

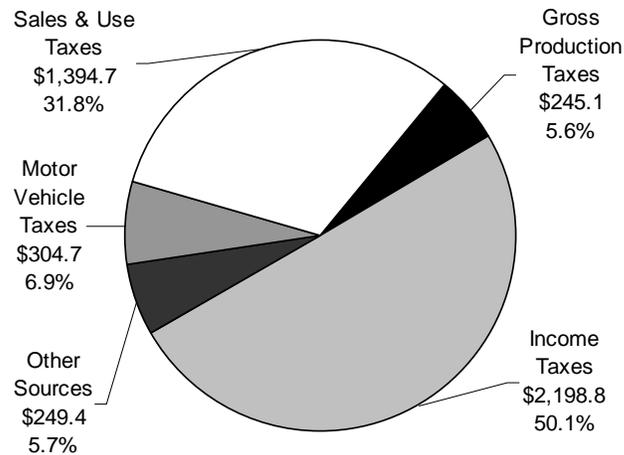


OKLAHOMA TAXES

This chapter focuses on how Oklahoma government imposes taxes to support state, county, municipal and other local government programs. It also provides extensive detail on several major tax sources – how the taxes are assessed, how they are allocated, and how they compare with other taxes in the region and nation. Also, recent tax cuts are highlighted.

STATE REVENUE MIX

Sources of General Revenue* FY'00
(in Millions)



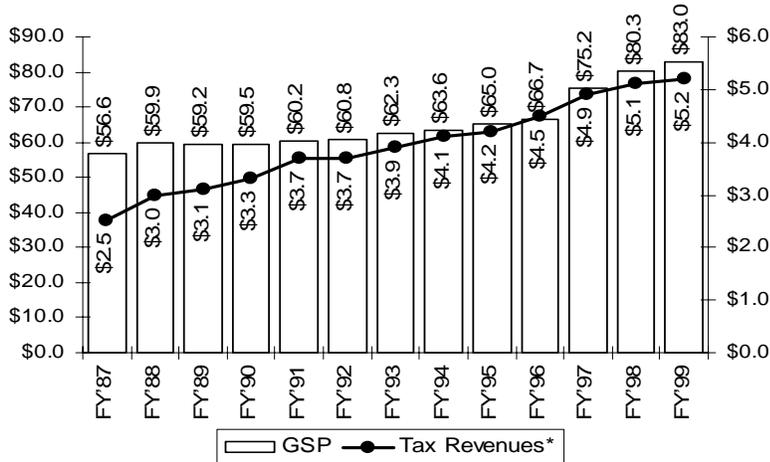
Total = \$4.393 Billion

* Includes deposits to the Education Reform Revolving Fund

GROWTH IN STATE REVENUE

State revenue has been steadily growing in each of the past 12 years, mirroring the growth in Oklahoma's gross state product (GSP).

Oklahoma Economic Growth
FY'87 through FY'99 (in Billions)



* Prior to FY'98, the income and sales and use tax revenues from the tax increases authorized by the Education Reform Act of 1990 (HB 1017) were deposited in the General Revenue Fund. Beginning in FY'98, these revenues were deposited to a separate fund, the Education Reform Revolving Fund. For purposes of comparisons between fiscal years, these revenues are included as GR revenues.

REVENUE GROWTH AND PROJECTIONS

SQ 640, approved by voters in 1992, amended the Oklahoma Constitution to require revenue bills to be approved by the voters, unless they receive the approval of 3/4 of the members of each house of the Legislature. No major tax rate increases or new taxes have been enacted by the Legislature since adoption of SQ 640. Spending demands, however, are no less common than before. To support any new spending, lawmakers have relied solely on a strong economy to produce new revenue at existing tax rates.

Economic factors such as the level and rate of growth in jobs and income are translated into estimates of tax revenue to be received by the state. Changes in the forecast for economic activity in the state will often have dramatic effects on projected tax revenues.

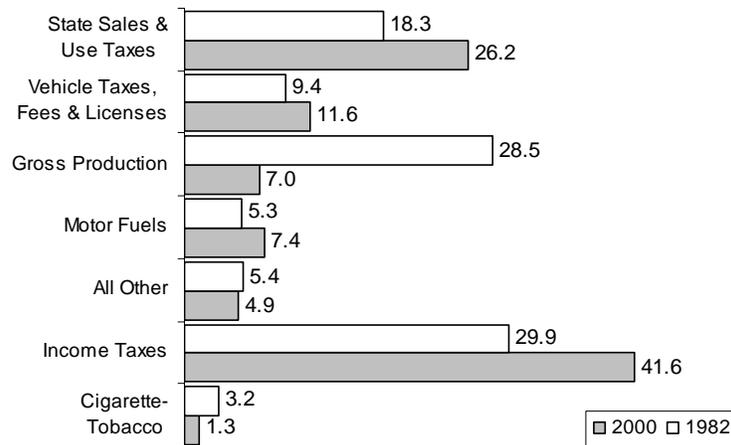
COMPARISON OF REVENUE MIX: 1982 vs. 2000

State revenue, like the Oklahoma economy, is much less dependent on the energy industry than it was during the oil bust of the early 1980s. Diversified economic growth has also brought a significant increase in revenue derived specifically from income taxes.

