

Summary of Tax Calculation Simplification for CA (Saving \$900 Million/Year)

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

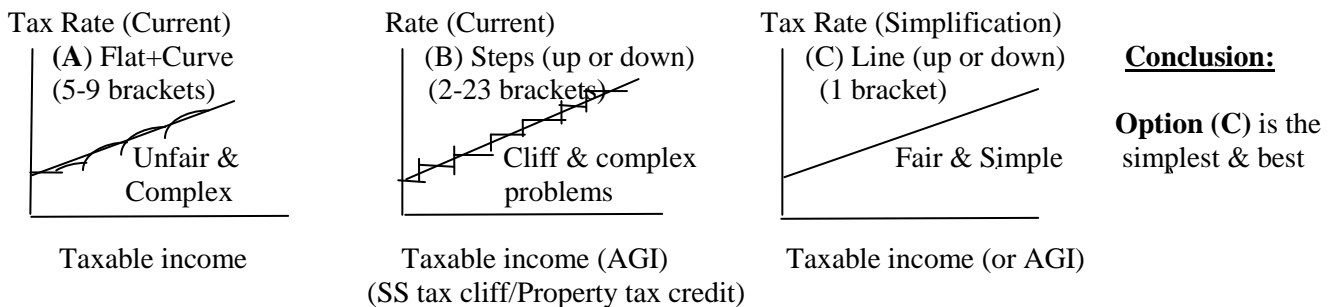


1. Basic Question: What tax rates are fair and simple? When 2 tax rates are set, effective (linear) tax rates between the two points with a straight line are fair and simple. Existing flat and curve or step tax rates with less or more tax brackets are unfair and complex. (FIG. 1)

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 more than \$900 million/year, which is based on 20 million tax returns per year. (Page 2)



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



4. Tax Simplification	Yearly TI ÷ S is:	Not over \$100,000	100,000-500,000	Over \$500,000
	Tax rate is:	$(YTI \div S \div A) + 0.01$	$(YTI \div S \div C) + 0.0573$	$0.123 - (D \times S \div YTI)$

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

5. Comparison between Existing System and Tax Calculation Simplification

- a) Existing Tax System: Tax Schedules, 29-page Withholding Tables, 5-page Tax Table and tax computations
- b) New bill: Only 4 simple formulas (9 brackets → 3 or 2)

6. Lawmakers will reduce related political arguments with different (9?) brackets, TI ranges and tax rates.

7. Existing Withholding Tables (29 pages and related formulas) are replaced with the 4 simple formulas for companies to save ~\$520 million/year with 3 or 2 brackets if at \$1/payroll/person to cover 11 areas. (**Page 4) www.edd.ca.gov/pdf_pub_ctr/20metha.pdf

8. Postcard (or half-page) Tax Return or Tax Withholding Report and Modification is used to save tax processing time and costs.

9. Who will have the 15 benefits? For lawmakers, companies, taxpayers and department of revenue Department of Revenue can save \$250 million/year (value) within \$900 million/year. (Page 2)



10. Existing two sub tax systems are ~13 months apart. This simplification provides one system to simplify withholding tax, payroll, withholding report, tax return, analysis, reform and projection with the 3 brackets.

10. Other Applications of Simple Linear Formula: (1) Resolving SS tax cliff problem, (2) Earned income tax credit (9 pages): Simple 4 linear formulas, (3) Multi-bracket (up to 30) tax refunds: Simple 1 linear formula <https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wothers.pdf>

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Benefits and Value of Tax Calculation Simplification (\$900 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 smooth tax rates, more complex, high cost and more tax revenue or less tax brackets mean rough tax rate changes, simple, less cost and less tax revenue relatively. The tax simplification can be used to have many benefits for lawmakers, companies, taxpayers and departments of revenue. Its value is based on 20 million tax returns per year in CA.

