OKLAHOMA
Tax Commission

REVENUE IMPACT STATEMENT
2025 REGULAR SESSION
60TH LEGISLATURE, 1ST SESSION

BILL/VERSION:	SB 1 / INTRODUCED	**ANALYST**: MK
AUTHORS:	Sen. Bergstrom	**DATE**: 11/22/2024
TAX(ES):	Income Tax	
SUBJECT(S):	Individual Income Tax Rate Reduction	
EFFECTIVE DATE:	Emergency – Upon Passage and Approval	**Emergency** ☒

ESTIMATED REVENUE IMPACT:

FY25: Decrease in individual income tax collections between $17.1 million and $68.6 million.[1]

FY26: Decrease in individual income tax collections between $296.7 million and $348.2 million.[1]

FY27: Decrease in individual income tax collections of $275.5 million.

ANALYSIS: SB 1 proposes to amend 68 O.S. § 2355 by decreasing individual income tax rates across all brackets by .25% beginning with tax year 2025 (current top rate is 4.75%, proposed top rate is 4.5% and the rate for taxable income bands below top rate reflect same change). The current and proposed tax brackets for tax year 2025 can be found on the final page of this revenue impact statement. The duties of the State Board of Equalization (BOE) are also amended; a finding of sufficient revenue growth will trigger a future .25% individual income tax rate reductions across all brackets. (62 O.S. § 340.13) An explanation of the trigger for potential rate reductions can be found on page 2 of this revenue impact statement.

ADMINISTRATIVE CONCERNS: The timing of the rate cut poses administrative challenges related to withholding and estimated tax payments for tax year 2025 by creating uncertainty regarding the allocation of the full tax year 2025 impact between fiscal year 2025 and 2026**.**

[1] The broad estimates for FY25 & FY26 are due to the uncertainty of when withholding and estimated tax payments will change to reflect the proposed 2025 rates.

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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.

SB 1 INTRODUCED

ADDITIONAL INFORMATION:

Trigger for Potential Further Rate Reductions:

In the February 2026 BOE meeting, the BOE is required to certify an estimate of the amount of revenue from all state taxes levied for the ensuing fiscal year (FY27). This estimate is then compared to the actual collections for fiscal year 2024 (FY24). If the estimate for FY27 exceeds FY24 by $400 million, then an additional .25% individual income tax rate reduction across all brackets under 68 O.S. § 2355 is triggered for tax year 2027 and succeeding tax years.[2] This process is repeated every February until the rate is 0%. On July 1, 2035, and every ten years thereafter, the trigger threshold of $400 million is adjusted for inflation *to "reflect the percentage change in the Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor for that period".*[3]

Revenue Impact Table - Assuming No Additional Rate Reduction for Tax Year 2027

It is unknown if the FY27 estimate will exceed FY24 collections by $400 million, triggering a rate cut. The chart below[4] shows the tax year effect for 2025-2027 assuming no additional rate cut.

Tax Year Impact - 0.25% Rate Decrease - All Brackets	
Tax year 2025	-$257,108,000
Tax year 2026	-$270,501,000
Tax year 2027	-$282,997,000
Source: Oklahoma Income Tax Micro Simulation Model	

With the uncertainty of the effective date of the bill, it is unknown when in FY25 the 2025 withholding and estimated tax remittances will reflect the proposed rate reduction. Therefore, FY25 and FY26 individual income tax collections are expected to decrease between $17.1 million and $68.6 million for FY25 and between $296.7 million and $348.2 million for FY26.[5]

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[2] Although not specified in the statute, if the rate cut is triggered in the February 2026 meeting, the BOE would have to have a 2nd finding of the estimated amount of individual income tax that gets apportioned to the General Revenue Fund for FY27, accounting for the tax year 2027 rate cut.
[3] The language as drafted is unclear as to specifically who does this adjustment.
[4] The estimated revenue impact was calculated using the Oklahoma Individual Income Tax Microsimulation Model.
[5] A better estimate will be available upon enactment of the legislation.

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The tables below reflect the current and proposed individual income tax brackets for tax year 2025 and subsequent tax years.

Current Law

Single & Married Separate Filers

Taxable income		Pay	plus	over
$0	$1,000	$0.00	0.25%	$0
$1,001	$2,500	$2.50	0.75%	$1,000
$2,501	$3,750	$13.75	1.75%	$2,500
$3,751	$4,900	$35.63	2.75%	$3,750
$4,901	$7,200	$67.25	3.75%	$4,900
$7,201	and above	$153.50	4.75%	$7,200

Current Law

Married Joint, Head of Household & Surviving Spouse Filers

Taxable income		Pay	plus	over
$0	$2,000	$0.00	0.25%	$0
$2,001	$5,000	$5.00	0.75%	$2,000
$5,001	$7,500	$27.50	1.75%	$5,000
$7,501	$9,800	$71.25	2.75%	$7,500
$9,801	$14,400	$134.50	3.75%	$9,800
$14,401	and above	$307.00	4.75%	$14,400

Proposed Law .25% rate reduction - all brackets

Single & Married Separate Filers

Taxable income		Pay	plus	over
$0	$1,000	$0.00	0.000%	$0
$1,001	$2,500	$0.00	0.500%	$1,000
$2,501	$3,750	$7.50	1.500%	$2,500
$3,751	$4,900	$26.25	2.500%	$3,750
$4,901	$7,200	$55.00	3.500%	$4,900
$7,201	and above	$135.50	4.500%	$7,200

Proposed Law .25% rate reduction - all brackets

Married Joint, Head of Household & Surviving Spouse Filers

Taxable income		Pay	plus	over
$0	$2,000	$0.00	0.000%	$0
$2,001	$5,000	$0.00	0.500%	$2,000
$5,001	$7,500	$15.00	1.500%	$5,000
$7,501	$9,800	$52.50	2.500%	$7,500
$9,801	$14,400	$110.00	3.500%	$9,800
$14,401	and above	$271.00	4.500%	$14,400