Federal and State Tax Return Simplification and Reform for Seniors

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Abstract

Federal and many state governments provide social security tax deductions for seniors, but tax systems still require all seniors whose incomes are more than standard deduction to report and calculate their income taxes. Normally, senior income sources are from social security benefits, 401K retirement funds, IRA, annuities, pensions, and others. This paper provides a linear tax rate and tax formula to simplify federal and state social security and retirement taxes compared with the existing complicated tax calculation systems. This research also provides a reform proposal to combine all taxable incomes for qualified seniors, who have certain retirement taxable incomes, such as less than $25,000 for Single Filers or $50,000 for Married Filing Jointly, and have no federal or state tax responsibilities. These numbers can be adjusted according to the tax revenue change after the tax reform. The benefits would include tax processing time and cost reductions for those qualified seniors and governments. It will comply with the IRS' goal of making tax laws easier for senior citizens to understand and comply. In other words, the proposed method could achieve tax efficiency and optimal senior personal income taxation for federal and state governments.

JEL codes: G18, H21, H24, H71, C02

Introduction and Literature Review

Based on the Bipartisan Budget Act of 2018 (Public Law No: 115-123, H.R.1892), IRS has created a new Form 1040-SR for the taxpayers who are 65 or older. This new form is a variation of the standard Form 1040 for the U.S. tax return for seniors. It was revised and simplified from the original Form 1040 for the eligible taxpayers and they have an option of filing either form. The new form is almost identical to the Form 1040 except that it has a larger print and also provides users for more prominence to some specific tax benefits (IRS, 2020).

The new form has a higher standard deduction to seniors who do not itemize the tax report. It incorporates a chart detailing the amount of the additional standard deduction for taxpayers who are eligible in this category. The new Form 1040-SR allows income from certain other sources than the old Form 1040-EZ that only allowed the reporting of their incomes from wages, salaries, and tips.

The Form 1040-SR has an additional standard deduction for seniors to have another incentive to avoid itemizing deduction. It allows the eligible taxpayers to report Social Security benefits and distributions from qualified retirement plans, annuities, or similar deferred-payment arrangements. It allows to include unlimited interest and dividends and capital gains and losses.

Gale and Pechman (2001) from Brookings Institution has provided a testimony and presented in the Congress about the tax code simplification discussions and collaborative research. Tax simplification is supported by an understanding of the causes of complexity and the likely outcome of simplification efforts. They included numerous benefits for the simpler taxes. It would reduce taxpayers' costs of complying with the tax system in terms of time, money, and mental anguish. Also, it would likely raise the use of tax subsidies-say, for education-reduce unintentional tax evasion, and increase the likelihood that taxpayers would see the tax system as fair.

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Many other studies have been devoted to personal taxation simplifications. Diamond and Saez (2011) suggested considering the optimal progressivity of earnings taxation and considered whether capital income should be taxed. Freebairn (2012) suggested several personal income taxation reform options and proposed the removal of tax expenditures for some forms of labor remuneration and the increase of more neutral systems of taxation for different forms of capital income. Davis, et al. (2013) indicated that the use of low-income tax credits like the Earned Income Tax Credit (EITC) is an important indicator of tax progressivity. In combination with a flat or only nominally graduated rate structure, they pointed out that these tax breaks can sometimes create an unfair result due to the highest income taxpayers paying less of their income taxes than middle-income taxpayers.

Kao and Lee (2013) proposed a linear and gradual tax system to simplify the existing US personal income tax system. The current complex Tax Rate Schedules and Withholding Tables may be simplified and replaced by using a simpler way to calculate the tax rates and taxes. Kao and Lee (2014a) developed the LG tax system to simplify current U.S. federal and state corporate income taxation from 6-10 tax brackets to 2-4. Kao and Lee (2014b) suggested the tax system to be used to simplify current state individual income systems practically.

The Tax Filing Simplification Act of 2019 (Warren, et al., 2019) makes several commonsense changes to simplify the tax filing process for millions of American taxpayers and lower their costs. One of the Act would allow eligible taxpayers with simple tax situations to choose a new return-free option, which provides a pre-prepared tax return with income tax liability or refund amount already calculated. It amended the IRS Code of 1986 to establish a free online tax preparation and filing service and programs that allow taxpayers to access third-party provided tax return information. This bill requires the IRS to establish and operate the programs free of charge online tax preparation and filing software and provide technical assistance and disclose federal income tax return information to states that provide or seek to provide state-level tax filing and preparation software. Unfortunately, the Bill was not passed.

