

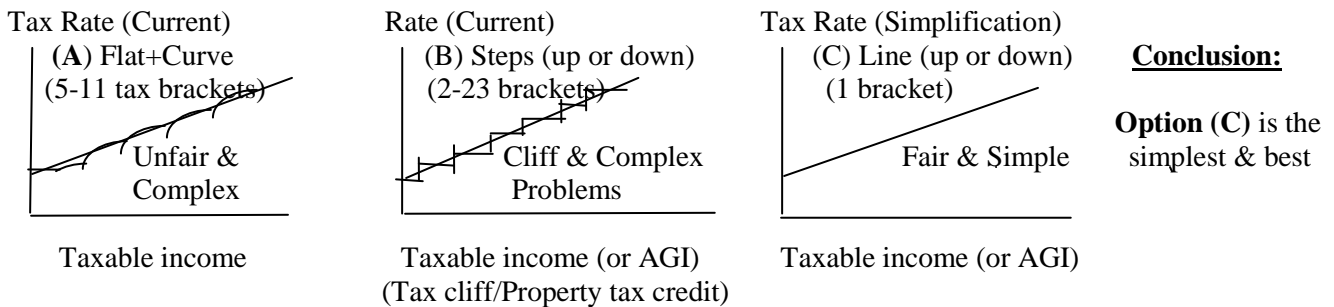
Summary of Tax Calculation Simplification for AR (Saving \$93 Million/Year)

<https://taxsimplecenter.net/statetaxsimplification.html> (....AR)

➡ **1. Basic Question: What tax rates are fair and simple?** When 2 tax rates are set, **effective (linear) tax rates between the two points with a straight line are fair and simple. Existing flat and curve or step tax rates with less or more tax brackets are unfair and complex.** (FIG. 1)

2. Tax Simplification, Publication, Benefit and Value: Effective (linear) and gradual (LG) tax simplification has been developed, which is supported by our 12 publications at <http://taxsimplecenter.net/publication.html> The LG tax simplification has 15 benefits for lawmakers, companies, taxpayers and department of revenue. Its **value is about \$93 million/year**, which is based on 1.6 million tax returns per year. (Page 2)

➡ **3. FIG. 1 Current Tax Rates (A and B) and Simplification (C)**



4. Tax Simplification

Yearly taxable income is:	Not over \$24,000	24,000-84,000	Over \$84,000
Tax rate is:	YTI÷A	YTI÷B+0.0227	0.066-(C÷YTI)

* Either existing Tax Table (5 pages) or its formula is used (1 option).

5. Comparison between Existing System and Tax Calculation Simplification

- a) Existing Tax System: Tax Schedules, 80-page Withholding Tables, 8-page Tax Table and tax computations
- b) New bill: Only 4 simple formulas (12-4 brackets→3 or 2)

6. Lawmakers will reduce related political arguments with 12-4 (?) tax brackets, TI ranges and tax rates.

➡ **7. Existing 80-page Withholding Tables and related formulas** are replaced by 4 simple formulas for companies to **save \$42 million/year** (Value) if at \$1/payroll/person. (Page 5**)
<https://www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/withholdTaxTablesRegularIncome.pdf>

8. Postcard Tax Return (or Tax Withholding Report and Modification) is used to reduce time and costs.

9. Who will have the 15 benefits? For lawmakers, companies, taxpayers and Department of Revenue State Department of Revenue can save \$25 million/year within \$95 million/year. (Page 2)

10. Existing two sub tax systems are about 13 months apart. This tax simplified tax system has one system for all parties to do withholding tax, payroll, withholding report, tax return, analysis, reform and projection.

➡ **11. Other Applications:** <https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wothers.pdf>

For more information: www.taxsimplecenter.net or questions: johnlee@taxsimplecenter.net or 913-710-0957

Benefits and Value of Tax Calculation Simplification (\$95 Million/Year)

Effective (linear) and gradual (LG) tax simplification has been developed and supported by our 12 publications at <http://taxsimplecenter.net/publication.html> More tax brackets mean more smooth tax rates, complex, more cost and more tax revenue relatively. Less tax brackets mean rough tax rate changes, simple, less cost and less tax revenue relatively. The LG tax simplification can be used to have many benefits for lawmakers, companies, taxpayers and departments of revenue. Its value (\$95 million/year) is based on 1.6 million tax returns per year.