The most significant change in Oklahoma's revenue structure over the past 17 years has been the decreasing reliance on gross production taxes. In 1982, revenues from oil & gas production accounted for over 28% of state tax revenue. For 2000, this source provides 7.0% of revenues.

Declining gross production revenues have been replaced primarily with increased reliance on revenues from the income tax and sales and use tax.

Comparison of Revenue Sources
1982 vs. 2000



COMPARING STATE-BY-STATE TAX LEVELS

Policymakers often use state-by-state tax comparisons to guide their decisions. However, profound differences in how state and local governments operate in various states can skew comparisons. For example, some states require cities and counties to pay a large part of welfare, mental health and Medicaid costs. In Oklahoma, state government is solely responsible for providing those functions. Also, some states fund schools exclusively with state aid (Hawaii and New

Mexico), while others have almost no state-level funding for schools (New Hampshire). Oklahoma state government provides about 70% of school costs.

Comparison of Per Capita State and Local Taxes

Most experts agree the best way to compare taxes among states is to combine state and local tax revenues, which eliminates the differences in state vs. local responsibility for public services. The following table shows the most recent comparison of per capita state and local taxes.

Comparison of Per Capita State and Local Taxes

State	1996 Taxes	
	Per Capita	Ranking
Arizona	\$2,295	30
Arkansas	\$1,933	48
Colorado	\$2,418	26
Kansas	\$2,478	23
Louisiana	\$1,946	47
Missouri	\$2,181	37
Nebraska	\$2,531	20
New Mexico	\$2,263	31
Oklahoma	\$1,987	44
Texas	\$2,128	41
U.S.	\$2,597	

Among regional states, Oklahoma is ranked lower in per capita taxes than any state except Arkansas and Louisiana. Only Nebraska and Kansas are ranked in the upper half of the states, and all states in the region are below the national average.

The average Oklahoman pays \$610 less per year in state and local taxes than the average American.

New York was ranked first in the nation with total per capita taxes of \$3,987. Alabama is ranked last with \$1,786 in total per capita taxes.

Comparison of Taxes as a Percent of Income

Measuring state and local taxes as a percent of personal income reveals each state's tax burden – the percentage of personal income the average resident pays in taxes. This adjusts for the relative wealth of various states' residents. Oklahoma, with its relatively low per capita income

level, ranked 36th of the 50 states in state and local tax revenue as a percentage of personal income in 1996.

Comparison of State and Local Taxes
As Percentage of Personal Income

<u>State</u>	<u>Taxes as % of 1996 Income</u>	<u>Ranking</u>
Arizona	11.8%	15
Arkansas	10.8%	35
Colorado	10.3%	42
Kansas	11.4%	24
Louisiana	10.3%	44
Missouri	10.1%	47
Nebraska	11.9%	14
New Mexico	12.6%	8
Oklahoma	10.8%	36
Texas	10.3%	45
U.S.	11.3%	

Alaska is ranked first at 15.9%. New Hampshire is ranked last at 8.9%.

TAX CUT INITIATIVES

Since 1996, the strong state economy has produced healthy growth revenues, allowing the Legislature to significantly reduce taxes without cutting essential state services. Over the five-year period between 1996 and 2000, the tax reductions enacted by the Legislature will total about \$244 million. This total includes only those tax reductions that are determinable and certified by the State Board of Equalization (some laws, such as those that increase sales tax exemptions or income tax credits, result in actual savings to taxpayers but the amount cannot be determined on a statewide basis).

- **1996 and 1997 Sessions:** Legislative measures enacted in 1996 and 1997 session are scheduled to cut taxes for Oklahoma taxpayers by almost \$80 million annually, once fully implemented. The most significant tax relief, in total dollars, was contained in HB 1621 (1996). The bill extends the same \$5,500 income tax deduction received by public-sector retirees to retirees in the private sector. The deduction applies to persons aged 65 and older who earn less than \$25,000 annually. Other tax measures during those sessions applied to unemployment taxes (HB 1130, 1997) and targeted

Oklahoma industries in the energy (SB 911, 1996) and agriculture (HB 2959, 1996) sectors.

- **1998 Session:** In the 1998 session, tax reductions that will total \$104 million annually (when fully implemented) were enacted in HB 3152. These included:
 - ✓ a reduction in the top income tax rate for Method 1 filers from 7% to 6.75% (cutting revenues by \$41.1 million);
 - ✓ increasing the income threshold to qualify for rebates under the Sales Tax Relief Act (\$41.0 million);
 - ✓ increased estate tax exemptions for lineal heirs (\$18.6 million);
 - ✓ college savings incentives; and
 - ✓ Small Business Administration fee tax credit (\$3.3 million).

Additional tax relief for businesses was provided by reducing employer contribution rates for unemployment insurance. The rate reduction was provided for an 18-month period beginning July 1, 1998. The change was projected to save employers about \$32.5 million in FY'99, and up to \$136 million over five years if the reduced rate is extended.

- **1999 Regular Session:** In the 1999 session, measures targeting tax relief for the airline industry were enacted, resulting in tax savings of more than \$5 million annually (SB 523 and HB 1294).
- **1999 Special Session:** In a special session convened in February 1999, HB 1003X was enacted to change the state's 7% gross production tax rate on oil production to a rate tied to the price of oil:
 - ✓ If oil sells for more than \$17 per barrel, the rate remains at 7%.
 - ✓ If the price is \$14 to \$17, the rate drops to 4%.
 - ✓ If the price is less than \$14 per barrel, the rate drops to 1%.
 - ✓ The tax on gas production remained at 7%.

