

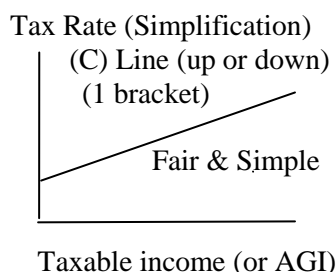
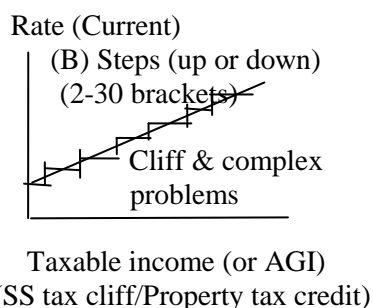
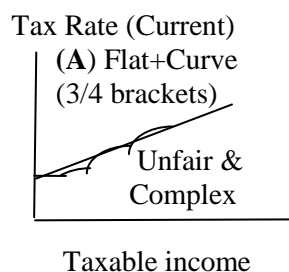
## Summary of Tax Simplification for MN (Saving \$165 Million/Year)

<https://taxsimplecenter.net/statetaxsimplification.html> (H....MN)

**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 about \$165 million/year**, which is based on 3 million tax returns per year. (Page 2)

### **3. FIG. 1 Current Tax Rates (A and B) and Simplification (C)**



#### **Conclusion:**

**Option (C) is the simplest & best**

### **4. Tax Simplification**

$$\text{Tax rate is: } \frac{\text{Yearly taxable income} \div S \text{ is:}}{\text{Tax rate is:}} \quad \begin{array}{l} \text{Not over } \$120,000 \\ (YTI \div S \div A) + 0.0535 \end{array} \quad \begin{array}{l} \text{Over } \$120,000 \\ 0.0985 - (B \times S \div YTI) \end{array}$$

Wherein YTI=yearly taxable income, S=tax status (1, 2, 1.2 or 1.5), A (constant)=120,000 ÷ 1-st tax rate difference (0.07-0.0535)=7,272,727 and B=20,000× 2-nd tax rate difference (0.0985-0.07)=3,420 (2017)

\* Existing Tax Table or its formula (1 option) is used. Some people may still like Tax Table.

### **5. Comparison between Existing Tax System and the LG Tax Calculation Simplification**

- Existing System: Tax Schedules, 18-page Withholding Tables, tax table and computations (**Often change!**)
- New Bill: only **3 formulas** (2 brackets)

**6. Lawmakers will reduce related political arguments** with 3-12 state tax brackets, taxable income ranges and tax rates. The 2 brackets are kept to replace existing 4 brackets, which is one of the 15 benefits.

**7. Existing Withholding Tables (18 pages and related formulas)** are eliminated and replaced for companies to **save \$77 million/year** with 2 brackets if at \$1/payroll/person to cover 11 areas. (Details: Page 5\*\*)

[www.revenue.state.mn.us/sites/default/files/2021-01/wh\\_inst\\_21.pdf](http://www.revenue.state.mn.us/sites/default/files/2021-01/wh_inst_21.pdf)

### **8. Postcard (half page) Tax Return (or Tax Withholding Report and Modification)**

**9. Existing two sub tax systems** are about 13 months apart. This simplification provides one system to simplify withholding tax, payroll, withholding report, tax return, analysis, reform and projection with the 2 brackets.

**10. Other Applications:** <https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wothers.pdf>

For more information: [www.taxsimplecenter.net](http://www.taxsimplecenter.net) or questions: [johnlee@taxsimplecenter.net](mailto:johnlee@taxsimplecenter.net) or 913-710-0957



**MN Tax Calculation Simplification** (It is added into existing tax bill\*)

If the yearly taxable income ÷ S is:  
 \$120,000 and under  
 Over \$120,000

The tax rate and tax are:  
 $((YTI \div A \div S) + 0.053) \times TI$   
 $(0.0985 - (B \times S \div YTI)) \times TI$