In the study of TPC (2020), another benefit of making taxes simpler could improve compliance by reducing inadvertent nonpayment of taxes. In some occasions, people do not pay taxes because of the complexity of tax law. The problem could extent to tax evasion if they consider the unfairness of the tax rules exist. The taxpayers may consider the tax system unfairness benefits could occur in the tax process. For reducing the discrepancies of economic activities and taxpayers' characteristics, the simplified code could reduce both taxpayers' compliance and governmental administrative costs (Kao and Lee, 2017).

This paper provides a linear rate formula for tax return simplification and further tax reform proposal for seniors. Then many seniors have certain retirement incomes and do not need to figure out their taxes to save time and costs for many seniors and governments.

Federal and State Tax Return Simplification for Seniors

1. The Exiting Federal Social Security Benefits and Tax Return Simplification for Seniors

The existing U.S. federal personal tax calculation system has 7 tax brackets, 21-page Withholding Tables, 224 (7×4×8) formulas, and 12-page Tax Table, which are complex. According to existing tax laws, federal social security taxable incomes are at the rates of 0% for total incomes (TI) less than $25,000 for Single fillers (or $32,000 for Married filing jointly), 50% for $25K-$34K single fillers (or $32K-$44K for Married filing jointly) or 85% for over $34,000 for Single fillers (or $44,000 for Married filing jointly). At $50,000 for Single fillers, the rate is 0.362 from (0.5×(34,000-25,000)+0.85×(50,000-34,000))÷50,000 There are various change speed or curve rate (too fast or slow) problems, which are at www.irs.gov/pub/irs-pdf/i1040gi.pdf (Page 31).

Two or one linear formula can be used to simplify federal or state income tax systems and tax returns, which are shown in Table 1 and explained at www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf and https://taxsimplecenter.net/uploads/8/3/3/9/83395216/jbe20220923-1_edition__2_.pdf (Page 1).

For Single fillers, social security benefit tax rate is 0% at total income (TI) less than \$25,000, 0.5×(TI-25,000) ÷TI at TI between \$25,000-\$34,000 or (0.5×(34,000-25,000)+0.85×(TI-34,000))÷50,000 at total income (TI) more than \$34,000. At \$50,000, social security benefit tax rate is 36.2% or deduction rate is 63.8% (1-0.362). For more than \$50,000, social security benefit tax rate is 0.85-24,400÷TI from (0.5×(34,000-25,000) +0.85×(50,000-34,000)+0.85×(TI-50,000))÷TI. These various rates between \$25,000 and \$50,000 may be replaced with one slope formula simply and reasonably. For Married Filing Jointly: S2 is 1.28 or all Single fillers: S2=1. 1.28 is from 32,000÷25,000. 50,000×1.28 is 64,000.

If total income (TI):	The SS taxation rate and amount:	Taxation rate:	Deduction rate:
Not over \$25,000×S2.............................	No taxation and enter 0	0	100%
(\$25,000 - \$50,000)×S2…………..	((TI÷(69,061×S2) – 0.362) × SSB	0 - 0.362	1 – 0.638
Over \$50,000×S2..............................	(0.85 – 24,400×S2÷TI))×SSB	0.362-0.85	0.638 – 0.15

Existing tax return form may be simplified, which is shown by Table 1. After filling in basic information including name, social security #, tax status (1, 2 or 1.5), year, and address, social security (SS) deduction rate is 1 (100%), 1-0.15 or 0.15 (AGI at 0-\$25,000-\$50,000-\$64,000-).
https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wtaxproblem_solutionf8.pdf (3. SS Benefit Taxation)

Table 1 Form 1040SR Income Tax Return for Seniors

Check one: O Married filing separately/Single O Married filing jointly/QW O Head of household

Tax Status (S) #	1	2	1.5	**Form Barcode**
Standard deduction (\$)	12,200×1	12,200×2	12,200×1.5	

Exemption (\$): Blind: _____; Senior: _____
Address:

