

Washington D.C. Bill No. _____ Individual income tax simplification

Summary: One simple slope formula is used to match DC tax systems fairly and efficiently for replacing existing 6 tax brackets, 48 (6×8) withholding formulas (**Problem #1: too many formulas**), and 16-page Withholding Tables (**Problem #2: too many pages**).

1. AN ACT relates to income tax. 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 formulas:
3. https://otr.cfo.dc.gov/sites/default/files/dc/sites/otr/publication/attachments/2018%20FR-230_12.13.17.pdf
4. A tax on the brackets of taxable income as follows:
5. ~~Annually:~~
6. ~~If the taxable income is: _____ The tax are:~~
7. ~~Not over \$10,000 _____ 4% of the taxable income~~
8. ~~Over \$10,000 but not over \$40,000 _____ \$400 plus 6% of excess over \$10,000~~
9. ~~Over \$40,000 but not over \$60,000 _____ \$2,200 plus 6.5% of excess over \$40,000~~
10. ~~Over \$60,000 but not over \$350,000 _____ \$3,500 plus 8.5% of excess over \$60,000~~
11. ~~Over \$350,000 but not over \$1,000,000 _____ \$28,150 plus 8.75 of excess over \$350,000~~
12. ~~Over \$1,000,000 _____ \$85,025 plus 8.95% of excess over \$1,000,000~~
13. ~~Semiannually~~
14. ~~Quarterly.....~~
15. ~~Monthly.....~~
16. ~~Semimonthly.....~~
17. ~~Biweekly.....~~
18. ~~Weekly.....~~
19. ~~Daily:~~
20. ~~Not over \$27.40 _____ 4% of the taxable income~~
21. ~~Over \$27.40 but not over \$109.59 _____ \$1.10 plus 6% of excess over \$27.40~~
22. ~~Over \$109.59 but not over \$164.38 _____ \$6.03 plus 6.5% of excess over \$109.59~~
23. ~~Over \$164.38 but not over \$958.90 _____ \$9.59 plus 8.5% of excess over \$164.38~~
24. ~~Over \$958.90 but not over \$2,739.73 _____ \$77.12 plus 8.75 of excess over \$958.90~~
25. ~~Over \$2,739.73 _____ \$232.95 plus 8.95% of excess over \$2,739.73~~
- 26.
27. For the yearly taxable income is: The tax rate and tax are: Tax rate range:
28. Not over \$240,000 $(YTI \div C + 0.04) \times TI$ 4% - 7.7%
29. Over \$240,000 $(0.0895 - (D \div YTI)) \times TI$ 7.7% - 8.95%
30. YTI is the yearly taxable income. C is 6,486,486 from 240,000 to divide (÷) the 1-st tax rate range
31. difference (0.077-0.04). D is 3,000 from 240,000×(0.0895-0.077). Two tax rate ranges are 4%-7.7%-
32. 8.95% for not over and over \$240,000.
33. $YTI = TI \times F$. TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
34. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

1. $YTI = \$48,000$: $(48,000 \div 6,486,486 + 0.04) \times 48,000 = 0.0474 \times 48,000 = 2,275.20$
2. Bi-weekly TI is \$10,000: $(0.0895 - 3,000 \div 10,000 \div 26) \times 10,000 = 0.077961538 \times 10,000 = 779.62$
3. Monthly TI = \$4,000: $(4,000 \times 12 \div 6,486,486 + 0.04) \times 4,000 = 0.0474 \times 4,000 = 189.60$

***Notes:**

1. With this simplification, the existing 6 tax brackets and tax rate ranges (4%, 6%, 6.5%, 8.5%, 8.75% and 8.95%), 48 (6×8) formulas and Withholding Tables (16 pages) can be matched and simplified by 2 brackets/formulas with 98.6% reduction (1-(2÷6)(2÷48)). 4%-7.7%-8.95% may be reduced to 3.95%-7.7%-8.95% for low-end incomes to pay less taxes slightly with neutral tax revenue change with "C" 6,400,000 from 240,000÷(0.077-0.0395), which depends on its tax revenue difference (Fiscal Note) from Department of Revenue. At \$240,000, existing tax rate is 7.833%, which may be adjusted and balanced to 7.7%.

2. Existing 16-page withholding tables (Wage Brackets Method) and 48 (6×8) formulas can be eliminated and replaced by the 2 formulas simply and fairly.

https://otr.cfo.dc.gov/sites/default/files/dc/sites/otr/publication/attachments/2018%20FR-230_12.13.17.pdf

Existing Tax Table (10 pages) or its formula can be used as one option. The 10 pages may be reduced to 5 pages. Businesses use standard deductions, exemptions and tax credits for withholding taxes. Taxpayers use actual deductions, exemptions and tax credits for tax returns. F=1 is for tax returns.

https://otr.cfo.dc.gov/sites/default/files/dc/sites/otr/publication/attachments/2020_D-40_Booklet_1.pdf

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

Total Tax=0.04Sum YTIa + Sum (YTIa×YTIa)÷6,486,486+Sum (0.0895YTIb-3,000)

3. Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf

4. For over \$100,000×S, the same tax formula is converted into tax rate and tax format.

(\$85,025 + 8.95% (YTI-\$1,000,000)=(0.0895 - 4,475÷YTI)×YTI into (0.0895 - (D÷YTI)) × TI)

5. Another option is to have 4%-7.16%-8.5%-8.95% for 3 taxable income ranges of 0-\$120,000-\$1,000,000-.

For the yearly taxable income ÷ S is:

Not over \$120,000

Over \$120,000 but not over \$1,000,000

Over \$1,000,000

The tax rate and tax are:

(YTI÷B÷S + 0.04)×TI

(YTI÷C÷S + 0.06977)×TI

(0.0895-(D×S÷YTI))×TI

Tax rate range:

4% - 7.16%

7.16% - 8.5%

8.5% - 8.95%

B is 3,797,468 from 120,000÷(0.0716-0.04). C is 65,671,642 from (1,000,000-120,000)÷(0.085-0.0716). D is 4,500 from 1,000,000×(0.0895-0.085). S is tax status, which is 1 for all tax statuses, which may be reformed to 1 for Single Filers, such as 2 for Joint Filers or 1.5 for Head of Household Filers.

6. For existing tax reforms, tax brackets, tax rates, taxable income ranges and tax goal are considered at the same time, which are affected each 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 research paper (Page 509).

Bill Summary

This bill can match and simplify existing 6 tax brackets, 48 (6×8) formulas can be eliminated and replaced with the 2 formulas fairly and simply. 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. For future tax reforms, only 3 tax rates at bottom, \$240,000 and top are adjusted by lawmakers.

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