



Oklahoma State Senate

Legislative Brief

June 1998

1998 Session Tax Cuts

Issue Background

Oklahoma's healthy economy has produced a statewide unemployment rate of 3.6% (well below the national average of 5.0%), significant new job growth, and top-ten growth in personal income coupled with over a decade of increasing gross state product. Economic success has led to healthy state revenue increases in excess of projections. These increases have spurred discussions of how to allocate growth revenues among education, infrastructure, other state needs and tax relief.

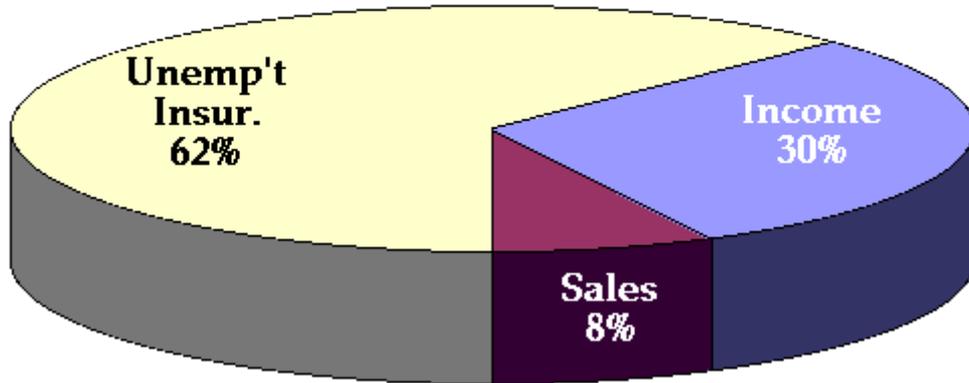
Summary of Actions

Tax relief discussions were a significant focus of the 1998 legislative session. Numerous approaches were proposed. As budget negotiations closed, the following tax issues emerged as the primary areas for action:

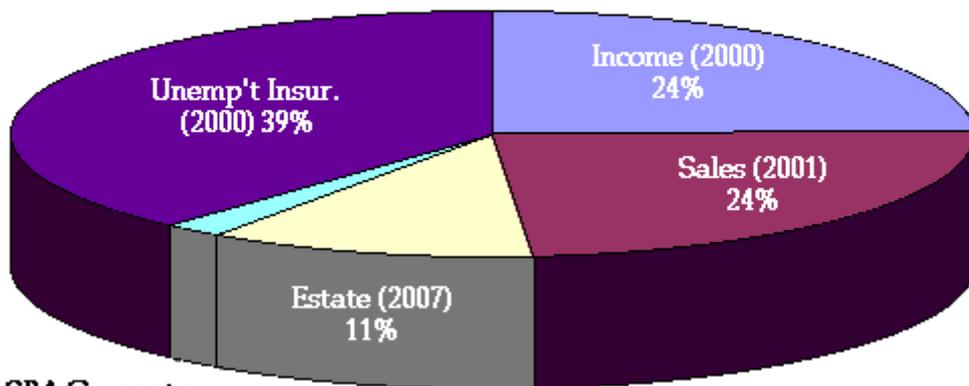
- provide grocery sales tax relief to working families;
- bring Oklahoma's estate tax exemption in line with the federal level;
- lower the highest marginal rate for the majority of income tax filers;
- promote family savings for college; and
- continue to reduce the unemployment insurance tax on business.

The following charts depict the contribution of each component of the final legislation, embodied in House Bills 2792, 2934, and 3152. Details of each component, including phase-in schedule, are provided below.

FY-99 Tax Reduction (total reduction: \$52 million)



Tax Reduction (Year fully implemented) (total reduction: \$169 million)



SBA Guaranty
Fee (2004) 2%

Income Tax Rate Reduction

HB 3152

Current Policy:	top marginal rate for Method I is 7%;
Provision:	reduce top marginal rate to 6.75%;
Oklahomans affected:	majority of filers, roughly 740,000 state tax filers;
Implementation:	tax year 1999;
Revenue Impact:	
	<u>Fiscal Year</u> <u>Impact</u>
	1999 -\$15.6 million
	2000 -\$41.1

Note: legislation includes mechanism to suspend the 0.25% reduction if the State Board of Equalization determines that FY-01 revenue estimates are below FY-00 estimates.

Sales Tax Rebate

HB 3152

Current Eligibility:	all households, gross income up to \$12,000;
Provision:	tax filers without dependents, gross income up to \$20,000; tax filers with dependents, disabled and over age 65, gross income up to \$50,000;
Oklahomans affected:	400,000 tax filers for 1999, and 600,000 for 2000;

Implementation:	<u>Tax Year</u>	<u>Indiv. without depend.</u>	<u>Indiv. with depend., Disable, and Over age 65</u>
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1999	\$12,000	\$12,000
2000	\$15,000	\$30,000
2001	\$20,000	\$50,000

Revenue Impact:	<u>Fiscal Year</u>	<u>Impact</u>
	1999	-\$3.9 million
	2000	-\$24.6
	2001	-\$41.0

Note: legislation includes mechanism to prevent or suspend either step of the income threshold increases if the State Board of Equalization de-termines that fiscal year revenue estimates are insufficient.

Estate Tax Exemption

HB 3152

Current Policy: maximum \$175,000 deduction for lineal heirs;
Provision: maximum \$1,000,000 deduction for lineal heirs (matches fed. level);
Oklahomans affected: approximately 70,000 estates;

Implementation and Revenue Impact:	<u>Year</u>	<u>Deduction (Tax Year)</u>	<u>Impact Year (Fiscal Year)</u>
	1999	\$275,000	\$0
	2000	\$475,000	-\$8.1 million
	2001	\$675,000	-\$13.8
	2002	\$700,000	-\$16.3
	2003	\$700,000	-\$16.5
	2004	\$850,000	-\$16.5
	2005	\$950,000	-\$17.7
	2006	\$1,000,000	-\$18.3
	2007	\$1,000,000	-\$18.6

Tax Deferral on College Saving

HB 2934

Provision: individuals can establish tax deferred accounts for named beneficiaries; withdrawals taxed at beneficiary rate and can be used for college expenses.

Small Business Administration Guaranty Fee Credit

HB 3152

Provision: Provides an income tax credit for Small Business Administration Guaranty Fees;

Revenue Impact:	<u>Fiscal Year</u>	<u>Impact</u>
	1999	\$0
	2000	-\$1.2 million
	2001	-\$1.7
	2002	-\$2.2
	2003	-\$2.7
	2004	-\$3.3

Unemployment Insurance Tax Reduction

HB 2792

Provision: Reduces employer contribution rates through December, 1999;
Oklahoma businesses affected: suspends contributions for two thirds of employers; cuts contributions in half for remaining employers;
Revenue Impact: -\$136 million over five years (roughly -\$32.5 million, FY-99).
Note: HB 2792 only provides for reduced contributions through December, 1999; legislation includes mechanism to adjust employer contributions in case of economic downturn.

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