A	B	C	D	E	F	G	
Year	Your Name	Your SS#	Spouse Name	Spouse SS#	Exemptions	SS Benefits	1
							2
Federal incomes	Adjustments (+ and -)	Federal AGI	Standard/Itemized Deductions	SS Benefit Deduction (SSBD)	SSBD Rate	Taxable Income	3
							4
YTI	Yearly TI	Tax rate	LG tax rate formula	Rate check (Tool)	Check	Tax / Table	5
	(0 - 100,000) × S		YTI÷1,234,568÷S+0.01	0.1-0.181			6
	(100,000-300,000)×S		YTI÷2,352,941÷S+0.1385	0.181-0.266			7
	Over 300,000×S		0.37 - 31,200×S÷YTI	0.266-0.37			8
Non-refund tax credits	Tax balance If <0, enter 0	Other taxes and Donation	Federal tax withheld (W-2/1099s)	Refundable tax credits	Tax (Refund-)	Tax (Owe)	9
							10
Child#1 SS#	Child#1 Name	Child#2 SS#	Child#2 Name	Child#3 SS#	Child#3 Name		11
							12
Tax refund:	Routing#	Account#	Bank name	Bank phone#	Checking or	Saving	13
							14
Third party:	Preparer name	EIN/SS#	Address	Signature	Phone#	Date	15
							16
Notes: Item	B4 / (such as interest)						17

(1) AGI=A4±B4 (2) E4=G2×F4 (3) Taxable income (G4: YTI)=C4-D4-F2-E4
(4) Tax (Owe+/Refund-)=B10+C10-D10-E10 (5) Additional documents may be needed. **Tax Return Barcode**

Signature: Your____________________ Spouse___________________ Date___________

Existing federal tax system can be matched and simplified with two linear formulas and one existing formula at https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wf_summary23.pdf (Page 4). If your calculated tax rate is out of its check range, calculation is wrong and need to do again. Tax (G6, 7 or 8) is to multiply tax rate and yearly taxable income (YTI). Another option is to use existing Tax Table (12 pages) for Tax. They should be very close. Tax balance (B10) is to deduct Non-refundable tax credits from Tax. If B10 is negative, enter 0. For itemized deduction and tax credits, related additional forms and documents are needed.

With the tax simplification, tax revenue formula can be simplified significantly (S=1, 2 or 1.5).

Total tax=Sum((YTIa÷A÷S+0.1) YTIa) + Sum((YTIb÷C÷S+0.1385) YTIb) + Sum (0.37 YTIc-D×S)

A=1,234,568 is from 100,000÷(0.181-0.1), C=2,352,941 is from 200,000÷(0.266-0.181) and D=31,200 is from 300,000×(0.37-0.266). There are three taxable income ranges 0-($100,000-$300,000)×S-. All tax data including the above seniors with less than certain AGI are considered. Neutral tax revenue can be reached with these number adjustments for seniors.

2. Federal Tax Calculation Elimination and Simplification for Seniors

Existing tax systems require all retired people with incomes above federal standard deductions ($12,950 for Single or $25,900 for Married filing jointly in 2022) to figure out taxes for their tax returns. Existing federal tax system involves social security benefit taxation or deduction rates. Most seniors have simple incomes from social security benefits, 401K retirement funds, IRA, annuities, and other incomes. A simple reform proposal is presented to let many retired people with less than certain adjustable gross income AGI do not need to calculate their taxes for their tax returns to save time and costs for many retired people and federal government.

If adjustable gross income (AGI) is:	Retirement taxable income (RTI) deduction:
Not over $25,000* × S	100% × RTI
($25,000 - $45,000) × S	(1 – (AGI÷S - 25,000)÷20,000) × RTI
Over $45,000 × S	0

If adjustable gross income (AGI) is not over $25,000×S, retirement taxable income (RTI) deduction is 100% and total non-retirement taxable income not over $1,000*×S is allowed to have income tax to 0. Then these seniors do not need to calculate tax for their tax returns. S is status number (2 for married individuals filing joint returns or 1 for all other individuals). If adjustable gross income (AGI) is over $25,000×S but not over $45,000×S, a rate from 100% to 0 (or 15%*) is deducted for all retirement taxable incomes. The linear formula may be equally converted into ((45,000-AGI÷S)÷20,000)×RTI. If adjustable gross income (AGI) is over $45,000×S, retirement taxable income deduction is 0. *$25,000, $45,000, $1,000, 0%, 15%, and other numbers for seniors can be adjusted to have neutral or less tax revenue change before and after the tax reform. Social security benefits (G2), social security benefit deduction (SSBD) rate (F4), and SSBD (E4) in Table 1 can be replaced with retirement taxable incomes (RTI), RTI rate and RTI deduction.

