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3 SUBSTITUTE FOR SB18

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8 SYNOPSIS: Currently, certain types of retirement
9 income is taxable as income.

10 This bill would provide that up to \$6,000 of
11 taxable retirement income is exempt from income tax
12 for individuals who are 65 years of age or older.

13
14 A BILL
15 TO BE ENTITLED
16 AN ACT

17
18 To amend Section 40-18-19, Code of Alabama 1975,
19 relating to exemptions from state income taxation; to provide
20 that up to \$6,000 of taxable retirement income is exempt from
21 state income tax for individuals who are 65 years of age or
22 older.

23 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

26 "§40-18-19.

1 "(a) The following exemptions from income taxation
2 shall be allowed to every individual resident taxpayer:

3 "(1) Retirement allowances, pensions and annuities,
4 or optional allowances, approved by the Board of Control of
5 the Teachers' Retirement System of Alabama, which exempt
6 status is set out in Section 16-25-23.

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

11 "(3) The first eight thousand dollars (\$8,000) of
12 any retirement compensation, retirement allowances, pensions
13 and annuities, or optional allowances, received by any
14 eligible firefighter, as defined in Sections 36-32-1 and
15 36-32-2, or his or her designated beneficiary, from any
16 firefighting agency established in the State of Alabama, but
17 only if such retirement compensation, retirement allowances,
18 pensions and annuities, or optional allowances as are awarded
19 as a result of fire protection services rendered. This
20 subdivision shall become effective for the taxable years
21 beginning January 1, 1987, and thereafter following its
22 passage and approval by the Governor, or upon its otherwise
23 becoming a law; provided, that for the taxable years beginning
24 on or after January 1, 1991, all of the pension and retirement
25 payments shall be exempt from taxation.

26 "(4) The first eight thousand dollars (\$8,000) of
27 any retirement compensation, retirement allowances, pensions

1 and annuities, or optional allowances received by any eligible
2 peace officer, as defined in subdivision (11) of Section
3 36-21-60, or his or her designated beneficiary, from any
4 police retirement system established in the State of Alabama,
5 but only if the retirement compensation, retirement
6 allowances, pensions and annuities, or optional allowances are
7 awarded as a result of police services rendered. This
8 subdivision shall become effective for taxable years beginning
9 January 1, 1984, and thereafter; provided, that for the
10 taxable years beginning on or after January 1, 1991, all of
11 the pension and retirement payments shall be exempt from
12 taxation.

13 "(5) Income received as annuities under the United
14 States Retirement System from the United States Government
15 Civil Service Retirement and Disability Fund, including income
16 received from the Tennessee Valley Authority's pension system,
17 income received as annuities under the United States Foreign
18 Service Retirement and Disability Fund, or income received
19 from any other United States government retirement and
20 disability fund.

21 "(6) Beginning January 1, 1991, all payments made on
22 or after such date to a retiree or his designated beneficiary
23 under a "defined benefit plan," as defined under Section
24 414(j) of the Internal Revenue Code of 1986, as amended from
25 time to time, to the extent such payment would be taxable for
26 federal income tax purposes.

1 "(7) Net income realized by individuals and
2 partnerships from time to time in the business of conducting a
3 financial business employing ~~moneyed~~ monied capital coming
4 into competition with the business of national banks, but only
5 if such individuals and partnerships are subject to an excise
6 tax imposed by this state on or with respect to such income.

7 "(8) In the case of a single person or a married
8 person not living with husband or wife, a personal exemption
9 of one thousand five hundred dollars (\$1,500) or, in the case
10 of a head of a family or a married person living with husband
11 or wife, a personal exemption of three thousand dollars
12 (\$3,000), but a husband and wife living together shall receive
13 only one personal exemption of three thousand dollars (\$3,000)
14 against their aggregate income, and in case they make separate
15 returns each must claim a personal exemption of one thousand
16 five hundred dollars (\$1,500).

17 "(9) a. Three hundred dollars (\$300) for each
18 person, other than husband or wife, dependent upon the
19 taxpayer, and over half of whose support, for the calendar
20 year in which the taxable year for the taxpayer begins, was
21 received from the taxpayer.

22 "b. For tax years beginning after December 31, 2006,
23 for taxpayers with adjusted gross income equal to or less than
24 ~~\$20,000~~ twenty thousand dollars (\$20,000), one thousand
25 dollars (\$1,000) for each person other than husband or wife,
26 dependent upon the taxpayer, and over half of whose support,

1 for the calendar year in which the taxable year for the
2 taxpayer begins, was received from the taxpayer.

