

ALABAMA DEPARTMENT OF REVENUE  
ADMINISTRATIVE CODECHAPTER 810-3-15  
DEDUCTIONS FOR INDIVIDUALS  
GENERALLY

## TABLE OF CONTENTS

810-3-15-.01	General Provisions
810-3-15-.02	Business Expenses
810-3-15-.03	Interest Expense
810-3-15-.04	Deductibility Of Taxes
810-3-15-.05	Depreciation, Amortization And Section 179 Expense
810-3-15-.06	Depletion
810-3-15-.07	Losses
810-3-15-.08	Expenses And Losses Of Farmers (Repealed 1/18/00)
810-3-15-.09	Nontrade or Nonbusiness Expenses
810-3-15-.10	Employee Business Expenses (Repealed 1//18/00)
810-3-15-.11	Proration Of Personal And Business Expenses (Repealed 1/18/00)
810-3-15-.12	Moving Expenses
810-3-15-.13	Alimony And Separate Maintenance Payments
810-3-15-.14	Deductions Allowable For Retirement Savings - IRA, SEP And Keogh Plans
810-3-15-.15	Disability Income Exclusion (Repealed 1/18/00)
810-3-15-.16	Medical And Dental Expenses
810-3-15-.17	Charitable Contributions
810-3-15-.18	Conversion Of Primary Heating Source To Wood (Repealed 1/18/00)
810-3-15-.19	Optional Standard Deduction
810-3-15-.20	Federal Income Tax Deduction - Individuals
810-3-15-.21	Deductions For Nonresidents
810-3-15-.22	Net Operating Loss Carryback Or Carryover (Repealed 1/18/00)
810-3-15-.23	Amortization Of Start-Up Expenditures (Repealed 1/18/00)
810-3-15-.24	Adoption Expenses
810-3-15-.25	Contributions To State Industrial Development Authority

810-3-15-.26 **Qualified Long-Term Care Coverage**  
810-3-15-.27 **Deductions For Contributions To Alabama  
College Education Plans**

810-3-15-.01 **General Provisions.**

(1) For tax years beginning after December 31, 1997, no deduction shall be allowed for any losses, expenses, or interest deferred or disallowed pursuant to 26 U.S.C. §267. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(2) For tax years beginning after December 31, 1986, no expenses shall be allowed for any cost required to be capitalized in accordance with 26 U.S.C. §263A.

(3) An individual who is a part-year resident of Alabama may deduct expenses allowed by §40-18-15, Code of Ala. 1975, only to the extent that the expenses were paid during the period the taxpayer was a resident of Alabama. If a deduction was paid for the entire year, such as interest or taxes, and the amount actually paid while a resident cannot be determined, the taxpayer may prorate the deductible amount based on the number of months of Alabama residency.

(4) Double deductions are not permitted. Amounts deducted under one provision of this title cannot be deducted under another title.

**Authors:** Ann F. Winborne, CPA, Roger Frost, Sharon Norman, Hugh Kirland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History: Amended:** June 17, 1988; filed July 27, 1988. **Amended:** Filed May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

810-3-15-.02 **Business Expenses.**

(1) Business expenses deductible from gross income include the ordinary and necessary expenses paid or accrued during the taxable year, directly connected with or pertaining to the taxpayer's trade or business, as determined in accordance with 26 U.S.C. §162.

(2) The provisions and limitations of 26 U.S.C. §274 also apply to expenses for business travel, meals, and entertainment otherwise allowable under 26 U.S.C. §162.

(3) Unreimbursed employee business expenses and certain other miscellaneous itemized deductions are deductible only to the extent that the aggregate of the deductions exceeds 2-percent of adjusted gross income as defined in Code of Ala. 1975, §40-18-14.2.

(4) A farmer who operates a farm for profit is entitled to deduct from gross income as necessary expenses all amounts actually expended in the carrying on of the business of farming in accordance with 26 U.S.C. §162.

(5) Alabama income tax law requires that taxpayers maintain such records as will be sufficient to enable the Department of Revenue to correctly determine tax liability. It is to the advantage of taxpayers who may be called upon to substantiate deductions to maintain as adequate and detailed records as is practical since the burden of proof is on the taxpayer to show that such deductions were not only paid or accrued but also were ordinary and necessary business expenses, as defined in 26 U.S.C. §162.

(6) For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(7) The provisions of the federal "Taxpayer Relief Act of 1997" which were adopted by Alabama Act 98-502 have the same effective date for Alabama income tax purposes as they do for federal income tax purposes.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles, Ann F. Winborne, CPA

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a) (5), 40-18-15.

**History: Amended:** June 17, 1988; May 9, 1989; filed May 16, 1989. Filed July 22, 1992; October 30, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

### 810-3-15-.03 Interest Expense.

(1) Effective for all taxable years beginning after December 31, 1997, interest paid or accrued within the taxable year on indebtedness shall be limited to the amount allowable as an interest deduction for federal income tax purposes in the

corresponding tax year or period pursuant to the provisions of 26 U.S.C. §§163, 264, and 265. Educational loan interest is not deductible for Alabama income tax purposes. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(2) Effective for all taxable years or periods beginning after December 31, 1987, and prior to December 31, 1997, interest paid or accrued within the taxable year on indebtedness shall be limited to the amount allowable as an interest deduction for federal income tax purposes in the corresponding tax year or period pursuant to the provisions of 26 U.S.C. §163.

(3) For taxable years beginning prior to January 1, 1988, all interest paid or accrued within the taxable year on indebtedness was fully deductible.

(4) The provisions of the federal "Taxpayer Relief Act of 1997" which were adopted by Alabama Act 98-502 have the same effective date for Alabama income tax purposes they do for federal income tax purposes.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Amended June 17, 1988; May 9, 1989; filed May 16, 1989.

**Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

#### **810-3-15-.04     Deductibility Of Taxes.**

(1) The following taxes imposed by the United States or any possession of the United States are deductible by the taxable entity upon whom the taxes are imposed:

- (a) Income taxes
  - (b) Federal Insurance Contribution Act (FICA) taxes
  - (c) Self-employment taxes
  - (d) Estate and gift taxes
1. Estate taxes are imposed on the estate.
  2. Gift taxes are imposed on the donor.

(2) State, local, and foreign occupational license taxes and contributions to state unemployment funds are deductible.

(3) The following taxes are deductible to the same extent that the taxes are deductible for federal income tax purposes under 26 U.S.C. §164, in accordance with federal regulations for 26 U.S.C. §164:

(a) State, local, and foreign real property taxes.

(b) State and local personal property taxes.

1. The term "personal property tax" means an ad valorem tax which is imposed on an annual basis in respect to personal property.

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

(4) There shall be allowed a deduction for state, local, and foreign taxes, and taxes imposed by authority of the United States or any possession of the United States, which are paid or accrued within the taxable year in carrying on a trade or business or an activity described in 26 U.S.C. §212 (relating to expenses for production of income).

(5) Notwithstanding the preceding sentence, any tax which is paid or accrued by the taxpayer in connection with an acquisition or disposition of property shall be treated as part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition. Cross references: Code of Ala. 1975, §§40-18-6, 40-18-15, 40-18-16, and 40-18-17.

(6) See also Rule 810-3-15-20, Federal Income Tax Deduction - Individuals.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** July 27, 1988.

**Amended:** February 8, 1989; filed March 20, 1989; filed May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.05 Depreciation, Amortization And Section 179 Expense.**

(1) Effective for all taxable years beginning after December 31, 1997, there shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence) of property used in a trade or business, or of property held for the production of income, in accordance with 26 U.S.C. §§167 and 168. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(2) Effective for all taxable years beginning after December 31, 1997, intangible assets which are used in a trade or business or held for the production of income may be amortized in accordance with 26 U.S.C. §197. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(3) A deduction is allowable for the amortization of start-up expenditures in accordance with 26 U.S.C. §195, but in the case of a nonresident, only if the principal place of business being investigated, created, or acquired is located in the State of Alabama.

(4) For taxable years beginning after December 31, 1989, a taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to a capital account in accordance with 26 U.S.C. §179.

(5) For taxable years beginning before January 1, 1998, Alabama income tax law and regulations were similar to the provisions of the Internal Revenue Code and regulations concerning depreciation and amortization of intangible assets. Applicable federal regulations and determinations pertaining to depreciation and amortization of intangible assets will be followed in administering this rule for those tax periods. See also Rule 810-3-1.1-.01, Operating Rules.

(6) The provisions of the federal "Taxpayer Relief Act of 1997" which were adopted by Alabama Act 98-502 have the same effective date for Alabama income tax purposes as they do for federal income tax purposes.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles, Ewell Berry, Ann F. Winborne, CPA  
**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988. **Amended:** February 8, 1989; filed March 20, 1989. Filed May 15, 1992. **Amended:** Filed September 18, 1996;

effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.06**    **Depletion.**

(1)            There shall be allowed as a deduction in computing taxable income in the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion.

(a)            Depletion allowance for standing timber shall be computed solely on the adjusted basis of the property.

(b)            Depletion allowance for oil and gas may be computed on either the cost depletion method or on a percentage of gross income from the property, see Reg. 810-3-16-.01.

(c)            Depletion allowance for other exhaustible natural resources shall be computed on the cost depletion method.

(d)            The basis for depletion shall be determined in accordance with §§40-18-16 and 40-18-6, Code of Ala. 1975.

(2)            Annual depletion deductions are allowed only to the owner of an economic interest in mineral deposits or standing timber. An economic interest consists of a capital investment in timber or mineral in place together with recovery of the investment through production.

(a)            The allowance for depletion should be equitably apportioned between the lessor and lessee. Each should compute cost depletion from his own adjusted basis; each should compute percentage depletion from his own income from the property. One may use percentage depletion while the other may use cost.

(3)            Computation of depletion on basis of cost (mines, oil and gas properties). When the adjusted basis applicable to the mineral deposit has been determined under §40-18-16 cost depletion for the taxable year is computed by:

(a)            Dividing the adjusted basis of the property by the number of recoverable units to arrive at the rate per unit.

(b)            Multiply the rate per unit by the number of units sold in the taxable year if the taxpayer is on the accrual method, or the number of units for which payment is received if the taxpayer is on the cash method.

Cost depletion = adjusted basis X Units sold or paid for  
recoverable units in taxable year

1. In the selection of a unit of mineral for depletion, preference shall be given to the customary unit or units paid for the product sold, such as tons of ore, barrels of oil, or thousands of cubic feet of natural gas.

2. The number of recoverable units is the number of units of mineral determined by geological survey to be available for recovery.

(i) After the predetermined number of units have been recovered, no cost depletion is then allowable on any excess recovered.

3. In determining the amount of the adjusted basis of the mineral deposit there shall be excluded:

(i) amounts representing the cost or value of the land for purposes other than mineral production,

(ii) the amount recoverable through depreciation and through deductions other than depletion, and

(iii) the residual value of the property at the end of operations, but there shall be included, in the case of oil and gas wells, those amounts of capitalized drilling and development costs which are recoverable through depletion.

