#### <u>Summary of Tax Calculation Simplification for MO (Saving \$170 Million/Year)</u> https://taxsimplecenter.net/statetaxsimplification.html (E....MO)

**Summary:** Existing 10/9 tax brackets, 54 (9×6) formulas, 9 different taxable income ranges and 10-page Withholding Tables can be matched/simplified by 1 simple slope formula and 1 existing formula. Withholding taxes, payrolls, tax returns, tax analyses and projections are simplified with 15 benefits to reduce related costs. About \$1 million is gained with existing 1.5%-5.4%, which can be reduced to 1.4%-3.322%-5.4% for neutral tax revenue. A checking tool is provided to reduce calculation mistakes. For tax reforms, lawmakers would need to adjust only 3 tax rates at the bottom, \$9,000 and top.



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

(2021 Research Paper at: <u>www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf</u>) **2.** <u>Tax Simplification, Publication, Benefit and Value:</u> Effective linear and gradual (LG) tax simplification has been developed, which is supported by our 12 publications at <u>http://taxsimplecenter.net/publication.html</u> The LG tax simplification has 15 benefits for lawmakers, companies, taxpayers and Departments of Revenue. Total saving value for MO is \$190 million/year, which is based on 3.3 million tax returns per year. (Page 3)



**2016: "\$315 plus 6% of excess over \$9.000**"=315+0.06(YTI-9000)=0.06 YTI-225=(0.06-(225+YTI))×YTI

#### 5. <u>Comparison</u> between existing and simplified Tax Calculation Systems

- a) Existing tax system: 10 brackets, 10-page Withholding Tables, Tax Table and computations (Change yearly)
- b) New bill: Only 2 brackets



\*(1) <u>https://dor.mo.gov/forms/Withholding%20Formula\_2021.pdf</u> 6. Existing Withholding Tables (10 pages and formulas) are eliminated for companies to save \$73 million

(value) with 3 simple formulas if at \$1/payroll/period (1x26x2.8 million) to cover 11 areas. (Details: Page 5\*\*) \*(1) 12 steps×8 periods (96): YTI=\$22,450 in 2021  $\rightarrow$  (12 steps)  $\rightarrow$  tax=\$1,025.28 and tax rate=4.567% (2) 1 step: (0.054-(187÷(TI×F)))×TI, bi-weekly TI=\$863.46  $\rightarrow$  tax rate=4.567% and tax=\$39.43 (F=26)

7. Lawmakers can reduce political arguments with 10-3 (?) tax brackets, different TI ranges and tax rates.

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**15.** <u>Existing two sub tax systems</u> are about 13 months apart. This simplification provides one system for all parties to simplify withholding tax, payroll, tax return, analysis, reform and projection calculations.

## 16. Other Applications: https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wothers.pdf

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#### MO Bill: Income Tax Calculation Simplification (It is added into the current tax chart\*)



For tax year 2022, and all tax years thereafter:

If the yearly taxable income is:	The tax rate and tax are:
Not over \$9,000	$((YTI \div C) + 0.015) \times TI$
Over \$9,000	(Top tax rate – (D÷YTI)) × TI

Wherein YTI=yearly taxable income, top tax rate is 6% (2016), ... or 5.4% (2019-2021), YTI=TI×F, TI= taxable income, F=filing periods (26, 24, 12, 52, 365, 4, 2 or 1 for withholding and income taxes), C=9,000  $\div$  1-st tax rate difference (0.0335-0.015)=486,486.5 and D=9,000  $\times$  2-nd tax rate difference (0.054-0.0335)=184.5 according to the two rate ranges of 0.014\*-0.0335-0.054 in 2020, which are changed to 0.014\*-0.03322-0.054 in 2021. Then C=468,262 and D=187, which are different from the prior years (2016-2021: Page 5)

\* (1) <u>www.dor.mo.gov/forms/index.php?category=&formName=Tax+Chart</u>

(2) Existing 10 tax brackets are matched and reduced to 2. Tax Table or its formula is used (1 option). Companies can use the 2 simple formulas to replace existing 10-page Withholding Tables. Withholding taxes, payrolls, income taxes for tax returns, tax analyses, reforms, and projections are simplified with the 2 brackets.

