

1 SB71  
2 156092-5  
3 By Senators Sanford and Beason  
4 RFD: Finance and Taxation Education  
5 First Read: 14-JAN-14  
6 PFD: 01/07/2014

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4 ENGROSSED

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7 A BILL  
8 TO BE ENTITLED  
9 AN ACT

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11 To amend Section 40-18-19, Code of Alabama 1975,  
12 relating to exemptions from the levy of state income tax; to  
13 provide that health savings account contributions would be  
14 exempt from state income tax.

15 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

18 "§40-18-19.

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

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

25 "(2) Retirement allowances, pensions and annuities  
26 or optional allowances, approved by the Board of Control of

1 the Employees' Retirement System of Alabama, which exempt  
2 status is set out in Section 36-27-28.

3 "(3) The first eight thousand dollars (\$8,000) of  
4 any retirement compensation, retirement allowances, pensions  
5 and annuities, or optional allowances, received by any  
6 eligible firefighter, as defined in Sections 36-32-1 and  
7 36-32-2, or his or her designated beneficiary, from any  
8 firefighting agency established in the State of Alabama, but  
9 only if such retirement compensation, retirement allowances,  
10 pensions and annuities, or optional allowances as are awarded  
11 as a result of fire protection services rendered. This  
12 subdivision shall become effective for the taxable years  
13 beginning January 1, 1987, and thereafter following its  
14 passage and approval by the Governor, or upon its otherwise  
15 becoming a law; provided, that for the taxable years beginning  
16 on or after January 1, 1991, all of the pension and retirement  
17 payments shall be exempt from taxation.

18 "(4) The first eight thousand dollars (\$8,000) of  
19 any retirement compensation, retirement allowances, pensions  
20 and annuities, or optional allowances received by any eligible  
21 peace officer, as defined in subsection (11) of Section  
22 36-21-60, or his or her designated beneficiary, from any  
23 police retirement system established in the State of Alabama,  
24 but only if the retirement compensation, retirement  
25 allowances, pensions and annuities, or optional allowances are  
26 awarded as a result of police services rendered. This  
27 subdivision shall become effective for taxable years beginning

1 January 1, 1984, and thereafter; provided, that for the  
2 taxable years beginning on or after January 1, 1991, all of  
3 the pension and retirement payments shall be exempt from  
4 taxation.

5 "(5) Income received as annuities under the United  
6 States Retirement System from the United States Government  
7 Civil Service Retirement and Disability Fund including income  
8 received from the Tennessee Valley Authority's pension system,  
9 income received as annuities under the United States Foreign  
10 Service Retirement and Disability Fund or income received from  
11 any other United States government retirement and disability  
12 fund.

13 "(6) Beginning January 1, 1991, all payments made on  
14 or after such date to a retiree or his designated beneficiary  
15 under a "defined benefit plan," as defined under Section  
16 414(j) of the Internal Revenue Code of 1986, as amended from  
17 time to time, to the extent such payment would be taxable for  
18 federal income tax purposes.

19 "(7) Net income realized by individuals and  
20 partnerships from time to time in the business of conducting a  
21 financial business employing moneyed capital coming into  
22 competition with the business of national banks, but only if  
23 such individuals and partnerships are subject to an excise tax  
24 imposed by this state on or with respect to such income.

25 "(8) In the case of a single person or a married  
26 person not living with husband or wife, a personal exemption  
27 of one thousand five hundred dollars (\$1,500) or, in the case

1 of a head of a family or a married person living with husband  
2 or wife, a personal exemption of three thousand dollars  
3 (\$3,000), but a husband and wife living together shall receive  
4 only one personal exemption of three thousand dollars (\$3,000)  
5 against their aggregate income, and in case they make separate  
6 returns each must claim a personal exemption of one thousand  
7 five hundred dollars (\$1,500).

