



**House Ways and Means Education Reported Substitute
for HB527**

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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 taxable year, not to exceed one thousand dollars (\$1,000) per taxpayer; 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 business, as determined in accordance with 26 U.S.C. § 162-[i](#)

(2) Interest paid or accrued within the taxable year on



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29 indebtedness, limited to the amount allowable as an interest
30 deduction for federal income tax purposes in the corresponding
31 tax year or period pursuant to the provisions of 26 U.S.C. §§
32 163, 264, and 265-;

33 (3) The following taxes paid or accrued within the
34 taxable year:

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

39 b. State and local, and foreign, occupational license
40 taxes, and contributions to state unemployment funds.

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

42 d. State and local personal property taxes.

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

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

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

56 h. Notwithstanding paragraph g., any tax described in



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57 any paragraph preceding paragraph g. that is paid or accrued
58 in connection with an acquisition or disposition of property
59 shall be treated as part of the cost of the acquired property
60 or, in the case of a disposition, as a reduction in the amount
61 realized on the disposition of that property-;i

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

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

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

83 (7) Losses from debts ascertained to be worthless and
84 charged off during the taxable year of ascertainment, if



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85 sustained in the conduct of the regular trade or business of
86 the taxpayer~~;~~;

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

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

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

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

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

112 (13) For each individual income taxpayer, medical and



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113 dental expenses, including amounts paid for medicine and drugs
114 and amounts paid for accident and health insurance, as
115 determined in accordance with 26 U.S.C. § 213~~+~~; provided~~+~~
116 ~~however,~~ that the limitation of the deduction to the excess of
117 those expenses over 7.5 percent of adjusted gross income as
118 provided in 26 U.S.C. § 213 shall instead be limited to the
119 excess of those expenses over 4.0 percent of adjusted gross
120 income~~+~~;

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

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

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



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141 was completed~~;~~;

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

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

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

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

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

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



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169 State of Alabama ~~;~~i

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

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

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

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

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

193 (28) The amount, up to five thousand dollars (\$5,000)
194 per annum, contributed subsequent to December 31, 2007, to the
195 Alabama Prepaid Affordable College Tuition Program or the
196 Alabama College Education Savings Program as defined in



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197 Chapter 33C of Title 16. If the taxpayer makes a nonqualified
198 withdrawal as defined by ~~Section 529 of the Internal Revenue~~
199 ~~Code~~ (26 U.S.C. § 529), the amount of the nonqualified
200 withdrawal, plus 10 percent of the amount withdrawn, shall be
201 added back to the income of the contributing taxpayer in the
202 year the nonqualified withdrawal was distributed-; and
203 (29) For tax years beginning on and after January 1,
204 2026, and ending December 31, 2028, qualified overtime
205 compensation received during the taxable year, not to exceed
206 one thousand dollars (\$1,000) per taxpayer. For purposes of
207 this deduction, qualified overtime compensation shall be
208 defined and calculated pursuant to the provisions of 26 U.S.C.
209 § 225. An individual taxpayer shall be allowed the deduction
210 for qualified overtime compensation, regardless of whether the
211 taxpayer itemizes income tax deductions in calculating the
212 income tax imposed pursuant to Section 40-18-5.

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



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

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

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

252 c. The standard deduction for head of family taxpayers



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

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

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

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



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

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

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

308 d. The standard deduction for single taxpayers with



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

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

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

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



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

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

354 d. The standard deduction for single taxpayers with
355 adjusted gross income of less than twenty-five thousand five
356 hundred dollars (\$25,500) shall be three thousand dollars
357 (\$3,000). For single taxpayers, the standard deduction shall
358 be reduced further by twenty-five dollars (\$25) for each five
359 hundred dollars (\$500) of adjusted gross income in excess of
360 twenty-five thousand five hundred dollars (\$25,500).
361 Notwithstanding the preceding sentence, the standard deduction
362 shall not be less than two thousand five hundred dollars
363 (\$2,500) for single taxpayers.

364 (c) A deduction is allowable for the amount of federal



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365 income tax paid or accrued within the taxable year. In the
366 case of a nonresident taxpayer, the amount of federal income
367 tax deductible to Alabama shall be determined by the ratio
368 that the amount of adjusted gross income received from sources
369 within the State of Alabama bears to the amount of adjusted
370 gross income received from sources within and outside the
371 State of Alabama.

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

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

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

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



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393 tax in the State of Alabama-; and

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

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

410 Section 2. This act shall become effective on October
411 1, 2026.