OKLAHOMA HOUSE OF REPRESENTATIVES

Fiscal Year 2009

Legislative Guide to Oklahoma Taxes, Collections and Apportionments

October, 2008

Fiscal Year 2009
Legislative Appropriations

Oklahoma House of Representatives
Speaker Chris Benge

Appropriations and Budget Committee
Representative Ken Miller, Chair
Representative Tad Jones, Vice Chair

October 2008

Prepared by:
House Fiscal Staff
In Cooperation with the
Oklahoma Tax Commission

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Preface and Acknowledgements

At the core of any discussion about state government (or any level of government for that matter) are the questions of:

- What services is government providing?
- Who pays for those services?
- How is revenue raised (i.e. sales tax, income tax, etc.) to support government services?

The primary purpose of this document is to provide an overview of the tax system which funds those government services, including education, transportation, public safety, health and human services, economic development, etc., and to clarify those groups and/or individuals who pay for such services.

The goal of this document is to provide general information on how the tax system is designed and how it functions in order to give legislators a basic understanding of the system so they can speak more confidently with their constituents about state tax policy. By better understanding the tax system, legislative members will also be better able to determine how they wish to vote on tax-related legislation.

This guide is a resource tool and primarily focuses on state and local taxation. The document does not address revenue derived from other sources such as licenses, permit fees and court costs.

The guide includes:

- An overview of Oklahoma's tax system,
- A summary of the various state taxes (basically addressed in order of the amount of revenue they generate beginning with the large revenue producers),
- A summary of local taxation,
- A summary of the administration of the tax system,
- A summary of the tax burden and how Oklahoma fits in this scheme,
- A glossary of terms provided to make the understanding of this document easier, and
- An appendix with state and regional revenue statistics and other tax related information.

The information used to create this document came from several sources, including:

- The Oklahoma Statutes,
- Oklahoma Constitution,
- Oklahoma Tax Commission,
- The Tax Foundation,
- State Tax Guide and State Tax Reporter published by Commerce Clearing House, Inc., and
- Report: A Study of Oklahoma State Taxes (Sandmeyer, Wasson and Greer, 1979).

Each staff member of the Fiscal Division is to be commended for making contributions in preparing this report, as well as for their professional and dedicated work throughout the 2008 legislative session.

Important to the final work product were Diane Thomas (writing/coordinating) of the Fiscal Division; Nancy Lutes (formatting/editing) of the office of Administrative Support, and the Tax Policy & Research Division (editing) of the Oklahoma Tax Commission.

Janice Buchanan
Fiscal Director
House of Representatives

This publication, printed by the Central Printing Division of the Department of Central Services, is issued by the Oklahoma House of Representatives. Two hundred (200) copies have been prepared and distributed at a cost of $_________ to the taxpayers of Oklahoma. Reference copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

General Overview

Oklahoma Tax System

The primary responsibility of the tax system in Oklahoma is to provide revenue to finance the state and local governments. It also acts as a regulatory function and reflects economic policy.

The tax system in Oklahoma has gone through many changes throughout the years to reach its current stage. The Oklahoma Constitution and the statutes adopted immediately after statehood followed the pattern of the established states by making the general property tax the chief source of revenue for both state and local governments. The writers of the constitution had the foresight to include provisions allowing for the levy and collection of various other taxes. These provisions were utilized very little until 1933 when the constitution was amended to provide that no ad valorem tax shall be levied for state purposes. This is the primary reason why many significant changes to state taxes occurred during the 1930's.

The economic climate of the state has a major impact on the tax system. The volatility of the energy sector contributes to significant shifts in the total state tax revenue picture. The amount of revenue from the severance tax as a percent of total state tax revenue increased by over five percentage points to 25 percent from Fiscal Year 1979 to 1980. There were steady increases until Fiscal Year 1983 when the revenue generated by the severance tax returned to early-1970's levels. In the late 1970's and early 1980's the tax base narrowed by granting various tax relief programs. The downturn in the economy resulted in several increased tax rates in the mid-1980's. Taxes were increased in 1990 and 2004 for specific purposes: to fund significant reforms to the common education system, and to fund several health-related initiatives.

In 2007, for the third year in a row, the Legislature passed significant tax reductions. Legislation accelerated the previous reductions in the top marginal individual income tax rate from 5.65 percent to 5.25 percent subject to a revenue growth test and provided an alternative child credit for taxpayers with children not choosing the child care credit. In the 2006 session, in addition to the reduction in the top marginal income tax rate, the standard deduction was increased and will continue to increase until it equals the federal standard deduction in 2010.

Constitutional and Statutory Provisions

The Oklahoma tax system is shaped and guided by various constitutional and statutory provisions. There are several provisions in the Oklahoma Constitution that play a significant role in determining the revenue system including:

- Section 12 of Article 10 authorizes the Legislature to provide for the levy and collection of various taxes,

- Section 50 of Article 5 provides that the Legislature will pass no law exempting any property within the state from taxation except as otherwise provided in the constitution,

- Section 5 of Article 10 provides for uniform taxes upon the same class of subjects and that the power of taxation will not be surrendered or contracted away, except the Legislature cannot impose taxes for the purpose of any municipality or county but may confer on the proper authorities the power to assess and collect such taxes,

- Section 33 of Article 5 directs that all revenue-raising bills must originate in the House of Representatives and that no revenue-raising bill can be passed during the last five days of session. In addition, a revenue-raising bill can become law without being submitted to a vote of the people if the measure receives approval from three-fourths of the membership of each house; however, such bill cannot contain the emergency clause and is not effective until 90 days after the date of the Governor's signature. Otherwise, a revenue-raising bill is not effective until it is approved by the people of the state at the next general election, and

- Sections 6 through 10B of Article 10 are the various provisions relating to ad valorem taxation. Section 21 of Article 10 provides that the State Board of Equalization be involved in the area of ad valorem taxation. The Board has the duty to adjust and equalize the valuation of real and personal property of the counties and to assess all railroad and public service property.

Title 68 of the Oklahoma Statutes contains the vast majority of the state's tax laws and is known as "Revenue and Taxation." The creation and composition of the Oklahoma Tax Commission is provided for in Article 1, as well as the "Uniform Tax Procedure Code."

The remaining articles in the Oklahoma Tax Code deal with the various state and local taxes.

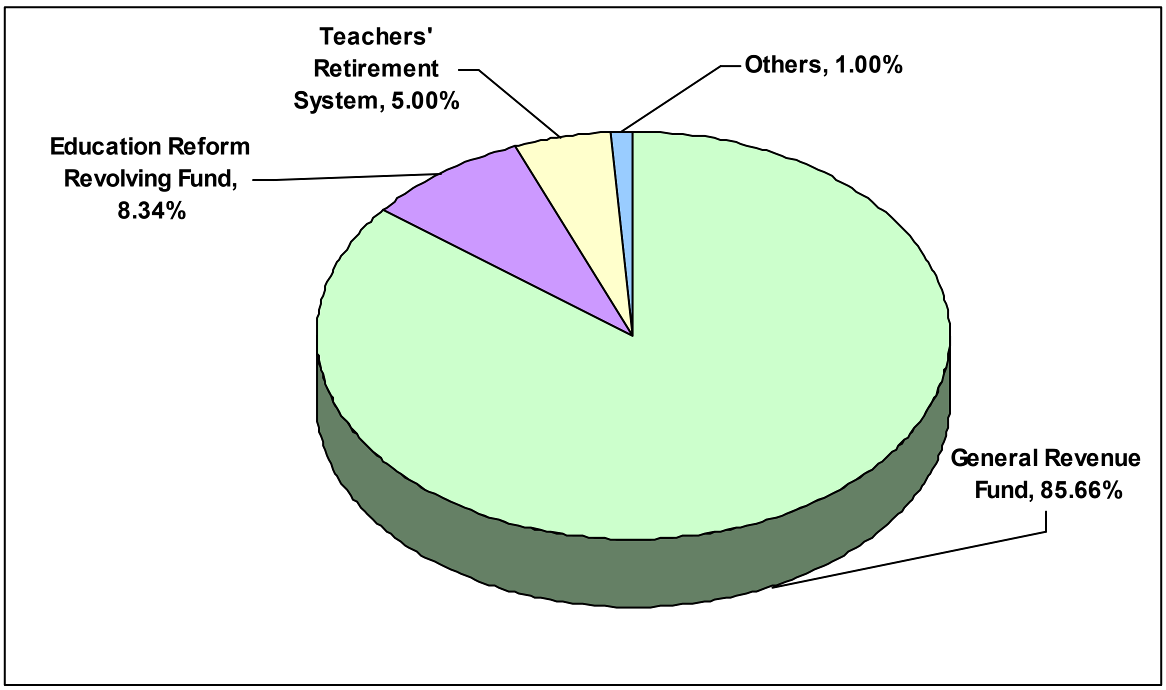
Other taxes are found in the statutes, as follows:

- Title 3A relates to pari-mutuel and gaming taxes and the lottery,
- Title 36 pertains to insurance premium tax provisions,
- Title 47 relates to motor vehicle registration taxes and fees, and
- Title 63 pertains to boat and motor registration and excise tax provisions.

Individual Income Tax

FY-09 Apportionment of Individual Income Tax – Title 68, Sections 2352 and 2902.3, apportions the collections from individual income tax and foreign corporations' income tax collections as follows:

- 85.66 percent to the General Revenue Fund*
- 08.34 percent to the Education Reform Revolving Fund
- 05.00 percent to the Teachers' Retirement System Dedicated Revenue Revolving Fund
- 01.00 percent to the Ad Valorem Reimbursement Fund



*the following amounts are apportioned in equal monthly payments from the funds apportioned to the General Revenue Fund:

- $155 million to Rebuild Oklahoma Access & Driver Safety Fund
- $2 million to Oklahoma Tourism & Passenger Rail Revolving Fund
- $3 million to Public Transit Revolving Fund.

What's New

Changes for Individual Income Tax Returns

Reduction in Income Tax Rates – For the third consecutive year, income tax rates have been reduced by the Legislature. The top tax rate has decreased as follows:

Tax Year 2005	Tax Year 2006	Tax Year 2007	Tax Year 2008	Tax Year 2009	Tax Year 2010
6.65%	6.25%	5.65%	5.50%	5.50%*	5.25%*

*The reduced rate for tax years 2009 and 2010 is subject to a revenue growth test. In order for the reduction to occur, a 4 percent revenue growth must be achieved when comparing the 2008 and 2009 General Revenue Fund. Also, the estimated reduction of the revenue from the increased standard deduction must be considered.

Increase in Standard Deduction – The standard deduction increases to the federal level over a four-year period as follows:

Tax Year	Married Filing Jointly and Qualifying Widow(er)	Head of Household	Single
2006	$3,000	$3,000	$2,000
2007	$5,500	$4,125	$2,750
2008	$6,500	$4,875	$3,250
2009	$8,500	$6,375	$4,250
2010	Federal Level	Federal Level	Federal Level

Military Retirement Exclusion – Beginning in tax year 2007 the military retirement exclusion increased to the greater of 75 percent of the military retirement benefits or $10,000. Legislation increased this exclusion from 50 percent to 75 percent.

Civil Service Retirement Exclusion – An exclusion was added for retirement benefits received by federal civil service retirees, including survivor annuities, paid in lieu of Social Security benefits as follows:

- Tax Year 2007 20 percent
- Tax Year 2008 40 percent
- Tax Year 2009 60 percent
- Tax Year 2010 80 percent, and
- Tax year 2011 100 percent

of the qualified benefits included in the federal adjusted gross income will be excluded. This exclusion is in addition to the current $10,000 exclusion. More information is included on page 11 of this guide.

Other Individuals' Retirement Exclusion – The exclusion has been expanded to include a greater number of retirees. This exclusion is for individuals not qualifying for an exclusion by retiring from the military or certain state or federal agencies. The exclusion is limited to individuals under a certain income level. The modified adjusted gross (AGI) income limits increased as follows:

Tax Year	Single Filers AGI Limit	Married Filing Jointly AGI Limit
2006	$ 37,500	$ 75,000
2007	$ 50,000	$100,000
2008	$ 62,500	$125,000
2009	$100,000	$200,000
2010	No Limit	No Limit

Oklahoma Voluntary Compliance Initiative – The change allows taxpayers who file past due returns and pay the taxes due before January 1, 2008, to receive a full waiver of penalty, interest and any other collection fees. The program, in effect between September 15, 2008, and November 14, 2008, applies to gasoline and diesel taxes, gross production and petroleum excise taxes, corporate and individual income taxes, withholding taxes, franchise taxes, mixed beverage taxes, bank "in lieu" taxes and sales and use taxes.

Credit for Electricity Generated by Zero-Emission Facilities – An existing credit has been expanded for facilities generating electricity, by lowering the qualifying rated production capacity from 50 megawatts to 1 megawatt for facilities in operation after December 31, 2006, and before January 1, 2016. The amount of the credit is $0.0050 per kilowatt-hour of electricity generated.

Credit for Stafford Loan Origination Fee – Beginning in tax year 2007, there is a nonrefundable tax credit for the amount of the origination fee paid by the banking association or credit union to the U. S. Department of Education pursuant to the Stafford loan guaranty program for an Oklahoma resident. The credit may be claimed for origination fees paid after June 30, 2007, and will be allowed against the bank in lieu tax. The credit has a five-year carry forward provision for amounts not used.

Checkoff for Oklahoma Leukemia and Lymphoma Revolving Fund – For tax year 2007, corporate and individual taxpayers are provided the opportunity to donate from their tax refund for the benefit of the Oklahoma Leukemia and Lymphoma Revolving Fund. Monies from the fund will be used by the State Department of Health for the purpose of supporting voluntary health agencies dedicated to curing leukemia, lymphoma, Hodgkin's disease, and myeloma and improving the quality of life of patients and their families.

Checkoff for Oklahoma Silver Haired Legislature Program – In tax year 2007, a checkoff for the Oklahoma Silver Haired Legislature Program was expanded to include their Alumni Association. Monies donated may be used to fund reasonable expenses of Silver Haired Legislature advocacy activities approved by the Oklahoma Silver Haired Legislature Alumni Association Executive Board.

Child tax credit – Beginning in tax year 2008, if you have a qualifying child, you may choose the greater of a new child tax credit or an existing child care credit if the following apply:

- You are a resident, part-year resident or a nonresident member of the Armed Forces,
- You have a qualifying child or children according to the Internal Revenue (IRS) Code, and
- Your Adjusted Gross Income (AGI) does not exceed $100,000.

If you choose the new state child tax credit, it is 5 percent of the federal child tax credit allowed. Generally this credit is equal to $50 per child but will automatically increase if the federal credit amount increases.

Your other choice is the existing state child care tax credit. If you have a federal credit for child care expenses, you may choose a state credit of 20 percent of the federal amount allowed.

Capital Gain Deduction – The deduction expands the qualifying gains receiving capital treatment to include the sale of real property, tangible personal property or intangible personal property located within Oklahoma as part of the sale of all or substantially all of the assets of an Oklahoma company, limited liability company, partnership or proprietorship business enterprise.

Deduction for Organ Donations – For tax year 2008, there is a new deduction of up to $10,000 for residents or their dependents (while living) donating one or more organs to another person for transplant.

Checkoff for Regional Food Banks – Corporate and individual taxpayers are provided the opportunity to donate from a tax refund for the benefit of any regional food bank in Oklahoma providing groceries or meals to people in need of food assistance.

