HB 2846 Proponent Testimony
Ways and Means Committee
The Honorable Rep. Mike McGirl, Chairman
Missouri State Capitol - Room 201-B
Jefferson City, MO 65101

Chairman McGirl and Committee Members:

I support HB 2846 for Missouri to match and simplify MO complex tax calculation systems with one simple slope formula and one existing formula in HB 2846 and to save hundred million dollars.

MO Tax Calculation Systems (1917-2021) and Simplification by HB 2846:
    We have studied the above tax calculation systems. MO has struggled with complex tax brackets (1-10) and withholding formulas (up to 60) for the 100 years. Existing tax system has 9 tax brackets, 54 withholding formulas (9×6) and 10-page Withholding Tables for withholding taxes and 9 taxable income ranges, 9 formulas and 1-page Tax Table for tax returns. Tax rates and top tax rates are changed yearly during the recent 10 years.

    We have done our tax simplification research with 12 publications. Our research shows the above different tax brackets (up to 10), withholding formulas (up to 60), different taxable income ranges, and 10-page Withholding Tables can be matched and replaced with one slope formula and one existing formula in HB 2846.

Benefit and Value with HB 2846:
    HB 2846 shall show almost neutral tax revenue. One simple slope (linear) formula is used for taxable incomes not over $9,000. One existing same tax formula is converted to tax rate and tax format for over $9,000. It has 15 benefits for MO businesses, DOR, and taxpayers to save $170 million (value). Some of them are:
1. Missouri can use and keep two formulas and brackets without the struggles with different tax brackets (up to 10), changeable top tax rates, and withholding formulas (up to 60) in the future.
2. MO businesses can use two formulas and standard deductions and credits to replace the existing 54 formulas and 10-page Withholding Tables for withholding taxes to save $72.8 million (if $1(cost)×26×2.8 million).
3. The two sub tax systems for withholding taxes and tax returns can be combined together simply.
4. A checking tool is provided to check and reduce calculation mistakes.
5. Lawmakers can adjust only 3 tax rates at bottom, $9,000 and top such as 1.5%-3.2522%-5.3% in 2022 (1.5%-3.322%-5.4% in 2021, 1.5%-3.35%-5.4% in 2020, 1.5%-3.44%-5.9% in 2018 or 1.5%-3.5%-6% in 2016) for future tax reforms to replace the existing several factors with more options*..
        …..... * www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf ....
15. MO DOR can use the two formulas instead of the existing nine formulas to simplify tax calculation, fiscal note, analysis, and projection. Then more time can be used to inspect tax returns. DOR may estimate its saving.

One slope (linear) formula can be used to resolve other tax problems such as MO Federal Tax Percentage with unfair $1,500 deduction difference by $1 AGI difference. Comparisons of the MO tax systems and HB 2846 are:

Tax Calculation System	Tax Brackets	Withholding Formulas	Withholding Tables	Tax Table	Tax Revenue Change	Saving for Businesses
Tax Systems	9	54 (up to 60)	10 pages	1 page	No change	0
HB 2846	2	2	0	Option	~No change	$72.8 million

If you have any questions, let me know. Let us work together for MO. Thank you.

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Tax Problem and Solution with One Slope Formula for Missouri

Summary: One simple slope formula can be used to resolve MO income tax, MO Federal Tax Percentage (cliff), property tax credit, social security (SS) tax, and corporate tax problems. Existing tax calculation system with 9 tax brackets, 54 withholding formulas (9×6), and 10-page Withholding Tables can be matched and simplified with 15 benefits to save $170 million (Table 6*) for MO.

* Research paper: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf
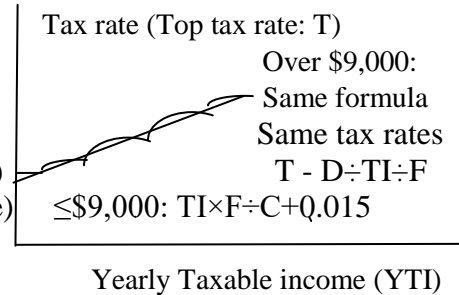https://taxsimplecenter.net/statetaxsimplification.html

1. Multi-bracket Income Tax Systems and Simplification

MO Tax Calculation System:
9 tax brackets at 1.5%, … 5.4% (6%, 5.9%, 5.3%, 5.2% or 5.1%)
54 withholding formulas (9×6)
10-page Withholding Tables

($1 million gain w/1.5% or ~0 w/1.4%)
Long-Term Solution: Two formulas (Neutral tax revenue)
(One simple slope formula and one existing formula)

Tax rate (Top tax rate: T)
Over $9,000:
Same formula
Same tax rates
$T - D \div TI \div F$
$\leq\$9,000$: $TI \times F \div C + 0.015$

Yearly Taxable income (YTI)

2. Flat Rates (MO Federal Tax Percentage)

Existing Federal Tax Percentage (FTP) has 5 brackets/step rates at 35% to 25%, 15%, 5% or 0%.

When MO AGI is changed from $100,000 to $100,001 with federal tax such as $15,000, MO federal tax deduction is from $2,250 (15%×$15,000) to $750 (5%×$15,000). **The $1 causes an unfair $1,500 difference.**
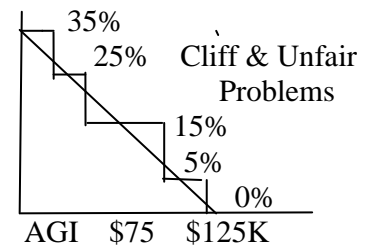
Long-Term Solution: One Formula

35%
25% Cliff & Unfair
Problems
15%
5%
0%
AGI $75 $125K

Cycle Problem: Federal tax returns with itemized deductions (w/MO taxes) and MO tax returns with FTP are depended on each other and have cycle calculations (problem).

## 3. Property Tax Credit Rate Simplification (53 brackets are reduced to 1)

MO Property Tax Credit Chart shows its reduction from 100% (or L13) to 0 when Line 10 changes from 0-$14,000 to $30,000. Maximum tax credit (L13: Total Real Estate Tax Paid) is $1,100.

One slope solution can be used to match related tax credit rates between 100% and 0 gradually from 53 brackets to 1 with 98% reduction.

Property Tax Credit Rate
100%
53 Steps
to 1 Slope
0
Line 10: $14,300 $30,000

MO Property Tax Credit Rate

Line 10	0-14,000	14,000-30,000	Over 30,000
Credit rate	1	1-(L10-14,000)÷16,000	0
		(or 1.875 - L10÷16,000)	

There is neutral tax revenue change.
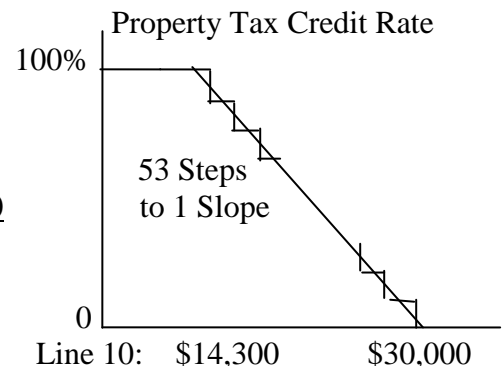
4. MO Social Security Benefit Simplification:

5. MO Corporation Tax Modification and Simplification:

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