For tax-rate purposes, the price of oil will be determined monthly by the Tax Commission, based upon data submitted by the three largest oil purchasers.

This measure was expected to result in a tax cut of about \$29.2 million annually.

- **2000 Session:** The 2000 Legislature referred to voters a measure reducing motor vehicle registration fees and modifying the basis for the motor vehicle excise tax, which will result in a tax savings of \$22.4

million annually when fully implemented (HB 2189). Other tax measures enacted in 2000 included extending the insurance premium tax credit to affiliates (HB 2191) for a tax savings of \$2.1 million, and granting an income tax exemption for federally tax-exempt bonds (HB 2635) for a tax savings of \$1.2 million.

The Oklahoma Quality Jobs Program, originally enacted in 1993, provides incentive payments to targeted industries creating new jobs in Oklahoma. The program has been expanded and extended since that time, and the amounts of payments made are in addition to the tax cuts described above. Quality Jobs incentive payments are projected to total \$45 million during FY'01 alone.

INCOME TAXES

Oklahoma received more than \$2.3 billion in income tax revenues in FY'00. Income taxes are the largest single source of money for the state General Revenue (GR) Fund, accounting for 44.2% of estimated FY'01 revenue. The state income tax is imposed on the Oklahoma taxable income of all individuals and corporations, whether resident or nonresident. Oklahoma taxable income is based on federal adjusted gross income, so income tax changes enacted by Congress can impact state tax levels.

In 1998, Oklahoma ranked 30th among the 50 states and the District of Columbia in per capita revenue collection from individual income taxes.

Individual Income Tax

Oklahoma law provides two methods of computation to determine an individual's income tax. If federal income tax is not deducted, Method I rates are used. If the federal tax is deducted, Method II rates apply. The state income tax liability is the lower of the amount derived from two computations.

Individual income tax rates were last changed in 1998, when the top rate for Method I was reduced from 7% to 6.75%.

Individual Income Taxes Comparison

<u>Nationwide</u>		<u>Regional States</u>	
National Ranking (per capita):	30	Regional Ranking:	5
Number of states using tax:	43	States using tax:	9
		States with higher max. rate:	2
		States with lower max. rate:	6

Oklahoma ranks 30th of the 43 states levying an individual income tax in per capita individual income tax revenue.

Income Taxes in Regional States
2000 Rates; 1998 Per Capita Revenue & Rankings

<u>State</u>	<u>Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	2.87 - 5.04%	\$399	38
Arkansas	1 - 7%	\$548	31
Colorado	4.75%	\$726	15
Kansas	3.5 - 6.45%	\$661	20
Louisiana	2 - 6%	\$333	39
Missouri	1.5 - 6%	\$620	24
Nebraska	2.51 - 6.68%	\$586	28
New Mexico	1.7 - 8.2%	\$461	36
Oklahoma	0.5 - 6.75%	\$565	30
Texas	--	--	44
U.S.		\$598	

In 1998, Massachusetts had the highest per capita income tax with \$1,307 collected per person. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) have no individual income tax.

The average Oklahoman pays \$33 less per year in individual income taxes than the average American citizen.

Corporate Income Tax

Corporate income tax is imposed at a flat 6% rate of Oklahoma Taxable Income. The corporate income tax rate was last changed in 1990, as part of HB 1017. Income taxes paid by Oklahoma corporations are projected to produce \$205.7 million in revenues during FY'01. Corporate income taxes total about one-tenth the amount collected through individual income taxes.

Corporate Income Taxes Comparison

Oklahomans pay less than half the national average per capita in corporate income taxes. All states in the region are below the national average.

1998 Corporate Income Tax Rates;
1996 Per Capita Revenue & Rankings

<u>State</u>	<u>Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	8%	\$113	19
Arkansas	1 - 6.5%	\$100	23
Colorado	4.75%	\$68	38
Kansas	4%	\$116	18
Louisiana	4 - 8%	\$82	33
Missouri	6.25%	\$66	41
Nebraska	5.58 - 7.81%	\$86	28
New Mexico	4.8 - 7.6%	\$104	21
Oklahoma	6%	\$67	40
Texas	--	--	47
U.S.		\$115	

Oklahoma ranks 40th of the 46 states that levy a corporate income tax in per capita corporate income tax revenue.

Alaska is the highest with \$448 collected per capita. Four states (Nevada, Texas, Washington and Wyoming) have no corporate income tax.

Oklahomans pay 58% of the national average per capita in corporate income taxes. All states in the region are below or within \$1 of the national average.

The corporate income tax rate is not necessarily related to per capita collections. For example, Kansas collects \$116 per capita under a 4% rate, Oklahoma collects \$67 per capita with a 6% rate, and Missouri collects \$66 per capita with a 6.25% rate.

Statutory Apportionment of Income Taxes

Individual income tax revenues are apportioned by the Oklahoma Tax Commission on a monthly basis according to the following statutory schedule:

- 87.12% to the General Revenue Fund, which is appropriated by the Legislature.
- 8.34% to the Education Reform Revolving Fund.
- 3.54% to the Teachers' Retirement System Dedicated Revenue Revolving Fund;

1% to the Ad Valorem Reimbursement Fund to reimburse local governments for lost revenues related to the exemption from ad valorem taxes of new, expanded or acquired manufacturing facilities.