Significant Changes for Oklahoma from Federal Tax Changes

Individual Retirement Account (IRA) deduction expanded – Your state adjusted gross income (AGI) and your state tax liability may be reduced by an increased income limit for an IRA. For tax year 2008, you may be able to take an IRA deduction even if you were covered by a retirement plan, if your modified AGI is less than $63,000 (increased from $62,000) for single filers and $105,000 (increased from $103,000) if married filing jointly or qualifying widow(er).

Earned income credit (EIC) expanded program – Your state EIC is a refundable credit equaling 5 percent of the allowed federal credit. In 2008 the income limitations are increased and you may be able to receive the credit if:

- A child lived with you and you earned less than $38,646 (increased from $37,783) and $41,646 (increased from $39,783) if married filing jointly, or

- A child did not live with you and you earned less than $12,880 (increased from $12,590) and $15,880 (increased from $14,590) if married filing jointly.

The maximum investment income you can have and still get the credit has increased from $2,900 to $2,950.

Domestic production activities deduction expansion – Your state AGI (which is taken from your federal AGI) and your state tax liability may be reduced by an increased deduction rate from 3 percent to 6 percent for production related activities.

The American Jobs Creation Act of 2004 added the domestic production activities deduction, a tax benefit for certain domestic production activities. This deduction provides a tax savings against income attributable to domestic production activities. The tax savings are available to corporations, individuals and pass-thru entities such as S Corporations, partnerships, estates and trusts.

Individual Income Tax History

The original income tax act for individuals was enacted in 1915. It was an annual tax upon the net income of individuals residing in Oklahoma and upon nonresidents to the extent of property owned or business operations within the state. The tax rates were graduated and levied upon taxable income in excess of $3,000. In 1931, the administration of the tax was transferred from the State Auditor to the Oklahoma Tax Commission. Numerous changes have been made to the income tax code throughout the years. Rates and brackets have been adjusted and credits, deductions and exemptions have been added.

Base and Rates

Individual Income Tax – Residents are required to file an income tax return when they have sufficient income to file a federal income tax return. The federal requirement to file varies depending on filing status, amount of income, type of income, etc. Nonresidents are required to file a return when they receive gross income of at least $1,000 of Oklahoma source income.

Individual taxpayers in Oklahoma use federal adjusted gross income as the starting point for determining Oklahoma taxable income and ultimately their state liability. Oklahoma adjusted gross income is arrived at by adding:

- Interest from obligations of any state or its political subdivisions,
- Out-of-state losses,
- Lump sum distributions (not included in federal adjusted gross income),
- Federal net operating losses,
- Recapture of depletion claimed on a lease bonus or add back of excess federal depletion,
- Expenses incurred to provide child care programs,
- Recapture of contributions to the Oklahoma College Savings Plan,
- Losses from the sale of exempt government obligations, and
- Recapture of certain federal accelerated depreciation,

and by subtracting amounts constitutionally or statutorily prohibited from being taxed including:

- Interest on U. S. government obligations,
- Additional depletion percentage for royalty income paid on oil and gas well production derived from Oklahoma properties,
- Oklahoma net operating losses carried forward from previous years,
- Exempt tribal income, and
- Gains from the sale of exempt government obligations.

Certain adjustments are made in order to arrive at Oklahoma income after adjustments. These adjustments include:

- An exclusion of the first $1,500 of compensation received by active members of the military,
- A maximum deduction of $100 ($200 if filing jointly) for contributions to a political party or candidate,
- A maximum deduction of $100 ($200 if filing jointly) for interest received from a financial institution located in Oklahoma,
- Qualifying physical disability work-related expenses,
- Qualifying nonrecurring adoption expenses up to $20,000,
- Qualifying contributions to Oklahoma's 529 College Savings Plan accounts up to $10,000 ($20,000 if filing jointly),
- Qualifying contributions and interest earned from an Oklahoma medical or health savings account,
- 15 percent of qualified expenditures for new or expanded agricultural commodity processing facilities,
- Accelerated depreciation adjustment for new or expanded swine or poultry producers,
- Income resulting from the discharge of indebtedness incurred to finance the production of agriculture,
- Scholarships or stipends received from participation in the Oklahoma Police Corps Program,
- Qualified wages equal to the Federal Indian Employment Credit,
- Up to $1,000 for an employer that utilizes the Safety Pays OSHA Consultation Service provided by the Oklahoma Department of Labor,
- Qualified expenses for certain costs of refinery property, and
- Costs of complying with sulfur regulations.

There are items that may be excluded in order to arrive at Oklahoma taxable income. The exclusions include:

- Up to $10,000 (increased from $7,500) of Oklahoma or federal government retirement,
- The greater of 75 percent (increased from 50 percent) or $10,000 of military retirement, and
- Up to $10,000 (increased from $7,500) of other retirement income.

Retirement income from sources other than Oklahoma, federal and military retirement is subject to income limitations as follows:

Tax Year	Single Filers AGI Limit	Married Filing Jointly AGI Limit
2006	$ 37,500	$ 75,000
2007	$ 50,000	$100,000
2008	$ 62,500	$125,000
2009	$100,000	$200,000
2010	No Limit	No Limit

The following are excluded from Oklahoma taxable income if they have been included in the federal adjusted gross income:

- All Social Security benefits,
- U. S. Railroad Retirement Board benefits, and
- An additional percentage of civil service retirement benefits paid in lieu of Social Security benefits as follows:

Tax Year	Percentage Excluded
2007	20%
2008	40%
2009	60%
2010	80%
2011	100%

Also, the taxpayer has the option of itemizing deductions in the same manner as allowed for federal purposes or taking a standard deduction as follows:

Tax Year	Married Filing Jointly and Qualifying Widow(er)	Head of Household	Single
2006	$3,000	$3,000	$2,000
2007	$5,500	$4,125	$2,750
2008	$6,500	$4,875	$3,250
2009	$8,500	$6,375	$4,250
2010	Federal Level	Federal Level	Federal Level

Each taxpayer, spouse and dependent is allowed a personal exemption of $1,000. Taxpayers who are blind and taxpayers who are 65 years of age or older and meet certain income eligibility requirements are allowed an additional $1,000 exemption. Taxpayers' taxable incomes are then subject to rates which range from one-half of 1 percent to 5.65 percent. After determination of the tax liability, then deductions are made for the withheld tax, estimated tax payments, income tax paid another state, and applicable state tax credits.

Credits

The following credits are available to individual income taxpayers:

- Earned income tax credit (5 percent of federal credit)
- Child care (20 percent of federal credit)
- Optional child credit (5 percent of federal credit)
- Low income property tax credit
- Sales tax relief credit
- Tornado tax credit
- Oklahoma investment in qualified property/new jobs
- Use of coal
- Energy assistance fund contribution
- Venture capital credit
- Conversion of motor vehicles to clean burning fuel or investments in qualified electric motor vehicle property
- Hazardous waste disposal

- Qualified recycling facility
- Oklahoma agricultural producers in Oklahoma producer-owned agricultural processing cooperatives, ventures or marketing associations
- Investment by small business capital companies
- Small business guaranty fee
- Employers providing child care programs
- Entities in the business of providing child care programs
- Food service establishments that pay for Hepatitis A vaccinations for their employees
- Commercial space industries
- Investments by space transportation vehicle providers
- Nonstop air service from Oklahoma to either coast
- Tourism development or Film or Music Production Facility
- Location or expansion of a facility within an enterprise zone/incentive district
- Qualified rehabilitation expenditures incurred with a certified historical building
- Small business capital credit
- Rural small business capital
- Electricity generated by zero-emission facilities
- Financial institutions making loans under the Rural Economic Development Loan Act
- Oklahoma manufacturers of advanced small wind turbines
- Donations to an independent biomedical research institute
- Production of ethanol at newly constructed facilities
- Purchase and transportation of poultry litter
- Volunteer firefighters who complete certain specified training
- Qualified biodiesel facilities
- Film or music project credit
- Qualified operational costs of rearing specially trained canines
- Wages paid to an injured employee
- Modification expenses for an injured employee
- Dry fire hydrants
- Construction of energy efficient residential homes
- Railroad modernization
- Research and development for net increase in number of employees
- Stafford loan origination fee (for banks and credit unions)

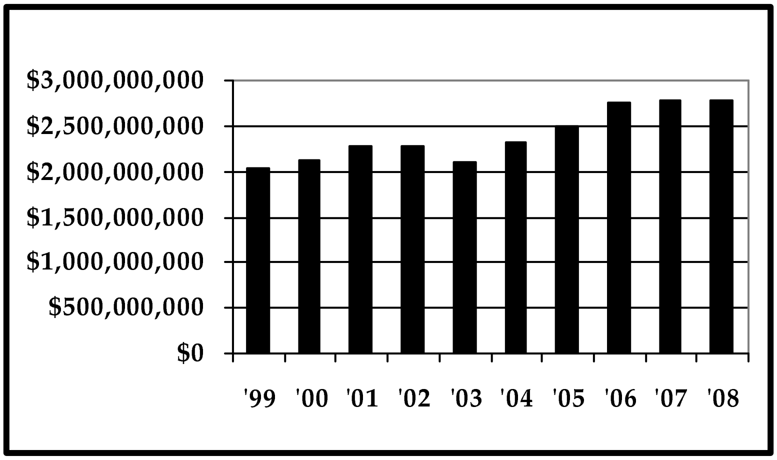
Checkoffs

Individual income taxpayers can voluntarily contribute to programs by donating a portion of their income tax refund. The income tax checkoff programs in Oklahoma include:

- Oklahoma Wildlife Diversity Program
- Low Income Health Care Fund
- Veterans Affairs Capital Improvement
- Breast and Cervical Cancer research
- Oklahoma Silver Haired Legislature and Alumni Association Programs
- Programs for volunteers to act as Court Appointed Special Advocates for abused or neglected children
- Oklahoma pet overpopulation
- Retire debt related to construction of the Oklahoma State Capitol dome
- Oklahoma National Guard
- Oklahoma leukemia and lymphoma fund

If on September 1 of any year, the total contributions to any one of the above programs from the checkoff program do not equal $15,000 or more for three consecutive years, the checkoff program will be discontinued.

Ten-Year Individual Income Tax Apportionments History:



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $2,780,582,937	FY-03 $2,109,703,179
FY-07 $2,777,320,906	FY-02 $2,281,605,949
FY-06 $2,766,343,400	FY-01 $2,275,175,143
FY-05 $2,493,410,661	FY-00 $2,129,768,717
FY-04 $2,314,655,619	FY-99 $2,041,796,189

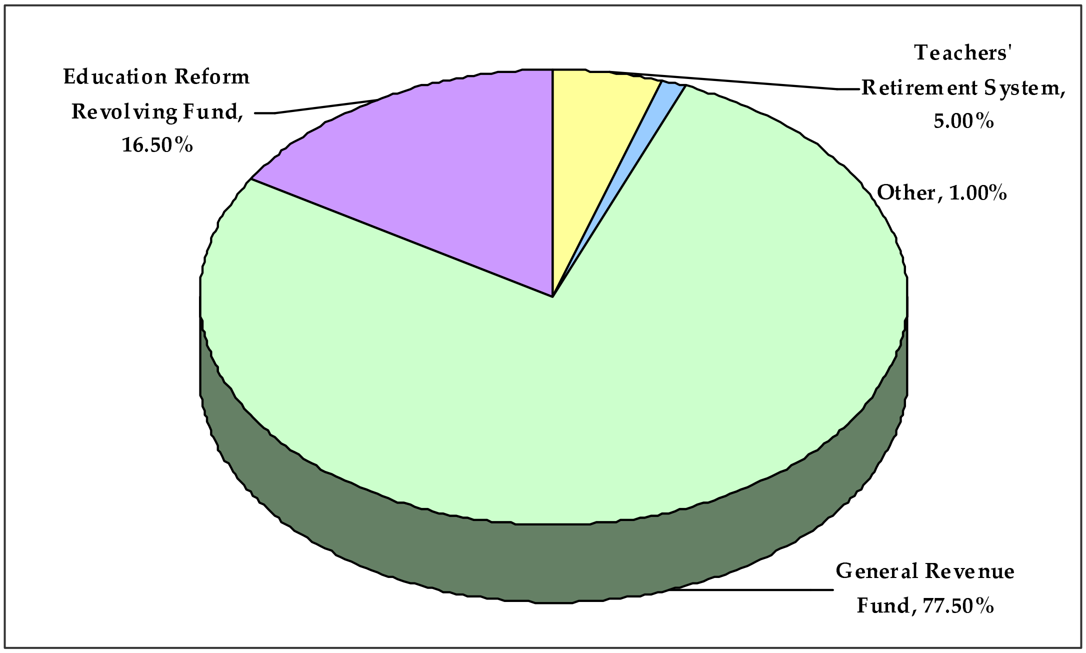
Individual Income Tax Statutory References

Levying – Title 68, Section 2355
Apportionment – Title 68, Sections 2352, 2902.3

Corporate Income Tax

FY-09 Apportionment of Corporate Income Tax – Title 68, Section 2352, apportions the collections from corporate income tax collections as follows:

- 77.50 percent to the General Revenue Fund
- 16.50 percent to the Education Reform Revolving Fund
- 05.00 percent to the Teachers' Retirement System Dedicated Revenue Revolving Fund
- 1.00 percent to the Ad Valorem Reimbursement Fund



What's New

Changes for Corporate Income Tax Returns

Oklahoma Voluntary Compliance Initiative – The change allows taxpayers with taxes due before December 31, 2007, to receive a full waiver of penalty, interest and any other collection fees. The program, in effect between September 15, 2008, and November 14, 2008, applies to gasoline and diesel taxes, gross production and petroleum excise taxes, corporate and individual income taxes, withholding taxes, sales and use taxes, mixed beverage taxes, franchise taxes, and bank "in lieu" taxes.

Decoupling from the federal Economic Stimulus Act of 2008 – Entities filing Oklahoma fiduciary or corporate tax returns will increase their taxable income for 2008 by 80 percent of the bonus depreciation allowed on federal returns and then subtract that amount from taxable income over the next four years. This legislation will prevent a significant decrease in the current corporate income tax revenue.

Real Estate Investment Trust - The modification requires corporate taxpayers to include rents and interest expenses paid to a captive real estate investment trust in Oklahoma taxable income, resulting in an increase in income tax collections for FY-09. Many states passed similar legislation to curtail the use of this type of activity to solely reduce their state tax liability; as such transactions run counter to the original purpose of REITs of encouraging investment in income-producing real estate.

Corporate Income Tax - Oklahoma levies a corporate income tax at a flat rate of 6 percent. The tax is based on a three-factor formula to arrive at taxable income. The three-factor formula is as follows:

- Corporate Sales Factor: Total sales attributed to Oklahoma divided by sales everywhere. Double emphasis is placed on the sales factor for capital intensive firms with $200 million investment in a single project.

- Property Factor: Taxpayer's average value of property (real and tangible personal property) owned or rented and used in Oklahoma divided by the average value of property (real and tangible personal property) used everywhere during the tax period. Property is valued at its original cost. Rented property is valued at eight times the net annual rate.

- Payroll Factor: Compensation for services rendered (less officer's compensation) in Oklahoma divided by compensation for services rendered (less officer's compensation) everywhere.

If the apportionment of business income of the enterprise by the Three Factor Formula does not give a fair reflection of the taxpayer's activity in the state, the taxpayer may petition the Tax Commission for permission to use an alternate method to apportion income.

The starting point for Oklahoma taxable income is federal taxable income plus interest from state and local bonds and minus any income statutorily or constitutionally prohibited from being taxed. Also adjustments are made for federal and state net operating losses, depreciation of assets, and oil and gas depletion allowance. After the tax rate is applied to taxable income, then deductions are made for any estimated tax payments and any applicable tax credits.

