paid or incurred during the
140 taxable year for the production or collection of income, or



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141 for the management, conservation, or maintenance of property
142 held for the production of income, or in connection with the
143 determination, collection, or refund of any tax-;:

144 (15) Any expense not exceeding one thousand dollars
145 (\$1,000) actually incurred during the taxable year in
146 constructing on his or her property a family radioactive
147 fallout shelter, as approved and certified by the State
148 Department of Emergency Management, and any amount not
149 exceeding one thousand dollars (\$1,000) which he or she
150 contributed during the taxable year toward the construction of
151 a community radioactive fallout shelter-;:

152 (16) A deduction from the taxpayer's adjusted gross
153 income for state income tax purposes of the total cost of
154 installation for conversion from gas or electricity to wood as
155 the primary energy source for heating their individual
156 domestic homes for the taxable year during which a conversion
157 was completed-;:

158 (17) Alimony and separate maintenance payments, the
159 amount deductible to be the same as the amount deductible for
160 federal income tax purposes under 26 U.S.C. § 215 ~~+~~relating to
161 alimony payments~~)-;:~~

162 (18) Moving expenses paid or incurred during the
163 taxable year as allowed under 26 U.S.C. § 217 (relating to
164 moving expenses). However, in applying 26 U.S.C. § 217, the
165 term "new principal place of work" means only places of work
166 located within the State of Alabama-;:

167 (19) Any expense not exceeding thirty-five thousand
168 dollars (\$35,000) actually incurred during the taxable year in



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169 removing from his or her property any architectural or
170 transportation barriers to handicapped persons with
171 nonambulatory and semiambulatory disabilities~~+~~; provided~~+~~
172 ~~however~~ that any improvements resulting from that expense
173 shall not be eligible to be capitalized for depreciation~~+~~;

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

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

181 (22) The deduction allowed by 26 U.S.C. § 195 ~~relating~~
182 to amortization of start-up expenditures~~+~~, but in the case of
183 a nonresident, only if the principal place of business of the
184 business investigated, created, or acquired is located in the
185 State of Alabama~~+~~;

186 (23) The deduction allowed by subdivision (1), to the
187 extent that it consists of unreimbursed employee business
188 expenses, and the deduction allowed by subdivision (14) shall
189 be allowed only to the extent that the aggregate of the
190 deductions exceeds 2 percent of adjusted gross income~~+~~;

191 (24) The reasonable medical and legal expenses paid or
192 incurred by the taxpayer in connection with the adoption of a
193 minor. For purposes of this subdivision, medical expenses
194 shall include any medical and hospital expenses of the adoptee
195 and the adoptee's biological mother which are incident to the
196 adoptee's birth and subsequent medical care and which, in the



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197 case of the adoptee, are paid or incurred before the petition
198 is granted-; i

199 (25) The amount of any aid or assistance, whether in
200 the form of property, services, or monies, provided to the
201 State Industrial Development Authority pursuant to Section
202 41-10-44.8(d) in order to induce an approved company to
203 undertake a major project within the state-; i

204 (26) The amount of premiums paid pursuant to a
205 qualifying insurance contract for qualified long-term care
206 coverage-; i

207 (27) The amount deductible by the taxpayer in
208 accordance with 26 U.S.C. § 162(h)-; i

209 (28) The amount, up to five thousand dollars (\$5,000)
210 per annum, contributed subsequent to December 31, 2007, to the
211 Alabama Prepaid Affordable College Tuition Program or the
212 Alabama College Education Savings Program as defined in
213 Chapter 33C of Title 16. If the taxpayer makes a nonqualified
214 withdrawal as defined by ~~Section 529 of the Internal Revenue~~
215 ~~Code~~ (26 U.S.C. § 529), the amount of the nonqualified
216 withdrawal, plus 10 percent of the amount withdrawn, shall be
217 added back to the income of the contributing taxpayer in the
218 year the nonqualified withdrawal was distributed-; and

219 (29) For tax years beginning on and after January 1,
220 2025, and ending December 31, 2027, qualified overtime
221 compensation received during the taxable year, not to exceed
222 one thousand dollars (\$1,000) per taxpayer. For purposes of
223 this deduction, qualified overtime compensation shall be
224 defined and calculated pursuant to the provisions of 26 U.S.C.



