

**OKLAHOMA TAX COMMISSION**

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

**DATE OF IMPACT STATEMENT:** February 10, 2009

**BILL NUMBER:** SB 875 **STATUS AND DATE OF BILL:** Introduced 1/15/09

**AUTHORS:** House n/a Senate Brogdon

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

**PROPOSAL:** Amendatory

SB 875 proposes to index for inflation the Oklahoma individual income tax rate tables, as well as a variety of deduction and exemptions effective for tax year 2010 and subsequent tax years.

**EFFECTIVE DATE:** January 1, 2010

**REVENUE IMPACT:**

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

FY 09: -0-

FY 10: -0-

FY 11: Projected revenue decrease of \$4.6 million.

FY 12: Projected revenue decrease of \$19.2 million.

**ADMINISTRATIVE IMPACT:**

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

FY 10: Minimal

\_\_\_\_\_  
DATE DIVISION DIRECTOR mck

\_\_\_\_\_  
DATE REECE WOMACK, ECONOMIST

\_\_\_\_\_  
DATE FOR THE COMMISSION

## ATTACHMENT TO FISCAL IMPACT - SB 875 [Introduced] Prepared February 10, 2009

SB 875 proposes to index for inflation the Oklahoma individual income tax rate tables, as well as a variety of deduction and exemptions effective for tax year 2010 and subsequent tax years.

The method to adjust the tax rate tables, as well as the deductions, is not directly specified in the bill, other than the adjustment needs to reflect price inflation. Absent any specific methodology, for purposes of this analysis, we used the indexation adjustments prescribed in the Internal Revenue Code and used their rounding conventions. The following table illustrates the current level of deductions and exemptions; along with our estimate of what those levels would be if indexed.

Parameter	Current Level	Projected Levels		
		2010	2011	2012
Assumed annual inflation% change from 2009 <sup>1</sup>		0%	2.4%	5.9%
Personal Exemption	\$1,000	\$1,000	\$1,024	\$1,059
Retirement Benefits	\$10,000	\$10,000	\$10,200	\$10,550
Military Pay Exemption	\$1,500	\$1,500	\$1,536	\$1,588
Interest Exclusion	\$100 / \$ 200	\$100 / \$ 200	\$102 / \$ 204	\$106 / \$ 212
Adoption Expense Exclusion	\$20,000	\$20,000	\$20,450	\$21,150
529 College Savings Plan Exclusion	\$10,000/\$20,000	\$10,000/\$20,000	\$10,225/\$20,450	\$10,575/\$21,150

Tax tables were also indexed, i.e. the brackets were expanded based on projected inflation rates.

To develop this impact, we used the Oklahoma Individual Income Tax Micro Simulation model to estimate the effects of indexation. We were able to estimate the indexation effects for the rate tables, personal exemption level, retirement benefits (except military retirement) and the interest exclusion.

We were unable to model the effects of indexation for the following 2 items: military retirement exclusion and the civil service in lieu of retirement benefits exclusion. Although these were not modeled, we believe the effect of indexing the 2 items is minimal. The tax year effects of indexation for those items we were able to model are as follows:

	2010	2011	2012
Full year revenue impact	0	-\$11,500,000	-\$30,853,000
FY Impact	FY10	FY11	FY12
Tax Year 2010	-0-	-\$4,600,000	\$6,900,000
Tax Year 2011	-0-	-0-	\$12,341,200
Tax Year 2012	-0-	-0-	-0-
Total	-0-	-\$4,600,000	\$19,241,200

<sup>1</sup> The impact for tax year 2010 is zero, since deflation is forecasted by Global Insight for 2009 over 2008. That would be the period of price change that would be used to adjust the parameters for tax year 2010. Therefore, we are assuming no change in parameters for tax year 2010 and no impact on tax revenue. The indexation would actually begin in 2011.