

Oklahoma Tax Changes

Alterations in Income and Gross Production Taxes and Their Impact on the Oklahoma Tax Base

Oklahoma's Tax System

- Eight Major Tax Types
 - Individual Income Tax
 - Corporate Income Tax
 - Sales and Use Tax
 - Property Tax
 - Motor Vehicle Taxes
 - Gross Production Taxes
 - Motor Fuel Taxes
 - Franchise Taxes

Oklahoma's Individual Income Tax Overview

- ▶ Started in 1915, eight years after statehood
- ▶ Various changes in top personal rate, from 5% (1931-1933) to 6% (1933-1935) to 9% (1935-1947) to 6% (1947-1989) to 7% (1990-1998)
- ▶ 1998 Tax Rate Cut Bill (HB3152)
 - ▶ Language was included that reversed the tax cut if revenues were estimated to be lower than the previous year.
 - ▶ Lowered the rate to 6.75% for TY1999
 - ▶ Lowered the rate to 6.65% for TY2002
 - ▶ Because of lower estimate, rate reverted back to 7% for TY2002.
 - ▶ Lowered the rate to 6.65% again for TY2004

Oklahoma's Individual Income Tax Overview, continued

- 2005 Tax Reform (HB1547)
 - Republicans elected to State House majority for first time in since 1920
 - Senate Democrats maintained slim majority (26-22) and Democrats held Governor's office
 - For Tax Year 2006, rate would be reduced to 6.25% from 6.65%
- 2005 Tax Reform, Part 2 (SB 435)
 - Went back to a single method of calculation (a optional "Method II" was enacted in 1979)
 - Increased Standard Deduction, Excluded up to \$10,000 in Private Retirement Benefits for low and middle income persons

Oklahoma's Individual Income Tax Overview, continued

- 2006 Income Tax Reform (HB1174XX)
 - Expanded Private Retirement Benefit exclusion to persons earning \$50,000 per year in 2007, \$62,500 per year in 2008 and \$100,000 per year in 2009. Beginning in 2010, there is no income limit for this exclusion. Also excluded \$10,000 or 75% of military retirement benefits (whichever is greater). Began gradual exclusion of civil service retirement benefits (20% in 2007, 40% in 2008, 60% in 2009, 80% in 2010 and 100% in 2011 and beyond)
- 2007 Income Tax Reform (SB861)
 - Lowered top marginal rate to 5.5% for TY2008 and upon meeting a trigger of revenue growth adequate to pay for the decrease in revenues, a reduction to 5.25% in the next successive year where the growth offset the revenue decline. Granted an Oklahoma Child Credit equal to 5% of the federal child tax credit or 20% of the federal child care expense credit, whichever is greater.

Oklahoma's Individual Income Tax Overview, continued

- 2008 Voluntary Compliance Initiative to temporarily increase collections. This allows for automatic waiver of penalty, interest, and collections fees.
- 2009 Tax Reform
 - Exempted 100% of U.S. Armed Forces Income from taxation from 7/1/2010 to 1/1/2015. Allowed for exemption to continue if a trigger was met that proved state tax collections from other taxes were more than the loss of revenue. If not, it reverted to a permanent \$1,500 partial military pay exclusion which was previously granted.
- 2010 Tax Credit Moratorium
 - Due to financial crisis, state placed a two-year moratorium on most of the credits allowable from 7/1/2010 to 6/30/2012.

Oklahoma's Individual Income Tax Overview, continued

■ 2011 Tax Reform

- Because revenue growth exceeded cost of a tax cut, the trigger from SB861 in 2007 automatically reduces the top marginal tax rate to 5.25%
- Aerospace industry successfully lobbies for a reduction in the two year moratorium to one year for three Aerospace credits and placed a sunset on the credits effective 1/1/2015, subject to legislative renewal (HB1008)
- School choice advocates successfully place a tax credit for school choice scholarship granting organizations (up to \$1,000 per person). (SB969)

Oklahoma's Individual Income Tax Overview, continued

■ 2013 Tax Reforms

- Beginning TY2014, a taxpayer contracting with a child-placing agency may deducted \$2,500 per person for expenses incurred to provide foster care (HB1919)
- Beginning TY2014, bank interest and dividend income from Oklahoma banks and corporations are no longer excluded from taxable income. Political contributions (up to \$100 per person) are no longer excluded from taxable income. Several tax credits are eliminated. (HB2308)
- Legislature passes another tax cut to 5% beginning TY2015 and 4.85% in TY2016 if revenue trigger is met. The Supreme Court throws out the tax cut for violating the "single subject rule" six months later.