#	Benefits	Value
1.	Existing 12 tax brackets are matched and reduced to 3 or 2 comparably.	Less time/More simple
2.	Lawmakers select tax bracket #, taxable income ranges, tax rates and computations for tax reforms now. With this tax simplification, only 4 tax rates are needed for tax projection.	Less time/hustle
3.	Simpler formulas contribute to Fiscal Note (by Department of Revenue)	? \$3 million
4.	Withholding Tables (80 pages) are not needed for companies to have 4 simple formulas with filing period (F). If at \$(1+0.2)/person/period (1.2x26x1.6 million)	\$50 million (** Page 5)
5.	Tax Tables or its formula is used. One formula is for Low Income Tax. If (1+0.5)x1.6 million:	\$2.4 million
6.	Combining two existing sub tax systems (4&5) together without time delay (13 M) for:	Real & quick tax
7.	One tax credit formula for simple & complex tax credits (including EITC) (1 non-refundable and 1 refundable tax credit formulas) If ((1.5+0.5)x1.6 million):	\$3.2 million
8.	Many incomers with standard deductions and credits (50%) file simple tax returns/tax withholding report and modifications. If ((15+5)x50%x1.6 million):	\$16 million
9.	Postcard (or 1/2 page) tax return form can be used (50%). If ((10+4)x50%x1.6 million):	\$11.2 million
10.	Tax Status (S) is numbered with such as 2 for Married Filing Jointly or 1 for Single. (Also more detail numbers can be applied for Standard Deductions). If ((1+0.5) x1.6 million):	\$2.4 million
11.	A checking tool of two tax rate ranges (0.33%-4.33%-5.87%-8.53%) is provided to check and reduce tax rate and tax calculation mistakes. If ((2+1)x1.6 million):	\$4.8 million
12.	Fraud crime is inspected and reduced by comparing tax returns and tax withholding reports.	Less crime
13.	Tax refunds with \$100 or less are delayed to next-year refunds (Postcard Form).	Less time/cost
14.	State Department of Revenue will process less tax returns during busy tax season and have more time to inspect more tax returns for possible more taxes.	More tax
15.	The LG tax simplification can be used to simplify tax calculation, payroll, tax analysis, tax reform and projection.	Less time/costs

Total: Less time/hustle, less mistake, less crime, less cost, more tax and \$93 million/year
(To Department of Revenue: \$25.8 million/year)

For more information and questions, contact us at johnlee@taxsimplecenter.net or 913-710-0957.



AR _____ Income Tax Calculation Simplification (It is added into the existing tax bill*)

If the yearly net taxable income (YTI) is:
 Not over \$24,000
 \$24,000 - \$84,000
 Over \$84,000

The tax rate and tax are:
 $(YTI \div A) \times TI$
 $(YTI \div B + 0.0227) \times TI$
 $(0.066 - (B \div YNTI)) \times TI$

Wherein YTI=yearly taxable income, $YTI=TI \times F$, TI=taxable income, F=the number of filing period (F=1 for tax returns, 2, 4, 12, 24, 26, 52 or 365 on different basis for withholding taxes), there are 3 tax rate ranges of 0-0.0323-0.0563-0.066, A=24,000÷1-st tax rate difference (0.0323-0)=743,034, B=60,000÷ 2-nd tax rate difference (0.0563-0.0323)=2,500,000 and C=84,000× 3-rd tax rate difference (0.066-0.0563)=814.8 in 2020, which are often changed: 0-0.03526-0.05875-0.07 in 2014 or 0-0.0322-0.05614-0.059 in 2021.

- * (1) <https://www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/withholdTaxTablesRegularIncome.pdf>
<https://www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/whformula.pdf>
 (2) Existing 12 tax brackets (2020) are matched/reduced to 3. Tax Table or its formulas (1 option) are used. Companies use the simple formulas to **replace existing 80-page Withholding Tables** for taxes and payrolls easily. Calculations of withholding taxes, payrolls, tax analysis, reform, and projection are simplified.

Withholding/Income Tax=(Incomes-Adjustments-(Deductions+Exemptions)÷F)×Tax rate-Tax credits÷F

- (3) Option: Existing 12 tax brackets may be simplified to 2 brackets with $YTI \div 1,493,333$ at 0-\$84,000.



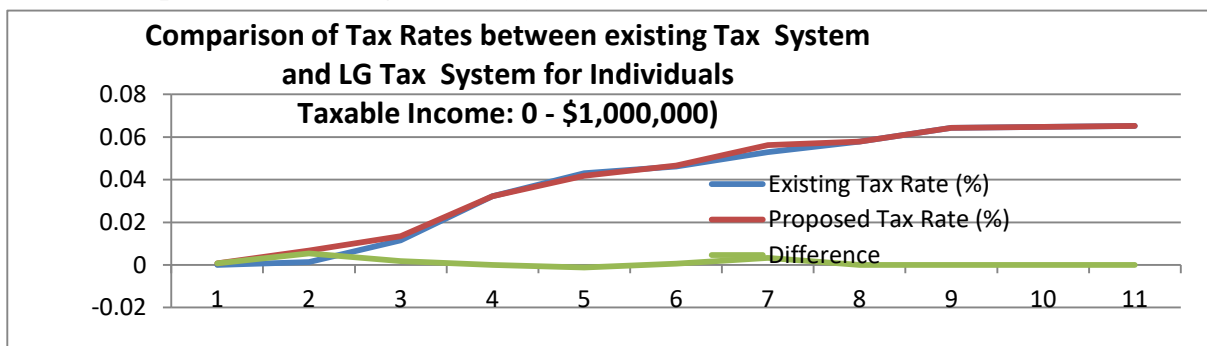
Comparison between Existing and Simplified Tax Calculation Systems

