

Summary of Tax Calculation Simplification for HI (Saving \$45 Million/Year)

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

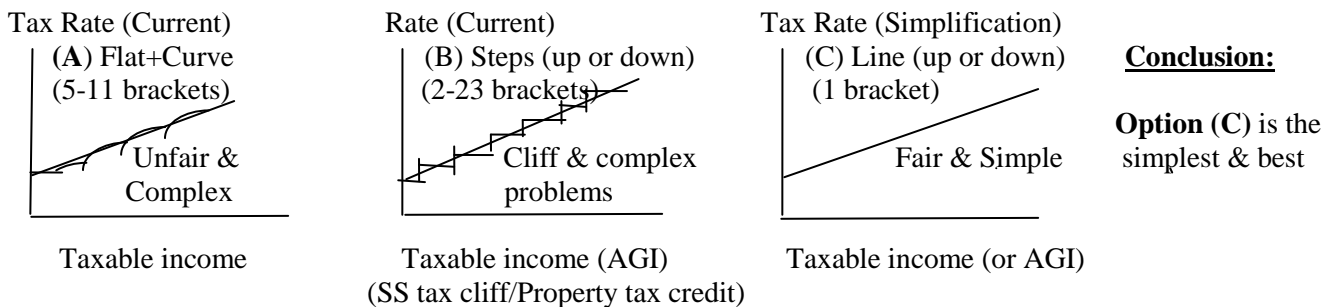


1. Basic Question: What tax rates are fair and simple? When 2 tax rates are set, effective (linear) tax rates between the two points with a straight line are fair and simple. Existing flat and curve or step tax rates with less or more tax brackets are unfair and complex. (FIG. 1)

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 \$45 million/year, which is based on 0.8 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 \$24,000	24,000-180,000	Over \$180,000
	Tax rate is:	$(YTI \div S \div A) + 0.014$	$(YTI \div S \div C) + 0.052877$	$0.11 - (D \times S \div YTI)$

* Either existing Tax Table or its 2 formulas (1 option) is used comparably.

5. Comparison between Existing System and Tax Calculation Simplification

- a) Existing Tax System: Tax Schedules, 32-page Withholding Tables, 12-page Tax Table and tax computations
- b) New bill: Only 4 simple formulas (12 brackets → 3 or 2)

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

7. Existing Withholding Tables (32 pages and related formulas) are replaced with the 4 simple formulas for companies to save ~\$21 million/year with 3 or 2 brackets if at \$1/payroll/person to cover 11 areas. (**Page 4) <https://files.hawaii.gov/tax/news/pubs/20BkltA.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 \$13 million/year (value) within \$45 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 (Saving \$45 Million/Year)

Effective linear and gradual (LG) tax simplification has been developed, which is supported by our 12 publications at <http://taxsimplecenter.net/publication.html> More tax brackets mean more smooth tax rate changes, 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 dept of revenue. Its saved value (\$45 million/year) is based on 0.8 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 argue to select tax bracket #, taxable income ranges, tax rates and computations for tax reforms. With this tax simplification, only 4 or 3 tax rates are needed for tax reforms.	Less time/hustle
3.	Simple formulas contributes to Fiscal Note (by Department of Revenue)	\$? million
4.	Withholding Tables (32 pages) are not needed and replace with 4 or 3 simple formulas with filing period (F) and status (S). If at $\$(1+0.2)/\text{person/period}$ (1.2x26x0.8 million)	\$25 million (** Page 5)
5.	Tax Table (12 pages) or its simple formula (1 option) is used. If $((1+0.5)x0.8$ million):	\$1.2 million
6.	Combining two existing sub tax systems (4&5) together without time delay (13 Months):	Real & quick tax
7.	One tax credit formula for different (simple or complex) tax credits (including EITC) (1 non-refundable and 1 refundable tax credit formulas) If $((1.5+0.5)x0.8$ million):	\$1.6 million
8.	Many incomers with standard deductions and credits (50%) file simple tax returns/tax withholding report and modifications. If $((15+5)x50%x0.8$ million):	\$8 million
9.	Postcard (1/2 page) tax return form can be used (50%). If $((10+4)x50%x0.8$ million):	\$5.6 million
10.	Tax Status (S) is numbered with 1, 2 or 1.5 for different statuses (More detail numbers may be applied for Standard Deductions). If $((1+0.5) x0.8$ million):	\$1.2 million
11.	A checking tool of two tax rate ranges (1.4%-5.64%-7.93%-11%) is provided to check and reduce tax rate and tax calculation mistakes. If $((2+1)x0.8$ million):	\$2.4 million
12.	Fraud crime is inspected and reduced by comparing tax returns and tax withholding reports:	Less crime
13.	Tax refunds with not over \$100 are delayed to next-year refunds.	Less time/cost
14.	Department of Revenue can process less tax returns during busy tax season and have more time to inspect more tax returns for possible more taxes.	More taxes
15.	The LG tax simplification can be used to simplify calculations of withholding tax, payroll, tax analysis, tax reform, budget and projection with 2 brackets.	Less time/costs
Total: Less time/hustle, less mistake, less crime, less cost, more tax and \$45 million/year		
(To Department of Revenue:		\$13 million/year)