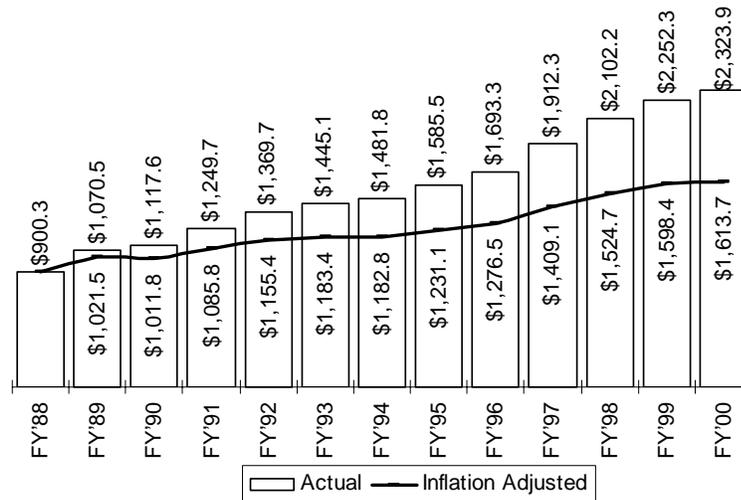
Corporate income tax revenues are apportioned monthly as follows:

- 78.96% to the General Revenue Fund, which is appropriated by the Legislature.
- 16.5% to the Education Reform Revolving Fund.
- 3.54% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
- 1% to the Ad Valorem Reimbursement.

History of Revenues from State Income Taxes

Revenues from income taxes in Oklahoma have more than doubled between FY'88 and FY'00.

History of Income Tax Revenue
FY'88 through FY'00 (in Millions)



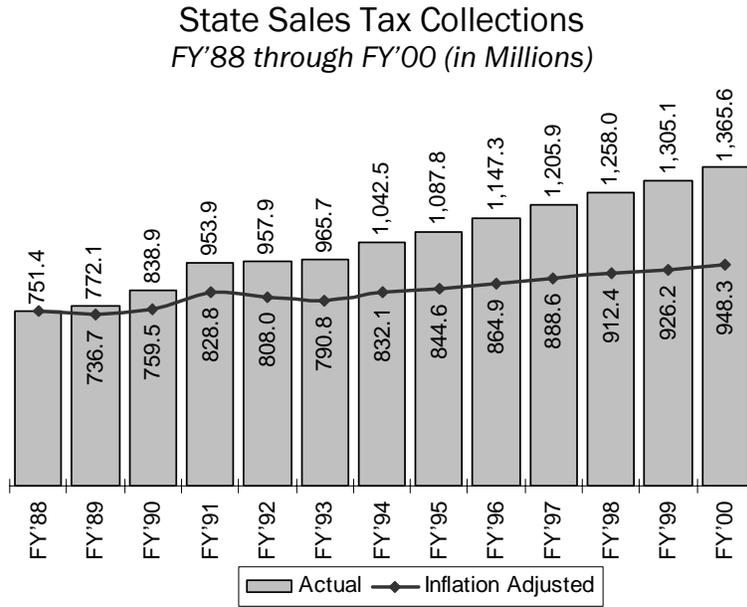
SALES AND USE TAXES

In FY'00, state sales tax revenue totaled more than \$1.365 billion and the use tax produced \$90.6 million. The state rate for both the sales tax and use tax in Oklahoma is 4.5%. The two taxes accounted for 27.5% of

estimated GR Fund revenues in FY'01. The Legislature has authorized municipalities and counties to levy sales taxes. There is no limit on the amount a municipality may levy, although voter approval is required. Counties may levy up to 2%. The use tax applies the same 4.5% tax on items purchased in other states to be used in Oklahoma.

History of the State Sales Tax

Sales tax collections have grown at an average annual rate of 6.8% between FY'88 and FY'00.



Until 1983, all revenue from the state's then 2% sales tax was dedicated to the Department of Human Services (DHS) for fulfilling the Oklahoma Social Security Act. These funds were spent at the discretion of the Public Welfare Commission and were not subject to legislative appropriation. Effective July 1983, statutes were amended to provide more legislative control. Though the funds remained separate from the GR Fund, they could be expended only through direct appropriation by the Legislature.

During the 1984 legislative session, a temporary third cent was added to the sales tax rate, with the new revenue allocated to the GR Fund. Because of revenue shortfalls during the next fiscal year, the 1985 Legislature made permanent the third-cent tax and added another 0.25c, making the total tax rate 3.25%.

Sales tax changes were again made during the 1987 session. Earmarking of the original 2% sales tax to DHS was discontinued and the funds were allocated to the GR Fund for annual appropriation by lawmakers. Also that year, the Legislature confronted severe budget shortfalls by raising the sales tax from 3.25% to 4.0% effective June 1, 1987.

Most recent changes in the sales tax were made by the 1990 Legislature as part of HB 1017, the Education Reform Act. Effective May 1, 1990, the sales tax increased from 4.0% to 4.5%.

