

# House Bill 19: Income Tax

6/3/03

*Rep. John Knight introduced HB 19, which would improve the fairness of the personal income tax and the corporate income tax. Rep. Laura Hall's amendment on the House floor added automatic increases for inflation for the personal exemption, dependent deduction, and standard deduction, by linking them to federal increases.*

## Families need a tax break. This plan offers a tax cut of \$95 per child.

For most families, this means a net tax cut on their state income tax:

1,020,000 income tax payers will pay less under Riley's plan.

380,000 will pay the same.

600,000 will pay more.

That's 51% of income tax filers who will pay less. 19% will pay the same. 30% will pay more.

**The proportion of taxes will be fairer.** Low-wage families, who now pay nearly *three* times the percentage the wealthy pay in state and local taxes, will pay less. For the bottom 20% of earners, these income tax provisions alone will lower their total state and local taxes from 10.6% of their income to 9.7%. The wealthiest 1% – who pay 3.8% of their incomes in state and local taxes – will see a 1.9% increase on their state income tax. After taking into account their reduction in federal taxes (when they itemize on their federal returns), that increase is only 1.2%.

*The calculations above were made before the House amendments. Those that follow include House amendments:*

### Who comes out ahead:

Single person with income of **\$14,500 or less**. Singles will have a tax cut on income under \$14,500. Tax will increase on any portion of income above \$14,500.

Married filing jointly with one child if income is **\$72,400 or less**.

Married filing jointly with two children if income is **\$87,100 or less**.

*These figures calculated for 2004 using the standard deduction; taxes still lower if taxpayer itemizes.*

### Tax at \$30,000 of income:

Single person: **\$1,152**

Married filing jointly with one child: **\$772**

Married filing jointly with two children: **\$662**

### New income tax thresholds for 2004:

**\$14,565** for a two-parent family of 3, up from \$4,600 now.

**\$16,770** for a two-parent family of 4, up from \$4,600 now.

**Corporate income tax** now has a 6.5% rate, but because of the deduction for federal income tax paid, the effective rate is 4.2%. By cutting this deduction to 25% of federal tax paid, the **effective rate becomes 6.0%** – which puts us in line with other Southeastern states and brings in an additional \$45 million. (Of course, this additional amount will be deductible on a corporation's federal taxes.)

# House Bill 19: The Details

## Personal Exemptions and Deductions

	Current Alabama Income Tax	HB 19 Income Tax Reforms
<b>Personal Exemption</b>	<b>\$1,500</b> for single payers, <b>\$3,000</b> for couple or head of household	<b>\$2,205</b> per person, <b>\$4,410</b> per couple Equal to 70% of federal personal exemption. Projected to grow to \$2,450 per person and \$4,900 per couple in 2009.
<b>Dependent Deduction</b>	<b>\$300</b> per child	<b>\$2,205</b> per child, which is 70% of federal dependent deduction. Projected to grow to \$2,450 per child in 2009.
<b>Standard Deduction</b> (for non-itemizers)	<b>\$4,000</b> maximum; lower below \$20,000 income: 20% of earnings	<b>\$4,750</b> for single; <b>\$7,000</b> single head of household; <b>\$7,950</b> for couple in 2004, equal to federal standard deduction. Projected to grow to \$11,000 in 2009.
<b>Itemized Deductions</b>	Medical and dental expenses; taxes paid, including FICA; home mortgage interest; charitable giving; casualty and theft loss; job expenses; misc. deductions	Only three allowed: medical and dental expenses, charitable contributions, and home mortgage interest
<b>Deduction for Federal Income Tax</b>	Only 3 states give the full deduction: Alabama, Iowa, Louisiana. Defeats the progressivity of an income tax: \$360 million goes to top 20%; less than \$90 million goes to the bottom 80% of filers.	No deduction. Over \$450 million is redistributed to the family-friendly deductions above.

## Rates on Income Subject to Tax

*These rates apply to income that remains after subtracting exemptions and deductions above.*

<b>Bottom Rate</b>	<b>2%</b> of the first \$500 of income for singles, \$1,000 for couples	<b>5%</b> of the first \$75,000 of income for singles, \$150,000 for couples filing jointly
<b>Middle Rate</b>	<b>4%</b> of the next \$2,500 of income for singles, \$5,000 for couples filing jointly	
<b>Top Rate</b>	<b>5%</b> of all income over \$3,000 for singles, \$6,000 for couples filing jointly	<b>6%</b> of all income over \$75,000 for singles, \$150,000 for couples

### Sources:

Arise Citizens' Policy Project (334) 832-9060 [www.arisecitizens.org](http://www.arisecitizens.org)  
 Institute for Tax and Economic Policy (202) 626-3780 [www.itepnet.org](http://www.itepnet.org)