

WEST VIRGINIA BILL NO. _____ Individual income tax simplification

Summary: One simple slope formula and one existing formula are used to match WV tax systems fairly and efficiently for replacing existing 5 tax brackets, 60 (5×2×6) withholding formulas (**Problem #1: too many formulas**), 12-page Withholding Tables (**Problem #2: too many pages**), and 8-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. ~~<https://tax.wv.gov/Documents/TaxForms/it100.1a.pdf>~~
4. ~~If the yearly taxable income is: The tax are:~~
5. ~~Rate Schedule I (1 (Single), 2 (Head of Household), 3 (Married filing joint) or 5 (Widow(er)~~
6. ~~Not over \$10,000 3% of the yearly taxable income (YTI)~~
7. ~~Over \$10,000 but not over \$25,000 \$300 + 4% of excess over \$10,000~~
8. ~~Over \$25,000 but not over \$40,000 \$900 + 4.5% of excess over \$25,000~~
9. ~~Over \$40,000 but not over \$60,000 \$1,575 + 6% of excess over \$40,000~~
10. ~~Over \$60,000 \$2,775 + 6.5% of excess over \$60,000~~
11. ~~Rate Schedule II (4 (Married filing separately)~~
12. ~~Not over \$5,000 3% of the yearly taxable income (YTI)~~
13. ~~Over \$5,000 but not over \$12,500 \$150 + 4% of excess over \$5,000~~
14. ~~Over \$12,500 but not over \$20,000 \$450 + 4.5% of excess over \$12,500~~
15. ~~Over \$20,000 but not over \$30,000 \$787.50 + 6% of excess over \$20,000~~
16. ~~Over \$30,000 \$1,387.50 + 6.5% of excess over \$30,000~~
17. ~~12 page Withholding Tables~~
18. ~~6 page Tax Table~~
- 19.
20. For the yearly taxable income (YTI) is: The tax rate and tax are: Tax rate range:
21. Not over \$50,000×S (YTI÷C÷S+0.03)×TI 3% - 5.375%
22. Over \$50,000×S (0.065-(D×S÷YTI))×TI 5.375% - 6.5%
- 23.
24. YTI is the yearly taxable income. S is tax filing status (1 for Schedule II or 2 for Schedule I).
25. C is 2,105,263 from 50,000 to divide (÷) the 1-st tax rate range difference (0.05375-0.03). D is 562.5*
26. from 50,000 to multiply (×) the 2-nd tax rate difference (0.065-0.05375).
27. There are two tax rate ranges of 3%-5.375%-6.5% for taxable incomes not over and over \$50,000×S.
28. YTI=TI×F, TI is taxable income and F is filing period (1, 2, 4, 12, 24, 26, 52 or 260 on yearly,
29. semi-yearly, quarterly, monthly, semi-monthly, bi-weekly, weekly or daily basis).

Examples:

Tax rate and tax are:

1. YTI=\$65,432 (S=2): (65,432÷2,105,263÷2+0.03)×65,432=0.04554×65,432 = 2,979.78
2. Bi-weekly TI is \$2,517 (S=2): (2,517×26÷2,105,263÷2+0.03)×2,517=0.045542476×2,517 = 114.63
3. Monthly TI is \$4,362 (S=1): (0.065-562.5×1÷4,362÷12)×4,362=0.05425378×4,362 = 236.66
4. Weekly TI is \$1,007 (S=1): (0.065-562.5×1÷1,007÷52)×1,007=0.0542579×1,007 = 54.64

* For over \$50,000×S, the same tax formula is converted into tax rate and tax format.

$$1,387.5+6.5\%(YTI-30,000)=0.065 YTI -562.5=(0.065-562.5\div YTI)\times YTI \text{ into } (0.065 -562.5\div YTI)\times TI$$

***Notes:**

1. With this simplification, existing 5 tax brackets (3%, 4%, 4.5%, 6%, and 6%), 60 withholding formulas, 12-page Withholding Tables, and 6-page Tax Table can be matched and simplified with 1 slope formula and 1 existing formula in two brackets (3%-5.375%-6.5%) fairly (*) with 99% reduction (1-(2÷60)(2÷5)).

2. The 60 (5×2×6) withholding formulas and 12-page Withholding Tables can be eliminated and replaced with the 2 formulas simply and fairly.

<https://tax.wv.gov/Documents/TaxForms/it100.1a.pdf>

<https://tax.wv.gov/Documents/TaxForms/2021/it140.booklet.pdf>

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

Total Tax=0.03SumYTib+Sum(YTic×YTic)÷2,105,263 + Sum (0.065 YTid-562.5) (for S=1)

Standard deductions, exemptions and tax credits are used for withholding tax calculations. F=1 is for tax returns. Tax Table (6 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 3% may be reduced to 2.5% such as 2.5%-5.375%-6.5% for not over and over \$50,000×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 no 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 tax status (S) numbers, there is no problem for S=2 for Married filing joint (3) or Widow(er) (5) and S=1 for Married filing separately (4). S=1.5 for Head of Household (2) and S=1 (or 1.2) for Single (1) are suggested.

Bill Summary

Bill xxx - This bill can match and simplify existing 5 tax brackets, 60 (5×2×6) withholding formulas, 12-page Withholding Tables, and 6-page Tax Table with 1 simple slope formula and 1 existing formula in two brackets. Tax statuses can 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, \$50,000×S, and top are adjusted for tax revenue analyses and tax reforms by lawmakers.

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