

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: April 22, 2013

SUBJECT: HB 2032 - Floor Substitute for Engrossed (Req. No. 1773)

TO: Rick Miller, Director

FROM: Michael C. Kaufmann, Tax Policy Analyst

The Floor Substitute for Engrossed HB 2032 proposes the following income tax changes:

Section 1 (68 O.S. § 2352) and **Section 4** (new law 19 O.S. §73) creates the *Oklahoma State Capital Building Repair and Restoration Fund* and apportions \$60,000,000 of income tax revenue to the *Oklahoma State Capital Building Repair and Restoration Fund* for FY14 and FY15.

Section 2 - Amends 68 O.S. § 2355 by maintaining the top marginal individual income tax rate of 5.25% through 2014 and reducing the top marginal individual income tax rate to 5.0% for tax year 2015. The top marginal individual income tax rate may be further reduced to 4.85% for tax years 2016 and subsequent tax years, contingent upon certain revenue growth as proposed in new law in Section 3.

Section 3 – Proposes to enact a new law, 68 O.S. § 2355.1E, which provides a trigger mechanism to reduce the top marginal individual income tax rate to 4.85% beginning with tax year 2016. To trigger the lower rate of 4.85% for tax year 2016, the Board of Equalization will have to make a preliminary finding at the December 2014 meeting that it anticipates a finding will be made at the February 2015 meeting that the estimated growth in General Revenue Collections for FY16 is greater than the estimated cost of decreasing the top marginal individual income tax rate to 4.85% for tax year 2016. The Board of Equalization will certify at their February 2015 that the estimated growth in General Revenue Collections for FY16 will be greater than the estimated cost of decreasing the top marginal individual income tax rate to 4.85% for tax year 2016. This will be repeated at every December and February Board of Equalization meeting until the top marginal individual income tax rate is 4.85%. Once that rate is achieved, the Board of Equalization will no longer have to make the findings as outlined above.

Revenue Impact:

While **Sections 1** and **4** will not change revenue collections, there will be a negative impact to income tax collections. For each of the fiscal years beginning on July 1, 2013 (FY14) and July 1, 2014 (FY15), \$60,000,000 will be apportioned to the *Oklahoma State Capital Building Repair and Restoration Fund* from income tax revenue.

Sections 2 and 3 - Under current law, Oklahoma has a progressive individual income tax rate structure with the top marginal tax rate at 5.25% for tax year 2012. This proposal would provide for a top marginal tax rate of 5.25% for tax years 2013 and 2014, 5.0% for tax year 2015 and potentially 4.85% for tax year 2016 and all subsequent tax years.

Table below shows the estimated effect of the top rate decreasing to 5.0% for tax year 2015 and 4.85% for tax year 2016 and all subsequent tax years. This assumes the Board of Equalization will make a finding at their February 2014 meeting authorizing a top marginal income tax rate of 4.85% for tax year 2016.

<u>FY EFFECT INCOME TAX TOP RATE CHANGE (top rate 5.0% in 2015 & 4.85% thereafter)</u>				
	Top Rate	Fiscal Impact		
Tax year 2015	5.00%	\$ (136,089,000)		
Tax year 2016	4.85%	\$ (237,236,000)		
Tax year 2017	4.85%	\$ (252,650,000)		
FY CONVERSION		FY15	FY16	FY17
Tax Year 2015	\$ (136,089,000)	\$ (54,436,000)	\$ (81,653,000)	
Tax Year 2016	\$ (237,236,000)		\$ (94,894,000)	\$ (142,342,000)
Tax Year 2017	\$ (252,650,000)			\$ (101,060,000)
FY TOTAL		\$ (54,436,000)	\$ (176,547,000)	\$ (243,402,000)
Source: Oklahoma Individual Income Tax Micro-Simulation Model.				