

Rhode Island Bill No. _____ Individual income tax simplification

Summary: One simple linear formula and one existing formula are used to match and simplify RI tax systems fairly and efficiently for replacing existing 3 tax brackets, 24 (3×8) withholding formulas (**Problem #1: too many formulas**), and 11-page Withholding Tables (**Problem #2: too many pages and too complex**).

1. AN ACT concerning income taxation; relating to tax rates and repealing the existing section.
2. A tax is hereby imposed upon taxable income of every resident individual, which tax rate
3. and tax shall be computed in accordance with the following Tax Rate Schedule:
4. https://tax.ri.gov/sites/g/files/xkgbur541/files/2021-12/2022-withholding-booklet_12222021.pdf
5. ~~A tax on the brackets of payroll wages as follows:~~
6. ~~If annual payroll wage is: The tax are:~~
7. ~~Not over \$68,200 3.75% of wage~~
8. ~~Over \$68,200 but not over \$155,050 \$2,557.5 plus 4.75% of excess over \$68,200~~
9. ~~Over \$155,050 \$6,682.88 plus 5.99% of excess over \$155,050~~
10.
11. The above formulas and related tables can be matched and simplified.
12. For annual wage (AW) is: The tax rate and tax are: 2022 Tax rate range:
13. Not over \$150,000 $(AW \div C + B) \times TI$ 3.75% - 4.3%
14. Over \$150,000 $(T - (D \div AW)) \times TI$ 4.3% - 5.99%
15.
16. https://tax.ri.gov/sites/g/files/xkgbur541/files/2022-12/2022%201040R%20Instructions_v4_w.pdf
17. ~~A tax on the brackets of taxable incomes as follows:~~
18. ~~If annual taxable income (ATI) is: The tax are:~~
19. ~~Not over \$68,200 3.75% of annual taxable income (ATI)~~
20. ~~Over \$68,200 but not over \$155,050 $4.75\% \times ATI - 682.00$~~
21. ~~Over \$155,050 $5.99\% \times ATI - 2,604.62$~~
22.
23. The above formulas and related tables can be matched and simplified.
24. For annual taxable income (ATI) is: The tax rate and tax are: 2022 Tax rate range:
25. Not over \$150,000 $(ATI \div C + B) \times TI$ 3.75% - 4.3%
26. Over \$150,000 $(T - (D \div ATI)) \times TI$ 4.3% - 5.99%
27.
28. B is bottom tax rate 3.75%. T is top tax rate 5.99%. C is 27,272,727 from 150,000 to divide (÷) the 1-st
29. tax rate range difference (0.043-0.0375). D is 2,535 from 150,000 to multiply (×) the 2-nd tax rate
30. difference (0.0599-0.043). Bottom tax rate, top tax rate, and tax rate at \$150,000 can be reformed.
31. $YTI = TI \times F$, TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
32. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

1. $YTI = \$45,678: (45,678 \div 27,272,727 + 0.0375) \times 45,678 = 0.039175 \times 45,678 = 1,789.43$
2. $YTI = \$180,000: (0.0599 - 2,535 \div 180,000) \times 180,000 = 0.04582 \times 180,000 = 8,247.00$
3. Monthly TI is \$15,000: $(0.0599 - 2,535 \div 15,000 \div 12) \times 15,000 = 0.04582 \times 15,000 = 898.49$
4. Bi-weekly TI is \$1,756: $(1,756 \times 26 \div 27,272,727 + 0.0375) \times 1,756 = 0.039174 \times 1,756 = 68.79$

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***Notes:**

1. With this simplification, the existing 3 tax brackets (3.75%, 4.75%, and 5.99%), 24 (3×8) withholding formulas, and 11-page Withholding Tables can be matched and simplified by 2 formulas and brackets (3.75%-4.3%-5.99%) fairly (*) with 92% reduction (1-2÷24). There is slight or no tax rate and tax difference.

https://tax.ri.gov/sites/g/files/xkgbur541/files/2021-12/2022-withholding-booklet_12222021.pdf (Page 8)
https://tax.ri.gov/sites/g/files/xkgbur541/files/2022-12/2022%201040R%20Instructions_v4_w.pdf (Page 10)

2. Standard deductions, exemptions, and tax credits are used for withholding tax calculations. F=1 is for tax returns. Actual deductions, exemptions, and tax credits are used for tax returns.

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

Total Tax= Sum (YTIC÷C + 0.0375) YTIC + Sum (0.0599 YTID - D)

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

3. RI 6-page Tax Table or its one formula can be as one option for taxable incomes not over \$150,000. RI has no tax status difference (all S is 1), which is different from many other states such as 1, 1.5 or 2 (S).

https://tax.ri.gov/sites/g/files/xkgbur541/files/2022-10/2022%20RI%20Tax%20Tables_Complete.pdf

4. For over \$150,000, existing tax formula format is converted to tax rate and tax formula format.

5. With this simplification, the bottom tax rate 3.75% may be reduced to such as 3.5%-4.3%-5.99% for not over and over \$150,000 to have neutral tax revenue change and to help low-end incomers to reduce tax rates and taxes slightly according to its evaluation from DOR. Then C is 10,750,000 from 150,000÷(0.043-0.035). D is 2,535 from 150,000×(0.0599-0.043).

6. 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 tax rates at bottom, middle, and top are adjusted to meet a tax goal. The factors are explained by our 2021 research paper * (Page 508).

Bill Summary

Bill xxx - This bill can match and simplify existing 3 tax brackets, 24 (3×8) withholding formulas, and 11-page Withholding Tables with 1 linear formula and 1 existing formula in 2 brackets. 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, \$150,000, and top are adjusted to meet a tax goal.

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