Sales Tax Exemptions

Items exempt from the state sales tax by statute include most advertising, natural gas and electricity sold for residential use, prescription drugs, and groceries purchased with food stamps. Most services also are not taxed.

Sales Tax Comparisons With Other States (2000)

National Ranking

Oklahoma's National Per Capita Rank	35
Number of states using this tax	45
Number with rates higher than OK	33
Number with rates lower than OK	11

Regional Ranking

Oklahoma's Regional Ranking	9
Number of states using this tax	10
Number with rates higher than OK	6
Number with rates lower than OK	3

<u>State</u>	<u>2000 Sales Tax Rate (%)</u>
Texas	6.25
Arizona	5.0
Nebraska	5.0
New Mexico	5.0
Kansas	4.9
Arkansas	4.625
Oklahoma	4.5
Missouri	4.225
Louisiana	4.0
Colorado	3.0

Per Capita State and Local Sales Tax Revenue (1996)

Oklahoma ranks 24th of the 46 states levying sales taxes in per capita state and local sales tax revenue.

State	Per Capita Revenue	National Rank
New Mexico	\$930	4
Louisiana	818	6
Arizona	779	8
Texas	692	15
Colorado	685	17
Arkansas	669	20
Kansas	651	21
Missouri	648	22
Oklahoma	615	24
Nebraska	581	25
U.S. Average	637	

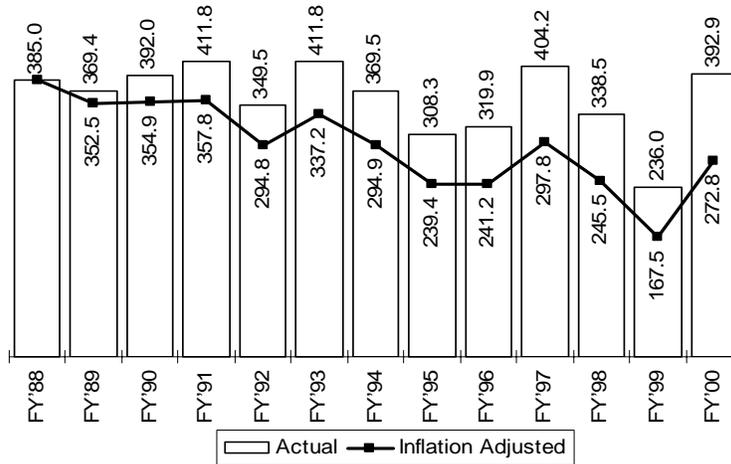
Washington is the highest with \$1,314 collected per capita. Four states (Delaware, Montana, New Hampshire and Oregon) have no sales tax.

The average Oklahoman pays \$22 less per year in sales taxes than the average American citizen.

GROSS PRODUCTION TAXES

Significant revenues are generated for a number of state and local services through taxes levied on extraction and production of certain raw materials. Gross production taxes provided \$392 million in FY'00.

History of Gross Production Tax Collections
 FY'88 through FY'00 (in Millions)



There are two types of gross production taxes: the severance tax and petroleum excise tax.

Severance Tax

A severance tax is a tax levied upon the production or mining of minerals when they are "severed" from the earth. A severance tax is levied upon the production of the following minerals:

<u>Type of Mineral</u>	<u>Tax Rate</u>
Gas	7.00%
Oil (price > \$17 per barrel)	7.00%
Oil (price \$14 to \$17 per barrel)	4.00%
Oil (price < \$14 per barrel)	1.00%
Uranium	5.00%
Mineral ores and asphalt	0.75%

Petroleum Excise Tax

A petroleum excise tax is levied, in addition to the severance tax, on oil and gas at a rate of 0.095 of 1% of gross value.

Gross Production Tax History

Gross production taxes were last changed by HB 1003X in a 1999 special session. The bill renewed exemptions from all but a 1% tax levy for various types of wells and enacted a three-tiered rate structure depending upon the price of oil (see Tax Cut Initiatives).

Apportionment of Gross Production Taxes

Severance Taxes on Oil: Pursuant to 68 O.S. 1001, the apportionment of severance tax revenues varies depending on the tax rate imposed (see Tax Cut Initiatives).

- If levied at a 7% tax rate, severance tax revenues from oil are apportioned monthly as follows:
 - 25.72% to the Common Education Technology Fund
 - 25.72% to the Higher Education Capital Fund
 - 25.72% to the Oklahoma Tuition Scholarship Fund
 - 4.28% to the County Bridge and Road Improvement Fund
 - 4.28% to the REAP Water Projects Fund
 - 7.14% to counties where the oil is produced, for roads
 - 7.14% to school districts

- If levied at a 4% tax rate, severance tax revenues from oil are apportioned monthly as follows:
 - 22.50% to the Common Education Technology Fund
 - 22.50% to the Higher Education Capital Fund
 - 22.50% to the Oklahoma Tuition Scholarship Fund
 - 3.75% to the County Bridge and Road Improvement Fund
 - 3.75% to the REAP Water Projects Fund
 - 12.5% to counties where the oil is produced, for roads
 - 12.5% to school districts
- If levied at a 1% tax rate, severance tax revenues from oil are apportioned monthly as follows:
 - 50.0% to counties where the oil is produced, for roads
 - 50.0% to school districts