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225 § 225. An individual taxpayer shall be allowed the deduction
226 for qualified overtime compensation, regardless of whether the
227 taxpayer itemizes income tax deductions in calculating the
228 income tax imposed pursuant to Section 40-18-5.

229 (b) (1) In lieu of the deductions allowable to
230 individual taxpayers, as provided in subdivision (a) (1) ~~of~~
231 ~~subsection (a)~~ to the extent of unreimbursed employee business
232 expenses, and as provided in subdivisions (a) (2), (3), (5),
233 (6), (10), (13), (14), (15), (16), (19), (22), and (26) ~~of~~
234 ~~subsection (a)~~, the taxpayer may elect to take the optional
235 standard deduction of 20 percent of the adjusted gross income
236 or two thousand dollars (\$2,000), whichever is the lesser.
237 Taxpayers filing jointly as defined in Section 40-18-27 may
238 elect to take the optional standard deduction of 20 percent of
239 the adjusted gross income or four thousand dollars (\$4,000),
240 whichever is the lesser.

241 (2) For tax years beginning after December 31, 2006,
242 the optional standard deduction shall be determined as
243 follows:

244 a. The standard deduction for married taxpayers filing
245 jointly with adjusted gross income of twenty thousand dollars
246 (\$20,000) or less shall be seven thousand five hundred dollars
247 (\$7,500). For married taxpayers filing jointly with adjusted
248 gross income of greater than twenty thousand dollars
249 (\$20,000), the standard deduction shall be reduced by one
250 hundred seventy-five dollars (\$175) for each five hundred
251 dollars (\$500) of adjusted gross income in excess of twenty
252 thousand dollars (\$20,000). Notwithstanding the preceding



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253 sentence, the standard deduction shall not be less than four
254 thousand dollars (\$4,000) for married taxpayers filing
255 jointly.

256 b. The standard deduction for married taxpayers filing
257 separate returns with adjusted gross income of ten thousand
258 dollars (\$10,000) or less shall be three thousand seven
259 hundred fifty dollars (\$3,750). For married taxpayers filing
260 separate returns with adjusted gross income of greater than
261 ten thousand dollars (\$10,000), the standard deduction shall
262 be reduced by eighty-eight dollars (\$88) for each two hundred
263 fifty dollars (\$250) of adjusted gross income in excess of ten
264 thousand dollars (\$10,000). Notwithstanding the preceding
265 sentence, the standard deduction shall not be less than two
266 thousand dollars (\$2,000) for married taxpayers filing
267 separate returns.

268 c. The standard deduction for head of family taxpayers
269 with adjusted gross income of twenty thousand dollars
270 (\$20,000) or less shall be four thousand seven hundred dollars
271 (\$4,700). For head of family taxpayers with adjusted gross
272 income of greater than twenty thousand dollars (\$20,000), the
273 standard deduction shall be reduced by one hundred thirty-five
274 dollars (\$135) for each five hundred dollars (\$500) of
275 adjusted gross income in excess of twenty thousand dollars
276 (\$20,000). Notwithstanding the preceding sentence, the
277 standard deduction shall not be less than two thousand dollars
278 (\$2,000) for head of family taxpayers.

279 d. The standard deduction for single taxpayers with
280 adjusted gross income of twenty thousand dollars (\$20,000) or



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281 less shall be two thousand five hundred dollars (\$2,500). For
282 single taxpayers with adjusted gross income of greater than
283 twenty thousand dollars (\$20,000), the standard deduction
284 shall be reduced by twenty-five dollars (\$25) for each five
285 hundred dollars (\$500) of adjusted gross income in excess of
286 twenty thousand dollars (\$20,000). Notwithstanding the
287 preceding sentence, the standard deduction shall not be less
288 than two thousand dollars (\$2,000) for single taxpayers.

