

Existing Income Tax System and Its Simplification Comparison

Existing federal income tax system

7 tax brackets
224 (7×4×8) withholding formulas
21-page Withholding Tables *(1)
28 taxable income ranges, and
12-page Tax Table *(2)
Have no checking tool

Saving for businesses

Saving for IRS

Total savings

Matched Simplification (98% reduction)

3 tax brackets *(3&4)

3 formulas

Have checking tool to reduce/avoid mistake

\$4,030 million (1x26x155 million)

\$3 billion

\$10 billion*(3&4)

*1) www.irs.gov/pub/irs-pdf/p15t.pdf

*2) www.irs.gov/pub/irs-pdf/i1040gi.pdf

*3) https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wf_tax_bill_draft11.pdf

4) www.academicstar.us/UploadFile/Picture/2023-5/20235518550488.pdf (Research Paper)

*Tax revenue will have almost no change neutrally (*4): Fig. 1)

* Benefits and Values of the LG Tax Simplification for Federal Government, Companies and Taxpayers, **Journal of Business and Economics**, 2022, 13(12), 621-633.

(2 pages) BILL NO: _____ Federal Individual Income Tax Simplification

Summary: Federal tax system has complex 7 tax brackets, 28 taxable income ranges, 224 (7×4×8) withholding formulas, 21-page Withholding Tables, and 12 page Tax Table. Two simple linear formulas and one existing formula can be used to match/simplify our tax system efficiently to resolve these problems **with 98% simplification and 15 benefits to save \$10 billion** (Ref. 4: Table 7).

1. A bill for an act
2. relating to income taxation for calculating individual income tax rate and tax. A tax is hereby
3. imposed for every tax year on the taxable income of every resident. The tax shall be determined
4. by applying the tax rate and tax formulas provided in this section, which is based upon the
5. following tax rate and tax:
6. For tax year ~~2018~~-2025, and all tax years thereafter:
7. (<https://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf>)
8. (1) If yearly taxable income is: _____ The tax is: _____
9. (A) Married Individuals Filing Joint Returns and Surviving Spouses _____
10. Not over \$19,050 10% of taxable income (TI) _____ (2) Semi-yearly
11. Over \$19,050 but not over \$77,400 ... \$1,905 plus 12% of excess over \$19,050 _____ (3) Quarterly
12. Over \$77,400 but not over \$165,000 ... \$8,907 plus 22% of excess over \$77,400 _____ (4) Monthly
13. Over \$165,000 but not over \$315,000 ... \$28,179 plus 24% of excess over \$165,000 _____ (5) Semi-monthly
14. Over \$315,000 but not over \$400,000 ... \$64,179 plus 32% of excess over \$315,000 _____ (6) Biweekly
15. Over \$400,000 but not over \$600,000 ... \$91,379 plus 35% of excess over \$400,000 _____ (7) Weekly
16. Over \$600,000 \$161,379 plus 37% of excess over \$600,000 _____ (8) Daily
17. (B) Heads of Households
18. Not over \$13,600 10% of taxable income (TI)
19. Over \$13,600 but not over \$51,800 \$1,360 plus 12% of excess over \$13,600

- 20. ~~Over \$51,800 but not over \$82,500 \$5,944 plus 22% of excess over \$51,800~~
- 21. ~~Over \$82,500 but not over \$157,500 \$12,698 plus 24% of excess over \$82,500~~
- 22. ~~Over \$157,500 but not over \$200,000 \$30,698 plus 32% of excess over \$157,500~~
- 23. ~~Over \$200,000 but not over \$500,000 \$44,298 plus 35% of excess over \$200,000~~
- 24. ~~Over \$500,000 \$149,298 plus 37% of excess over \$500,000~~
- 25. ~~(C) Unmarried Individuals Other Than Surviving Spouses and Heads of Household (Single)~~
- 26. ~~Not over \$9,525 10% of taxable income (TI)~~
- 27. ~~Over \$9,525 but not over \$38,700 \$952.50 plus 12% of excess over \$9,525~~
- 28. ~~Over \$38,700 but not over \$82,500 \$4,453.50 plus 22% of excess over \$38,700~~
- 29. ~~Over \$82,500 but not over \$157,500 \$14,089.50 plus 24% of excess over \$82,500~~
- 30. ~~Over \$157,500 but not over \$200,000 \$32,089.50 plus 32% of excess over \$157,500~~
- 31. ~~Over \$200,000 but not over \$500,000 \$45,689.50 plus 35% of excess over \$200,000~~
- 32. ~~Over \$500,000 \$150,689.50 plus 37% of excess over \$500,000~~
- 33. ~~(D) Married Individuals Filing Separate Returns~~
- 34. ~~Not over \$9,525 10% of taxable income (TI) (2) Semi-yearly~~
- 35. ~~Over \$9,525 but not over \$38,700 \$952.50 plus 12% of excess over \$9,525 (3) Quarterly~~
- 36. ~~Over \$38,700 but not over \$82,500 \$4,453.50 plus 22% of excess over \$38,700 (4) Monthly~~
- 37. ~~Over \$82,500 but not over \$157,500..\$14,089.50 plus 24% of excess over \$82,500 (5) Semi-monthly~~
- 38. ~~Over \$157,500 but not over \$200,000..\$32,089.50 plus 32% of excess over \$157,500 (6) Biweekly~~
- 39. ~~Over \$200,000 but not over \$300,000..\$45,689.50 plus 35% of excess over \$200,000 (7) Weekly~~
- 40. ~~Over \$300,000 \$80,689.50 plus 37% of excess over \$300,000 (8) Daily~~

