

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-NINTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: January 20, 2023

BILL NUMBER: HB 1453 **STATUS AND DATE OF BILL:** Introduced 12/28/22

AUTHORS: House: Provenzano Senate: n/a

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

PROPOSAL: New Law

HB 1453 proposes to create a new income tax credit for individuals based on the difference between the amount of combined state and local sales taxes due on the gross receipts of the sale of a cellular phone and the amount of combined state and local sales taxes due on the gross receipts minus the amount of combined state and local sales taxes due on the value of the trade-in or rebate amount. The credit is effective for tax years 2024 through 2028.

EFFECTIVE DATE: January 1, 2024

REVENUE IMPACT:

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

FY 24: None.

FY 25: Estimated decrease in income tax revenue of \$52.4 million.

Jan. 20, 2023
DATE

Rick Miller
DIVISION DIRECTOR

bf

1/25/2023
DATE

Huan Gong
HUAN GONG, ECONOMIST

1/30/2023
DATE

Joseph P. Saxpa
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 1453 [Introduced] Prepared 1/20/23

HB 1453 proposes to create a new income tax credit for individuals based on the difference between the amount of combined state and local sales taxes due on the gross receipts of the sale of a cellular phone and the amount of combined state and local sales taxes due on the gross receipts minus the amount of combined state and local sales taxes due on the value of the trade-in or rebate amount. The credit is effective for tax years 2024 through 2028.

Under current law, the terms "gross receipts," "gross proceeds," or "sales price," from which Oklahoma sales tax is calculated, does not allow for the deduction of a credit for trade or from a rebate or discount that is reimbursed by a third party, even if separately stated. Therefore, when a customer buys a cellular phone from a vendor, and the vendor offers the customer a credit for trade-in for the old cellular phone, the vendor is not allowed to deduct the trade-in amount of the old cellular phone from the sales price to compute Oklahoma sales tax.

Projected revenue for smartphone sales in the U.S. is over \$400 billion for 2024,¹ and an estimated \$4.8 billion (1.21%)² of these sales may be attributable to Oklahoma taxpayers. The average price of a new smartphone is projected to be \$550 in 2023,³ and the average trade-in value for an older smartphone was estimated to be approximately \$137 in the second quarter of 2022.⁴ These amounts and a combined state and local average sales tax of 8.75% were used to calculate a revenue impact for the proposal:

Estimated Revenue of Oklahoma Smartphone Sales	\$4,800,000,000
Average Smartphone Cost Before Trade-in	\$550
Average Trade-in Value	\$137
Estimated Net Smartphone Cost After Trade-in	\$413
Estimated Number of Annual Oklahoma Smartphone Purchases	8,727,273
Sales Tax Before Trade-in (\$550 x 8.75%)	\$48
Sales Tax After Trade-in (\$413 x 8.75%)	\$36
Sales Tax Difference (Income Tax Credit Amount)	\$12
Oklahoma Smartphone Purchases x Sales Tax Difference	\$104,727,273

For this estimate, it is assumed that 50%⁵ of the cell phone purchases in 2024 will involve a trade-in or rebate. No changes to withholding or estimated tax are expected as a result of the proposal, and an estimated decrease of \$52.4 million in income tax revenue is expected for FY 25 when the 2024 returns are filed.

¹ See <https://www.statista.com/statistics/276636/smartphones-us-retail-m-commerce-sales/#:~:text=The%20source%20projected%20smartphone%20retail,the%20amount%20forecast%20for%202021..>

² Based on U.S. Census Bureau data, the total U.S. population estimate was 333,054,557 on July 1, 2022, and the Oklahoma population estimate was 4,019,800 (approximately 1.21% of the total U.S. population estimate) on July 1, 2022. See <https://www.census.gov/quickfacts/fact/table/US/PST045221> and <https://www.census.gov/quickfacts/OK>.

³ See <https://www.statista.com/statistics/619830/smartphone-average-price-in-the-us/#:~:text=The%20average%20price%20of%20a,550.15%20U.S.%20dollars%20in%202023..>

⁴ See <https://www.computerweekly.com/news/252524995/Smartphone-trade-value-rises-as-average-age-of-devices-breaks-35-year-threshold>.

⁵ The credit is available only to individuals, and the number of cellular purchases by business entities is unknown.