MINNESOTA Bill NO. _____   Individual Income Tax Simplification

Summary: One simple linear formula and one existing formula are used to match MN tax systems fairly and efficiently for replacing existing 4 tax brackets, 96 (4×4×6) formulas (**Problem #1: too many formulas**), 16 taxable income ranges (**Problem #2: too many**), and 18-page Withholding Tables (**Problem #3: too many pages**)

1. A bill for an act relating to income taxation for calculating individual income tax rate and tax. A tax is
2. imposed for every tax year on the Minnesota taxable income. The tax shall be determined by applying the
3. tax rate and tax formulas provided in this section, which is based upon the following tax rate and tax:
4. For tax year ~~2017~~**2024 and all tax years thereafter**:

5. ~~If the taxable income is: The tax is: If the taxable income is: The tax is:~~
6. ~~(1) Single   (2) Married filing separately~~
7. ~~Not over $25,346   0.0535×TI   Not over $18,560   0.0535×TI~~
8. ~~$25,390-83,400   1,358.37+0.0705 (TI-25,390) $18,560-73,730   992.96+0.0705 (TI-18,560)~~
9. ~~$83,400-156,900   5,448.08+0.0785 (TI-83,400) $73,730-130,761   4,882.45+0.0785 (TI-73,730)~~
10. ~~Over $156,900   11,217.83+0.0985 (TI-156,609)   Over $130,761   9,359.31+0.0985 (TI-130,761)~~
11. ~~(3) Head of household   (4) Married filing jointly or qualifying widow(er)~~
12. ~~Not over $31,260   0.0535×TI   Not over $37,110   0.0535×TI~~
13. ~~$31,260-125,600   1,672.41+0.0705 (TI-31,260) $37,110-147,450   1,985.39+0.0705(TI-37,110)~~
14. ~~$125,600-209,200   8,323.38+0.0785 (TI-125,600) $147,450-261,510   9,764.36+0.0785(TI-147,450)~~
15. ~~Over $209,200   14,885.98+0.0985 (TI-209,200)   Over $261,510   18,718.07+0.0985(TI-261,510)~~
16.
17. If the yearly taxable income (YTI) is: The tax rate and tax are: Tax rate range (2021):
18. Not over $120,000×S   (YTI ÷ S ÷ C + Bottom rate) × TI   0.0535 - 0.064
19. Over $120,000×S   (Top rate - (D × S ÷ YTI)) × TI   0.064 – 0.0985
20.
21. YTI=yearly taxable income. S=status number (2 for Married filing jointly or qualifying widow(er), 1 for
22. Married filing separately, 1.2 for Single or 1.5 for Head of Household). YTI=TI×F, TI is taxable income
23. and F is filing period # (1, 2, 4, 12, 24, 26, 52 or 364 on different filing period).
24. C is 10,909,091 from 120,000 to divide the 1-st tax rate range difference (0.064-0.053) for neutral tax
25. revenue (*) or 11,428,571 from 120,000÷(0.064-0.0535) and D=4,140 from 120,000 to multiply the
26. 2-nd tax rate range difference (0.0985-0.064) in 2021 (or D=120,000×(0.0985-0.0692)=3,516 in 2017).
27. Tax rate ranges are 5.35%-6.92%-9.85% in 2017 or 5.35%-6.4%-9.85%% in 2021.

Examples: **Tax rate and tax are:**
1.YTI=$56,000 (S=1):   (56,000÷1÷10,909,091 + 0.053)×56,000=0.058133×56,000=3,255.47
2.YTI=$256,140 (S=2):   (0.0985 - 4,140×2÷256,140)×256,140=0.0661739×256,140=16,949.79
3. Bi-weekly TI is $2,154 (S=1):   (2,154×26÷1÷10,909,091 + 0.053)×2,154=0.0581337×2,154=125.22
4. Monthly TI is $21,345 (S=2):   (0.0985 - 4,140×2÷(21,345×12))×21,345=0.0661739×21,345=1,412.48
For over $120,000×S, the same tax formula is converted into tax rate and tax format in 2017.
      (9,359.31+0.0985 (TI-130,761) = (0.0985 – 3,521÷YTI) × YTI into (T – (D÷YTI)) × TI)

Notes:

(1) MN has 4 tax brackets at www.revenue.state.mn.us/sites/default/files/2021-05/wh_inst_21.pdf and www.revenue.state.mn.us/minnesota-income-tax-rates-and-brackets (2016-2021) with different filling periods. They can be matched and simplified by two tax rate ranges of 0.0535-0.064-0.0985 (2021), 0.0535-0.065-0.0985 (2019) or 0.0535-0.07-0.0985 (2017) at taxable incomes of 0-$120,000-. Then their "C" and "D" are as follows:

