

1 SB483
2 119362-1
3 By Senator Mitchem
4 RFD: Fiscal Responsibility and Accountability
5 First Read: 02-MAR-10

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8 SYNOPSIS: Under existing law, the state levies an
9 income tax upon all residents of the state and upon
10 nonresidents who receive income from Alabama
11 sources. Also, under existing law, certain
12 retirement income is exempt from taxation.

13 This bill would exempt from taxation
14 retirement income from an institution of higher
15 education meeting certain criteria.

16
17 A BILL
18 TO BE ENTITLED
19 AN ACT

20
21 To amend Section 40-18-19, Code of Alabama 1975,
22 relating to exemptions from the levy of state income tax, to
23 exempt from taxation retirement income from an institution of
24 higher education meeting certain criteria.

25 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

1 "§40-18-19.

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

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

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

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

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

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

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

1 federal income tax purposes; and beginning January 1, 2011,
2 all payments made on or after such date to a retiree or his or
3 her beneficiary on a retirement plan from an institution of
4 higher education, if the plan is in accordance with Section
5 414(i) of the Internal Revenue Code, as amended, the plan was
6 established under Section 403(b), and both the retiree and the
7 employer made contributions to the plan.

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

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

24 "(9) a. Three hundred dollars (\$300) for each
25 person, other than husband or wife, dependent upon the
26 taxpayer, and over half of whose support, for the calendar

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

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

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

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

1 of the foregoing relationships exist, a legally adopted child
2 of a person shall be considered a child of such a person by
3 blood

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

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

1 receive but one personal exemption of three thousand dollars
2 (\$3,000) against their aggregate income; and, in case they
3 make separate returns, each must claim a personal exemption of
4 one thousand five hundred (\$1,500); and the amount in
5 subdivision (9) of subsection (a) for each person, other than
6 husband or wife, dependent upon and receiving his chief
7 support from the taxpayer."

8 Section 2. 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.