

**BILL SUMMARY**  
2<sup>nd</sup> Session of the 59<sup>th</sup> Legislature

<b>Bill No.:</b>	<b>HB2950</b>
<b>Version:</b>	<b>FA1</b>
<b>Request Number:</b>	<b>10755</b>
<b>Author:</b>	<b>Speaker McCall</b>
<b>Date:</b>	<b>4/10/2024</b>
<b>Impact:</b>	<b>See Analysis Below</b>

**Research Analysis**

The floor substitute for HB2950 replaces the bracket system for personal income tax with a 4.75 percent flat tax beginning tax year 2025, applicable to income above \$13,350 for single filers or \$27,100 for joint filers, heads of households and qualifying widowers. The measure also establishes revenue triggers to allow the personal income tax rate to be lowered in future years beginning tax year 2025. The tax rate may decrease by 0.25 every year that the cumulative revenue growth is equal to or greater than \$400 million. When the tax rate has been reduced to 3.0 percent, the rate may be reduced further by 0.3 each year until the rate is zero and the personal income tax is completely phased out after 10 years.

**DIFFERENCES BETWEEN FLOOR SUBSTITUTE AND COMMITTEE SUBSTITUTE VERSION**

The committee substitute had proposed a .25 percent tax cut for all brackets effective tax year 2024. The floor substitute does not provide an immediate tax reduction and instead establishes a 4.75 percent flat tax beginning tax year 2025.

The floor substitute includes a framework to reduce the income tax rate in the future with a \$400 million revenue trigger requirement. The committee substitute did not include a mechanism for future rate reductions.

The floor substitute also does not propose a renewable electricity production tax, whereas the committee substitute did.

Prepared By: Quyen Do

**Fiscal Analysis**

In its current form, HB2950 establishes a 4.75 percent flat tax for personal income tax beginning tax year 2025 and establishes revenue triggers to allow the personal income tax rate to be reduced incrementally in future years. The tax rate may decrease by 0.25 in each tax year that the cumulative revenue growth is equal to or greater than \$400 million. When the tax rate has been reduced to 3.0 percent, the rate may be reduced by 0.3 each year until the rate is zero.

The Legislative Office of Fiscal Transparency (LOFT) has provided the following analysis:

LOFT estimates a fiscal impact of \$295 million for the first full fiscal year the tax change is in effect. The first full year of moving to a flat tax should have the greatest fiscal impact, as the State is establishing the new threshold at which income is taxed, and subsequently eliminating tax revenue that was previously collected on those earnings. This estimate assumes no growth in the number of tax filers or overall income earnings. It also does not examine other tax revenue sources.

#### Fiscal Impact for Initial Conversion to Flat Tax

Replacing Oklahoma’s Graduated Income Tax with a Flat Tax of 4.75% (First full fiscal year of flat tax implementation)	<b>\$295 million reduced income tax collections</b>
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After the initial transition from a graduated tax rate to a flat tax rate, LOFT estimates an annual fiscal impact of \$243 million for every quarter point reduction in the income tax rate. The fiscal impact for implementation of each triggered .25 percent reduction is the same, as the flat tax rate is equally applied to all income. However, when considering the increased collections required to activate the reduction, there is a net positive fiscal impact to the State.

#### Annual Fiscal Impact of .25% reduction “triggered” by increased collections

Enaction of each .25% reduction in the income tax rate from the prior year would result in a loss of approximately \$243 million in income tax collections. However, as the rate reduction is only activated upon an increase in total tax collections of at least \$400 million, the conditions triggering the additional rate reduction would result in a net positive impact to State revenue collections.	\$243 million reduced income tax collections \$400 million increase in total tax collections = <b>Net positive fiscal impact of \$157 million</b>
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Prepared By: Zach Penrod

#### Other Considerations

None.