Severance Taxes on Gas and Other Minerals: Severance tax revenues from gas and other minerals are apportioned monthly as follows:

- 85.72% to the General Revenue Fund
- 7.14% to counties where the gas and other mineral is produced, for roads
- 7.14% to school districts

Petroleum Excise Taxes: Until July 1, 2001, petroleum excise tax revenues from oil are apportioned monthly as follows:

- 84.553% to the General Revenue Fund
- 10.526% to the Corporation Commission Plugging Fund
- 4.921% to the Interstate Oil Compact Fund

After July 1, 2001, petroleum excise tax revenues from gas will be apportioned monthly as follows:

- 85.4066% to the General Revenue Fund
- 10.5555% to the Corporation Commission Plugging Fund
- 4.0379% to the Interstate Oil Compact Fund.

Gross Production Tax Collections by Type
(in Millions)

	FY'95	FY'96	FY'97	FY'98	FY'99	FY'00
Severance	\$303.60	\$315.50	\$398.70	\$333.80	\$232.47	\$387.26
Petroleum Excise	\$4.10	\$4.30	\$5.50	\$4.70	\$3.58	\$5.63
TOTAL	\$307.70	\$319.80	\$404.20	\$338.50	\$236.05	\$392.89

PROPERTY TAXES IN OKLAHOMA

Property taxes, also known as ad valorem taxes, are the primary source of funding for county government operations. This revenue source also provided 23% of the statewide public school budget in FY'00 and 63% of career technology (vo-tech) center funding.

Decisions about property taxes in Oklahoma are made at three levels: (1) the Oklahoma Constitution authorizes property taxes to be imposed; (2) the Legislature has enacted statutes to implement constitutional provisions; and (3) the State Board of Equalization and the courts have interpreted these constitutional and statutory provisions. Property taxes can only be imposed if the people vote for them, a provision that has been in place since statehood and is not related to SQ 640. Property tax levies are based on the value of a taxpayer's property.

Property Tax Comparison with Other States

Oklahoma's per capita property tax average of \$308 per person in 1996 was less than half the national average of \$790. Oklahoma ranks 47th out of the 50 states in per-capita property taxes.

Per Capita State and Local Property Tax Revenue
1996

State	Per Capita Revenue	Ranking
Arizona	\$703	30
Arkansas	\$301	48
Colorado	\$745	23
Kansas	\$765	30
Louisiana	\$313	46
Missouri	\$487	39
Nebraska	\$958	12
New Mexico	\$278	49
Oklahoma	\$308	47
Texas	\$802	19

Source: Congressional Quarterly State Fact Finder 1998: State Rankings 2000

The Oklahoma Constitution provides that property tax revenue may not be used by state government. In many other states, a state property tax is charged in addition to local property taxes.

Valuation of Property for Tax Purposes

Property taxes are paid based on the value of a taxpayer's property. The county assessor, a locally-elected officeholder, determines the value of most property in the county for tax purposes.

Real Property: The value of real property (land and structures) is determined by computer-assisted calculation (see Computerization Appraisals) but are subject to certain constitutional limits (see Limits on Property Valuations).

Personal Property: The value of personal property – furnishings, equipment, clothes, etc. – is assessed separately from real property. Motor vehicles are subject to registration fees in lieu of property taxes. The county assessor by law may use one of two methods to assess the value of personal property: (1) assume that a taxpayer's personal property is valued at 10% of the value of his/her real property, or (2) have a taxpayer file a list of his/her personal property for assessment of value. Most calculations are based on the assumed value.

Centrally Assessed Property: Property of certain companies (public service corporations, railroads and airlines) is centrally assessed – its value is determined by the State Board of Equalization rather than the local assessors.

Computerizing Appraisals

A system called "computer-assisted mass appraisal" (CAMA) was implemented in Oklahoma to allow counties to systematically update property values based on recent sales of comparable properties. The goals of this program are (1) to have property values more accurately reflect fair market value for tax purposes, and (2) to make property valuation more uniform throughout the county.

Limits on Property Valuations

Prior to 1997, all real property was valued at its "fair cash value" – the price a willing buyer would pay a willing seller in an "arm's-length" transaction. Real property is valued at its "use value" – its fair cash value for the highest and best use for which the property was actually used (or classified for use) during the previous calendar year. This "use value" provision is most often applied to agricultural land.

In 1996, the Legislature proposed, and the voters approved, two constitutional amendments that affected the valuation process.

- One amendment provided that the fair cash value of locally-assessed real property (i.e., all real property except that of public service corporations, airlines and railroads) cannot be increased by more than 5% in any year, unless title to the property is transferred or improvements are made to the property. This provision became effective in 1997 for counties that were in compliance with state laws and rules on property valuation on the January 1, 1997, effective date. For other counties, the cap became effective on January 1 of the year following the date of compliance.
- The second amendment provided that valuation would be frozen, beginning January 1, 1997, for taxpayers with gross household income of \$25,000 or less if the head of household is age 65 years of age or older.

Homestead Exemptions

A taxpayer may apply for a homestead exemption that reduces by \$1,000 the assessed value of a taxpayer's actual residence. Taxpayers whose gross household income from all sources does not exceed \$20,000 (the cap was \$10,000 before 1996) may receive an additional homestead exemption of \$1,000 (this is known as the "double homestead exemption"). A taxpayer who is at least 65 years old, or who is totally disabled, and whose gross household income from all sources does not exceed \$12,000 (the cap was \$10,000 before 1996), may file a claim for property tax relief for the amount of property taxes paid over 1% of his/her income, up to a maximum of \$200.

