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|------------------------|----------------------------------------------------|-------------------------------------------|
| BILL/VERSION: | HB 2764 / PCS (Req. No. 13775) ¹ | ANALYST: MK |
| AUTHORS: | Reps. T. Caldwell, Kane & Senators Hall, Haste | DATE: 5/19/2025 |
| TAX(ES): | Income Tax | |
| SUBJECT(S): | Individual Income Rate Reduction with a Trigger | |
| EFFECTIVE DATE: | November 1, 2025 | Emergency <input type="checkbox"/> |

ESTIMATED REVENUE IMPACT:

FY26: Decrease in individual income tax collections of \$133.5 million
FY27: Decrease in individual income tax collections of \$340.5 million

ANALYSIS: The Proposed Committee Substitute for HB 2764 (Req. No. 13775) proposes to amend 68 O.S. § 2355 by enacting an individual income tax rate cut effective for tax year 2026 and subsequent tax years. The current and proposed rate tables for tax year 2026 and subsequent tax years can be found at the end of this revenue impact statement.

Additionally, 62 O.S. § 34.103 is amended to add a rate reduction trigger based on total collections. This trigger could reduce individual income tax rates by 0.25% across all brackets. In the December 2026 meeting, the State Board of Equalization (BOE) would be required to make a preliminary certification and report of the base year total collections², the income tax rate reduction threshold³ and comparison year total collections⁴. (Cont'd on second page)

¹ The Introduced version of HB 2764 was a shell bill and had no substantive language.

² "Base year tax collections" is defined in the proposal as the amount of revenue determined by the BOE at its December meeting and includes all revenue sources reported in the annual report of the Oklahoma Tax Commission (OTC) excluding any taxes collected from levies imposed by counties, cities, towns or any other entity of local government. For purposes of reporting total collections for purposes of this subsection, the OTC shall use the same methodology used to report estimated revenues to the BOE that was used for the December 2024 meeting.

³ The "income tax rate reduction threshold" is the estimated revenue loss that would result from reducing income tax rates (as calculated by the OTC) multiplied by 125%.

⁴ "Comparison year total collections" is the proposal as the largest amount of revenue reported for any single fiscal year prior to the immediately preceding full fiscal year and includes all revenue sources reported in the annual report of the OTC excluding any taxes collected from levies imposed by counties, cities, towns or any other entity of local government. For purposes of reporting total collections for purposes of this subsection, the OTC shall use the same methodology used to report estimated revenues to the BOE that was used for the December 2024 meeting.

5/19/25

DATE

Huan Gong

DR. HUAN GONG, CHIEF TAX ECONOMIST

5/19/25

DATE

Marie Schuble

MARIE SCHUBLE, DIVISION DIRECTOR

5/19/25

DATE

Joseph P. Gappa

JOSEPH P. GAPPA, FOR THE COMMISSION

The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.



If the comparison year total collections amount is greater than the sum of the base year total collections and the income tax reduction cost threshold, an income tax rate reduction of 0.25% across all brackets would be triggered for the tax year starting January 1 following the final February certification by the BOE that the income tax rate reduction is authorized.⁵

This process is repeated every December and February until the individual income tax rate is zero.

62 O.S. § 34.103 is further amended to require the BOE in the December 2026 meeting to certify that the revenues accruing to certified funds during the 5 1/2 months of fiscal year ending June 30, 2027, were within ninety-five percent (95%) of the estimate made in February 2026, and no revenue failure was declared.

| HB 2764 - Proposed Committee Substitute | | | | |
|----------------------------------------------------------------|----------------|----------------|----------------|----------------|
| FY CONVERSION | | FY26 | FY27 | FY28 |
| Tax year 2026 | -\$333,827,000 | -\$133,531,000 | -\$200,296,000 | |
| Tax year 2027 | -\$350,467,000 | | -\$140,187,000 | -\$210,280,000 |
| Tax year 2028 | -\$367,295,000 | | | -\$146,918,000 |
| Total | | -\$133,531,000 | -\$340,483,000 | -\$357,198,000 |
| Source: Oklahoma Individual Income Tax Micro-Simulation Model. | | | | |

The charts below show the current and proposed income tax brackets for tax year 2026 and subsequent tax years.

| CURRENT LAW | | | | |
|---------------------------------------------|-----------|----------|-------|---------|
| <i>Single & Married Separate Filers</i> | | | | |
| Taxable income | Pay | plus | over | |
| \$0 | \$1,000 | \$0.00 | 0.25% | \$0 |
| \$1,001 | \$2,500 | \$2.50 | 0.75% | \$1,000 |
| \$2,501 | \$3,750 | \$13.75 | 1.75% | \$2,500 |
| \$3,751 | \$4,900 | \$35.63 | 2.75% | \$3,750 |
| \$4,901 | \$7,200 | \$67.25 | 3.75% | \$4,900 |
| \$7,201 | and above | \$153.50 | 4.75% | \$7,200 |

| CURRENT LAW | | | | |
|-----------------------------------------------------------------------|-----------|----------|-------|----------|
| <i>Married Joint, Head of Household & Surviving Spouse Filers</i> | | | | |
| Taxable income | Pay | plus | over | |
| \$0 | \$2,000 | \$0.00 | 0.25% | \$0 |
| \$2,001 | \$5,000 | \$5.00 | 0.75% | \$2,000 |
| \$5,001 | \$7,500 | \$27.50 | 1.75% | \$5,000 |
| \$7,501 | \$9,800 | \$71.25 | 2.75% | \$7,500 |
| \$9,801 | \$14,400 | \$134.50 | 3.75% | \$9,800 |
| \$14,401 | and above | \$307.00 | 4.75% | \$14,400 |

| PROPOSED BRACKETS | | | | |
|---------------------------------------------|-----------|----------|-------|---------|
| <i>Single & Married Separate Filers</i> | | | | |
| Taxable income | Pay | plus | over | |
| \$0 | \$3,750 | \$0.00 | 0% | \$0 |
| \$3,751 | \$4,900 | \$0.00 | 2.50% | \$3,750 |
| \$4,901 | \$7,200 | \$28.75 | 3.50% | \$4,900 |
| \$7,201 | and above | \$109.25 | 4.50% | \$7,200 |

| PROPOSED BRACKETS | | | | |
|-----------------------------------------------------------------------|-----------|----------|-------|----------|
| <i>Married Joint, Head of Household & Surviving Spouse Filers</i> | | | | |
| Taxable income | Pay | plus | over | |
| \$0 | \$7,500 | \$0.00 | 0% | \$0 |
| \$7,501 | \$9,800 | \$0.00 | 2.50% | \$7,500 |
| \$9,801 | \$14,400 | \$57.50 | 3.50% | \$9,800 |
| \$14,401 | and above | \$218.50 | 4.50% | \$14,400 |

⁵ The initial tax year a "triggered" rate cut could be enacted is tax year 2028. For purposes of this analysis, **no** triggered rate cut was assumed.