Oklahoma's Individual Income Tax Overview, continued

► 2014 Tax Reform

- Beginning with TY2016, the top marginal rate will decrease to 5% if FY16 collections are larger than FY2014 collections (as originally planned in tax cut that was thrown out by Court). A second reduction goes from 5% to 4.85% within the next two years if the collections are increased by enough to cover the cost of the reduction. (SB1246)
 - Board of Equalization determined in December, 2014 that FY2016 collections would be high enough to provide the additional revenues needed to pay for the cost of the tax cut and the rate was set for 5.0% for TY2016.
- The 100% deduction for active duty military pay is made permanent without regard to the trigger that was passed in 2009. (SB1723)

Oklahoma's Individual Income Tax Overview, continued

► 2015 Tax Changes

- Because of decline in collections, another "Voluntary Compliance Initiative" is offered that waives penalty, interest, and collections fees. (HB2236)

► 2016 Tax Changes

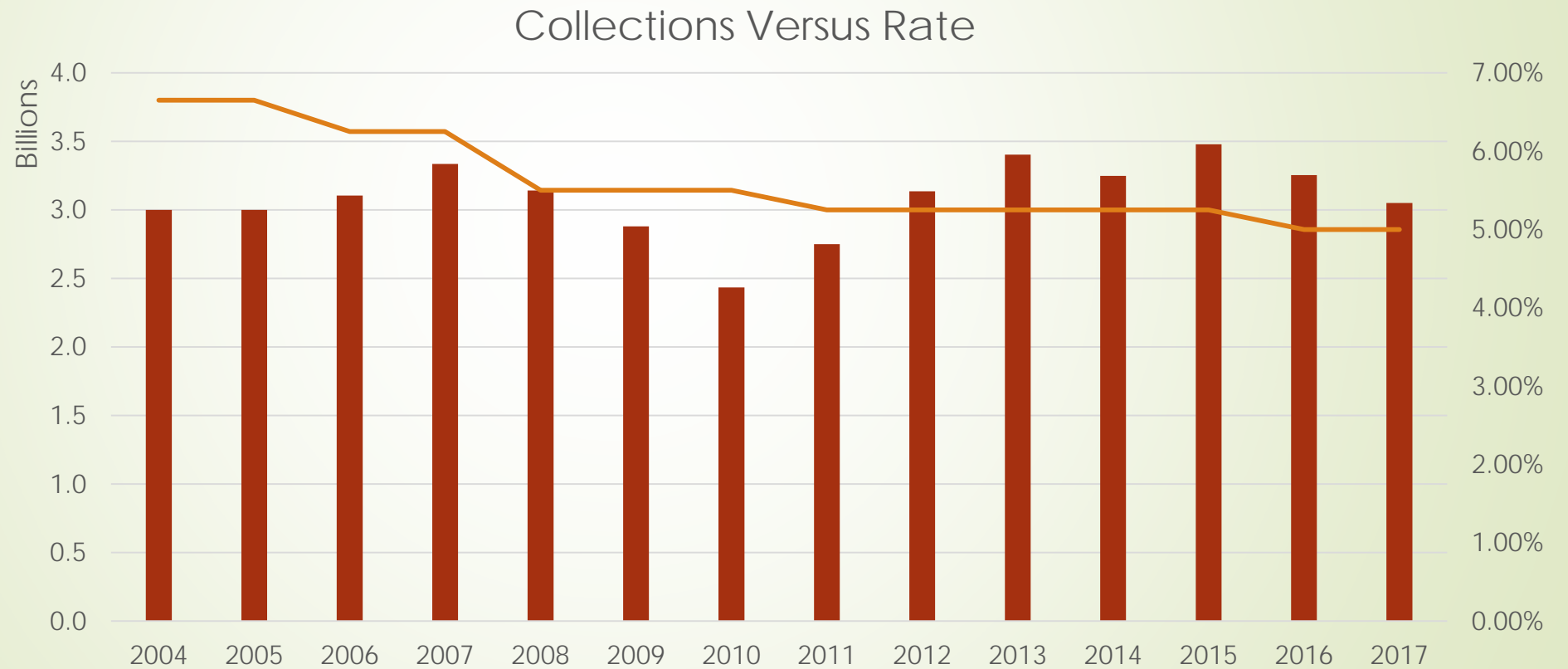
- Because another decline in collections, major scale backs in tax credits are achieved:
 - Earned Income Tax Credit is made non-refundable (SB1604)
 - State and Local taxes are added back on top of itemized deductions (SB1606)
 - Railroad Modernization is reduced by 25% (HB3204); Investment/New Jobs Credit is capped for two years at \$25,000 (SB1582); Energy Efficient Home Construction Credit is eliminated (SB1603); Child Care Business Credit Eliminated (SB1605); and Coal Credit is limited to 75% of current amount (SB1614)

