

# OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: May 25, 2016

BILL NUMBER: SB 1618 STATUS AND DATE OF BILL: Committee Substitute 5/24/16

AUTHORS: House Sears & Casey Senate Jolley & Treat

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

PROPOSAL: Amendatory

SB 1618 proposes to amend 68 O.S. § 2355.1G, which provides for a trigger mechanism to reduce the top marginal individual income tax rate to 4.85%.

EFFECTIVE DATE: November 1, 2016

### REVENUE IMPACT:

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

FY 17: -0-

FY 18: See attached analysis.

### ADMINISTRATIVE IMPACT:

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

FY 17: No additional cost or savings to the Tax Commission due to this proposed legislation.

May 25, 2016  
DATE

Rick Miller  
DIVISION DIRECTOR

mck

5-25-16  
DATE

Reece Womack  
REECE WOMACK, ECONOMIST

5/24/16  
DATE

Dan Casey  
FOR THE COMMISSION

SB 1618 proposes to amend 68 O.S. § 2355.1G, which provides for a trigger mechanism to reduce the top marginal individual income tax rate to 4.85%.

***CURRENT LAW:***

Under current law, the top marginal individual income tax rate of 5% went into effect for tax year 2016<sup>1</sup>, with a trigger mechanism in place to lower the top marginal individual income tax rate to 4.85%. 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 the 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.

***PROPOSED LAW:***

The timing of the trigger mechanism to lower the top marginal individual income tax rate to 4.85% is unchanged. 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 proposed expenditure authority<sup>2</sup> for the next FY (FY18) is in excess of a threshold amount of at least Seven Billion Two Hundred Fifty Million Dollars (\$7,250,000,000.00).

The State Board of Equalization will then have to certify at the February 2017 meeting that the proposed expenditure authority for the next FY (FY18) is in excess of a threshold amount of at least Seven Billion Two Hundred Fifty Million Dollars (\$7,250,000,000.00). Further, the State Board of Equalization will recertify the proposed expenditure authority accordingly for FY18.

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 proposed expenditure authority for the next FY (FY18) is not in excess of a threshold amount of at least Seven Billion Two Hundred Fifty Million Dollars (\$7,250,000,000.00), 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

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<sup>1</sup>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.

<sup>2</sup>"Proposed expenditure authority" is defined as the total amount available for the Legislature to spend. This is to consist of estimated amounts from certified funds subject to the ninety-five percent (95%) limit as provided for in Section 23 of Article X of the Oklahoma Constitution; estimated amounts from the Commissioners of the Land Office Fund; the Oklahoma Education Lottery Trust Fund; the Common Education Technology Revolving Fund; the Oklahoma Student Aid Revolving Fund; the Higher Education Capital Revolving Fund; the Education Reform Revolving Fund; the Tobacco Settlement Endowment Trust Fund; the State Judicial Revolving Fund; and the State Transportation Fund as well as cash available in these funds from any prior years.

Board of Equalization will no longer have to make the findings as outlined above.

**REVENUE IMPACT:**

Under current law, Oklahoma has a progressive individual income tax rate structure with the top marginal tax rate of 5.0% and a trigger mechanism in place to potentially reduce the top marginal individual income tax rate to 4.85% beginning in tax year 2018. This measure does not change the timing of the trigger mechanism or the amount of the top marginal individual income tax rate (4.85%) if the trigger is met. This measure modifies the Board of Equalization's calculation for determining when the individual income tax rate can be reduced from 5.0% to 4.85%.

The table below shows the estimated effect if, and only if, the top marginal individual income tax rate is decreased to 4.85% beginning with tax year 2018.

<b><u>FY EFFECT INCOME TAX ASSUMING TRIGGER FOR 4.85% IN 2018 &amp; SUBSEQUENT YEARS</u></b>				
<b>Fiscal Impact</b>				
Tax year 2018	-\$94,754,000			
Tax year 2019	-\$101,509,000			
Tax year 2020	-\$108,285,000			
<b>FY CONVERSION</b>		<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
Tax year 2018	-\$94,754,000	-\$37,902,000	-\$56,852,000	
Tax year 2019	-\$101,509,000		-\$40,604,000	-\$60,905,000
Tax year 2020	-\$108,285,000			-\$43,314,000
<b>FY TOTAL</b>		<b>-\$37,902,000</b>	<b>-\$97,456,000</b>	<b>-\$104,219,000</b>
Source: Oklahoma Individual Income Tax Micro-Simulation Model.				