Assessment Ratios

Once a property's value is computed by the county assessor, the "assessment ratio" or "assessment percentage" is applied. For locally-assessed property, the county assessor sets the ratio, but any increase must be approved by local voters. Recent (November 1996) amendments to the Oklahoma Constitution provide that personal property must be assessed at an amount between 10% and 15% of its fair cash value; real property must be assessed at an amount between 11% and 13.5% of its fair cash value; and other property (public service corporation, airline and railroad property) must be assessed at the ratio it was assessed on January 1, 1997 (22.85% for public service corporation property and 12.08% for railroads and airlines).

Prior to the 1996 amendments, the Constitution limited the assessment ratio for all property to a maximum of 35% of its fair cash value. However, the State Board of Equalization had ordered counties to set ratios between 11% and 14% for real property and between 10% and 20% for personal property.

The value of the property is multiplied by the assessment ratio to get the "assessed valuation." The assessed valuation is then multiplied by the number of mills which local voters have approved in their area to compute the amount of tax due.

Millages Allowed under the State Constitution

Votes on property tax levies concern the number of mills to be assessed (a mill is \$0.001 or one-tenth of a cent). The Oklahoma Constitution allows the following maximum levies:

- 10 mills for counties;
- 39 mills for schools;
- 2.5 mills for county health departments;
- 10 mills for vo-tech schools;
- 3 mills for ambulance service districts;
- 3 mills for solid waste management services;
- 5 mills for county building fund;
- 5 mills for city building fund;
- 5 mills for school building fund; and
- 4 mills for libraries.

The Constitution allows counties to abolish taxes on household personal property and livestock upon a vote of the people. If these taxes are abolished, the millage rates are automatically adjusted upward by an amount necessary to offset the lost revenue.

Millage Elections

Boards of county commissioners or local boards of education generally are the entities that call millage elections. Those bodies also determine how many mills will be voted on, although in some cases an initiative petition can propose a millage amount. Some of these levies must be voted on each year, such as 15 of the 39 mills allowed for schools. Other levies, once approved by voters, remain in effect until changed or repealed.

The Constitution also allows counties, cities, school districts, career technology (vo-tech) districts, ambulance service districts, and solid waste districts to issue bonds if approved by the voters. If approved, the

additional millage levy is imposed in an amount necessary to repay the bonds each year. This millage level is not necessarily the same each year. The revenue from these levies is deposited into a "sinking fund," which disperses principal and interest payments to bondholders.

Examples of Tax Computation

The complex process for computing a taxpayer's ad valorem tax is confusing to many. The following step-by-step illustration shows how the final property tax amount is computed on a specific taxpayer:

A taxpayer lives in a home valued at \$50,000 in the city of Moore, in the Moore school district, in Cleveland County. The sum of all mills that have been approved by voters in that county was 104.84 in 1997. Comprising the total are 10.28 mills for the county, 0.28 mills for the county sinking fund, 13.73 mills for the city sinking fund, 2.57 mills for the county health department, 4.11 mills for county libraries, 40.18 mills for public schools, 5.15 mills for the school building fund, 15.18 mills for the school sinking fund, 9.25 mills for the vo-tech school and 4.11 mills for the vo-tech building fund.

Real Property: The assessor would compute the real property tax on that home as follows:

\$50,000 gross home valuation x 12% assessment ratio = \$6,000 assessed valuation

\$6,000 assessed valuation - \$1,000 homestead exemption = \$5,000 net assessed valuation

\$5,000 net assessed valuation x 104.84 mills = \$524.20 annual real property taxes

Personal Property: Household personal property taxes for this taxpayer would be computed as follows (note, however, that Cleveland County has abolished personal property taxes):

\$50,000 gross home valuation x 10% = \$5,000 assumed personal property value (this amount could be changed if the taxpayer chose to file a list of his/her personal property)

\$5,000 personal property value x 12% assessment percentage = \$600 assessed valuation

\$600 assessed valuation x 104.84 mills = \$62.90 annual personal property taxes

Total Tax Due: \$62.90 for personal property + \$524.20 for real property = \$587.10.

MOTOR FUELS TAXES

The State of Oklahoma generates revenues for state highways and county roads through an excise tax levied on motor fuels. The taxes are apportioned according to formulas established by the Legislature. The two major taxes levied are the gasoline tax and the diesel fuel tax.

The gasoline tax of 17¢ per gallon is used to fund the majority of all work on roads and bridges. The diesel fuel tax of 14¢ per gallon adds additional funds for the same purpose.

History of Motor Fuels Taxes

The fuel tax was first enacted in 1923 at a rate of 1¢ per gallon. The tax on diesel fuel was initiated in 1939. Through the state's history, motor fuel taxes have been increased 19 times, most recently in 1990.