Withholding/Income Tax=(Incomes±Adjustments-(Deductions+Exemptions)÷F)×Tax rate-Tax credits÷F (3) With this tax simplification, 1.5-3.35% gains tax revenue slightly. 1.5% may be reduced to 1.4% (or 1.3%) to help low-end incomers to reduce tax rates and taxes slightly without tax revenue reduction to MO or to use the gain for related applications. For 0.015-0.0335-0.054, C is changed slightly and D is the same. Its tax rate formula is: (YTI÷486,486.5)+0.015. For 0.013-0.0335, tax rate formula is: (YTI÷439,024.4)+0.013 (2020).

#### **Comparison of Existing and Simplified Tax Calculation Systems (2020)**

1. Existing Tax Calculation System: Two sub tax systems (13 months apart), 10-page Withholding Tables, Tax Table and tax computations with 10 tax brackets

2. New bill: Two simple formulas			$(10 \rightarrow 2 \text{ brackets with } 80\% \text{ reduction})$		
YTI	1) Existing System	2) 1.5-5.4%	3) 1.4-5.4%	4) 1.3-5.4%	Rate Difference #2/#3/#4/ - #1*
400	0.015	0.0158222	0.014867	0.0139111	0.0008 / -0.0001 / - 0.0011
4,000	0.0219	0.0232	0.022667	0.02211	0.0013 / 0.0008 / 0.0002
7,000	0.0289	0.0294	0.029167	0.02894	0.0005 / 0.0003 / 0.0000
9,000	0.0335	0.0335	0.0335	0.0335	0 / 0 / 0
10,000	0.03555	0.03555	0.03555	0.03555	0 / 0 / 0
20,000	0.044775	0.044775	0.044775	0.044775	0 / 0 / 0
30,000	0.04785	0.04785	0.04785	0.04785	0 / 0 / 0
40,000	0.0494	0.0494	0.0494	0.0494	0 / 0 / 0
50,000	0.0503	0.0503	0.0503	0.0503	0 / 0 / 0
100,000	0.052155	0.052155	0.052155	0.052155	0 / 0 / 0
150,000	0.05277	0.05277	0.05277	0.05277	0 / 0 / 0
200,000	0.0530775	0.0530775	0.0530775	0.0530775	0 / 0 / 0
300,000	0.0533385	0.0533385	0.0533385	0.0533385	0 / 0 / 0
500,000	0.05363	0.05363	0.05363	0.05363	0 / 0 / 0

Comparison of Existing and Simplification Systems (10 brackets are reduced to 2 with 80% reduction)



## **Benefit and Value of Tax Calculation Simplification (\$170 Million/Year)**

With existing marginal tax rate systems, more tax brackets mean more smooth tax rates, complex, more cost and more tax revenue or less tax brackets mean rough tax rate changes, simple, less cost and less tax revenue relatively. Linear and gradual (LG) tax simplification has been developed with effective tax rates and supported by our 12 publications. The tax simplification can be used to have the 15 benefits for lawmakers, companies, taxpayers and Department of Revenue. Its saving value is based on 3.3 million tax returns per year in MO.

	#	Benefits	Value
	1.	Existing <b>10 MO tax brackets are matched and reduced to 2 comparably</b> . Less time	e/More simple
	2. W	<b>Lawmakers</b> select tax bracket #, TI ranges, tax rates and computations for tax reforms. ith this tax simplification, <b>only 3 tax rates</b> are needed for tax reforms and projections.	ess time/hustle
	3.	Same tax revenue for over \$9,000 and very slight change (positive) for not over \$9,000	? <\$1 million
Y	4. wi	<b>Withholding tables</b> (10 pages) are eliminated and replaced by simple tax rate formulas th payroll filing periods (F). If (1+0.2)/person/period (1.2x26x2.8 million): \$87.4 milli	on (** Page 5)
	5.	<b>Tax table</b> or its formula (1 option) is used. If ((1+0.5)x3.3 million):	\$4.9 million
	6.	Combining two existing sub tax systems (4&5) together without time delay (13 M) for: Ref. Ref. (13 M)	eal & quick tax
	7.	<b>One tax credit formula</b> for simple & complex credits (including EITC) (1 non-refundable and 1 refundable tax credit formulas) If (2x3.3 million):	\$6.6 million
	8. W	Many incomers with standard deductions and credits (50%) file simple tax returns of <b>Tax ithholding Report &amp; Modification.</b> If ((15+5)x50%x3.3 million):	\$33 million
	9.	Half-page (postcard) tax return form can be used (50%). If ((10+4)x50%x3.3 million):	\$23 million
	10 fil: sir	<b>Tax Status</b> (S) is numbered with 1 for Singles, 1 for Married filing separately, 2 for Married ing jointly or 1.5 for Head of Household. <b>Standard Deductions</b> are combined together and nplified into simple $xxx*S$ (S=1, 1.5 or 2). If ((1+0.5)x3.3 million):	\$4.9 million
	11 an	. A checking tool of two tax rate ranges $(1.5\%-3.39\%-5.4\%$ in 2019) is provided to check d reduce tax rate and tax calculation mistakes. If $((2+1)x3.3 \text{ million})$ :	\$9.9 million
	12	. Fraud crime is inspected and reduced by comparing tax returns and tax withholding reports	. Less crime
	13	. Tax refunds with \$100 or less are delayed to next-year refunds (in the Postcard form).	Less time/cost
	14 ha	. State Department of Revenue will process less normal tax returns during busy tax season and ve more time to inspect more tax returns for possible more taxes.	l More tax
	15 tax	. The LG tax simplification can be used to simplify tax calculation, payroll, tax analysis, x reform and projection with 2 brackets instead of existing 10 brackets.	Less time/costs

