

New York Tax Problems and Simple Solution to Save \$500 Million Yearly

New York state tax system has several tax problems such as income tax complexity, state household credit cliff, senior tax returns, New York City tax complexity, and other tax problems (A).

New York state has 8 tax brackets (4%, 4.5%, 5.25%, 5.9%, 6.09%, 6.41%, 6.85%, and 8.82%), 144 (8×3×6) formulas, 11-page Withholding Tables, and 24 (8×3) tax rate ranges, which are very complex (B). There are two income tax systems. One is for employers to do withholding taxes (C). Another is for people's tax returns (D). If businesses do not need to use existing complex Withholding Tables and 144 formulas, then businesses and Department of Revenue can reduce hundred million dollars.

State tax simplification has been researched by Robert Kao and John Lee. The complex NY state tax system can be matched and simplified. The 8 tax brackets can be reduced to 2 (4%-6.1%-8.82%) and the 11-page Withholding Tables and 144 formulas can be eliminated and replaced with simple one linear formulas and one existing formula by 98.6% (1-2/144) simplification with comparable results, which is explained by their research paper (E: Figure 1). Tax revenue change is neutral.

When 2 tax rates are set such as 4% for bottom tax rate and 6.1% for taxable income \$180,000, a linear line between them to have one simple formula is the most simple, fair, and effective (E). Comparing existing 8 brackets, 11-page Withholding Tables and 144 (8×3×6) formulas and simplified 2 simple brackets/formulas, businesses may save \$252.7 million from 1×26×9.72 million if businesses can save \$1 on each biweekly period per employee. NY State has about 9.72 million employees (F). The \$1 covers about 8 areas (E). There are about 15 direct and non-direct benefits. Their saving values for NY government, businesses, and people may be more than \$500 million/year (E: Table 6), which may need to be evaluated by NY Department of Revenue.

Another tax problem is existing NY state household credit, which has multi-step cliffs. These cliffs can be resolved by one simple formula (A). Corporate income tax is another issue. 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.

Existing seniors' tax returns are complex, which cause some problems for seniors and can be simplified (G). NY City tax system has 4 tax brackets (3.078%, 3.762%, 3.819% and 3.876%), 72 (4×3×6) withholding formulas, and 21-page Withholding Tables, which is also complex and can be simplified and replaced by simple one linear formula and one existing formula (A).

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 one or few flat tax rates, which will not resolve related problems of tax revenue, basic living cost, income tax, cliff, fairness, and others. We do need tax simplification to save significant costs and time for Department of Revenue, lawmakers, companies, and people technically. 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.

A. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wtaxproblem_solutionny5.pdf

- B. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wny_bill_draft10.pdf
- C. www.tax.ny.gov/bus/wt/wtidx.htm
- D. www.tax.ny.gov/pit/
- E. www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf
- F. <https://dol.ny.gov/current-employment-statistics-0>
- G. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wsenors_fs_paper2.pdf