

**SB225 INTRODUCED**



1 SB225

2 7BNM3VV-1

3 By Senators Jones, Butler, Allen, Givhan, Weaver, Woods, Bell,  
4 Kelley, Hovey, Kitchens, Shelnutt, Chambliss, Stutts, Elliott,  
5 Barfoot, Waggoner, Carnley, Price, Chesteen

6 RFD: Finance and Taxation Education

7 First Read: 29-Jan-26



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4     SYNOPSIS:

5                 Currently, certain income is exempt from state  
6                 income taxes.

7                 This bill would exempt the first \$5,000 earned  
8                 from drill pay by a member of the Alabama National  
9                 Guard from state income tax.

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

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15                A BILL

16                TO BE ENTITLED

17                AN ACT

18

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

26                BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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



29 "§40-18-19

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

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

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

40 (3) The first eight thousand dollars (\$8,000) of any  
41 retirement compensation, retirement allowances, pensions and  
42 annuities, or optional allowances, received by any eligible  
43 firefighter, as defined in Sections 36-32-1 and 36-32-2, or  
44 his or her designated beneficiary, from any firefighting  
45 agency established in the State of Alabama, but only if such  
46 retirement compensation, retirement allowances, pensions and  
47 annuities, or optional allowances ~~as~~ are awarded as a result  
48 of fire protection services rendered. This subdivision shall  
49 become effective for the taxable years beginning January 1,  
50 1987, and thereafter ~~following its passage and approval by the~~  
51 ~~Governor, or upon its otherwise becoming a law~~; provided, that  
52 for the taxable years beginning on or after January 1, 1991,  
53 all of the pension and retirement payments shall be exempt  
54 from taxation.

55 (4) The first eight thousand dollars (\$8,000) of any  
56 retirement compensation, retirement allowances, pensions and



57 annuities, or optional allowances received by any eligible  
58 peace officer, as defined in ~~subdivision (11) of~~ Section  
59 36-21-60 (11), or his or her designated beneficiary, from any  
60 police retirement system established in the State of Alabama,  
61 but only if the retirement compensation, retirement  
62 allowances, pensions and annuities, or optional allowances are  
63 awarded as a result of police services rendered. This  
64 subdivision shall become effective for taxable years beginning  
65 January 1, 1984, and thereafter; provided, that for the  
66 taxable years beginning on or after January 1, 1991, all of  
67 the pension and retirement payments shall be exempt from  
68 taxation.

69 (5) Income received as annuities under the United  
70 States Retirement System from the United States Government  
71 Civil Service Retirement and Disability Fund, including income  
72 received from the Tennessee Valley Authority's pension system,  
73 income received as annuities under the United States Foreign  
74 Service Retirement and Disability Fund, or income received  
75 from any other United States government retirement and  
76 disability fund.

77 (6) Beginning January 1, 1991, all payments made on or  
78 after such date to a retiree or his designated beneficiary  
79 under a "defined benefit plan," as defined under 26 U.S.C. §  
80 414(j), to the extent such payment would be taxable for  
81 federal income tax purposes.

82 (7) Net income realized by individuals and partnerships  
83 from time to time in the business of conducting a financial  
84 business employing monied capital coming into competition with



85 the business of national banks, but only if such individuals  
86 and partnerships are subject to an excise tax imposed by this  
87 state on or with respect to such income.

88 (8) In the case of a single person or a married person  
89 not living with husband or wife, a personal exemption of one  
90 thousand five hundred dollars (\$1,500) or, in the case of a  
91 head of a family or a married person living with husband or  
92 wife, a personal exemption of three thousand dollars (\$3,000),  
93 but a husband and wife living together shall receive only one  
94 personal exemption of three thousand dollars (\$3,000) against  
95 their aggregate income, and in case they make separate returns  
96 each must claim a personal exemption of one thousand five  
97 hundred dollars (\$1,500).

98 (9) a. Three hundred dollars (\$300) for each person,  
99 other than husband or wife, dependent upon the taxpayer, and  
100 over half of whose support, for the calendar year in which the  
101 taxable year for the taxpayer begins, was received from the  
102 taxpayer.

103 b. For tax years beginning after December 31, 2006, for  
104 taxpayers with adjusted gross income equal to or less than  
105 twenty thousand dollars (\$20,000), one thousand dollars  
106 (\$1,000) for each person other than husband or wife, dependent  
107 upon the taxpayer, and over half of whose support, for the  
108 calendar year in which the taxable year for the taxpayer  
109 begins, was received from the taxpayer.