Oklahoma's Individual Income Tax Overview, continued

■ 2017 Tax Changes

- Legislature repeals the 2014 Income Tax trigger that could lead to another reduction to 4.85% (SB170).
- Legislature offers a "Voluntary Disclosure Initiative" to increase collections on delinquent filed returns. (HB2380)
- Legislature caps Oklahoma Standard Deduction to current federal levels out of fear of dramatic increases from Congress. (HB2348)
- Legislature places a 7/1/2017 deadline on having a wind facility in operation in order to receive the Zero-Emission Facility Credit (HB2298)

Oklahoma Income Tax Collections (2004-2017)



Oklahoma Gross Production Tax Changes

- 1910 Original Assessment was at .5% on all oil and gas production
- 1913 Increased to .75%
- 1916 Raised to 3%
- 1935 Raised to 5%
- 1971 Raised to 7%
- 1999 Oil Rate changed to a three-tiered system based on price (HB1003X):
 - \$17 per barrel and up – 7%
 - \$14-\$17 per barrel – 4%
 - Below \$14 per barrel – 1%

Oklahoma Gross Production Tax Changes, continued

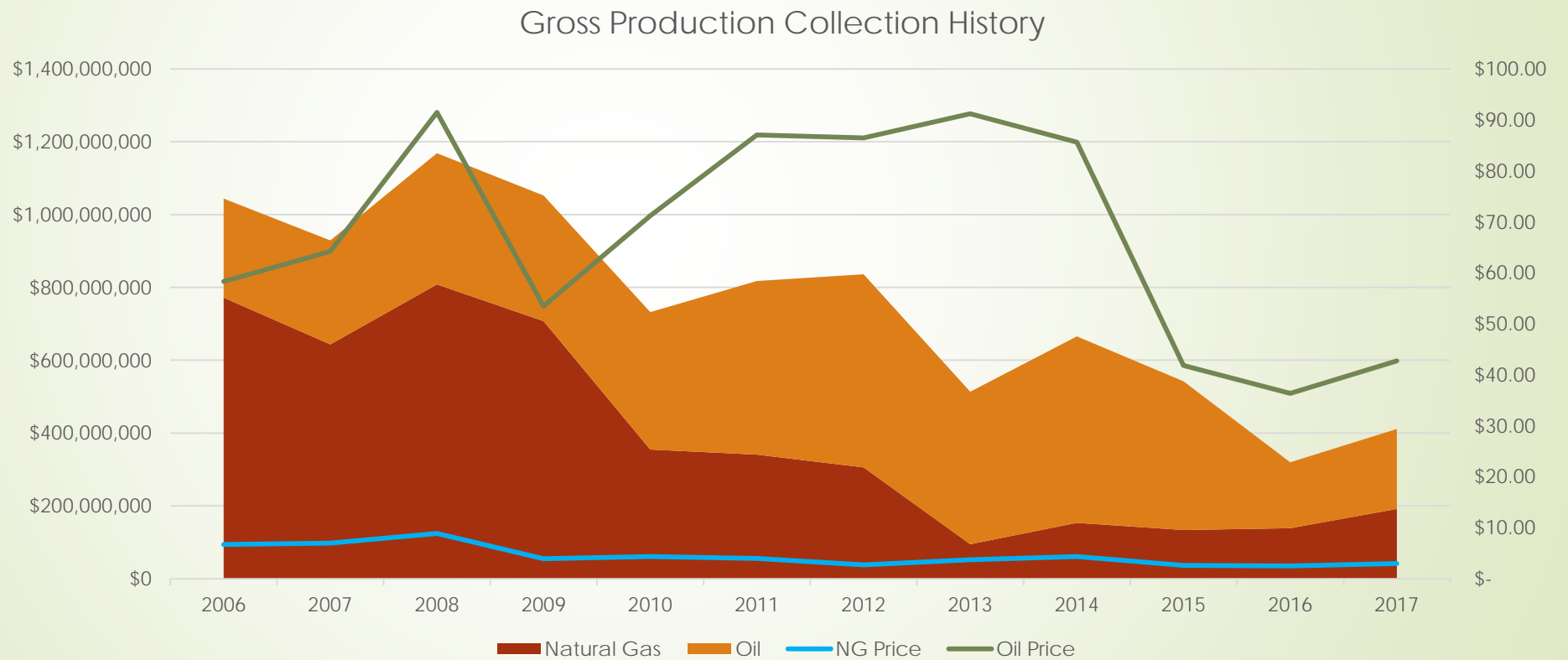
- 2002 Natural Gas rate changed to three-tiered system as well (SB947)
 - \$2.10 per mcf – 7%
 - \$1.75-\$2.10 per mcf – 4%
 - Below \$1.75 – 1%
- 2010 Incentive for Horizontal and Deep Drilling Adopted (HB2432)
 - New horizontal wells would be 1% for four years, new "deep" wells would be at 4% for four years
 - After four years, tax rate goes back up to 7%
- 2014 Incentive repealed and new flat rate applied to all new wells
 - First three years at 2% for all well types, then rate goes to 7%