Wherein YTI=yearly taxable income, S=status (1 for MFS, 2 for MFJ, 1.2 for Single or 1.5 for HH), YTI=TI×F, TI=taxable income, F= filing period (1 for tax returns, 2, 4, 12, 24, 26, 52 or 265 for withholding taxes), there are two tax rate ranges of 0.0535-0.07-0.0985 (2017), A (constant)=120,000 ÷ 1-st tax rate difference = (0.07-0.053)=7,058,824 and B (constant)=120,000 × 2-nd tax rate difference=3,420 (2017). The two tax rate ranges are changed to 0.0535-0.065-0.0985 (2019) or 0.0535-0.064-0.0985 (2021) with different A and B.

\* (1) Existing 4 tax brackets are matched/reduced to 2. Tax Table or its formula (1 option) is used. Companies use the simple formulas to replace existing 18-page Withholding Tables for taxes and payrolls easily. **With the 3 formulas**, withholding taxes, payrolls, tax analyses, reforms, and projections are simplified.

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

(2) Option: Existing 5.35% may be reduced to 5.3% (or 5.x%) to neutral tax revenue. For 2 tax rate ranges of 0.0535-0.07-0.0985, A is changed slightly and B is the same. Its rate formula is:  $(YTI \div S \div 7,272,727) + 0.0535$ . For 0.05-0.07, its rate formula is:  $(YTI \div S \div 6,000,000) + 0.05$ . Low-end incomers with low taxable incomes will reduce their tax rates and income taxes without tax revenue change. Then the both parties can benefit.



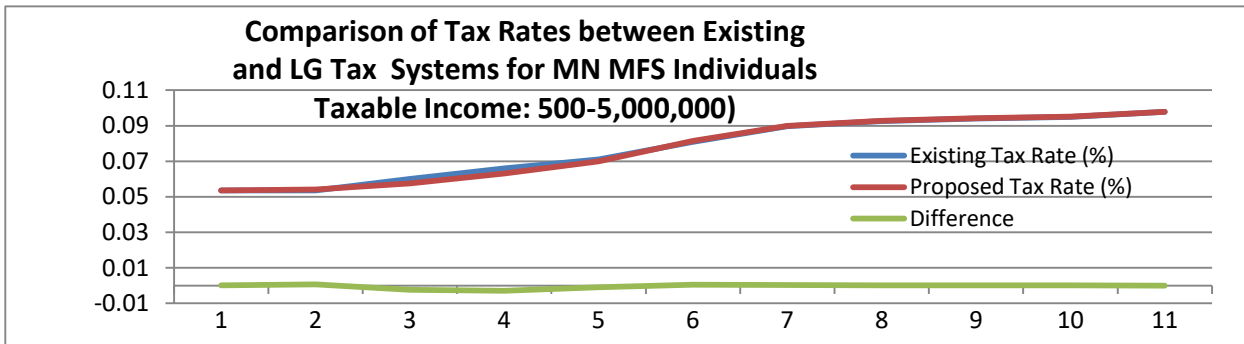
**Comparison between Existing and Simplified Tax Calculation Systems**

- 1) Existing Tax Calculation System: Two sub tax systems (13 months apart), 18-page Withholding Tables, 6-page Tax Table and tax computations with 4 tax brackets
- 2) – 4) Simplification: 2 formulas match/simplify the existing two systems and eliminate withholding tables (18)