110 c. For tax years beginning after December 31, 2006, for  
111 taxpayers with adjusted gross income in excess of twenty  
112 thousand dollars (\$20,000) and equal to or less than one



113 hundred thousand dollars (\$100,000), five hundred dollars  
114 (\$500) for each person other than husband and wife, dependent  
115 upon the taxpayer, and over half of whose support, for the  
116 calendar year in which the taxable year for the taxpayer  
117 begins, was received from the taxpayer.

118 d. For tax years beginning after December 31, 2021, for  
119 taxpayers with adjusted gross income equal to or less than  
120 fifty thousand dollars (\$50,000), one thousand dollars  
121 (\$1,000) for each person other than husband or wife, dependent  
122 upon the taxpayer, and over half of whose support, for the  
123 calendar year in which the taxable year for the taxpayer  
124 begins, was received from the taxpayer.

125 e. For tax years beginning after December 31, 2021, for  
126 taxpayers with adjusted gross income in excess of fifty  
127 thousand dollars (\$50,000) and equal to or less than one  
128 hundred thousand dollars (\$100,000), five hundred dollars  
129 (\$500) for each person other than husband and wife, dependent  
130 upon the taxpayer, and over half of whose support, for the  
131 calendar year in which the taxable year for the taxpayer  
132 begins, was received from the taxpayer.

133 For the purposes of this section, "dependent" shall  
134 mean: A son or daughter of the taxpayer or a descendant of  
135 either; a stepson or stepdaughter of the taxpayer; a brother,  
136 sister, stepbrother, or stepsister of the taxpayer; the father  
137 or mother of the taxpayer or an ancestor of either; a  
138 stepfather or stepmother of the taxpayer; a son or daughter of  
139 a brother or sister of the taxpayer; a brother or sister of  
140 the father or mother of the taxpayer; or a son-in-law,

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141 daughter-in-law, father-in-law, mother-in-law, brother-in-law,  
142 or sister-in-law of the taxpayer. As used in this paragraph  
143 the terms "brother" and "sister" include a brother or sister  
144 by the half blood. For the purpose of determining whether any  
145 of the foregoing relationships exist, a legally adopted child  
146 of a person shall be considered a child of such ~~a~~-person by  
147 blood.

148 (10) Beginning January 1, 1998, all income, interest,  
149 dividends, gains, or benefits of any kind received from  
150 savings accounts or prepaid tuition contracts administered  
151 under Title 16, Chapter 33C, are exempt from all income  
152 taxation by the state and by all of its political subdivisions  
153 to the extent that the amounts remain on deposit in the PACT  
154 Trust Fund or the ACES Trust Fund, or are used to pay the  
155 designated beneficiary's qualified higher education expenses  
156 as defined in 26 U.S.C. § 529, or are refunded under such  
157 terms as would not carry a penalty under 26 U.S.C. § 529.

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

168 (12) Beginning January 1, 2018, amounts received by an

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169 individual from sources within a foreign country or countries  
170 which constitute a housing allowance, and earned income  
171 attributable to services performed by such individual received  
172 during the tax period are exempt from all income taxation by  
173 the state and by all of its political subdivisions to the  
174 extent such income is exempt from federal income tax pursuant  
175 to 26 U.S.C. § 911.

176 (13)–a. Beginning January 1, 2023, the first six  
177 thousand dollars (\$6,000) of taxable retirement income.

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

180 (14) Beginning January 1, 2027, the first five thousand  
181 dollars (\$5,000) of income received by a member of the Alabama  
182 National Guard as payment for inactive duty training (IDT) as  
183 described in 37 U.S.C. § 206.

184 (b) Of the following personal exemptions allowed  
185 resident taxpayers, each nonresident individual taxpayer shall  
186 be allowed that proportion thereof that the adjusted gross  
187 income received by ~~said the~~ nonresident individual taxpayer  
188 from sources within the State of Alabama bears to his or her  
189 adjusted gross income received from sources within and without  
190 the State of Alabama: In the case of a single person or a  
191 married person not living with husband or wife, a personal  
192 exemption of one thousand five hundred dollars (\$1,500) or, in  
193 the case of a head of a family or a married person living with  
194 husband or wife, a personal exemption of three thousand  
195 dollars (\$3,000), a husband and wife living together shall  
196 receive but one personal exemption of three thousand dollars

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197        (\$3,000) against their aggregate income; and, in case they  
198        make separate returns, each must claim a personal exemption of  
199        one thousand five hundred dollars (\$1,500); and the amount in  
200        subdivision (a) (9) ~~of subsection (a)~~ for each person, other  
201        than husband or wife, dependent upon and receiving his or her  
202        chief support from the taxpayer.

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

206                Section 2. This act shall become effective on October  
207        1, 2026.