All retirement taxable incomes may be combined together simply with equal basis, which mean all rates are equal to 1 (R1=R2=R3=R4……=1). Another option is to have different R1, R2, R3, R4 …… with different rates such as 1, 0.5, 0.75, and others.

Retirement Taxable Incomes=R1×RTI1 + R2×RTI2 + R3×RTI3 + R4×RTI4 + ……

Example 1: A retired couple has their social security benefits $34,567, 401 K retirement distribution $5,000, IRA 3,000 and bank interests $1,250. Their total retirement taxable income is $42,567 (34,567+5,000+3,000), which is less than $50,000 and non-retirement taxable income is $1,250 (< $2,000). Their income tax is to 0.

Example 2: A retired man has his social security benefits $12,095, 401 K retirement distribution $5,000, IRA 3,000, bank interests $500, and non-retirement wage $16,000. His total retirement taxable income (RTI) is $20,095 (12,095+5,000+3,000). His AGI is $36,595 (20,095+16,000+500), which is between $25,000 and $45,000. His retirement taxable income deduction rate is 0.42025 (1-(AGI÷S-25,000)÷20,000). His taxable income is $13,900.08 (YTI=C4-D4-F2-E4=36,595-12,550-1,700-20,095×0.42025). His tax is $1,546.51 at tax rate 11.13% from ($13,900.08÷1,234,568÷S+0.1)×$13,900.08.

3. The Exiting State Social Security Benefits and Tax Return Simplification for Seniors

Many states such as AR, CA, GA, HI, KS, MN, MO, NY, OK, VA, and WI have complex tax calculation systems with multi tax brackets (up to 12), Withholding Tables, related formulas (up to 216), and Tax Tables. According to existing tax laws, many states have social security benefit deductions with different tax regulations. Existing CA tax system has 9 tax brackets, 29-page Withholding Tables, 216 (9×3×8) formulas, and 5-page Tax Table. KS tax system has 2-8 tax brackets (during the past 80 years), 22-page Withholding Tables, 48 (3×2×8) formulas, and 8-page Tax Table. Existing MO tax system has 9 tax brackets, 10-page Withholding Tables, 54 (9×6) formulas, and Tax Table.

Existing state tax systems can be matched and simplified with one slope formula and one existing formula to have 90%-99% reduction comparing existing withholding formulas, withholding tables, and Tax Table, which are shown at www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf (Table 4).

KS has Social Security (SS) tax cliff problem, which may cause $1,000 tax difference with such as $2 AGI difference from AGI $74,999 to $75,001 from such as $20,000×5%. The Social Security (SS) tax cliff problem is resolved by our tax bill (HB 2727) amendment and HB 2597 (2022) with one slope (linear) formula according to www.kslegislature.org/li/b2021_22/committees/ctte_h_tax_1/documents/testimony/20220314_02.pdf and www.kslegislature.org/li/b2021_22/measures/documents/ccr_2022_hb2597_s_4017 (Page 48). The simple formula is (1-(AGI-75,000)÷10,000) or (85,000-AGI)÷10,000 from 1 to 0 linearly with one bracket from AGI from $75,000 to $85,000.