The corporate income tax does not apply to:

- Insurance companies subject to the insurance premium tax,
- Corporations electing subchapter S and partnerships, with income and tax liabilities reported on the individuals' returns, nor
- Banks and credit unions subject to the privilege tax.

Credits

The following credits are available to corporate income taxpayers:

- Oklahoma investment in qualified property/new jobs
- Use of coal
- Manufacturing use of natural gas
- Biomedical research contribution
- Conversion of motor vehicles to clean burning fuel or investments in qualified electric motor vehicle property
- Oklahoma agricultural producers in Oklahoma producer-owned agricultural processing cooperatives, ventures or marketing associations
- Investment by small business capital companies
- Small business guaranty fee
- Food service establishments that pay for Hepatitis A vaccinations for their employees
- Energy Assistance Fund Contribution
- Venture capital investment
- Hazardous waste control
- Qualified recycling facility
- Employers providing child care programs
- Entities in the business of providing child care services
- Investments by space transportation vehicle providers
- Nonstop air service from Oklahoma to either coast
- Tourism development
- Location or expansion of a facility within an enterprise zone/incentive district
- Qualified rehabilitation expenditures
- Modification expenses for an injured employee
- Dry fire hydrants
- Construction of energy efficient residential homes
- Railroad modernization
- Research and development for net increase in number of employees
- Commercial space industries
- Aerospace industry credit
- Rural small business capital credit
- Electricity generated by zero-emission facilities
- Financial institutions making loans under the rural economic development loan act
- Manufacturing small wind turbines

- Qualified ethanol facilities
- Transporting or disposal of poultry litter
- Volunteer Firefighter credit
- Qualified biodiesel facilities
- Film or music project credit
- Breeders of specially trained canines
- Wages paid to an injured employee
- Stafford loan origination fees (available for banks and credit unions)

Checkoffs

Corporations can voluntarily contribute to programs by donating a portion of income tax refunds. The income tax checkoff programs in Oklahoma include:

- Oklahoma Wildlife Diversity Program
- Low Income Health Care Fund
- Veterans Affairs Capital Improvement
- Breast and Cervical Cancer research
- Oklahoma Silver Haired Legislature and Alumni Association Programs
- Programs for volunteers to act as Court Appointed Special Advocates for abused or neglected children
- Oklahoma pet overpopulation
- Retire debt related to construction of the Oklahoma State Capitol dome
- Oklahoma National Guard
- Oklahoma leukemia and lymphoma fund

If on September 1 of any year, the total contributions to any one of the above programs from the checkoff program do not equal $15,000 or more for three consecutive years, the checkoff program will be discontinued.

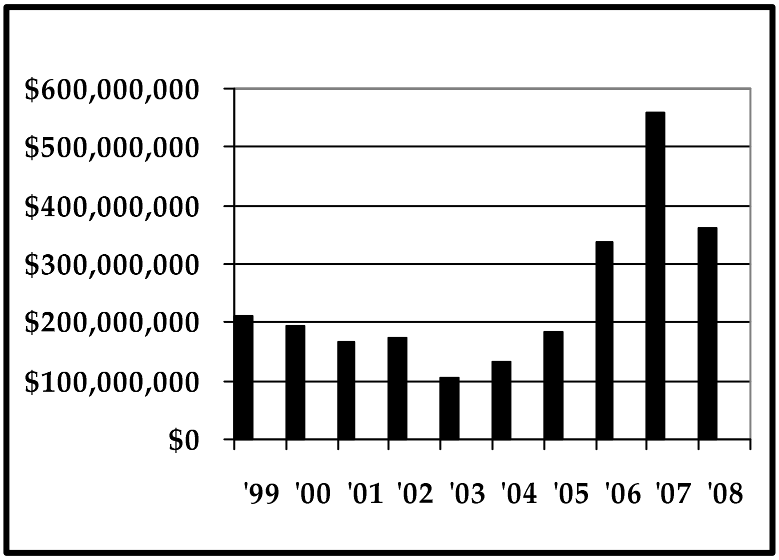
Administration

Corporate Income Tax – Returns are to be filed with the Tax Commission on or before March 15 for calendar year corporate returns or the 15th day of the third month after the close of the fiscal year for fiscal year corporate returns. Estimated taxes may be made in equal quarterly installments. Corporations are required to file with the Tax Commission information returns covering payments of income to any taxpayer of $750 or more or any amount of oil, gas or mining production payments paid or payable during any year.

Financial Institutions

Every state and national bank and credit union located or doing business within the state is required annually to pay a privilege tax at the rate of 6 percent of taxable income. The tax is based on the federal taxable income as determined for Oklahoma corporate income tax purposes less interest on federal, state and local obligations. The tax is in addition to the franchise tax and the ad valorem tax on real property and in lieu of the income and personal property tax.

Ten-Year Corporate Income Tax Apportionments History



FY-08 $360,064,549	FY-03 $104,447,597
FY-07 $557,776,735	FY-02 $173,701,077
FY-06 $337,660,494	FY-01 $167,221,593
FY-05 $184,086,903	FY-00 $194,144,621
FY-04 $133,308,898	FY-99 $210,529,139

Source: Oklahoma Tax Commission Apportionment Ledgers

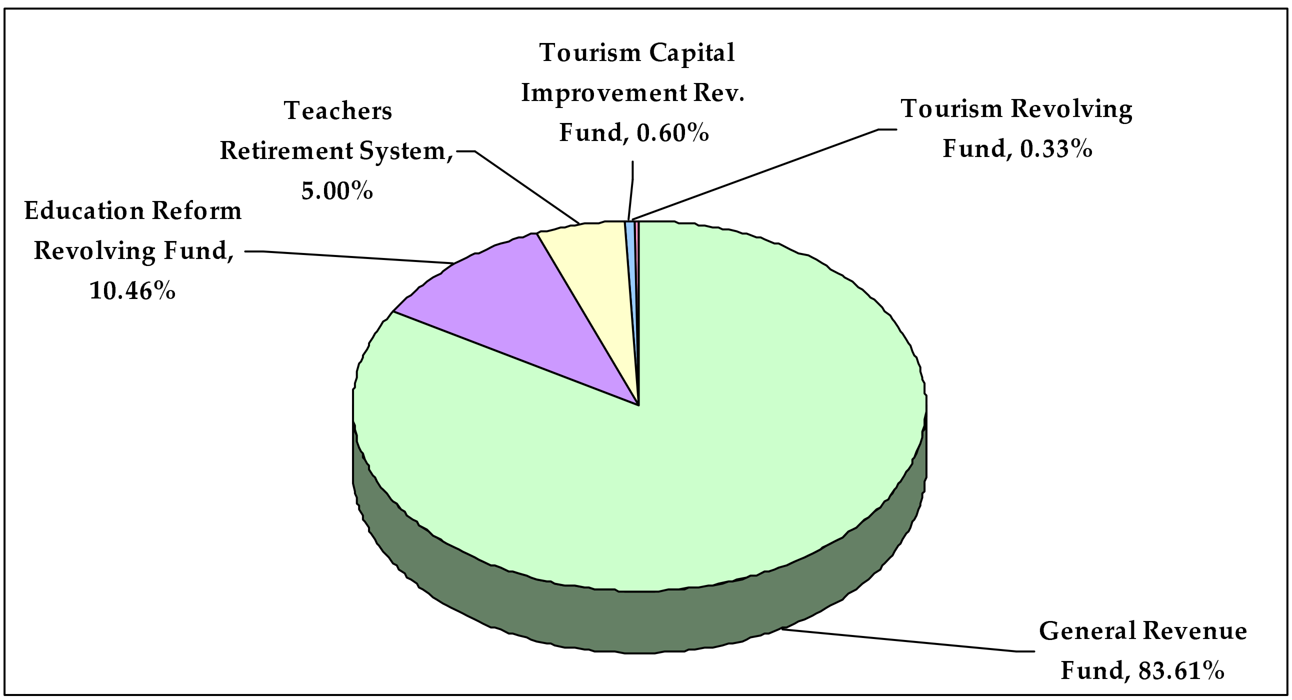
Corporate Income Tax Statutory References

Levying – Title 68, Section 2355
Apportionment – Title 68, Section 2352

Sales and Use Tax

FY-09 Apportionment of Sales and Use Tax Collections – The revenue is apportioned as follows:

- 83.61 percent to the General Revenue Fund
- 10.46 percent to the Education Reform Revolving Fund
- 05.00 percent to the Teachers' Retirement System Dedicated Revenue Revolving Fund
- 00.33 percent to the Oklahoma Tourism Revolving Fund
- 00.60 percent to the Oklahoma Tourism Capital Improvement Revolving Fund



What's New

Changes for Sales Tax

Sales Tax Holiday – Beginning in 2007 a Sales Tax Holiday provides an exemption from state, city, and county sales taxes for back-to-school purchases:

- During a three-day period beginning the first Friday in August through the following Sunday,
- For sales of clothing or footwear if the sales price is $100 or less.

The city and county taxes are reimbursed from other state sales tax revenue.

Sales Tax Exemptions – the following are exempted from sales tax:

New in 2007

- Sales of charity games equipment to a nonprofit group home for mentally disabled individuals;
- Sales of items or services to businesses repairing consumer electronic goods, i.e., cell phones, compact disc players, personal computers, etc., if the devices are sold by the original manufacturer to the businesses repairing or refurbishing the items for sale to retail consumers or to other businesses for subsequent retail sales;
- Sales of property or services to a nonprofit entity organized to train and educate developmentally disabled individuals and educate the community about the rights, abilities and strengths of developmentally disabled individuals and promoting unity among the developmentally disabled individuals in their community and surrounding areas;
- Sales of property or services to a nonprofit child care center with a 3-star rating with the Department of Human Services and providing on-site universal pre-kindergarten education to four-year-old children through a contractual relationship with a public school;
- Sales of property to Blue Star Mothers of America, Inc., which sends personal property to United States Military personnel overseas who are serving in a combat zone; and
- Sales of tangible personal property and services to nonprofit organizations sheltering abused, neglected or abandoned children up to age twelve.

New in 2008

- Sales of tangible personal property (until July 1, 2014) by or to nonprofit local public or private school foundations which solicit money or property in the name of any public or private school or public school district;
- Sales of rolling stock-locomotives, autocars, and railroad cars when sold or leased by the manufacturer;
- Sales to contractors and subcontractors with the Department of Central Services only when carrying out a public construction contract on behalf of the Oklahoma Department of Veterans Affairs;
- Sales made to certain tax exempt organizations for events the principal purpose of which is to provide funding for the preservation of wetlands and habitats for wild ducks or preservation and conservation of wild turkeys;
- Sales of food and snack items to or by a tax exempt organization whose primary purpose is providing funds for scholarships in the medical field;
- Sales of tangible personal property and services for use solely on construction projects for tax exempt organizations whose purpose is to provide end-of-life care and access to hospice services to low-income individuals who live in a facility owned by the organization;
- Sales of admission tickets to events held by tax exempt organizations that are organized for the purpose of supporting general hospitals licensed by the Oklahoma Department of Health;
- Sales of property to a nonprofit foundation which raises tax deductible contributions in support of a wide range of firearms-related public interest activities of the National Rifle Association of America and other organizations that defend and foster the Second Amendment;
- Sales of certain electric vehicles provided excise tax is paid on these vehicles; and
- Sales to certain contractors of the Central Oklahoma Master Conservancy District; and
- Expansion of a sales tax exemption to include sales of tangible personal property and services to nonprofit organizations sheltering abused, neglected or abandoned children up to age eighteen.

Oklahoma Voluntary Compliance Initiative – The change allows taxpayers who file past due returns and pay the taxes due before January 1, 2008, to receive a full waiver of penalty, interest and any other collection fees. The program, in effect between September 15, 2008, and November 14, 2008, applies to gasoline and diesel taxes, gross production and petroleum excise taxes, corporate and individual income taxes, withholding taxes, franchise taxes, mixed beverage taxes, bank "in lieu" taxes and sales and use taxes.

History

Sales Tax – Oklahoma was one of the first states to impose a sales tax in 1933. Beginning July 10, 1933, there was a 1 percent sales tax upon the gross proceeds derived from all sales of goods, wares and merchandise. The revenue generated by this tax initially went to common schools, but in 1935 the revenue was directed to the General Revenue Fund. In July 1936, the voters adopted Initiative Petition Number 155 which increased the rate of tax to 2 percent and directed that 50 percent of the revenue be apportioned to the State Assistance Fund to fund public welfare programs. The Legislature in 1937 increased the State Assistance Fund's share to 97 percent. In February 1984 the rate of tax was increased from 2 percent to 3 percent until December 31, 1985, and then it would revert to 2 percent. However, in July 1985 the rate of tax was set at 3.25 percent. The rate was further increased to 4 percent on June 1, 1987. The rate was increased to its current rate of 4.5 percent on May 1, 1990.

Use Tax – The use tax was first imposed in Oklahoma in 1937 at a rate of 2 percent. In February 1984 the rate increased to 3 percent until December 31, 1985, and then it would revert to 2 percent. However, in July 1985 the rate was set at 3.25 percent. The rate was further increased to 4 percent on June 1, 1987. The rate was increased to its current level of 4.5 percent on May 1, 1990.

Base and Rates

Sales Tax – The sales tax in Oklahoma is imposed on sales of tangible personal property and from the furnishing of specified services including transportation, meals, lodging, admissions and auto parking. There are many items that are either exempted or excluded from the sales tax base. Sales tax exemptions must be specifically provided for by law. Sales tax exemptions in Oklahoma can be grouped into six major categories:

1. Sales subject to other tax (such as motor fuel, motor vehicles and oil and gas)
2. Governmental and nonprofit entities (such as sales to the Federal Government, State of Oklahoma and its political subdivisions and sales to or by churches)
3. General (such as prescription drugs and sales for resale)
4. Agricultural (such as farm products sold on the farm to consumers, farm machinery and feed for livestock)
5. Manufacturers (such as machinery used in manufacturing and goods used or consumed in manufacturing)
6. Corporations and Partnerships (such as transfer of personal property due to reorganization, merger, consolidation, etc.)

Exclusions are items not subject to the sales tax because of the way the tax base is defined. The major items that are excluded from the sales tax base in Oklahoma are professional and personal services. The only services that are subject to tax are those few specific services enumerated in the statutes. The majority of services such as medical, barber and beauty, legal, repair and business are not subject to sales tax.

The state sales tax rate is levied at the rate of 4.5 percent of the gross receipts or gross proceeds of each sale.

Use Tax – The use tax is designed to supplement the sales tax, and its intent is to tax articles for use or consumption purchased outside the state and moved into the state which would have been subject to sales tax if purchased within the state. The state use tax rate is 4.5 percent of the purchase price.

The exemptions to the use tax are specifically set out in the statutes. Some of the exemptions are personal property brought into the state by a visiting nonresident for personal use while in the state, tangible personal property specifically exempt from sales tax, livestock purchased out of state and brought into Oklahoma for feeding or breeding purposes, and tangible personal property on which a tax equal to or in excess of that levied by Oklahoma has been paid by the person using such property in this state.

Local Sales & Use Tax – Municipalities may levy an additional city sales tax by a vote of its citizens. Counties may, by voter approval, levy a maximum county sales tax of 2 percent on tangible personal property purchased within the county. The governing body of a municipality or county levying a sales tax may also levy a use tax at a rate that equals their sales tax rate.