Oklahoma Gross Production Tax Changes, continued

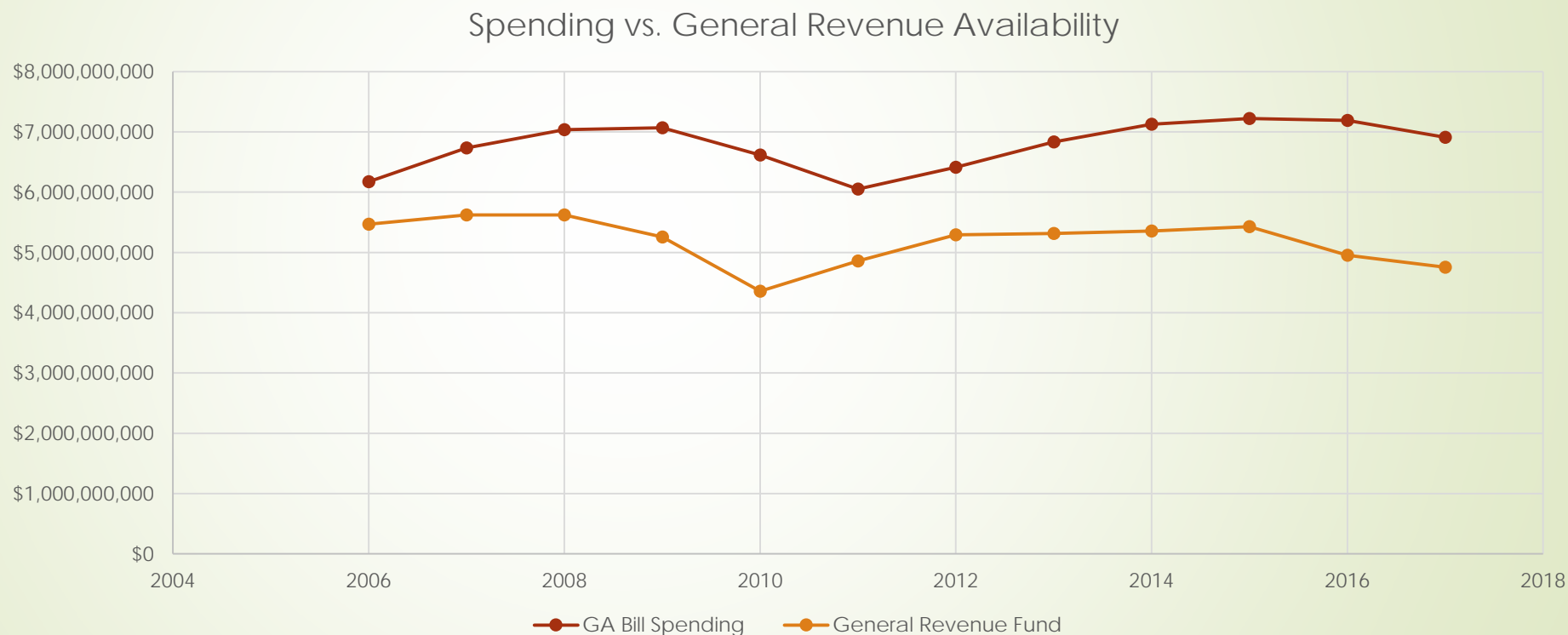
■ 2017 Tax Changes

- Wells that were drilled under the 1% incentive will be taxed at 4% instead of 1% for the balance of the well's incentive term (HB2429)
- Gross Production Incentive programs are terminated effective 7/1/2017; incentive payments are suspended until 7/1/2018 and will be paid out over a 36 month period. (HB2377)
- Deep Wells that were drilled under the 4% incentive will be taxed at 7% instead (HB1085X)

