## ARKANSAS BILL NO.

$\qquad$ Individual Income Tax Simplification

Summary: Two or one simple slope formula is used to match AR tax systems fairly and efficiently for replacing existing 12 tax brackets (Problem \#1: too many brackets), 72 ( $12 \times 6$ ) withholding formulas (Problem \#2: too many formulas), and 80-page Withholding Tables (Problem \#3: too many pages). SB 549 has been approved to reduce the top tax rates to $4.7 \%$ for individuals and $5.1 \%$ for corporations, which are still too complex. www.arkleg.state.ar.us/Bills/FTPDocument?path=\%2FBills\%2F2023R\%2FPublic\%2FSB549.pdf
1.
2. relating to income taxation for calculating individual income tax rate and tax.
3. A tax is hereby imposed for every tax year on the Arkansas taxable income of every resident.
4. The tax shall be determined by applying the tax rate and tax formulas provided in this section,
5. which is based upon the following tax rate and tax:
6. For tax year 2020-2025, and all tax years thereafter:
7. (1) If yeurly taxable ineome is: The tax is: (2) semi yeurly

| Not over \$4,699 0\% |  |  |  |
| :---: | :---: | :---: | :---: |
|  |  |  |  |
|  | 10. $\$ 9,199-13,899$ 0.03 TI 185.97 |  |  |
|  | 11. \$13,900-22,899 0.034 TI 241.57 (4) menthly |  |  |
|  | 12. $\$ 22,900-38,499$ 0.05 TI 427.71 |  |  |
|  | 13. $\$ 38,500-82,000$ - 0.059 TI 774.20 (5) semi menthly |  |  |
|  | 14. $\$ 82,001-83,000-0.066$ TI 1,255.70 |  |  |
|  | 15. $\$ 83,001-84,000$ 0.066 TI 1,155.70 (6) biweekly |  |  |
|  | 16. $\$ 84,001-85,300-0.066$ TI $1,055.70$ |  |  |
|  | 17. \$85,301-86,400 | 0.066 TI-955.70 | (7) weekly |
|  | 18. \$86,401-87,500 | 0.066 TI-855.70 |  |
|  | 19. $\$ 87,501$ and above | 0.066 TI-815.70 | (8) Daily |

20. 
21. If yearly taxable income is:

The tax rate and tax are:
22. Not over $\$ 48,000$ $(\mathrm{YTI} \div \mathrm{A}+0.015) \times \mathrm{TI}$

2025 Tax rate range:
23. Over $\$ 48,000$ ( $\mathrm{T}-(\mathrm{D} \div \mathrm{YTI}) \times \mathrm{TI}$
1.5\%-3.5\% $3.5 \%-4.7 \%$
24.
25. For tax rate and tax in this section, YTI is the yearly taxable income, In 2020, T is top tax rate of $6.6 \%$
26. in 2020 or $4.7 \%$ in 2025 , bottom tax rate is $0 \%$.
27. A is $2,400,000$ from 48,000 to divide the 1 -st tax rate range difference $(48,000 \div(0.035-0.015)$ ). D is 576
28. From 48,000 to multiply the 2 -nd tax rate range difference ( $48,000 \times(0.047-0.035)$ ).
29. There are two tax rate ranges of 0.015-0.035-0.047 in 2025 at yearly taxable incomes not over and over
30. $\$ 60,000$. YTI=TI $\times F$. TI is taxable income and $F$ is filing period ( $1,2,4,12,24,26,52$ or 365 on yearly,
31. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).
32.
33. When yearly taxable income is not over $\$ 5,000$, tax is to 0 (free) and do not need to calculate tax.

## Examples:

1. Yearly YTI is $\$ 48,000$ :
2. Monthly is $\$ 4,000$ :
3. Weekly is $\$ 3,500$ :
4. Biweekly is $\$ 7,000$ :

Tax rate and tax are:
$(\mathrm{YTI} \div \mathrm{A}) \times \mathrm{TI}=(48,000 \div 2,4000,000+0.015) \times 48,000=0.035 \times 48,000=1,680.00$
$(\mathrm{YTI} \div \mathrm{A}) \times \mathrm{TI}=(4,000 \times 12 \div 2,400,000+0.015) \times 4,000=0.035 \times 4,000=140.00$
$(\mathrm{T}-\mathrm{D} \div \mathrm{YTI}) \times \mathrm{TI}=(0.047-576 \div 3,500 \div 52) \times 3,500=0.043835 \times 3,500=153.42$
(T-D $\div \mathrm{YTI}) \times \mathrm{TI}=(0.047-576 \div 7,000 \div 26) \times 7,000=0.043835 \times 7,000=306.85$

