

DELAWARE BILL NO. _____ Individual income tax simplification

Summary: One simple linear (slope) formula and one existing formula are used to match DE tax systems fairly and efficiently for replacing existing 7 tax brackets (**Problem #1: too many tax brackets**), 42 (7×6) withholding formulas (**Problem #2: too many formulas and too complex**), and 8-page Withholding Tables (**Problem #3: too many pages and too complex**).

1. AN ACT concerning income taxation; relating to tax rates and repealing the existing section.
2. Be it enacted by the Legislature:
3. Section 1. A tax is hereby imposed upon taxable income of every resident individual, which tax rate
4. and tax shall be computed in accordance with the following Tax Rate Schedule:
5. <https://revenue.delaware.gov/employers-guide-withholding-regulations-employers-duties/>
6. A tax on the brackets of taxable income as follows:
7. If the taxable income is: The tax are:
8. Not over \$2,000 0.00% of the taxable income
9. Over \$2,000 but not over \$5,000 2.20% of excess over \$2,000
10. Over \$5,000 but not over \$10,000 \$66.00 plus 3.90% of excess over \$5,000
11. Over \$10,000 but not over \$20,000 \$261.00 plus 4.80% of excess over \$10,000
12. Over \$20,000 but not over \$25,000 \$741.00 plus 5.20% of excess over \$20,000
13. Over \$25,000 but not over \$60,000 \$1,001.00 plus 5.55% of excess over \$25,000
14. Over \$60,000 \$2,943.50 plus 6.6% of excess over \$60,000
15. —
16. The above non-smooth tax rate changes can be matched and simplified to their smooth tax rate changes.
17. For yearly taxable income is: The tax rate and tax are: Tax rate range:
18. Not over \$60,000 $(YTI \div C + 0.022) \times TI$ 2.2% - 4.91%
19. Over \$60,000 $(0.066 - (D \div YTI)) \times TI$ 4.91% - 6.6%
- 20.
21. YTI is yearly taxable income. C is 2,214,022 from 60,000 to divide (÷) the 1-st tax rate range
22. difference (0.0491-0.022). D is 1,014 from 60,000 to multiply (×) the 2-rd tax rate difference (0.066-
23. 0.0491). The 7 tax brackets are matched and reduced to 2 tax rate ranges of 2.2%-4.91%-6.6% for
24. taxable income ranges not over and over \$60,000.
25. $YTI = TI \times F$, TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
26. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).
- 27.
28. When yearly taxable income is not over \$2,000, tax is to 0 (free) and do not need to calculate tax.

Examples:

Tax rate and tax are:

1. $YTI = \$48,000$: $(48,000 \div 2,214,022 + 0.022) \times 48,000 = 0.04368 \times 48,000 = 2,096.64$
2. $YTI = \$78,000$: $(0.066 - 1,014 \div 78,000) \times 78,000 = 0.053 \times 78,000 = 4,134.00$
3. Bi-weekly TI is \$3,000: $(0.066 - 1,014 \div 3,000 \div 26) \times 3,000 = 0.053 \times 3,000 = 159.00$
4. Monthly TI is \$4,000: $(4,000 \times 12 \div 2,214,022 + 0.022) \times 4,000 = 0.04368 \times 4,000 = 174.72$

For over \$60,000, the same tax formula is converted into tax rate and tax format.

$$(2,943.5 + 0.066(TI - 60,000)) = 0.066 - 1,016.5 \div YTI \times YTI \text{ into } (0.066 - (D \div YTI)) \times TI$$

***Notes:**

1. With this simplification, the existing 7 tax brackets, 36 (6×6) formulas, and 8-page Withholding Tables can be matched and simplified with 2 brackets and formulas (2.2%-4.91%-6.6%) fairly (*) with 98% reduction (1-(2÷6)(2÷36)).

2. The first \$2,000 (0% tax rate) can be combined into standard deduction to have tax rate ranges of 2.2%-6.6%. The 8-page withholding tables and 36 (6×6) formulas can be eliminated and replaced by the 2 formulas simply and fairly. <https://revenue.delaware.gov/employers-guide-withholding-tables/>
<https://revenue.delaware.gov/personal-income-tax-forms/>

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

Total Tax=0.022SumYTib+Sum(YTic×YTic)÷ 2,214,022+Sum (0.066 YTIid-1,014)

Standard deductions, exemptions and tax credits are used for withholding tax calculations. F=1 is for tax returns. Tax Table (3 pages) or its formula can be used as one option. Existing tax system has no tax status (S) difference for Married filing jointly, qualifying widow(er), Single, married filing separately or for Head of Household, which are different from many other states and are numbered with such as 2, 1.5 or 1 normally.

https://revenuefiles.delaware.gov/2020/TY20_taxtable.pdf

(*) Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf

3. With this simplification, the bottom tax rate 2.2% may be reduced to such as 2%-4.91%-6.6% for not over and over \$60,000 to have neutral tax revenue change and to help low-end incomers to reduce tax rates and taxes slightly according to its evaluation from DOR. Other incomers have no or almost no tax rate and tax difference.

4. For existing tax reforms, tax brackets, tax rates, taxable income ranges, tax computations, and tax goal are considered at the same time, which are affected each other and complex. With this tax simplification, only 3 tax rates at bottom, 60,000 and top are adjusted to meet a tax goal. The factors are explained by our 2021 research paper (Page 508).

Bill Summary

Bill xxx - This bill can match and simplify existing 7 tax brackets, 42 (7×6) formulas, and 8-page Withholding Tables with 2 brackets and formulas. Withholding taxes, payrolls, withholding reports, income taxes, tax returns, tax analyses, fiscal notes, tax projections, and tax reforms can be simplified with the 2 brackets. A checking tool is provided to check and reduce calculation mistakes. For future tax reforms, only 3 tax rates at bottom, \$60,000, and top are adjusted by lawmakers.

For more information or questions, visit our web or contact johnlee@taxsimplecenter.net or 913-710-0957