Streamlined Sales Tax – The streamlined sales tax agreement is an effort for states to work together to modernize and simplify the collection of states' sales and use taxes. Oklahoma has been an active member of the Streamlined Sales Tax Agreement and has amended its statutes to be in compliance with the agreement.

The majority of sales tax states have been active participants in developing the Streamlined Sales and Use Tax Agreement that has resulted in a set of uniform definitions, simplifications and procedures for sales and use tax collection and administration.

The agreement became operational on October 1, 2005, and 22 states are now members of the agreement. Currently, participation in the agreement is optional for states and for sellers. Since October 1, 2005, over 1,000 sellers have voluntarily registered to collect sales and use taxes for the member states.

The current Congressional environment also shows significant promise for federal legislation recognizing the agreement. The Sales Tax Fairness and Simplification Act was introduced in the 110th Congress and when enacted will give those states that have complied with the agreement and additional simplification requirements in the federal legislation the authority to require sellers to collect the state's sales and use taxes.

Administration

Sales Tax – Oklahoma law requires the sales tax to be paid by the consumer to the vendor. Vendors owing an average of $2,500 or more per month in total sales tax must remit the tax twice a month to the Oklahoma Tax Commission. Sales tax reports are due the 20th day of the month following the month of sales and are delinquent if not received on that date. Vendors who remit an average of $2,500 or more per month in total sales taxes and new vendors registering on or after June 1, 2007, must participate in the Tax Commission's electronic data interchange and electronic funds transfer program unless the vendor receives an exception to the requirement. Vendors who file electronically and those excepted from the requirement are allowed a deduction of 2.25 percent of the tax due as compensation for filing reports and keeping records if the tax due and report is remitted on a timely basis. For all other vendors filing timely, a deduction of 1.25% of the tax due is allowed. However, the deduction is limited to a maximum of $3,300 per reporting period per sales tax permit. Vendors must possess a sales tax permit before sales can be made. These permits are obtained from the Oklahoma Tax Commission at a cost of $20 and are valid for three years.

Use Tax – Vendors or retailers maintaining a place of business in another state may be authorized by the Oklahoma Tax Commission to collect the use tax on tangible personal property sold for use within this state. The vendors are issued a permit, without charge, to collect the taxes. Vendors holding a use tax permit may deduct 2.25 percent of the total use tax for timely filing and remitting; however, such deduction is limited to a maximum of $3,300 per reporting period.

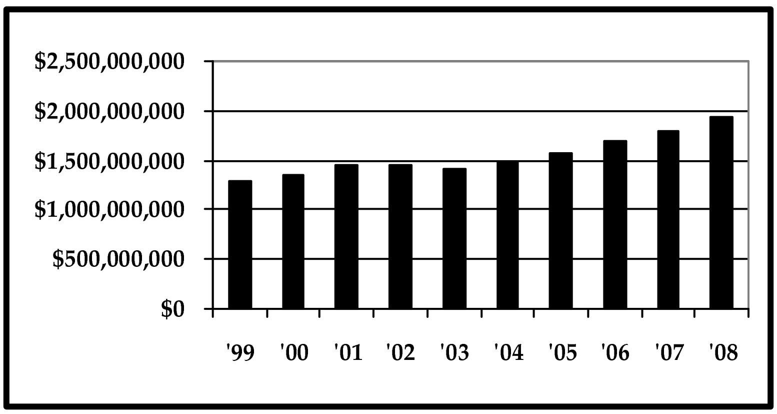
Direct Payment Permit for Sales Tax or Use Tax - Every person making purchases of $800,000 or more annually for use in their Oklahoma enterprises has the option to directly remit sales or use taxes to the Oklahoma Tax Commission rather than remit the taxes to the vendor. The purchasers are required to obtain a direct payment permit for a fee of $20 which is valid for three years.

Municipal and County Collections - The Tax Commission contracts with the municipalities and counties to collect the local sales and use taxes. Vendors remit both state and local levies on one report. A retention fee based on the tax rate is withheld from city/county sales and use taxes and apportioned to the Oklahoma Tax Commission's Revolving Fund.

Other State Tax Departments - The Tax Commission is authorized to enter into reciprocal agreements with the tax departments of other states for collection, payment and enforcement of taxes on sales of personal property to residents of Oklahoma by vendors and retailers maintaining places of business in such other states.

Ten-Year State Sales & Use Tax Apportionments History

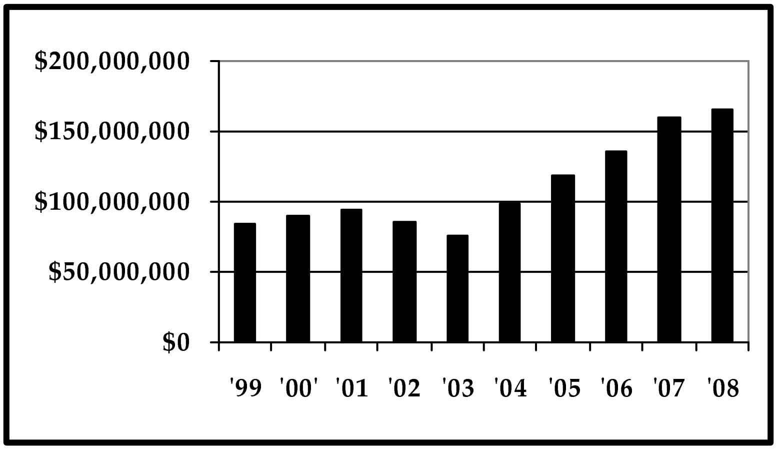
State Sales Tax Apportionments



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $1,930,951,193	FY-03 $1,404,710,970
FY-07 $1,804,312,283	FY-02 $1,444,730,549
FY-06 $1,703,507,694	FY-01 $1,445,755,050
FY-05 $1,562,812,208	FY-00 $1,355,626,612
FY-04 $1,496,749,110	FY-99 $1,295,288,012

State Use Tax Apportionments



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $165,268,691	FY-03 $75,909,296
FY-07 $159,784,905	FY-02 $86,040,298
FY-06 $135,502,892	FY-01 $94,131,837
FY-05 $119,049,364	FY-00 $90,107,635
FY-04 $98,050,171	FY-99 $83,910,241

Sales Tax Statutory References

Levying – Title 68, Sections 1354, 1370.9, 2355
Apportionment – Title 68, Sections 1353, 1370.9, 2902.3

Use Tax Statutory References

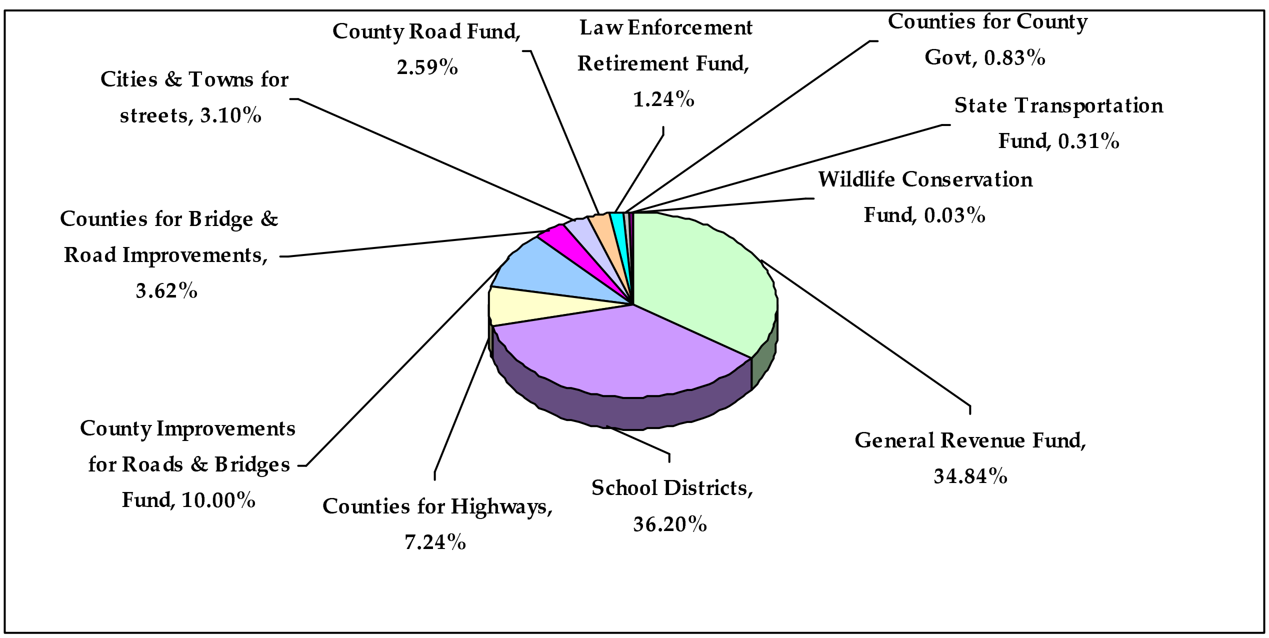
Levying – Title 68, Section 1402
Apportionment – Title 68, Section 1403

Motor Vehicle Taxes and Fees

FY-09 Apportionment of Motor Vehicle Collections

Approximately 5 percent (detailed in this section) of the motor vehicle collections is apportioned directly to specific funds or organizations and the balance is apportioned as follows:

- 34.84 percent to the General Revenue Fund*
- 36.20 percent to school districts
- 07.24 percent to counties for highways
- 10.00 percent to County Improvements for Roads & Bridges Fund**
- 03.62 percent to counties for Bridge and Road improvements
- 03.10 percent to cities and towns for streets
- 02.59 percent to County Road Fund
- 01.24 percent to the Oklahoma Law Enforcement Retirement Fund
- 00.83 percent to counties for county government purposes
- 00.31 percent to State Transportation Fund
- 00.03 percent to the Wildlife Conservation Fund



* In FY-10 and thereafter 29.84 percent

** In FY-10 and thereafter 15.0 percent

Taxes and fees under this category include vehicle, boat and outboard motor registration fees, title fees, lien fees, and excise tax. Elements common to taxes and fees in this category are:

- All apply to vehicles or boats and outboard motors,
- Motor license (tag) agents are authorized to handle and collect the taxes and fees. Additionally, motor license agents are authorized to retain specific amounts of the taxes and fees collected, and
- For the most part, the revenue generated by the taxes and fees is apportioned by the same formula.

Motor Vehicle Registration

Noncommercial Vehicles – Motor vehicle registration fees were first imposed in 1915. Oklahoma's fee is in lieu of ad valorem taxes. The annual motor vehicle registration fee for noncommercial vehicles (automobiles, noncommercial sports utility vehicles, noncommercial and nonagricultural pickups, recreational vehicles, etc.) was significantly changed effective October 1, 2000, by voters' approval of State Question 691. The annual registration is a graduated flat fee based on year of registration.

Years of Registration	Rate
1 - 4	$85
5 - 8	$75
9 - 12	$55
13 – 16	$35
17 and After	$15

In addition to the above fees, administrative fees totaling $6 are added each year.

Commercial and Farm Vehicles – Vehicles over 8,000 pounds laden weight (used primarily for commercial or business purposes) are defined as a commercial vehicle for registration purposes. The rates for commercial registration range from $95 for vehicles from 8,001 to 15,000 pounds to $1,078 for vehicles from 89,001 to 90,000 pounds. Vehicles under 8,000 pounds and used primarily for business or commercial purposes may be registered and subject to the same fees as a commercial vehicle having a combined laden weight over 8,000 pounds and less than 15,001. Pick-ups or trucks used primarily for farm use are subject to an annual license fee of $30. Vehicles used primarily for transporting unfinished and unprocessed forest products are subject to an annual fee of $250. In addition, administrative fees totaling $6 are added each year.

A certificate of title is required for each vehicle. The fee for each certificate of title is $11. The motor license agent fee of $2.25 for each title issued is included in this amount. When a security interest is created in a vehicle, the interest must be recorded on the certificate of title at a fee of $10.

Vehicle Excise

Excise tax is paid in lieu of state sales tax upon transfers of ownership of new or used vehicles, and is calculated as follows:

> New Vehicle – 3.25 percent of the value of the vehicle, and
>
> Used Vehicle – $20 on the first $1,500 of the value of the vehicle and 3.25 percent on the balance.

The value of a new or used vehicle is the actual sales price of the vehicle before any credits are given for a trade-in. However, the value of the vehicle must be within 20 percent of the average retail price of the vehicle as listed in the automotive reference material prescribed by the Tax Commission. The Tax Commission currently contracts with N.A.D.A. (Official Used Car Price Guide) to provide average retail price values.

A 6 percent rental tax is imposed on the gross receipts from motor vehicle rental agreements of 90 days or less received by a business engaged in renting motor vehicles without drivers. The tax does not apply to any lease agreements or certain trucks or trailers and is in lieu of the motor vehicle excise tax.

Boats and Outboard Motors

An annual registration and license fee is imposed on boats and outboard motors. Boats and outboard motors with a value in excess of $150 are subject to a registration fee of $1 for the first $150 of value, plus a fee of $1 for each $100 in excess of $150, with a maximum fee of $150. An excise tax of 3.25 percent of the value of a boat or motor is imposed upon any transfer of legal ownership. The value is based on a combination of the original retail price of the boat or outboard motor and its age. It is also required that boats and outboard motors have a certificate of title upon any transfer of ownership or upon the first registration in this state for a fee of $2.25. This $2.25 fee includes the motor license agent fee of $1.25.