Table 2 Form K-40SR Income Tax Return For Seniors

Check one: O Married filing separately O Single O Head of household O Married filing jointly
Check Tax Status (S) 1 1 1 2 **Form Barcode**
Standard deductions ($) 4,000 3,500 6,000 8,000
Standard exemptions ($): 2,250/person__; Addition: Blind: 850__; Senior (65 or older): 850__;
Standard tax credits ($):
Address:

A	B	C	D	E	F	G	
Year	Your Name	Your SS#	Spouse Name	Spouse SS#	Exemptions	SS Benefits	1
							2
Federal AGI	Modifications (from Schedule S)	Kansas AGI	Standard/Itemized deductions	Social Security Deduction (SSD)	SSD Rate	Taxable income	3
							4
YTI	Yearly TI	YTI (G4)	Tax rate formula	Rate check (Tool)	Tax rate	Tax / Table	5
	0 - 50,000×S		YTI÷2,801,120÷S+0.03	0.03 - 0.04785			6
	Over 50,000×S		0.057 - 457.5×S÷YTI	0.04785 - 0.057			7
Nonrefundable tax credits	Tax balance If <0, enter 0	Use tax and Other taxes	State tax withheld (W-2 /1099s)	Refundable tax credits	Tax (Refund-)	Tax (Owe)	8
							9
Child#1 SS#	Child#1 Name	Child#2 SS#	Child#2 Name	Child#3 SS#	Child#3 Name		10
							11
Tax refund:	Routing#	Account#	Bank name	Bank phone#	Checking or	Saving	12
							13
Third party:	Preparer name	EIN/SS#	Address	Signature	Phone#	Date	14
							15
Notes: Item	B4 / (interest)						16

(1) KS AGI (C4)=A4±B4 (2) Taxable income (G4)=C4-D4-F2-E4 (3) E4=G2×F4 **Tax Return**
(4) Tax (Owe+/Refund-)=B9+C9-D9-E9 (5) Additional documents may be needed. **Barcode**

Existing KS tax return form can be simplified with Table 2. Its simplification with social security benefit deduction rate is 1 (100%) at AGI less than \$75,000, 1-0 at AGI \$75,000-\$85,000 or 0 at AGI more than \$85,000. The 2,801,120 is from 50,000÷(0.04785-0.03) and 457.5 is from 50,000×(0.057-0.04785). There are two taxable income ranges not over and over \$50,000×S. S is 1 for Single Filer or 2 for Couple Filer.

Existing tax revenue formulas can be simplified and combined simply, which is shown by Table 2 (S=1 or 2).

Total tax=Sum((YTIa÷C÷S+0.03) YTIa) + Sum(0.057 YTIb-D×S)

C=2,801,120 is from 50,000÷(0.04785-0.03) and D=457.5 is from 50,000×(0.057-0.04785). All tax data including these seniors with less than certain retirement incomes are considered. Neutral tax revenue can be reached with these number adjustments for seniors.

MO has social security benefit (SSB) deduction rates, which are reduced gradually from 100% for the adjustable gross income (AGI): (1) for Married filing jointly, social security benefit (SSB) deduction rate is 1 (100%) for AGI not over \$100,000, (1-(AGI-100,000)÷SSB)×SSB for AGI \$100,000-\$100,000+SSB or 0 for AGI over \$100,000+SSB or (2) for All Other Statuses, social security benefit (SSB) deduction rate is 1 (100%) for AGI not over \$85,000, (1-(AGI-85,000)÷SSB)×SSB for AGI \$85,000-\$85,000+SSB or 0 for AGI over \$85,000+SSB, which are available at https://dor.mo.gov/forms/MO-A_2021.pdf for more information.

(1) For Married filing jointly: (1-(AGI-100,000)÷SSB)×SSB or

(2) For All Other Statuses: (1-(AGI-85,000)÷SSB)×SSB

Table 3 Form MO-1040SR Income Tax Return for Seniors

Check one:	O Married filing separately/Single	O Married filing jointly/QW	O Head of household
Tax Status # (S)	1	2	1.5
Standard deductions (\$)	12,400×1	12,400×2	12,400×1.5

Age (62-64)# ____; Age (≥65)# ____; Blind#____; 100% Disabled#____; Child#____ **Form Barcode**

Address:

A	B	C	D	E	F	G	
Your Name	SS#	Spouse Name	Spouse SS#	SS Benefits	SSBD Rate	SSB Deductions	1
							2
Federal AGI You/Spouse	Adjustments You/Spouse	Each MO AGI You/Spouse	MO AGI rate You/Spouse	Standard/Itemized deductions	Federal tax deduction	Taxable income You/Spouse	3
							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
Nonrefundable tax credits	Tax balance If <0, enter 0	MO tax withheld	State refundable tax credits	Other taxes and Donations to MO	Tax (Refund-)	Tax (Owe)	9
							10
Child#1 SS#	Child#1 Name	Child#2 SS#	Child#2 Name	Child#3 SS#	Child#3 Name		11
							12
Tax refund:	Routing#	Account#	Bank name	Bank phone#	Checking or	Saving	13
							14
Third party:	Preparer name	EIN/SS#	Address	Signature	Phone#	Date	15
							16
Notes: Item	B4 / (interest)						17