289 (3) For tax years beginning after December 31, 2018,
290 the optional standard deduction shall be determined as
291 follows:

292 a. The standard deduction for married taxpayers filing
293 jointly with adjusted gross income of less than twenty-three
294 thousand dollars (\$23,000) shall be seven thousand five
295 hundred dollars (\$7,500). For married taxpayers filing
296 jointly, the standard deduction shall be reduced further by
297 one hundred seventy-five dollars (\$175) for each five hundred
298 dollars (\$500) of adjusted gross income in excess of
299 twenty-three thousand dollars (\$23,000). Notwithstanding the
300 preceding sentence, the standard deduction shall not be less
301 than four thousand dollars (\$4,000) for married taxpayers
302 filing jointly.

303 b. The standard deduction for married taxpayers filing
304 separate returns with adjusted gross income of less than ten
305 thousand five hundred dollars (\$10,500) shall be three
306 thousand seven hundred fifty dollars (\$3,750). For married
307 taxpayers filing separate returns, the standard deduction
308 shall be reduced further by eighty-eight dollars (\$88) for



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309 each two hundred fifty dollars (\$250) of adjusted gross income
310 in excess of ten thousand five hundred dollars (\$10,500).
311 Notwithstanding the preceding sentence, the standard deduction
312 shall not be less than two thousand dollars (\$2,000) for
313 married taxpayers filing separate returns.

314 c. The standard deduction for head of family taxpayers
315 with adjusted gross income of less than twenty-three thousand
316 dollars (\$23,000) shall be four thousand seven hundred dollars
317 (\$4,700). For head of family taxpayers, the standard deduction
318 shall be reduced further by one hundred thirty-five dollars
319 (\$135) for each five hundred dollars (\$500) of adjusted gross
320 income in excess of twenty-three thousand dollars (\$23,000).
321 Notwithstanding the preceding sentence, the standard deduction
322 shall not be less than two thousand dollars (\$2,000) for head
323 of family taxpayers.

324 d. The standard deduction for single taxpayers with
325 adjusted gross income of less than twenty-three thousand
326 dollars (\$23,000) shall be two thousand five hundred dollars
327 (\$2,500). For single taxpayers, the standard deduction shall
328 be reduced further by twenty-five dollars (\$25) for each five
329 hundred dollars (\$500) of adjusted gross income in excess of
330 twenty-three thousand dollars (\$23,000). Notwithstanding the
331 preceding sentence, the standard deduction shall not be less
332 than two thousand dollars (\$2,000) for single taxpayers.

333 (4) For tax years beginning after December 31, 2021,
334 the optional standard deduction shall be determined as
335 follows:

336 a. The standard deduction for married taxpayers filing



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337 jointly with adjusted gross income of less than twenty-five
338 thousand five hundred dollars (\$25,500) shall be eight
339 thousand five hundred dollars (\$8,500). For married taxpayers
340 filing jointly, the standard deduction shall be reduced
341 further by one hundred seventy-five dollars (\$175) for each
342 five hundred dollars (\$500) of adjusted gross income in excess
343 of twenty-five thousand five hundred dollars (\$25,500).
344 Notwithstanding the preceding sentence, the standard deduction
345 shall not be less than five thousand dollars (\$5,000) for
346 married taxpayers filing jointly.

347 b. The standard deduction for married taxpayers filing
348 separate returns with adjusted gross income of less than
349 twelve thousand seven hundred fifty dollars (\$12,750) shall be
350 four thousand two hundred fifty dollars (\$4,250). For married
351 taxpayers filing separate returns, the standard deduction
352 shall be reduced further by eighty-eight dollars (\$88) for
353 each two hundred fifty dollars (\$250) of adjusted gross income
354 in excess of twelve thousand seven hundred fifty dollars
355 (\$12,750). Notwithstanding the preceding sentence, the
356 standard deduction shall not be less than two thousand five
357 hundred dollars (\$2,500) for married taxpayers filing separate
358 returns.