41.
42. Existing 28 taxable income ranges, 33-page tables, and 224 formulas are replaced by:
43.

| 44. If the yearly taxable income is: | The tax rate and tax are: | 2020 Tax rate range |
|---------------------------------------------|----------------------------------|----------------------------|
| 45. Not over \$100,000×S | (YTI÷A÷S + 0.1) × TI | 10%-18.1% |
| 46. (\$100,000 - \$300,000)×S | (YTI÷C÷S + 0.1385) × TI | 18.1%-26.6% |
| 47. Over \$300,000×S | (0.37-(D×S ÷ YTI)) × TI | 26.6%-37%* |

- 48.
- 49. YTI is the yearly taxable income. S is status number (2 for Married Filing Jointly or Qualifying
- 50. Widow(er), 1.5 for Head of Household, or 1 for Married Filing Separately or Single). Top tax rate
- 51. is 37%. Bottom tax rate is 10%. A is 1,234,568 from 100,000 to divide the 1-st tax rate range
- 52. difference (0.181-0.1). C is 2,352,941 from 200,000 to divide the 2-nd tax rate range
- 53. difference (0.266-0.181). D is 31,200 from 300,000 to multiply the 3-rd tax rate range difference
- 54. (0.37-0.266) in 2020. A, C, D and 0.1385 are constants. Tax rate ranges can be reformed. YTI is
- 55. TI×F. TI is taxable income. F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
- 56. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

- 1. YTI=\$77,789 (S=1): (YTI÷S÷A+0.1)×TI=(77,789÷1,234,568÷1+0.1)×77,789=0.163×77,789=12,680.31
 - 2. YTI=\$320,123 (S=1): (0.37-31,200×1÷320,123)×320,123=0.27253746×320,123=87,245.51
 - 3. Biweekly TI is \$2,992 (S=1): (2,992×26÷1,234,568÷1+0.1)×2,992=0.16301×2,992=487.73
 - 4. Monthly TI=\$20,321 (S=2): (20,321×12÷2,352,941÷2+0.1385)×20,321=0.19031855×20,321=3,867.46
- (** For over \$300,000×S, the same tax formula is converted into tax rate and tax formula.)

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

(1 Page) BILL NO: _____ Self Support Social Security Benefits without Fail

1. People support own social security benefits from own social security taxes and employers' matches until maximum social security benefits.
2. Extra social security amounts from high incomers after maximum benefits, people (who die early), and possible government funds are used for building a fund pool to sponsor low-income old and qualified people when their social security benefits, retirement funds, savings, assets, and all incomes are below poverty lines according to the fund pool.
3. Others

Background: Our existing Social Security benefit system for retirement is based on working-age workers to support old retirees. Americans have few children and live longer now. Old population with age 65 and over was 17% in 2020 is expected to increase to 24% by 2060. The working-age population is due to shrink from about 62% in 2020 to 57% in 2060. Then few workers support our retirees. More options can be considered such as (1) method, (2) raising payroll taxes, (3) lowering benefits, and (4) increasing retirement age (A). **If Congress does not take effective action(s), the SS system will fail, which will affect everyone. Can our Social Security (SS) benefit system be self supported without fail?**

Social Security (SS) benefit is an important part for retirement besides other retirement funds such as 401K, IRA, and saving. When a person works, 6.2% of gross income is deducted. Also another 6.2% is matched by his or her employer. Total social security deduction rate is 12.4%. In 2022, its cap on maximum earnings subject to the Social Security payroll tax is \$147,000.

Earned most 35 year incomes are used to calculate average indexed monthly earnings. Primary insurance amount (PIA) is used to calculate Social Security benefits. First number at 90%, second number at 32%, and third number at 15% of average indexed monthly earnings are used to calculate PIA. Also retirement age rate at 70%-124% for age 62-70 are used (A). These numbers and percents are complex.

Let us check several examples for Social Security taxes with different income levels for 35 or 40 years (B). **Example #1:** \$30,000 **Example #2:** **Example #3:**

| | | | |
|-----------------------------|---------------|-----------------------------|---------------|
| Average Income/Year | \$30,000 | | |
| SS taxes at 12.4% for 35Y | \$130,200 | SS taxes at 12.4% for 40Y | \$148,800 |
| 3% Interest (from 35 years) | \$231,666 | 3% Interest (from 40 years) | \$288,907 |
| Distribution (for 15 years) | \$1,600/Month | Distribution (for 15 years) | \$1,995/Month |
| Distribution (for 18 years) | \$1,389/Month | Distribution (for 18 years) | \$1,733/Month |
| 5% Interest (from 35 years) | \$352,791 | 5% Interest (from 40 years) | \$471,844 |
| Distribution (for 15 years) | \$2,790/Month | Distribution (for 15 years) | \$3,731/Month |
| Distribution (for 18 years) | \$2,480/Month | Distribution (for 18 years) | \$3,317/Month |

Social Security Solution: (1) These data show it is possible for most people to have their own amounts to support their own SS benefits; (2) Extra Social Security amounts from high incomers, people (who die early), and possible government funds can be used for building a fund pool to sponsor old and qualified people with retirement funds or incomes below poverty line. (3) Some above data for SS benefits have been compared with existing monthly benefits (primary insurance amount (PIA) and age factors). They have good relationships each other.