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



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

If the yearly taxable income (YTI) ÷ S is:
 Not over \$24,000
 From \$24,000 to \$180,000
 Over \$180,000

The tax rate and tax are:
 $((YTI \div S \div A) + 0.012^*) \times TI$
 $((YTI \div S \div C) + 0.052877) \times TI$
 $(0.11 - (D \times S \div YTI)) \times TI$

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=24,000 ÷ 1-st tax rate difference (0.0564-0.012*)=540,540.5, C=(180,000-24,000)÷ 2-nd tax rate difference (0.0793-0.0564)=6,812,227 and D=180,000× 3-rd tax rate difference (0.11-0.0793)=5,526 according to 3 tax rate ranges of 0.014-0.0564-0.0793-0.11 in 2020, which may be different from other tax rate ranges in other years.

* (1) Existing 12 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 32-page Withholding Tables and related formulas for taxes and payrolls. Withholding taxes, payrolls, tax analysis, reform, and projection are simplified with the 3 brackets.

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

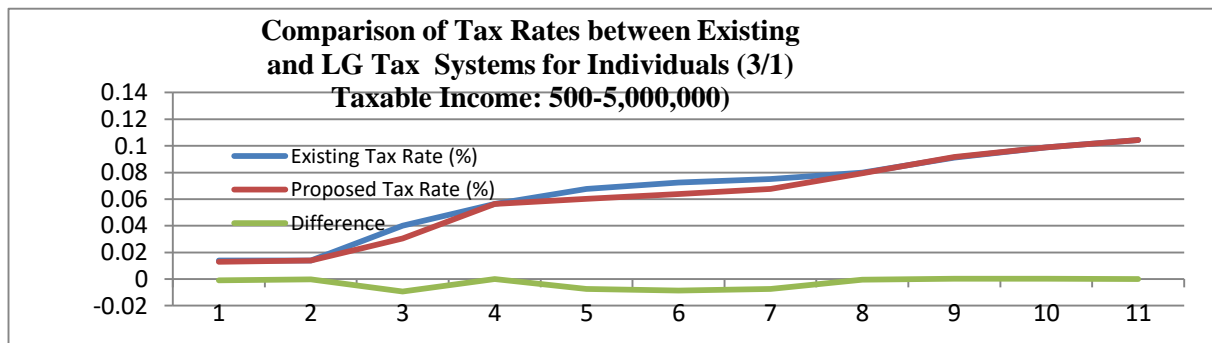
(2) Option: 1.4% may be reduced to 1.2% (or 0.x%) to neutral tax revenue. For 0.014-0.0564-0.0793-0.11, A is changed slightly, C and D are the same. Its rate formula is: $YTI \div S \div 566,038 + 0.014$. For 0.01-0.0564, its rate formula is: $YTI \div S \div 517,241 + 0.01$. Low-end incomers with low 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: 32-page Withholding Tables, 12-page tax table and tax computations with 12 tax brackets
- Simplification: 3 formulas (12 brackets → 3 with 75% reduction)

YTI÷S	1) Existing System	2) 1.4-11%	3) 1.2-11%	4) 1-11%	Rate Difference #2/#3/#4 - #1*
500	0.014	0.0148833	0.012925	0.0109667	0.0009 / -0.0011 / -0.0030
1,000	0.014	0.0157667	0.01385	0.0119333	0.0018 / -0.0002 / -0.0021
10,000	0.03996	0.03266666	0.030500	0.02933335	-0.0082 / -0.0095 / -0.0106
24,000	0.05641667	0.0564	0.0564	0.0564	0.0000 / 0.0000 / 0.0000
50,000	0.06758	0.06021674	0.06021674	0.06021674	-0.0074 / -0.0074 / -0.0074
75,000	0.0725533	0.06388662	0.06388662	0.06388662	-0.0087 / -0.0087 / -0.0087
100,000	0.07504	0.067556487	0.067556487	0.067556487	-0.0075 / -0.0075 / -0.0075
180,000	0.07988333	0.0793	0.0793	0.0793	-0.0006 / -0.0006 / -0.0006
300,000	0.09126333	0.09158	0.09158	0.09158	0.0003 / 0.0003 / 0.0003
500,000	0.098758	0.098948	0.098948	0.098948	0.0002 / 0.0002 / 0.0002
1,000,000	0.104379	0.104474	0.104474	0.104474	0.0001 / 0.0001 / 0.0001
5,000,000	0.1088758	0.1088948	0.1088948	0.1088948	0.0000 / 0.0000 / 0.0000

