ALABAMA BILL NO._____ Income Tax Simplification

Summary: One simple linear formula and one existing formula are used to match AL tax systems efficiently for replacing existing 3 tax brackets, 12 taxable income ranges (**Problem #1: too many range**), 96 (3×4×8) formulas (**Problem #2: too many formulas**), and 72-page Withholding Tables (**Problem #3: too many pages**).

1. A bill for individual income tax rate and tax is hereby imposed for every tax year on the taxable income
2. of every resident. The tax shall be determined by applying the tax rate and tax formulas provided in this
3. section, which is based upon the following tax rate and tax:
4. For tax year ~~2020~~ 2025, and all tax years thereafter:
5. ~~If the taxable income is: The tax is:~~
6. ~~(1) Single income tax brackets   or Married/RDP filing separately~~
7. ~~Not over $500 …………………………..…… 2% of taxable income (TI)~~
8. ~~Over $500 but not over $3,000 …………… $10 plus 4% of excess over $500~~
9. ~~Over $3,000 …………………………………… $110 plus 5% of excess over $3,000~~
10. ~~(2) Married filing jointly income tax brackets~~
11. ~~Not over $1,000 ……………………………… 2% of taxable income (TI)~~
12. ~~Over $1,000 but not over $6,000 ….…..…… $20 plus 4% of excess over $1,000~~
13. ~~Over $6,000 ………………………………… $220 plus 5% of excess over $6,000~~
14. ~~(3) Married filing separately tax brackets~~
15. ~~Not over $500 …………………………..…… 2% of taxable income (TI)~~
16. ~~Over $500 but not over $3,000 …………… $10 plus 4% of excess over $500~~
17. ~~Over $3,000 …………………………………… $110 plus 5% of excess over $3,000~~
18. ~~(4) Head of household income tax brackets~~
19. ~~Not over $500 …………………………..…… 2% of taxable income (TI)~~
20. ~~Over $500 but not over $3,000 …………… $10 plus 4% of excess over $500~~
21. ~~Over $3,000 …………………………………… $110 plus 5% of excess over $3,000~~
22.

23. If the yearly taxable income (YTI) is:	The tax rate and tax are:	2020 Tax rate range:
24. Not over $3,000×S	$(YTI \div S \div C + B) \times TI$	2% - 3.67%
25. Over $3,000×S	$(T - (D \times S \div YTI)) \times TI$	3.67% - 5%

26.
27. YTI is the yearly taxable income. S is status # (2 for Married filing jointly or 1 for others). B is bottom
28. tax rate 2%. Top tax rate is 5%. C is 179,641 from 3,000 to divide the 1-st tax rate range difference
29. (0.0367-0.02), D is 39.9 from 3,000 to multiply the 2-nd tax rate range difference (0.05-0.0367). There
30. are 2 tax rate ranges of 0.02-0.0367-0.05 for YTI÷ S not over and over $3,000 for 2020, which can be
31. reformed. YTI is equal to TI×F, TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365
32. on yearly, semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples: **Tax rate and tax are:**

1. YTI=$2,800 (S=1): $(2,800 \div 1 \div 179,641 + 0.02) \times 2,800 = 0.0355866 \times 2,800 = 99.64$

2. YTI=$72,000 (S=2): $(0.05 - 39.9 \times 2 \div 72,000) \times 72,000 = 0.04889 \times 72,000 = 3,520.20$

3. Bi-weekly TI is $2,500 (S=1): $(0.05 - 39.9 \times 1 \div 2,700 \div 26) \times 2,700 = 0.048863 \times 2,700 = 131.93$

4. Monthly TI is $6,000 (S=2): $(0.05 - 39.9 \times 2 \div 6,000 \div 12) \times 6,000 = 0.04889 \times 6,000 = 293.35$

Notes:

(1) Alabama has 3 tax brackets with 2%, 4% and 5% with non-smooth tax rate changes, 96 (3×4×8) formulas, 12 taxable income ranges and 72-page Withholding Tables, which are complex. Existing Tax Table has 6 pages.

   https://revenue.alabama.gov/wp-content/uploads/2021/08/whbooklet_0821.pdf (Pages 7-80)
   https://revenue.alabama.gov/wp-content/uploads/2021/01/whbooklet_0121.pdf (Pages 9-80)

With this simplification, the 3 tax brackets, 96 (3×4×8) formulas, 12 taxable income ranges and 72-page Withholding Tables can be eliminated and replaced by 2 simple brackets/formulas of (YTI÷S÷C+0.02)×TI and (0.05– (D×S÷YTI))×TI for not over and over $3,000 (YTI÷S) with smooth tax rate changes fairly (*) and 98.6% reduction (1-(2÷3)(2÷96)).

(*) Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf

(2) AL has standard deductions for four tax statuses change from $2,000 to $7,500 when adjusted gross income (AGI) change from 0 to $33,000 with 21 bracket/step changes. When AGI is $1 difference between $32,999 and $33,000 for MFJ, their deduction difference is $175, which is unfair. When the LG tax simplification is used, one formula with smooth reduction is better and easier, which is shown in Table 3 (**6. Standard Deduction and Simplification**): https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wal_summary5.pdf

(3) Existing tax table (6 pages) or its formula is for people to have one option.

(4) For not over $3,000×S, one slope formula is used to match and simplify fairly. For over $3,000×S, the same tax formula is converted into tax rate and tax format.

$110 plus 5% of excess over $3,000=110+0.05 (YTI-3,000)=0.05-40÷YTI)×YTI into (0.05-(D×S÷YTI)) × TI

Then the 2 formulas are used to simplify and replace the existing 3 tax brackets, 12 taxable income ranges, 96 (3×4×8) formulas, and 72-page Withholding Tables fairly and efficiently.

(5). For existing tax reforms, tax brackets, tax rates, taxable income ranges and tax goal are considered at the same time, which are affected each other and complex. With this tax simplification, only 3 or 4 tax rates at bottom, middle (1 or 2) and top are adjusted to meet a tax goal. The factors are explained by our research paper (Page 509).

Bill Summary

This bill matches and simplifies existing 3 tax brackets, 12 taxable income ranges, 96 (3×4×8) formulas, and 72-page Withholding Tables with the proposed 2 formulas and brackets. Existing 4 tax statuses are numbered with 2 or 1. Payrolls, withholding reports, tax returns, tax analyses, tax reforms and tax projections can be simplified with the 2 brackets. A checking tool is provided to reduce calculation mistakes. For a tax reform, only 3 tax rates at bottom, top and $3,000 are adjusted to meet a related tax projection.

For more information or questions, visit our web or contact johnlee@taxsimplecenter.net or 913-710-0957