

Oklahoma Tax Reform Study, 2002

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Outline

- Study Timeline
- Policy Development
- Academic's Model
- OSF Model
- Lessons Learned

Study Timeline

- **April, 2001** – Governor, Speaker and Pro Tempore request Economic Departments at OU and OSU analyze options to eliminate income tax in revenue neutral manner.
- **June, 2001** – Analysis delivered.
- **December, 2001** – Governor releases proposal

Study Timeline

- **February 19, 2002** – Legislator and Citizen Task Force on Tax Reform is formed.
- **February 21, 2002** – First meeting of task force.
- **April 12, 2002** – Task force issues final report.

Policy Development

- Academic's Objective: recommend revenue system alternative with no individual income tax, but must be revenue neutral
- Academics identified 3 alternatives:
 - Statewide property tax
 - Gross receipts tax (GRT)
 - Sales tax on services (STS)

Policy Development

- Governor submitted proposal with a broad based STS and eliminating the individual income tax.
- Task Force was created and proposed income tax reduction and a STS.

Academic's Model

- Oklahoma taxes few services.
- Academic's model for STS was based on 1997 Economic Census.
- Significant work was done to deal with SIC/NAICS issues and employer vs. non-employers.
- This data was projected forward to 2002.

Academic's Model

Sales Tax Analysis

Sector	Estimated 2002 Total Receipts (\$,000)	Estimated Sales to Government (\$,000)	Estimated Currently Taxes Sales (\$,000)	Estimated Taxable Receipts (\$,000)
Forestry, Fishing and Ag Support	\$139,234	\$5,682	37,012	\$96,450
Construction	11,885,391	2,388,447	92,595	9,404,350
Transportation, Communication and Public Utilities	18,326,304	615,437	3,971,817	13,739,050
Finance, Insurance, and Real Estate	18,917,111	227,889	5,336,670	13,352,553
Services	<u>31,024,917</u>	<u>673,023</u>	<u>3,843,807</u>	<u>26,508,087</u>
Total	\$80,292,958	\$3,910,477	\$13,281,902	\$63,100,579

OSF Model

- Issues for OSF to address in further STS model development:
 - Exports
 - Imports
 - Sub-sector refinement
 - Including effects on estimated sales to government and currently taxable sales
 - Distributional effects of tax proposal

OSF Model

- Used estimates from IMPLAN to address the revenue estimate issues.
- IMPLAN estimates for Oklahoma were used to derive government demand, imports and exports for 525 IMPLAN defined industries.
- Focused on 66 service sectors.

OSF Model

Sales Tax Analysis				
Sector	Academic's 2002 Total Receipts (\$,000)	OSF 2003 Comparable Receipts (\$,000)	OSF 2003 Estimated Exports (\$,000)	OSF 2003 Potential Sales Tax Base (\$,000)
Forestry, Fishing and Ag Support	\$96,450	\$543,164	\$132,538	\$410,626
Construction	9,404,350	9,755,296	351,019	9,404,277
Transportation, Communication and Public Utilities	13,739,050	14,402,459	4,232,130	10,170,329
Finance, Insurance, and Real Estate	13,352,553	14,002,148	3,068,292	10,933,856
Services	<u>26,508,087</u>	<u>28,979,932</u>	<u>5,514,250</u>	<u>23,465,682</u>
Total	\$63,100,579	\$67,682,999	\$13,298,228	54,384,771

OSF Model

- IMPLAN Estimates of imports can be examined by institution:
 - Households
 - Business
 - Government
- Allows for estimate of imports to business to estimate Use tax base.

OSF Model

Sales Tax Analysis				
Sector	Estimated 2003 Total Receipts (\$,000)	IMPLAN Imports as Share of Total Receipts (%)	IMPLAN Business Share of Total Imports (%)	OSF 2003 Potential Use Tax Base (\$,000)
Forestry, Fishing and Ag Support	\$543,164	57.23%	91.87%	\$285,584
Construction	9,755,296	0.00%	0.00%	0
Transportation, Communication and Public Utilities	14,402,459	18.68%	52.20%	1,404,157
Finance, Insurance, and Real Estate	14,002,148	67.34%	43.10%	5,646,082
Services	<u>28,979,932</u>	<u>33.77%</u>	<u>52.03%</u>	<u>5,092,473</u>
Total	\$67,682,999	33.37%	42.44%	\$12,428,296

OSF Model

- The estimate of total activity by sector was broken down into IMPLAN sectors to allow for sub-sector analysis.
- Translating into IMPLAN sectors maintained the integrity of estimated other factors affecting the tax base.

OSF Model

- Estimating the distributional effects of the STS was accomplished with CES data.
- A matrix was developed to correlate CES spending categories with IMPLAN sector to allow for taxability.
- Allows for estimating the tax changes to households by size and income levels.

OSF Model

Average Net Sales Tax Impact by Household Size (\$)						
HH Size	Households by Income Category					
	Less than \$10,000	\$10,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$49,999	\$50,000 to \$69,999	\$70,000 and over
1	25	42	59	72	100	285
2	43	51	64	71	95	156
3	46	44	56	75	83	159
4	48	44	57	81	83	157
5+	38	33	53	68	94	143

OSF Model

Total Impact of Task Force Proposal (\$M)						
Impacts	Households by Income Category					
	Less than \$10,000	\$10,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$49,999	\$50,000 to \$69,999	\$70,000 and over
Personal Inc. Tax	(2)	(26)	(43)	(122)	(156)	(447)
STS	10	21	32	54	54	84
Other Tax Changes	(12)	1	2	7	12	(66)
NET	(5)	(4)	(9)	(62)	(90)	(429)

Lessons Learned

- Business interviews were informative.
- STS involves complexities for states.
- STS is generally more progressive than existing sales tax, but less progressive than personal income tax.
- Modeling STS is not for the faint of heart.

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