(4) Computation of depletion on basis of cost (timber). Only cost depletion is allowed in computing depletion of timber. The amount of depletion to be deducted during the year is the number of units of timber cut times the depletion unit. The depletion unit is the basis of the timber under §40-18-16 divided by the total depletable units (M board feet, cords, etc.). Depletion is deducted in the same year the cut timber is sold or otherwise disposed of, except that if a taxpayer elects to treat cutting as a sale, depletion is taken in the year of cutting as basis of timber cut:

Basis X units cut = depletion allowable  
Total depletable units

(a) A timber account should normally be set up to include all the timber in one "block", a block being an operational unit which includes all of the taxpayer's timber which logically goes to a single given point of manufacture, or the timber which would logically be removed by a single logging development.

(b) The "total depletable units" shall be determined by a professional cruising of the timber.

(c) After the above determined number of units have been used in computing the depletion allowed, no further depletion is allowable on any excess units removed.

(5) Computation of depletion on basis of percentage of gross income (oil and gas wells). For a description of the calculation of percentage depletion, see Reg. 810-3-16-.01.

(6) Computation of depletion on basis of discovery value (mines, oil and gas properties). With respect to any property for which discovery value is the taxpayer's basis for depletion, the depletion for any taxable year shall be computed by:

(a) Determining the number of units available to be removed and the unmined value of each unit by a professional geological survey.

(b) As each unit is sold depletion is allowable at the above predetermined unmined value.

(c) When the above total predetermined units have been allowed as depletion, no further depletion is allowed on any excess units removed and/or sold.

(7) Determination of fair market value. If the fair market value of the property at a specified date is to be determined for the purpose of ascertaining the basis for depletion and depreciation deductions, such value must be determined, subject to approval or revision by the Department, by the owner of the property in the light of the conditions and circumstances known at that date, regardless of later discoveries or developments in the property or subsequent improvements in methods of extraction and treatment of the mineral product. The value sought should be established assuming a transfer between a willing seller and a willing buyer existed as of that particular date. The Department will give due weight and consideration to any and all factors and evidence having a bearing on the market value, such as cost, actual sales and transfers of similar properties, market value of stock or shares, royalties or rentals, valuation for local taxation, partnership accountings, records of litigation in which the value of the property was in question, the amount at which the property may have been inventoried in a probate court, and, in the absence of better evidence, disinterested appraisals by approved methods.

(8) Depreciation of improvements. A reasonable provision for depreciation shall be allowed with respect to tangible properties, other than land and inventory properties, which are not subject to depletion, as in the case of mines, oil and gas wells, and other natural deposits and timber. It shall be optional with the taxpayer whether the cost or other basis of the plant and equipment plus allowable capital additions and minus salvage value shall be recovered,

(a) by reasonable charges for depreciation (see Reg. 810-3-15-.05) at a rate determined by the physical or economic life of such plant or equipment, or

(b) at a rate established by the exhaustion of the wasting asset, or

(c) according to the particular conditions of the case, by a method satisfactory to the Department.

**Authors:** Ann F. Winborne, CPA, Jerilyn P. Christian

**Statutory Authority:** Code of Ala. 1975, §40-18-15.

**History:** Adopted September 30, 1982. **Amended:** June 17, 1988; filed July 27, 1988. **Amended:** Filed September 18, 1996; effective October 23, 1996.

#### 810-3-15-.07 Losses.

(1) The following losses sustained during the taxable year and not compensated for by insurance or otherwise are deductible by individuals:

(a) Losses incurred in a trade or business, in accordance with 26 U.S.C. §165(c)(1).

(b) Losses incurred in any transaction entered into for profit, though not connected with a trade or business, in accordance with 26 U.S.C. §165(c)(2), but in the case of a non-resident, only as to those transactions within the state.

(c) Casualty and theft losses sustained during the taxable year of property not connected with the conduct of a trade or business or a transaction entered into for profit as determined in accordance with 26 U.S.C. §165(c)(3) and (h). In the case of a nonresident, the deduction shall be allowed only for the losses arising from property located within the State of Alabama and the limitations in 26 U.S.C. §165 shall be applied only with regard to the taxpayer's Alabama adjusted gross income.

(d) Losses from debts ascertained to be worthless and charged off during the taxable year of ascertainment, if sustained in the conduct of the regular trade or business of the taxpayer. The reserve method for bad debts is not allowed for individuals.

(2) For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(3) Losses from personal bad debts not incurred in a trade or business, nor in a transaction entered into for profit, are not deductible.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History: Adopted:** September 30, 1982. **Amended:** June 17, 1988; filed July, 27, 1988. Filed May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.08 Expenses And Losses Of Farmers. (Repealed)**

**Authors:** Ann F. Winborne, CPA, Roy Wiggins

**Statutory Authority:** Code of Ala. 1975, §40-18-15.

**History: Adopted:** September 30, 1982. **Amended:** Filed July 27, 1988. Filed May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.09 Nontrade Or Nonbusiness Expenses.**

(1) In accordance with 26 U.S.C. §212, an individual is allowed a deduction for all the ordinary and necessary expenses paid or incurred during the taxable year:

(a) for the production or collection of income;

(b) for the management, conservation, or maintenance of property held for the production of income; or

(c) in connection with the determination, collection, or refund of any tax.

(2) The provisions and limitations of 26 U.S.C. §274 also apply to deductions for travel, entertainment, and meals.

(3) Except as otherwise provided in Alabama law, nontrade or nonbusiness expenses are not deductible.

