OKLAHOMA TAX COMMISSION

FISCAL IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT
SECOND REGULAR SESSION, FIFTY-FIFTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: February 13, 2016

BILL NUMBER: SB 1073 **STATUS AND DATE OF BILL:** Introduced 1/15/16

AUTHORS: House n/a Senate Mazzei

TAX TYPE (S): Income Tax **SUBJECT:** Tax Rate

PROPOSAL: Amendatory

SB 1073 proposes to amend 1) 68 O.S. §2355.1F which relates to the implementation of the top marginal individual income tax rate of 5% for tax year 2016 and 2) 68 O.S. § 2355.1F which provides a trigger mechanism contingent upon certain revenue growth. This measure further amends 68 O.S. § 2358 as it relates to itemized deductions.

EFFECTIVE DATE: Emergency - Upon Passage and Approval

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 17: Estimated increase in individual income tax collections of $132,000,000.

ADMINISTRATIVE IMPACT:

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 17: None

Feb. 13, 2016 — Rick Miller — mck
DATE — DIVISION DIRECTOR

2-13-16 — Reece Womack
DATE — REECE WOMACK, ECONOMIST

2/14/16 — [signature]
DATE — FOR THE COMMISSION

SB 1073 proposes to amend 1) 68 O.S. §2355.1F which relates to the implementation of the top marginal individual income tax rate of 5% for tax year 2016 and 2) 68 O.S. § 2355.1F which provides a trigger mechanism contingent upon certain revenue growth. This measure further amends 68 O.S. § 2358 as it relates to itemized deductions.

CURRENT LAW:

Income Tax Rate & Trigger:

Under current law, the top marginal individual income tax rate of 5% went into effect for tax year 2016[1], with a trigger mechanism in place to potentially lower the top marginal individual income tax rate to 4.85%. In order to trigger the 4.85% rate, the top marginal individual income tax rate of 5% had to have been in effect. The State Board of Equalization, at the December 2016 meeting, will have to make a preliminary finding that the Board anticipates that a finding will be made at the February 2017 meeting that the estimated growth in General Revenue Collections for the next FY (FY18) is equal to or greater than the estimated cost of decreasing the top marginal individual income tax rate to 4.85% for the tax year beginning the second subsequent January (tax year 2018).

The State Board of Equalization will then have to certify at the February 2017 meeting that the estimated growth in General Revenue Collections for FY18 will be equal to or greater than the estimated cost of decreasing the top marginal individual income tax rate to 4.85% for tax year 2018. If the State Board of Equalization makes a finding at the December 2016 meeting that the Board anticipates that a finding will be made at the February 2017 meeting that the estimated growth in General Revenue Collections for the next FY18 is less than the estimated cost of decreasing the top marginal individual income tax rate to 4.85% for the tax year 2018, the income tax rate will remain at 5%. These procedures will be repeated at every December and February State Board of Equalization meeting until the top marginal individual income tax rate is 4.85%. Once that rate is achieved, the State Board of Equalization will no longer have to make the findings as outlined above.

Itemized Deductions:

Under current law, taxpayers that claim itemized deductions for federal income tax purposes can claim that same amount to calculate Oklahoma taxable income. These itemized deductions include state and local taxes paid.

PROPOSED LAW:

Income Tax Rate & Trigger:

This measure proposes to void the 5% top marginal individual income tax rate if said rate became effective during a fiscal year when a revenue failure is subsequently declared by the State Board of Board Equalization pursuant to paragraph 7 of Section 23 of Article X of the Oklahoma Constitution.

In addition the trigger mechanism required to decrease the top marginal individual income tax to 4.85% would require a 3% growth in the revised General Revenue Fund estimate.

---

[1] Finding of the State Board of Equalization – December 18, 2014; *State Board of Equalization Proposed FY-2016 Revenue Certification* - Oklahoma Office of Management and Enterprise Services.

Itemized Deductions:

This measure proposes to require state and local taxes included in itemized deductions be added back to calculate Oklahoma taxable income (by subtracting them from itemized deductions). This addback requirement is effective in the first year the top marginal individual income tax rate is 4.85%.

REVENUE IMPACT:

Under current law, Oklahoma has a progressive individual income tax rate structure with the top marginal individual income tax rate at 5.0% for tax year 2016 and 2017, then *potentially* to 4.85% for subsequent tax years, contingent upon certain revenue growth as outlined above[2]. This measure would set the top marginal individual income tax rate to 5.25% for tax year 2016 and subsequent tax years. The estimated increase to individual income tax collections for tax year 2016 is $132,000,000. There is an unknown potential increase[3] to FY16 income tax collections. For FY17 individual income tax collections are expected to increase by $132,000,000.

---

[2] There is some ambiguity as to whether the 4.85% top marginal individual income tax rate can ever be considered if the top marginal individual income tax rate of 5% is voided. Due to this ambiguity; no estimate of changes to individual income tax collections has been made for top marginal individual income tax rate decreasing to 4.85%; nor has any estimate been done considering the effect of requiring the addback of state and local taxes at the 4.85% rate.

[3] Individual income tax collections are generally split into fiscal years using a 40% / 60% ratio. That assumes full compliance with the law on January 1 of the tax year. Upon enactment of the top marginal individual income tax rate 5.25%; the Oklahoma Income Tax Withholding Tables would be adjusted to account for the new rate. This date as well as compliance is uncertain. It is estimated that no more than an additional $16 million in individual income tax collections could occur in FY16 as a result of the rate change.