

MAINE BILL NO. _____ Individual income tax simplification

Summary: One simple linear formula and one existing formula are used to match and simplify Maine tax systems fairly and efficiently for replacing existing 3 tax brackets, 9 taxable income ranges (**Problem #1: too many ranges**), 45 (3×3×5) formulas (**Problem #2: too many formulas**), and 10-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. www.oregon.gov/dor/forms/FormsPubs/publication-or-estimate_101-026_2023.pdf (Page 3)
6. A tax on the brackets of taxable income as follows:
7. ~~If the taxable income is: The tax are:~~
8. ~~Tax Rate Schedule #1 For Single Individuals and Married Persons Filing Separate Returns~~
9. ~~Not over \$24,500 5.8% of taxable income~~
10. ~~Over \$24,500 but not over \$58,050 \$1,421 plus 6.75% of excess over \$24,500~~
11. ~~Over \$58,050 \$3,686 plus 7.15% of excess over \$58,050~~
12. ~~Schedule #2 For Unmarried or Legally Separated Individuals who Qualify as Heads of Household~~
13. ~~Not over \$36,750 5.8% of taxable income~~
14. ~~Over \$36,750 but not over \$87,100 \$2,132 plus 6.75% of excess over \$36,750~~
15. ~~Over \$87,100 \$5,531 plus 7.15% of excess over \$87,100~~
16. ~~Tax Rate Schedule #3 For Married Individuals and Surviving Spouses Filing Joint Returns~~
17. ~~Not over \$49,050 5.8% of taxable income~~
18. ~~Over \$49,050 but not over \$116,100 \$2,845 plus 6.75% of excess over \$49,050~~
19. ~~Over \$116,100 \$7,371 plus 7.15% of excess over \$116,100~~
20. ~~—~~
21. The above non-smooth tax rate changes are matched and simplified by linear smooth tax rate changes.
22. For the yearly taxable income (YTI) is: The tax rate and tax are: 2023 Tax rate range:
23. Not over \$60,000×S (YTI÷C÷S+B)×TI 5.8% - 6.376%
24. Over \$60,000×S (T-(D×S÷YTI))×TI 6.376% - 7.15%
- 25.
26. YTI is the yearly taxable income. S is tax filing status (1 for Single or Married Filing Separate, 1.5 for
27. Head of Household or 2 for Married and Surviving Spouses Filing Joint.
28. B is bottom tax rate 5.8%. T is top tax rate 7.15%. C is 10,416,667 from 60,000 to divide (÷) the 1-st
29. tax rate range difference (0.06376-0.058). D is 464.4 from 60,000 to multiply (×) the 2-nd tax rate
30. difference (0.0715-0.06376). Bottom tax rate, top tax rate, and tax rate at \$60,000 can be reformed.
31. YTI=TI×F, TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
32. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

1. YTI=\$45,678 (S=1): $(45,678 \div 10,416,667 \div 1 + 0.058) \times 45,678 = 0.062385 \times 45,678 = 2,849.33$
2. YTI=\$150,000 (S=2): $(0.0715 - 464.4 \times 2 \div 150,000) \times 150,000 = 0.0653 \times 150,000 = 9,795.00$
3. Monthly TI is \$10,000 (S=1.5): $(0.0715 - 464.4 \times 1.5 \div 10,000 \div 12) \times 10,000 = 0.065695 \times 10,000 = 656.95$
4. Bi-weekly TI is \$1,756 (S=1): $(1,756 \times 26 \div 10,416,667 \div 1 + 0.058) \times 1,756 = 0.062383 \times 1,756 = 109.75$

***Notes:**

1. With this simplification, the existing 3 tax brackets (5.8%, 6.75%, and 7.15%), 9 taxable income ranges, 45 (3×3×5) withholding formulas, and 10-page Withholding Tables can be matched and simplified by 2 formulas and brackets (5.8%-6.376%-7.15%) fairly (*) with 98% reduction (1- 2÷45)). There is slight or no tax rate and tax difference.

www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/23_wh_tab_instr.pdf
www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/ind_tax_rate_sched_2023.pdf

2. Standard deductions, exemptions, and tax credits are used for withholding tax calculations. F=1 is for tax returns. Actual deductions, exemptions, and tax credits are used for tax returns.

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

Total Tax= Sum (YTIc÷C÷S + 0.058) YTIc + Sum (0.0715 YTIid - (D×S))

(*) Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf
(3. Tax Rate Change Speed, Checking Tool, Tax Status and Simplification)

3. Maine 2-page Tax Table or its one formula can be as one option for taxable incomes not over \$60,000×S. S is different tax status numbers such as 1, 1.5 or 2.

www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/22_1040me_book_gen_instruc_revisedFeb23.pdf

4. For over \$60,000×S, existing tax formula format is converted to tax rate and tax formula format.

$\$3,686+7.15\% (YTI-\$58,050) = (0.0715 - 464.575\div YTI) \times YTI$ into $(0.0715 - (D\times S\div YTI)) \times TI$

5. With this simplification, the bottom tax rate 5.8% may be reduced to such as 5.4%-6.4%-7.15% for not over and over \$60,000×S 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. Then C is 6,000,000 from 60,000÷(0.064-0.054). D is 450 from 60,000×(0.0715-0.064).

6. 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, middle, 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 3 tax brackets, 45 (3×3×5) withholding formulas, 9 tax rate ranges, and 10-page Withholding Tables with 1 linear formula and 1 existing formula in 2 brackets. The 3 tax statuses are numbered as 1, 1.5 or 2 simply. Withholding taxes, payrolls, withholding reports, income taxes, tax returns, tax analyses, fiscal notes, tax projections, and tax reforms can be simplified. 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 to meet a tax goal.

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