Apportionment

Approximately 5 percent of the motor vehicle collections are apportioned as follows:

- $ 3 of every vehicle registration fee is apportioned:
  - $1 to the Driver Education Revolving Fund up to a maximum of $900,000, and
  - $2 to the General Revenue Fund, until $900,000 is apportioned to the Driver Education Revolving Fund, then $3 to the General Revenue Fund,

- $1 of every vehicle registration fee is apportioned:
  - 50 cents to the Department of Public Safety Patrol Vehicle Revolving Fund up to a maximum of $850,000, then 50 percent of this amount is allocated to the Law Enforcement Retirement Fund, and
  - 50 cents to the General Revenue Fund,

- $6.75 for each driver license issued or renewed; $5 for each duplicate or replacement driver license issued; and $3 for each identification card issued or renewed to the Department of Public Safety Computer Imaging System Revolving Fund,

- $10 for each rebuilt-inspection or examination to the Department of Public Safety,

- $560,000 of driver license fees is apportioned:
  - $60,000 to General Revenue Fund, and
  - $500,000 to Department of Public Safety Revolving Fund,

- $1 for each boat and motor registration fee and $5.50 for each driver license issued or renewed to the Trauma Care Assistance Revolving Fund,

- $20 for each retired highway patrol officer special license plate issued to the Law Enforcement Retirement Fund,

- $3.56 for each vehicle registration issued or renewed by the Tax Commission; the mail and insurance fees collected by the Tax Commission; the motor license agents' application fees and the first $100,000 of registration fees for motorcycles and mopeds to the Tax Commission Revolving Fund,

- $8 for each special license plate issued or renewed by the Tax Commission; $5.44 for each special license plate issued or renewed by motor license agents; $1 for each vehicle title issued; $4 for each vehicle junk title issued; $2 for each out-of-state vehicle identification number (VIN) inspection; $1 for each boat or motor title issued; $9 for each all-terrain-vehicle or off-road-motorcycle registration fee and approximately 75 percent of the fee authorized for each NASCAR license plate issued or renewed is apportioned to the Tax Commission Reimbursement Fund,

- $3 for each duplicate or replacement driver license issued; driver license examination fees; driver license retest fees; motor license agent penalties; the first $400,000 from commercial registration fees; and $5 for each NASCAR license plate issued or renewed is apportioned to the General Revenue Fund,

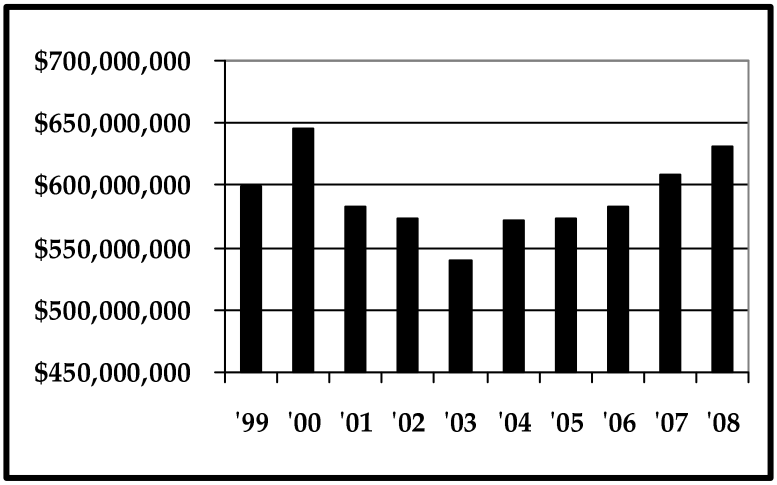
and the balance is apportioned in the following manner:

- 34.84 percent to the General Revenue Fund*
- 36.20 percent to school districts
- 07.24 percent to counties for highways
- 10.00 percent to County Improvements for Roads & Bridges Fund**
- 03.62 percent to counties for Bridge and Road improvements
- 03.10 percent to cities and towns for streets
- 02.59 percent to County Road Fund
- 01.24 percent to the Oklahoma Law Enforcement Retirement Fund
- 00.83 percent to counties for county government purposes
- 00.31 percent to State Transportation Fund
- 00.03 percent to the Wildlife Conservation Fund

* In FY-10 and thereafter 29.84 percent

** In FY-10 and thereafter 15.0 percent

Ten-Year Motor Vehicle Tax Apportionments History



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $631,684,704	FY-03 $539,976,510
FY-07 $608,271,976	FY-02 $573,771,373
FY-06 $583,777,261	FY-01 $583,242,975
FY-05 $574,188,312	FY-00 $645,216,199
FY-04 $572,431,483	FY-99 $599,069,768

Motor Vehicle Tax Statutory References

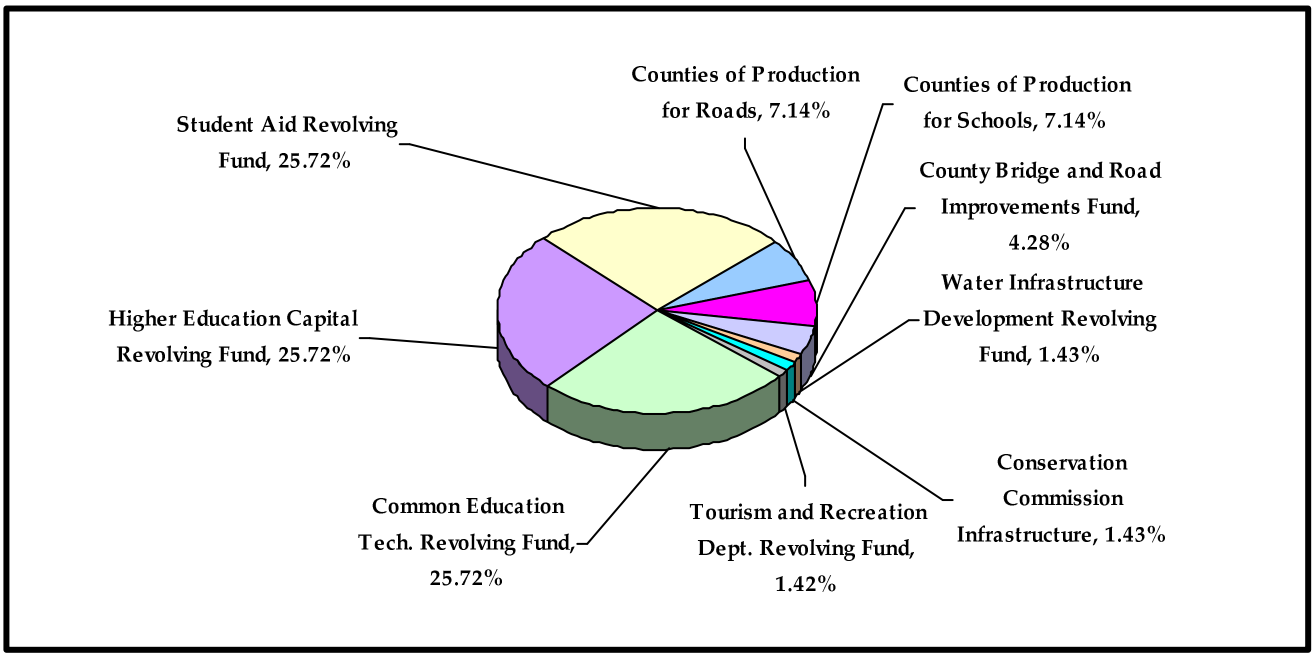
Levying – Title 47, Sections 6-101, 6-114, 14-116, 1105 et seq. and Title 68, Sections 2103, 2104.3, and 2110
Apportionment – Title 47, Sections 1104, 1104.1, and 1104.2

Severance Taxes

The severance tax is an excise tax imposed on the removal of natural resources such as oil, gas, coal and other minerals from the soil or water. The tax is usually measured by the value of the products removed. There are two types of severance taxes in Oklahoma: 1) gross production; and 2) petroleum excise. The gross production tax in Oklahoma is in lieu of ad valorem tax.

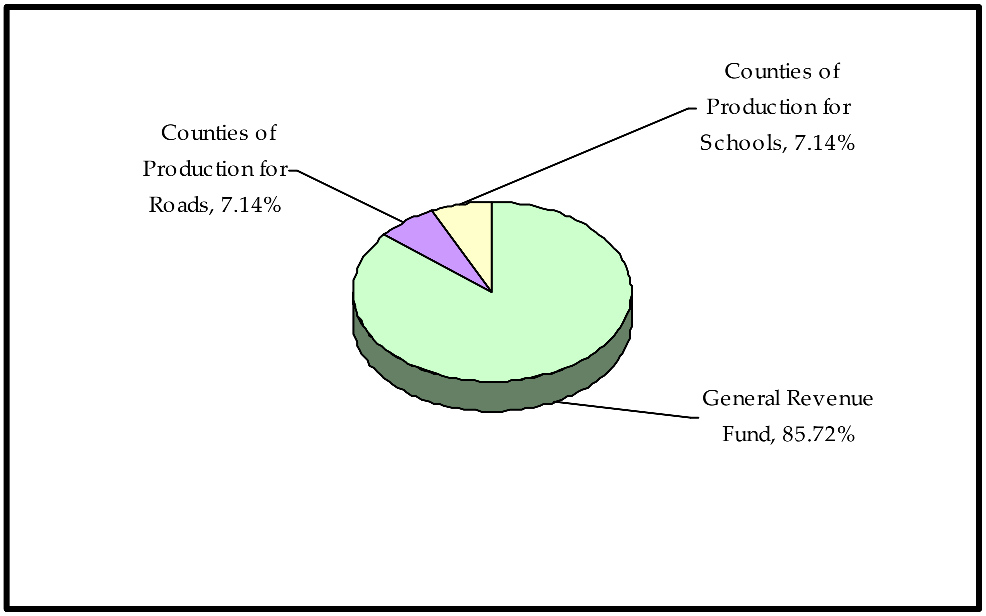
FY-09 Apportionment of Gross Production Tax – Oil Collections

- 25.72 percent to the Common Education Technology Revolving Fund
- 25.72 percent to the Higher Education Capital Revolving Fund
- 25.72 percent to the Oklahoma Student Aid Revolving Fund
- 07.14 percent to counties of production for roads
- 07.14 percent to counties of production for schools
- 04.28 percent to the County Bridge and Road Improvements Fund
- 01.43 percent to Oklahoma Water Infrastructure Development Revolving Fund
- 01.43 percent to Oklahoma Conservation Commission Infrastructure Fund
- 01.42 percent to Oklahoma Tourism and Recreation Department Revolving Fund



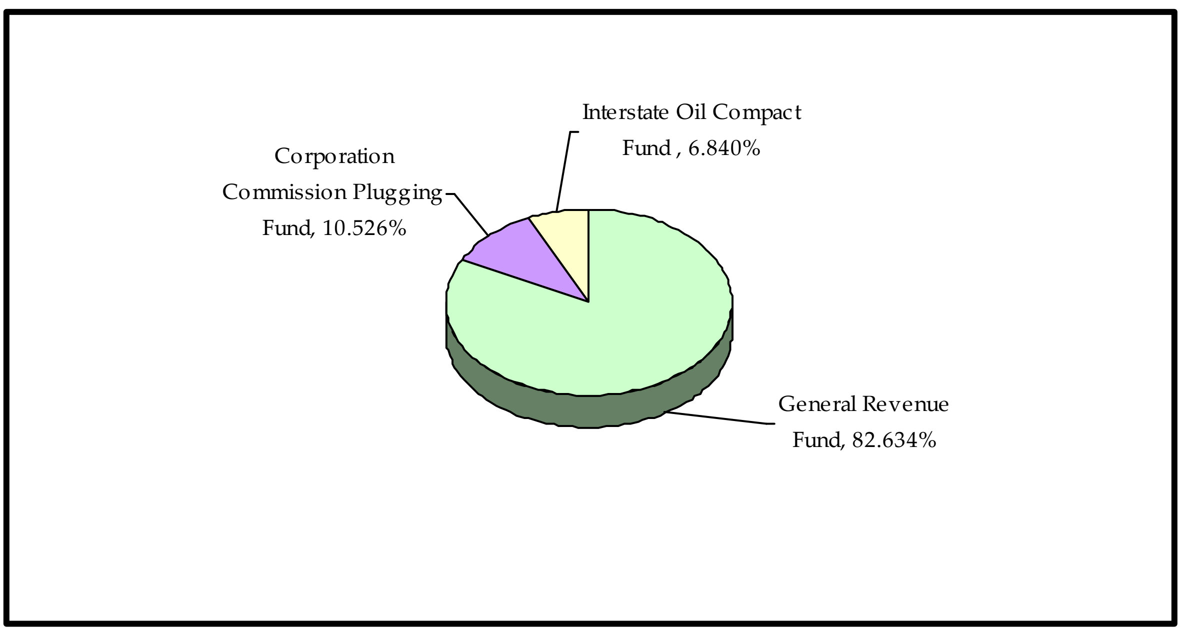
FY-09 Apportionment of Gross Production Tax – Gas Collections

- 85.72 percent to the General Revenue Fund
- 07.14 percent to counties of production for roads
- 07.14 percent to counties of production for schools



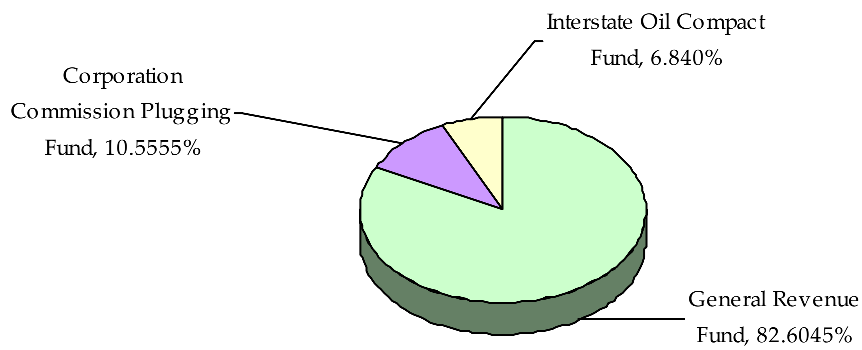
FY-09 Petroleum Excise Tax Apportionment –Oil

- 82.634 percent to the General Revenue Fund
- 10.526 percent to the Corporation Commission Plugging Fund
- 06.840 percent to the Interstate Oil Compact Fund of Oklahoma



FY-09 Petroleum Excise Tax Apportionment - Gas

- 82.6045 percent to the General Revenue Fund
- 10.5555 percent to the Corporation Commission Plugging Fund
- 06.8400 percent to the Interstate Oil Compact Fund of Oklahoma



History

The first gross production tax in Oklahoma was passed in 1908. The law passed in 1910 taxed oil and gas separately from the ad valorem tax at a rate of one-half of 1 percent on the production. The rate was increased to three-fourths of 1 percent in 1913, and the in lieu status was adopted. Additional rate increases were passed in 1916 and 1935, with the rate of 7 percent being adopted in 1971.

Base and Rates

A three-tiered gross production tax rate system for oil was implemented in 1999 and will remain in effect through June 30, 2010.

Average Price of Oil	Rate of Tax
Equal to or exceeds $17 per barrel	7%
Less than $17, but is equal to or exceeds $14	4%
Less than $14 per barrel	1%

The rate of tax is based on the average price per barrel of sweet crude oil as determined by the Oklahoma Tax Commission. Effective July 1, 2010, the gross production tax rate for oil is scheduled to return to 7 percent.

A three-tiered gross production tax system for gas was implemented in 2002 and will remain in effect through June 30, 2010.

Average Price of Gas	Rate of Tax
Equal to or exceeds $2.10 per mcf	7%
Less than $2.10, but is equal to or exceeds $1.75 per mcf	4%
Less than $1.75 per mcf	1%

Effective July 1, 2010, the gross production tax rate for gas is scheduled to return to 7 percent.

The gross production tax is also levied upon the production of asphalt, ores bearing lead, zinc, jack, gold, silver and copper. The tax is the third largest revenue source behind income taxes and sales taxes.

Gross Production Tax Rebates

In response to declining oil production and higher operating costs, the Legislature has passed several gross production tax rebates as incentives to operators to continue to operate wells, which may have otherwise been plugged. The most recent of the incentives was passed in 1996 exempting the gross production tax for oil leases which show a net profit or a net loss which is less than the gross production tax paid after deducting from the gross proceeds all operating costs, gross production tax and royalties. These incentives are not available when the average price of oil exceeds $30 or the tax rate is at 1 percent or the average price of gas exceeds $5.

Petroleum Excise Tax

In addition to the gross production tax, Oklahoma levies a petroleum excise tax on the production of oil and gas. Petroleum excise tax is a value-based tax equal to ninety-five one thousandths of 1 percent (.095 of 1 percent) of the gross value paid by the purchaser of oil and/or gas to the operator and all interest owners of a producing lease.

The petroleum excise tax was first imposed in 1933 at a rate of one-eighth of 1 percent per barrel of petroleum oil produced in Oklahoma. In 1947, this tax was made applicable to natural and casing head gas at a rate of one one-hundredth of 1 cent per 1,000 feet of gas produced in this state. The rates were gradually increased throughout the years. In 1990, the current rate of .095 of 1 percent of the gross value on all oil and gas produced was assessed.

Administration

Gross production taxes are remitted and reported on a lease basis to the Tax Commission each month by the first purchaser of oil and/or gas. The first purchaser withholds the amount of tax due from the payment made to the lease operator and interest owners.

Petroleum excise tax is collected in the same manner as the gross production tax and is reported to the Tax Commission on the same report form.

The due date for payment of the taxes is the 25th day of the second month following the month of production.