- 1) Existing Tax Calculation System: Two sub tax systems of tax schedules, Withholding Tables (**80 pages**), Tax Table (5 pages) and tax computations with 12 tax brackets
 2) Simplification: 3 or 2 formulas to match/simplify the two sub systems and eliminate Withholding Tables

TI×F	1) Existing System	3 Brackets: 0-6.6%	2 Brackets: 0-6.6%	Rate Difference 3 B / 2 B - #1
500	0	0.0006	0.0003	0.0006 / 0.0003
5,000	0.0014	0.00673	0.00335	0.0053 / 0.0019
10,000	0.0116	0.01358	0.0067	0.0020 / -0.0049
24,000	0.0323	0.0323	0.0161	0.0000 / -0.0162
48,000	0.04306	0.0419	0.032143	-0.0012 / -0.0109
60,000	0.04615	0.0467	0.040214	0.0005 / -0.0059
84,000	0.053	0.0563	0.0563	0.0033 / 0.0033
100,000	0.05784	0.05785	0.05785	0.0000 / 0.0000
300,000	0.06328	0.063284	0.063284	0.0000 / 0.0000
700,000	0.064835	0.064836	0.064836	0.0000 / 0.0000
1,000,000	0.0651814	0.065185	0.065185	0.0000 / 0.0000



Comparison of Existing and LG Systems (12 tax brackets are reduced to 3)





Tax Reform, Analysis, Budget, and Projection:

$$\text{Total Tax} = \sum(TIa)^2 \div 743,034 + 0.0227 \sum(TIb) + \sum(TIb)^2 \div 2,500,000 + 0.066 \sum(TIc) - 814.8 C$$

There are 3 tax rate ranges of 0-0.0323-0.0563-0.066, which can be adjusted for tax revenue projection and budget. Above a, b and c are tax return numbers with 0-24,000-84,000 and over \$84,000. Another option is to use 2 tax brackets/rate ranges such as 0.9%-5%-6.6% at 0-\$60,000-. Then calculations of withholding taxes, payrolls, tax analysis, reform, and projection are simplified with the 3 or 2 brackets.



** Existing 80-page Withholding Tables and related formulas can be replaced by the 3 simple formulas and 1 withholding/income tax formula to cover all allowances. After the simple formulas are set into such as Excel, Spreadsheet or software, related calculations are repeated simply. Related costs **\$50 million** (=1.2x26x1.6 millions, 26 is biweekly filing and 1.6 millions are tax returns/employee #) from (1) designing the 80-page table, (2) publication, (3) checking tax numbers under 0-6 allowances (>6?), (4) inputs, (5) using calculation formulas (7x6+) for high incomes and the >6, (6) filings, (7) transfers, (8) rechecking mistakes, (9) data analysis, (10) software, and (11) tax recalculations can be reduced for Dept of Revenue and companies.

www.dfa.arkansas.gov/images/uploads/incomeTaxOffice/withholdTaxTablesRegularIncome.pdf

$$\text{Withholding/Income Tax} = (\text{Incomes} - \text{Adjustments} - (\text{Deductions} + \text{Exemptions}) \div F) \times \text{Tax rate} - \text{Tax credits} \div F$$

Simplification of Low Income Tax Tables (LITT)

AR offers special Low Income Tax Tables for low income people from AGI to Tax. Their summary is:

Status / AGI, Status (S), Tax and Rate:	Tax at 0-\$12,675(xS)	S	Tax at:	Rate (Tax÷AGI)
Single	0 at <\$12,675	1	201 at \$15,200	0.0132
HH or QW with 1 or No Dependent	0 <\$18,020	1.42	426 \$22,000	0.0194
HH or QW with 2 or more Dependents	0 <\$21,461	1.69	529 \$25,100	0.0211
Married Filing Joint with 1 or No Dependent	0 <\$21,374	1.68	462 \$25,200	0.0183
Married Filing Joint with 2 or more Dependents	0 at <\$25,725	2.03	913 at \$31,300	0.0292



According to the data in LITT, rate and tax may be used by a formula of ((AGI-12,675×S)÷190,385)×AGI. 190,385 is (15,150-12,675) ÷0.013. Then the above data summary is simplified to:

Status / AGI, Status (S), Rate range and Tax:	Tax at 0-\$12,675×S	S	Rate range	Tax at:	×S
Single	0 at 0 - \$12,675	1	0 - 0.0132	201.59 at \$15,200	
HH or QW with 1 or No Dependent	0 0 - \$17,998	1.42	0 - 0.0188	406.49 \$21,584	
HH or QW with 2 or more Dependents	0 0 - \$21,547	1.7	0 - 0.0225	582.60 \$25,840	
Married Filing Joint with 1 or No Dependent	0 0 - \$21,547	1.7	0 - 0.0225	582.60 \$25,840	
Married Filing Joint with 2 or more Dependents	0 at 0 - \$25,350	2	0 - 0.0265	806.37 at \$30,400	

LITT make people with different low-income, AGI and status situations to use different tax calculation methods from normal deduction to calculate taxes, which add complexity. It may be simple to convert LITT into a special tax credit with one or few formulas with AGI (or TI) and status numbers. Another way is similar to Earned Income Tax Credit (EITC) formulas at <https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wothers.pdf>

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