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

13 "b. For tax years beginning after December 31, 2006,  
14 for taxpayers with adjusted gross income equal to or less than  
15 \$20,000, one thousand dollars for each person other than  
16 husband or wife, dependent upon the taxpayer, and over half of  
17 whose support, for the calendar year in which the taxable year  
18 for the taxpayer begins, was received from the taxpayer.

19 "c. For tax years beginning after December 31, 2006,  
20 for taxpayers with adjusted gross income in excess of \$20,000  
21 and equal to or less than \$100,000, five hundred dollars for  
22 each person other than husband and wife, dependent upon the  
23 taxpayer, and over half of whose support, for the calendar  
24 year in which the taxable year for the taxpayer begins, was  
25 received from the taxpayer.

26 "For the purposes of this section, "dependent" shall  
27 mean: A son or daughter of the taxpayer or a descendant of

1 either; a stepson or stepdaughter of the taxpayer; a brother,  
2 sister, stepbrother, or stepsister of the taxpayer; the father  
3 or mother of the taxpayer or an ancestor of either; a  
4 stepfather or stepmother of the taxpayer; a son or daughter of  
5 a brother or sister of the taxpayer; a brother or sister of  
6 the father or mother of the taxpayer; a son-in-law,  
7 daughter-in-law, father-in-law, mother-in-law, brother-in-law,  
8 or sister-in-law of the taxpayer. As used in this paragraph  
9 the terms "brother" and "sister" include a brother or sister  
10 by the half blood. For the purpose of determining whether any  
11 of the foregoing relationships exist, a legally adopted child  
12 of a person shall be considered a child of such a person by  
13 blood.

14 "(10) Beginning January 1, 1998, all income,  
15 interest, dividends, gains, or benefits of any kind received  
16 from savings accounts or prepaid tuition contracts  
17 administered under Title 16, Chapter 33C, are exempt from all  
18 income taxation by the state and by all of its political  
19 subdivisions to the extent that the amounts remain on deposit  
20 in the PACT Trust Fund or the ACES Trust Fund, or are used to  
21 pay the designated beneficiary's qualified higher education  
22 expenses as defined in Section 529 of the Internal Revenue  
23 Code of 1986, as amended, or are refunded under such terms as  
24 would not carry a penalty under Section 529 of the Internal  
25 Revenue Code of 1986, as amended.

26 "(11) Beginning January 1, 2015, contributions made  
27 by a taxpayer to his or her health savings account up to the

1 maximum annual amount allowed pursuant to 26 U.S.C. § 223, as  
2 amended, and any regulations promulgated thereunder.

3           "(b) Of the following personal exemptions allowed  
4 resident taxpayers, each nonresident individual taxpayer shall  
5 be allowed that proportion thereof that the adjusted gross  
6 income received by said nonresident individual taxpayer from  
7 sources within the State of Alabama bears to his or her  
8 adjusted gross income received from sources within and without  
9 the State of Alabama: In the case of a single person or a  
10 married person not living with husband or wife, a personal  
11 exemption of one thousand five hundred dollars (\$1,500) or, in  
12 the case of a head of a family two thousand five hundred  
13 dollars (\$2,500) or, in the case of a married person living  
14 with husband or wife, a personal exemption of three thousand  
15 dollars (\$3,000), a husband and wife living together shall  
16 receive but one personal exemption of three thousand dollars  
17 (\$3,000) against their aggregate income; and, in case they  
18 make separate returns, each must claim a personal exemption of  
19 one thousand five hundred dollars (\$1,500); and the amount in  
20 subdivision (9) of subsection (a) for each person, other than  
21 husband or wife, dependent upon and receiving his chief  
22 support from the taxpayer."

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

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Senate

Read for the first time and referred to the Senate  
committee on Finance and Taxation Education ..... 14-JAN-14

Read for the second time and placed on the calen-  
dar 1 amendment..... 06-FEB-14

Read for the third time and passed as amended .... 19-MAR-14

Yeas 27  
Nays 0  
Abstaining 1

Patrick Harris  
Secretary