

# OKLAHOMA TAX COMMISSION

## FISCAL IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT SECOND EXTRAORDINARY SESSION, FIFTY-SIXTH OKLAHOMA LEGISLATURE

**DATE OF IMPACT STATEMENT:** March 29, 2018

**BILL NUMBER:** HB 1010xx **STATUS AND DATE OF BILL:** Enrolled 03/28/2018

**AUTHORS:** House Wallace and Casey Senate David and Fields

**TAX TYPE(S):** Cigarette, Tobacco, Motor Fuel, Gross Production & Occupancy

**SUBJECT:** Tax Levy

**PROPOSAL:** New Law, Amendatory & Repealer

HB 1010xx proposes the following:

- An additional excise tax of 50 mills per cigarette (\$1.00 per pack of 20 cigarettes)
- Taxes little cigars at the same rate and in the same manner as cigarettes
- Strikes current tobacco products levies on little cigars
- An additional motor fuel excise of \$0.03 per gallon for gasoline and \$0.06 per gallon for diesel fuel
- Raises the gross production tax incentive rate from two percent (2%) to five percent (5%)
- A new \$5.00 per night occupancy tax for daily hotel room rental

**EFFECTIVE DATE:** 90 days after Governor's Approval<sup>1</sup>

### REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 19: Estimated \$474,696,000 increase in state revenue (see attached for analysis)

### ADMINISTRATIVE IMPACT:

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 19: Unknown increase

March 28, 2018  
DATE

Rick Miller  
DIVISION DIRECTOR

msm,mjh,kl

3-29-2018  
DATE

Huan Gong for  
REECE WOMACK/ECONOMIST

3-29-18  
DATE

[Signature]  
FOR THE COMMISSION

<sup>1</sup> Unless otherwise indicated the revenue estimates outlined herein assume a July 1, 2018 effective date.

## **ATTACHMENT TO FISCAL IMPACT- HB 1010xx - [Enrolled] - Prepared 03/29/2018**

Section 1 provides that the provisions of this measure are enacted pursuant to the authority provided in Section 57 of Article 5 of the Oklahoma Constitution.

Section 2 proposes to enact an additional cigarette excise tax levy of 50 mills per cigarette. This section also provides that additional revenues attributable to the new levy less amounts rebated pursuant to tribal compacts are to be apportioned to the General Revenue Fund for periods prior to July 1, 2019. Thereafter, the revenues resulting from this additional levy are to be apportioned to the State Health Care Enhancement Fund.

Applying the proposed increase to estimated pack sales<sup>2</sup> and an 11.5% elasticity adjustment, additional cigarette tax revenues are estimated as follows:

FY 19 - \$152,074,000 estimated increase in cigarettes tax collections

Section 3 proposes an amendment to Section 402 of Title 68 to tax “little cigars” at the same rate and in the same manner as cigarettes in addition to striking one of the tobacco products excise tax levies that currently applies to little cigars.

Based on FY 17 sales of little cigars, an increase in additional tax revenues in the amount of \$954,000 is estimated for FY 19.

Sections 4 and 5 propose amendments to Sections 402.1 and 402.3 of Title 68 by striking the remaining tobacco products tax levies which currently apply to “little cigars”.

Section 6 proposes an amendment to Section 500.4 of Title 68 by imposing an additional levy of six cents (\$0.06) per gallon of diesel fuel and three cents (\$0.03) per gallon of gasoline. Prior to July 1, 2019, all revenues available after tribal payment allocation are to be credited to the General Revenue Fund. Beginning July 1, 2019, these revenues are to be credited to the Rebuilding Oklahoma Access and Driver Safety [ROADS] Fund created in Section 1521 of Title 69.

The FY 19 additional motor fuel taxes are estimated as follows:

Gasoline - \$51,979,000

Diesel Fuel - \$53,004,000

Sections 7 and 8 provide for an amendment to the gross production incentive tax rate currently levied at two percent (2%). The measure proposes to increase the incentive rate to five percent (5%).

Presently, the incentive levy of two percent (2%) is applicable to the production of oil and/or natural gas produced from wells that were drilled beginning July 1, 2015. The two percent (2%) rate is effective for the first thirty-six (36) months of production. Thereafter, the rate increases to seven percent (7%).

The measure increases the incentive levy to five percent (5%) for all new and existing wells that currently qualify for the reduced incentive rate of two percent (2%). The proposed amendment would become effective with the production month of July 2018, resulting in increased revenue collections occurring in September 2018. The proposed incentive rate amendment does not change the thirty-six

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<sup>2</sup> Based on the Oklahoma Tax Commission Forecast for FY 19 issued February 15, 2018.

(36) month term period.

The FY 19 estimated impact associated with increasing the gross production tax rate from two percent (2%) to five percent (5%) is as follows:

\$99,365,000 Increase in GPT oil collections.

\$71,120,000 Increase in GPT natural gas collections.

**Apportionment of the Impact Associated with a GP Rate Increase from 2% to 5%**

<u>Oil</u>		<b>Estimated Impact \$99,365,000</b>
General Revenue Fund	96.25%	\$95,638,813
County Bridge & Road	3.28%	\$3,259,172
Statewide Circuit Eng. Dist. Rev. Fund	<u>0.47%</u>	<u>\$467,015</u>
	100.00%	\$99,365,000

<u>Natural Gas</u>		<b>Estimated Impact \$71,120,000</b>
General Revenue Fund	100.00%	\$71,120,000

Sections 9 through 15 create the Oklahoma Occupancy Tax Act which proposes imposition of a five dollar (\$5.00) per night hotel<sup>3</sup> occupancy tax to be collected for each calendar day a hotel room is rented or leased. The tax would not apply to extended stays by the same customer which are longer than 30 consecutive days or more. The innkeeper<sup>4</sup> is required to collect the occupancy tax at the time the customer pays for the rental or lease of a hotel room<sup>5</sup>. The tax is to be collected and remitted in the same manner as sales tax. The measure also provides for an exemption to agencies and instrumentalities of the United States government. Revenues generated from the occupancy tax are to be deposited into the General Revenue Fund.

Based on adjusted information from a state currently imposing a similar tax, the measure is estimated to generate \$50,400,000 in increased revenues annually.

FY 19 - \$46,200,000 estimated increase in occupancy tax revenues. [11 collection months]

Section 16, consistent with the proposed tax treatment of little cigars as cigarettes, proposes repeal of Section 402.2 of Title 68 which presently levies a tax of 2.5 mills on each little cigar sold.

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<sup>3</sup> "Hotel" means a building that has three or more hotel or motel rooms under common ownership, regardless of the name of the establishment and regardless of how the establishment classifies itself;

<sup>4</sup> "Innkeeper" means any person who is subject to taxation under this act for the furnishing for value to the public a hotel room.

<sup>5</sup> "Hotel room" means a room (or suite of conjoined rooms offered as a single accommodation) (i) in a hotel (ii) that is used to provide private sleeping accommodations to paying customers and (iii) that typically includes linen or housekeeping service.