

Knight Income Tax Reform Plan

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In 2002 Rep. John Knight again sponsored his plan to restore fairness to the income tax and raise funds for critical needs. Because the plan amends the Constitution, it will have to be approved by the voters.

In a time of economic hardship, families need a tax break. Knight's plan offers a tax cut of \$132.50 per child. For most families, this means a net tax cut:

1,200,000 income tax payers will pay less under Knight's plan.

430,000 will pay the same.

390,000 will pay more.

That's 60% of income tax filers who will pay less.

21% will pay the same.

19% will pay more.

The proportion of taxes will be fairer. Low-wage families, who now pay *three* times the percentage the wealthy pay in state and local taxes, will pay only *twice* what the top 1% pay. For low-wage families, total state and local taxes will drop from about 11.5% of their income to just under 10%. The wealthiest 1% – who now pay 3.6% of their incomes in state and local taxes – will pay less than 5%.

Who comes out ahead:

Single person with income of **\$29,250 or less**. Tax will increase on the portion of income above \$29,250.

Married filing jointly with one child if income is **\$63,900 or less**.

Married filing jointly with two children if income is **\$72,300 or less**.

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

New income tax thresholds for 2002 under Knight plan:

\$22,800 for a one parent family of 3, up from \$4,600 now.

\$25,100 for a two-parent family of 4, up from \$4,600 now.

Alabama needs more funding for education and other critical needs.

Because tax payers with income above the break-even points will pay more, the plan is projected to produce about \$145 million to fund critical needs. Rep. Knight proposes to split this revenue, with half going to the Education Trust Fund and half to the General Fund.

Overall, the plan will be revenue-neutral for Alabama taxpayers. Higher-wage Alabamians will pay more in state income tax, itemize this on their federal returns, and pay \$145 million less to the federal government.

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Knight Income Tax Reform Plan: The Details

Exemptions and Deductions		
	Current Alabama Income Tax	Knight Income Tax Reform Plan for 2002
Personal Exemption	\$1,500 for single payers, \$3,000 for couple or head of household	\$2,950 per person, \$5,900 per couple Phases out in conformity to federal exemption.
Dependent Deduction	\$300 per child	\$2,950 per child Phases out in conformity to federal deduction.
Standard Deduction	\$4,000 maximum; lower below \$20,000 income: 20% of earnings	\$4,650 for single; \$6,850 single head of household; \$7,750 for couple
Deduction for Federal Income Tax	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.
 Income Subject to Income Tax <i>These rates apply to income that remains after subtracting exemptions and deductions above.</i> 		
Bottom Rate	2% of the first \$500 of income for singles, \$1,000 for couples	2% of the first \$500 of income for singles, \$1,000 for couples filing jointly
Middle Rate	4% of the next \$2,500 of income for singles, \$5,000 for couples filing jointly	4% of the next \$12,000 of income for singles, \$24,000 for couples filing jointly (<i>that is, a 1% cut on \$19,000 on which we now pay 5%</i>)
Top Rate	5% of all income over \$3,000 for singles, \$6,000 for couples filing jointly	6.5% of all income over \$12,500 for singles, \$25,000 for couples (a 1.5% increase, partly offset by the 1% cut above).
 Tax Incentive to Work 		
State Earned Income Tax Credit (EITC)	None.	New Alabama EITC , at 10% of the federal EITC, will reward work with a supplement as high as \$401 for a full-time minimum-wage worker with two children. Phases out at about \$32,000 income for a family with two children.

Sources:

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