

Missouri Tax Problems and Simple Solution to Save \$170 Million Yearly

Missouri has several income tax problems such as federal tax deduction cliff, income tax complexity, property tax credit, state-federal tax cycle, and other tax problems.

Existing MO Federal Tax Percentage (FTP) has 5 step rates at 35%, 25%, 15%, 5%, and 0%, which has 5 tax cliff problems (A: Page 22). When adjustable gross income (AGI) is changed such as from \$100,000 to \$100,001 with federal tax such as \$15,000, MO federal tax deduction is from \$2,250 ($15\% \times 15,000$) to \$750 ($5\% \times 15,000$). **The \$1 AGI difference causes \$1,500 (\$2,250-\$750) deduction difference, which is totally unfair.** The Federal tax percentage shall be reduced from 35% to 0% gradually to resolve the 5 cliffs with one simple formula of $(1 - \text{AGI} \div 125,000) \times 0.35$ (B).

Missouri has 10 tax brackets at 1.5%-6% (1.5%, 2%, 2.5%, 3%, 3.5%, 4%, 4.5%, 5%, 5.5%, and 6.0%) in 2016-2017 (9 brackets at 1.5-5.4% in 2019-2021 or 8 tax brackets at 0-4.95% in 2022 SBs 3 & 5), 10-page Withholding Tables, and 54 (9×6) formulas for withholding taxes, which are complex. The top tax rate is often changed from 6.0% in 2016 to 5.9% in 2018, 5.4% in 2021 or 4.95% in 2023. There are two income tax systems. One is for employers to calculate withholding taxes. Another is for people to do tax returns. Taxable income ranges, marginal and effective tax rates, and tax numbers in the 10-page Withholding Tables are often changed, which are very complex. If businesses do not need to use the complex 10-page Withholding Tables and the 54 formulas, then they can save related time and costs, which also helps MO Department of Revenue to reduce processing cost.

MO Department of Revenue web (C and D) shows yearly taxable income \$22,450 to have withholding tax calculation with 9 tax brackets and about 12 steps for calculating withholding taxes such as \$1,025.28/year, which have complex and multiple-step calculations.

Missouri tax simplification has been researched by Robert Kao (Associate Professor of Finance in Park University, Parkville, MO) and John Lee (Research Scientist in Rigel Technology, Olathe, KS). They have more than 12 publications at <https://taxsimplecenter.net/publication.html> (tax simplification research). The 10, 9 or 8 tax brackets can be matched and reduced to 2 and the 10-page Withholding Tables and 54 formulas can be eliminated to simplify MO tax system with one simple linear formula and one existing formula by more than 96% ($1 - 2/54$) simplification. Detail explanation is available by their research paper (E). Tax revenue may have little or no change.

For the above taxable income \$22,450/year, withholding or income tax rate is 4.567% and tax is \$1,025.30 with one-step formula of $(0.054 - (187 \div (\text{TI} \times \text{F})) \times \text{TI}$ (TI=taxable income and F=different filing period #), which is much simple than the 54 formulas, 10-page Withholding Tables, and 12-step process. The income tax rate 4.567% from $0.054 - 187 \div (22,450 \times 1)$ and tax \$1,025 (tax rate \times 22,450) are the same from the existing and simplified methods. However they differ substantially in the number of steps (12 vs 1).

Simple visual comparisons of the existing and proposed tax rates are shown by the Figure 1 (E) with very comparable results. When 2 tax rates are set such as 1.5% for bottom tax rate and 3.12% for taxable income \$9,000, a linear line between them to have one simple formula is the most simple, fair, and effective (E). With the simplified 2 brackets and formulas, businesses can simplify existing withholding taxes, 54 formulas, payrolls, and reports with cost deductions. Tax revenue change to Missouri government is neutral.

Comparing existing 10-8 brackets, 10-page Withholding Tables, and 54 (9×6) formulas and simplified 2 simple brackets/formulas, businesses may save \$72.8 million (1x26x2.8 million) if \$1 for each biweekly period per employee. MO has about 2.8 million employees. The \$1 covers about 8 areas (F). There are about 15 direct and non-direct benefits. Their saving values for MO government, businesses, and people may be \$170 million per year (E: Table 6), which may need to be evaluated by MO Department of Revenue.

Another tax problem is existing MO Property Tax Credit with 53 brackets. One simple formula is suggested to match related tax credit rates between 100% and 0 gradually, which reduces 53 brackets to 1 with 98% reduction (E). Partial federal income tax credit is deducted in MO tax system. When federal and state tax deductions are claimed each other, a cycle problem is introduced. They may be deducted each other with many deduction cycles. State tax deduction is suggested to be independent to avoid the cycle problem. Existing seniors' tax returns are complex, which cause some problems for seniors and may be simplified (F).

MO corporate income tax has a flat tax rate at 4%. AR has 1%-6.5% (6 tax brackets). A flat tax rate is too simple, which can not cover different taxable incomes and small and large companies reasonably. Multiple tax brackets are too complex. A nice business tax plan is to have a relatively low bottom tax rate, which can encourage more people to start businesses. Small businesses hire many employees to meet social and economical needs. Then mid and large businesses are more stable and pay relatively higher tax rates. Two brackets and formulas for corporate tax calculations are suggested with two gradual tax rate ranges such as 2.5%-3.5%-4.5% to be competitive and encourage for more small businesses. There may be other tax problems.

There are two political trends for income tax systems. One is to increase tax revenue with complex income tax systems. Another one is to reduce tax revenue with a flat tax rate, which will not resolve related problems of tax revenue, basic living cost, income tax, fairness, and others. We do need tax simplification to save related time and costs for the Department of Revenue, lawmakers, companies, and people. Budget balance needs to be considered at first. Proper and simple tax system can be used to resolve these tax problems with one simple linear formula as a simple and effective solution.

If you have questions and comments, please contact John Lee at johnlee@taxsimplecenter.net (email).

- A. https://dor.mo.gov/forms/MO-1040%20Instructions_2022.pdf (Page 22)
- B. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wmo_bill_draft44.pdf (Page 4)
- C. https://dor.mo.gov/forms/Withholding%20Formula_2021.pdf
- D. https://dor.mo.gov/forms/Withholding%20Formula_2023.pdf
- E. www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf
- F. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wsenors_fs_paper2.pdf