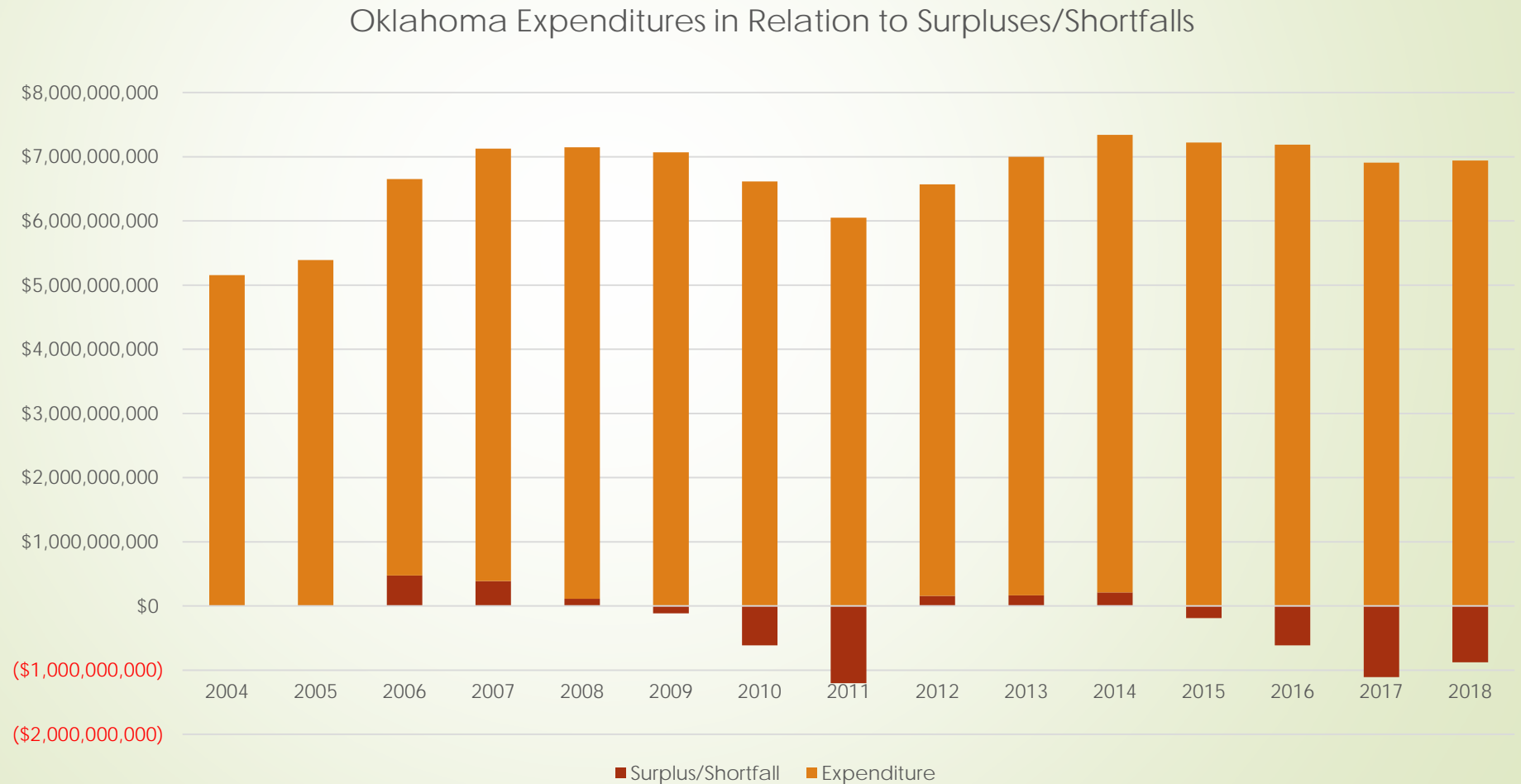
Oklahoma Gross Production Tax Changes