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## Corporate Income Tax Simplification

1. It relates to income taxation for calculating corporate income tax rate and tax.
2. For tax year 2025, and all tax years thereafter:

| 3. (1) If yearly taxable income is: The tax is: | (2) semi yearly |  |
| :--- | :--- | :--- |
| 4. Not over $\$ 3,000$ | $1 \%$ | (3) quarterly |
| 5. $\$ 3,000-6,000$ | $30+0.02($ YTI 3,000$)$ | (4) menthly |
| 6. $\$ 6,000-11,000$ | $90+0.03($ YTI 6,000$)$ | (5) semi menthly |
| 7. $\$ 11,000-25,000$ | $240+0.05$ (YTI 11,000) | (6) biweekly |
| 8. | Over $\$ 25,000$ | $940+0.051$ (YTI 25,000) |

9. 
10. If yearly taxable income is: The tax rate and tax are: 2025 Tax rate range:
11. Not over $\$ 25,000$
$(\mathrm{YTI} \div \mathrm{A}+0.01) \times \mathrm{TI}$
12. Over $\$ 25,000$
$(\mathrm{T}-(\mathrm{D} \div \mathrm{YTI})) \times \mathrm{TI}$
1\% - 3.76\%
$3.76 \%-5.1 \%$
13. 
14. For tax rate and tax in this section, YTI is the yearly taxable income, In 2024, bottom tax rate is $1 \%$. Top
15. tax rate is $5.1 \%$.
16. A is 905,797 from 25,000 to divide the 1 -st tax rate range difference $(25,000 \div(0.0376-0.01))$. D is 335
17. from 25,000 to multiply the 2 -nd tax rate range difference ( $25,000 \times(0.051-0.0376)$ ).
18. There are two tax rate ranges of $0-0.0376-0.051$ in 2024 at yearly taxable incomes not over and over
19. $\$ 25,000$.
20. $\mathrm{YTI}=\mathrm{TI} \times \mathrm{F}$. TI is taxable income and F is filing period ( $1,2,4,12,24,26,52$ or 365 on yearly,
21. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

## Examples:

1. Yearly TI is $\$ 24,000$ :
2. Yearly TI is $\$ 48,000$ :

Tax rate and tax are:
3. Monthly TI is $\$ 5,432$ :
4. Quarterly TI is $\$ 50,000$ :

$$
\begin{aligned}
& (\mathrm{YTI} \div \mathrm{A}+0.01) \times \mathrm{TI}=(24,000 \div 905,797+0.01) \times 24,000=0.036496 \times 24,000=875.90 \\
& \mathrm{~T}-(\mathrm{D} \div \mathrm{YTI}) \times \mathrm{TI}=(0.051-335 \div 48,000) \times 48,000=0.04402 \times 48,000=2,447.99 \\
& (\mathrm{~T}-(\mathrm{D} \div \mathrm{YTI})) \times \mathrm{TI}=(0.051-335 \div 5,432 \div 12) \times 5,432=0.04586 \times 5,432=249.12 \\
& (\mathrm{~T}-(\mathrm{D} \div \mathrm{YTI})) \times \mathrm{TI}=(0.051-335 \div 50,000 \div 4) \times 50,000=0.049325 \times 50,000=2,466.25
\end{aligned}
$$

## Notes:

1. Arkansas has $7-12$ tax brackets, 72 ( $12 \times 6$ ) formulas, 80 -page Withholding Tables, and 5 -page Tax Table, which can be matched and simplified by 2 (or 3 ) fair* brackets and formulas with $\mathbf{9 7 \%}$ reduction ( $1-2 \div 72$ ) for AR businesses, lawmakers, DOR, and taxpayers. The Tax Table ( 5 pages) or its formula is used as one option.

* Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf (3. Tax Rate Change Speed, Checking Tool, Tax Status and Simplification)

2. Arkansas has different tax brackets such as 12 brackets in 2020 and 2021 and 6 brackets in 2014, which are often changed complexly. At $\$ 24,000$, tax rate is $3.22 \%$ from ( $0.05 \mathrm{TI}-427.71$ )/24,000. At $\$ 60,000$, tax rate is $4.61 \%$ from $(0.059$ TI- 774.20$) / 60,000$. For 2024 and thereafter, another option is to have 3 brackets with tax rate ranges at 0-0.023-0.04-0.047 for YTI 0-24,000-84,000-.
3. If the yearly taxable income is: The tax rate and tax are: 2025 Tax rate range:
4. Not over $\$ 24,000$
5. $\$ 24,000-\$ 84,000$
6. Over $\$ 84,000$
$(\mathrm{YTI} \div \mathrm{A}) \times \mathrm{TI}$
0\%-2.3\%
$(\mathrm{YTI} \div \mathrm{C}+\mathrm{B} 2) \times \mathrm{TI}$
2.3\%-4\%
$(\mathrm{T}-(\mathrm{D} \div \mathrm{YTI})) \times \mathrm{TI}$
4\%-4.7\%
7. 
8. A is $1,043,478$ from 24,000 to divide the 1 -st tax rate range difference $(24,000 \div(0.023-0))$. C is
9. $3,529,412$ from 60,000 to divide the 2 -nd tax rate range difference ( $60,000 \div(0.04-0.023)$ ). D is 588
10. from 84,000 to multiply the 3 -rd tax rate range difference ( $84,000 \times(0.047-0.04)$ ). B2 is 0.0162 from
11. $0.023-(24,000 \div 3,529,412)$. A, B2, C and D are constants.

Their "A", "B2", "C" and "D" are:

| Year | Tax rate ranges | YTI at | A | B2 | C | D |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2025 | $0-0.015-0.035-0.047$ | $0-\$ 48,000-$ | $2,400,000$ |  |  | 576 |
| 2022 | $0-0.023-0.04-0.051 / 0.049$ | $0-\$ 24,000-\$ 84,000-$ | $1,043,478$ | 0.0162 | $3,529,412$ | 588 |
| 2021 | $0-0.0322-0.05614-0.059$ | $0-\$ 24,000-\$ 84,000-$ | 745,342 | 0.022624 | $2,506,266$ | 240 |
| 2020 | $0-0.0323-0.0563-0.066$ | $0-\$ 24,000-\$ 84,000-$ | 743,034 | 0.0227 | $2,500,000$ | 815 |

www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/TaxBrackets_2020.pdf in 2020
www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/whformula.pdf
3. AR has existing Withholding Tables ( 80 pages) and related 72 formulas, which can be eliminated and replaced by the above 2 or 3 formulas for yearly taxable incomes $0-\$ 60,000-$ or $0-\$ 24,000-\$ 84,000-$. Employers can calculate withholding taxes with Standard deductions, exemptions, and tax credits. Taxpayers calculate income taxes for tax returns with actual deductions, exemptions and tax credits.

$$
\begin{aligned}
& \quad(\text { Incomes } \pm \text { Adjustments }-(\text { Deductions }+ \text { Exemptions }) \div \mathrm{F}) \times \text { Tax rate }- \text { Tax credits } \div \mathrm{F} \\
& \underline{\text { www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/withholdTaxTablesRegularIncome.pdf }} \text { (80 pages) }
\end{aligned}
$$

4. Existing tax table (5 pages) or its formula is for people to have one option. www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/2020 AR1000F and AR1000NR Instructions.pdf
5. For existing tax reforms, tax brackets, tax rates, taxable income ranges and tax goal are considered at the same time, which are affected each other and complex. With this tax simplification, only 4 or 3 tax rates at bottom, $\$ 120,000$ and top are considered to adjust to meet a tax revenue goal, which is explained by our 2021 research paper (Page 508). www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf

## Bill Summary

Bill xxx - This bill matches and simplifies existing 12 tax brackets, 80-page Withholding Tables and 72 (12×6) formulas with 2 brackets and formulas for individual (or corporate) tax system. Payrolls, withholding reports, tax returns, tax analyses, tax reforms and tax projections can be simplified with the 2 brackets instead of the existing 12 brackets. A checking tool is provided to reduce calculation mistakes. For a tax reform, only 4 tax rates at bottom, $\$ 60,000$, top are adjusted to meet a tax revenue goal.

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