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



Summary for Tax Calculation Simplification

Background and purpose: Existing tax systems have 12 tax brackets, tax schedules, Withholding Tax Tables (32 pages), Tax Table (12 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 12 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. <https://files.hawaii.gov/tax/forms/2018/18table-on.pdf>

The LG tax simplification is used to match/reduce existing 12 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 12x3 tax schedules into 3 smooth tax rate ranges comparably. There are tax rate ranges such as 1.4%-5.64%-7.93%-11% (2020). 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.

For tax reforms, 3 (or 2) tax brackets can be used to avoid or reduce related political arguments from 12 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-\$24,000-\$180,000-) 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 (32 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. <https://files.hawaii.gov/tax/news/pubs/20BkltA.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 32-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 \$25 million (=1.2x26x0.8 millions, 26 is biweekly filing and 0.8 millions 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.

Comparison	<u>Existing tax system:</u>	<u>Proposed new tax bill:</u>	<u>Tax rates</u>
	Different tax statues (5)	$((YTI \div S \div A) + 0.014) \times TI$	1.4%-5.64%
	12 tax brackets (1.4%-11%)	$((YTI \div S \div C) + 0.052877) \times TI$	5.64%-7.93%
	Withholding Tables and Tax Table (44 pages)	$(0.11 - (D \times S \div YTI)) \times TI$	7.93%-11%

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



Tax Reform, Analysis, Budget, and Projection:

Total Tax (S=1)=0.012Σ(TIa)+ Σ(TIa)²÷540,540.5+0.052877Σ(TIb)+Σ(TIb)²÷6,812,227+0.11Σ(TIc)-5,526 C
There are 3 tax rate ranges of 0.01-0.0564-0.0793-0.11 in 2020, which can be adjusted for tax revenue and budget simply. Above a, b and c are tax return numbers with 0-24,000-180,000-. Then withholding taxes, payrolls, tax analysis, reform, and projection are simplified with the 3 brackets.

FORM 20xx 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 (\$) 2,200 2,200x2 3,212
Exemption tax credit (\$): /Personal#_ ; /Blind#_ ; /Senior (≥65)#_ and /Dependent#_

Address:



A	B	C	D	E	F	G	
Year	Your Name	SS#	Spouse Name	Spouse SS#	Exemptions	Status (S)	1
2020							2
Federal AGI	Total additions to federal AGI	Total subtractions to federal AGI	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 - 24,000		YTI÷540,540.5÷S+0.012	0.012-0.0564			6
	24,000-180,000		YTI÷6,812,227÷S+0.052877	0.0564-0.0793			7
	Over 180,000		0.11 - 5,526×S÷YTI	0.0793-0.11			8
Non-refund tax credits	Tax Balance <0, enter 0	CA tax withheld (W-2/1099s)	Tax refund (last year): ≤\$100	Refundable tax credits	Contributions	Tax (Owe+/Refund-)	9
							10

- (1) Taxable income (YTI) = A4+B4-C4-D4
- (2) Tax balance (B10) = Tax – A10 – Part-resident credit – Non-resident credit
- (3) Tax (Owe+/Refund-) = B10-C10-D10-E10-E10-F10
- (4) Attach related documents. If tax refund (G10) is not over \$100, do tax return and delay tax refund to next year (D10) 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 \$120,000	((YTI÷S÷A)+0.012*) × YTI
Over \$120,000	(0.11 – (D×S÷YTI)) × YTI

Wherein YTI=yearly taxable income, S=status (1 for Single or Married filing separately, 2 for Married filing joint or certain Widow(er) 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 0.014 (or 0.012*)-0.07-0.11, A=120,000 ÷ 1-st tax rate difference (0.07-0.014)=2,142,857 or 120,000 ÷ (0.07-0.012)=2,068,966 and D=120,000× 2-nd tax rate difference (0.11-0.07)=4,800. The 3 tax rates of 0.014-0.07-0.11 may be adjusted to meet tax projection according to tax revenue evaluation from Department of Revenue.

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