Year	2021	2021	2019	2017
Tax rate range	0.0535-0.064-0.0985	0.053-0.064-0.0985	0.0535-0.065-0.0985	0.0535-0.0692-0.0985
"C"	11,428,571	10,909,091	10,434,783	7,407,407
"D"	4,140	4,140	4,020	3,516

With this simplification, the 4 tax brackets, 96 (4×4×6) formulas, 16 taxable income ranges and 18-page Withholding Tables can be eliminated and replaced by 2 simple brackets/formulas with smooth tax rate changes fairly (*) and 99% reduction (1-(2÷4)(2÷96)). The tax rate ranges of 5.35%-6.4%-9.85% (2021) may gain tax revenue slightly. 5.35% may be reduced to 5.3% to have neutral tax revenue and help low-end incomers to reduce tax rates and taxes slightly. 5.3% may be adjusted according to its evaluation from Department of Revenue. Other incomers have no or almost no tax rate and tax differences.

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

(2) Withholding Tables www.revenue.state.mn.us/sites/default/files/2021-01/wh_inst_21.pdf (18 pages) and related formulas are replaced by the above two tax rate formulas for not over and over $120,000 and the following formula to calculate withholding taxes with Standard deductions, exemptions and tax credits and income taxes for tax returns with actual deductions, exemptions and tax credits.

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

(3) Existing tax table (6 pages) or its formula is for people to have one option.

(4). For existing tax reforms, tax brackets, tax rates, taxable income ranges and tax goal are considered at the same time, which are affected each other and complex. With this tax simplification, only 3 or 4 tax rates at bottom, middle (1 or 2) and top are adjusted to meet a tax goal. The factors are explained by our research paper (Page 509).

Bill Summary

This bill matches and simplify existing 4 tax brackets, 96 (4×4×6) formulas, 18-page Withholding Tables, and 16 taxable income ranges with 2 brackets and formulas resulting in 98% simplification and 15 benefits. Tax status is numbered with 1, 2, 1.2 or 1.5. Payrolls, withholding reports, tax returns, tax analyses, tax reforms and tax projections are simplified. A checking tool is provided to reduce calculation mistakes. For a tax reform, 3 tax rates at bottom, $120,000 and top are adjusted to meet related tax projection by lawmakers simply.

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

Minnesota Tax Simplification, Benefit and Value ($165+ Million)

1. Two Tax Options: (Existing Tax Calculation System and Simplification)

Option A: MN has 4 tax brackets, 96 (4×4×6) formulas and 18-page Withholding Tables for withholding taxes and 16 formulas and 6-page Tax Table for tax returns. These formulas, tables and tax rates are often changed because of tax reform and inflation. **For more than 80 years, MN has struggled about tax systems with different tax brackets (3-11) and formulas (20-96)** (Next page).

Option B: 2 fair* formulas (**The most efficient and stable tax calculation system for MN**)

Option A and Option B are matched each other. **Option B** has **99% reduction and 15 benefits*** for businesses, DOR and taxpayers to **save $165+ million** (Table 6*). For future tax reforms, **lawmakers would adjust only 3 tax rates** (at bottom, $120,000 and top) **to replace the existing 3 factors** with many options* (*2021 Research Paper). **Do you like Option A or B? Let us work together for MN.**

* Research paper: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf (2021)
 Benefits and Values of State LG Tax Simplification for Governments, Businesses and Taxpayers
Abstract
Introduction and Literature Review
Benefits and Values of the LG Tax Simplification
1. The Existing State Personal and Corporate Tax Calculation Systems and Simplification
2. Withholding Table and Tax, Income Tax, Tax Table, Tax Return, Evasion, Tax Fraud, and Simplification
3. Tax Rate Change Speed, Checking Tool, Tax Status and Simplification
4. Tax Analysis, Tax Revenue Difference (Fiscal Note) and Projection
5. Tax Reform, Factor and Simplification
6. Other Simplification Applications
7. Value and Cost of the LG Tax Simplification

15 Benefits and Saving Values ($20-$900 Million) / State (Table 6) such as:
(1) **To match/reduce** existing 12-3 tax brackets to 2 (up to **83% reduction**),
(2) **To eliminate existing xx-page Withholding Tables and 36-280 formulas** (on different filing periods),
(3) **To help state lawmakers** to simplify tax reforms with 3 tax rates at bottom, middle and top only,
(4) **To help departments of revenue** to simplify fiscal notes, tax analyses and projections, and ……
 https://taxsimplecenter.net/publication.html (**12 publications**)

Our research shows that the above different tax brackets (3-11), withholding formulas (20-96), and 18-page Withholding Tables can be matched and simplified with the 2 formulas.

