

VIRGINIA BILL NO. _____ Individual income tax simplification

Summary: One simple slope formula is used to match VA tax systems fairly and efficiently for replacing existing 4 tax brackets, 32 (4x8) withholding formulas (**Problem #1: too many formulas**), 10-page Withholding Tables (**Problem #2: too many pages**), and 9-page Tax Table.

1. AN ACT relates income taxation. A tax is hereby imposed upon taxable income of every resident,
2. which tax rate and tax shall be computed in accordance with the following computation:
3. www.tax.virginia.gov/sites/default/files/vatax_pdf/employer_withholding_tables.pdf (2019 and After)
4. A tax on the brackets of taxable income as follows:
5. If the yearly taxable income is: The tax are:
6. Not over \$3,000 2% of the yearly taxable income (YTI)
7. Over \$3,000 but not over \$5,000 60 + 3% of excess over \$3,000
8. Over \$5,000 but not over \$17,000 120 + 5% of excess over \$5,000
9. Over \$17,000 720 + 5.75% of excess over \$17,000
10. 10 page Withholding Tables
11. No tax status (S) difference
- 12.
13. For the yearly taxable income (YTI) is: The tax rate and tax are: Tax rate range:
14. Not over \$18,000xS* (YTI÷C÷S+0.02)×TI 2% - 4.32%
15. Over \$18,000xS* (0.0575-(D×S÷YTI))×TI 4.32% - 5.75%
- 16.
17. YTI is the yearly taxable income. S is tax filing status, which is option.
18. C is 775,862 from 18,000 to divide (÷) the 1-st tax rate range difference (0.0432-0.02). D is 257.4 from
19. 18,000 to multiply (×) the 2-nd tax rate difference (0.0575-0.0432).
20. The 4 tax brackets are matched and simplified with 1 slope formula and 1 existing formula in 2 tax rate
21. ranges of 2%-4.32%-5.75% for taxable incomes not over and over \$18,000xS.
22. YTI=TI×F, TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
23. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

1. YTI=\$17,000 (S=1): $(17,000 \div 1 \div 775,862 + 0.02) \times 10,000 = 0.04191 \times 17,000 = 712.49$
2. Bi-weekly TI is \$4,321 (S=2): $(0.575 - 257.4 \times 2 \div 4,321 \div 26) \times 4,321 = 0.0529177 \times 4,321 = 228.66$
3. Monthly TI is \$9,362 (S=1): $(0.575 - 257.4 \times 1 \div 9,362 \div 12) \times 9,362 = 0.0552088 \times 9,362 = 516.87$
4. Semi-monthly TI is \$4,681 (S=1): $(0.575 - 257.4 \times 1 \div 4,681 \div 24) \times 4,681 = 0.0552088 \times 4,681 = 258.43$

* (1) For over \$12,000xS, the same tax formula is converted into tax rate and tax format.
 $720 + 5.75\% (YTI - 17,000) = 0.0575 YTI - 257.5 = (0.0575 - 257.5 \div YTI) \times YTI$ into $(0.0575 - 257.5 \div YTI) \times TI$

(2) There is no tax filing status difference for tax calculation formulas currently, which is unreasonable and may be reformed with such as S=1 for Single or Married filing jointly, 2 for Married filing jointly or 1.5 for Head of Household. Existing standard deductions are \$4,500 for Single or \$9,000 Married filing jointly.

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

***Notes:**

1. With this simplification, existing 4 tax brackets (2%, 3%, 5%, and 5.75%), 32 (4×8) withholding formulas, 10-page Withholding Tables, and 9-page Tax Table can be matched and simplified with 1 slope formula and 1 existing formula in two brackets (2%-4.32%-5.75%) fairly (*) with 97% reduction (1-(2÷32)(2÷4)).

2. The 32 (4×8) withholding formulas and 10-page Withholding Tables can be eliminated and replaced with the 2 formulas simply and fairly.

www.tax.virginia.gov/sites/default/files/vatax-pdf/employer-withholding-tables.pdf
www.tax.virginia.gov/sites/default/files/vatax-pdf/employer-withholding-instructions.pdf
www.tax.virginia.gov/sites/default/files/vatax-pdf/employer-withholding-tables.pdf
www.tax.virginia.gov/sites/default/files/taxforms/individual-income-tax/2021/760-2021.pdf

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

Total Tax=0.02SumYTib+Sum(YTic×YTic)÷ 775,862+Sum (0.0575 YTid-257.4)

Standard deductions, exemptions and tax credits are used for withholding tax calculations. F=1 is for tax returns. Tax Table (9 pages) or its formula can be used as one option.

(*) Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf

3. With this simplification, the bottom tax rate 2% may be reduced to 1.8% such as 1.8%-4.32%-5.75% for not over and over \$18,000×S 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. Other incomers have almost no or no tax rate and tax difference.

4. 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 (\$18,000) and top are adjusted to meet a tax goal. The factors are explained by our 2021 research paper (Page 508).

5. For existing tax calculations with taxable incomes for different tax statuses, there is no difference. Married couples, who both work and have incomes, prefer to file tax returns separately with lower tax rates. Then more tax returns need to be processed by Department of Revenue, which increase processing cost for tax returns. Tax status numbers such as 1 for Single or Married filing jointly, 2 for Married filing jointly or 1.5 for Head of Household are suggested.

Bill Summary

Bill xxx - This bill can match and simplify existing 4 tax brackets, 32 (4×8) withholding formulas, 10-page Withholding Tables, and 9-page Tax Table with 1 simple slope formula and 1 existing formula in two brackets. Tax statuses may be numbered as 1, 2 or 1.5 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, only 3 tax rates at bottom, \$18,000, and top are adjusted for tax revenue analyses and tax reforms by lawmakers.

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