(1) C4/5=A4/5±B4/5 (2) D4/5=C4/5÷B7 (3) Taxable income (YTI)=(B7-E4-F4-G2) × D4/5 **Tax Return Barcode**

(4) G2=E2×F2 (5) Tax (Owe+/Refund-) = B10-C10-D10+E10

Existing MO tax return form can be simplified by Table 3. The 486,486.5 is from 9,000÷(0.0335-0.015) and 184.5 is from 9,000×(0.054-0.0335) in 2020. There are two taxable income ranges not over and over $9,000. With Table 3, existing tax revenue formula can be simplified.

Total tax=Sum ((YTIa÷486,486.5+0.015) YTIa) + Sum(0.054 YTIb-184.5) (for 2020)

4. State Tax Calculation Elimination and Simplification for Seniors

Existing state tax systems usually require all retired people with retirement incomes more than state standard deductions to calculate taxes for their tax returns, which involve more time and costs for seniors and governments. Most seniors have simple tax situations with relatively low retirement incomes. Their retirement incomes are from social security benefits, 401K retirement funds, IRA, annuities, interests (minor), and others.

For KS, a simple reform proposal is presented to let many retired people with less than certain adjustable gross income AGI do not need to calculate their taxes for their tax returns to save time and costs for many retired people and federal government.

If adjustable gross income (AGI) is:	Retirement taxable income (RTI) deduction:
Not over $30,000* × S	100% × RTI
($30,000 - $40,000) × S	(1 - (AGI÷S - 30,000)÷10,000) × RTI
Over $40,000* × S	0

If adjustable gross income (AGI) is not over $30,000×S, retirement taxable income (RTI) deduction is 100% plus total non-retirement taxable income not over $1,500*×S is allowed to have income tax to 0. Then these seniors do not need to calculate tax for their tax returns. S is status number (2 for married individuals filing joint returns or 1 for all other individuals). If adjustable gross income (AGI) is over $30,000×S but not over $40,000×S, a rate from 100% to 0 is deducted for all retirement taxable incomes. The linear formula may be equally converted into ((40,000-AGI÷S) ÷ 10,000) × RTI. If adjustable gross income (AGI) is over $40,000×S, retirement taxable income deduction is 0. *$30,000, $40,000, $1,500, and other numbers for seniors are adjusted to have no or less tax revenue change before and after the tax reform. Social security benefits (G2), social security benefit deduction (SSBD) rate (F4), and SSBD (E4) in Table 2 can be replaced with retirement taxable incomes (RTI), RTI rate and RTI deduction.

With existing KS tax system, retired couples prefer to file tax returns separately to have double social security deductions, which increase time and costs for many retired couples and KS state government. Their simplification is needed to consider the differences between Single and Couple fillers.

Example 3: A retired man has his social security benefits $18,765, 401 K retirement distribution $3,000, IRA 5,000 and total non-retirement taxable income $1,000. His AGI is $27,765 (18,765+3,000+5,000+1,000), which is less than $30,000, and his total non-retirement taxable income is $1,000 (less than $1,500). His tax is to 0.

Example 4: Retired couples have social security benefits $39,432, 401 K retirement distribution $5,000, IRA 5,000, and bank interests $2,000. Their all retirement taxable incomes (RI) are $49,432 (39,432+5,000+5,000). Their total non-retirement taxable income is $20,000. Their AGI is $71,432. Their retirement taxable income deduction rate is 0.4284 (1-(AGI÷S-30,000)÷10,000). Their taxable income is $37,755.33 (YTI=C4-D4-F2-E4= 71,432-8,000-2,250×2-0.4284×49,432). Their income tax is $1,387.11 at tax rate 3.67% from (37,755.33÷2,801,120÷S+0.03)×37,755.33.