Comparisons of Existing Tax Calculation Systems and Simplification

Tax Calculation System	Tax Brackets	Withholding Formulas	Withholding Tables	Tax Table	Tax Revenue Change	Saving for Businesses
Existing Tax System	4 (up to 11)	96（20-96)	18 pages	6 pages	No change	No
LG Simplification	2	2	0	Option	~No change	$78 million

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Tax Revenue Change and Potential Saving for MN

1. Tax Formulas and Tax Revenue Changes
 (A) For over \$120,000, the same formula (different format) is used (**almost no tax revenue difference**).
    Existing Formula (MJ): $19,443.99+9.85\%(YTI-288,200)=0.0985YTI - D\times2=(0.0985 - D\times2\div YTI)\times YTI$
    New Formula (All Statuses): $\underline{(Top\ tax\ rate - (D\times S\div YTI))\times TI}$ = $(0.0985 - D\times S\div YTI))\times TI$
 (B) For not over \$120,000, existing 12 formulas are replaced with 1 fair* formula (slight tax revenue gain).

2. Potential Savings (99% reduction and 15 benefits to save \$165+ million)
The simplification with 2 fair* brackets/formulas has **99%** $(1-(2\div96)(2\div4))$ **reduction and 15 benefits** (Table 6*)
to save \$165+ million/years for MN businesses, DOR and taxpayers. Let us work together for MN.

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www.revenue.state.mn.us/site-search?site_search_text=2000+tax+brackets
www.revenue.state.mn.us/minnesota-historical-tax-rates

MN Personal Income Tax Calculation Systems (<u>1933-2023</u>) and Simplification
_____

1. For 1933-36: **11 tax brackets** at 1%, 1.25%, 1.5%, 1.75%, 2%, 2.5%, 3%, 3.5%, 4%, 4.5% and 5%
2. ………………………………………………………………………………………….
3. For 1953-58: **10 tax brackets and 2 statuses** at 1%, 2%, 3%, 4.5%, 5%, 6%, 7%, 8%, 9% and 10%
4. ………………………………………………………………………………………….
5. For 1972-77: 11 tax brackets at 1.6%, 2.2%, 3.5%, 5.8%, 7.3%, 8.8%, 10.2%, 11.5%, 12.8%, 14% & 15%
6. ………………………………………………………………………………………….
7. For tax year 1991-1998: 3 tax brackets with different yearly taxable income ranges at 6%, 8% and 8.5%
8. ………………………………………………………………………………………….
9. For 2000-2012: 3 tax brackets and 12 different yearly taxable income ranges at 5.35%, 7.05% and 7.85%
10. For 2013-2019: 4 tax brackets and 16 different taxable income ranges at 5.35%, 7.05%, 7.85% & 9.85%
11. For tax year 2020: 4 tax brackets and 16 different taxable income ranges at 5.35%, 6.8%, 7.85% & 9.85%
12. For tax year 2021: 4 tax brackets and 4 tax statuses at 5.35%, 6.8%, 7.85% & 9.85%
13. For tax year 2022: 4 tax brackets and 16 different taxable income ranges at 5.35%, 6.8%, 7.85% & 9.85%
14.   **(Each tax system may have 20-96 formulas and xx-page Withholding Tables)**
15.
16. For 2024 and all tax years thereafter: (<u>**2 brackets and formulas**</u>)
17. If the yearly taxable income ÷ S is: The tax rate and tax are: Tax rate range (2021):
18. Not over \$120,000 $(YTI \div S \div C + 0.053^*)\times TI$ 0.0535 - 0.064
19. Over \$120,000 $(Top\ tax\ rate - (D\times S\div YTI))\times TI$ 0.064 – 0.0985
20.
21. YTI=yearly taxable income. S=status # (2 for Married filing jointly, 1 for Married filing separately, 1.2
22. for Single or 1.5 for Head of Household). 5.35% is reduced simply for neutral tax revenue (*). C is
23. 10,909,091 from 120,000÷ (0.064-0.053) or 11,428,571 from 120,000÷(0.064-0.0535). D=4,140 from
24. 120,000×(0.0985- 0.064). Tax rate ranges are 0.0535-0.064-0.0985 (2021) for not over and over
25. \$120,000. YTI=TI×F, TI is taxable income. F is filing period # (1, 2, 4, 12, 24, 26, 52 or 364).

Examples: **Tax rate and tax are:**
1.YTI=\$56,000 (S=1): $(56,000\div1\div10,909,091 + 0.053)\times56,000=0.058133\times56,000=3,255.47$
2.YTI=\$256,140 (S=2): $(0.0985 - 4,140\times2\div256,140)\times256,140=0.0661739\times256,140=16,949.79$
3. Bi-weekly TI is \$2,154 (S=1): $(2,154\times26\div1\div10,909,091 + 0.053)\times2,154=0.0581337\times2,154=125.22$
4. Monthly TI is \$21,345 (S=2): $(0.0985 - 4,140\times2\div(21,345\times12))\times21,345=0.0661739\times21,345=1,412.48$