(4) For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.10 Employee Business Expenses. (Repealed)**

**Authors:** Ann F. Winborne, Jerilyn P. Christian

**Statutory Authority:** Code of Ala. 1975, §40-18-15.

**History:** Rule effective October 1, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.11 Proration Of Personal And Business Expenses. (Repealed)**

**Author:** Ann Winborne, CPA

**Statutory Authority:** Code of Ala. 1975, §40-18-153.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Amended:** Filed September 18 1996; effective October 23, 1996. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.12 Moving Expenses.**

(1) Effective for taxable years beginning January 1, 1990, a deduction is allowed for moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee or as a self-employed individual at a new principal place of work in accordance with 26 U.S.C. §217; provided, however, that the "new principal place of work" is located within the State of Alabama. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.13 Alimony And Separate Maintenance Payments.**

(1) Effective for taxable years beginning January 1, 1990, alimony and separate maintenance payments will be deductible in accordance with 26 U.S.C. §215. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

(2) For taxable years ending after December 31, 1984, and before January 1, 1990, alimony and separate maintenance payments will be deductible as provided in 26 U.S.C. §215 as in effect on January 1, 1985.

**Author:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.14 Deductions Allowable For Retirement Savings-IRA, SEP And Keogh Plans.**

(1) A deduction is allowed for an individual's qualified retirement contribution in accordance with 26 U.S.C. §219.

(2) A deduction is allowed for contributions of an employer to an employees' trust or annuity plan, or for compensation paid or accrued on account of an employee under a deferred-payment plan, in accordance with 26 U.S.C. §404.

(3) For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §40-18-15.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.15 Disability Income Exclusion. (Repealed)**

**Authors:** Rebecca S. Whisenant, Roy Wiggins, Ann F. Winborne, CPA

**Statutory Authority:** Code of Ala. 1975, §40-18-15; Act 90-583.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.16 Medical And Dental Expenses.** A deduction is allowed for expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent, in accordance with 26 U.S.C. §213; provided, however, that the limitation of the deduction to the excess of those expenses over 7.5 percent of adjusted gross income as provided in 26 U.S.C. §213 shall instead be limited to the excess of those expenses over 4.0 percent of adjusted gross income as defined in Code of Ala. 1975, §40-18-14.2. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted October 1, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.17 Charitable Contributions.** A deduction for charitable contributions is allowable to the extent allowed for federal income tax purposes under 26 U.S.C. §170; provided, however, that the contributions base shall be the adjusted gross income as defined in Code of Ala. 1975, §40-18-14.2, except for any net operating loss carryback deduction allowable by §40-18-15.2. For interpretation of federal statutes adopted by the Alabama Legislature, see Rule 810-3-1.1-.01, Operating Rules.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** Filed July 27, 1988; May 15, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.18 Conversion Of Primary Heating Source To Wood.**  
**(Repealed)**

**Authors:** Mary L. Gifford, John H. Burgess

**Statutory Authority:** Code of Ala. 1975, §40-18-15.

**History:** Adopted September 30, 1982. **Amended:** June 17, 1988; filed July 27, 1988. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.19 Optional Standard Deduction.**

(1) A deduction is allowed for resident individual taxpayers filing Form 40 or nonresident individual taxpayers filing Form 40NR who elect to claim an optional standard deduction instead of itemizing their nonbusiness expenses for medical and dental care, taxes (other than federal income taxes), interest, contributions, casualty and theft losses, long-term health care premiums, and miscellaneous deductions allowable by Code of Ala. 1975, §40-18-15. For tax years beginning January 1, 1982, the maximum optional standard deduction:

(a) for a single taxpayer, head of family, or a married taxpayer filing a separate return, is 20% of adjusted gross income, or \$2,000, whichever is less.

(b) for married taxpayers filing a joint return, is 20% of adjusted gross income or \$4,000, whichever is less.

(c) for a nonresident, is the amount determined under subparagraph (1)(a) or (1)(b) above, apportioned by the percentage of Alabama adjusted total income to total income from all sources.

(2) Adjusted gross income is determined in accordance with Code of Ala. 1975, §40-18-14.2.

(3) Federal income taxes paid or accrued during the taxable year may be deducted in addition to the optional standard deduction.

(4) If a husband and wife file separate returns and one spouse itemizes deductions, the other spouse will not be allowed to claim the optional standard deduction but must also itemize deductions.

(5) For tax years beginning January 1, 1985, the election to claim the optional standard deduction is revocable. If a taxpayer claims itemized deductions which are less than the allowable optional standard deduction, an amended return may be filed claiming the optional standard deduction. If a taxpayer claims the optional standard deduction which is less than the allowable itemized deductions, an amended return may be filed claiming the itemized deductions.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:** June 17, 1988; filed July 27, 1988. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed December 14, 1999; effective January 18, 2000.

#### 810-3-15-.20 Federal Income Tax Deduction - Individuals.

(1) **DEFINITIONS.** For the purpose of this regulation, the following words, phrases and abbreviations have these meanings:

(a) **FIT:** Federal income tax. Depending on the method used for computing FIT (cash basis or accrual method), deductible federal income tax may include:

1. Federal income tax withheld by employers during the taxable year.

2. Excess social security or Medicare tax (FICA) and railroad retirement tax (RRTA) withheld during the taxable year and claimed as federal income tax on the federal return for the same year. Regular FICA and RRTA tax withheld cannot be claimed as federal income tax since these can only be claimed as itemized deductions.

3. All federal income tax payments made during the year for liabilities of prior years, including the previous year's payment made when the previous year return was filed.

4. All federal income tax estimate payments made during the year. Any overpayments of previous years which are applied to the current year's estimated tax are not deductible unless the overpayment is included in income as a refund of federal income tax.

