

**BILL SUMMARY**  
1<sup>st</sup> Session of the 52<sup>nd</sup> Legislature

|                  |   |
|------------------|---|
| <b>Bill No.:</b> | <b>SB 318</b>                           |
| <b>Version:</b>  | <b>Subcommittee Recommendation</b>      |
| <b>Author:</b>   | <b>Rep. Hickman &amp; Sen. Mazzei</b>   |
| <b>Date:</b>     | <b>April 8, 2009</b>                    |
| <b>Impact:</b>   | <b>Sales Tax Collections</b>            |
|                  | <b>FY10: \$43.7 Million Decrease</b>    |
|                  | <b>FY11: \$89.9 Million Decrease</b>    |
|                  | <b>Income Tax Collections</b>           |
|                  | <b>FY11: Decrease of \$30.5 Million</b> |

**Bill Summary**

Research Analyst: Jonathan S. Small II

The sub-committee recommendation replaces the current sales tax on groceries with an excise tax on groceries. This excise tax on groceries would be phased out over 5 years. The rates would be in effect for the following years: FY-2010 3.6%, FY-2011 2.7%, FY-2012 1.8%, FY-2013 0.9%, and FY-2014 0.0%. The exemption would not apply to municipal and county sales tax.

The sub-committee recommendation also increases, effective January 1, 2010, the sales tax relief credit (a refundable credit) per individual (individuals with gross household income under \$20,000) from \$40 to \$60. The measure also increases the income limitation for those qualifying for the credit from \$20,000 to \$30,000 (gross household income) and for disabled persons and persons over 65 from \$50,000 to \$60,000. The measure requires the income caps to be indexed annually.

The measure is effective July 1, 2009

**Fiscal Summary**

Fiscal Analyst: Diane Thomas

SR for ESB 318:

- Sections 1 through 12 (effective date of July 1, 2009) provide an excise tax in lieu of sales tax on the sale of eligible food and beverages as defined in the Streamlined Sales and Use Tax Agreement. The excise tax is phased out in incremental reductions of .9% over the period FY10 through FY14. The changes are not applicable to any county or municipal sales tax. The measure also states the Tax Commission (OTC) will implement the act and promulgate rules; and
- Section13 (effective date of January 1, 2010) amends the sales tax relief credit (refundable credit paid from income tax collections) by increasing the amount of the credit and expanding the income levels which quality for the credit.

**Fiscal Analysis**

Sections 1 through 12:

The fiscal impact is based on information from the U. S. Census Bureau and the U. S. Department of Labor-Bureau of Labor Statistics data from FY08 as follows:

|  |                 |
|--|-----------------|
| Number of households in Oklahoma                                   | 1,446,926       |
| Estimated food expenditures per household per month                | \$525           |
| Total food expenditures per month (1,446,926 x \$525)              | \$759,636,150   |
| Estimated 56% for food consumed in the home per month              | \$423,396,244   |
| Annual food Expenditure (\$423,396,244 x 12)                       | \$5,104,754,928 |
| Less adjustment for food stamps and WIC sales                      | (\$521,693,784) |
| Total annual sales adjusted for food stamps and WIC sales for FY08 | \$4,583,061,144 |
| Total annual sales adjusted for a 2.9% inflation rate for FY10     | \$4,852,733,043 |

The estimated decreases of state sales tax revenue, assuming an annual 2.9% inflation rate for FY10 through FY14; and decreasing the state sales tax rate by .9% each year is as follows:

| Fiscal Year | State Sales Tax Rate (Reduced annually by .9%) | Decrease in Sales Tax Collections |
|-------------|--|-----------------------------------|
| FY10        | 3.6%   | \$43,674,597                      |
| FY11        | 2.7%   | \$89,882,321                      |
| FY12        | 1.8%   | \$138,733,363                     |
| FY13        | 0.9%   | \$190,342,174                     |
| FY14        | Exempt   | \$244,827,622                     |

Section 13:

The Sales Tax Relief Credit is refunded using income-tax collections and processed in 2 ways:

- The Tax Commission (OTC) processes the refundable credit (credit may be greater than the tax liability) for individuals required to file an income tax return; and
- The Department of Human Services (DHS) administers claims for persons that are on public assistance and those that are nursing home Medicaid recipients.

OTC applies the credit toward any income tax liability or issues refund checks for the credit that exceeds any income tax liability. For persons on public assistance, 1/12th of the credit is disbursed as part of the monthly aid check. For those nursing home Medicaid recipients, a distribution is made for the entire credit in January.

The existing credit and the modification to the credit are as follows:

|                             | <b>Current Law</b>  | <b>Under HB 2204</b>   |
|-----------------------------|---|--|
| Amount of Refundable Credit | \$40 per individual (i.e. \$160 for a family of 4)  | \$60 per individual (i.e. \$240 for a family of 4)   |
| Income Qualifier:           | Persons whose gross household income is less than \$20,000  | Persons whose gross household income is less than \$30,000   |
|                             | Persons able to claim a dependent, or over 65, or have a physical disability constituting a substantial handicap to employment and whose gross income | Persons able to claim a dependent, or over 65, or have a physical disability constituting a substantial handicap to employment and whose gross income is |

|  |                       |                    |
|--|-----------------------|--------------------|
|  | is less than \$50,000 | less than \$60,000 |
|--|-----------------------|--------------------|

For Section 13 of the measure increasing the credit from \$40 to \$60 for the income levels under current law, we estimate a decrease of \$21.1 million for those processed through income tax returns by OTC. Another \$1.8 million cost is anticipated for claims processed by DHS.

For the provisions modifying the income qualifiers, based on information from the individual income tax micro-simulation model, we expect an additional 124,000 returns eligible to claim this credit, resulting in a decrease of \$7.6 million.

The total anticipated decrease for Section 13 of the measure is \$30.5 million in FY11.

There is a further provision in this measure that provides for the indexation for inflation of the eligible income levels. There is no significant impact anticipated for this part of the measure in FY10 or FY11.

### **Long Term Fiscal Considerations**

As stated above.

Fiscal Analysis Reviewed by:

*Mark Tygret*

House Fiscal Director