

Summary for Alabama Income Tax Calculation Simplification

www.taxsimplecenter.net

1. Existing Tax System: AL has 3 personal tax brackets (2021) with non-smooth tax rate changes from 2% to 4% and 5%, which are simple. But Withholding Tables have 72 pages, which are complex. Existing Tax Table has 6 pages. https://revenue.alabama.gov/wp-content/uploads/2021/01/whbooklet_0121.pdf (Pages 9-80)

2. Tax Simplification: When the LG tax simplification (supported by our 12 publications) is used, the complex Withholding Tables can be eliminated and 3 existing tax brackets can be matched and reduced to 2. Tax Table or its formula (option) may be used with 0-3 pages. A checking tool can be used to reduce calculation mistakes.

<https://taxsimplecenter.net/publication.html>

Table 1 Existing Tax Rates, Withholding Tables, Checking Tool and Simplification

Taxable income	Tax Rate	Withholding Tables	Tax Table	Checking Tool (Existing Tax System)	
1st \$500	2%	72 pages	6 pages	No	
Next \$2,500	4%				
Over \$3,000	5%	At \$3,000, tax rate is $(500 \times 0.02 + 2,500 \times 0.04) \div 3,000 = 0.0367$			
		0 page	0-3 pages	Yes	Tax Rate Check
Not over \$3,000	$(YTI \div S \div C + 0.02) \times TI$		$C = 3,000 \div (0.0367 - 0.02) = 179,641$		0.02-0.0367
Over \$3,000	$(0.05 - D \times S \div YTI) \times TI$		$D = 3,000 \times (0.05 - 0.0367) = 39.9$		0.0367-0.05

YTI=yearly taxable income, TI=taxable income, $YTI=TI \times F$ and F=the number of filing period (F=1 for tax returns, 2, 4, 12, 24, 26, 52 or 365 on different basis). S=Tax Status (2 for Married filing jointly or 1 for others).

3. Withholding Tax: The complex 72-page Withholding Tables can be eliminated to reduce related costs. If the simplification can help to reduce tax calculation cost at \$1 for companies and \$0.2 for Department of Revenue on each 26 biweekly period per employee, then cost saving may be \$59 million from 1.2x26x1.9 million. AL employee numbers are about 1.9 millions (www.bls.gov/oes/current/oes_al.htm#00-0000). The \$1.2 covers about 8 areas such as such as (1) designing Withholding Tables, (2) publication, (3) tax numbers with certain Allowances, (4) using calculation formulas for high taxable incomes and Allowances, (5) checking mistakes and recalculations, (6) filings, (7) software, and (8) data analysis. Table 6 shows related benefits and value estimations with direct and non-direct values, which may need to be evaluated by the Department of Revenue. When the 2 simple formulas are set with Spreadsheet, Excel or software, tax rate, tax, withholding tax and payroll calculations can be calculated repeatedly for companies to do withholding taxes, payrolls and related reports, which is a big saving for companies.

Withholding tax formulas are also used. When yearly taxable income is \$35,545, monthly or weekly taxable incomes are \$2,962.08 or \$683.56 in 2021, withholding taxes are calculated as \$1,697.25 yearly or \$32.64 weekly, which involves 4 steps, by AL Department of Revenue at https://revenue.alabama.gov/wp-content/uploads/2021/01/whbooklet_0121.pdf (Page 7). When the simplified formula in Table 1 is used, tax rate and tax are calculated at such as yearly, weekly or monthly with 1-step formula. Tax rate is 4.775%. Then the same taxes of \$1,697 and \$32 are obtained quickly. Also the tax simplification involves effective tax rates, which can be checked to reduce calculation mistakes with tax rate checks 0.02-0.0367-0.05.

$$(0.05 - 39.9 \times 2 \div (TI \times F)) \times TI = (0.05 - 79.8 \div (683.56 \times 52)) \times 683.56 = 0.04775 \times 683.56 = \$32.64 \quad (\text{weekly})$$

$$(0.05 - 39.9 \times 2 \div YTI) \times TI = (0.05 - 79.8 \div 35,545) \times 35,545 = 0.04775 \times 35,545 = \$1,697.45 \quad (\text{yearly})$$

$$(0.05 - 39.9 \times 2 \div (TI \times F)) \times TI = (0.05 - 79.8 \div (2,962.08 \times 12)) \times 2,962.08 = 0.04775 \times 2,962.08 = \$141.45 \quad (\text{monthly})$$

$$\text{Withholding Tax} = (\text{Incomes} - \text{Federal tax} - (\text{Deductions} + \text{Exemptions} + \text{Dependents}) \div F) \times \text{Tax rate} - \text{Tax credits} \div F$$

5. Tax Rate Comparison: Existing tax rates change non-smoothly with various tax rate speeds (not over \$3,000), which are unfair. With the LG tax simplification, tax rate speed (not over \$3,000) is at a same speed (1/C), which is a reasonable and fair constant. When 2 tax rates are set, effective (linear) tax rates between the two points with a straight line are fair and simple. Existing flat and curve or step tax rates with less or more tax brackets are unfair and complex, which cause some people, who should pay slight more, pay less or other people, who should pay slight less, pay more. Table 2 shows almost or no difference between the two methods.



