WISCONSIN BILL NO. _____   Income Tax Simplification

Summary: One simple slope formula and one existing formula are used to match WI tax systems fairly and efficiently for replacing existing 4 tax brackets, 12 taxable income ranges (**Problem #1: too many ranges**), 72 (4×3×6) withholding formulas (**Problem #2: too many formulas**), 26-page Withholding Tables (**Problem #3: too many pages**).

1. A bill for an act relates to income taxation for calculating individual income tax rate and tax. A tax is
2. imposed for every tax year on the Minnesota taxable income of every resident. The tax shall be
3. determined by the following tax rate and tax:
4. For tax year ~~2020~~ 2025, and all tax years thereafter:
5. ~~If the taxable income is: The tax is:~~
6. ~~(1) Fro Single and Head of Household returns~~
7. ~~Not over $11,970   0.0354×TI~~
8. ~~$11,970-23,930   423.74+0.0465 (TI-11,970)~~
9. ~~$23,930—263,480   979.88+0.0627 (TI-23,930)~~
10. ~~Over $263,480   15,999.67+0.0765 (TI-263,480)~~
11. ~~(2) For Married filing joint returns~~
12. ~~Not over $15,960   0.0354×TI~~
13. ~~$15,960-31,910   564.99+0.0465(TI-15,960)~~
14. ~~$31,910-351,310   1,306.66+0.0627(TI-31,910)~~
15. ~~Over $351,310   21,333.04+0.0765(TI-351,310)~~
16. ~~(3) Married filing separate returns~~
17. ~~Not over $7,980   0.0354×TI~~
18. ~~$7,980-15,960   282.49+0.0465 (TI-7,980)~~
19. ~~$15,960-175,660   653.56+0.0627 (TI-15,960)~~
20. ~~Over $175,660   10,666.75+0.0765 (TI-175,660)~~
21.
22. If the yearly taxable income (YTI) is: The tax rate and tax are: 2020 Tax rate range:
23. Not over $120,000×S $(YTI \div S \div C + 0.035*) \times TI$ 0.035-0.057
24. Over $120,000×S $(0.0765 - (D \times S \div YTI)) \times TI$ 0.057-0.0765
25. YTI is the yearly taxable income. S is status # (2 for Married filing joint returns, 1 for Married
26. filing separate returns, 1.5 for Single or Head of Household returns).
27. C is 5,454,545 from 120,000 to divide (÷) the 1-st tax rate range difference (0.057-0.035*) for
28. neutral tax revenue change* or 5,555,556 from 120,000÷(0.057-0.0354). D is 2,340 from 120,000 to
29. multiply (×) the 2-nd tax rate range difference (0.0765-0.057).
30. The tax rate ranges are 0.035-0.057-0.0765 for not over and over $120,000 in 2023 (different year may
31. have different tax rate ranges such as 0.04-0.06-0.0765 in 2018).
32. YTI is equal to TI×F, TI is taxable income. F is filing period (1, 2, 4, 12, 24, 26, 52 or 365 on yearly,
33. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples: **Tax rate and tax are:**

1. YTI=$48,000 (S=1): $(48,000 \div 1 \div 5,454,545 + 0.035) \times 48,000 = 0.0438 \times 48,000 = 2,102.40$
2. Bi-weekly TI is $10,000 (S=2): $(0.0765 - 2,340 \times 2 \div 10,000 \div 26) \times 10,000 = 0.0585 \times 10,000 = 585.00$
3. Monthly TI is $4,000 (S=1): $(4,000 \times 12 \div 1 \div 5,454,545 + 0.005) \times 4,000 = 0.0438 \times 4,000 = 175.20$

Notes:

(1) With this simplification, existing 72 (4×3×6) formulas, 4 tax brackets,12 taxable income ranges, 26-page Withholding Tables, and 6-page Tax Table can be matched and simplified by 2 fair** brackets and formulas with **99% reduction** (1-(2÷72)×(2÷4)) **to save $170 million** (Table 6**).

With this simplification, the tax rate ranges of 3.54%-5.65%-7.65% may gain tax revenue slightly. 3.54% may be reduced to 3.5% to have neutral tax revenue and reduce low-end income taxes slightly. 3.5% may be adjusted according to its evaluation from Department of Revenue. Other incomers have no or almost no tax rate and tax differences. There are two tax rate ranges of 0.04-0.06-0.0765 in 2018. Then C is 6,000,000 from 120,000 ÷ (0.06-0.04) and D is 1,980 from 120,000 × (0.0765-0.06).

www.revenue.wi.gov/Pages/FAQS/pcs-taxrates.aspx
www.revenue.wi.gov/TaxForms2017through2019/D-101a-2018-1-ES-inst.pdf

** Fair tax rate changes: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf
(3. Tax Rate Change Speed, Checking Tool, Tax Status and Simplification and Table 6)

(2) www.revenue.wi.gov/DOR%20Publications/pb166.pdf   Withholding tables (26 pages) and related formulas are replaced by the above two tax rate formulas for not over and over $120,000 and the following formula to calculate withholding taxes with Standard deductions, exemptions and tax credits and income taxes for tax returns with actual deductions, exemptions and tax credits.

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

(3) Existing tax table (6 pages) or its formula is for people to have one option. The 6 pages may be reduced to 3 pages.   www.revenue.wi.gov/TaxForms2020/2020-Form1-Inst.pdf

(4) For over $175,660×S, the same tax formula is converted into tax rate and tax format.

(10,666.75+0.0765 (TI-175,660))= (0.0765 – 2,771.24÷YTI)×YTI into (0.0765 – (D×S÷YTI)) × TI)

(5) For existing tax reforms, tax brackets, tax rates, taxable income ranges 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 ($120,000) and top are adjusted to meet a tax goal. The factors are explained by our research paper** (Page 508).

Bill Summary

This bill matches and simplifies the existing 4 tax brackets, 12 taxable income ranges, 72 (4×3×6) formulas, and Withholding Tables (26-page) with 2 brackets and formulas resulting in 99% reduction and 15 benefits. Tax statuses are numbered with 1, 2 or 1.5. Payrolls, withholding reports, tax returns, tax analyses, tax reforms and tax projections can be simplified. A checking tool is provided to reduce calculation mistakes. For a tax reform, only 3 tax rates at bottom, top and $120,000 are adjusted to meet a related tax projection by lawmakers.

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