

BILL SUMMARY
2nd Session of the 57th Legislature

Bill No.:	HB 3539
Version:	SUBPACS1
Request Number:	10922
Author:	Rep. Boatman
Date:	2/10/2020
Impact:	Tax Commission:

Revenue Decrease
Effective Tax Year 2021
FY-22 Revenue Decrease Estimate: \$16,927,000

Research Analysis

Pending

Prepared By: House Research Staff

Fiscal Analysis

Analysis provided by the Tax Commission:

Section 8 amends 68 O.S. § 2358. For tax year 2021 and subsequent tax years, an income tax deduction for contributions to accounts established under the Oklahoma Early Education Savings Plan Act would be allowed. The deduction² cannot exceed \$2,500 per taxpayer annually. If a taxpayer makes a non-qualified withdrawal, the amount withdrawn plus earnings are to be included in the Oklahoma adjusted gross income in the year of the withdrawal.

It is unknown how many taxpayers would establish these types of accounts. In tax year 2017, approximately 597,366 Oklahoma income tax returns claimed at least one dependent child³. Census data shows 25.9% of families use a center-based child care program⁴. This suggests that potentially 154,718 Oklahoma returns could take advantage of a deduction based on contributions to accounts established under the Oklahoma Early Education Savings Plan Act. Of the 154,718 returns, 67,271 could claim a deduction of \$5,000, and the remaining 87,447 returns could claim a \$2,500 deduction.⁵ In total, potentially \$554,973,000 could be deducted from taxable income under this proposal. Applying an effective tax rate of 3.05% would result in an estimated decrease in income tax collections of \$16,927,000 for tax year 2021. No changes to withholding or estimated tax payments are anticipated, so the full impact should occur in FY 22 when the 2021 income tax returns are filed.

¹ Qualified early education expenses" means expenses related to services provided by a child care facility which has been rated as a three-star child care center pursuant to the Oklahoma Child Care Facilities Licensing Act and any applicable rules adopted by the Department of Human Services, family child care home, large family child care home, part-day child care program or a residential child care facility, as defined by Section 402 of Title 10 of the Oklahoma Statutes, and tuition and fees for enrollment in a preschool for the benefit of the designated beneficiary.

² Under current law, taxpayers may claim a federal and state income tax credit for dependent care expenses or avail themselves of Flexible Spending Accounts to pay for daycare costs.

³ Oklahoma Individual Income Tax Micro Simulation Model

⁴ Child Trends. (2016). Child care. Available at: <https://www.childtrends.org/?indicators=child-care>

⁵ Tax Commission data indicates 43.48% of Oklahoma income tax returns filed are married joint filing status.

Prepared By: Mark Tygret

Other Considerations

The analysis addresses the revenue considerations only. Administrative considerations related to the Department of Education are under development.

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