#	Benefits	Value
1.	Existing 9 CA 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 the tax simplification, only 4 or 3 tax rates are needed for tax projection.	Less time/hustle
3.	Simple formula improvement contributes to Fiscal Note (state department of revenue)	? million
4.	Tax Status (S) is numbered with 1 for Singles, 1 for Married filing separately, 2 for Married filing jointly or 1.5 for Head of Household. Standard Deductions are combined together and simplified into simple \$x,xxx*S (S=1, 1.5 or 2). If ((1+0.5)x20 million):	\$30 million
5.	Withholding Tables (29 pages) are not needed for companies to have simple tax rate formula with filing periods/year (F) and S. If \$1/person/period (1x26x20 million):	\$520 million (** Page 4)
6.	Tax Table is optional. The table or only one formula is needed. If ((1+0.5)x20 million):	\$30 million
7.	Combining two existing sub tax systems (5/6) together without time delay (13 M) for:	Real & quick tax
8.	One tax credit formula for simple & complex credits (including EITC) If (2x20 million): (1 non-refundable and 1 refundable tax credit formulas)	\$40 million
9.	Many incomers with standard deductions and non-complex tax situations (50%) file simple tax returns (tax withholding report and modification) If ((7+3)x50%x20 million):	\$100 million
10.	A checking tool of 3 tax rate ranges (1%-6.65%-9.46%-12.3%) is provided to check and reduce tax rate and tax calculation mistakes. If ((2+1)x20 million):	\$60 million
11.	Fraud crime is inspected and reduced by comparing tax returns and tax withholding reports.	Less crime
12.	Postcard (or half page) tax return form can be used. If (5+2)/each (7x20 million):	\$140 million
13.	Tax refunds with \$100 or less are delayed to next-year refunds (in the Postcard Form).	Less time/cost
14.	State Department of Revenue will process less tax return during busy tax season and have more time to inspect more tax returns and collect more tax.	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 \$920 million/year
(To Dept of Revenue: \$250 million)

More information is available at <http://taxsimplecenter.net/statetaxsimplification.html> (C..... CA).



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

If the yearly taxable income (YTI) ÷ S is:	The tax rate and tax are:
Not over \$100,000	$((YTI \div S \div A) + 0.009^*) \times TI$
From \$100,000 to \$500,000	$((YTI \div S \div C) + 0.0573) \times TI$
Over \$500,000	$(0.123 - (D \times S \div YTI)) \times TI$

Wherein YTI=yearly taxable income, S=status (1 for single or married filing separately, 2 for married filing joint or 1.5 for head of household), YTI=TI×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), A=100,000 ÷ 1-st tax rate difference (0.0647-0.009*)=1,795,332, C=400,000÷ 2-nd tax rate difference (0.0943-0.0647)=13,513,514 and D=500,000× 3-rd tax rate difference (0.123-0.0943)=14,350 according to 3 tax rate ranges of 0.01-0.0647-0.0943-0.123 in 2019, which were 0.01-0.0665-0.0946-0.123 (2017) with slightly different A, C and D.

* (1) Existing 9 tax brackets are matched/reduced to 3. Tax Table or its formula (1 option) is used. Companies use the 4 simple formulas to replace existing 29-page Withholding Tables and related formulas for taxes and payrolls. 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

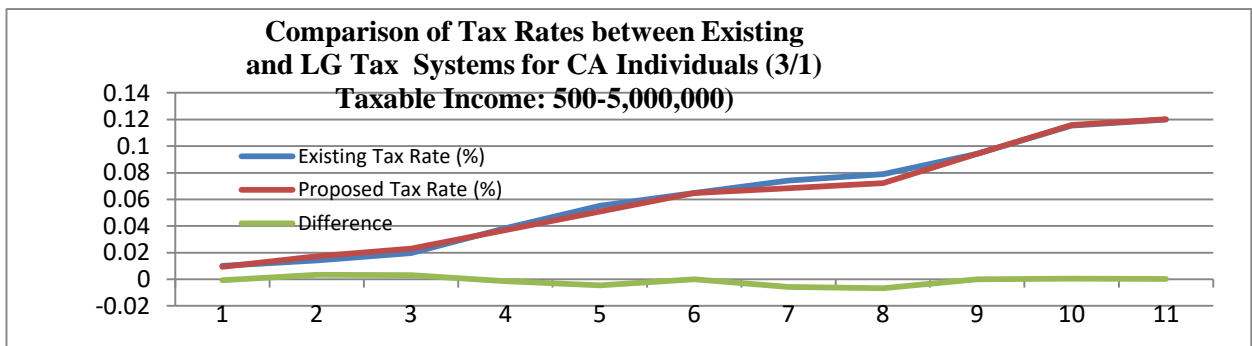
(2) Option: 1% may be reduced to 0.9% (or 0.x%) to neutral tax revenue. For 0.01-0.0647-0.0943-0.123, A is changed slightly, C and D are the same. Its rate formula is: $((YTI \div S \div 1,828,154) + 0.01$. For 0.008-0.0647, its rate formula is: $(YTI \div S \div 1,763,668) + 0.008$. Low-end incomers with low taxable incomes will reduce their tax rates and income taxes without tax revenue reduction. Then the both parties can benefit.

