

1 HB24
2 171090-1
3 By Representatives Beckman, Wingo, Tuggle, Greer, Brown,
4 Sells, McCutcheon, Martin, Lee and Jones
5 RFD: Ways and Means General Fund
6 First Read: 03-AUG-15

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8 SYNOPSIS: In determining the amount of income that is
9 subject to tax under current law, taxpayers are
10 allowed to deduct, from income, the full amount of
11 Federal Insurance Contribution Act (FICA) taxes
12 withheld from wages and the full amount of taxes
13 paid on self-employment income. FICA and
14 self-employment taxes are composed of two
15 components, Medicare taxes and Social Security
16 taxes.

17 This bill would amend Section 40-18-15 to
18 remove the deduction for FICA taxes paid and to
19 limit the amount of self-employment taxes that can
20 be claimed as a deduction against income.

21
22 A BILL
23 TO BE ENTITLED
24 AN ACT

25
26 To amend Section 40-18-15, Code of Alabama 1975,
27 relating to income tax, to remove the deduction for FICA taxes

1 paid and to limit the amount of self-employment taxes that can
2 be claimed as a deduction in the determination of taxable
3 income.

4 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

5 Section 1. Section 40-18-15, Code of Alabama 1975,
6 is hereby amended to read as follows:

7 "§40-18-15.

8 (a) No deduction shall be allowed for any losses,
9 expenses, or interest deferred or disallowed pursuant to 26
10 U.S.C. § 267 or for any cost required to be capitalized in
11 accordance with 26 U.S.C. § 263A; otherwise, there shall be
12 allowed as deductions:

13 (1) All ordinary and necessary expenses paid or
14 incurred during the taxable year in carrying on any trade or
15 business, as determined in accordance with 26 U.S.C. § 162.

16 (2) Interest paid or accrued within the taxable year
17 on indebtedness, limited to the amount allowable as an
18 interest deduction for federal income tax purposes in the
19 corresponding tax year or period pursuant to the provisions of
20 26 U.S.C. §§ 163, 264, and 265.

21 (3) The following taxes paid or accrued within the
22 taxable year:

23 a. Income taxes, ~~Federal Insurance Contribution Act~~
24 ~~taxes~~, one-half of the taxes on self-employment income and
25 estate and gift taxes imposed by authority of the United
26 States or any possession of the United States.

1 b. State and local, and foreign, occupational
2 license taxes, and contributions to state unemployment funds.

3 c. State and local, and foreign, real property
4 taxes.

5 d. State and local personal property taxes.

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

8 f. The taxes described in paragraphs c., d., and e.
9 shall be deductible only to the extent that the taxes are
10 deductible for federal income tax purposes under 26 U.S.C. §
11 164 (relating to taxes).

12 g. In addition, there shall be allowed as a
13 deduction, state and local, and foreign taxes, except income
14 taxes, and taxes imposed by authority of the United States or
15 any possession of the United States, which are paid or accrued
16 within the taxable year in carrying on a trade or business or
17 an activity described in 26 U.S.C. § 212 (relating to expenses
18 for the production of income).

19 h. Notwithstanding paragraph g., any tax described
20 in any paragraph preceding paragraph g. that is paid or
21 accrued in connection with an acquisition or disposition of
22 property shall be treated as part of the cost of the acquired
23 property or, in the case of a disposition, as a reduction in
24 the amount realized on the disposition of that property.

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

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

8 (6) Casualty and theft losses sustained during the
9 taxable year of property not connected with the conduct of a
10 trade or business or a transaction entered into for profit as
11 determined in accordance with subsections (c)(3) and (h) of 26
12 U.S.C. § 165. In the case of a nonresident, the deduction
13 shall be allowed only for the losses arising from property
14 located within the State of Alabama and the limitations in 26
15 U.S.C. § 165 shall be applied with regard only to the
16 taxpayer's Alabama adjusted gross income. No loss shall be
17 allowed if at the time of filing the return, the loss has been
18 claimed on a federal estate tax return.

19 (7) Losses from debts ascertained to be worthless
20 and charged off during the taxable year of ascertainment, if
21 sustained in the conduct of the regular trade or business of
22 the taxpayer.

23 (8) A reasonable allowance for the exhaustion, wear
24 and tear of property from which any income is derived,
25 including a reasonable allowance for obsolescence, in
26 accordance with 26 U.S.C. §§ 167 and 168, and an allowance for

1 the amortization of intangibles determined in accordance with
2 26 U.S.C. § 197.

3 (9) In the case of mines, oil, and gas wells, other
4 natural deposits and timber, a reasonable allowance for
5 depletion and for depreciation of improvements, according to
6 the peculiar condition in each case based upon the cost,
7 including the cost of development not otherwise deducted, such
8 reasonable allowance in all cases to be made under rules and
9 regulations to be prescribed by the Department of Revenue;
10 and, in the case of leasehold interests, the deduction allowed
11 by this section shall be equitably apportioned between the
12 lessor and the lessee.

13 (10) Charitable contributions to the extent allowed
14 for federal income tax purposes under 26 U.S.C. § 170
15 (relating to charitable contributions and gifts).

