

Vermont Bill No. \_\_\_\_\_ Individual income tax simplification

**Summary:** One simple linear (slope) formula and one existing formula are used to match VT tax systems fairly and efficiently for replacing existing 5 tax brackets (**Problem #1: too many tax brackets with different range numbers**), 35 (5×7) withholding formulas (**Problem #2: too many formulas and too complex**), 10-page Withholding Tables (**Problem #3: too many pages and too complex**), 5-page Tax Table, and two tax systems for withholding taxes and tax return taxes (**Problem #4: too complex**).

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1. AN ACT concerning income taxation; relating to tax rates and repealing the existing section.
  2. Be it enacted by the Legislature.
  3. Section 1. A tax is hereby imposed upon taxable income of every resident individual, which tax rate
  4. and tax shall be computed in accordance with the following Tax Rate Schedule:
  5. Yearly Wage (YW)\*: Tax withheld:
  6. <https://tax.vermont.gov/sites/tax/files/documents/GB-1210-2022.pdf>
  7. (a) SINGLE
  8. ~~\$0 — \$3,250 — 0%~~
  9. ~~\$3,250 — \$45,400 — 3.35% of (YW 3,250)~~
  10. ~~\$45,400 — \$105,450 — 1,412.03+6.6% (YW 45,400)~~
  11. ~~\$105,450 — \$216,400 — 5,375.33+7.6% (YW 105,450)~~
  12. ~~Over \$216,400 — 13,807.53+8.75% (YW 216,400)~~
  13. (b) MARRIED
  14. ~~\$0 — \$9,788 — 0%~~
  15. ~~\$9,788 — \$80,238 — 3.35% of (YW 9,788)~~
  16. ~~\$80,238 — \$180,088 — 2,360.08+6.6% (YW 80,238)~~
  17. ~~\$180,088 — \$268,288 — 8,950.18+7.6% (YW 180,088)~~
  18. ~~Over \$268,288 — 15,729.38+8.75% (YW 268,288)~~
  19. —
  20. The above non-smooth tax rate changes can be matched and simplified to their smooth tax rate changes.
  21. For yearly wage (YW) is: The tax rate and tax are: Tax rate range:
  22. Not over  $\$120,000 \times S$   $(YW \div S \div C + B) \times W$  3.35% - 5%
  23. Over  $\$120,000 \times S$   $(T - (D \times S \div YW)) \times W$  5% - 8.75%
  - 24.
  25. YW is yearly wage\*. S is tax status (1 for SINGLE or 1.5 for MARRIED). B is bottom tax rate 3.35%.
  26. T is top tax rate 8.75%. At YW  $\$120,000 \times S$ , tax rate is 5%.
  27. C is 3,200,000 from 120,000 to divide ( $\div$ ) the 1-st tax rate range difference (0.0875-0.05). D is 4,500
  28. from 120,000 to multiply ( $\times$ ) the 2-rd tax rate difference (0.0875-0.05). The 4 tax brackets are matched
  29. and reduced to 2 tax rate ranges of 3.35%-5%-8.75% for taxable income ranges not over and over
  30.  $\$120,000$ .
  31.  $YW = W \times F$ . W is wage after subtracting withholding allowances. F is filing period (1, 2, 4, 12, 24, 26,
  32. 52 or 365 on yearly, semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).
  - 33.
  34. When yearly wage\* (YW) for SINGLE is not over  $\$3,250$ , tax is to 0 (free).
  35. When yearly wage\* for MARRIED is not over  $\$9,788$ , tax is to 0 (free).
  - 36.
  37. For tax returns, there is another tax system:

38. <https://tax.vermont.gov/sites/tax/files/documents/RateSched-2021.pdf>

39. Yearly taxable income (YTI): Your tax is:

40. (a) Married filing separately

41. \$ 0	\$ 34,200	3.35% YTI
42. 34,200	75,000	\$ 1,146 + 6.6% (YTI 34,200)
43. 75,000	82,675	3,839 + 6.6% (YTI 75,000)
44. 82,675	125,975	4,345 + 7.6% (YTI 82,675)
45. Over 125,975		7,636 + 8.75% (YTI 125,975)

46. (b) Married Filing Joint

47. \$ 0	\$ 68,400	3.35% YTI
48. 68,400	75,000	\$ 2,291 + 6.6% (YTI 68,400)
49. 75,000	165,350	2,727 + 6.6% (YTI 75,000)
50. 165,350	251,950	8,690 + 7.6% (YTI 165,350)
51. 251,950		15,272 + 8.75% (YTI 251,950)

52. (c) Single

53. \$ 0	40,950	3.35% YTI
54. 40,950	75,000	\$ 1,372 + 6.6% (YTI 40,950)
55. 75,000	99,200	3,619 + 6.6% (YTI 75,000)
56. 99,200	206,950	5,216 + 7.6% (YTI 99,200)
57. 206,950		13,405 + 8.75% (YTI 206,950)

58. (d) For Head of Household

59. \$ 0	54,850	3.35% YTI
60. 54,850	75,000	\$ 1,837 + 6.6% (YTI 54,850)
61. 75,000	141,700	3,167 + 6.6% (YTI 75,000)
62. 141,700	229,450	7,570 + 7.6% (YTI 141,700)
63. 229,450		14,239 + 8.75% (YTI 229,450)

64.