Comparison of Existing and Simplified Tax Calculation Systems

- Existing System: 29-page Withholding Tables, 5-page tax table and tax computations with 9 tax brackets
- Simplification: 3 formulas to match/simplify existing two systems (9 brackets → 3 with 67% reduction)

YTI÷S	1) Existing System	2) 1-12.3%	3) 0.9-12.3%	4) 0.8-12.3%	Rate Difference #2/#3/#4 - #1*
1,000	0.01	0.010547	0.009557	0.008567	0.0005 / -0.0004 / -0.0014
15,000	0.0141273	0.018205	0.017355	0.016505	0.0041 / 0.0032 / 0.0024
25,000	0.01977	0.023675	0.022925	0.022175	0.0039 / 0.0032 / 0.0024
50,000	0.0383998	0.03735	0.03685	0.03635	-0.0011 / -0.0015 / -0.0020
75,000	0.0552437	0.051025	0.050775	0.050525	-0.0042 / -0.0045 / -0.0047
100,000	0.064683	0.0647	0.0647	0.0647	0.0000 / 0.0000 / 0.0000
150,000	0.0741285	0.0684	0.0684	0.0684	-0.0057 / -0.0057 / -0.0057
200,000	0.0788414	0.0721	0.0721	0.0721	-0.0067 / -0.0067 / -0.0067
500,000	0.09434	0.0943	0.0943	0.0943	0.0000 / 0.0000 / 0.0000
2,000,000	0.11538134	0.115825	0.115825	0.115825	0.0004 / 0.0004 / 0.0004
5,000,000	0.1199525	0.12013	0.12013	0.12013	0.0002 / 0.0002 / 0.0002
10,000,000	0.1214763	0.121565	0.121565	0.121565	0.0001 / 0.0001 / 0.0001

Comparison of CA Existing and Simplification Systems (9 tax brackets are reduced to 3)



Summary for CA Tax Calculation Simplification

Background and purpose: Existing CA tax systems have 9 tax brackets, tax schedules, Withholding Tax Tables (29 pages), Tax Table (5 pages), 2 tax systems for companies and individuals separately and related tax computations, which are complex. Also they are usually changed yearly, which have caused to be more complex. Our purpose is to match/reduce the 9 tax brackets to 3 and use few simple and fair formulas to replace them with a checking tool to reduce calculation mistakes, which simplify withholding tax, income tax, tax return, analysis, reform and projection calculations. Also existing Tax Tables or its formula is used as optional transition.

The LG tax simplification is used to match/reduce existing 9 tax brackets to 3 or 2, simplify tax system, reduce related political arguments, eliminate withholding tables, and save millions of dollars. New tax bill can be used to simplify the 9x3 tax schedules into 3 smooth tax rate ranges comparably. There are tax rate ranges such as 1%-6.47%-9.43%-12.3% (2019) or 1%-6.65%-9.46%-12.3% (2017). A filing period number of 365, 52, 26, 24, 12, 4, 2, or 1 and tax status (S) number of 1, 2 or 1.5 are used to match and replace existing withholding tax tables and tax tables simply. www.edd.ca.gov/pdf_pub_ctr/20methb.pdf

For tax reforms, 3 (or 2) tax brackets can be used to avoid or reduce related political arguments from 9 to 4 tax brackets and related taxable income ranges and tax rates. Political factors with different options of tax brackets, tax rates and taxable incomes (TI) are converted into one simple technical factor with adjustable 4 tax rates and 3 tax brackets, taxable income ranges (0-\$100,000-\$500,000-) to meet related tax goal. Many taxpayers with standard deductions may not need to file normal tax returns by modifying Withholding Report. State Departments of Revenue may process less normal tax returns (goal: 50%) during busy tax seasons and inspect more tax returns. There are 15 benefits for lawmakers, employees, companies and Departments of Revenue. Then significant time and costs can be saved.

Withholding Tables (29 pages) **and Tax Table** are matched and simplified by the above three tax rate formulas and one withholding/income tax formula. One checking tool is provided to check and reduce tax rate and tax calculation mistakes. For withholding income taxes, standard deductions, exemptions and tax credits are used with different filing period (F). F=1 is for tax returns. www.edd.ca.gov/pdf_pub_ctr/de44.pdf



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

Tax Table and Formula: Both existing Tax Table for taxable incomes not over \$100,000 and its formula (1 option) can be provided. Some people may still like to use the Tax Table.



