OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT
SECOND REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: February 10, 2022

BILL NUMBER: HB 3635 **STATUS AND DATE OF BILL:** Introduced 1/20/22

AUTHORS: House Lepak Senate n/a

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

PROPOSAL: Amendatory

HB 3635 proposes to amend 68 O.S. § 2355 relating to the individual income tax rate; as well as 68 O.S. § 2358 relating to the Oklahoma standard deduction effective for tax year 2023 and subsequent tax years.

EFFECTIVE DATE: January 1, 2023

REVENUE IMPACT:

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

FY 23: Unknown change to income tax collections at this time.
FY 24: Unknown change to income tax collections at this time.

Feb. 12, 2022
DATE

Rick Miller
DIVISION DIRECTOR

mk

2/12/2022
DATE

Huan Gong
HUAN GONG, ECONOMIST

2/14/2022
DATE

FOR THE COMMISSION

The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.

ATTACHMENT TO REVENUE IMPACT – HB 3635 [Introduced] Prepared 2/10/22

HB 3635 proposes to amend 68 O.S. § 2355 relating to the individual income tax rate; as well as 68 O.S. § 2358 relating to the Oklahoma standard deduction effective for tax year 2023 and subsequent tax years.

Tax Rate and Standard Deduction

Under current law, income tax is levied on taxable income using the following income tax brackets:

Married Filing Joint; Head of Household and Surviving Spouse Brackets								
If Taxable Income Is:								
0	-	$2,000	Pay	$0	plus	0.25%	over	$0
$2,001	-	$5,000	Pay	$5.00	plus	0.75%	over	$2,000
$5,001	-	$7,500	Pay	$27.50	plus	1.75%	over	$5,000
$7,501	-	$9,800	Pay	$71.25	plus	2.75%	over	$7,500
$9,801	-	$12,200	Pay	$134.50	plus	3.75%	over	$9,800
$12,201	and above		Pay	$224.50	plus	4.75%	over	$12,200

Single and Married Filing Separate Brackets								
If Taxable Income Is:								
$0	-	$1,000	Pay	$0.00	plus	0.25%	over	$0
$1,001	-	$2,500	Pay	$2.50	plus	0.75%	over	$1,000
$2,501	-	$3,750	Pay	$13.75	plus	1.75%	over	$2,500
$3,751	-	$4,900	Pay	$35.63	plus	2.75%	over	$3,750
$4,901	-	$7,200	Pay	$67.25	plus	3.75%	over	$4,900
$7,201	and above		Pay	$153.50	plus	4.75%	over	$7,200

This measure would replace the graduated income tax rate structure with a single rate of 4.75%; effective for tax year 2023 and subsequent years. The 4.75% is potentially subject to change as outlined in the next section (Tax Rate Trigger).

Additionally this measure would amend the amount of standard deduction[1] that is allowed to compute Oklahoma taxable income. The chart below shows the current and proposed standard deduction by income tax filing status:

	Standard Deduction Amount	
Filing Status	Current	Proposed
Married Filing Joint & Surviving Spouse	$12,700	$20,700
Single & Married Filing Separate	$6,350	$10,350
Head of Household	$9,350	$13,350

[1] Individual taxpayers may either itemize their deductions or claim an Oklahoma standard deduction to compute Oklahoma taxable income. If using itemized deductions for federal income tax purposes, the Oklahoma itemized deduction amount is limited as follows:
Beginning with tax year 2016, state and local income taxes included in itemized deductions are added back to calculate Oklahoma taxable income (by subtracting them from itemized deductions).
Beginning with tax year 2018 itemized deductions may not exceed $17,000, not including charitable contributions or medical expenses.

Tax Rate Trigger:

HB 3635 further requires the State Board of Equalization (BOE), at its February meeting each year, to make a determination regarding the possibility of a decrease in the individual income tax rate. This measure proposes a trigger to decrease the individual income tax rate by O.5% each year there is an increase in the General Revenue Fund (GRF) appropriation authority equal to or greater than 5% compared to the initial base year GRF appropriation authority.

The initial base year amount shall be the appropriation authority with respect to the GRF for the fiscal year ending June 30, 2020, based upon the certified estimate made by the BOE at its February 2019 meeting. Beginning with the February 2023 meeting of the BOE and at each succeeding February meeting, the BOE shall compare the GRF appropriation authority amount for the upcoming fiscal year to the initial base year GRF appropriation authority. If there is an increase in the GRF appropriation authority equal to or greater than 5% compared to the initial base year GRF appropriation authority, the income tax rate shall be reduced effective January 1 of the immediately succeeding calendar year.

For any year during which the GRF appropriation authority as determined at the February meeting equals or exceeds the base year GRF appropriation authority by 5% or more, the base year shall be adjusted for purposes of any succeeding comparison.

If there are nine authorized reductions in the income tax rate, the tenth reduction in the income tax rate shall cause the income tax rate to be zero and for the applicable income tax year, there shall be no individual income tax levied.