



Oklahoma
State
Senate

Legislative Brief

June 2005

Tax Measures

Issue Background

The 2005 Legislature sent to the Governor a comprehensive tax reduction package consisting of over 35 separate measures. The package focused primarily on income tax relief for individuals, income and other types of tax relief for businesses and targeted sales tax relief. For FY 2006, almost \$60 million in tax relief will be provided directly to taxpayers, and for FY 2007, relief will amount to approximately \$200 million.

Summary of Actions

Income tax relief for individuals

Legislative measures providing income tax relief included broad-based changes to tax rates and deductions as well as targeted income tax measures meant to stimulate investment in specific industry sectors. This session's broad tax relief package was contained in two measures, SB 435 and HB 1547. Together, those bills increased the standard deduction and reduced the top income tax rate. In tax year 2006, the standard deduction amount for those filing as single or "married filing separate" will be \$2,000 and for those filing as "married filing jointly", head of household or qualifying widow, the amount will be \$3,000. For tax year 2007 and subsequent years, the amount will increase to \$4,000 for "married filing jointly", head of household or qualifying widow. The top income tax rate will decrease from 6.65% to 6.25% beginning with tax year 2006. Tax computation will be simplified due to the elimination of a second method of computing taxes known as Method II, and tax brackets are adjusted accordingly to eliminate any tax increases for lower income taxpayers which may result from the elimination of Method II.

Under HB 1193, Oklahoma taxpayers will receive a one-time payment from a portion of surplus state revenue deposited in the "Rainy Day Fund" this year. While the amount will depend on final revenue collections, the measure specifies married couples will receive double the amount paid to individuals. Retired individuals will gain an even greater benefit from additional tax measures enacted. SB 435 increased the amount of retirement income exempt from income taxes from \$7,500 to \$10,000. HB 1476 increased the military retirement income exemption to an amount equal to 50% of military retirement benefits or \$10,000, whichever is greater.

Income and other tax relief for business

Businesses and corporate income taxpayers will also benefit from both broad and industry-targeted tax relief. Under HB 1547, all corporations are given an exemption for certain capital gains which is parallel to the exemption enacted for individuals in 2004. The franchise tax was

simplified by eliminating the filing requirement for certain taxpayers in HB 1738. Bills enacted to provide targeted tax relief include measures which:

- Broaden gross production tax exemptions for deep wells (HB 1588);
- Establish income tax credits for investments in film and music production (HB 1716 and SB 877);
- Expand income tax credits for the purchase of poultry litter and create new income tax credits for costs associated with facilities for specially trained canines (HB 1014);
- Reauthorize income tax credits for investment in research and development (SB 628);
- Expand tax credits for value-added agricultural production and processing (HB 1680);
- Broaden tax credits for manufacturers of wind turbines (HB 1605);
- Expand tax credits for ethanol production (HB 1556);
- Establish income tax credits for biodiesel production (HB 1398);
- Modify the way certain insurance premium tax credits are granted (HB 1547);
- Establish income tax credit for railroad improvement and modernization (SB 435);
- Expand tax credits for historic building rehabilitation and coal production (SB 435);
- Establish income tax credits for construction of energy efficient homes (SB 610);
- Modify the Quality Jobs Program Act and the Quality Investment Act (HB 1810 and SB 407); and
- Establish income tax credits for the purchase of dry fire hydrants (HB 1547).

Under SB 755, Oklahomans will be given the opportunity to vote to modify the Oklahoma Constitution to provide for incentive payments to “at risk” manufacturers from state revenue which accrues in the state’s “Rainy Day Fund”. If the measure is approved and certain conditions are met, up to \$10 million in annual payments could be made to assist ailing manufacturers.

Sales Tax Relief

Although income tax reforms accounted for much of the tax relief enacted by the Legislature, a number of new sales tax exemptions were also provided. Sales exempt from sales taxes will include the following:

- Organizations assisting mentally and physically handicapped persons (HB 1233);
- Day shelters for homeless persons (HB 1275);
- Organizations facilitating the distribution of products to the needy (HB 1562);
- Public trusts or nonprofit organizations for construction of hospitals and nursing homes (HB 1570);
- Certain aircraft parts and related expenditures (HB 1577);
- Disabled veterans (HB 1547);
- Goodwill Industries and any similar organizations (SB 801);
- Sports display advertising (HB 1547);
- Electricity associated with production from certain wells (HB 1498); and
- Certain conservation and wildlife organizations (HB 1625).

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