Gross Production Tax - Oil Apportionment

The apportionment of the revenue generated by the gross production tax on oil depends on the rate of tax levied. These apportionment formulas are as follows:

7 Percent Tax

- 25.72 percent to the Common Education Technology Revolving Fund
- 25.72 percent to the Higher Education Capital Revolving Fund
- 25.72 percent to the Oklahoma Student Aid Revolving Fund
- 07.14 percent to counties of production for roads
- 07.14 percent to counties of production for schools
- 04.28 percent to the County Bridge and Road Improvements Fund
- 01.43 percent to Oklahoma Water Infrastructure Development Revolving Fund
- 01.43 percent to Oklahoma Conservation Commission infrastructure
- 01.42 percent to Oklahoma Tourism and Recreation Department Revolving Fund

4 Percent Tax

- 22.50 percent to the Common Education Technology Revolving Fund
- 22.50 percent to the Higher Education Capital Revolving Fund
- 22.50 percent to the Oklahoma Tuition Scholarship Revolving Fund
- 03.75 percent to the County Bridge and Road Improvements Fund
- 03.75 percent to Oklahoma Water Resources Board Rural Economic Action Plan Water Projects Fund
- 12.50 percent to counties of production for roads
- 12.50 percent to counties of production for schools

1 Percent Tax

- 50 percent to counties of production for roads
- 50 percent to counties of production for schools

The total amounts deposited to the Common Education Technology Revolving Fund, the Higher Education Capital Revolving Fund, the Oklahoma Tuition Scholarship Revolving Fund and the Rural Economic Action Plan Water Projects Fund, the Oklahoma Tourism and Recreation Department Capital Expenditure Revolving Fund, the Oklahoma Conservation Commission Infrastructure Revolving Fund and the Community Water Infrastructure Development Revolving Fund will not exceed $150 million in any fiscal year. All amounts in excess of $150 million in any fiscal year will go to the General Revenue Fund.

Gross Production Tax - Gas Apportionment

All of the revenue generated by the gross production tax on gas is apportioned as follows:

7 Percent Tax

- 85.72 percent to the General Revenue Fund
- 07.14 percent to counties of production for roads
- 07.14 percent to counties of production for schools

4 Percent Tax

- 75.0 percent to the General Revenue Fund
- 12.5 percent to counties of production for roads
- 12.5 percent to counties of production for schools

1 Percent Tax

- 50% to counties of production for roads
- 50% to counties of production for schools

Petroleum Excise Tax Apportionment

Until June 30, 2011, the revenue generated by the tax on oil is apportioned as follows:

- 82.634 percent to the General Revenue Fund
- 10.526 percent to the Corporation Commission Plugging Fund
- 06.840 percent to the Interstate Oil Compact Fund of Oklahoma

Until June 30, 2011, the revenue generated by the tax on gas is apportioned as follows:

- 82.6045 percent to the General Revenue Fund
- 10.5555 percent to the Corporation Commission Plugging Fund
- 06.8400 percent to the Interstate Oil Compact Fund of Oklahoma

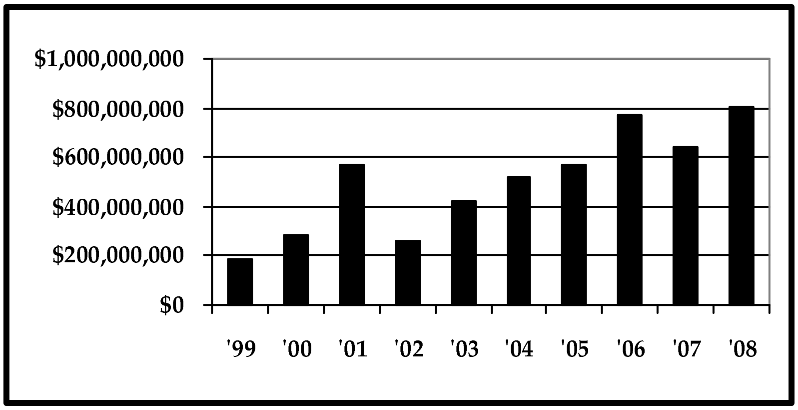
Beginning July 1, 2011, the revenue generated by the tax on oil is apportioned as follows:

- 92.35 percent to the Conservation Fund
- 07.65 percent to the Interstate Oil Compact Fund of Oklahoma

Beginning July 1, 2011, the revenue generated by the tax on gas is apportioned as follows:

- 92.35 percent to the Conservation Fund
- 07.65 percent to the Interstate Oil Compact Fund of Oklahoma

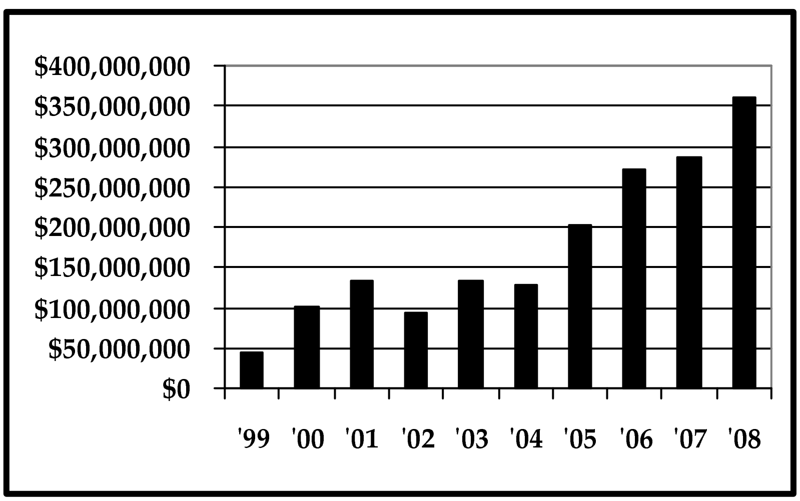
Ten-Year Gross Production Tax (Gas) Apportionments



FY-08 $808,223,362	FY-03 $426,621,012
FY-07 $643,414,671	FY-02 $264,009,845
FY-06 $771,893,802	FY-01 $567,358,581
FY-05 $565,792,472	FY-00 $286,336,707
FY-04 $517,602,940	FY-99 $188,651,843

Source: Oklahoma Tax Commission Apportionment Ledgers

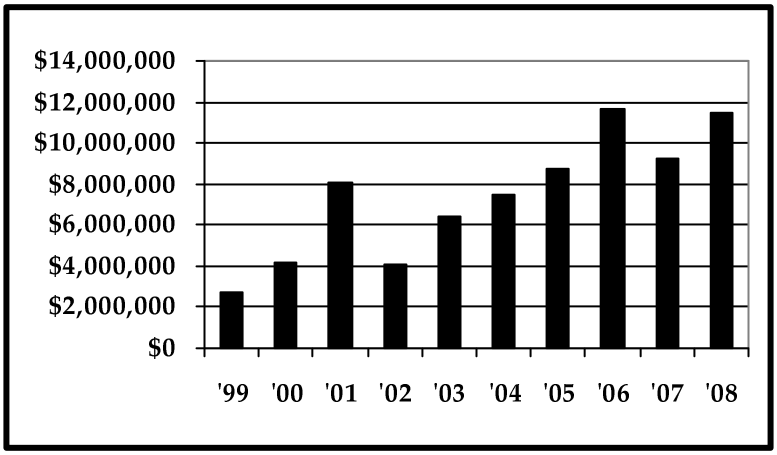
Ten-Year Gross Production Tax (Oil) Apportionments



FY-08 $360,221,750	FY-03 $113,317,645
FY-07 $285,555,889	FY-02 $94,967,733
FY-06 $271,908,391	FY-01 $133,781,148
FY-05 $201,756,555	FY-00 $100,638,251
FY-04 $128,161,877	FY-99 $43,538,958

Source: Oklahoma Tax Commission Apportionment Ledgers

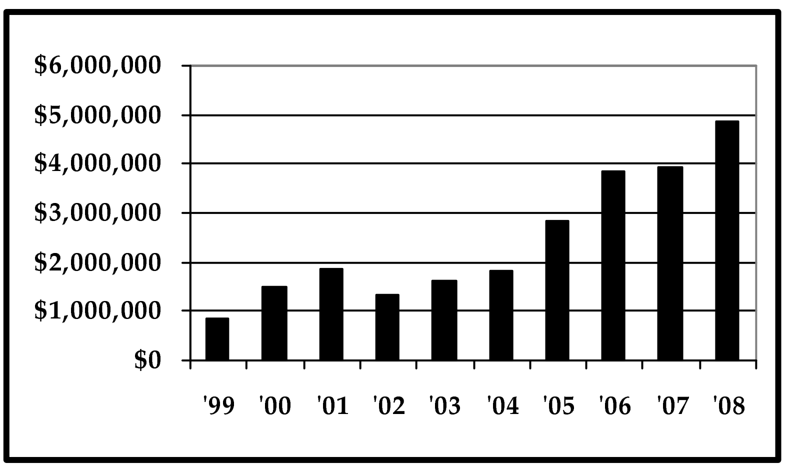
Ten-Year Petroleum Excise Tax (Gas) Apportionments



FY-08 $11,442,346	FY-03 $6,400,087
FY-07 $9,245,225	FY-02 $4,128,037
FY-06 $11,699,780	FY-01 $8,046,500
FY-05 $8,796,214	FY-00 $4,149,403
FY-04 $7,450,376	FY-99 $2,744,654

Source: Oklahoma Tax Commission Apportionment Ledgers

Ten-Year Petroleum Excise Tax (Oil) Apportionments



FY-08 $4,877,418	FY-03 $1,612,386
FY-07 $3,931,746	FY-02 $1,352,988
FY-06 $3,838,480	FY-01 $1,885,404
FY-05 $2,835,206	FY-00 $1,481,506
FY-04 $1,836,095	FY-99 $838,879

Source: Oklahoma Tax Commission Apportionment Ledgers

Severance Tax Statutory References

Gross Production Tax- Oil & Gas
Levying – Title 68, Section 1001
Apportionment – Title 68, Section 1004

Petroleum Excise Tax - Oil
Levying – Title 68, Section 1101
Apportionment – Title 68, Section 1103

Petroleum Excise Tax - Gas
Levying – Title 68, Section 1102
Apportionment – Title 68, Section 1103

Motor Fuel Tax

In Oklahoma, the category of motor fuel taxation includes taxes on gasoline, diesel fuel, other special fuels and motor fuel imported for use in Oklahoma.

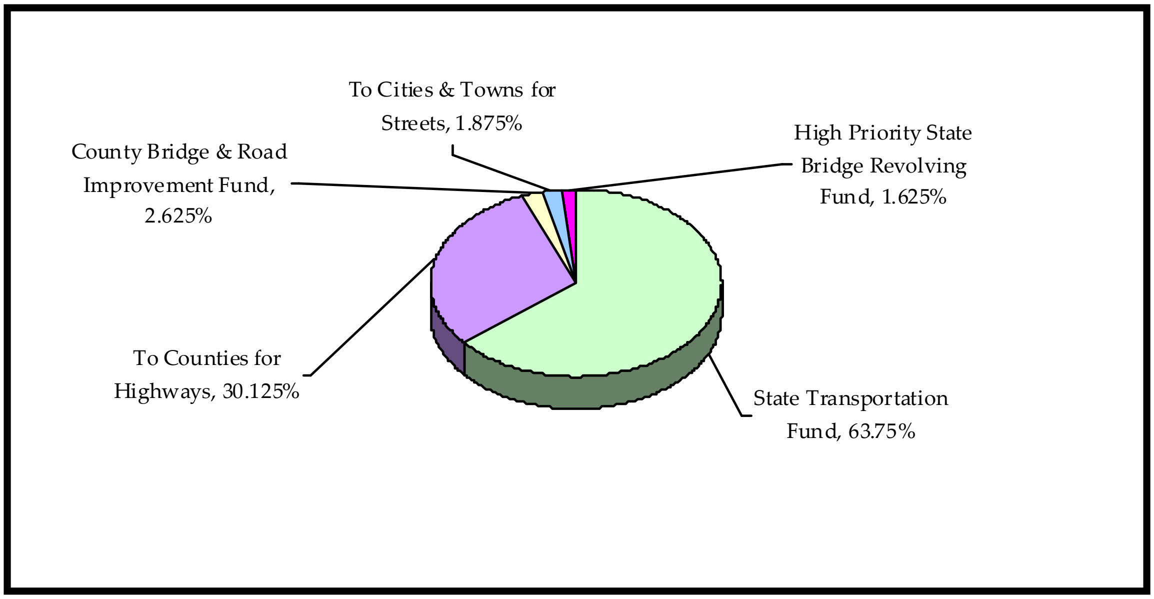
FY-09 Apportionment of Tax - Gasoline Fuels

Collections generated by the tax on gasoline and special fuel are apportioned as follows:

- 4.5 percent of fuel collections are set aside for Indian Tribes – distributed quarterly,
- The next $850,000 of collections designated for State Transportation is deposited into the Public Transit Revolving Fund, then $850,000 designated for State Transportation is deposited into the Oklahoma Tourism and Passenger Revolving Fund and $250,000 collected each month is apportioned to the State Transportation Fund,
- Less $3,000 each month and 100 percent of aircraft fuel to Oklahoma Aeronautics Fund,
- Tax collected from fuel consumed on state turnpikes deducted from the amount apportioned to State Transportation Fund and paid to the Turnpike Authority as long as bonds issued after May 1, 1992, remain outstanding,
- Also, one-third of 1 percent of the County Roads Funds goes to the Statewide Circuit Engineering District Revolving Fund,

and then the balance is apportioned as follows:

- 63.750 percent to the State Transportation Fund
- 30.125 percent to counties for highways
- 02.625 percent to the County Bridge & Road Improvement Fund
- 01.875 percent to cities and towns for streets
- 01.625 percent to the High Priority State Bridge Revolving Fund



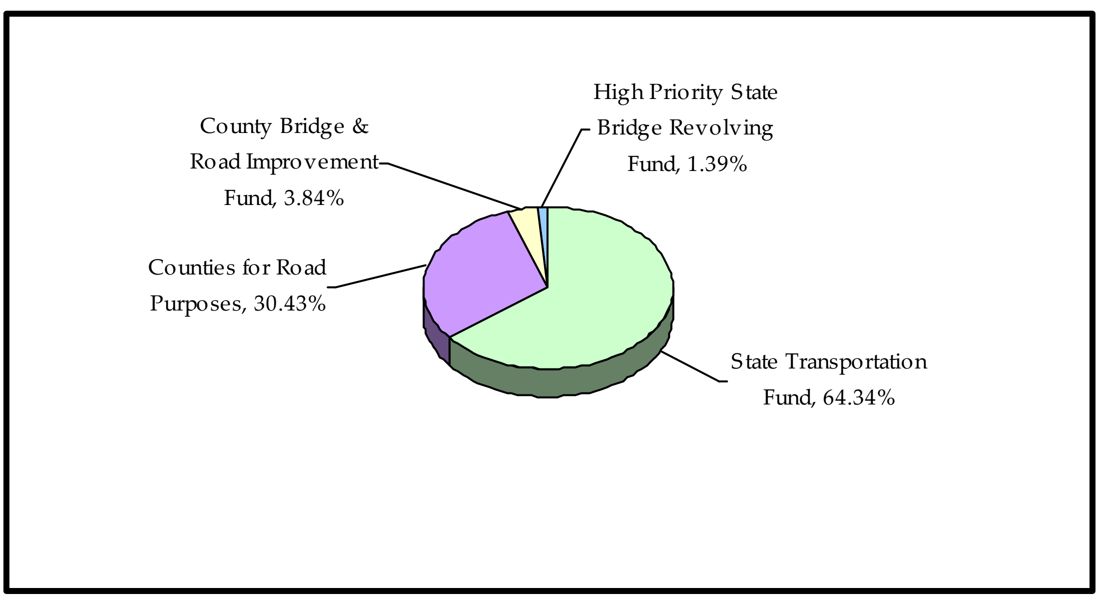
FY-09 Apportionment of Tax - Diesel Fuels

Collections generated by the tax on diesel are apportioned as follows:

- 4.5 percent of fuel collections set aside for Indian Tribes – distributed quarterly
- The first $83,333.33 collected each month to the State Transportation Fund

and then the balance is apportioned as follows:

- 64.34 percent to the State Transportation Fund
- 30.43 percent to counties for roads
- 03.84 percent to the County Bridge & Road Improvement Fund
- 01.39 percent to the High Priority State Bridge Revolving Fund



History

The gasoline tax was first imposed in 1923 at a rate of 1 cent per gallon. By 1929 the rate had increased to 4 cents. In 1939, the first tax was imposed on diesel and other special fuels. The tax on gasoline imported into the state was first levied in 1949, and the tax was made applicable to diesel fuel in 1979. The tax rate for gasoline at 6.58 cents per gallon and the rate for diesel and special fuels at 6.5 cents per gallon were in effect from the early 1950's until 1984 except for a nine-month temporary increase in 1957 for repairs to flood damaged roads. In 1984, the rate for all motor fuel taxes was increased to 9 cents per gallon, and the rate was further increased by 1 cent in 1985 for a tax rate of 10 cents per gallon. In 1987, the rate of tax for gasoline and special fuel was increased by 6 cents for a total tax of 16 cents per gallon, and the rate for diesel fuel was increased by 3 cents for a total tax of 13 cents per gallon. If the federal motor fuel tax on gasoline or diesel is ever reduced, a state motor fuel tax equal to the reduction in the federal tax will be levied.