5. Earned income credit of the previous year which was applied to the previous year's federal income tax liability.

6. Alternative Minimum Tax.

(b) Federal income tax does not include:

1. Federal accumulated earnings tax,

2. Self-employment taxes,

3. Social security and Medicare tax on tip income not reported to employers,

4. Tax on excess contributions to Individual Retirement Arrangements,

5. Tax (10% Additional Tax) on early distributions from a qualified retirement plan (including IRAs),

6. Tax on excess accumulations in qualified retirement plans (including IRAs),

7. Tax on excess distributions from qualified retirement plans (including IRAs),

8. Advance earned income credit payments,

9. Household employment taxes,

10. Penalties and interest.

(c) **FIT Paid:** Payment includes FIT withholdings, FIT paid by the taxpayer, and FIT paid through wage garnishments.

(d) **FIT Accrued:** Imposed FIT payable for the year.

1. The imposed FIT payable for the year is the net federal income tax liability as shown due on the federal income tax return.

2. The net federal income tax which can be deducted on the Alabama income tax return is the "Tax" amount shown on the federal income tax return as computed on federal taxable income, less all credits which reduce the amount of the taxpayer's federal income tax liability and all credits which are shown as "Payments" on the federal income tax return. In no case will the amount be reduced below zero.

(i) Examples of credits which reduce the federal income tax liability include, but are not limited to: Earned income credit (EIC); Education credits; Credit for child and dependent care expenses; Child tax credit; First-time homebuyer credit; Recovery rebate credit; etc.

(ii) Amounts shown on the federal income tax return as "Payments" which are not credits and which do not reduce the federal income tax liability include, but are not limited to: Estimated tax payments; Federal income tax withheld from Forms W-2 and 1099; Amount paid with request for extension to file; etc.

(e) **Paid or Accrued**: Either paid or accrued, but not both.

(f) **Transition Year**: The year in which the method of computing the FIT deduction is changed; i.e., from cash method to accrual method or vice versa. The change in method can be the result of taxpayer's request or a Revenue Department directive.

(g) **To Contest**: To challenge via some objective act of protest, substantiated by some affirmative evidence of denial of liability by the taxpayer.

(2) (a) **FEDERAL INCOME TAX DEDUCTION FOR RESIDENTS**: Net federal income tax may be deducted for the taxable year in which paid or accrued. Taxes are deductible only by the person or entity upon whom they are imposed. A cash basis taxpayer may allocate his federal income tax deduction on the cash basis or accrual basis. Once a method is selected, it shall be consistently applied from year to year, unless approval for a change is obtained from the Department. An accrual basis taxpayer must allocate his federal income tax deduction using the accrual basis.

(b) **FEDERAL INCOME TAX DEDUCTION FOR NONRESIDENTS**: The FIT deduction for Alabama shall be apportioned according to the ratio of adjusted gross income from Alabama sources to the total adjusted gross income from all sources (as computed under Alabama law, not federal law). Each annual FIT deduction must be computed separately. Cash basis nonresidents may compute the FIT

deduction on the cash basis or may elect to compute it on the accrual basis. The election, once made, must be consistently applied from year to year unless prior written approval for a change is obtained from the Department.

(3) **CHANGE IN METHOD USED TO COMPUTE/ALLOCATE FIT DEDUCTION:**

(a) Any other change in methods must be effective with the first day of a tax year.

(b) Any tax year in which a change of methods occurs is a transition year.

(c) There are two ways the method can be changed:

1. Taxpayer request.

(i) Taxpayer's request must be in writing and must include the reason(s) for requesting the change.

(ii) The taxpayer will receive written approval if the request is granted.

(iii) A copy of the written request for a change in method and the Department's written approval must be submitted with the return.

(iv) Once a change in computation and/or allocation methods is approved, it must be consistently applied from the year of change forward.

2. Change in method required by the Department of Revenue.

(i) Effective with any tax year beginning after December 31, 1998, the Department may select the method (cash or accrual basis) used to compute the federal income tax deduction on resident and non-resident returns. Taxpayers filing a return for a year in which the Department changes the method will be considered to have been granted approval to change methods.

(ii) Pursuant to the Department's authority to select the method to be used, the Department chooses the accrual basis.

(4) **TRANSITION YEAR RULES:**

(a) Year of change from cash basis to accrual basis: Any FIT refund received must be reported as income and additional FIT paid must be deducted.

(b) Year of change from accrual basis to cash basis: Any FIT refund received during the transition year for previous tax years shall not be reported as income. Any additional tax paid during the transition year for previous tax years may not be deducted.

(c) After a change from cash to accrual method in non-transition years, refunds of previously deducted accrued taxes must be reported as income and payments of taxes for an accrual basis year, not previously deducted, may be deducted.

(5) **FOR RESIDENTS AND NONRESIDENTS USING THE ACCRUAL METHOD:**

1. Uncontested FIT is deducted in the year for which it is imposed.

2. Contested FIT is deducted in the year in which the liability becomes fixed and certain, but in no case later than the year in which the tax was actually paid. "Contested FIT" may include FIT amounts that have been changed under an amendment to or an audit of the taxpayer's federal income tax return, unless the change is properly reflected on an amended Alabama income tax return within the statutorily prescribed time for petitioning for refund.

3. Refunded FIT is reported in the year received but only if the taxpayer received a prior-year tax benefit from deduction of the FIT refunded.

4. EXAMPLE 1: A taxpayer using the accrual basis had \$1,200 withheld from his earnings during 20X8 for federal income taxes. In March 20X8, he paid \$100 additional tax on his 20X7 liability and \$200 on his declaration of estimated tax for 20X8. He paid an additional assessment of \$300 on his 20X5 income in September 20X8, thereby settling a disputed liability for 20X5. The taxpayer determined early in 20X9 that his federal income tax liability for 20X8 would be \$1,700. He had previously paid \$1,400 and, therefore, would have to pay an additional \$300. He may deduct \$1,700 accrued for 20X8 plus \$300 accrued during 20X8 on his contested 20X5 liability, for a total of \$2,000. He may not deduct \$100 paid in 20X8 on his 20X7 liability, since this amount accrued in 20X7 and should have been deducted in that year.