16 (11) The deduction allowed to the individual for
17 federal income tax purposes by 26 U.S.C. § 219 (relating to
18 retirement savings).

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

22 (13) For each individual income taxpayer, medical
23 and dental expenses, including amounts paid for medicine and
24 drugs and amounts paid for accident and health insurance, as
25 determined in accordance with 26 U.S.C. § 213; provided,
26 however, that the limitation of the deduction to the excess of
27 those expenses over 7.5 percent of adjusted gross income as

1 provided in 26 U.S.C. § 213 shall instead be limited to the
2 excess of those expenses over 4.0 percent of adjusted gross
3 income.

4 (14) For each individual income taxpayer, the
5 deduction determined in accordance with 26 U.S.C. § 212 for
6 all the ordinary and necessary expenses paid or incurred
7 during the taxable year for the production or collection of
8 income, or for the management, conservation, or maintenance of
9 property held for the production of income, or in connection
10 with the determination, collection, or refund of any tax.

11 (15) Any expense not exceeding \$1,000 actually
12 incurred during the taxable year in constructing on his or her
13 property a family radioactive fallout shelter, as approved and
14 certified by the State Department of Emergency Management, and
15 any amount not exceeding \$1,000 which he or she contributed
16 during the taxable year toward the construction of a community
17 radioactive fallout shelter.

18 (16) A deduction from the taxpayer's adjusted gross
19 income for state income tax purposes of the total cost of
20 installation for conversion from gas or electricity to wood as
21 the primary energy source for heating their individual
22 domestic homes for the taxable year during which a conversion
23 was completed.

24 (17) Alimony and separate maintenance payments, the
25 amount deductible to be the same as the amount deductible for
26 federal income tax purposes under 26 U.S.C. § 215 (relating to
27 alimony payments).

1 (18) Moving expenses paid or incurred during the
2 taxable year as allowed under 26 U.S.C. § 217 (relating to
3 moving expenses). However, in applying 26 U.S.C. § 217, the
4 term "new principal place of work" means only places of work
5 located within the State of Alabama.

6 (19) Any expense not exceeding \$35,000 actually
7 incurred during the taxable year in removing from his or her
8 property any architectural or transportation barriers to
9 handicapped persons with nonambulatory and semiambulatory
10 disabilities; provided, however, that any improvements
11 resulting from that expense shall not be eligible to be
12 capitalized for depreciation.

13 (20) Notwithstanding subdivision (1), the deduction
14 for expenses of travel, entertainment, and meals shall be
15 determined in accordance with 26 U.S.C. § 274.

16 (21) The deduction allowed by 26 U.S.C. § 179
17 (relating to expensing certain depreciable property), provided
18 that no deduction shall be allowed under subdivision (8) for
19 any amount allowed as a deduction under this subdivision.

20 (22) The deduction allowed by 26 U.S.C. § 195
21 (relating to amortization of start-up expenditures), but in
22 the case of a nonresident, only if the principal place of
23 business of the business investigated, created, or acquired is
24 located in the State of Alabama.

25 (23) The deduction allowed by subdivision (1), to
26 the extent that it consists of unreimbursed employee business
27 expenses, and the deduction allowed by subdivision (14) shall

1 be allowed only to the extent that the aggregate of the
2 deductions exceeds 2 percent of adjusted gross income.

3 (24) The reasonable medical and legal expenses paid
4 or incurred by the taxpayer in connection with the adoption of
5 a minor. For purposes of this subdivision, medical expenses
6 shall include any medical and hospital expenses of the adoptee
7 and the adoptee's biological mother which are incident to the
8 adoptee's birth and subsequent medical care and which, in the
9 case of the adoptee, are paid or incurred before the petition
10 is granted.

11 (25) The amount of any aid or assistance, whether in
12 the form of property, services, or monies, provided to the
13 State Industrial Development Authority pursuant to Section
14 41-10-44.8(d) in order to induce an approved company to
15 undertake a major project within the state.

16 (26) The amount of premiums paid pursuant to a
17 qualifying insurance contract for qualified long-term care
18 coverage.

19 (27) The amount deductible by the taxpayer in
20 accordance with 26 U.S.C. § 162(h).

21 (28) The amount, up to five thousand dollars
22 (\$5,000) per annum, contributed subsequent to December 31,
23 2007, to the Alabama Prepaid Affordable College Tuition
24 Program or the Alabama College Education Savings Program as
25 defined in Chapter 33C of Title 16. If the taxpayer makes a
26 nonqualified withdrawal as defined by Section 529 of the
27 Internal Revenue Code (26 U.S.C. 529), the amount of the

1 nonqualified withdrawal, plus 10 percent of the amount
2 withdrawn, shall be added back to the income of the
3 contributing taxpayer in the year the nonqualified withdrawal
4 was distributed.

