

SB49 INTRODUCED



1 TBGN19-1

2 By Senators Orr, Melson, Reed, Jones, Livingston, Givhan,
3 Gudger, Waggoner, Chambliss, Roberts, Kelley, Bell, Shelnuttt,
4 Smitherman, Chesteen, Butler, Sessions, Carnley, Hovey,
5 Weaver, Scofield, Price, Williams, Elliott, Allen, Albritton,
6 Singleton, Coleman-Madison

7 RFD: Finance and Taxation Education

8 First Read: 07-Mar-23

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SYNOPSIS: Currently, up to \$6,000 of taxable retirement income is exempt from income tax for individuals who are 65 years of age or older.

This bill would increase the exemption to up to \$10,000 of taxable retirement income.

A BILL
TO BE ENTITLED
AN ACT

Relating to income taxes; to amend Section 40-18-19, Code of Alabama 1975, as last amended by Act 2022-292, Act 2022-294, and Act 2022-297 of the 2022 Regular Session of the Legislature; to increase the exemption for taxable retirement income for individuals who are 65 years of age or older.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Section 40-18-19, Code of Alabama 1975, as last amended by Act 2022-292, Act 2022-294, and Act 2022-297 of the 2022 Regular Session of the Legislature, is amended to read as follows:

"§40-18-19

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



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

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

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

52 (4) The first eight thousand dollars (\$8,000) of any
53 retirement compensation, retirement allowances, pensions and
54 annuities, or optional allowances received by any eligible
55 peace officer, as defined in subdivision (11) of Section
56 36-21-60, or his or her designated beneficiary, from any



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57 police retirement system established in the State of Alabama,
58 but only if the retirement compensation, retirement
59 allowances, pensions and annuities, or optional allowances are
60 awarded as a result of police services rendered. This
61 subdivision shall become effective for taxable years beginning
62 January 1, 1984, and thereafter; provided, that for the
63 taxable years beginning on or after January 1, 1991, all of
64 the pension and retirement payments shall be exempt from
65 taxation.

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

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

79 (7) Net income realized by individuals and partnerships
80 from time to time in the business of conducting a financial
81 business employing monied capital coming into competition with
82 the business of national banks, but only if such individuals
83 and partnerships are subject to an excise tax imposed by this
84 state on or with respect to such income.



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

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

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

107 c. For tax years beginning after December 31, 2006, for
108 taxpayers with adjusted gross income in excess of twenty
109 thousand dollars (\$20,000) and equal to or less than one
110 hundred thousand dollars (\$100,000), five hundred dollars
111 (\$500) for each person other than husband and wife, dependent
112 upon the taxpayer, and over half of whose support, for the



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113 calendar year in which the taxable year for the taxpayer
114 begins, was received from the taxpayer.

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

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

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



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141 by the half blood. For the purpose of determining whether any
142 of the foregoing relationships exist, a legally adopted child
143 of a person shall be considered a child of such a person by
144 blood.

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

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

165 (12) Beginning January 1, 2018, amounts received by an
166 individual from sources within a foreign country or countries
167 which constitute a housing allowance, and earned income
168 attributable to services performed by such individual received



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169 during the tax period are exempt from all income taxation by
170 the state and by all of its political subdivisions to the
171 extent such income is exempt from federal income tax pursuant
172 to 26 U.S.C. § 911.

173 (13) a. Beginning January 1, 2023, the first six
174 thousand dollars (\$6,000) of taxable retirement income.
175 Beginning January 1, 2024, the exempt amount shall increase to
176 the first ten thousand dollars (\$10,000) of taxable retirement
177 income.

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

180 (b) Of the following personal exemptions allowed
181 resident taxpayers, each nonresident individual taxpayer shall
182 be allowed that proportion thereof that the adjusted gross
183 income received by said nonresident individual taxpayer from
184 sources within the State of Alabama bears to his or her
185 adjusted gross income received from sources within and without
186 the State of Alabama: In the case of a single person or a
187 married person not living with husband or wife, a personal
188 exemption of one thousand five hundred dollars (\$1,500) or, in
189 the case of a head of a family or a married person living with
190 husband or wife, a personal exemption of three thousand
191 dollars (\$3,000), a husband and wife living together shall
192 receive but one personal exemption of three thousand dollars
193 (\$3,000) against their aggregate income; and, in case they
194 make separate returns, each must claim a personal exemption of
195 one thousand five hundred dollars (\$1,500); and the amount in
196 subdivision (9) of subsection (a) for each person, other than



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197 husband or wife, dependent upon and receiving his or her chief
198 support from the taxpayer.

199 (c) The Department of Revenue may enact rules as
200 necessary to implement and administer the provisions of this
201 act."

202 Section 2. This act shall become effective on the first
203 day of the third month following its passage and approval by
204 the Governor, or its otherwise becoming law.