Table 2 Comparison between Existing and Simplified Tax Rate Calculations

- 1) Existing System: Two sub systems of tax formulas, Withholding Tables (72 pages) and Tax Table (6 pages)
One sub system is for employers to do withholding taxes and another one is for employees to do tax returns.
- 2) Simplification: 2 brackets/formulas without Withholding Tables

TI×F	1) Existing System	2) 2 Brackets: 2-5%	Tax Rate Difference
100	0.02	0.0206	0.0006
2,000	0.035	0.0311	-0.0039
3,000	0.0367	0.0367	0.0000
5,000	0.042	0.042	0.0000
10,000	0.046	0.046	0.0000
30,000	0.04867	0.04867	0.0000
50,000	0.0492	0.0492	0.0000
100,000	0.0496	0.0496	0.0000
300,000	0.049867	0.049867	0.0000
700,000	0.049943	0.049943	0.0000
1,000,000	0.04996	0.04996	0.0000

6. Standard Deduction and Simplification: AL 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 steps. 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.

Table 3 Standard Deduction and Simplification

AGI	Married Filing Joint	Married Filing Separate	Head of Family	Single
\$ 0 \$23,499	\$7,500	\$3,750 (0-\$10,749)	\$4,700	\$2,500
\$23,500 \$23,999	\$7,325	\$3,662 (\$10,750-\$10,999)	\$4,565	\$2,475
.....	17 brackets
\$32,500 \$32,999	\$4,175	\$2,078 (\$15,250-\$15,499)	\$2,135	\$2,025
\$33,000 and over	\$4,000	\$2,000 (\$15,500 & over)	\$2,000	\$2,000
Simplification (One formula for each tax status)				
\$23,500 \$33,000	$(43,857 - \text{AGI}) \div 2.7143$	$(20,929 - \text{AGI}) \div 2.7143$	$(40,037 - \text{AGI}) \div 3.5185$	$(71,000 - \text{AGI}) \div 19$



Example: For Married Filing Joint, standard deduction is \$4,174.93 from $(43,857 - \text{AGI}) \div 2.7143$ when AGI is \$32,525, which is very close to \$4,175 in Table 3. Standard deductions with the formulas change smoothly. When tax statuses are numbered with simple 2, 1 or 1.5, then one formula with S number may be obtained.

7. Dependent Exemption and Simplification: AL dependent exemptions are \$1,000, \$500 or \$300 (3 steps) for different AGI, which are shown in Table 4. The different tax statuses are treated equally currently, which are not reasonable. Married Filing Joint should have more deduction than other statuses. When AGI is \$1 difference between \$20,000 and \$20,001, their deduction difference is \$500 or between \$100,000 and \$100,001, their deduction difference is \$200, which is unfair. With the LG tax simplification, one formula with smooth reduction from \$1,000 to \$300 is better and easier, which is shown in Table 4. Also S number may be involved to cover different situations with or without adjustment.

Table 4 Dependent Exemption and Simplification

AGI	Dependent Exemption	Simplification
\$ 0 - \$20,000	\$1,000	\$1,000
\$20,000 - \$100,000	\$500	$(134,286 - \text{AGI}) \div 114.286$
Over \$100,000	\$300	\$300

8. Tax Return Simplification: Many taxpayers with standard deductions may not need to file normal tax returns and do modifications with Withholding Tax Report. Tax return form may be simplified in one or half page (Table 5). https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wbenvalue_for_statesw2.pdf (Table 5)

<https://revenue.alabama.gov/wp-content/uploads/2021/01/20f40blk.pdf>

Table 5 FORM AL 40 INDIVIDUAL INCOME TAX RETURN

Check one: Married Filing Joint Head of Family Single Married Filing Separate
 Filing Status (S) #: 2 1 1 1
 Standard deduction (\$) \$7,500-\$4,000 \$4,700-\$2,000 \$2,500-\$2,000 \$3,750-\$2,000
 Personal exemption (\$): \$3,000 (employee) \$3,000 () \$1,500 () \$1,500 (employee) **Form Barcode**
 Dependent exemption (\$): (None if employee claims "0" personal exemption)
 Standard tax credit (\$):
 Address:

