

**BILL SUMMARY**  
2nd Session of the 53rd Legislature

<b>Bill No.:</b>	<b>SB 1623</b>
<b>Version:</b>	<b>ENGR</b>
<b>Request Number:</b>	<b>NA</b>
<b>Author:</b>	<b>Rep. Dank</b>
<b>Date:</b>	<b>3/27/2012</b>
<b>Impact:</b>	<b>Tax Commission:</b>

FY 13: Revenue decrease of \$11,187,000  
FY 14: Revenue decrease of \$37,017,000  
FY 15: Revenue decrease of \$29,102,000

**Research Analysis**

Engrossed SB1623 reduces the top individual income tax rate to 4.75% over a two year period and reduces the top corporate income tax rate to 5.5% effective January 1, 2013.

The bill further eliminates numerous exemptions and tax credits effective with the 2014 tax year including:

- Recycling, reuse and reduction of hazardous waste tax credits
- Child care tax credits
- Manufacturing gas consumption tax credits
- Business tax credits for investment or increase in full-time employees
- Coal production transferable tax credits
- Investment in agricultural processing cooperatives, ventures and marketing associations tax credits
- Employer child care services tax credits
- Child care center tax credits
- Small business tax credits
- Electricity generated by zero-emission facilities tax credits
- Manufacturers of small wind turbines tax credits
- Tax credits for immunization against Hepatitis A
- Tax credits for rehabilitation expenditures of certified historic structures
- State earned income tax credits
- Donation to independent biomedical or cancer research institute tax credits
- Tax credits for contractor expenditures for construction of energy efficient residential properties
- Tax credits for eligible wages paid and workplace modification expenses for injured employees
- Investment in recycling facilities tax credit
- Investment incentive tax credits for ad valorem taxes
- Transportation of poultry litter tax credit
- Tax credits for investment in film or music projects
- Tax credits for cost of dry fire hydrant or water storage

- Tax credits for railroad reconstruction or replacement expenditures
- Specialty trained canines expenditures tax credits
- Personal exemptions for single individuals making more than \$30,000.00 and married individuals making more than \$60,000.00
- Additional personal exemption for blind individuals
- Additional personal exemption for individuals 65 years or older
- Deduction of modification expenses for individuals with a physical disability
- Interest and dividend exemption amount
- Deductions for adoption expenses
- Deductions for contributions under the Oklahoma College Savings Plan Act
- Deductions for political contributions
- Volunteer firefighter tax credits
- Rural economic development loan tax credits
- Stafford loan origination fee tax credits
- Disabled persons 65 or older property tax relief
- Elimination of Oklahoma Film Enhancement Rebate Program
- Sales tax exemption relief for low income households
- Tax credits for new employees in the business of computer services, data processing or research and development

The bill further increases taxable income by the adding back the state income taxes deducted on one's federal tax return.

Prepared By: Aron Storck

### **Fiscal Analysis**

The measure reduces the top marginal individual income tax rate to 5.00 percent in tax year 2013 and to 4.75 percent in tax year 2014, reduces the corporate income tax rate to 5.00 percent beginning on or after January 1, 2013. In addition, the measure modifies, then eliminates numerous credits and limits numerous deductions and exemptions (from the Tax Commission):

- **Section 1** – Amends 27A O.S. § 2-11-303 (**Credit for Investment in Equipment Used for Recycling, Reuse, or Source Reduction of Hazardous Waste**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 3** –
  1. Amends 68 O.S. § 2357(B)(2) (**Child Care / Child Tax Credit**) by reducing the tax credit to 10% of the federal child care expense credit or 2.5% of the federal child tax credit for tax year 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
  2. Amends 68 O.S. § 2357(C)(3) (**Gas Used in Manufacturing**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.

- **Section 4** – Amends 68 O.S. § 2357.4 (**Oklahoma Investment/New Jobs**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 5** – Amends 68 O.S. § 2357.6 (**Energy Conservation Assistance Fund Credit**) by limiting the amount of the credit to 25% of the total amount contributed to the fund for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 6** – Amends 68 O.S. § 2357.11 (**Oklahoma Coal Production Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 7** – Amends 68 O.S. § 2357.25 (**Agricultural Processing Facilities Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 8** – Amends 68 O.S. § 2357.26 (**Employers Child Care Services Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 9** – Amends 68 O.S. § 2357.27 (**Child Care Service Provider Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 10** – Amends 68 O.S. § 2357.30 (**Small Business Guaranty Fee Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 11** – Amends 68 O.S. § 2357.32A (**Credit for Electricity Generated by Zero-Emission Facilities**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 12** – Amends 68 O.S. § 2357.32B (**Credit for Manufacturers of Advanced Small Wind Turbines**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.

