

MONTANA BILL NO. _____ Individual income tax simplification

Summary: One simple slope formula and one existing formula are used to match MT tax systems fairly and efficiently for replacing existing 2 tax brackets, 6 taxable income ranges (**Problem #1: too many range**), 36 (2×3×6) formulas (**Problem #2: too many formulas**), and 9-page Withholding Tables (**Problem #3: too many pages**). <https://legiscan.com/MT/text/SB399/id/2389213> (Page 18-19)

1. AN ACT concerning income taxation. Be it enacted by the Legislature and the State of Montana:

2. Section 1. A tax is hereby imposed upon the Montana taxable income of every resident

3. individual, which tax rate and tax shall be computed in accordance with the following tax

4. rate and tax schedules:

5. A tax on the brackets of taxable income as follows:

6. ~~(a) on the first \$2,900 of taxable income or any part of that income, 1%;~~

7. ~~(b) on the next \$2,200 of taxable income or any part of that income, 2%;~~

8. ~~(c) on the next \$2,700 of taxable income or any part of that income, 3%;~~

9. ~~(d) on the next \$2,700 of taxable income or any part of that income, 4%;~~

10. ~~(e) on the next \$3,000 of taxable income or any part of that income, 5%;~~

11. ~~(f) on the next \$3,900 of taxable income or any part of that income, 6%;~~

12. ~~(g) on any taxable income in excess of \$17,400 or any part of that income, 6.9%.~~

13. (a) for every married individual who files a joint return and for every surviving spouse:

14. (i) on the first \$41,000 of Montana taxable income or any part of that income, 4.7%;

15. (ii) on any Montana taxable income in excess of \$41,000 or any part of that income, 6.5%;

16. (b) for every head of household:

17. (i) on the first \$30,750 of Montana taxable income or any part of that income, 4.7%;

18. (ii) on any Montana taxable income in excess of \$30,750 or any part of that income, 6.5%;

19. (c) for every individual other than a surviving spouse or head of household who is not a married

20. individual:

21. (i) on the first \$20,500 of Montana taxable income or any part of that income, 4.7%;

22. (ii) on any Montana taxable income in excess of \$20,500 or any part of that income, 6.5%;

23. (d) for every married individual who does not make a joint return and for every estate or trust not

24. exempt from taxation under the Internal Revenue Code:

25. (i) on the first \$20,500 of Montana taxable income or any part of that income, 4.7%;

26. (ii) on any Montana taxable income in excess of \$20,500 or any part of that income, 6.5%.

27.

28. For the yearly taxable income (YTI) is: The tax rate and tax are: Tax rate range:

29. Not over \$50,000×S $(YTI \div S \div C + 0.045) \times TI$ 4.5%* - 5.762%

30. Over \$50,000×S $(0.065 - (D \times S \div YTI)) \times TI$ 5.762% - 6.5%

31. YTI is the yearly taxable income. S is status number (2 for married filing joint, 1.5 for head of

32. household, 1 for single or 1 for married filing separately).

33. C is 3,961,965 from 50,000 to divide (÷) the 1-st tax rate range difference (0.05762-0.045) neutral tax

34. Revenue* or $3,961,965 \div (0.05762 - 0.047)$. D is 369 from 50,000 to multiply (×) the 2-nd

35. tax rate range difference (0.065-0.05762).

36. Tax rate ranges are 4.7%*-5.762%-6.5% for not over and over \$50,000.

37. $YTI = TI \times F$. TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,

38. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

- 1. $YTI=52,000 (S=2): (YTI \div S \div C + 0.045) \times TI = (52,000 \div 2 \div 3,961,965 + 0.045) \times YTI = 0.0515624 \times 52,000 = 2,681.24$
- 2. $YTI=52,000 (S=1): (0.065 - D \times S \div YTI) \times TI = (0.065 - 369 \times 1 \div 52,000) \times 52,000 = 0.057903846 \times 52,000 = 3,011.00$
- 3. Biweekly TI is \$2,000 (S=2): $(2,000 \times 26 \div 2 \div 3,961,965 + 0.045) \times 2,000 = 0.0515624 \times 2,000 = 103.12$
- 4. Monthly TI is \$7,000 (S=1.5): $(0.065 - 369 \times 1.5 \div 7,000 \div 12) \times 7,000 = 0.0584107 \times 7,000 = 408.88$

***Notes:**

1. With this simplification, existing 7 tax brackets are reduced to 2. But there are still 36 (2x3x6) formulas, 9-page Withholding Tables, and Tax Table, which can be matched and simplified by 1 linear formula and 1 existing formula with >94% (1-2÷36) reduction. It may save ~\$30 million (**Table 6).

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

2. When 4.7%-5.762%-6.5% are used, "C" is 4,708,098 from $50,000 \div (0.05762 - 0.047)$. 4.7% may be reduced to 4.5% to have neutral tax revenue change and help low-end incomers to reduce tax rates and taxes slightly, which needs to be evaluated by Department of Revenue. At taxable income \$50,000, tax rate is 5.762% from $(20,500 \times 0.047 + (50,000 - 20,500) \times 0.065) \div 50,000$. For over \$50,000, there is no tax rate and tax difference. The tax rate ranges of 4.7%-5.762%-6.5% are from the tax bill SB 399.

<https://legiscan.com/MT/text/SB399/id/2389213> (Page 18-19)

3. Multi-page Withholding Tables (9 pages) and 48 (2x4x6) formulas can be eliminated and replaced by the above 2 simple formulas. Tax Table or its formula can be used as one option. Standard deductions, exemptions and tax credits are used for withholding tax calculations. F=1 is for tax returns.

Withholding/Income Tax=(Incomes±Adjustments-(Deductions+Exemptions)÷F)×Tax rate-Tax credits÷F
Total Tax=0.045SumYTIb+Sum(YTIc×YTIc)÷ 3,961,965+Sum (0.065 YTIId-369)

https://mtrevenue.gov/wp-content/uploads/dlm_uploads/2023/11/Employer_and_Information_Agent_Guide.pdf
has 3 tax statuses and (6+3)-page Withholding Tables.

https://montana.servicenowservices.com/citizen/kb?id=kb_article_view&sysparm_article=KB0014487

4. For over \$50,000×S, the same tax formula is converted into tax rate and tax format.

$(\$963.5 + 6.5\% (YTI - \$20,500)) = (0.065 - 369 \div YTI) \times YTI$ into $(0.065 - (D \times S \div YTI)) \times TI$

5. 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 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 2021 research paper (Page 508).

Bill Summary

This bill matches and simplifies existing 2 tax brackets, 8 taxable income ranges, 36 (2x3x6) formulas, and 9-page Withholding Tables with 2 brackets and formulas. Tax statuses are numbered with 2, 1.5 or 1. 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 tax reforms, only 3 tax rates at bottom, top and \$50,000×S are adjusted by lawmakers.

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