Base and Rates

The incidence of the motor fuel tax falls to the consumer; however, the tax is collected from the supplier at the terminal rack. There are several exemptions to the motor fuel tax, including purchases for resale:

- To federal and local governments,
- To schools for transportation of school children,
- To Future Farmers of America (FFA) and 4-H Clubs,
- To persons actually engaged in farming for use in farm tractors or stationary engines,
- To volunteer fire departments, rural electric cooperatives, rural water and sewer districts, rural ambulance service districts and federally recognized Indian tribes,
- For the sale of fuel exported out of this state,
- For the sale of fuel used in aircraft engines,
- For the sale of diesel fuel used to operate "off-road" equipment,
- For sale of diesel fuel in rail equipment, including railroad locomotives, and
- For motor fuel lost or destroyed from unexpected casualties.

The tax paid on undyed diesel fuel used off road by off-road users and for agricultural purposes which is exempt from tax is refunded to the user upon application by the user to the Tax Commission. In lieu of the refund procedure for tribal members, an Indian

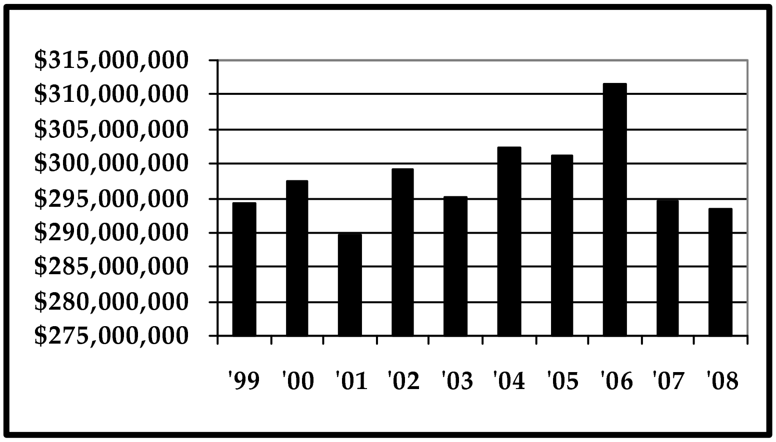
Nation/Tribe may elect to enter into a contract with the State of Oklahoma. This contract provides that the accepting tribe will not challenge the constitutionality of the motor fuel tax code and in return receives a portion of motor fuel tax revenues.

The special fuel tax is imposed on the use of special fuel (all combustible gases and liquids delivered into the tanks of vehicles in this state or imported for commercial purposes). Certain exemptions are provided. The motor fuel importer tax is imposed on all gasoline and diesel imported into the state in the fuel supply tank of motor vehicles for use in propelling the vehicles on state highways for commercial purposes. The operator of the vehicle pays the tax at the time and place of entering the state. Several exemptions are granted.

The tax on gasoline and special fuels is levied at a rate of 16 cents per gallon and the tax on diesel fuel is levied at the rate of 13 cents per gallon. In lieu of the special fuel tax, a $50 annual fee is payable by persons operating a passenger vehicle, pickup or van under one ton using liquefied petroleum gas or natural gas as fuel. In lieu of the special fuel tax, a $100 annual fee is levied on each passenger automobile and on each pickup truck or van not exceeding one ton in capacity using compressed natural gas, liquefied natural gas, methanol or "M-85" which is a mixture of methanol and gasoline containing at least 85 percent methanol, as fuel. In lieu of the special fuel tax, a $150 annual fee is levied on each vehicle exceeding one ton in capacity using liquefied petroleum gas, compressed natural gas, liquefied natural gas, methanol or "M-85" as fuel.

An additional one cent assessment per gallon is imposed on the sale of motor fuel sold to a person in Oklahoma by a distributor. This assessment was initially imposed in 1989 as a temporary revenue source to fund the cleanup of leaky underground storage tanks with the revenue going to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund. The assessment was made permanent in 1990. From June 1, 2004, until the total amount deposited in the Higher Education Facilities Revolving Fund reaches $38 million, 25 percent of the excess is to go to the Facilities Fund and 75 percent goes to the Indemnity Fund. After the $38 million threshold is reached, any excess will go to the Indemnity Fund to maintain the required maintenance level of the Fund. The first $1 million of the balance remaining goes to the Corporation Commission Storage Tank Regulation Revolving Fund with the second $1 million collected going to the Environmental Trust Revolving Fund. The remainder of the monies collected each year goes to the State Transportation Fund for the purpose of matching available federal highway construction monies. When the Indemnity Fund drops below the required maintenance level, then all monies for at least the next three months go to replenish the Indemnity Fund. At the end of the collection period, all subsequent monies are again placed in the Corporation Commission Revolving Fund, Environmental Trust Revolving Fund and the State Transportation Fund.

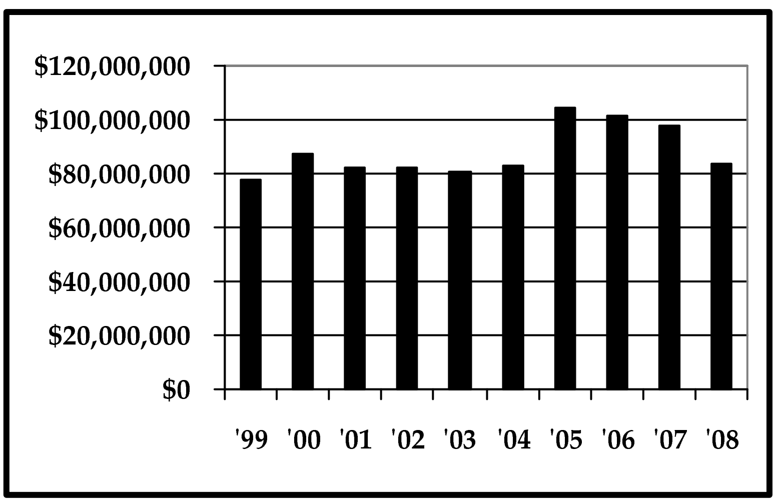
Ten-Year Gasoline Excise Tax Apportionments



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $293,556,156	FY-03 $295,106,887
FY-07 $294,636,182	FY-02 $299,103,327
FY-06 $311,671,855	FY-01 $289,717,499
FY-05 $301,261,003	FY-00 $297,503,359
FY-04 $302,366,782	FY-99 $294,267,650

Ten-Year Diesel Excise Tax Apportionments



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $83,477,265	FY-03 $80,941,228
FY-07 $97,496,406	FY-02 $82,163,419
FY-06 $101,531,874	FY-01 $82,108,662
FY-05 $104,225,332	FY-00 $87,234,773
FY-04 $83,077,590	FY-99 $77,889,784

Gasoline Excise Tax Statutory References

Levying – Title 68, Sections 500.4, 603
Apportionment – Title 68, Section 500.6

Diesel Excise Tax Statutory References

Levying – Title 68, Sections 500.4, 603
Apportionment – Title 68, Section 500.7

Franchise Tax

FY-09 Apportionment of Franchise Tax Collections

All of the revenue generated by the franchise tax is apportioned to the General Revenue Fund.

What's New

Changes for Franchise Tax

Franchise Tax Requirement – Oklahoma levies a franchise tax on all corporations or associations doing business in the state. The tax is levied against the capital employed within the state. An exemption from the payment of franchise tax has been expanded to include more corporations and associations as follows:

- Return due date is prior to July 1, 2006 – your capital is $8,000 or less, the minimum tax is $10,

- Return due date is between July 1, 2006 and December 31, 2007 – your capital is $8,000 or less, the minimum tax is $0,

- Return due date is January 1, 2008, or later – your capital is $200,000 or less, the minimum tax is $0.

History and Rate

Domestic and foreign corporations doing business in Oklahoma are subject annually to the franchise tax. Before 1963, this tax was known as the corporation license tax. The forerunner to the present tax was first imposed in 1910. From the mid-1930's, the fee was $1 per each $1,000 of value of the corporation's capital stock employed in Oklahoma. The minimum fee was set at $10 and the maximum fee set at $10,000. In 1941, the fee was increased to the current rate of $1.25 per $1,000 of capital used, invested or employed in the state. The maximum fee was increased to $15,000. In 1949, the maximum fee was increased to its current level of $20,000. For returns due July 1, 2006, or later, there is no minimum fee and a corporation is exempt from paying the tax, if the tax is $10 or less. Beginning January 1, 2008, a corporation is exempt from paying the tax, if the tax is $250 or less.

Base

Capital includes all outstanding capital stock, surplus and undivided profits, plus any evidence of indebtedness maturing more than three years after issuance. Borrowed capital, evidenced by notes maturing within three years from date of issuance, is therefore not included in the tax base. If business is transacted outside Oklahoma, or if there are assets located outside Oklahoma, capital employed is allocated to Oklahoma on the basis of the percentage that assets and business done in Oklahoma bear to the total assets and business done everywhere.

The franchise tax rate is $1.25 per $1,000 of capital employed in Oklahoma. Corporations with a tax liability of $250 or less are exempt from payment. The maximum franchise tax liability is $20,000.

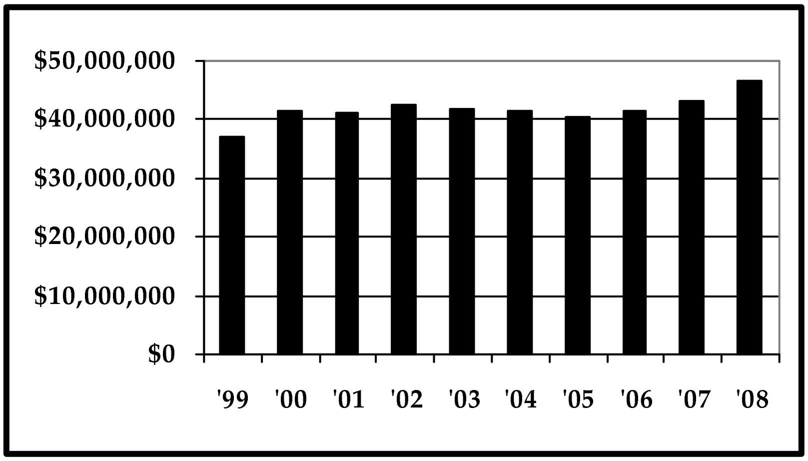
Foreign Corporations - The Secretary of State requires a corporation originated in a state other than Oklahoma to pay an annual registered agent fee of $100. The fee is remitted with the franchise tax return.

Franchise Tax Exemptions - Organizations or institutions exempt from the tax include limited liability companies (LLCs) and professional liability companies (PLCs), insurance companies, credit unions, savings and loan associations, retirement or pension funds and nonprofit organizations.

Administration

The tax becomes due and payable on July 1 of each year or at the option of the taxpayer upon the last day of the income tax year of the taxpayer. Each corporation is required to file its annual return, and if the tax liability is greater than $250, pay the tax due between July 1 to August 31 of each year or on or before the date by which an income tax return is required to be filed.

Ten-Year Franchise Tax Apportionments History



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $46,696,168	FY-03 $41,854,892
FY-07 $43,276,619	FY-02 $42,568,054
FY-06 $41,376,383	FY-01 $41,048,958
FY-05 $40,534,618	FY-00 $41,383,006
FY-04 $41,660,449	FY-99 $36,929,956

Franchise Tax Statutory References

Levying – Title 68, Sections 1203, 1204
Apportionment – Title 68, Section 1208

Estate Tax

FY-09 Apportionment of Estate Tax Collections

All of the revenue generated by the estate tax is apportioned to the General Revenue Fund.

What's New

Changes for Estate Tax

Estate Tax Exemptions – For estates of decedents dying on or after January 1, 2008, all of the property passing to the surviving spouse continues to be excluded from the determination of the gross estate for tax purposes. New in 2008, the exemption allowed to all other heirs (lineal or collateral) increased to $2 million.

History

From 1915 until 1935, an inheritance tax was levied on the transmission of property at death. An inheritance tax is a tax on the right to receive with the rate and amount of tax based upon the relationship of the beneficiary. In 1935, the inheritance tax was replaced with an estate tax which is a tax upon the net estate of the decedent. In 2006 significant changes were legislated. Under the new law, the exemption applies to the estate and is utilized by both lineal heirs (parents, children, children of husband or wife, adopted children or any lineal descendents of decedents or of adopted children) and collateral heirs (stepparents, brothers, sisters, aunts, uncles, step grandchildren, nieces, nephews, friends, pets, trusts, etc.). Also, the exemptions increase annually until the estate tax is abolished on January 1, 2010.

Base and Rates

The taxable estate is determined by establishing the value of the gross estate and subtracting allowable deductions. For the estates of a decedent, all of the property passing to the surviving spouse is excluded from the determination of the gross estate for tax purposes. The additional exemptions for decedents' estates are:

Only lineal heirs of the decedent are allowed an exemption as follows:

Time of Death	Amount of Exemption
Before 1-1-1999	$175,000
On or after 1-1-1999 and before 1-1-2000	$275,000
On or after 1-1-2000 and before 1-1-2001	$475,000
On or after 1-1-2001 and before 1-1-2002	$675,000
On or after 1-1-2002 and before 1-1-2004	$700,000
On or after 1-1-2004 and before 1-1-2005	$850,000
On or after 1-1-2005 and before 1-1-2006	$950,000
On or after 1-1-2006 and before 1-1-2007	$1,000,000

Lineal and collateral heirs of the decedent are allowed an exemption as follows:

Time of Death	Amount of Exemption
On or after 1-1-2007 and before 1-1-2008	$1 million
On or after 1-1-2008 and before 1-1-2009	$2 million
On or after 1-1-2009 and before 1-1-2010	$3 million
On or after 1-1-2010	Tax Repealed

Rates

For decedents dying before January 1, 2007:

- Lineal heirs are taxed from one-half of 1 percent to 10 percent of the net estate and
- Collateral heirs are taxed from 1 percent to 15 percent of the net estate.

