



Oklahoma
State
Senate

Legislative

Brief

June 2006

Tax Measures

Issue Background

In 2006 the Legislature approved the largest tax cut in state history and in doing so addressed multiple aspects of the tax code. Over the next four years, the top income tax rate will fall, the standard deduction will rise, retiree exemptions will be expanded and the estate tax will be eliminated. In 2010 when all the changes are fully phased-in, over \$600 million in tax relief will be provided to Oklahomans. In addition to changes aimed at impacting individuals, other changes provided specific tax relief to businesses and nonprofit organizations and created new economic development initiatives funded with surplus tax revenue.

Summary of Actions

Income tax relief for individuals

Following last session's rate decrease, this year's HB 1172XX contained further reductions in the top marginal income tax rate. The rate will drop a full percentage point between 2007 and 2010. Specifically, the top rate will go to 5.65% in 2007, 5.55% in 2008 and 5.50% in 2009. Then, if state revenue continues to grow by at least 4% plus the cost of the additional scheduled tax reduction, the top marginal rate will drop to 5.25% in 2010.

Like the income tax rate, Oklahoma's standard deduction was modified last session. HB 1172XX included further modifications which will, over the next four years, phase-in increases to the standard deduction until 2010 when it is tied to the federal standard deduction amount. From 2007 to 2009, the amounts will more than double. For example, those who are married, file jointly and do not itemize their deductions will be able to claim exemptions of \$5,500 in 2007, \$6,500 in 2008 and \$8,500 in 2009. That means the deduction will rise from the current 2006 level of \$3,000 to an estimated federal level of \$11,200 in 2010.

Over the past several years, the Legislature has also expanded the income tax exemption for both public and private retirees. Before HB 1172XX was signed into law, only those private sector retirees with income below a certain threshold amount could claim an exemption for certain retirement benefits. New law will increase the income thresholds each year from 2007 to 2010 until they are completely eliminated in 2011. Tax relief was also provided to military retirees. The amount of military retirement exempt from income tax increased to \$10,000 or 75% of benefits, whichever is greater.

The issue of estate tax was also addressed during the 2006 Special Session, through the creation of a level playing field for all types of heirs and the phase-out of the estate tax. For deaths which occur on or after January 1, 2007, lineal and collateral heirs will be subject to the same tax rate and exemption amount. That exemption will rise from \$1 million to \$2 million in 2008 and to \$3 million in 2009. For 2010 and beyond, the estate tax will be repealed.

Targeted tax relief

In an effort to provide sales tax relief to certain nonprofit organizations, the 2006 Legislature approved sales tax relief measures which apply to a variety of nonprofit organizations, including: community mental health centers, tickets to events for certain women's organizations, certain membership health organizations, patriotic women's organizations, YMCAs, veteran's organizations, property used in construction of a rural electric cooperative facility or a church and certain food boxes sold by a church or nonprofit organization.

Certain industries were also provided tax relief, either through sales tax exemptions or other tax credit programs, as listed below:

- Sales tax exemption for property used in certain quarrying operations;
- Modification of existing tax credits for Oklahoma-mined coal;
- Expansion of existing tax credits for zero-emission power generation facilities, rehabilitation of historic buildings and railroad modernization;
- Extension of the expiration date for existing tax credits for manufacturers of small wind turbines; and
- Creation of bank privilege tax credits for amounts paid for certain student loan origination fees.

Economic Development Initiatives

Two funds were created during the 2006 Special Session for the purpose of utilizing certain surplus tax revenue for economic development purposes. SB 99XX created a \$150 million trust fund known as the Economic Development Generating Excellence (EDGE) Fund. Expenditures from the fund, limited to 5% of its assets, may be used as matching funds for applied research, for technology transfer and seed capital and for a variety of other specific uses. Two separate boards were also created to govern investment and expenditure of the fund. In HB 1169XX, the Oklahoma Department of Commerce and a contingency review board were given the authority to propose and review expenditures of up to \$45 million by the Governor from a newly-created Oklahoma Opportunity Fund. Expenditures can be made for economic development purposes if they are expected to result in the creation of new jobs, maintenance of existing jobs, and/or investment in new property or ventures that will increase the state's tax base.

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