ALABAMA DEPARTMENT OF REVENUE
ADMINISTRATIVE CODE

CHAPTER 810-3-19
EXEMPTIONS - GENERALLY

810-3-19-.04 Defined Benefit Plans.

(1) Payments made to a retiree or his designated beneficiary under a "defined benefit plan," as defined by IRC §414(j), as amended from time to time, are exempt from Alabama income tax for an individual resident taxpayer, to the extent such payment would be taxable for federal income tax purposes.

(2) A "defined benefit plan" is any plan that is not a "defined contribution plan." A "defined contribution plan" is a plan that provides an individual account for each participant and for benefits based solely on the amount contributed to the participant's account, and for income, expenses, gains and losses, and any forfeitures of accounts of other participants which may be allocated to such participants' accounts. This includes plans such as profit sharing, stock bonus, and money purchase pension plans. These plans "could" be Keogh, SEP, orIRA plans. In a "defined contribution plan" such as a money purchase plan, contributions will be specified (not based on profits) and the benefits are whatever these contributions will provide. "Defined benefit plans" may include pension and annuity plans, but all such plans are not necessarily "defined benefit plans." A "defined benefit plan" is one in which the contributions are based on a computation of what contributions are needed to provide definitely determinable benefits to plan participants. That is, contributions are dependent on promised benefits. Contributions to the plan are actuarially calculated to provide the promised benefits.

(3)(a) A lump-sum distribution from a defined benefit plan, which is rolled over into another type of retirement plan or account is not taxable and is considered as basis in the new account.

(b) Distributions rolled into an individual retirement account (IRA) are not deductible as an adjustment to income.

(c) Any earnings or income produced by the amount invested in another plan or account represents taxable income. The taxable portion of distributions from the account is computed pro rata, similar to nontaxable IRA distributions.

(4) Benefits received from defined benefit plans including benefits received from nonqualified defined benefit plans such as excess benefit plans or supplemental executive retirement income plans (SERP's) are exempt from Alabama income tax to the extent that the benefits are taxable for federal income tax purposes.

Payments under excess benefit plans which provide benefits which exceed the limits set by the Internal Revenue Code and payments under SERP's where such plans are defined benefit plans are tax exempt benefits for Alabama income tax purposes if the benefits are taxable on the federal income tax return.

(5) Where a combination of plans exists requiring the benefits from a defined benefit plan to be reduced, distributions in excess of the amount distributed from the defined benefit plan are taxable. Even though the recipient could have received more from the plan had a combination of plans not existed, only the amount actually distributed from the defined benefit plan is exempt from tax.

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