# Total: Less time/hustle, less mistake, less crime, less cost, more tax and<br/>(To Department of Revenue:\$170 million/year\$45 million/year

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# **Summary for MO Tax Calculation Simplification**

**Existing MO tax system and its simplification:** Existing 10/9 tax brackets, 54 (9×6) formulas, 10-page Withholding Tables and tax rates (1.5%-6%/2016, 1.5%-5.9%/2018 or 1.5%-5.4%/2019-2021) are complex, which are changed yearly (more complex). They can be matched with the 2 simple brackets/formulas to simplify MO tax system, reduce political arguments, eliminate Withholding Tables, and save \$170 million/year (direct and indirect values). Different tax schedules and simplified formulas for 2016-2022 are shown (Page 5).

**New bill** can be used to match/reduce existing 10 tax brackets to 2 comparably with effective tax rates. A filing period (F) # of 365, 52, 26, 24, 12, 4, 2, or 1 is used to match/replace existing 10-page Withholding Tables, which can be repeated simply to calculate for withholding taxes with standard deductions, exemptions and credits.  $TI \times F=YTI$  (yearly taxable income). For tax reforms, 2 brackets are used to reduce related political arguments with different brackets, YTI ranges and tax rates. Many taxpayers with standard deductions have simple tax returns or withholding report and modification. Then less normal tax returns are processed.

**Withholding/Income tax**=(Incomes $\pm$ Adjustments-(Deductions+Exemptions) $\div$ F)×Tax rate-Tax credits $\div$ F

#### Tax Reform, Analysis and Projection:

**Total Tax**=0.015Sum(YTIa) + Sum(YTIa)<sup>2</sup> ÷ 486,486.5 + 0.054Sum(YTI)b – 184.5 B Above a and b are tax return numbers at 0-\$9,000 and over \$9,000. Then calculations of withholding taxes, payrolls, tax analysis, reform, and projection are simplified with the 2 brackets.

FO	PM MO_1040	MISSOI		JCOME TAY PE	TUDN		
Check one:	Married filing Sep	arately/Single N	Arried filing jointly/OW	Head of household	Dependent		
Tax Status	# (S)	1	2	1.5	0		
Standard de	eductions (\$)	12,400×1	12,400×2	2 12,400×1.5	0		
Age (62-64	.)#; Age (≥6	5)#; Bline	d#; 100% Disable	d#; Child#_		Form Barcode	
A	В	С	D	Е	F	G	
Year	Your Name	SS#	Spouse Name	Spouse SS#	Status (S)	Deductions	1
2020							2
Federal AGI	Adjustments	Each MO AGI	MO AGI rate	Standard/Itemized	Federal tax	Taxable income	3
You/Spouse	You/Spouse	You/Spouse	You/Spouse	deductions	deduction	You/Spouse	ł
							4
				Together	Together		5
You/Spouse	Total MO AGI	Yearly TI	LG tax rate formula	Tax rate check	Tax rate	Tax / Table	6
You		0 - 9,000	YTI÷486,486.5+0.015	0.015-0.0335			7
Spouse	(together)	Over 9,000	0.054 - 184.5÷YTI	0.0335-0.054			8
Total Tax	MO tax withheld	Tax Credits	Amendments	Donations to MO	Tax	Tax (Owe)	9
(together)	(together)	(together)	(together)		(Refund-)		
							10
(1) C4/5=A4/5±B4/5 (2) D4/5=C4/5÷B7 (3) Taxable income (YTI) (G4/5)=(B7-E4-F4-G2)×D4/5							