** **Withholding Tax Tables:** Existing 29-page tables and related computations for Allowances 0-10) can be eliminated by the 3 tax rate formulas and one withholding/income tax formula to cover all allowances. After the formulas are set in such as Excel or Spreadsheet, related calculations can be repeated simply. Related costs **\$624 million** (=1.2x26x20 millions, 26 is biweekly filing and 3.3millions are tax returns) from (1) making the 10-page table, (2) publication, (3) checking tax numbers under 0-10 allowances (>10?), (4) inputs, (5) using calculation formulas (10) at high wages and the >10, (6) filings, (7) transfers, (8) rechecking mistakes, (9) software, (10) tax recalculations, and (11) data analysis, can be reduced for Dept of Revenue and companies.

<u>Comparison</u>	<u>Existing tax system:</u>	<u>Proposed new tax bill:</u>	<u>Tax rates</u>
	Different tax statues (5)	$((YTI \div S \div A) + 0.01) \times TI$	1%-6.47%
	10 tax brackets (1%-12.3%)	$((YTI \div S \div C) + 0.0573) \times TI$	6.47%-9.43%
	Withholding tables and tax table (11 pages)	$(0.123 - (D \times S \div YTI)) \times TI$	9.43%-12.3%

www.ftb.ca.gov/forms/2019/2019-540-booklet.html#2019-California-Tax-Rate-Schedules

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.



Tax Reform, Analysis, Budget, and Projection:

Total Tax (S=1)=0.009 Σ (TIa)+ Σ (TIa)²÷1,795,332+0.0573 Σ (Tib)+ Σ (Tib)²÷13,513,514+0.123 Σ (Tic)-14,350 C

There are 3 tax rate ranges of 0.01-0.0647-0.0943-0.123 in 2019, which can be adjusted for tax revenue and budget simply. Above a, b and c are tax return numbers with 0-100,000-500,000 and over \$500,000. Then withholding taxes, payrolls, tax analysis, reform, and projection are simplified with the 3 brackets.

FORM 540 20xx CALIFORNIA INDIVIDUAL INCOME TAX RETURN

Check one: O Married filing separately/Single O Married filing jointly/QW O Head of household

Tax Status # (S) 1 2 1.5 **Form Barcode**
 Standard deduction (\$) 4,537 4,537x2 9,074
 Exemption tax credit (\$):114/Personal#_ ; 114/Blind#_ ; 114/Senior (≥65)#_ and 353/Dependent#_

Address:



A	B	C	D	E	F	G	
Year	Your Name	SS#	Spouse Name	Spouse SS#		Status (S)	1
2019							2
Federal AGI	Adjustments		Standard/Itemized deductions	Taxable income (YTI)	Credit: Part resident	Credit: Non resident	3
							4
YTI ÷ S	Yearly TI ÷ S	YTI	LG tax rate formula	Tax rate check	Tax rate	Tax/Table	5
	0 - 100,000		YTI÷1,795,332÷S+0.009	0.009-0.0647			6
	100,000-500,000		YTI÷13,513,514÷S+0.0573	0.0647-0.0943			7
	Over 500,000		0.123 - 14,350×S÷YTI	0.0943-0.123			8
Non-refund tax credits	Exemption tax credits	Tax Balance <0, enter 0	Tax refund (last year): ≤\$100	CA tax withheld (W-2/1099s)	Refundable tax credits	Tax (Owe+/Refund-)	9
							10

(1) Taxable income (TI) = A4±B4-D4 (3) Tax (Owe+/Refund-) = C10-D10-E10-E10-F10
 (2) Tax balance (C 10) =Tax – A10 – B10 – Part-resident credit – Non-resident credit
 (4) Attach related documents. If tax refund (G10) is not over \$100, do tax return and delay tax refund to next year (F10) to save time and cost. If tax refund is over \$100, please fill in:
 Bank routing#: _____, Account #: _____, Name: _____

Tax Return Barcode

Signature: Your _____ **Spouse** _____ **Date** _____
 Third-party preparer name _____ Address _____

EIN/SS# _____ Phone# _____ Date _____ Signature _____

Option with 2 brackets:

If the yearly taxable income (YTI) ÷ S is: The tax rate and tax are:
 Not over \$240,000 ((YTI÷S÷A)+0.01) × YTI
 Over \$240,000 (0.123 – (D×S÷YTI)) × YTI

Wherein YTI=yearly taxable income, S=status (2 for married filing joint, 1 for single or married filing separately, 2 for married filing joint or 1.5 for head of household), YTI=TI×F, TI=taxable income and F=the filing period. There are 2 tax rate ranges of 0.01-0.075-0.123, A=240,000 ÷ 1-st tax rate difference (0.075-0.01)=2,297,090 and D=240,000× 2-nd tax rate difference (0.123-0.075)=11,520. The 3 tax rates of 0.01-0.075-0.123 may be adjusted to meet tax projection according to tax revenue evaluation from Department of Revenue.

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