BILL SUMMARY
2nd Session of the 53rd Legislature

Bill No.:	**HB 3038**
Version:	**CS**
Request Number:	**9940**
Author:	**Rep. Osborn**
Date:	**3/9/2012**
Impact:	**See below**

Fiscal Impact for Sections 1 through 5 and 7 through 15

FY 13: Projected revenue decrease in income tax collections of $285,893,000
FY 14: Projected revenue decrease in income tax collections of $835,086,000
FY 15: Projected revenue decrease in income tax collections of $1,150,704,000
FY 16: Projected revenue decrease in income tax collections of $1,498,911,000

Fiscal Impact for Section 6

FY 13: -None
FY 14-18: -$44,900,000 decrease in sales tax collections designated for GRF, with $33,675,000 apportioned to Teachers' Retirement Fund and $11,225,000 apportioned to the Ad Valorem Reimbursement Fund
FY 19: $5,613,000 additional decrease in sales tax collections designated for GRF with a like amount apportioned to the Ad Valorem Reimbursement Fund.

Research Analysis

Committee substitute for HB3038 (1) modifies individual income tax rates beginning January 1, 2013 through the tax year ending December 31, 2022 with the elimination of the individual income tax for the tax year 2022, (2) modifies provisions and eliminates certain income tax credits, (3) modifies and eliminates deduction and exemptions related to the computation of adjusted gross income for individuals (4) prohibits an individual from claiming any tax credit if the credit results from an allocation to that individual of a tax credit from a partnership or any pass-through entity, (5) modifies the apportionment of sales taxes to the General Fund, the Teachers' Retirement System Dedicated Revenue Revolving Fund, and the Ad Valorem reimbursement Fund, and (6) repeals sections of tax law relating to the top marginal income tax rate, tax exemptions for prisoners of war or missing in action members of the Armed Forces, deduction for political contributions, and the tax exemption for interest on local and state governmental obligation bonds,

Prepared By: Aron Storck

Fiscal Analysis

Tax Commission analysis is provided:

Sections 1 through 5 and 7 through 15

The Proposed Subcommittee Substitute (PSCS) for HB 3038 proposes a phased-in income tax rate reduction beginning with tax year 2013, with the individual income tax ultimately eliminated by tax year 2022. Further, it eliminates all current income tax deductions and exemptions beginning with tax year 2013 as well as eliminates all individual income tax credits except the credit for volunteer firefighters.

Table 1 below shows the proposed top marginal rate by tax year[1]. The taxable income tax base is federal adjusted gross income minus interest on U.S. Government obligations**.**

Table 1	
Tax Year	**Top Marginal Rate**
2013	**2.25%**
2014	**2.00%**
2015	**1.75%**
2016	**1.50%**
2017	**1.25%**
2018	**1.00%**
2019	**0.75%**
2020	**0.50%**
2021	**0.25%**
2022	**0%**

The impact was developed using the Oklahoma Individual Income Tax Micro Simulation Model. The data for the current model is from tax year 2009 individual income tax returns and simulating certain growth assumptions for tax years 2013 through 2016. Individual income tax revenue is estimated for tax years 2013 through 2016 under current law; and then estimated for each tax year under the proposed law changes. The difference is then calculated, resulting in the estimated impact by tax year.

The Oklahoma Individual Income Tax Micro-Simulation Model was used to develop the impact of this proposal for tax years 2013 through 2016.[2] For tax year 2013, the expected fiscal impact is a decrease of $714,733,000; for tax year 2014 the decrease is expected to be $1,015,614,000; for tax year 2015 the expected decrease is $1,353,339,000; and for tax year 2016 the expected decrease is $1,717,271,000. Table below shows the fiscal year impact of this proposal.

1 The CS as drafted maintains four (4) tax brackets that are graduated. The four rates are .05%, 1%, 2%, and 2.25%. This drafting creates a bubble effect when the "top" marginal rate is below 2.0%. This proposal was modeled assuming this bubble.

2 The Oklahoma Individual Income Tax Micro-Simulation Model is only able to simulate through tax year 2016.

HB 3038 - Flat Rate at 2.25% in 2013; 2.0% in 2014; 1.75% in 2015; 1.5% in 2016					
	Fiscal Impact				
Tax year 2013	$ (714,733,000)				
Tax year 2014	$ (1,015,614,000)				
Tax year 2015	$ (1,353,339,000)				
Tax year 2016	$ (1,717,271,000)				
FY CONVERSION (assuming 40%/60%)		FY13	FY14	FY15	FY16
Tax year 2013	$ (714,733,000)	$ (285,893,000)	$ (428,840,000)	$ -	$ -
Tax year 2014	$ (1,015,614,000)		$ (406,246,000)	$ (609,368,000)	
Tax year 2015	$ (1,353,339,000)			$ (541,336,000)	$ (812,003,000)
Tax year 2016	$ (1,717,271,000)				$ (686,908,000)
	FY TOTAL	$ (285,893,000)	$ (835,086,000)	$ (1,150,704,000)	$ (1,498,911,000)
Source: Oklahoma Individual Income Tax Microsimulation model					

Fiscal Impact for Sections 1 through 5 and 7 through 15

FY 13: Projected revenue decrease in income tax collections of $285,893,000
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Section 6 – Apportionment of Sales Tax Collections

Section 6 amends 68 O.S. § 1353 which relates to the apportionment of sales tax collections. This measure modifies the apportionment of sales tax increasing the allocation to the Teachers' Retirement System Dedicated Revenue Revolving Fund by 1.5%; adding an allocation of .5% to the Ad Valorem Reimbursement Fund and decreasing the amount apportioned to the General Revenue Fund ("GRF") by 2% effective for FY 14. Additionally, for FY 19 and thereafter, this Section apportions an additional .25% for a total of .75% to the Ad Valorem Reimbursement Fund and decreases the amount apportioned to the GRF by .25%

Based on the December 2011 FY 13 revenue forecast, a $44,900,000 decrease in sales tax collections designated for GRF will occur for FY 14, with $33,675,000 apportioned to the Teachers' Retirement System Dedicated Revenue Revolving Fund and $11,225,000 apportioned to the Ad Valorem Reimbursement Fund for FY 14.

Based on the December 2011 FY 13 revenue forecast, an additional $5,612,500 decrease in sales tax collections designated for GRF will occur for FY 19, with $5,612,500 apportioned to the Ad Valorem Reimbursement Fund.

Fiscal Impact for Section 6

FY 13: -None
FY 14-18: -$44,900,000 decrease in sales tax collections designated for GRF, with $33,675,000 apportioned to Teachers' Retirement Fund and $11,225,000 apportioned to the Ad Valorem Reimbursement Fund
FY 19: $5,613,000 additional decrease in sales tax collections designated for GRF with a like amount apportioned to the Ad Valorem Reimbursement Fund.

Prepared By: Mark Tygret

Other Considerations

None.