TI×F÷S	1) Existing System	2) 5.35-9.85%	3) 5.3-9.85%	4) 5-9.85%	Rate difference #2/#3/#4 - #1
500	0.0535	0.05356875	0.053071	0.05008	0.0001 / -0.0004 / -0.0034
3,500	0.0535	0.05398125	0.0534958	0.050583	0.0005 / -0.0000 / -0.0029
5,000	0.0535	0.0541875	0.053708	0.05083	0.0007 / 0.0002 / -0.0027
30,000	0.059982667	0.057625	0.05725	0.055	-0.0024 / -0.0027 / -0.0050
70,000	0.065992571	0.063125	0.062917	0.06167	-0.0029 / -0.0031 / -0.0043
120,000	0.070955375	0.07	0.07	0.07	-0.0010 / -0.0010 / -0.0010
400,000	0.089698625	0.08995	0.08995	0.08995	0.0003 / 0.0003 / 0.0003
600,000	0.092632417	0.0928	0.0928	0.0928	0.0002 / 0.0002 / 0.0002
800,000	0.094099313	0.094225	0.094225	0.094225	0.0001 / 0.0001 / 0.0001
1,000,000	0.09497945	0.09508	0.09508	0.09508	0.0001 / 0.0001 / 0.0001
5,000,000	0.09779589	0.097816	0.097816	0.097816	0.0000 / 0.0000 / 0.0000



**Comparison of MN Existing and LG Systems (4 tax brackets are reduced to 2)**



**Benefits and Value of Tax Calculation Simplification (\$165 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 smooth tax rates, more complex, high cost and more tax revenue or less tax brackets mean rough tax rate changes, simple, less cost and less tax revenue relatively. The tax simplification can be used to have many benefits for lawmakers, companies, taxpayers and departments of revenue. Its value is based on 3 million tax returns per year in MN.



#	Benefits	Value
1.	Existing <b>4 MN tax brackets are matched and reduced to 2 comparably.</b>	Less time/More simple
2.	<b>Lawmakers select</b> tax bracket #, taxable income ranges, tax rates and computations for tax reforms now. With the tax simplification, <b>only 3 tax rates</b> are needed for tax projection.	Less time/hustle
3.	Simple formula improvement contributes to <b>Fiscal Note</b> (state department of revenue)	? \$7 million
4.	<b>Tax Status</b> (S) is numbered with 1 for Married filing separately, 2 for Married filing jointly, 1.2 for Single or 1.5 for Head of Household. <b>Standard Deductions</b> are combined together and simplified into simple \$x,xxx*S (S=1, 2 or 1.5). If ((1+0.5)x3 million):	\$4.5 million
5.	<b>Withholding tables</b> (18 pages) are not needed for companies to have simple tax rate formula with filing periods (F) and S. If (1+0.2)/person/period (1.2x26x3 million):	\$93 million (**Page 5)
6.	<b>Tax tables</b> are optional. Or only one tax rate/tax formula is needed. If ((1+0.5)x3 million):	\$4.5 million
7.	<b>Combining</b> two existing sub tax systems (5/6) together without time delay (13M) for:	Real & quick tax
8.	<b>One tax credit formula</b> for simple & complex credits (including EITC) If (2x3 million): (1 non-refundable and 1 refundable tax credit formulas)	\$6 million
9.	Many incomers with standard deductions and non-complex tax situations (50%) file <b>simple tax returns or tax withholding report modifications</b> If ((15+5)x50%x3 million):	\$30 million
10.	<b>A checking tool</b> of two tax rate ranges (5.35%-7%-9.85%) is provided to check and reduce tax rate and tax calculation mistakes. If ((2+1)x3 million):	\$9 million
11.	<b>Fraud crime</b> is inspected and reduced by comparing tax returns and tax withholding reports.	Less crime
12.	Postcard (or half page) tax return form can be used. If (5+2)/each (7x50%x3 million):	\$10.5 million
13.	Tax refunds with \$100 or less are delayed to next-year refunds (in the Postcard Form).	Less time/cost
14.	State Department of Revenue will process less tax return during busy tax season and have more time to inspect more tax returns and collect more tax.	More tax
15.	The tax simplification can simplify payroll, analysis, reform and projection with 2 brackets	Less time/costs
<b>Total: Less time/struggle, less mistake, less crime, less cost, more tax and \$165 million/year</b> (To Department of Revenue: \$42 million/year)		

More information is available at <http://taxsimplecenter.net/statetaxsimplification.html> (H..... MN).



