

# Iowa Corporate and Personal Tax System Simplification

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IA had prior 9 individual tax brackets and has 4 tax brackets for corporations, which are too complex. IA has reformed the prior 9 individual tax brackets to 1 flat tax rate (4%), which reduces tax revenue significantly.

**When a state has 3 or more tax brackets, they are complex, which can be matched and simplified with the LG tax simplification with 2 brackets.**

**1. Corporate Tax System Simplification:** A flat tax rate is very simple but it cannot cover small and large companies with different taxable incomes reasonably. A nice tax plan is to have relatively lower bottom tax rate, which can encourage more people to start businesses. Small businesses hire many employees for people, society and economic development. Then middle and large businesses are more stable to pay relatively higher tax rates. Some states have multi tax brackets for companies such as AK has 10 tax brackets with 1-9.4%, AR has 6 tax brackets with 1-6.5%, KS has 2 tax brackets with 4-7%, and **IA has 4 tax brackets with 5.5-9.8%.**

Iowa corporate income tax rates are reformed effective beginning TY 2021, which are shown in the following Table. [www.legis.iowa.gov/docs/publications/FN/963408.pdf](http://www.legis.iowa.gov/docs/publications/FN/963408.pdf) (yearly basis only). When the 8 filling periods are used, its 4 formulas are increased to 32 (4×8) formulas.

Lower Limit	Upper Limit	Current Rates	Rates TY 2021	Tax
0	25,000	6.0%	5.5%	0.055×Taxable income (TI)
25,001	100,000 \$	8.0%	5.5%	0.055×TI
100,001	250,000 \$	10.0%	9.0%	0.09× (TI-100,000)+5,500
250,001 and Over		12.0%	9.8%	0.098× (TI-250,000)+19,000

At \$240,000, its tax rate is 0.07542 (7.542%) from  $(0.09 \times (TI - 100,000) + 5,500) \div TI$ .  $240,000 / (0.07542 - 0.055) = 11,753,183$ .  $240,000 \times (0.098 - 0.07542) = 5,419$ . TI is taxable income.  $TI \times F = YTI$ , which is yearly taxable income (YTI). F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on different filling basis).  $TI = YTI$  when  $F = 1$ .

**Table 5 Corporate income tax rates for 2021**

TI × F	Yearly taxable income (YTI)	TI	LG tax rate formula	Tax rate check (Tool)	Tax rate	Tax TI×rate
	0 - 240,000		$(0.055 + TI \times F \div 11,753,183) \times TI$	0.055-0.07542		
	240,000		$(0.098 - 5,419 \div YTI) \times TI$	0.07542-0.098		

**Total tax** = Sum( $(0.055 + YTIa \div 11,753,183) \times TI$ ) + Sum ( $(0.098 - 5,419 \div YTIb) \times TI$ )

Withholding/Income Tax =  $(\text{Incomes} - \text{Costs} - (\text{Deductions} + \text{Exemptions}) \div F) \times \text{Tax rate} - \text{Tax credits} \div F$

**There is no or minor differences between the existing 4 brackets/32 formulas and new 2 brackets/formulas.** When a linear formula is used, tax rate changes are smooth and reasonable. Existing tax rates are based on flat/curve tax rates for certain taxable income ranges, which are unsmooth and unreasonable.

**2. Personal Tax System Simplification:** IL has a flat tax rate at 4.95%. It was reformed with “Fair Tax” reform bill at 4.75%-7.99% with 6 tax brackets at [www.ilga.gov/legislation/publicacts/101/PDF/101-0008.pdf](http://www.ilga.gov/legislation/publicacts/101/PDF/101-0008.pdf) (p. 36-37) to raise tax revenue. But the tax bill was not past by the election in 2020. Multi-bracket personal and corporate tax systems are complex. When a linear formula is used for tax simplification, tax rates are more smooth, reasonable, and fair. Time and costs (million dollars) can be saved by the tax simplification for IA lawmakers, DOR, companies and people (\*Research Paper: Table 6). A flat tax rate is unreasonable and unfair.