A	B	C	D	E	F	G	
Year	Your Name	SS#	Spouse Name	Spouse SS#	Status (2 or 1)	Child #	1
2021							2
Gross income	Adjustments	Adjusted gross Income (AGI)	Standard / Itemized Deductions	Exemptions	Federal Tax Deduction	Other deductions	3
							4
Taxable income	TI ÷ S	Yearly TI	LG tax rate formula	Tax rate check	Tax rate	Tax / Table	5
		0 - \$3,000	$YTI \div S \div 179,641 + 0.02$	0.02-0.0367			6
		Over \$3,000	$0.05 - 39.9 \times S \div YTI$	0.0367-0.05			7
Non-refundable tax credits	Total Tax (If <0, enter 0)	Refundable tax credits	AL income tax withheld	Tax refund (last year: ≤\$100)	Donations	Tax (Owe+ /Refund-)	8
							9

(1) Taxable income (A5)=A4+B4-D4-E2-F4-G4 (2) Tax (Owe+/Refund-)=B9-C9-D9-E9-F9

(3) Attach related documents. If tax refund (G9) is not over \$100, delay it to next year (E9) and file tax return. If tax refund is over \$100, please fill in:

Bank routing# _____, Account # _____, Name _____

Tax Return Barcode

Signature: Your _____ Spouse _____ Date _____

Third-party preparer name _____ Address _____

EIN/SS# _____ Phone# _____ Date _____ Signature _____

8. Tax Reform, Analysis, Budget, and Projection:

$$\text{Total Tax} = 0.02 \text{ Sum}(YTIa) + (\text{Sum}(YTIa \div S))^2 \div 179,641 + \text{Sum}(0.05 YTIb - 39.9 \times S)$$

Tax reforms usually need lawmakers to consider tax bracket numbers, tax rates, taxable income ranges and tax goals at the same time, which are very complex. With the tax simplification, only 3 tax rates at bottom, \$3,000 and top such as 2%-3.67%-5% are needed to be adjusted to meet a tax goal. In the total tax formula, a and b are taxable income numbers for not over and over \$3,000×S for Married Filing Joint and other tax statuses.

9. Value and Cost Reduction from the LG Tax Simplification:

Besides eliminating existing 72-page Withholding Tables with cost reduction \$59 million from 1.2x26x1.9 million, there are other cost saving values, which are shown in Table 6.

Table 6: Benefits and Cost Saving Values of the Simplification for AL

#	Benefits	Value
1.	Existing tax brackets are matched and reduced to 2 comparably.	Less time/More simple
2.	Lawmakers can adjust 3 (top/bottom/middle) tax rates for tax reforms and projections.	Less time/hustle
3.	Same tax revenue for over \$3,000 and very slight change for not over \$3,000. Goal:	<\$1 million
4.	Withholding Tables (72 pages) are eliminated and replaced by 2 simple formulas. If (1+0.2)/person/period (1.2×26×1.9 million):	\$59 million
5.	Tax table or its formula (1 option) is used. If ((1+0.5)×2.5 million):	\$3.75 million
6.	Combining two existing sub tax systems (4&5) together without time delay (13 M) for:	Real & quick tax
7.	One non-refundable and one refundable tax credit formulas. If (2×2.5 million):	\$5 million
8.	Simple tax returns with standard deductions/credits. If ((15+5)×50%×2.5 million):	\$25 million
9.	Half-page (postcard) tax return form may be used (50%). If ((10+4)×50%×2.5 million):	\$17.5 million
10.	Tax Status (S) # is 1 for Singles or Married filing separately, 2 for Married filing jointly or 1.5 for Head of Household. Standard Deductions are \$xxx*S. If ((1+0.5)×2.5 million):	\$3.75 million
11.	A checking tool of two tax rate ranges are provided to check and reduce tax rate and tax calculation mistakes. If ((2+1)×2.5 million):	\$7.5 million
12.	Tax fraud is inspected and reduced by comparing tax returns and tax withholding reports.	Less crime
13.	Tax refunds with \$100 or less are delayed to next-year refunds.	Less time/cost
14.	Department of Revenue may process less normal tax returns during busy tax season and have more time to inspect more tax returns and evasions for possible more taxes.	More tax
15.	The LG tax simplification can be used to simplify tax calculation, payroll, tax analysis and projection with 2 brackets instead of existing multi brackets.	Less time/costs

The direct total saving value may be \$120 million for AL. Also indirect benefits of less time, hustle, mistake, crime, and less cost have certain values. Related costs and saving values depend on tax return and employee numbers and complexity of existing tax systems, which need to be evaluated by Department of Revenue.

To implement the tax simplification, it may cost a state about \$60K's. KS Division of The Budget estimated \$61,110 (2018) or \$68,991 (2020) to implement the tax simplification and to modify the automated tax system at www.kslegislature.org/li_2018/b2017_18/measures/documents/fisc_note_hb2788_00_0000.pdf (2018 HB 2788) and www.kslegislature.org/li_2020/b2019_20/measures/documents/fisc_note_hb2278_00_0000.pdf (2019 HB 2278). Slight tax revenue (about \$5 million/year) can be gained by 3.1%-5.7%. Related costs need to be evaluated by Departments of Revenue.

For more information: www.taxsimplecenter.net or questions: johnlee1040@yahoo.com or 913-710-0957