5 (b) (1) In lieu of the deductions allowable to
6 individual taxpayers, as provided in subdivision (1) of
7 subsection (a) to the extent of unreimbursed employee business
8 expenses, and as provided in subdivisions (2), (3), (5), (6),
9 (10), (13), (14), (15), (16), (19), (22), and (26) of
10 subsection (a), the taxpayer may elect to take the optional
11 standard deduction of 20 percent of the adjusted gross income
12 or \$2,000, whichever is the lesser. Taxpayers filing jointly
13 as defined in Section 40-18-27 may elect to take the optional
14 standard deduction of 20 percent of the adjusted gross income
15 or \$4,000, whichever is the lesser.

16 (2) For tax years beginning after December 31, 2006,
17 the optional standard deduction shall be determined as
18 follows:

19 a. The standard deduction for married taxpayers
20 filing jointly with adjusted gross income of \$20,000 or less
21 shall be \$7,500. For married taxpayers filing jointly with
22 adjusted gross income of greater than \$20,000, the standard
23 deduction shall be reduced by \$175 for each \$500 of adjusted
24 gross income in excess of \$20,000. Notwithstanding the
25 preceding sentence, the standard deduction shall not be less
26 than \$4,000 for married taxpayers filing jointly.

1 b. The standard deduction for married taxpayers
2 filing separate returns with adjusted gross income of \$10,000
3 or less shall be \$3,750. For married taxpayers filing separate
4 returns with adjusted gross income of greater than \$10,000,
5 the standard deduction shall be reduced by \$88 for each \$250
6 of adjusted gross income in excess of \$10,000. Notwithstanding
7 the preceding sentence, the standard deduction shall not be
8 less than \$2,000 for married taxpayers filing separate
9 returns.

10 c. The standard deduction for head of family
11 taxpayers with adjusted gross income of \$20,000 or less shall
12 be \$4,700. For head of family taxpayers with adjusted gross
13 income of greater than \$20,000, the standard deduction shall
14 be reduced by \$135 for each \$500 of adjusted gross income in
15 excess of \$20,000. Notwithstanding the preceding sentence, the
16 standard deduction shall not be less than \$2,000 for head of
17 family taxpayers.

18 d. The standard deduction for single taxpayers with
19 adjusted gross income of \$20,000 or less shall be \$2,500. For
20 single taxpayers with adjusted gross income of greater than
21 \$20,000, the standard deduction shall be reduced by \$25 for
22 each \$500 of adjusted gross income in excess of \$20,000.
23 Notwithstanding the preceding sentence, the standard deduction
24 shall not be less than \$2,000 for single taxpayers.

25 (c) A deduction is allowable for the amount of
26 federal income tax paid or accrued within the taxable year. In
27 the case of a nonresident taxpayer, the amount of federal

1 income tax deductible to Alabama shall be determined by the
2 ratio that the amount of adjusted gross income received from
3 sources within the State of Alabama bears to the amount of
4 adjusted gross income received from sources within and outside
5 the State of Alabama.

6 (d) If separate returns are filed by husband and
7 wife and one spouse elects to claim the optional standard
8 deduction, the other spouse must also claim the optional
9 standard deduction, unless, for the tax returns filed for the
10 2014 and subsequent tax years, the spouses have lived apart
11 for the entire year. In this case, each spouse may claim
12 either the optional standard deduction or itemized deductions.
13 Neither spouse may claim a deduction for expenses paid by the
14 other spouse.

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

16 (1) The deductions allowed in subdivisions (1), (2),
17 (3), (4), (5), (7), (8), (9), (11), (12), (19), (21), (23),
18 and (25) of subsection (a) shall be allowed only to the extent
19 that they are paid or incurred in carrying on a trade or
20 business within the State of Alabama and the deduction allowed
21 by Section 40-18-15.2 shall be allowed only to the extent it
22 arose from a trade or business carried on in Alabama.

23 (2) The deductions allowed by subdivisions (2), (3),
24 (5), (8), (9), (14), and (19) of subsection (a) shall be
25 allowed only to the extent arising from property located in
26 Alabama or transactions producing income that is subject to
27 tax in the State of Alabama.

1 (3) The amount of the deductions allowed by
2 subdivisions (2), (3), (6), (10), (13), (15), (16), (17),
3 (19), (24), and (26) of subsection (a) (and not allowed by
4 subdivisions (1) or (2) of this subsection), or by subsection
5 (b) if the taxpayer elects the standard deduction, shall be
6 limited to the amount determined by multiplying the total of
7 such deductions by a fraction, the numerator of which is the
8 taxpayer's adjusted gross income determined using the rules
9 provided in subdivisions (1) and (2) of this subsection and
10 the denominator of which is the taxpayer's adjusted gross
11 income determined under Section 40-18-14.2. The deduction
12 allowed in subdivision (17) of subsection (a) shall not be
13 subtracted in calculating either the numerator or denominator
14 in the previous sentence.

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

17 Section 2. The provisions of this act are severable.
18 If any part of this act is declared invalid or
19 unconstitutional, that declaration shall not affect the part
20 which remains.

21 Section 3. All laws or parts of laws which conflict
22 with this act are hereby repealed.

23 Section 4. This act shall become effective
24 immediately following its passage and approval by the
25 Governor, or upon its otherwise becoming law, and shall apply
26 to the full tax year beginning January 1, 2015 and to all tax
27 years thereafter.

