

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-NINTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: March 29, 2023

BILL NUMBER: HB 1953 **STATUS AND DATE OF BILL:** Engrossed 3/23/2023

AUTHORS: House McCall, O'Donnell, & Lepak Senate Bullard

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

PROPOSAL: Amendatory

HB 1953 proposes to amend 68 O.S. § 2355 relating to the individual income tax rate; 68 O.S. § 2358 eliminating the Oklahoma standard deduction; and 68 O.S. § 2355.1P-4 conforming the electing pass-through entity tax calculation to the proposed income tax rate. All are effective for tax year 2024 and subsequent tax years.

EFFECTIVE DATE: January 1, 2024

REVENUE IMPACT:

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

FY 23: None

FY 24: Decrease of \$166.7 million in income tax collections.

FY 25: Decrease of \$424.9 million in income tax collections.

March 29, 2023

DATE

Rick Miller

DIVISION DIRECTOR

mk

3/29/2023

DATE

Huan Gong

HUAN GONG, ECONOMIST

4/3/2023

DATE

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.

HB 1953 proposes to amend 68 O.S. § 2355 relating to the individual income tax rate; 68 O.S. § 2358 eliminating the Oklahoma standard deduction; and 68 O.S. § 2355.1P-4 conforming the electing pass-through entity tax calculation to the proposed income tax rate. All are effective for tax year 2024 and subsequent tax years.

Tax Rate and Standard Deduction:

Under current law, individual income tax is levied on taxable income using graduated income tax brackets that can be found on the last page of this analysis.

This measure creates a single rate structure of 4.25% effective for tax years 2024 and 2025. Taxable income of less than \$19,450 for filers using married filing joint status; \$9,750 for filers using either single or married filing separate status; and \$16,250 for filers using head of household status will be exempt from income tax. For those that use surviving spouse as their filing status **no** taxable income will be exempt from the 4.25% rate. The Oklahoma standard deduction¹ is eliminated for tax year 2024 and subsequent tax years; however, itemized deductions will still be allowed. The current Oklahoma standard deduction can be found on the last page of this analysis.

The 4.25% rate structure may be extended for subsequent taxable years by law.² If the 4.25% rate structure is not extended, the rate on the remainder will increase to 4.75% for tax years 2026 and 2027. Each extension would be for a two year period. The amount of exempt taxable income outlined above and the elimination of the Oklahoma standard deduction remain the same even if the income tax rate increases to 4.75%

Revenue Impact:

The revenue impact of this measure³ was estimated using the Oklahoma Individual Income Tax Micro-Simulation Model. The chart below reflects the tax year and fiscal year effects on income tax collections.

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.

² How the 4.25% rate structure may be extended for subsequent taxable years is not specified. It is assumed that in order for the 4.25% rate structure to be extended, it would have to be legislatively enacted and approved by the Governor.

³ The effect of the rate potentially reverting to 4.75% is not considered in this estimate.

ATTACHMENT TO REVENUE IMPACT - HB 1953 [Engrossed] Prepared 3/29/23
(continued)

HB 1953 - FY Effect of 4.25% Flat Rate (on Taxable Income over \$9,750 for Single / Married Filing Separate; \$16,250 for Head of Household; \$19,450 for Married Filing Joint and \$0 for Surviving Spouse) & Eliminate Oklahoma Standard Deduction			
Revenue Impact			
Tax year 2024	-\$416,821,000		
Tax year 2025	-\$437,029,000		
Tax year 2026	-\$458,479,000		
FY CONVERSION	FY24	FY25	FY26
Tax year 2024	-\$416,821,000	-\$166,728,000	-\$250,093,000
Tax year 2025	-\$437,029,000	-\$174,812,000	-\$262,217,000
Tax year 2026	-\$458,479,000		-\$183,392,000
FY TOTAL	-\$166,728,000	-\$424,905,000	-\$445,609,000
Source: Oklahoma Individual Income Tax Micro-Simulation Model.			

Withholding and estimated tax payments would change as a result of the enactment of this measure which would occur in part in FY24. It is expected the revenue impact for FY24 would be a decrease of \$166.7 million in income tax collections and for FY25 a decrease of \$424.9 million in income tax collections.

The chart below shows the current income tax brackets by income tax filing status:

Married Filing Joint / Head of Household / 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 / 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

The chart below shows the current standard deduction by income tax filing status:

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