65. The above non-smooth tax rate changes can be matched and simplified to their smooth tax rate changes.

66. For yearly taxable income (YTI) is: The tax rate and tax are: Tax rate range:

67. Not over \$120,000×S (YTI÷S÷C + B)×TI 3.35% - 5.98%

68. Over \$120,000×S (T-(D×S÷YTI))×TI 5.98% - 8.75%

69.

70. YTI is yearly taxable income. S is tax status (1 for MARRIED filing separately, 2 for MARRIED filing

71. Jointly, 1 for Single or 1.5 for Head of Household. B is bottom tax rate 3.35%. T is top tax rate 8.75%.

72. At \$120,000×S, tax rate is 5.98%.

73. C is 4,562,738 from 120,000 to divide (÷) the 1-st tax rate range difference (0.0598-0.0335). D is

74. 3,324 from 120,000 to multiply (×) the 2-rd tax rate difference (0.0875-0.0598). The 5 tax brackets and

75. 20 (5×4) taxable income ranges are matched and reduced to 2 tax rate ranges of 3.35%-5.98%-8.75%

76. for taxable income ranges not over and over \$120,000.

77. YTI=TI×F. TI is taxable income. F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly, semi-yearly,

78. quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

For more than \$125,975, existing formula in tax format is converted into tax rate and tax format:

$$7,636 + 8.75\% (YTI - 125,975) = 8.75\% YTI - 3,386.8 = (0.0875 - (D \times S \div YTI)) \times YTI$$

**Examples with Taxable Income:**

**Tax rate and tax are:**

1. YW=\$78,000 (S=1):  $(78,000 \div 4,562,738 \div 1 + 0.0335) \times 78,000 = 0.050595 \times 78,000 = 3,946.41$

2. Bi-weekly Wage is \$8,000 (S=1.5):  $(0.0875 - 3,324 \times 1.5 \div 8,000 \div 26) \times 8,000 = 0.06352885 \times 8,000 = 508.23$

3. Monthly Wage is \$6,500 (S=2):  $(6,500 \times 12 \div 4,562,738 \div 2 + 0.0335) \times 6,500 = 0.042475 \times 6,500 = 273.31$

**\*Notes:**

1. With this simplification, the existing 5 tax brackets, 35 (5×7) withholding formulas, and 10-page Withholding Tables can be matched and simplified with 2 brackets and formulas (3.35%-5.98%-8.75%) fairly with 94% reduction 1-2÷35. Tax status number can be adjusted reasonably with 2 for Married filing jointly, 1 for Married filing separately, 1 for Single or 1.5 for Head of Household.

$$\text{Total Tax (S=1)} = \text{Sum}((\text{YTia} \div 4,562,738 + 0.0335) \text{ YTIa}) + \text{Sum} (0.0875 \text{ YTIb} - 3,324)$$

2. Standard deductions, exemptions, and tax credits are used for withholding tax calculations. Different F number may be used for withholding taxes. F=1 is for tax returns. 10-page Withholding Tables are very complex, which can be eliminated.

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

- <https://tax.vermont.gov/sites/tax/files/documents/GB-1210-2022.pdf>
- <https://tax.vermont.gov/individuals/personal-income-tax/rates>
- <https://tax.vermont.gov/sites/tax/files/documents/RateSched-2021.pdf>

3. **The above two tax systems for withholding taxes and tax return taxes can be combined simply.** Yearly wage after subtracting withholding allowances (YW) can be converted into taxable income (TI), which is adjustable gross income (AGI) to subtract standard deduction, standard exemptions, and standard tax credits.

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. Tax Table (5 pages) or its formula is used as one option. With this tax simplification, only 3 tax rates at bottom, 120,000 and top are adjusted to meet a tax goal. The factors are explained by our 2021 research paper (Page 508\*).

- <https://tax.vermont.gov/sites/tax/files/documents/TaxTables-2021.pdf>

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

### **Bill Summary**

Bill xxx - This bill can match and simplify existing 5 tax brackets, 35 (5×7) formulas, 20 (5×4) taxable income ranges, and 10-page Withholding Tables with 2 brackets and formulas. Withholding taxes, payrolls, withholding reports, income taxes, tax returns, tax analyses, fiscal notes, tax projections, and tax reforms can be simplified with the 2 brackets. A checking tool is provided to check and reduce calculation mistakes. Tax Table (5 pages) or its formula is used as one option. For future tax reforms, only 3 tax rates at bottom, \$120,000, and top are adjusted by lawmakers.

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