New Mexico Bill No. _____ Individual income tax simplification

Summary: One simple linear formula and one existing formula are used to match NM tax systems fairly and efficiently for replacing existing 10 tax brackets (**Problem #1: too many brackets**), 30 taxable income ranges (**Problem #2: too many range with different numbers**), Tax Table (6 pages), and 240 ($10 \times 3 \times 8$) formulas (**Problem #3: too many formulas and too complex**).

1. AN ACT relates to income tax. A tax is h	ereby imposed upon taxable income of every resident, which				
2. tax rate and tax shall be computed in acco	tax rate and tax shall be computed in accordance with the following formulas.				
3. www.tax.newmexico.gov/businesses/wp-	www.tax.newmexico.gov/businesses/wp-content/uploads/sites/4/2021/03/FYI-104.pdf				
4. A tax on the brackets of the amounts of w	vage or taxable income as follows:				
5. If yearly amount of wages (W) is:	The income tax to withhold is:				
6. For Single Person:					
7. Not over \$6,925	<u> </u>				
8. Over \$6,925 but not over \$12,425	1.7% of excess over \$6,925				
9. Over \$12,425 but not over \$17,925	\$93.5+ 3.2% of excess over \$12,425				
10. Over \$17,925 but not over \$22,925	\$269.5+4.7% of excess over \$17,925				
11. Over \$22,925 but not over \$32,925	\$504.5+4.9% of excess over \$22,925				
12. Over \$32,925 but not over \$48,925	\$994.5+4.9% of excess over \$32,925				
13. Over \$48,925 but not over \$71,925	\$1,778.5+4.9% of excess over \$48,925				
14. Over \$71,925 but not over \$131,925	\$2,905.5+4.9% of excess over \$71,925				
15. Over \$131,925 but not over \$216,925	\$5,845.5+4.9% of excess over \$131,925				
16. Over \$216,925	\$10,010.5+5.9% of excess over \$216,925				
17. For Married Filing Jointly:					
18. Not over \$13,850	<u> </u>				
19. Over \$13,850 but not over \$21,425	1.7% of excess over \$13,850				
20. Over \$21,425 but not over \$29,850	\$136.5+ 3.2% of excess over \$21,850				
21. Over \$29,850 but not over \$37,850	\$392+ 4.7% of excess over \$29,850				
22. Over \$37,850 but not over \$53,850	\$768+4.9% of excess over \$37,850				
23. Over \$53,850 but not over \$77,850	\$1,552+4.9% of excess over \$53,850				
24. Over \$77,850 but not over \$113,850	\$2,728+4.9% of excess over \$77,850				
25. Over \$113,850 but not over \$213,850	\$4,492+4.9% of excess over \$113,850				
26. Over \$213,850 but not over \$328,850	\$9,392+4.9% of excess over \$213,850				
27. Over \$328,850	\$15,027+5.9% of excess over \$328,850				
28. For Married Filing Separately:					
29. Not over \$6,925	<u> </u>				
30. Over \$6,925 but not over \$10,712.5	1.7% of excess over \$6,925				
31. Over \$10,712.5 but not over \$14,925	\$68.25+3.2% of excess over \$10,712.5				
32. Over \$14,925 but not over \$18,925	\$196+ 4.7% of excess over \$14,925				
33. Over \$18,925 but not over \$26,925	\$384+4.9% of excess over \$18,925				
34. Over \$26,925 but not over \$38,925	\$776+4.9% of excess over \$26,925				
35. Over \$38,925 but not over \$56,925	\$1,364+4.9% of excess over \$38,925				
36. Over \$56,925 but not over \$106,925	\$2.246+4.9% of excess over \$56.925				
37. Over \$106,925 but not over \$164,425	\$4,696+4.9% of excess over \$106,925				
38. Over \$164,425	\$7,513.5+5.9% of excess over \$164,425				
39. For Head of Household Person:	. ,				