(4) Tax (Owe+/Refund-)=A10-B10-C10+D10+E10 (5) Attach related documents except standard deductions and tax credits. For tax refund (F10), please fill in:

Tax Return Barcode

Bank routing#:	Account #:		Name	
O Checking or O Saving	Bank Name:		_ Phone #:	
Signature: Your	Spouse	2	Date	_
Third-party				
preparer name	Ac	ldress		
EIN/SS#	_ Phone#	Date	Signature	



Year	Rate ranges	Tax brackets	Rate at \$9,000	Rate formula (not >\$9,000)	Rate formula (>\$9,000)		
				$\overline{\text{YTI}}$ ÷C + 0.015	Top tax rate – (D÷YTI)		
2016	1.5%-6%	10	0.035	YTI÷450,000 + 0.015	0.06 - (225÷YTI)		
* S	ource: https:/	//dor.mo.gov/fc	orms/2016%20T	<u>ax%20Chart_2016.pdf</u>			
2017	1.5%-6%	10	0.0346	YTI÷459,183.7 + 0.015	0.06 – (228.6÷YTI)		
* S	ource: https://	dor.mo.gov/fo	rms/2017%20Ta	x%20Chart_2017.pdf			
2018	1.5%-5.9%	10	0.0344	YTI÷463,917.5 + 0.015	0.059 - (221.4÷YTI)		
* Se	ource: https://	/dor.mo.gov/fo	rms/2018%20Ta	ax%20Chart_2018.pdf			
2019	1.5%-5.4%	9	0.0339	YTI÷476,190.5 + 0.015	0.054 - (180.9÷YTI)		
* S	* Source: https://dor.mo.gov/forms/Withholding%20Formula 2019.pdf						
2020	1.5%-5.4%	9	0.0335	YTI÷486,486.5 + 0.015	0.054 - (184.5÷YTI)		
* S	* Source: https://dor.mo.gov/forms/Withholding%20Formula 2020.pdf						
2021	1.5%-5.4%	9	0.03322	YTI÷493,963 + 0.014	$0.054 - (187 \div YTI)$		
* Source: www.dor.mo.gov/forms/Withholding%20Formula 2021.pdf							
202x	1.5%-5.3%	9	0.033 ?	YTI÷473,684 + 0.014	0.053 - (180÷YTI)		

Wherein **YTI** = yearly taxable income, **YTI** = TI x F, **TI** = yearly taxable income, **F** = filing periods, **T** = top tax rate 6/0% (2016), ..... 5.4% (2019, 2020 and 2021), 5.3% or x.x% (future), there are two tax rate ranges of 0.015-0.0335-0.054 (2020) or 0.015-0.03322-0.054 (2021) , **C** (constant) = 9,000÷ 1-st tax rate difference = 9,000÷ (0.03322-0.015) = 493,963 (2021), and **D** (constant) = 9,000× 2-nd tax rate difference = 9,000× (0.054-0.03322) = 187 (2021)

**Tax Table and Formula:** Existing 1-page Tax Table for yearly taxable incomes (YTI) not over \$9,000 or its formula with its tax rate check as a tool to reduce calculation mistakes is provided for one option. Some people may still like to use the Tax Table.

\*\* Existing 10-page Withholding Tables (Allowances 0-10) and related formulas (for above certain incomes and Allowances>10) can be eliminated and replaced by 3 simple formulas to cover all incomes and Allowances. After the formulas are set in such as Excel or Spreadsheet, related calculations are repeated simply. Then companies and Dept of Revenue can save related value of **\$87.4 million** (=1.2x26x2.8 millions, 26 is biweekly filing and 3.3millions are tax returns/employment #) at unit value \$1 from companies and \$0.2 from Dept of Revenue, which are from following areas:

- (1) making the 10-page Withholding Tables,
- (3) checking tax numbers with 0-10 Allowances,
- (5) using calculation formulas for Allowances >10,
- (7) transfers,
- (9) tax recalculations,
- (11) data analysis

- (2) publication,
- (4) inputs,
- (6) filings,
- (8) checking mistakes,
- (10) software, and

Withholding/Income tax=(Incomes $\pm$ Adjustments-(Deductions+Exemptions) $\div$ F)×Tax rate-Tax credits $\div$ F

Existing tax withholding tables (10 pages) and related formulas are replaced by the above two tax rate formulas and the one tax 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.

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