A similar proposal to reform MO tax system is presented. Then many retired people with less than certain retirement incomes such as not over $50,000, these retired people have income tax 0 and do not need to calculate their taxes for their tax returns to save time and costs for MO government and seniors.

If adjustable gross income (AGI) is:	Retirement taxable income (RTI) deduction:
Not over $50,000*	100% × RTI
Over $50,000 but not over $70,000	(1 - (AGI-50,000) ÷ 20,000) × RTI
Over $70,000*	0

If adjustable gross income (AGI) is not over $50,000, retirement taxable income (RTI) deduction is 100% and total non-retirement taxable income not over $1,500* is allowed to have income tax to 0. Then these seniors do not need to calculate tax for their tax returns. If adjustable gross income is over $50,000 but not over $70,000, a rate from 100% to 0 is deducted for all retirement incomes. The linear formula may be equally converted into ((70,000 - AGI)÷10,000)×RTI. If adjustable gross income is over $70,000, retirement income deduction is to 0. *$50,000, $70,000, $1,500 or other numbers for seniors are adjusted to have no or less tax revenue change before and after the reform. Social security benefits (E2), Social security benefit deduction rate (F2), and SSBD (G2) in Table 3 can be replaced with retirement taxable incomes (RTI), RTI rate, and RTI deduction.

Example 5: A retired senior has his social security benefits $33,456, 401 K retirement distribution $5,000, IRA 5,000 and bank interests $1,000. Their AGI is $44,456 (33,456+5,000+5,000+1,000), which is less than $50,000 and total non-retirement income $1,000, which is less than $1,500. His income tax is to 0.

Similar to federal senior retirement incomes, all state retirement taxable incomes may be combined together simply with equal basis, which mean R1=R2=R3=R4……=1. Another option is to have different R1, R2, R3, R4 …… with different rates such as 1, 0.5, 0.75, and others.

Many other states may have similar or different tax situations and systems. More information is available at different websites such as at www.aigrs.com/home/financial-education/education-center/tax-matters/not-tax-social-security and www.thebalance.com/states-that-exempt-social-security-3193304 with full, zero or partial deductions from social security benefits and retirement incomes.

Such as Minnesota has partial social security benefit subtractions according to different rates (50%, 20% or 0), incomes and tax statuses (Married Filing Jointly or Qualifying Widow(er), Single or Head of household or Married Filing Separate) at www.revenue.state.mn.us/sites/default/files/2021-12/m1m_21.pdf (Line 12) and www.revenue.state.mn.us/social-security-benefit-subtraction (Subtraction Amount). One simple linear formula can be used to simplify the existing social security benefit subtractions deductions or many seniors with retirement incomes less than certain amounts do not need to figure out their taxes for tax returns similarly.

Maryland has its credit $1,000 for an individual filer or a couple with only one spouse aged 65 or older. For joint fillers, the credit is $1,750, which begins in 2022. Maryland allows a pension exclusion of $34,300 in 2022, but the exclusion does take untaxed social security benefits into consideration and can be phased out. www.marylandtaxes.gov/forms/Personal_Tax_Tips/tip51.pdf and https://rcsplanning.com/insights/maryland-tax-reduction-act

One linear formula can be used to simplify existing social security benefit deductions for many governments. All retirement incomes, non-retirement incomes, AGI, and neutral tax revenue may be considered to simplify tax returns for seniors. Our goal is to let many seniors with less than certain retirement incomes to have no tax responsibility and do not need to figure out their taxes and many other seniors with more retirement incomes to simplify their tax returns. Then many seniors and governments can reduce tax processing time and costs.

Conclusion

In summary, the federal and state tax return simplification would help seniors to calculate taxes for tax returns more effective and simpler, which can reduce tax processing time and costs for many seniors and governments. This paper provides one linear formula to simplify federal and state social security tax deductions and existing state tax calculation systems. The suggestion is to further combine social security benefits, 401K retirement funds, IRA, annuities, and other retirement incomes together simply for tax return simplification. When many seniors have certain retirement incomes such as less than $25,000 for Single filers or $50,000 for Married filing jointly, they have no federal (or state) tax responsibility and do not need to figure out their taxes for tax returns. These numbers may be adjusted according to neutral or less tax revenue changes. Then tax processing time and costs may be reduced for seniors and governments.

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