5. EXAMPLE 2: Using the same facts as in the above example, a taxpayer using the accrual basis made the same payments as listed above, except that he received a \$300 refund of 20X5 taxes, for which he received a tax benefit, in September,

20X8, thereby settling the disputed 20X5 liability. The taxpayer determined early in 20X9 that his federal income tax liability for 20X8 would be \$1,700 and that he had paid \$1,400 and would have to pay an additional \$300. He may deduct the \$1,700 accrued for 20X8. He may not deduct the \$100 paid in 20X8 on his 20X7 liability, since this amount accrued in 20X7 and should have been deducted in that year. The \$300 refund accrued during 20X8 on his contested 20X5 tax liability should be reported as income on his 20X8 return.

6. EXAMPLE 3: A nonresident taxpayer had adjusted gross income in 20X9 from sources within Alabama of \$10,000 and adjusted gross income from sources within and without Alabama of \$25,000. Data regarding his federal income tax is:

Federal income tax liability for 20X9	\$5,500
Withheld in 20X9	\$3,600
Paid in 20X9 on 20X9 federal estimate	\$ 800
20X8 federal tax paid in 20X9 (on estimate, final return, or otherwise)	\$ 300

For the 20X9 tax year, the ratio of adjusted gross income from sources within Alabama to adjusted gross income from sources within and without Alabama is 40% (\$10,000 divided by \$25,000). Assuming the taxpayer had consistently used the accrual method, the FIT deduction for 20X9 would be \$2,200.00 (\$5,500.00 x 40%). He may not deduct the \$300 paid in 20X9 on his 20X8 liability, since this amount accrued in 20X8 and should have been deducted in that year.

(6) **MARRIED TAXPAYERS**: For spouses who file a joint federal income tax return but separate Alabama income tax returns for the same year, the FIT deduction of each is based on the ratio of federal adjusted gross income of each to the total federal adjusted gross income of both.

1. EXAMPLE 4: Proration Based on Federal Adjusted Gross Income

**Chapter 810-3-15****Revenue**

	<b>Husband</b>	<b>Wife</b>	<b>Total</b>
Income - Salaries, wages, etc.	\$7,000	\$4,000	\$11,000
Income - Other	500	500	1,000
Totals	\$7,500	\$4,500	\$12,000
Ratio of income for each spouse	62.5%	37.5%	100%
Total federal income tax			\$ 2,400
Husband: \$2,400 x 62.5%	\$1,500		
Wife: \$2,400 x 37.5%		\$ 900	

The husband deducts \$1,500 on his state return and the wife deducts \$900 on her state return for federal income tax. Total federal income tax deducted on both state returns is \$2,400, the amount to be prorated.

**Authors:** Richard H. Henninger, Jr., Ann F. Winborne, CPA

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** Adopted September 30, 1982. **Amended:**

February 8, 1989; filed March 20, 1989. **Amended:** Filed

September 18, 1996; effective October 23, 1996. **Repealed and New**

**Rule:** Filed December 14, 1999; effective January 18, 2000.

**Amended:** Filed April 14, 2010; effective May 19, 2010.

**810-3-15-.21 Deductions For Nonresidents.**

(1) A nonresident is an individual who is a legal resident of another state.

(2) The phrase "adjusted gross income from all sources" is comprised of income which would be included in gross income if received by a resident of the State of Alabama in accordance with §40-18-14, Code of Ala. 1975, less the deductions described in §40-18-14.2.

(3) Effective for all taxable years beginning after December 31, 1997:

(a) Business-related Expenses. The following business-related expenses are deductible in computing Alabama adjusted gross income for a nonresident only to the extent that they are paid or incurred in a trade or business within the State of Alabama:

1. Ordinary and necessary business expenses in accordance with §40-18-15(a)(1),

2. Interest expense in accordance with §40-18-15(a)(2),

3. Taxes in accordance with §40-18-15(a) (3),
4. Losses in accordance with §§40-18-15(a) (4) and (5),
5. Losses from debts ascertained to be worthless in accordance with §40-18-15(a) (7),
6. Depreciation and amortization in accordance with §40-18-15(a) (8),
7. Depletion in accordance with §40-18-15(a) (9),
8. Retirement savings contributions and expenses for qualified pension plans, profit sharing plans, stock bonus plans, and annuity plans in accordance with §§40-18-15(a) (11) and (12),
9. Expenses incurred in removing barriers to handicapped persons in accordance with §40-18-15(a) (19),
10. Section 179 expenses in accordance with §40-18-15(a) (21),
11. Unreimbursed employee business expenses and expenses described at 26 U.S.C. §212 in accordance with §40-18-15(a) (23), and
12. Assistance provided to the State Industrial Development Authority in accordance with §40-18-15(a) (25).

(b) Net Operating Losses. The deduction allowed by §40-18-15.2 for net operating losses shall be deductible only to the extent that a loss arose from a trade or business carried on in Alabama. See §40-18-15.2.

(c) Property Located in Alabama - Income Subject to Alabama Tax. The following expenses are deductible in computing Alabama adjusted gross income for a nonresident only to the extent arising from property located in Alabama or transactions producing income that is subject to tax in the State of Alabama:

1. Interest expense in accordance with §40-18-15(a) (2),
2. Taxes in accordance with §40-18-15(a) (3),
3. Losses in accordance with §40-18-15(a) (5),

4. Depreciation and amortization in accordance with §40-18-15(a)(8),

5. Depletion in accordance with §40-18-15(a)(9),

6. Ordinary and necessary business expenses in accordance with §40-18-15(a)(14) and 26 U.S.C §212, and

7. Expenses incurred in removing barriers to handicapped persons in accordance with §40-18-15(a)(19).

(d) Casualty and Theft Losses. The deductible amount of casualty and theft losses allowed by §40-18-15(a)(6), which references 26 U.S.C. §165, shall be allowed only for losses arising from property located within the State of Alabama. The limitations in 26 U.S.C. §165 shall be applied only with regard to the taxpayer's Alabama adjusted gross income.