3 "c. For tax years beginning after December 31, 2006,
4 for taxpayers with adjusted gross income in excess of ~~\$20,000~~
5 twenty thousand dollars (\$20,000) and equal to or less than
6 ~~\$100,000~~ one hundred thousand dollars (\$100,000), five hundred
7 dollars (\$500) for each person other than husband and wife,
8 dependent upon the taxpayer, and over half of whose support,
9 for the calendar year in which the taxable year for the
10 taxpayer begins, was received from the taxpayer.

11 "For the purposes of this section, "dependent" shall
12 mean: A son or daughter of the taxpayer or a descendant of
13 either; a stepson or stepdaughter of the taxpayer; a brother,
14 sister, stepbrother, or stepsister of the taxpayer; the father
15 or mother of the taxpayer or an ancestor of either; a
16 stepfather or stepmother of the taxpayer; a son or daughter of
17 a brother or sister of the taxpayer; a brother or sister of
18 the father or mother of the taxpayer; a son-in-law,
19 daughter-in-law, father-in-law, mother-in-law, brother-in-law,
20 or sister-in-law of the taxpayer. As used in this paragraph
21 the terms "brother" and "sister" include a brother or sister
22 by the half blood. For the purpose of determining whether any
23 of the foregoing relationships exist, a legally adopted child
24 of a person shall be considered a child of such a person by
25 blood.

26 "(10) Beginning January 1, 1998, all income,
27 interest, dividends, gains, or benefits of any kind received

1 from savings accounts or prepaid tuition contracts
2 administered under Title 16, Chapter 33C, are exempt from all
3 income taxation by the state and by all of its political
4 subdivisions to the extent that the amounts remain on deposit
5 in the PACT Trust Fund or the ACES Trust Fund, or are used to
6 pay the designated beneficiary's qualified higher education
7 expenses as defined in Section 529 of the Internal Revenue
8 Code of 1986, as amended, or are refunded under such terms as
9 would not carry a penalty under Section 529 of the Internal
10 Revenue Code of 1986, as amended.

11 "(11) Beginning January 1, 2016, all income,
12 interest, dividends, gains, or benefits of any kind received
13 from ABLE savings accounts administered under Title 16,
14 Chapter 33C, are exempt from all income taxation by the state
15 and by all of its political subdivisions to the extent that
16 the amounts remain on deposit in the ABLE Trust Fund, or are
17 used to pay the designated beneficiary's qualified disability
18 expenses as defined in Section 529A of the Internal Revenue
19 Code of 1986, as amended, or are refunded under such terms as
20 would not carry a penalty under Section 529A of the Internal
21 Revenue Code of 1986, as amended, or other applicable federal
22 law.

23 "(12) Beginning January 1, 2018, amounts received by
24 an individual from sources within a foreign country or
25 countries which constitute a housing allowance, and earned
26 income attributable to services performed by such individual
27 received during the tax period are exempt from all income

1 taxation by the state and by all of its political subdivisions
2 to the extent such income is exempt from federal income tax
3 pursuant to 26 U.S.C. Section 911.

4 "(13) a. Beginning January 1, 2023, the first six
5 thousand dollars (\$6,000) of taxable retirement income.

6 "b. This exemption may only be claimed by individual
7 taxpayers who are 65 years of age or older.

8 "(b) Of the following personal exemptions allowed
9 resident taxpayers, each nonresident individual taxpayer shall
10 be allowed that proportion thereof that the adjusted gross
11 income received by said nonresident individual taxpayer from
12 sources within the State of Alabama bears to his or her
13 adjusted gross income received from sources within and without
14 the State of Alabama: In the case of a single person or a
15 married person not living with husband or wife, a personal
16 exemption of one thousand five hundred dollars (\$1,500) or, in
17 the case of a head of a family or a married person living with
18 husband or wife, a personal exemption of three thousand
19 dollars (\$3,000), a husband and wife living together shall
20 receive but one personal exemption of three thousand dollars
21 (\$3,000) against their aggregate income; and, in case they
22 make separate returns, each must claim a personal exemption of
23 one thousand five hundred dollars (\$1,500); and the amount in
24 subdivision (9) of subsection (a) for each person, other than
25 husband or wife, dependent upon and receiving his or her chief
26 support from the taxpayer."

1 Section 2. The Department of Revenue may enact rules
2 as necessary to implement and administer the provisions of
3 this act.

4 Section 3. This act shall become effective on the
5 first day of the third month following its passage and
6 approval by the Governor, or its otherwise becoming law.