

Frequently Asked Questions

What is a catastrophe savings account?

- A catastrophe savings account is a regular savings or money market account established by an Alabama resident after May 15, 2012, at a financial institution to cover repair costs and losses relating to damage to the taxpayer's principal residence in Alabama caused by a catastrophic storm or flood, to the extent those costs and losses are not covered by the taxpayer's homeowner's insurance, or to cover certain self-insured losses from damage to the taxpayer's principal residence in Alabama caused by such catastrophic storm or flood.

How do you establish a catastrophe savings account?

- A catastrophe savings account is established by:
 - Opening a separate savings or money market account at a financial institution for the sole purpose of holding catastrophe savings, AND
 - Labeling the account as a "catastrophe savings" account in the name of the account holder(s) shown in the financial institution's records or in their own written documentation recorded contemporaneously with the opening of the account.

Can I make deductible catastrophe savings contributions to an existing savings account or money market that contains funds held for a separate purpose?

- No. Catastrophe savings must be segregated into a new, separate savings or money market account and labeled as a catastrophe savings account.

How do I label a savings account or money market account a "catastrophe savings" account?

- If possible, use the term "catastrophe savings" in the financial institution's records.
- If the financial institution does not provide that option, the taxpayer may label the account a "catastrophe savings" account in his or her own documentation. This documentation should be recorded contemporaneously with the establishment of the account.

How many catastrophe savings accounts can you establish?

- A taxpayer may establish only one qualified catastrophe savings account, and only the funds related to the catastrophe savings account may be deposited into this account.

How much in deductible contributions can an Alabama taxpayer make to a catastrophe savings account?

- The total amount that may be deductible for contributions to such an account is limited to:
 - Two thousand dollars (\$2,000) if the taxpayer's qualified deductible in the year of contribution is less than or equal to one thousand dollars (\$1,000).
 - The lesser of fifteen thousand dollars (\$15,000) or twice the amount of the taxpayer's qualified deductible as of the date of the first contribution if the taxpayer's qualified deductible is greater than one thousand dollars (\$1,000).
 - The lesser of two hundred fifty thousand dollars (\$250,000) or the fair market value of the taxpayer's principal residence as of the date of the first contribution to the account if the taxpayer is self-insured and chose not to obtain property and casualty insurance on their principal residence.

What must be covered under the insurance policy in order for the contributions to qualify for the deduction?

- The insurance policy should cover all or any of the following events: hurricanes, rising floodwaters, or other catastrophic windstorm event damage.

Can deductible contributions be made to the catastrophe savings over multiple years?

Yes. Contributions to a catastrophe savings account can be made over multiple years until the maximum limitation amount has been met. In which case, taxpayers would be allowed to claim a deduction annually until their limit has been met.

Is the interest earned on the account taxable for Alabama income tax purposes?

- No, unless the taxpayer contributes more than maximum amount to the account. In which case, the interest attributable to the amount exceeding the limitation would be taxable income.

Can my spouse and I both establish a catastrophe savings account and receive more than one deduction?

- No. The deduction is limited to your principal residence in Alabama, and married taxpayers filing jointly are only entitled to one deduction.

Can a taxpayer receive a deduction for contributions made to a savings account to cover damages to their second home?

- No. This deduction only applies to your principal residence which must be your qualified homestead and located in Alabama.

How do I take the deduction for the contribution to the catastrophe savings account?

- The deduction for qualified contributions to a catastrophe savings account is allowed on Form 40, Part II, line 11 as an adjustment to income.

If I withdraw money from my catastrophe savings account to cover repair costs of my home, can I replenish the account and receive another deduction?

- No. The taxpayer may establish only one catastrophe savings account and claim a deduction only for the initial contribution(s) made to the account.
- The savings or money market account cannot be replenished once any qualified funds are used to cover repair costs relating to damage to the taxpayer's principal residence from a catastrophic storm or flood. Section 40-18-312 (d)(3), Code of Alabama 1975.

Are distributions from the catastrophe savings account taxable for Alabama income tax purposes?

- No, unless during the taxable year the aggregate distributions from the catastrophe savings account exceed the repair costs and losses associated with damage to your principal residence that was caused by a catastrophic event.