

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: March 29, 2023

BILL NUMBER: HB 2285 STATUS AND DATE OF BILL: Engrossed 3/20/2023

AUTHORS: House Lepak & O'Donnell Senate Rader

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

PROPOSAL: Amendatory

HB 2285 proposes to amend 68 O.S. § 2355 relating to the individual income tax rate as well as 68 O.S. § 2358 relating to the Oklahoma standard deduction, effective for tax year 2024 and subsequent tax years. Section 2355 is further amended by establishing a trigger mechanism that may reduce the individual income tax rate by 0.25% beginning with tax year 2025.

EFFECTIVE DATE: November 1, 2023

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 \$71.7 million in income tax collections.

FY 25: Decrease of \$183.2 million in income tax collections.

March 29, 2023

DATE

Rick Miller

DIVISION DIRECTOR

mk

3/29/2023

DATE

Huan Gong

HUAN GONG, ECONOMIST

4/11/2023

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.

ATTACHMENT TO REVENUE IMPACT - HB 2285 [Engrossed] Prepared 3/29/23

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Tax Rate and Standard Deduction:

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

This measure would replace the graduated income tax rate structure with a single rate of 4.5% effective for tax year 2024 and subsequent years. The 4.5% rate 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 amounts by income tax filing status:

Standard Deduction Amount		
Filing Status	Current	Proposed
Married Filing Joint & Surviving Spouse	\$12,700	\$20,700
Single & Married Filing Separate	\$6,350	\$10,350
Head of Household	\$9,350	\$15,300

Tax Rate Trigger:

This measure requires the State Board of Equalization (SBE) at its February² meeting each year to make a determination regarding a potential decrease in the individual income tax rate. This measure proposes a trigger to decrease the individual income tax rate by 0.25% each year there is an increase in the General Revenue Fund (GRF) total collections equal to or greater than 1.5% compared to an initial base year GRF total collections. In order to trigger a rate reduction for tax year 2025, the SBE at the February 2024 meeting shall make a finding comparing the FY23 GRF total collections to the "initial base year" (FY21) GRF total collections. If the GRF total collections for FY23 exceed the GRF total collections for FY21 by at least 1.5%, the Oklahoma individual income tax rate will decrease to 4.25% for tax year 2025.³

For any year during which the GRF total collections has been determined by the SBE to have exceeded the base year GRF total collection amount by 1.5% or more, the base year amount shall be adjusted for purposes of any succeeding comparison. The FY21 GRF total collections will be multiplied by 1.5% and that amount will be added to the FY21 GRF total collections to establish a new base year amount.

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.

²The SBE meeting in February 2024 is the first meeting that the determination can be made.

³ If FY23 GRF total collections do not exceed FY21 GRF total collections by 1.5% no adjustment to the tax year 2025 individual income tax rate is made.

**ATTACHMENT TO REVENUE IMPACT - HB 2285 [Engrossed] Prepared 3/29/23
(continued)**

The SBE will repeat this determination at each February meeting for purposes of determining the individual income tax rate for the succeeding tax year until the individual income tax rate is at 2.75%. The determination by the SBE each February will compare GRF total collection for the FY that immediately preceded the February meeting with the adjusted base year amount.

Revenue Impact:

The revenue impact of this measure 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.⁴

HB 2285 - FY EFFECT				
<u>4.5% RATE & CHANGE TO STANDARD DEDUCTION</u>				
Revenue Impact				
Tax year 2024	-\$179,172,000			
Tax year 2025	-\$189,201,000			
Tax year 2026	-\$199,853,000			
FY CONVERSION		FY24	FY25	FY26
Tax year 2024	-\$179,172,000	-\$71,669,000	-\$107,503,000	
Tax year 2025	-\$189,201,000		-\$75,680,000	-\$113,521,000
Tax year 2026	-\$199,853,000			-\$79,941,000
FY TOTAL		-\$71,669,000	-\$183,183,000	-\$193,462,000

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 \$71.7 million in income tax collections and for FY25 a decrease of \$183.2 million in income tax collections.

⁴ The fiscal year impacts considered changes to the withholding tables and estimated tax payments due to the income tax rate reduction.

**ATTACHMENT TO REVENUE IMPACT - HB 2285 [Engrossed] Prepared 3/29/23
(continued)**

INDIVIDUAL INCOME TAX BRACKETS

Current Law - 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

Current Law - 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