

BILL SUMMARY
2nd Session of the 58th Legislature

Bill No.:	HB 3635
Version:	INT
Request Number:	9298
Author:	Rep. Lepak
Date:	2/14/2022
Impact:	Tax Commission:

**Unknown Change to Income Tax Collections
(At Present)**

Research Analysis

HB3635 makes numerous tax rate changes effective tax year 2023. The measure replaces the graduated personal income tax rate structure with a flat 4.75 percent tax on income and increase the standard deduction amount to the following:

- Single and married filing separate, increase from \$6,350 to \$10,350;
- Head of household, increase from \$9,350 to \$13,350;
- Married filing jointly & qualifying widower, increase from \$12,700 to \$20,700.

The measure also establishes revenue triggers that would reduce the personal income tax rate by .5 percent each year that certain revenue conditions are met. Beginning with the February 2023 State Board of Equalization meeting and every February meeting thereafter, the board must compare the General Revenue Fund (GRF) apportionment authority for the upcoming fiscal year to a base year GRF apportionment authority and find that the funding authority has increased by 5 percent or more to trigger a rate reduction.

The current top marginal income tax rate is 4.75 percent. When the 10th rate reduction is authorized, there will be no state personal income tax.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

Tax Rate and Standard Deduction

Under current law, income tax is levied on taxable income using the following income tax brackets:

Married Filing Joint; Head of Household and Surviving Spouse Brackets								
If Taxable Income Is:								
0	-	\$2,000	Pay	\$0	plus	0.25%	over	\$0
\$2,001	-	\$5,000	Pay	\$5.00	plus	0.75%	over	\$2,000
\$5,001	-	\$7,500	Pay	\$27.50	plus	1.75%	over	\$5,000
\$7,501	-	\$9,800	Pay	\$71.25	plus	2.75%	over	\$7,500
\$9,801	-	\$12,200	Pay	\$134.50	plus	3.75%	over	\$9,800
\$12,201	and above		Pay	\$224.50	plus	4.75%	over	\$12,200

Single and Married Filing Separate Brackets								
If Taxable Income Is:								
\$0	-	\$1,000	Pay	\$0.00	plus	0.25%	over	\$0
\$1,001	-	\$2,500	Pay	\$2.50	plus	0.75%	over	\$1,000
\$2,501	-	\$3,750	Pay	\$13.75	plus	1.75%	over	\$2,500
\$3,751	-	\$4,900	Pay	\$35.63	plus	2.75%	over	\$3,750
\$4,901	-	\$7,200	Pay	\$67.25	plus	3.75%	over	\$4,900
\$7,201	and above		Pay	\$153.50	plus	4.75%	over	\$7,200

This measure would replace the graduated income tax rate structure with a single rate of 4.75%; effective for tax year 2023 and subsequent years. The 4.75% is potentially subject to change as outlined in the next section (Tax Rate Trigger).

Additionally this measure would amend the amount of standard deduction¹ that is allowed to compute Oklahoma taxable income. The chart below shows the current and proposed standard deduction by income tax filing status:

Filing Status	Standard Deduction Amount	
	Current	Proposed
Married Filing Joint & Surviving Spouse	\$12,700	\$20,700
Single & Married Filing Separate	\$6,350	\$10,350
Head of Household	\$9,350	\$13,350

Tax Rate Trigger:

HB 3635 further requires the State Board of Equalization (BOE), at its February meeting each year, to make a determination regarding the possibility of a decrease in the individual income tax rate. This measure proposes a trigger to decrease the individual income tax rate by 0.5% each year there is an increase in the General Revenue Fund (GRF) appropriation authority equal to or greater than 5% compared to the initial base year GRF appropriation authority.

The initial base year amount shall be the appropriation authority with respect to the GRF for the fiscal year ending June 30, 2020, based upon the certified estimate made by the BOE at its February 2019 meeting. Beginning with the February 2023 meeting of the BOE and at each succeeding February meeting, the BOE shall compare the GRF appropriation authority amount for the upcoming fiscal year to the initial base year GRF appropriation authority. If there is an increase in the GRF appropriation authority equal to or greater than 5% compared to the initial base year GRF appropriation authority, the income tax rate shall be reduced effective January 1 of the immediately succeeding calendar year.

For any year during which the GRF appropriation authority as determined at the February meeting equals or exceeds the base year GRF appropriation authority by 5% or more, the base year shall be adjusted for purposes of any succeeding comparison.

If there are nine authorized reductions in the income tax rate, the tenth reduction in the income tax rate shall cause the income tax rate to be zero and for the applicable income tax year, there shall be no individual income tax levied.

¹ Individual taxpayers may either itemize their deductions or claim an Oklahoma standard deduction to compute Oklahoma taxable income. If using itemized deductions for federal income tax purposes, the Oklahoma itemized deduction amount is limited as follows:

Beginning with tax year 2016, state and local income taxes included in itemized deductions are added back to calculate Oklahoma taxable income (by subtracting them from itemized deductions).

Beginning with tax year 2018 itemized deductions may not exceed \$17,000, not including charitable contributions or medical expenses.

Prepared By: Mark Tygret

Other Considerations

The analysis requires the use of the income tax microsimulation model at the Tax Commission. Updated analysis will be provided upon completion of the model.