

1 SB18
2 215796-1
3 By Senators Orr, Butler, Allen, Melson, Jones, Williams,
4 Givhan, Waggoner, Scofield, Reed, Whatley, Barfoot, Chambliss,
5 Elliott and Livingston
6 RFD: Finance and Taxation Education
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SYNOPSIS: Currently, distributions from defined contribution deferred compensation plans are taxable as income.

 This bill would provide that up to \$10,000 of those distributions is exempt from income tax for individuals who are 65 years of age or older. This exemption will be phased in over a two-year period.

A BILL
TO BE ENTITLED
AN ACT

 To amend Section 40-18-19, Code of Alabama 1975, relating to exemptions from state income taxation; to provide that up to \$10,000 of distributions from a defined contribution deferred compensation plan is exempt from state income tax for individuals who are 65 years of age or older; and to phase in the exemption over a two-year period.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

3 "§40-18-19.

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

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

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

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

1 on or after January 1, 1991, all of the pension and retirement
2 payments shall be exempt from taxation.

3 "(4) The first eight thousand dollars (\$8,000) of
4 any retirement compensation, retirement allowances, pensions
5 and annuities, or optional allowances received by any eligible
6 peace officer, as defined in subdivision (11) of Section
7 36-21-60, or his or her designated beneficiary, from any
8 police retirement system established in the State of Alabama,
9 but only if the retirement compensation, retirement
10 allowances, pensions and annuities, or optional allowances are
11 awarded as a result of police services rendered. This
12 subdivision shall become effective for taxable years beginning
13 January 1, 1984, and thereafter; provided, that for the
14 taxable years beginning on or after January 1, 1991, all of
15 the pension and retirement payments shall be exempt from
16 taxation.

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

25 "(6) Beginning January 1, 1991, all payments made on
26 or after such date to a retiree or his designated beneficiary
27 under a "defined benefit plan," as defined under Section

1 414(j) of the Internal Revenue Code of 1986, as amended from
2 time to time, to the extent such payment would be taxable for
3 federal income tax purposes.

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

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

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

25 "b. For tax years beginning after December 31, 2006,
26 for taxpayers with adjusted gross income equal to or less than
27 ~~\$20,000~~ twenty thousand dollars (\$20,000), one thousand

1 dollars (\$1,000) for each person other than husband or wife,
2 dependent upon the taxpayer, and over half of whose support,
3 for the calendar year in which the taxable year for the
4 taxpayer begins, was received from the taxpayer.

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

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

1 "(10) Beginning January 1, 1998, all income,
2 interest, dividends, gains, or benefits of any kind received
3 from savings accounts or prepaid tuition contracts
4 administered under Title 16, Chapter 33C, are exempt from all
5 income taxation by the state and by all of its political
6 subdivisions to the extent that the amounts remain on deposit
7 in the PACT Trust Fund or the ACES Trust Fund, or are used to
8 pay the designated beneficiary's qualified higher education
9 expenses as defined in Section 529 of the Internal Revenue
10 Code of 1986, as amended, or are refunded under such terms as
11 would not carry a penalty under Section 529 of the Internal
12 Revenue Code of 1986, as amended.

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

25 "(12) Beginning January 1, 2018, amounts received by
26 an individual from sources within a foreign country or
27 countries which constitute a housing allowance, and earned

1 income attributable to services performed by such individual
2 received during the tax period are exempt from all income
3 taxation by the state and by all of its political subdivisions
4 to the extent such income is exempt from federal income tax
5 pursuant to 26 U.S.C. Section 911.

6 "(13) a. Beginning January 1, 2023, the first five
7 thousand dollars (\$5,000) distributed from a defined
8 contribution deferred compensation plan. This exemption shall
9 increase to ten thousand dollars (\$10,000) beginning January
10 1, 2024.

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

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

1 one thousand five hundred dollars (\$1,500); and the amount in
2 subdivision (9) of subsection (a) for each person, other than
3 husband or wife, dependent upon and receiving his or her chief
4 support from the taxpayer."

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

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