

U.S. Senate Finance Committee
Hearing on:
“American Made: Growing U.S. Manufacturing through the Tax Code”
March 12, 2024

Written Statement of John Lee
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Chairman Wyden, ranking member Crapo and members of the Committee:

I appreciate your calling for this hearing. Good tax code policy can help U.S. manufacturers and businesses to grow. Business tax rate is one of major factors for our domestic manufacturing.

I am a tax researcher and business owner. We have 15 tax research publications of federal and state tax simplification research (A and B).

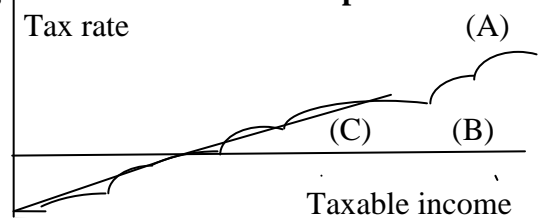
Federal business tax system had 8 tax brackets such as 15%, 25%, ..., and 35% before reforming to a flat tax rate at 21% in 2018 (C). The 8 tax brackets were too complex. A flat tax rate (21%) is too simple, rough and unreasonable. Small businesses have increased their tax rate from such as 15%-18% to 21%. President Biden has proposed to increase 21% to 28% (D). High tax rates affect many people to reconsider to start new businesses or not.

A good 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 people, social and economic needs. Then middle and large businesses are more stable to pay relatively higher tax rates. Two brackets/formulas for federal corporate tax calculation system are suggested with 2 tax rate ranges such as 15%-20%-25% or 15%-21%-28% (A).

A flat tax rate can reduce for people to start new businesses, which affect our existing and future economic situations. 15% is increased to 21% to increase tax by 40% (6%/15%) or to 28% to increase tax by 86% (13%/15%). Two tax rate ranges such as 15%-20%-25% or 15%-21%-28% are suggested. Tax revenue change is very minor. Small businesses have good potential for business development. Middle and large businesses have strong ability to pay relatively higher tax rates than small businesses. When more small businesses survive and develop, more middle and large businesses may be produced.

- (A) The prior 8 tax brackets from 15% to 35%
- (B) Flat tax rate at 21% (or 28%)
- (C) Two brackets/ranges (15%-20%-25%)

Fig. Business Tax Rate Comparison



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Tax rate and tax are summarized with two simple formulas, which can be calculated and repeated by such as Excel or a program after inputting related tax information.

Table Federal Corporate Tax Calculation Simplification

| Taxable income (TI) | Option #1 (15%-20%-25%) | | Option #2 (15%-21%-28%) | |
|---------------------|-----------------------------------------|----------------|-----------------------------------------|----------------|
| | Tax rate and tax | Tax rate range | Tax rate and tax | Tax rate range |
| Not over \$120,000 | $(YTI \div 2,400,000 + 0.15) \times TI$ | 15%-20% | $(YTI \div 2,000,000 + 0.15) \times TI$ | 15%-21% |
| Over \$120,000 | $(0.25 - 6,000 \div YTI) \times TI$ | 20%-25% | $(0.28 - 8,400 \div YTI) \times TI$ | 21%-28% |

YTI is yearly taxable income, which is equal to $TI \times F$. TI is taxable income. F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly, semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis). When $F=1$, $YTI=TI$ for yearly withholding taxes and tax returns.

Besides a good business tax system, **individual income tax system simplification** is also important for businesses to reduce costs to do withholding taxes for their employees. Existing federal individual income tax system has 7 tax brackets, 224 (7×4×8) formulas, 21-page Withholding Tables, 28 taxable income ranges, and 12-page Tax Table. These formulas, tables, and rates are very complex. During the past 150 years, we have struggled about tax systems with different tax brackets (1-56), formulas (up to 224), and tables (A). There are two income tax calculation systems. One is for employers to calculate withholding taxes (E). Another is for people to do tax returns (F). Taxable income ranges, marginal and effective tax rates, and tax numbers in the 21-page Withholding Tables, and 12-page Tax Table are often changed. When businesses do not need to use existing complex Withholding Tables and 224 formulas, then businesses (including manufacturers) and Internal Revenue Service (IRS) can save related time and costs.

We have done our federal individual income tax simplification (A and B). The 7-56 tax brackets can be matched and reduced to 3. The 21-page Withholding Tables and 224 formulas can be eliminated to simplify our federal tax system with simple two linear formulas and one existing formula by 98% (1-3/224) deduction. Detail explanation is available by our research paper (A), which may save more than \$10 billion per year. Tax revenue can have almost no change. If you have any questions and comments, let me know. Thank you.

Website link:

- A. www.academicstar.us/UploadFile/Picture/2023-5/20235518550488.pdf
- B. <https://taxsimplecenter.net/publication.html> (tax simplification research)
- C. www.taxsimplecenter.net/businessstaxsimplification.html
- D. www.pwc.com/us/en/services/tax/library/president-biden-fy2024-budget-renews-call-for-corporate-rate-increase.html
- E. www.irs.gov/pub/irs-pdf/p15t.pdf
- F. www.irs.gov/pub/irs-pdf/i1040gi.pdf
- G. www.taxsimplecenter.net/uploads/8/3/3/9/83395216/wf_tax_bill_draft11.pdf