359 c. The standard deduction for head of family taxpayers
360 with adjusted gross income of less than twenty-five thousand
361 five hundred dollars (\$25,500) shall be five thousand two
362 hundred dollars (\$5,200). For head of family taxpayers, the
363 standard deduction shall be reduced further by one hundred
364 thirty-five dollars (\$135) for each five hundred dollars



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365 (\$500) of adjusted gross income in excess of twenty-five
366 thousand five hundred dollars (\$25,500). Notwithstanding the
367 preceding sentence, the standard deduction shall not be less
368 than two thousand five hundred dollars (\$2,500) for head of
369 family taxpayers.

370 d. The standard deduction for single taxpayers with
371 adjusted gross income of less than twenty-five thousand five
372 hundred dollars (\$25,500) shall be three thousand dollars
373 (\$3,000). For single taxpayers, the standard deduction shall
374 be reduced further by twenty-five dollars (\$25) for each five
375 hundred dollars (\$500) of adjusted gross income in excess of
376 twenty-five thousand five hundred dollars (\$25,500).
377 Notwithstanding the preceding sentence, the standard deduction
378 shall not be less than two thousand five hundred dollars
379 (\$2,500) for single taxpayers.

380 (c) A deduction is allowable for the amount of federal
381 income tax paid or accrued within the taxable year. In the
382 case of a nonresident taxpayer, the amount of federal income
383 tax deductible to Alabama shall be determined by the ratio
384 that the amount of adjusted gross income received from sources
385 within the State of Alabama bears to the amount of adjusted
386 gross income received from sources within and outside the
387 State of Alabama.

388 (d) If separate returns are filed by husband and wife
389 and one spouse elects to claim the optional standard
390 deduction, the other spouse must also claim the optional
391 standard deduction, unless, for the tax returns filed for the
392 2014 and subsequent tax years, the spouses have lived apart



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393 for the entire year. In this case, each spouse may claim
394 either the optional standard deduction or itemized deductions.
395 Neither spouse may claim a deduction for expenses paid by the
396 other spouse.

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

398 (1) The deductions allowed in subdivisions (a) (1), (2),
399 (3), (4), (5), (7), (8), (9), (11), (12), (19), (21), (23),
400 and (25) ~~of subsection (a)~~ shall be allowed only to the extent
401 that they are paid or incurred in carrying on a trade or
402 business within the State of Alabama and the deduction allowed
403 by Section 40-18-15.2 shall be allowed only to the extent it
404 arose from a trade or business carried on in Alabama-;

405 (2) The deductions allowed by subdivisions (a) (2), (3),
406 (5), (8), (9), (14), and (19) ~~of subsection (a)~~ shall be
407 allowed only to the extent arising from property located in
408 Alabama or transactions producing income that is subject to
409 tax in the State of Alabama-; and

410 (3) The amount of the deductions allowed by
411 subdivisions (a) (2), (3), (6), (10), (13), (15), (16), (17),
412 (19), (24), and (26) ~~of subsection (a)~~ (and not allowed by
413 subdivisions (1) or (2) ~~of this subsection~~), or by subsection
414 (b) if the taxpayer elects the standard deduction, shall be
415 limited to the amount determined by multiplying the total of
416 such deductions by a fraction, the numerator of which is the
417 taxpayer's adjusted gross income determined using the rules
418 provided in subdivisions (1) and (2) ~~of this subsection~~ and
419 the denominator of which is the taxpayer's adjusted gross
420 income determined under Section 40-18-14.2. The deduction



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421 allowed in subdivision (a) (17) ~~of subsection (a)~~ shall not be
422 subtracted in calculating either the numerator or denominator
423 in the previous sentence.

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

426 Section 2. This act shall become effective on October
427 1, 2026.