## 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 hereby imposed upon taxable income of every resident, which
2. tax rate and tax shall be computed in accordance with the following formulas.
3. 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 wage 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 $\$ 6,925$ O
8. Over $\$ 6,925$ but not over $\$ 12,425 \quad 1.7 \%$ of excess over $\$ 6,925$
9. Over $\$ 12,425$ but not over $\$ 17,925 \quad \$ 93.5+3.2 \%$ 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 $\$ 32,925 \quad \$ 504.5+4.9 \%$ of excess over $\$ 22,925$
12. Over $\$ 32,925$ but net over $\$ 48,925 \$ 994.5+4.9 \%$ of excess over $\$ 32,925$
13. Over $\$ 48,925$ but not over $\$ 71,925 \quad \$ 1,778.5+4.9 \%$ of excess over $\$ 48,925$
14. Over $\$ 71,925$ but not over $\$ 131,925 \quad \$ 2,905.5+4.9 \%$ of excess over $\$ 71,925$
15. Over $\$ 131,925$ but not over $\$ 216,925 \quad \$ 5,845.5+4.9 \%$ 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 $\$ 13,850$ - 0
19. Over $\$ 13,850$ but not over $\$ 21,425 \quad 1.7 \%$ 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 $\$ 37,850 \quad \$ 392+4.7 \%$ of excess over $\$ 29,850$
22. Over $\$ 37,850$ but not over $\$ 53,850 \quad \$ 768+4.9 \%$ of excess over $\$ 37,850$
23. Over $\$ 53,850$ but not over $\$ 77,850 \quad \$ 1,552+4.9 \%$ of excess over $\$ 53,850$
24. Over $\$ 77,850$ but not over $\$ 113,850 \quad \$ 2,728+4.9 \%$ of excess over $\$ 77,850$
25. Over $\$ 113,850$ but not over $\$ 213,850 \quad \$ 4,492+4.9 \%$ of excess over $\$ 113,850$
26. Over $\$ 213,850$ but not over $\$ 328,850 \quad \$ 9,392+4.9 \%$ of excess over $\$ 213,850$
27. Over $\$ 328,850 \quad \$ 15,027+5.9 \%$ of excess over $\$ 328,850$
28. For Married Filing Separately:
29. Not over $\$ 6,925$ -
30. Over $\$ 6,925$ but net over $\$ 10,712.5$ 1.7\% of excess over $\$ 6,925$
31. Over $\$ 10,712.5$ but not over $\$ 14,925 \quad \$ 68.25+3.2 \%$ 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 net over $\$ 26,925 \$ 384+4.9 \%$ of excess over $\$ 18,925$
34. Over $\$ 26,925$ but not over $\$ 38,925 \quad \$ 776+4.9 \%$ of excess over $\$ 26,925$
35. Over $\$ 38,925$ but not over $\$ 56,925 \quad \$ 1,364+4.9 \%$ of excess over $\$ 38,925$
36. Over $\$ 56,925$ but not over $\$ 106,925 \quad \$ 2,246+4.9 \%$ of excess over $\$ 56,925$
37. Over $\$ 106,925$ but not over $\$ 164,425 \quad \$ 4,696+4.9 \%$ of excess over $\$ 106,925$
38. Over $\$ 164,425$ \$7,513.5+5.9\% of excess over $\$ 164,425$
39. Fer Head of Household Person:
40. Not over $\$ 10,400$ of the taxable income
41. Over $\$ 10,400$ but not over $\$ 18,400 \quad 1.7 \%$ of excess over $\$ 10,400$
42. Over $\$ 18,400$ but net over $\$ 26,400$ \$136+3.2\% of excessover $\$ 18,400$
43. Over $\$ 26,400$ but not over $\$ 34,400 \quad \$ 392+4.7 \%$ of excess over $\$ 26,400$
44. Over $\$ 34,400$ but not over $\$ 50,400 \quad \$ 768+4.9 \%$ of excess over $\$ 34,400$
45. Over $\$ 50,400$ but not over $\$ 74,400 \quad \$ 1,552+4.9 \%$ of excess over $\$ 50,400$
46. Over $\$ 74,400$ but not over $\$ 110,400 \quad \$ 2,728+4.9 \%$ of excess over $\$ 74,400$
47. Over $\$ 110,400$ but not over $\$ 210,400 \quad \$ 4,492+4.9 \%$ of excess over $\$ 110,400$
48. Over $\$ 210,400$ but not over $\$ 325,400 \quad \$ 9,392+4.9 \%$ of excess over $\$ 210,400$
49. Over $\$ 325,400 \quad \$ 15,027+5.9 \%$ of excess over $\$ 325,400$
50. 
51. For the yearly wage $(\mathrm{YW})$ is: The tax rate and withholding tax are: Tax rate range:
52. Not over $\$ 150,000 \times S$
$(\mathrm{YW} \div \mathrm{C} \div \mathrm{S}+0.017) \times \mathrm{W}$
$1.7 \%-4.5 \%$
53. Over $\$ 150,000 \times S$
$(0.059-(\mathrm{D} \times \mathrm{S} \div \mathrm{YW})) \times \mathrm{W}$
$4.5 \%-5.9 \%$
54. 
55. YW is the yearly wage. $S$ is tax filing status ( 1 for Married Filing Separately, 2 for Married Filing
56. Jointly, 1.25 for Single Person or 1.5 for Head of Household Person).
57. C is $5,357,143$ from 150,000 to divide $(\div)$ the 1 -st tax rate range difference $(0.045-0.017)$. D is 2,100
58. from 150,000 to multiply $(\times)$ the 2 -nd tax rate range difference ( $0.059-0.045$ ). Tax rate ranges are
59. $1.7 \%-4.5 \%-5.9 \%$ for taxable income ranges of $0-\$ 150,000-$
60. YW is $\mathrm{W} \times \mathrm{F}$. F is filing period ( $1,2,4,12,24,26,52$ or 365 on yearly, semi-yearly, quarterly, monthly,
61. semi-monthly, bi-weekly, weekly or daily basis).
62. 
63. When yearly wage is not over $\$ 7,000 \times \mathrm{S}$, tax is to 0 (free) and do not need to calculate tax.
64. 
65. Another way is to calculate income tax for tax returns from personal income tax packet (Page T6) at https://klvg4oyd4j.execute-api.us-west-
2.amazonaws.com/prod/PublicFiles/34821a9573ca43e7b06dfad20f5183fd/608063af-0c4c-4f28-ba42cf40e04557ca/PITbook2021.pdf
66. 
67. If you are: and your taxable income is not over: Your Tax is... plus of taxable income in excess of:
68. Single $\$ 210,000$
69. Married Filing Jointly $\$ 315,000$
70. Married Filing Separately $\$ 157,500$
71. Head of Household $\$ 315,000 \quad \$ 4,294 \quad 4.9 \% \quad \$ 96,000$
72. 
73. If you are: and your taxable income is over:
74. Single $\$ 210,000$
75. Married Filing Jointly $\$ 315,000$
76. Married Filing Separately $\$ 157,500$
$\$ 4,422 \quad 4.9 \% \quad \$ 96,000$
$\$ 4,294 \quad 4.9 \% \quad \$ 96,000$
$\$ 4,498 \quad 4.9 \% \quad \$ 96,000$
77. Head of Household $\$ 315,000 \quad \$ 15,025 \quad 5.9 \% \quad \$ 315,000$
78. 
79. For the yearly taxable income (YTI) is: The tax rate and withholding tax are: Tax rate range:
80. Not over $\$ 120,000 \times \mathrm{S} \quad(\mathrm{YTI} \div \mathrm{C} \div \mathrm{S}+0.017) \times \mathrm{TI} \quad 1.7 \%-4.7 \%$
81. Over $\$ 120,000 \times \mathrm{S} \quad(0.059-(\mathrm{D} \times \mathrm{S} \div \mathrm{YW})) \times \mathrm{W} \quad 4.7 \%-5.9 \%$
82. 
83. YW is the yearly wage. S is tax filing status (1 for Married Filing Separately, 2 for Married Filing
84. Jointly, 1.25 for Single Person or 1.5 for Head of Household Person).
85. C is $4,000,000$ from 120,000 to divide $(\div)$ the $1-$ st tax rate range difference $(0.047-0.017)$. D is 1,440
86. from 120,000 to multiply $(x)$ 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. $\mathrm{YW}=\$ 82,000(\mathrm{~S}=2): \quad(82,000 \div 5,357,143 \div 2+0.017) \times 82,000=0.024653 \times 82,000=2,021.57$
2. Bi-weekly Wage is $\$ 8,000(\mathrm{~S}=1.5)$ : $\quad(0.059-2,100 \times 1.5 \div 8,000 \div 26) \times 8,000=0.0485577 \times 8,000=350.85$
3. Monthly Wage is $\$ 7,750(\mathrm{~S}=1): \quad(7,750 \times 12 \div 5,357,143 \div 1+0.017) \times 7,750=0.03436 \times 7,750=266.29$

