HAWAII BILL NO._____   Income Tax Simplification

Summary: Two or one simple slope formula is used to match HI tax systems fairly and efficiently for replacing existing 12 tax brackets, 24 taxable income ranges (**Problem #1**: too many range with different #), 216 (12×3×6) withholding formulas (**Problem #2**: too many), and 32-page Withholding Tables (**Problem #3**: too many pages).

1.   A bill for an act
2.   relating to income taxation for individual income tax rate and tax.
3.   A tax is hereby imposed for every tax year on the taxable income of every resident. The tax shall
4.   be 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~~ 2020 2025, and all tax years thereafter:
7.   ~~If the taxable income is: The tax is:~~
8.   ~~(1) Schedule I Single and Married/RDP filing separately~~
9.   ~~Not over $2,400 ……………………………… 1.40% of taxable income (TI)~~
10. ~~Over $19,200 but not over $24,000 ……..… $1,008 plus 7.20% over $19,200~~
11. ~~……………12 brackets …………………………………………..~~
12. ~~Over $175,000 but not over $200,000 ……. $13,879 plus 10.00% over $175,000~~
13. ~~Over $200,000 ………………………………….. $16,379 plus 11.00% over $200,000~~
14. ~~(2) Schedule II Married/RDP filing jointly and certain widow(er)~~
15. ~~Not over $4,800 ……………………………… 1.40% of taxable income (TI)~~
16. ~~……………12 brackets …………………………………………..~~
17. ~~Over $400,000 ………………………………….. $32,757 plus 11.00% over $400,000~~
18. ~~(3) Schedule III Head of Household~~
19. ~~Not over $3,600 ……………………………… 1.40% of taxable income (TI)~~
20. ~~Over $28,800 but not over $36,000 ……..… $1,512 plus 7.20% over $28,800~~
21. ~~……………12 brackets …………………………………………..~~
22. ~~Over $300,000 ………………………………….. $24,568 plus 11.00% over $300,000~~
23.

24. If the yearly taxable income (YTI) is:	The tax rate and tax are:	Tax rate range:
25. Not over $24,000×S	$(YTI \div S \div A + 0.012^*) \times TI$	1.2% - 5.64%
26. $24,000 - $180,000×S	$(YTI \div S \div C + 0.052877) \times TI$	5.64%-7.93%
27. Over $180,000×S	$(0.11 - (D \times S \div YTI)) \times TI$	7.93% - 11%

28.
29. YTI is the yearly taxable income. S is status # (1 for Married filing separately or Single, 2 for Married
30. filing jointly or certain widow(er) or 1.5 for Head of Household).
31. Bottom and top tax rates are 1.4% and 11%. 1.4% is reduced to 1.2% for neutral tax revenue*.
32. A is 540,540.5 from 24,000 to divide the 1-st tax rate range difference (0.0564-0.012*) or 566,038 from
33. 24,000÷(0.0564-0.014). C is 6,812,227 from 156,000 (180,000-24,000) to divide the 2-nd tax rate range
34. Difference (0.0793-0.0564). D is 5,526 from 180,000 to multiply the 3-rd tax rate range difference
35. (0.11-0.0793). A, C, D and 0.052877 are constants.
36. There are 3 tax rate ranges of 0.014-0.0564-0.0793-0.11 in 2020 at taxable income ranges of
37. 0-$24,000-$180,000-.
38. YTI is equal to TI×F. TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
39. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples: **Tax rate and tax are:**

1. YTI=$23,456 (S=1): $(23{,}456 \div 540{,}540.5 \div 1 + 0.012) \times 23{,}456 = 0.0553936 \times 23{,}456 = 1{,}299.31$
2. Bi-weekly TI is $2,500 (S=2): $(2{,}500 \times 26 \div 6{,}812{,}227 \div 2 + 0.052877) \times 2{,}500 = 0.0576478 \times 2{,}500 = 144.12$
3. Monthly TI is $20,000 (S=1): $(0.11 - 5{,}526 \times 1 \div 20{,}000 \div 12) \times 20{,}000 = 0.086975 \times 6{,}000 = 1{,}739.50$

Notes:

(1) Hawaii 12 tax brackets, which can be matched and reduced to three at yearly taxable incomes (YTI) of 0-$24,000-$180,000-. Then their "A", "C" and "D" are as follows:

https://files.hawaii.gov/tax/forms/2020/n11ins.pdf

Year	Tax rate ranges	"A"	"C"	"D"
2020	0.014-0.0564-0.0793-0.11	566,038	6,812,227	5,526
2020	0.012-0.0564-0.0793-0.11	540,540.5	6,812,227	5,526

(2) With this simplification, the tax rate ranges of 1.4%-5.64%-7.93%-11% (2020) may gain tax revenue slightly. 1.4% is reduced to 1.2% to help low-end incomers to reduce tax rates and taxes slightly without tax revenue reduction to the state. 1.2% may be adjusted according to its evaluation from Department of Revenue. Other incomers have no or very minor tax rate and tax differences.

(3) https://files.hawaii.gov/tax/news/pubs/20BkltA.pdf Withholding Tables (32 pages) and related formulas are replaced by the above three tax rate formulas for 0-$24,000-$180,000-. Businesses calculate withholding taxes with Standard deductions, exemptions and tax credits. Taxpayers calculate income taxes for tax returns with actual deductions, exemptions, tax credits (non-refundable and refundable), and other taxes.

(Incomes ± Adjustments - (Deductions + Exemptions) ÷ F) × Tax rate - Tax credits ÷ F

https://files.hawaii.gov/tax/news/pubs/21BkltA.pdf

(4) Tax Table (12 pages) or its 2 formulas is for people to have one option.
   https://files.hawaii.gov/tax/forms/2018/18table-on.pdf

(5) For over $180,000, the same tax formula is converted into tax rate and tax format.

($16,379 + 11% (YTI - $200,000)= $(0.11 - 5{,}621 \div YTI) \times YTI$ into $(0.11 - (D \times S \div YTI)) \times TI$)

(6) Another option is to have two formulas and brackets at 1.1%-7.6%-11% for taxable incomes not over and over $120,000×S (C=1,846,154 and D=4,080).

Bill Summary

Bill xxx - This bill matches and simplify existing 12 tax brackets, 32-page withholding tables, 192 (8×3×8) formulas with 3 (or 2) formulas and brackets simply. Tax status is numbered with 1, 2 or 1.5. Payrolls, withholding reports, tax returns, tax analyses, tax reforms and tax projections can be simplified with the 3 (or 2) brackets instead of existing 12 brackets. A checking tool is provided to reduce calculation mistakes. For a tax reform, only 4 (or 3) tax rates of bottom and top tax rates and 2 tax rates at $24,000 and $180,000 (or $120,000) are adjusted to meet related tax projection by lawmakers.

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