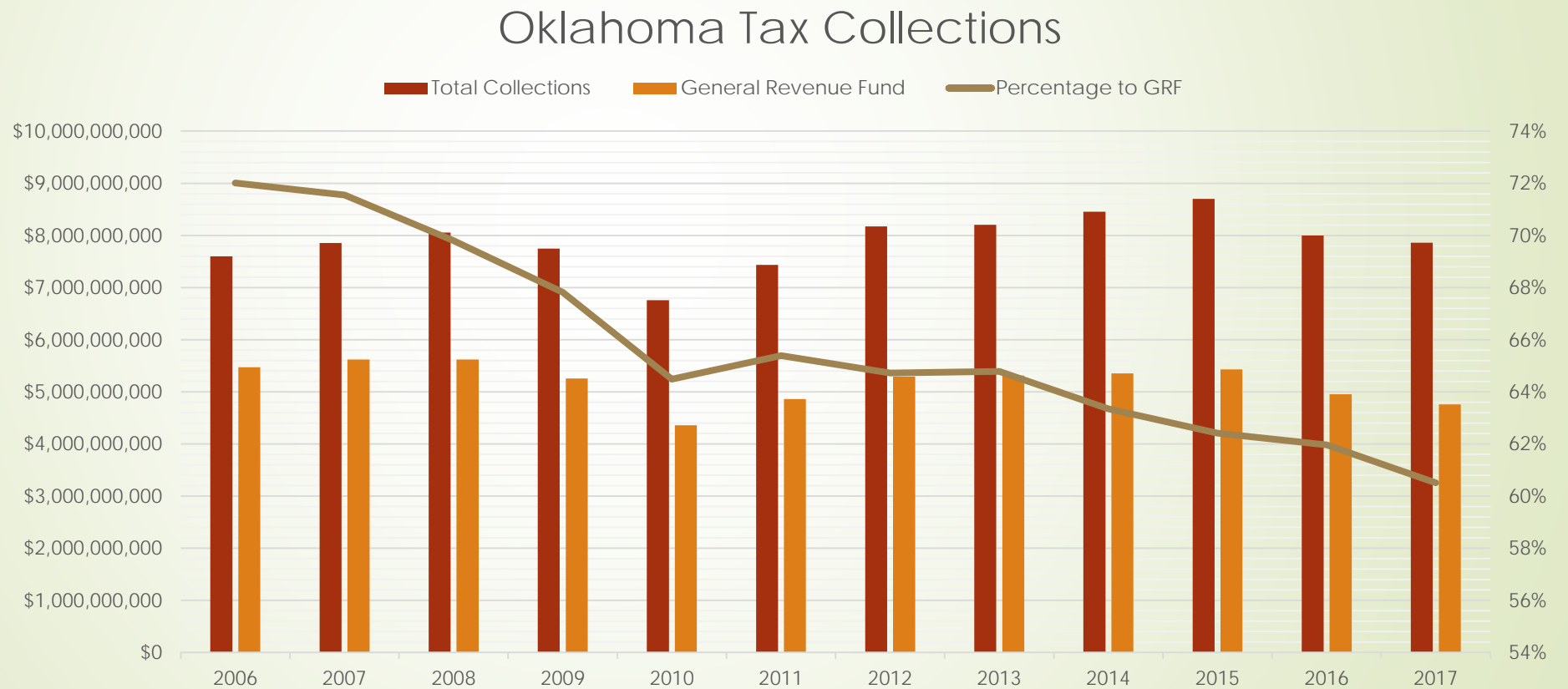
Oklahoma's Spending Compared to General Revenue Fund Balance



