

## BILL SUMMARY

2nd Session of the 53rd Legislature

<b>Bill No.:</b>	<b>SB 1571</b>
<b>Version:</b>	<b>ENGR</b>
<b>Request Number:</b>	<b>NA</b>
<b>Author:</b>	<b>Rep. Osborn</b>
<b>Date:</b>	<b>3/26/2012</b>
<b>Impact:</b>	<b>Tax Commission:</b>

FY 13: Projected revenue decrease in income tax collections of \$259,992,000  
FY 14: Projected revenue decrease in income tax collections of \$779,352,000  
FY 15: Projected revenue decrease in income tax collections of \$1,117,826,000  
FY 16: Projected revenue decrease in income tax collections of \$1,489,678,000

### **Research Analysis**

Engrossed SB1571 provides for an allocation of 1% of Oklahoma sales taxes collected to the Ad Valorem reimbursement Fund effective July 1, 2013..

The bill further modifies the Oklahoma income tax rates for single and married individuals filing separately or jointly for the years January 1, 2012 through January 1, 2021 with the income tax being eliminated effective January 1, 2022.

The bill further provides that effective January 1, 2013 and all subsequent years , no individual taxpayer may claim any credit, deduction, exemption or exclusion against the Oklahoma income tax except for: (1) income received by any person from the United States as salary or compensation in any form, other than retirement benefits, as a member of any component of the Armed Forces of the United States, (2) retirement income not to exceed \$10,000.00 for amounts received by an individual from the civil service of the United States, the Oklahoma Public Employees Retirement System, the Teachers' retirement System of Oklahoma, the Oklahoma Law Enforcement retirement system, the Oklahoma firefighters Pension and Retirement System, the Oklahoma Police Pension and Retirement System, the employee retirement systems created by counties, the Uniform Retirement System for Justices and Judges, the Oklahoma Wildlife Conservation Department Fund, the Oklahoma Employment Security Commission Retirement Plan, or the employee retirement systems created by municipalities, (3) Social Security benefits, (4) lump-sum distributions from employer plans of deferred compensation which are not qualified plans, (5) retirement income not to exceed \$10,000.00 for individual retirees, (6) retirement benefits received by individuals from any component of the Armed Forces of the United States, and (7) retirement benefits received by federal civil service retirees, including survivor annuities, paid in lieu of Social Security benefits.

Prepared By: Aron Storck

### **Fiscal Analysis**

Tax Commission analysis:

### Section 1 – Apportionment of Sales Tax Collections

Section 1 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 Ad Valorem Reimbursement Fund by 1.0% and decreasing the amount apportioned to the General Revenue Fund (“GRF”) by 1.0 % effective for FY 14.

### Sales Tax

Based on the February 2012 FY 13 revenue forecast, a \$22,855,000 decrease in sales tax collections designated for GRF will occur for FY 14, with \$22,855,000 apportioned to the Ad Valorem Reimbursement Fund for FY 14.

### Section 2 – Income Tax

Amends 68 O.S. § 2355(B), which is the individual income tax rate structure, phasing in income tax rate reductions beginning with tax year 2012, with the income tax ultimately eliminated by tax year 2022. Table 1 below shows the proposed top individual income tax rates by tax year.

Tax Year	Top Marginal Rate
2012 <sup>1</sup>	5.25%
2013	2.50%
2014	2.25%
2015	2.00% <sup>2</sup>
2016	1.75%
2017	1.50%
2018	1.25%
2019	1.00%
2020	0.75%
2021	0.50%
2022	0%

Further, no tax is imposed on single filers with Oklahoma taxable income equal to or less than Eight Thousand Seven Hundred Dollars (\$8,700.00) and for married filers with Oklahoma taxable income equal to or less than Fifteen Thousand Dollars (\$15,000.00).

**Section 3** adds a new section of law, 68 O.S. § 2355.3, eliminating all income tax credits, and almost all deductions, exemptions and exclusions for individual income tax filers beginning with tax year 2013. The following exemptions would still be allowed: retirement benefits from public pension systems, Social Security benefits, retirement benefits from non-public pension systems, military retirement benefits, and civil service retirement benefits in lieu of Social Security. The deduction for active duty military compensation as well as the exclusion for certain deferred compensation distributions would also still be allowed.

## Income Tax

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.<sup>3</sup> For tax year 2013, the expected fiscal impact is a decrease of \$580,982,000; for tax year 2014 the decrease is expected to be \$880,894,000; for tax year 2015 the expected decrease is \$1,216,233,000; and for tax year 2016 the expected decrease is \$1,577,609,000. Table 2 below shows the fiscal year impact of this proposal.

Fiscal Impact					
Tax year 2013	-\$580,982,000				
Tax year 2014	-\$880,894,000				
Tax year 2015	-\$1,216,233,000				
Tax year 2016	-\$1,577,609,000				
FY CONVERSION (assuming 40%/60%)		FY13	FY14	FY15	FY16
Tax year 2013	-\$580,982,000	-\$232,393,000	-\$348,589,000	\$0	\$0
Tax year 2014	-\$880,894,000		-\$352,358,000	-\$528,536,000	\$0
Tax year 2015	-\$1,216,233,000			-\$486,493,000	-\$729,740,000
Tax year 2016	-\$1,577,609,000				-\$631,044,000
<b>FY TOTAL</b>		<b>-\$232,393,000</b>	<b>-\$700,947,000</b>	<b>-\$1,015,029,000</b>	<b>-\$1,360,784,000</b>

Source: Oklahoma Individual Income Tax Micro-simulation model .

Prepared By: Mark Tygret

## Other Considerations

Tax Commission analysis examines the effects of the changes in tax rates and the elimination of deductions, exemptions and credits. Macroeconomic effects of the reduction and elimination of the individual income tax are not fully provided in their analysis.