- **Section 13** – Amends 68 O.S. § 2357.33 (**Hepatitis Immunization Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 14** – Amends 68 O.S. § 2357.41 (**Tax Credit for Qualified Rehabilitation Expenditures**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 15** – Amends 68 O.S. § 2357.43 (**Oklahoma Earned Income Tax Credit**) by limiting the credit to 2.5% of the federal credit for tax year 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 16** – Amends 68 O.S. § 2357.45 (**Credit for Donations to Biomedical Research Foundations**) by limiting the amount of the credit to 50% of current law for tax year 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 17** – Amends 68 O.S. § 2357.46 (**Credit for Eligible Expenditures Incurred by a Contractor in the Construction of Energy Efficient Residential Property**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 18** – Amends 68 O.S. § 2357.47 (**Credit for Eligible Wages Paid by an Employer to an Injured Employee and Credit for Modification Expenses Paid by an Employer for an Injured Employee**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 19** – Amends 68 O.S. § 2357.59 (**Qualified Recycling Facility Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 20** – Amends 68 O.S. § 2357.81 (**Investment Incentive Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 21** – Amends 68 O.S. § 2357.100 (**Poultry Litter Tax Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.

- **Section 22** – Amends 68 O.S. § 2357.101 (**Film and Music Profit Reinvestment Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 23** – Amends 68 O.S. § 2357.102 (**Dry Fire Hydrant Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 24** – Amends 68 O.S. § 2357.104 (**Credit for Eligible Taxpayer's Qualified Railroad Reconstruction or Replacement Expenditures**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 25** – Amends 68 O.S. § 2357.203 (**Specially Trained Canine Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
- **Section 26** – Amends 68 O.S. § 2358(E):
  1. For tax year 2013, limits the Oklahoma **personal exemption** to \$500 for single and married filing separately filers whose Oklahoma adjusted gross income is greater than \$30,000, and for married filing jointly and surviving spouse, whose Oklahoma adjusted gross income is greater than \$60,000; no personal exemption shall be allowed for tax year 2014 and all subsequent tax years for single and married filing separately filers whose Oklahoma adjusted gross income is greater than \$30,000, and for married filing jointly and surviving spouse, whose Oklahoma adjusted gross income is greater than \$60,000.
  2. For tax year 2013, limits the **additional exemption for blind taxpayers** to \$500; eliminates the exemption for tax year 2014 and all subsequent tax years.
  3. For tax year 2013, limits the **additional exemption for taxpayers 65 years of age or older** to \$500; eliminates the exemption for tax year 2014 and all subsequent tax years.
  4. For tax year 2013, limits the **deduction for modification expenditures for taxpayers with physical disabilities** to 50% of such expenditures; eliminates the deduction for tax year 2014 and all subsequent tax years.
  5. For tax year 2013, limits the **dividend / interest income exclusion** to \$50 per individual or \$100 per couple filing a joint return; eliminates the exclusion for tax year 2014 and all subsequent tax years.
  6. For tax year 2013, limits the **deduction for adoption expenses** to \$10,000; eliminates the deduction for tax year 2014 and all subsequent tax years.
  7. For tax year 2013, limits the deduction which would have been allowed for **contributions made to an Oklahoma College Savings Plan** to \$5,000 for each individual taxpayer or \$10,000 for taxpayers filing a joint return; eliminates the deduction for tax year 2014 and all subsequent tax years.

8. For tax year 2013, adds back 50% of any amount of **state and local taxes deducted on the federal return**; for tax year 2014 and all subsequent tax years, taxable income shall be increased by any amount of state and local taxes deducted on the federal income tax return.
- **Section 27** – Amends 68 O.S. § 2358.3 - For tax year 2013, limits the **deduction for political contributions** to \$50.00; eliminates the deduction for tax year 2014 and all subsequent tax years.
  - **Section 28** – Amends 68 O.S. § 2358.7 (**Volunteer Firefighter Credit**) by reducing the \$200 credit to \$100 for tax year 2013; reducing the \$400 credit to \$200 for tax year 2013; and eliminating the credits for tax year 2014 and all subsequent tax years.
  - **Section 29** – Amends 68 O.S. § 2370 (**Credit for Financial Institutions Making Loans under the Rural Economic Development Loan Act**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
  - **Section 30** – Amends 68 O.S. § 2370.3 (**Credit for Stafford Loan Origination Fee**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.
  - **Sections 31 and 32** – Amends 68 O.S. §§ 2906 and 2907 (**Low Income Property Tax Relief Credit**) reducing the maximum claim amount from \$200 to \$100 for tax year 2013; eliminating the tax credit for tax year 2014 and all subsequent tax years.
  - **Section 33** – Amends 68 O.S. § 3624 (**Oklahoma Film Enhancement Rebate Program**) reducing the rebate amount from 35% to 17.5% for tax year 2013; eliminating the rebate for tax year 2014 and all subsequent tax years.
  - **Section 34** – Amends 68 O.S. § 5011 (**Low Income Sales Tax Relief Credit**) reducing the amount of the credit from \$40 to \$20; eliminating the credit for tax year 2014 and all subsequent tax years.
  - **Section 35** – Amends 68 O.S. § 54006 (**Oklahoma Research and Development Incentives Credit**) by limiting the amount of the credit to 50% of current law for the time period beginning July 1, 2012 through December 31, 2013, and eliminating the credit for tax year 2014 and all subsequent tax years.