\*Research Paper: [www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf](http://www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf)

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# Tax Problem and Solution for Iowa

Many states have different tax problems. A slope (linear) method, which is the most efficient, simple and fair\*, is used to resolve these problems. Here are some examples for Iowa:



## 1. Multi-bracket Personal Income Tax Systems and Solution

Many states have multi tax brackets such as IA has 9, KS has 3 (up to 8), MO has 9 and MN has 4 (up to 11) tax brackets during the past 100 years. There are multi withholding formulas (45-96 for the four states) and xx-page withholding tables. With a slope (linear) method with 2 formulas, multi tax brackets and withholding formulas can be matched and reduced\*. Withholding tables (xx-page) are not needed.

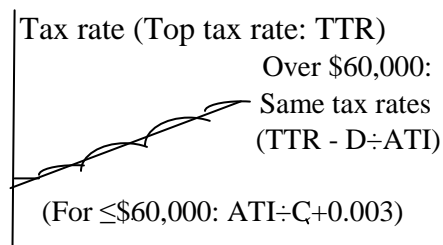
### **IA Tax Calculation System:**

9 tax brackets at 0.33%, ..... 8.53% (or 0.36%-8.98%)

45 withholding formulas (9×5)

13-page Withholding Tables

(Neutral tax revenue)



### **Long-Term Solution: Two formulas**

2 or 3 formulas

$$(C=1,165,049=60,000 \div (0.0545-0.003))$$

$$\text{and } D=1,848=60,000 \times (0.0853-0.0545) \text{ for 2021) Annual Taxable income (ATI)}$$

\* Research Paper: [www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf](http://www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf)

## 2. Flat Income Tax Rate (4% flat tax rate is good for IA?)

After studying state income tax systems (1917-2022), a flat tax rate was used in the early years by some states. Then the most states have used multi tax brackets. MO has 0.5% in 1917, 1.5% in 1920 and 7-10 tax brackets during 1931-2022. IA has 5-13 tax brackets during 1934-2022. A flat income tax rate has disadvantages: (1) tax revenue is decreased to cause tax revenue shortage problems comparing with multi tax brackets, (2) low incomers' tax rates and taxes are increased significantly by such as 300% (from existing 1% to 4%) and (3) high incomers' tax rates and taxes are decreased significantly by such as 50% (from existing 8% to 4%).

A flat income tax rate is unreasonable for different taxable incomes and living cost rates. It is difficult to reform a flat rate to multi tax brackets to raise tax revenue. Such as IL has 4.95%. It was reformed with a "Fair Tax" bill at 4.75%-7.99% with 6 tax brackets to raise tax revenue. But the tax bill was not approved in 2020. Most people do not like to raise tax rates by such as 40% (4.95% to 6.95%). The complexity of multi tax brackets is another reason. Many withholding formulas and xx-page Withholding Tables are also involved. Two formulas and brackets with fair income tax rate changes are suggested for budget balance (\*Research Paper).

## 3. IA Child and Dependent Care Credit (CDCC) Rates

IA CDCC shows 75%, 65%, 55%, 50%, 40%, 30% or 0 for Line 11 <\$10,000 to \$45,000. There are 6 cliff problems such as \$1 difference may cause \$200 difference between \$9,999 and \$10,000, which is unfair.

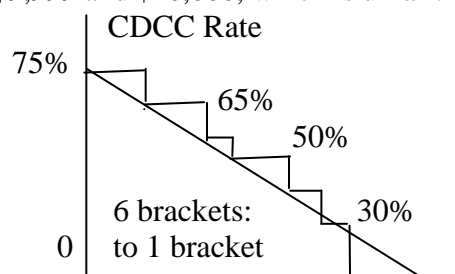
One slope solution can be used to match related credit rates from \$0 to \$60,000 gradually and simply.

### IA Child and Dependent Care Credit Rate

Line 11	0 - 60,000	Over 60,000
Credit Rate	$0.75 (1-(L11 \div 60,000))$	0

\* \$60,000/year=\$5,000/month

There is neutral tax revenue change.



Line 11: \$10K \$25K \$45K \$60K

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