A. www.ssa.gov/OACT/COLA/Benefits.html

B. <https://publicpeace.weebly.com/ss.html>

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(1 Page) BILL NO: _____ Federal Corporate Income Tax

Summary: Federal corporate tax system is simpler than federal personal tax system. Prior eight tax brackets (15-35%*) were used before reforming to a flat tax rate at 21% in 2017. The eight tax brackets are too complex. The flat tax rate is too simple. A flat tax rate can not cover different taxable incomes and from small to large companies reasonably.

* <https://taxsimplecenter.net/businessstaxsimplification.html>

A nice corporate 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 social and economical needs for people and economical development. Then mid and large businesses are more stable and pay relatively higher tax rates reasonably. Small businesses have potential to become mid and large businesses, which help our people and country. Two brackets and formulas for federal corporate tax calculation system are suggested with two tax rate ranges such as 15%-20%-25% or 15%-21%-28% (Table). Taxable income \$120,000/year (or \$10,000/month) is a simple number, which is also close to federal personal tax rate at 19.7% from 120,000/1,234,568+0.1. The 2 tax rate ranges are used as a checking tool to reduce calculation mistakes.

Table Federal Corporate Tax Calculation with Checking Tool (2 Options)

| | Option #1 (15%-20%-25%) | | Option #2 (15%-21%-28%) | |
|---------------------|-----------------------------------------|----------------|-----------------------------------------|----------------|
| Taxable income (TI) | The tax rate and tax | Tax rate range | The 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% |

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4. determined by applying the tax rate and tax formulas provided in this section, which is based
5. upon the following tax rate and tax:
6. For tax year 2025 and all tax years thereafter:
- 7.
8. **If the yearly taxable income is: The tax rate and tax are: Tax rate range**
9. **Not over \$120,000 $(YTI \div A + 0.15) \times TI$ 15%-20%**
10. **Over \$120,000 $(0.25 - D \div YTI) \times TI$ 20%-25%**
- 11.
12. YTI is the yearly taxable income. Bottom tax rate is 15%. Top tax rate is 25%. A is 2,400,000
13. from 120,000 to divide the 1-st tax rate range difference (0.2-0.15). D is 6,000 from 120,000 to
14. multiply the 2-nd tax rate range difference (0.25-0.2). Tax rate ranges can be reformed. YTI is
15. $TI \times F$. TI is taxable income. F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
16. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

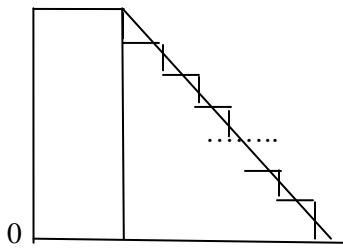
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Cliff/Curve/Step Problems and Solution with 1 Simple Line/Formula

- A. Social Security Benefit Tax Cliffs (1/more): Simple solution (straight line)
- B. Tax Rates with x or xx Tax Brackets: More brackets → Simple Line
- C. Step Rates: → Simple Line / Formula

Example: 2020 Stimulus Checks have 240 steps for \$75,000-99,000 and 480 steps for \$150,000-198,000, which can be matched by one simple formula of $1-(AGI/S-75,000)/24,000$ (S=1 or 2).

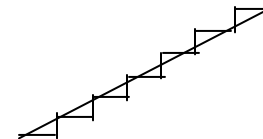
A. Cliff(s) → Simple Line
Rate (100%)



B. Tax Rates
(Flat & Curve)
→ Simple Line



C. Step Rates
→ Simple Line



Taxable income / AGI / Income / Earned Income

Conclusion / What You Can Do?

1. We can build a self-support SS benefit system without fail.

Social Security Bill (1 page): Self-support SS benefit system without fail for Americans <https://publicpeace.weebly.com/ss.html>

2. The personal income tax simplification has >98.7% (1-3/224) reduction.

Personal Income Tax Bill (2 pages): Good for businesses, governments and people to have simple solution and save billions of dollars
https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wf_tax_bill_draft11.pdf

3. Corporation tax with 2 brackets/formulas

Corporate Tax Bill (1 page): Good for economic development
<https://taxsimplecenter.net/businesssaxsimplification.html>

4. To build our country with strong foundation (Republicans' ideas) and beautiful structures (Democrats' ideas), which is similar as our strong and beautiful capital building. We need to work together with respects for peace.

www.taxsimplecenter.net
www.publicpeace.weebly.com

Any questions and comments: please contact johnlee@taxsimplecenter.net or 913-710-0957