(e) Alabama Percentage of Adjusted Total Income. Nonresidents must divide the amount of their Alabama adjusted total income by the amount of their adjusted total income from all sources in order to determine the ratio of Alabama income to income from all sources. This percentage, the Alabama percentage of adjusted total income, is used to determine the deductible amount of certain expenses taken below the adjusted total income line. Alimony paid and adoption expenses are not considered in the computation of the Alabama percentage of adjusted total income - the amounts are not subtracted from either the numerator or the denominator of the fraction. See §40-18-14.2.

1. Personal Exemption and Dependent Exemption. A nonresident must prorate the personal exemption by multiplying the amount of the personal exemption by the Alabama percentage of adjusted total income. If Alabama total income exceeds the prorated amount, a Form 40NR must be filed. Dependent exemptions must be prorated in the same manner using the Alabama percentage of adjusted total income. See §40-18-19.

2. Federal Income Tax Deduction. The federal income tax deduction must also be prorated using the Alabama percentage of adjusted total income. See Rule 810-3-15-.20.

(i) If the taxpayer is filing separately on the Alabama return, but jointly on the federal return, an intermediate computation is performed before the federal income tax deduction is prorated, and the Alabama percentage of adjusted total income is not used to prorate the federal income tax deduction.

(I) The taxpayer's Alabama adjusted total income is divided by the sum of the spouse's federal adjusted gross income and the taxpayer's adjusted total income from all sources.

(II) The percentage computed in subparagraph (I) is then applied to the amount of the federal income tax liability as shown on the current federal income tax return. The result of the computation is the allowable federal income tax deduction.

3. Optional Standard Deduction. If a nonresident taxpayer elects to claim the optional standard deduction in lieu of claiming itemized deductions, the optional standard deduction must be prorated by multiplying the amount of the optional standard deduction by the Alabama percentage of adjusted total income. See Rule 810-3-15-.19.

4. Other Adjustments and Itemized Deductions. The amount allowed for the following deductions shall be limited to the amount determined by multiplying the total amount of the deduction by the Alabama percentage of adjusted total income.

(i) Interest expense in accordance with §40-18-15(a)(2),

(ii) Taxes (other than federal income tax) in accordance with §40-18-15(a)(3),

(iii) Casualty and theft losses in accordance with §40-18-15(a)(6),

(iv) Charitable contributions in accordance with §40-18-15(a)(10),

(v) Medical and dental expenses in accordance with §40-18-15(a)(13),

(vi) Expenses relating to the construction of a radioactive fallout shelter in accordance with §40-18-15(a)(15),

(vii) The cost of conversion to wood as the primary energy source in accordance with §40-18-15(a)(16),

(viii) Alimony in accordance with §40-18-15(a)(17),

(ix) Expenses relating to the removal of barriers to handicapped persons in accordance with §40-18-15(a)(19),

(x) Adoption expenses in accordance with §40-18-15(a)(24), and

(xi) Qualified long-term care coverage in accordance with §40-18-15(a)(26).

(4) Prior to January 1, 1998. Effective for taxable years beginning before January 1, 1998, the provisions of subparagraphs (3)(a) through (3)(e) of this rule were the same except:

(a) The deductions for alimony, retirement contributions, and early withdrawal of savings penalties were not deductible from Alabama income;

(b) Qualified long-term care coverage was deducted as an adjustment to income - after January 1, 1998, only the percentage applicable to Alabama income is deductible from Alabama income; and

(c) Adoption expenses were not allowable as a deduction for a nonresident - after January 1, 1998, adoption expenses are deductible according to the Alabama percentage of adjusted total income.

**Authors:** Roger Frost, Sharon Norman, Hugh Kirkland, James Lucy, Lee Johnson, Betty Knowles

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History:** **Adopted:** September 30, 1982. **Amended:** June 17, 1988; filed July 27, 1988. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed and New Rule:** Filed July 26, 1999; effective August 30, 1999.

**810-3-15-.22 Net Operating Loss Carryback Or Carryover. (Repealed)**

**Authors:** Mary Gifford, Ann Winborne, Income Tax Division.

**Statutory Authority:** Code of Ala. 1975, §40-18-57.

**History:** Adopted September 30, 1982. **Amended:** June 17, 1988.

**Amended:** February 8, 1989; filed March 20, 1989. Filed May 21, 1992; August 17, 1992. **Amended:** Filed October 4, 1993; effective November 8, 1993. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.23 Amortization Of Start-Up Expenditures. (Repealed)**

**Author:** Mary L. Gifford, Income Tax Division

**Statutory Authority:** Code of Ala. 1975, §40-18-15, Act 90-583.

**History:** Filed July 22, 1992; October 30, 1992. **Amended:** Filed September 18, 1996; effective October 23, 1996. **Repealed:** Filed December 14, 1999; effective January 18, 2000.

**810-3-15-.24 Adoption Expenses.**

(1) For tax years beginning on or after January 1, 1991, resident individual taxpayers may include as an adjustment to income, reasonable medical and legal expenses paid or incurred by the taxpayer in connection with the adoption of a minor.

