

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: February 15, 2009

BILL NUMBER: SB 879 **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 879 proposes to repeal the current Oklahoma individual income tax rate structure, as well as a variety of deductions, exemptions, and credits effective for tax year 2010 and subsequent tax years. The measure would replace the current rate structure with a flat tax rate and modify the existing base on which taxable income is calculated.

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: Projected revenue decrease of \$283.8 million
FY 11: Projected revenue decrease of \$736.3 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 879 [Introduced] Prepared February 12, 2009

SB 879 proposes to repeal the current Oklahoma individual income tax rate structure, as well as a variety of deductions, exemptions, and credits effective for tax year 2010 and subsequent tax years. The measure would replace the current rate structure with a flat tax rate and modify the existing base on which taxable income is calculated.

This measure would replace the existing method to calculate Oklahoma taxable income for individuals by eliminating most current deductions and exemptions¹. Under the new methodology, taxpayers would still start with Federal Adjusted Gross Income, but only be able to deduct a standard deduction (or federal itemized deductions) and personal exemptions to arrive at taxable income. Personal exemptions would be equal to those under the Internal Revenue Code. The Oklahoma standard deduction would also equal the federal standard deduction.² Under this proposal, a flat 3.426% is to be applied to Oklahoma taxable income to calculate a taxpayer's individual income tax. All credits other than the Sales Tax Relief Credit would be repealed.

To develop this impact, we used the Oklahoma Individual Income Tax Micro Simulation model to estimate the proposal³. The tax year and fiscal year impacts are shown below:

Tax Year	2010	2011	2012
Full year revenue impact	-\$709,495,000	-\$776,525,000	-\$846,521,000
FY Impact	FY10	FY11	FY12
Tax Year 2010	-\$283,798,000	-\$425,697,000	-0-
Tax Year 2011	-0-	-\$310,610,000	-\$465,915,000
Tax Year 2012	-0-	-0-	-\$338,608,400
Total	-\$283,798,000	-\$736,307,000	-\$793,513,400

Under this proposal certain taxpayers have tax increases while others have tax decreases. 952,449 returns reflect a decrease in tax; 404,947 reflect an increase in tax and the remaining 157,203 have no change.

¹ Interest from U.S. Government Obligations would continue to be deductible from Federal Adjusted Gross Income since states are not allowed to tax that income as an operation of federal law.

² The Oklahoma Standard Deduction is scheduled to be equal to the federal Standard Deduction for tax year 2010 due to the passage of HB 1172XX in 2006.

³ Previous estimates of a flat tax in January 2005 indicated that the 3.424% rate would be revenue neutral. That analysis was done comparing a flat tax proposal to the Oklahoma individual income tax structure at that time. In 2005, the structure was different in two ways. 1) The Oklahoma Standard deduction level was not what it is today and 2) the ability to deduct federal income tax still was available. It is not under the current structure. We believe that the differences in the structure pre 2005 and today are significant factors. Also, after the initial modeling, we discovered an error in our model on the calculation of the flat tax as it relates to non-resident returns.