## Fiscal Impact:

**Individual Income Tax** - This proposal would provide for a top marginal tax rate of 5% for tax year 2013 and 4.75% for tax year 2014. Further, this proposal limits a variety of individual income tax credits to 50% of current law for the period of July 1, 2012 through December 31, 2013 and eliminates these credits for tax year 2014 and all subsequent tax years. This proposal also limits certain deductions, exemptions and exclusions in 2013, eliminating these deductions, exemptions and exclusions in 2014.

The data for the current model is from tax year 2009 individual income tax returns, simulating certain growth assumptions for tax years 2013 through 2015. Individual income tax revenue is estimated for tax years 2013 through 2015 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.

Using the Oklahoma Individual Income Tax Micro-Simulation Model, the impact of the proposed changes to the individual income tax component of this measure is a revenue increase of \$6,126,000 in FY13; a revenue increase of \$6,860,000 in FY14; and a revenue increase of \$525,000 in FY15.

	Net Effect	FY13	FY14	FY15
Tax Year 2012		\$3,090,000		
Tax Year 2013	\$7,590,000	\$3,036,000	\$4,554,000	
Tax Year 2014	\$5,765,000		\$2,306,000	\$3,459,000
Tax Year 2015	-\$7,334,000			-\$2,934,000
	Total	\$6,126,000	\$6,860,000	\$525,000

**Corporate Income Tax** – This measure proposes to reduce the corporate income tax rate from 6% to 5% for all taxable years on or after January 1, 2013.

The estimate for the rate reduction is based on the FY13 corporate income tax forecast. For FY13, the forecast is \$348,763,000 in corporate income tax collections<sup>1</sup>. The estimated reduction in corporate income tax collections by the proposed rate reduction of 6% to 5% for a full fiscal year is \$58,127,000. The estimated fiscal impact for the corporate income tax rate component of this measure is a revenue decrease of \$29,063,000 in FY13 and a revenue decrease of \$58,127,000 in FY14.

This measure also proposes to limit a variety of corporate income tax credits to 50% of current law for the period of July 1, 2012 through December 31, 2013 and eliminate these credits for tax year 2014 and all subsequent tax years. The estimated fiscal impact for the corporate income tax credit component of this measure is a revenue increase of \$11,750,000 for FY13, a revenue increase of \$11,750,000 in FY14, and a revenue increase of \$23,500,000 in FY15.

The net revenue effect for this measure's proposed changes to the corporate income tax rate and corporate income tax credits is a revenue decrease of \$17,313,000 in FY13, a revenue decrease of \$46,377,000 in FY14, and a revenue decrease of \$34,627,000 in FY15.

Table 2			
FY Effects of Rate Change and Credit Limits – Corporate Income Tax			
	FY13	FY14	FY15
Rate	-\$29,063,000	-\$58,127,000	-\$58,127,000
Credit	+\$11,750,000	+\$11,750,000	+\$23,500,000
Total	-\$17,313,000	-\$46,377,000	-\$34,627,000

**Oklahoma Film Enhancement Rebate Program** – Under current law, the Oklahoma Film Enhancement Rebate Program provides for a rebate of 35% (up to 37% in some cases) of certain expenditures made in connection with production of a film, television production or television commercial in Oklahoma. Rebates cannot exceed \$5 million per *fiscal* year.

This proposal limits the rebate to 17.5% (up to 19.5% in some cases) of certain expenditures made in connection with production of a film, television production or television commercial in Oklahoma for *calendar* 2013 activity and eliminates this rebate for tax year 2014 and all subsequent tax years.

For purposes of this analysis, it is assumed that expenditures generating rebates for FY13 will be sufficient to hit the \$5 million cap in FY13. However, with the rebate available for only 6 months in FY14, and with the rebate percentage reduced by half, it is expected that only \$2.5 million in rebates will be claimed in FY14, resulting in a positive revenue impact of \$2.5 million in FY14 and a full positive revenue impact of \$5 million in FY15.

Table 3 below summarizes the fiscal year effects of the three components outlined above for FY13, FY14 and FY15.

Table 3 – Fiscal Impact for SB 1623			
	FY13	FY14	FY15
Net Individual Income Tax Impact	+\$6,126,000	+\$6,860,000	+\$525,000
Net Corporate Income Tax Impact	-\$17,313,000	-\$46,377,000	-\$34,627,000
Film Enhance Rebate Impact	-0-	+\$2,500,000	+\$5,000,000
Net Effect	-\$11,187,000	-\$37,017,000	-\$29,102,000

Prepared By: Mark Tygret

**Other Considerations**

See Fiscal Summary