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

1. $\mathrm{YW}=\$ 82,000(\mathrm{~S}=2)$ :
$(82,000 \div 4,000,000 \div 2+0.017) \times 82,000=0.02725 \times 82,000=2,234.50$
2. Bi-weekly Wage is $\$ 8,000(\mathrm{~S}=1): \quad(0.059-1,440 \times 1 \div 8,000 \div 26) \times 8,000=0.052077 \times 8,000=416.62$
3. Monthly Wage is $\$ 7,750(\mathrm{~S}=1.5)$ : $\quad(7,750 \times 12 \div 4,000,000 \div 1.5+0.017) \times 7,750=0.0325 \times 7,750=251.88$

## *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) $\div \mathrm{F}) \times$ Tax rate-Tax credits $\div \mathrm{F}$

For withholding taxes, NM standard deductions, exemptions and tax credits are used for withholding tax calculations. $\mathrm{F}=1$ 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 $\$ 120,000 \times \mathrm{S}$ | $(\mathrm{YTI} \div \mathrm{C} \div \mathrm{S}+0.015) \times \mathrm{TI}$ | $1.5 \%-4.7 \%$ |
| :--- | :--- | :--- |
| Over $\$ 120,000 \times \mathrm{S}$ | $(0.059-(\mathrm{D} \times \mathrm{S} \div \mathrm{YW})) \times \mathrm{W}$ | $4.7 \%-5.9 \%$ |

C is $3,750,000=120,000 \div(0.047-0.015) . \mathrm{D}=1,440=120,000 \times(0.059-0.047)$.
**Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf (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.

For more information, contact us at johnlee @ taxsimplecenter.net or 913-710-0957