(2) "Medical expenses" shall include any medical and hospital expenses of the adoptee and the adoptee's biological mother which are incidental to the adoptee's birth and subsequent medical care which, in the case of the adoptee, are paid or incurred before the petition for adoption is granted.

(3) Expenses associated with the adoption of a minor that are not properly classified as medical or legal expenses as stipulated in paragraphs (1) and (2) above are not to be considered in computing the adjustment to income.

(4) In cases of adoption petitions which are not granted, no deduction for medical and legal expenses will be allowed.

**Authors:** Anne Simms, Roy Wiggins

**Statutory Authority:** Act 90-583.

**History:** Filed July 22, 1992; August 20, 1992; October 30, 1992.

**Amended:** Filed September 18, 1996; effective October 23, 1996.

**810-3-15-.25 Contributions To State Industrial Development Authority.**

(1) In computing adjusted gross income under §40-18-15, Code of Ala. 1975, the following shall be allowed as a deduction:

(a) The amount of aid of assistance, whether in the form of property, services or monies, provided to the State Industrial Development Authority pursuant to §41-10-44.8(d), Code of Ala. 1975.

1. The amount of aid or assistance provided shall be deducted in the year contributed.

2. The deduction for property or services shall be the fair and reasonable value of the property or services as determined by the Authority.

3. Any portion of aid or assistance returned pursuant to §41-10-44.8(d), Code of Ala. 1975, shall be included in income in the year in which the refund of the aid or assistance is made.

**Author:** Tina M. Melancon, Income Tax Division

**Statutory Authority:** Code of Ala. 1975, §40-18-15(a)(26); Act 93-852.

**History: New Rule:** Filed August 26, 1994; effective September 30, 1994. **Amended:** Filed September 18, 1996; effective October 23, 1996.

#### **810-3-15-.26 Qualified Long-Term Care Coverage.**

(1) Effective for taxable years beginning after December 31, 1997, the amount of premiums paid for qualified long-term care insurance coverage is deductible as an itemized deduction.

(2) For tax years beginning on or after January 1, 1995, and ending December 31, 1997, individual taxpayers may include as an adjustment to income the amount paid for premiums for qualifying long-term care coverage pursuant to Section 40-18-15.

(3) "Qualified long-term care services" shall include any care for necessary diagnostic, preventive, therapeutic, and rehabilitative services and maintenance or personal care services which are required by a chronically ill individual in a qualified facility or services which are pursuant to a plan of care prescribed by a licensed health care practitioner.

(4) Premiums paid for long-term care insurance contracts are deductible if the contract meets the following requirements:

(a) Offers coverage only for qualified long-term care services and benefits incidental to the coverage.

(b) Guaranteed renewal.

(c) No cash surrender value.

(d) All refunds of premiums and all policyholder dividends or similar amounts under the contract are to be applied as a reduction in future premiums or to increase future benefits,

except for a refund of premiums on surrender or cancellation of the policy.

(5) A long-term care insurance contract shall be treated as an accident or health insurance contract. The amount of coverage under the long-term care insurance contract shall be equal to or greater than Medicaid coverage for a period of at least three years.

(6) An insurance contract shall not fail to be treated as a long-term care contract by reason of the payments being made on a per diem or other periodic basis without regard to the expenses incurred during the period to which the payments relate.

(7) A long-term care insurance contract may cover Medicare reimbursable expenses where Medicare is a secondary payor.

(8) In the case of long-term care insurance coverage provided by a rider on a life insurance contract, this regulation shall apply as if the portion of the contract providing long-term care coverage was a separate contract.

(9) The deduction is available only to the person or entity who pays the premiums.

**Authors:** Roger Frost, James Lucy

**Statutory Authority:** Code of Ala. 1975, §§27-47-2, 40-2A-7(a)(5), 40-18-15.

**History: New Rule:** Filed May 6, 1996, effective June 11, 1996.

**Amended:** Filed December 15, 1999; effective January 19, 2000.

**810-3-15-.27 Deductions For Contributions To Alabama College Education Plans.**

(1) Definitions:

(a) Qualifying Plans. Alabama college education plans as defined in Chapter 33C of Title 16, to include:

1. The Alabama Prepaid Affordable College Tuition Program (PACT), or

2. the Alabama College Education Savings Program.

(b) Nonqualified Withdrawal. A nonqualified withdrawal for purposes of this rule will have the same meaning as defined by Section 529 of the Internal Revenue Code (26 U.S.C. 529).

(2) Procedures - for tax years beginning after December 31, 2007:

(a) A deduction, not to exceed \$5,000 per taxpayer, is allowed as an adjustment to income on the Alabama income tax return for contributions made to a qualifying plan.

1. The deduction may equal an amount up to \$10,000 for married taxpayers filing a joint return where both taxpayers are making such contributions into qualifying plans.

2. The deduction may include amounts contributed to a qualifying plan where the contribution amount has been rolled over from another plan which is not included as a qualifying plan under this rule.

3. The deduction may be claimed by any taxpayer making such contribution to a qualifying plan on behalf of another individual.

Contributions made to qualifying plans are deductible on the tax return of the contributing taxpayer for the tax year during which the contributions are made.

(c) In the event of a nonqualified withdrawal from the plan, an amount must be added back to the income of the contributing taxpayer.

1. The amount to be added back will be the amount of the nonqualified withdrawal plus 10 percent of the amount withdrawn.

2. The amount added back must be included in the income of the contributing taxpayer in the tax year that the nonqualified withdrawal was distributed.

**Author:** Ann F. Winborne, CPA

**Statutory Authority:** Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-15.

**History: New Rule:** Filed February 1, 2001; effective March 8, 2001. **Repealed:** Filed February 5, 2009;

effective March 12, 2009. **New Rule:** Filed June 12, 2009; effective July 17, 2009.