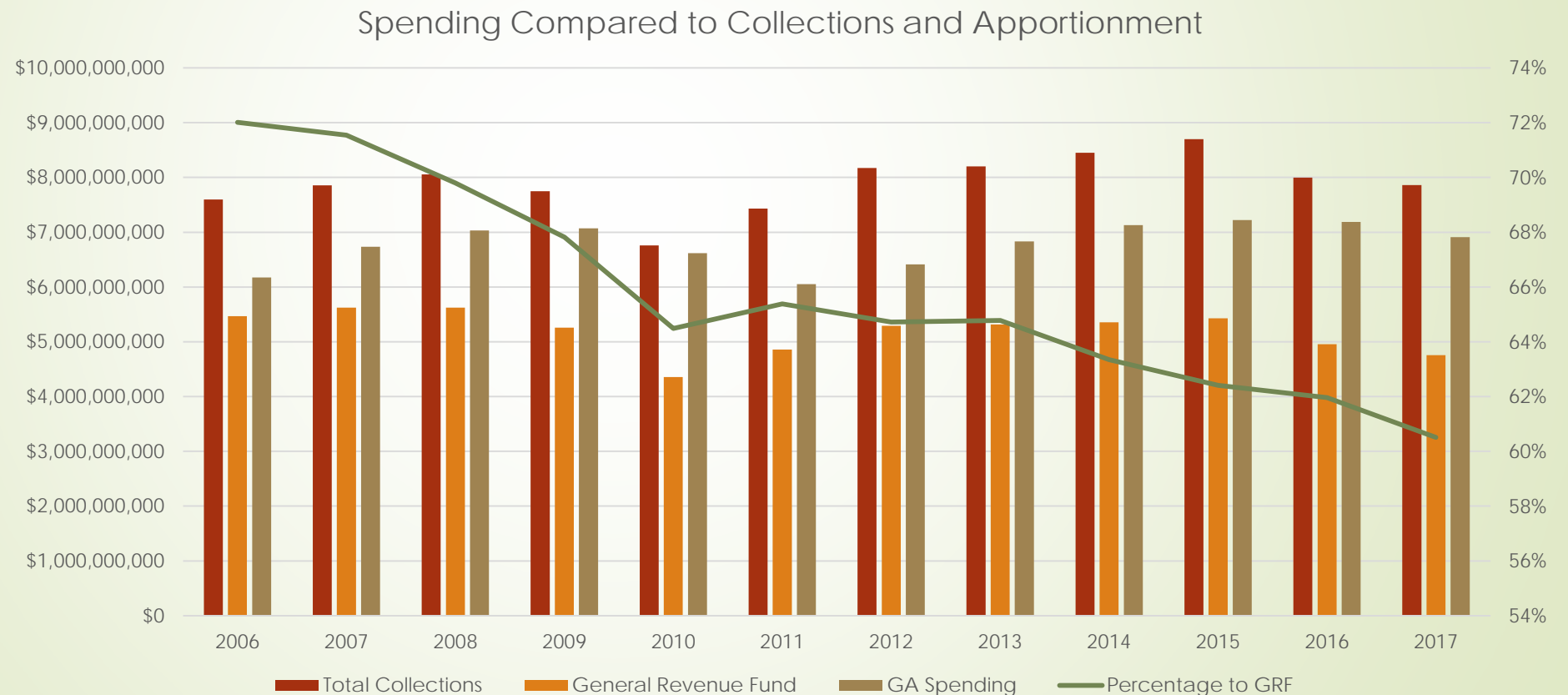
Oklahoma's Spending Compared to Shortfalls and Surpluses



Oklahoma's Total Tax Collections and General Revenue Fund Apportionment



The Big Picture: Spending versus Revenues and Apportioned Funding



Thank You For Your Attention

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