

# Individual Income Tax Proposal Summary

## September 12, 2006

### Proposal

Under the proposal, a taxpayer can calculate the individual income tax in two different ways and pay the lesser of the two. A taxpayer who benefits by giving up certain deductions can pay under a flat tax computation with a rate of 5.35%. The proposal also expands all current system tax brackets by approximately 28% and allows taxpayers who benefit by computing the tax under the current system to do so.

### Current System (effective tax year 2006)

All existing additions, deductions, exemptions, credits, and checkoff contributions remain

Tax brackets (applied to state taxable income) expanded by approximately 28%

Current Brackets				Expanded Brackets			
<u>Lower</u>	<u>Upper</u>	<u>Add</u>	<u>Rate</u>	<u>Lower</u>	<u>Upper</u>	<u>Add</u>	<u>Rate</u>
\$0	\$1,726	\$0	2.3%	\$0	\$2,210	\$0	2.3%
\$1,727	\$3,450	\$40	3.3%	\$2,211	\$4,416	\$51	3.3%
\$3,451	\$5,176	\$97	4.2%	\$4,417	\$6,626	\$124	4.2%
\$5,177	\$6,900	\$169	5.2%	\$6,627	\$8,832	\$216	5.2%
\$6,901	\$8,626	\$259	6.0%	\$8,833	\$11,042	\$331	6.0%
\$8,627	And up	\$362	7.0%	\$11,043	and up	\$464	7.0%

Single brackets at ½ these amounts

For taxpayers in the top bracket, this creates a \$67 tax reduction for married filing jointly and head of household filers, and a \$33 tax reduction for single and married filing separately filers

### Flat Tax Computation (effective tax year 2007)

Effective tax year 2007, a taxpayer will be able to pay the lesser of the current system computation and the following flat rate computation:

5.35% of federal adjusted gross income (AGI) with the following adjustments:

- Add certain:
  - income tax amounts deducted from AGI by an estate or trust
  - lump sum distributions
  - child's income reported on a parent's return but not included in AGI
  - medical savings account withdrawals and penalties deducted on state individual income tax return
  - educational savings plan withdrawals deducted on state individual income tax return
  - other states' bond interest
  - trust distributions received by a resident beneficiary
  - adoption expenses deducted on state or federal individual income tax return
- Subtract:
  - deductions required by federal law, treaty, or case law (US interest, certain American Indian income, and railroad retirement income)
  - Uintah-Ouray reservation income
  - state tax refund included in AGI

Taxpayer may claim nonrefundable and refundable credits and make checkoff contributions

Low-income exemption remains

Determination may be made each year and for amended returns

Flat tax computation not allowed for estates and trusts

Tax Commission may adjust AGI if taxpayer would receive double tax benefit or suffer double tax detriment

Non-resident AGI apportioned