

OKLAHOMA TAX COMMISSION

FISCAL IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT SECOND EXTRAORDINARY SESSION, FIFTY-SIXTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: February 7, 2018

BILL NUMBER: HB 1037xx **STATUS AND DATE OF BILL:** Introduced 2/5/18

AUTHORS: House Wallace & Casey Senate David & Fields

TAX TYPE (S): Income Tax **SUBJECT:** Other

PROPOSAL: Amendatory

HB 1037 proposes to modify 68 O.S. § 2355 relating to the Oklahoma individual income tax rate structure as well as amending 68 O.S. 2358 relating to the calculation of Oklahoma individual taxable income. This measure further repeals 68 O.S. § 2358.5-1, 74 O.S. § 5064.7, 74 O.S. § 5075, and 74 O.S. § 5078 all of which relate to deductions to calculate Oklahoma taxable income. This is effective for tax year 2018 and subsequent tax years.

EFFECTIVE DATE: January 1, 2018

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 18: Projected \$10,127,000 increase in income tax collections
FY 19: Projected \$177,132,000 increase in income tax collections

ADMINISTRATIVE IMPACT:

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 18: None

Feb. 8, 2018
DATE

Rick Miller
DIVISION DIRECTOR

mck

2-7-18
DATE

Reece Womack
REECE WOMACK, ECONOMIST

2-7-18
DATE

Jimmy Miller
FOR THE COMMISSION

ATTACHMENT TO FISCAL IMPACT - HB 1037 [Introduced] Prepared February 7, 2018

HB 1037 proposes to modify 68 O.S. § 2355 relating to the Oklahoma individual income tax rate structure as well as amending 68 O.S. 2358 relating to the calculation of Oklahoma individual taxable income. This measure further repeals 68 O.S. § 2358.5-1, 74 O.S. § 5064.7, 74 O.S. § 5075, and 74 O.S. § 5078 all of which relate to deductions to calculate Oklahoma taxable income. This is effective for tax year 2018 and subsequent tax years.

The explanation below highlights the major changes to current law of this proposal:

Standard deductions are allowed at reduced values of \$5,250 (Single), \$10,500 (Married Joint), and \$7,700 (Head of Household), regardless of income.

Itemized deductions (other than charitable contributions) are capped at a maximum of \$22,500 per return. Charitable contributions are not subject to the cap and are fully excludable to the extent they are excluded as a federal itemized deduction.

The \$1000 personal exemption, the additional \$1000 exemption for blind, and the additional \$1000 special exemption for qualifying persons 65 years of age or older are not allowed.

Under this proposal, a graduated tax with a top marginal tax rate of 5% is applied to the tax base. The 5% bracket applies to taxable income over \$50,000 (Single and Married Filing Separate) and \$100,000 (Married Filing Joint and Head of Household). Two additional tax brackets with a marginal tax rate of 4.6% and 4.8% are inserted after the existing 4% tax bracket.

A 3-tiered non-refundable credit in the amount of \$70 per return is allowed if federal AGI is less than \$16,000, regardless of filing status. The credit amount is \$65 if federal AGI is \$16,000-31,999 and \$50 if federal AGI is \$32,000-49,999. The credit is not allowed if federal AGI is \$50,000 or greater.

All other credits are allowed as under current law.

The fiscal impact of this measure was estimated using the Oklahoma Individual Income Tax Micro-Simulation Model. The table below shows the estimated tax year and fiscal year effects of the proposal.¹

<u>FY EFFECT INCOME TAX - HB 1037</u>				
Fiscal Impact				
Tax year 2018	\$131,650,000			
Tax year 2019	\$139,022,000			
Tax year 2020	\$146,643,000			
FY CONVERSION		FY18	FY19	FY20
Tax year 2018	\$131,650,000	\$10,127,000	\$121,523,000	
Tax year 2019	\$139,022,000		\$55,609,000	\$83,413,000
Tax year 2020	\$146,643,000			\$58,657,000
FY TOTAL		\$10,127,000	\$177,132,000	\$142,070,000
Source: Oklahoma Individual Income Tax Micro-Simulation Model.				

¹ With this measure becoming effective January 1, 2018, the new law will actually go into effect no earlier than 90 days after the measure is signed by the Governor. For purposes of the fiscal year conversion, it is assumed that withholding remitters will remit withholding due in June 2018 under the new withholding tables that account for the changes in income tax.