Oklahoma's Motor Fuel Tax Rate History

<u>Date</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>Date</u>	<u>Gasoline</u>	<u>Diesel</u>
March 1923	\$.01		January 1947	\$.0558	\$.055
March 1924	.025		June 1949	.0658	.065
March 1925	.03		June 1953	.0658	.065
June 1929	.04		June 1957	.0758	.065
February 1931	.05		December 1957	.0658	.065
December 1931	.04		April 1984	.09	.09
April 1939	.04	\$.04	July 1985	.10	.10
July 1939	.0408	.04	May 1987	.16	.13
June 1941	.0558	.055	July 1990	.17	.14
April 1945	.0758	.055			

In 1996, the Legislature revised the motor fuel tax code in response to a U.S. Supreme Court ruling that affected the state's ability to tax sales made in Indian country. Although the tax rate was not changed, the point of taxation was moved "upstream" to the terminal rack. Also, provisions were made for apportionment of some motor fuel tax revenue

to Indian tribes that enter into agreements with the state on fuel tax issues.

Revenues from Fuel Taxes

Each additional 1¢ tax on gasoline yields about \$18 million annually, based on 1999 consumption levels, and each additional 1¢ tax on diesel fuel consumption yields \$6 million annually.

Oklahoma state and local governments received more than \$414 million in motor fuel tax revenues in FY'00.

Per Capita Motor Fuel Tax Comparison

Among the 50 states, Oklahoma ranked 35th in per capita revenue collections in 1998. The average Oklahoman pays \$1 more per year in motor fuel taxes than the average American citizen.

1998 Motor Fuel Tax Revenue Comparison

<u>State</u>	<u>Revenue Per Capita</u>	<u>National Rank</u>	<u>Regional Rank</u>
Nebraska	\$160	6	1
New Mexico	139	12	2
Arkansas	137	14	3
Texas	127	18	4
Colorado	127	18	5
Missouri	123	23	6
Louisiana	122	24	7
Kansas	121	25	8
Arizona	114	29	9
Oklahoma	106	35	10
U.S. Average	105		

Montana is the highest with \$202 collected per capita. New York is the lowest with \$27 collected per capita. Sparsely populated and Western states tend to have higher per capita motor fuel tax payments.

Gasoline Tax

The 17¢ per gallon gasoline tax is a combination of: (1) a 16¢ per gallon excise tax levied on every gallon of gasoline that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

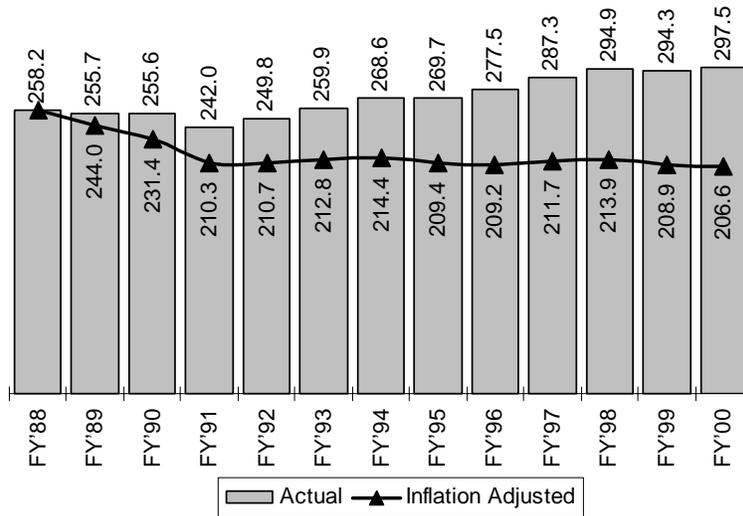
The 1¢ is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

The other 16¢ of gasoline tax revenue is distributed as follows:

- 63.75% to the State Transportation Fund;
- 27.0% to the counties for county roads and highways;
- 3.125% to the counties for construction, maintenance and repair of county roads as provided in the County Bridge and Road Improvement Act;
- 2.625% to the County Bridge and Road Improvement Fund for construction, maintenance and repair of county roads and bridges;
- 1.875% to cities and towns for maintenance of streets;
- 1.625% to the General Revenue Fund.

Gasoline tax exemptions are allowed for the federal government, political subdivisions of the state, school districts, FFA or 4-H.

Gasoline Tax Revenue
FY'88 through FY'00 (in Millions)



Gasoline Tax Comparison With Other States

National Ranking: 35

Number of States using tax: 50

Number of States with higher rate: 39

Number of States with lower rate: 10

Regional Ranking: 10

Number of States using tax: 10

Number of States with higher rate: 10

Number of States with lower rate: 0

Diesel Fuel Tax

The 14¢ per gallon diesel fuel tax is a combination of: (1) a 13¢ per gallon excise tax levied on every gallon of diesel fuel that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

The 1¢ assessment is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

The remaining 13¢ of diesel fuel tax revenue is distributed as follows:

- 64.34% to the State Transportation Fund;
- 26.58% to counties for county roads and highways;
- 3.85% to the counties for construction, maintenance and repair of county roads as provided for in the County Bridge and Road Improvement Act;
- 3.84% to the County Bridge and Road Improvement Fund for construction, maintenance and repair of county roads and bridges;
- 1.39% to the General Revenue Fund.

Diesel tax exemptions are allowed for the federal government, political subdivisions of the state, school districts, limited agriculture uses, the FFA or 4-H.

Diesel Fuel Tax Revenue
FY'88 through FY'00 (in Millions)