40.	Not over \$10,400		6 of the taxable income			
41.	Over \$10,400 but not over	\$18,400 1.	7% of excess over \$10,400			
	Over \$18,400 but not over		136+ 3.2% of excess over \$	\$18.400		
	Over \$26,400 but not over					
	-Over \$34,400 but not over					
	Over \$50,400 but not over		552+4.9% of excess over			
	Over \$74,400 but not over		2,728+4.9% of excess over			
	Over \$110,400 but not over		492+4.9% of excess over			
	Over \$210,400 but not ove	. ,	9,392+4.9% of excess over			
	Over \$325,400		315.027+5.9% of excess over			
50.	0,001 \$323,400	4	13,027 + 5.970 OI CACC35 OV	φ <i>525</i> ,400		
50. 51.	For the yearly wage (YW)	is. The tax rat	e and withholding tax are:	Tax rate range:		
52.	Not over \$150,000×S		$\div C \div S + 0.017) \times W$	1.7% - 4.5%		
52. 53.	Over \$150,000×S		$(D \times S \div YW) \times W$	4.5% - 5.9%		
55. 54.	Over \$150,000×5	(0.05	$(D \times S - 1 W)) \times W$	4.3% - 3.9%		
54. 55.	VW is the weerly weer Si	a tau filing status (1	for Morried Filing Concret	aly, 2 for Morriad Filing		
56.				(0.045, 0.017) D is 2.100		
57.						
58.		,	U	145). Tax rate ranges are		
59.	1.7%-4.5%-5.9% for taxab	-				
60.			• •	mi-yearly, quarterly, monthly,		
61.	semi-monthly, bi-weekly,	weekly or daily basi	s).			
62.	XX 71 1 1	*- 000 - - · ·				
63	When yearly wage is not o	ver \$7.000×S. tax 18	to () (trap) and do not need			
63.	When yearly wage is not o		to 0 (free) and do not need	i to calculate tax.		
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85. C is 4,000,000 from 120,000 to divide (÷) the 1-st tax rate range difference (0.047-0.017). D is 1,440

- 86. from 120,000 to multiply (×) the 2-nd tax rate range difference (0.059-0.047). Tax rate ranges are
- 87. 1.7%-4.5%-5.9% for taxable income ranges of 0-\$180,000-.
- 88. YTI is TI×F. F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly, semi-yearly, quarterly, monthly,
- 89. semi-monthly, bi-weekly, weekly or daily basis).

Examples #1 with wages:	Tax rate and tax are:
1. YW=\$82,000 (S=2):	(82,000÷5,357,143÷2+0.017)×82,000=0.024653×82,000 = 2,021.57
2. Bi-weekly Wage is \$8,000 (S=1	.5): (0.059-2,100×1.5÷8,000÷26)×8,000=0.0485577×8,000 = 350.85
3. Monthly Wage is \$7,750 (S=1):	(7,750×12÷5,357,143÷1+0.017)×7,750=0.03436×7,750 = 266.29

Examples #2 with taxable incomes: Tax rate and tax are:

1. YW=\$82,000 (S=2):	(82,000÷4,000,000÷2+0.017)×82,000=0.02725×82,000 = 2,234.50
2. Bi-weekly Wage is \$8,000 (S=1)	$: (0.059-1,440\times1\div8,000\div26)\times8,000=0.052077\times8,000=416.62$
3. Monthly Wage is \$7,750 (S=1.5)	: $(7,750 \times 12 \div 4,000,000 \div 1.5 + 0.017) \times 7,750 = 0.0325 \times 7,750 = 251.88$

*Notes:

1. NM has two income tax systems of withholding taxes with wages and tax turn taxes with taxable incomes, which may be combined together simply.

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

For withholding taxes, NM standard deductions, exemptions and tax credits are used for withholding tax calculations. F=1 is for tax returns. Tax Table (6 pages) or its formula can be used as one option.

2. With this simplification, the existing 10 tax brackets, 30 taxable income ranges, and 240 ($10 \times 3 \times 8$) formulas can be simplified to two formulas/brackets.

At YTI \$120,000 (or \$10,000/month)	for Married Filing Separately, tax is	0.04728 from (\$4,498+4.9%			
(120,000-96,000))/120,000. Bottom tax rate 1.7% may be reduced to 1.5% or 1 % with neutral tax revenue.					
Not over \$120,000×S	(YTI÷C÷S +0.015)×TI	1.5% - 4.7%			
Over \$120,000×S	(0.059–(D×S÷YW))×W	4.7% - 5.9%			
C is 3,750,000=120,000÷(0.047-0.015). D=1,440=120,000×(0.059-0.047).					

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

3. For existing tax reforms, tax brackets, tax rates, taxable income ranges and tax goal are considered at the same time, which are affected each and complex. With this tax simplification, only 3 tax rates at bottom, middle (such as \$120,000) and top are adjusted to meet a tax goal. The factors are explained by our research paper (Page 508**).

Bill Summary

This bill can match, simplify, and replace existing 10 tax brackets, 30 taxable income ranges, and 240 ($10 \times 3 \times 8$) formulas with 2 formulas and brackets. The 4 tax statuses are numbered as 1, 1.25, 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, \$120,000 and top are adjusted to meet a tax revenue goal by lawmakers.

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