\* **Tax Table, Withholding Tables and Formulas:** Existing Tax Table and its formula are provided (1 option). Some people may still like Tax Table. When 2 tax rates are set, linear tax rates between them are the most fair and simple comparing with existing flat-curve or step tax rates with less or more tax brackets.



\*\* Existing 18-page withholding tables and related formulas (10x6+) can be eliminated by the two formulas and one withholding income tax formula to cover all allowances. After the formulas are set in such as Excel or Spreadsheet, related calculations are repeated simply. Related costs **\$93 million** (=1.2x26x3 millions) from (1) making the 18-page tables, (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) data analysis, (10) software, and (11) tax recalculations, can be reduced for Dept of Revenue and companies.

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

### MN Working Family Credit (WFC) Simplification

MN WFC has 4 pages with 3,060 WFC numbers (6\*3\*(45+45+45+35). These numbers can be simplified and matched by following 3 simple formulas, which are similar to federal earned income tax credit (EITC).

#### **MN Working Family Credit Rate Simplification**

T=0 for Single, Married Filing Separately, Head of Household or T=5,000 for Married Filing Jointly

Child# \_\_\_\_\_ Tax status \_\_\_\_\_ T= \_\_\_\_\_



Child#	Line 1 or 3 of Child#	Line 1 or 3 Schedule range	Line 1 or 3 is	Working Family Credit (WFC) Rate of L (Line 1/ 3) by Linear formula	Rate	Range check	WFC = L*Rate
0	0	0 - (15,000+T)		0.03 (1 - L ÷ (15,000+T))		0.03 - 0	
1	1	0 - (40,000+T)		0.1(1 - L ÷ (40,000+T))		0.1 - 0	
2	2	0 - (45,000+T)		0.15 (1 - L ÷ (45,000+T))		0.15 - 0	

### Simplification for Homestead Credit Refund (HCR) for Homeowners and Renters

**Existing MN homestead credit refund program has 30 brackets, which can be reduced to 1 with 97% reduction and comparable results.** For homeowner's household income (HI), there are percentages 1%-2.5%: \$0-1,699 at 1.0% (maximum refund \$3,000) ... \$80,820-85,359 at 2.0% (maximum refund \$1,600) ... \$106,600-110,739 at 2.5% (maximum refund \$520). No payment is allowed if the household income is \$110,740 or more. There are two equations with  $HCR = (0.01 + HI / 7,382,666.7) * HI$  and maximum refund =  $3,000 - HI / 36.9133$ . Its percentage is increased from 1% to 2.5% and maximum refund is reduced from \$3,000 to 0 linearly. Then they are the most simple and reasonable. To avoid related confusions, non-necessary calculations and data analyses, one adjusted formula is suggested.



For HI from 0 to \$110,740, there are 2 formula options:

$$HCR = (HI \div 7,382,666.7 + 0.01) \times HI \text{ or Maximum refund} = 3,000 - HI \div 36.9133 \text{ (Which one is less)}$$

(Example 1: For HI=20,000, HCR=\$254.18 or Maximum refund=2,458.19. \$254.18 is used.

Example 2: For HI=60,000, HCR=\$1,087.63 or Maximum refund=1,374.57. \$1,087.63 is used.

Example 3: For HI=100,000, HCR=\$1,135.45 or Maximum refund=290.95. \$290.95 is used.)

For the credit refund analysis for N numbers of homeowners and renters, there are also 2 related formulas. Then it depends on which one is less.

$$\text{Total credit refund} = \text{Sum}(HI_n)^2 \div 7,382,666.7 + 0.01 \text{Sum}(HI) \text{ or Maximum refund} = 3,000 N - \text{Sum}(HI_n) \div 36.9133$$

For more information: [www.taxesimplecenter.net](http://www.taxesimplecenter.net) or questions: [johnlee@taxsimplecenter.net](mailto:johnlee@taxsimplecenter.net) or 913-710-0957