

**OKLAHOMA TAX COMMISSION**

**REVENUE IMPACT STATEMENT  
SECOND REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE**

**DATE OF IMPACT STATEMENT:** April 4, 2022

**BILL NUMBER:** HB 4358 **STATUS AND DATE OF BILL:** Engrossed Bill 3/23/2022

**AUTHORS:** House Boatman et al Senate Quinn

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

**PROPOSAL:** Amendatory

HB 4358 proposes to amend 68 O.S. § 2355 by enacting a phased-in corporate income tax rate reduction. A similar rate reduction is proposed in 68 O.S. §2355.1P-4 as it relates to the Pass-Through Entity Tax Equity Act of 2019 and 68 O.S. § 2370, the bank-in-lieu tax.

**EFFECTIVE DATE:** January 1, 2023

**REVENUE IMPACT:**

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

- FY 23: Decrease of \$23,467,000 in income tax collections
- FY 24: Decrease of \$74,156,000 in income tax collections
- FY 25: Decrease of \$129,646,000 in income tax collections

April 4, 2022  
DATE

Rick Miller  
DIVISION DIRECTOR

mk

4/4/2022  
DATE

Huan Gong  
HUAN GONG, ECONOMIST

4/5/2022  
DATE

Joseph L. Rappa  
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.*

**ATTACHMENT TO REVENUE IMPACT – HB 4358 [Engrossed] Prepared 4/4/2022**

HB 4358 proposes to amend 68 O.S. § 2355 by enacting a phased-in corporate income tax rate reduction. A similar rate reduction is proposed in 68 O.S. §2355.1P-4 as it relates to the Pass-Through Entity Tax Equity Act of 2019<sup>1</sup> and 68 O.S. § 2370, the bank-in-lieu tax.

Under current law, a 4% income tax is levied upon the Oklahoma taxable income of every corporation doing business within this state or deriving income from sources within this state per 68 O.S. § 2355 (E). Banks are subject to a 4% in lieu tax upon Oklahoma taxable income under 68 O.S. § 2370. The proposed rates are as follows:

<u>Tax Year</u>	<u>Proposed Rate</u>
2023	3.50%
2024	3.00%
2025	2.50%
2026	2.00%
2027	1.50%
2028	1.00%
2029	0.50%
2030	0.00%

Also, this measure requires the current 4% rate for certain corporations if total General Revenue Fund (GRF) collections do not exceed 102% of prior year total GRF collections.<sup>2</sup> Corporations that participate in the filing of a publicly traded company's financial statements and have Oklahoma tax credit carryforwards in excess of \$50 million will be subject to the 4% rate. These corporations are prohibited from acquiring any tax credit authorized pursuant to the provisions of the Oklahoma Statutes on or after the effective date of this act.

Not later than June 30, 2023, for entities in existence as of the effective date of this measure, and not later than 60 days after the formation of an entity subject to taxation which occurs after the effective date of this measure, a taxpayer shall make an irrevocable election to be subject to the rate of tax at 4%.

If a corporation subject to the 4% rate (either required or by election), has fully utilized all tax credits available to it pursuant to applicable provisions of law, the income tax rate for the corporation for the first tax year beginning after the end of the final tax year with respect to which any such credits have been claimed and used to reduce an income tax liability amount shall be 0% and the rate shall be 0% thereafter.

Additionally, effective for tax year 2030 and subsequent years, banks subject to the tax levied by 68 O.S. § 2370 shall pay an annual fee, in lieu of any other tax on the personal property of the financial institution, in the amount of \$100. Such fee shall be apportioned to the State Public Common School Building Equalization Fund.

This estimate combines the revenue impact of the phased-in income tax rate reduction for

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<sup>1</sup> "The provisions of this section shall cease to have the force and effect of law after the expiration of the last date the applicable tax return is filed, including any extensions, with respect to the final taxable year for which any entity having made an election to be subject to the provisions of this section is required to file a return with the Oklahoma Tax Commission, including the period of time required for any person or entity receiving a distribution of income or an allocation of loss from a pass-through entity is required to file a return with the Oklahoma Tax Commission, including any extensions." 68 O.S. 2355.1P-4(I)

<sup>2</sup> The timing analysis is confusing as to which specific periods are to be compared.

corporations, pass-through entities and banking associations.

In order to determine the revenue impact the estimates from the Oklahoma Tax Commission Revenue forecast for FY23, FY24, and FY25 were used.<sup>3</sup> The chart below shows the estimated decrease in corporate income tax collections by FY.

<b>FY Effect – Incremental Corporate Income Tax Rate Reduction</b>				
<b>FY Conversion<sup>4</sup></b>		<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
Tax Year 2023	-\$46,934,000	-\$23,467,000	-\$23,467,000	
Tax Year 2024	-\$101,377,000		-\$50,689,000	-\$50,688,000
Tax Year 2025	-\$157,915,000			-\$78,958,000
	<b>FY TOTAL</b>	<b>-\$23,467,000</b>	<b>-\$74,156,000</b>	<b>-\$129,646,000</b>

Data is not available as to entities that may opt to be taxed at the current 4% rate, so no consideration was given to entities potentially subject to the 4% rate in this analysis.

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<sup>3</sup> Oklahoma Tax Commission - Revenue Forecasts for FY 2023; FY 2024 and FY 2025 as of February 15, 2022. Letter to Office of Management and Enterprise Services. FY23 Corporate Estimate is \$361.0 million; FY24 Corporate Estimate is \$389.9 million, and FY25 Corporate estimate is \$421.1 million.

<sup>4</sup>For purposes of this analysis the tax year reductions were split evenly between two fiscal years.