Beginning January 1, 2007, both lineal heirs and collateral heirs are taxed at the same rate:

- From one-half of 1 percent to 10 percent of the net estate.

The federal unified credit is currently $2 million for 2007. Under the 2001 Tax Relief Act, this amount increases as follows:

- $2 million in 2008
- $3.5 million in 2009
- No estate tax in 2010
- $1 million in 2011*

*If Congress does not vote on federal estate taxes, the unified credit at the federal level will be reduced to $1 million in 2011.

Effective January 1, 2010, the Oklahoma estate tax is repealed and the state becomes a "federal pickup tax" state for estate tax purposes. By adopting "pickup status," the Oklahoma estate tax will be replaced by the amount of the federally allowed state death tax credit.

Administration

The estate tax is due and payable nine months after the date of the death of the decedent, unless the entire estate passes to a surviving spouse. With a written request, a six-month extension to file the return is allowed. However, the taxes must be estimated and paid with the written request.

An estate may use:

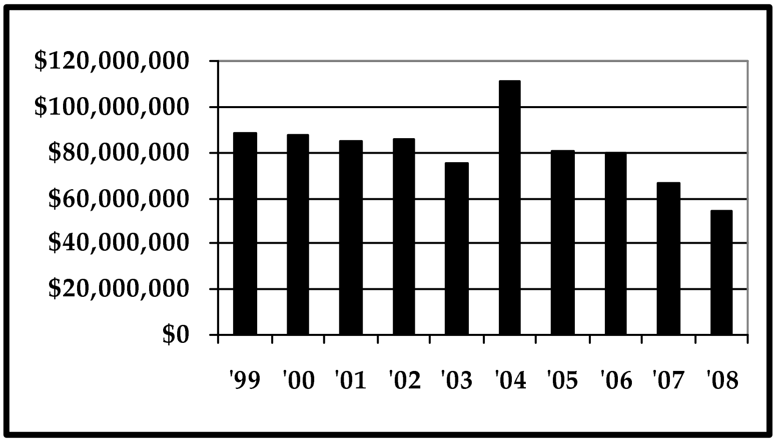
- Form 454, Oklahoma Estate Tax Form,
- Form 454-A, Affidavit of surviving spouse, or
- Form 454-B, Affidavit of lineal heirs.

The Tax Commission issues an Oklahoma Tax Release once they have completed their audit. The audit must be completed within 90 days unless the tax due is more than $500.

If an estate is probated before the court, an estate cannot be closed until the Oklahoma Tax Release is filed with the Court. In addition, the Tax Commission may place a hold on the decedent's bank accounts until the return is filed and the release issued.

In recent years, revocable living trusts are common instruments to avoid probates. It is a common misconception that living trusts avoid estate taxes. Assets held by a living trust are taxed as part of the decedent's estate. The trusts are designed to avoid probate and guardianship issues and to keep estates private, not to avoid estate taxes.

Ten-Year Estate Tax Apportionments History



Source: Oklahoma Tax Commission Apportionment Ledgers

FY-08 $54,556,781	FY-03 $74,927,778
FY-07 $66,649,822	FY-02 $85,975,592
FY-06 $80,065,460	FY-01 $84,806,373
FY-05 $80,168,739	FY-00 $87,510,065
FY-04 $111,143,287	FY-99 $88,796,014

Estate Tax Statutory References

Levying – Title 68, Section 802
Apportionment – Title 68, Section 805

Sumptuary Tax

Sumptuary taxes are intended to discourage consumption of certain goods. The state taxes falling into this category in Oklahoma are the beverage (low-point beer) tax, alcoholic beverage tax, mixed beverage gross receipts tax, cigarette tax, and tobacco products tax.

Low-Point Beverages

In 1933, the sale of low-point beverages was allowed. Low-point beverages are defined to be those beverages containing more than one-half of 1 percent of alcohol measured by volume and not more than 3 2/10 percent of alcohol measured by weight. In Oklahoma, this beverage is commonly known as 3.2 beer. The first tax was levied at a rate of $2.50 per barrel. The current rate is $11.25 per 31-gallon barrel. All of the revenue generated by this tax goes to the General Revenue Fund.

The tax must be paid by a licensed wholesaler by the tenth day of each month for the preceding calendar month. Retailers who sell low-point beverages must obtain licenses from the state, county and municipality, if applicable.

FY-09 Apportionment of Low-Point Beverages Collections

All of the revenue generated by this tax goes to the General Revenue Fund.

Alcoholic Beverages

In 1959, prohibition was repealed in Oklahoma and the constitution was amended to allow the retail sale of alcoholic beverages at package stores. The constitution gave the Legislature the authority to levy taxes upon the manufacture, possession and/or sale of intoxicating liquors. The alcoholic beverage tax is an excise tax imposed on alcoholic beverages imported or manufactured for sale, use or distribution or used or possessed in this state. In 1987, the basis for the rate of tax was changed from gallons to liters, and the rate of tax was increased by approximately 10 percent. The rates are as follows:

- Spirits - $1.47 per liter light wine – 19 cents per liter
- Wine in excess of 14 percent alcohol by volume – 37 cents per liter (19 cents per liter effective July 1, 2009)
- Sparkling wine – 55 cents per liter

- Beer (in excess of 3.2 percent) - $12.50 per 31 gallon barrel

The excise tax on alcoholic beverages is a tax levied upon the ultimate retail consumer. It is paid by the first licensee in the state importing or handling the beverages and it is passed on to the retail consumer. The package store which sells the beverage at retail and its employees must be licensed by the Alcoholic Beverage Laws Enforcement Commission.

The retail package stores may also be subject to a municipal occupation tax which cannot exceed the amount of the state license fee.

FY-09 Apportionment of Alcoholic Beverages Tax Collections

The revenue generated by this tax is apportioned as follows:

- 2/3 of 97 percent to the General Revenue Fund
- 1/3 of 97 percent to the counties on the basis of area and population, and the counties apportion to the cities and towns in the county on a population basis
- 3 percent to the Tax Commission Revolving Fund

Mixed Beverages

In 1984, the voters of Oklahoma approved changes to the constitution which allowed for liquor by the drink on a county-option basis. The constitution allows the Legislature to impose a tax on sales by the individual drink for on-premises consumption. Since July 1, 1985, a gross receipts tax has been imposed on the total gross receipts of a holder of a mixed beverage, caterer or special events license. The rate of tax is 13.5 percent. The tax applies to the sale, preparation or service of mixed beverages, the total retail value of complimentary or discounted mixed beverages, ice or non-alcoholic beverages mixed with alcoholic beverages and consumed on the premises and charges for admission to a mixed beverage establishment.

FY-09 Apportionment of Mixed Beverages Tax Collections

The revenue generated by this tax is all apportioned to the General Revenue Fund.

Cigarettes

The first cigarette license and tax law passed in 1917 provided for the licensing of dealers in cigarettes. In 1933, a cigarette stamp tax was enacted authorizing the levy of excise taxes. Effective January 1, 2005, the following tax rates apply for packages of 20 cigarettes. For packages of 25 cigarettes, the tax rate is 125 percent greater than those listed:

Non-Tribal Rate – the current cigarette excise tax is $1.03 per 20 cigarette pack or 51.5 mills per cigarette.

Original Compact Rate – the current rate is 25.75 cents per pack. This rate applies to sales on tribal trust land by tribes or their licensees with an existing state compact that provides that the applicable tax rate is 25 percent of the non-tribal sales rate.

New Compact Rate – New compacts are ones that are signed after January 1, 2003. The current rate under a new compact is 85.75 cents per pack.

Arkansas Border Rate – For tribes or tribal licensees located on tribal trust land within 20 miles of the Arkansas border, which have signed new compacts, the tax rate on cigarettes sold at these locations is 30.75 cents per pack.

Kansas Border Rate – For tribes or tribal licensees located on tribal trust land within 20 miles of the Kansas border, which have signed new compacts, the tax rate on cigarettes sold at these locations is 60.75 cents per pack.

Exception Rate – For tribes or tribal licensees located on tribal trust land within proximity of the Missouri border, the tax rate is 5.75 cents. This rate is applicable until Missouri increases its tax rate. The rate is also applicable for locations within proximity of another tribe selling cigarettes under the original compact rate.

Noncompact Rate – The current rate is 77.25 cents per pack. This rate applies to sales on tribal trust land by tribes or their licensees that do not have an existing state compact. The statutory rate provides that the applicable tax rate is 75 percent of the non-tribal tax rate.

FY-09 Apportionment of Cigarette Tax Collections

The first 23 cents of the revenue from the $1.03 non-tribal excise tax per pack of cigarettes is apportioned to the Oklahoma Building Bonds Sinking Funds. The remaining revenue from the tax is apportioned as follows:

- 22.06 percent to the Health Employee and Economy Improvement Act Revolving Fund
- 03.09 percent to the Comprehensive Cancer Center Debt Service Revolving Fund
- 07.50 percent to the Trauma Care Assistance Revolving Fund
- 03.09 percent the OSU College of Osteopathic Medicine Revolving Fund
- 26.38 percent to the Oklahoma Health Care Authority Medicaid Program Fund
- 02.65 percent to the Department of Mental Health and Substance Abuse Services Revolving Fund
- 00.44 percent to the Belle Maxine Hilliard Breast and Cervical Cancer Treatment Revolving Fund
- 01.00 percent to the Teachers' Retirement System Revolving Fund
- 02.07 percent to the Education Reform Revolving Fund
- 00.66 percent to the Tobacco Prevention and Cessation Revolving Fund
- 16.84 percent to the General Revenue Fund
- 14.22 percent to municipalities and counties that levy a sales tax (replacing lost sales tax revenue)

Tobacco Products

The Tobacco Products Stamp Tax was enacted in 1941 and imposed an excise tax on cigars, chewing tobacco and tobacco suitable for smoking. In 1985, the tax was made applicable to smokeless tobacco and snuff. On January 1, 2005, the tax rate increased on tobacco products. The rates for cigars vary according to the weight and selling price of the cigar. The rate for smoking tobacco is 80 percent of factory list price and the rate for the other tobaccos and snuff is 60 percent of factory list price.

FY-09 Apportionment of Tobacco Products Tax Collections

The revenue from the tax rates existing prior to January 1, 2005, is apportioned 100% to the General Revenue Fund, while the portion of the revenue generated by the increased tax rates is apportioned as follows:

- 22.06 percent to the Health Employee and Economy Improvement Act Revolving Fund
- 16.84 percent to the General Revenue Fund
- 14.22 percent to municipalities and counties that levy sales tax (replacing lost sales tax revenue)
- 03.09 percent to the Comprehensive Cancer Center Debt Service Revolving Fund
- 07.50 percent to the Trauma Care Assistance Revolving Fund
- 03.09 percent to the OSU College of Osteopathic Medicine Revolving Fund
- 26.38 percent to the Oklahoma Health Care Authority Medicaid Program Fund
- 02.65 percent to the Department of Mental Health and Substance Abuse Services Revolving Fund
- 00.66 percent to the Tobacco Prevention and Cessation Revolving Fund
- 00.44 percent to the Belle Maxine Hilliard Breast and Cervical Cancer Treatment Revolving Fund
- 01.00 percent to the Teachers' Retirement System Revolving Fund
- 02.07 percent to the Education Reform Revolving Fund

Miscellaneous Taxes

There are a variety of minor taxes in terms of revenue generated that are imposed in Oklahoma. These taxes are briefly summarized below. Included in this list are fees that are levied and collected by the Tax Commission.

Administered by the Oklahoma Tax Commission

Aircraft registration - Aircraft is subject to an annual registration fee which is based on weight and type of aircraft. Ninety-seven percent of the revenue generated by this tax goes to the Oklahoma Aeronautics Commission Revolving Fund and 3 percent to the General Revenue Fund.

Aircraft excise – An excise tax of 3.25 percent of the purchase price of an aircraft is levied upon the transfer of legal ownership or its first use within this state. All of the revenue goes to the Oklahoma Aeronautics Commission Revolving Fund.

Charity game – A tax is levied upon charity games at rates based on the type of charity game or charity game equipment. The tax is on bingo "faces" which are the paper cards used to play the games, the equipment used to play the game and on "break-open tickets" and U-PIK-EM bingo game sets. The tax rate is 1 cent per bingo face and U-PIK-EM bingo game set and 10 percent on the purchase price of certain charity game equipment and break-open tickets. All of the revenue goes to the General Revenue Fund.

Controlled dangerous substance – A tax is levied on controlled dangerous substances at a rate based on the type of substance. The primary purpose of the tax is to allow the criminal justice system to have another, more easily proved, felony charge against dealers. The receipts so far have been from stamp dealers who are collecting them.

All of the revenue goes to the Drug Abuse Education Revolving Fund to be expended by the State Board of Education for drug abuse education programs.

Documentary stamp – This tax is imposed on deeds or instruments conveying real estate at a rate of 75 cents for each $500 of consideration. The stamps are sold by the county clerk. Of the first 55 cents collected, the clerk retains 5 percent and 95 percent goes to the General Revenue Fund. The remaining 20 cents goes to the county general fund.

Fireworks license – Annual license fees must be paid by wholesalers, manufacturers, distributors or retailers of fireworks in this state. The amount of the fee depends on the type of license. All of the revenue goes to the General Revenue Fund.

Freight car – In lieu of ad valorem tax, owners or operators of freight cars are required to pay a tax levied at a rate of 4 percent of the gross earnings derived from the use or operation of freight cars within the state. All of the revenue goes to the Railroad Maintenance Revolving Fund for implementation of the Railroad Revitalization Act or for matching of available federal funds for at-grade railroad crossing protection projects.

Occupational health and safety – Each insurance carrier who writes workers' compensation insurance in the state, the State Insurance Fund and each self-insured employer authorized to make compensation payments directly to employees must pay a tax of up to three-fourths of 1 percent of the total workers' compensation losses excluding medical and temporary total disability compensation. All of the revenue goes to the Special Occupational Health and Safety Fund.

Pari-mutuel – Licensed racetracks are required to retain an admission tax of 10 percent on the proceeds charged for admission to a race meeting. This revenue is apportioned as follows:

- For the first 2 years of operation, 45 percent of the admission tax is apportioned to the municipality where the racetrack is located, 50 percent is apportioned to the county where the racetrack is located and 5 percent is apportioned to the General Revenue Fund.
- For the third and following years of operation, 50 percent is apportioned to the municipality where the racetrack is located and 50 percent is apportioned to the county where the racetrack is located. If the racetrack is not located in a municipality or is located in a municipality with a population of less than one thousand, 100 percent of the proceeds are distributed to the county where the racetrack is located.

Licensed racetracks are also required to retain 2 percent on the amounts wagered on both live races conducted at the track and on wagers made in Oklahoma on races which the track is receiving simulcasts. The wagering revenue goes to the General Revenue Fund.

Rural electric cooperatives – In lieu of all taxes upon their tangible and intangible property, a tax is imposed at a rate of 2 percent on the gross receipts from the sale and distribution of electric energy. Five percent of the revenue goes to the General Revenue Fund and 95 percent goes to school districts based on the ratio of the miles of lines of a cooperative in a school district to the total number of lines owned in the state by such cooperative. There is also a fee of $1 for each 100 customers which is in lieu of income and excise taxes.

Tourism promotion – Beginning July 1, 2007, the tourism tax was repealed and replaced with 0.93 percent of the sales and use tax taken from the General Revenue Fund apportionment to be deposited as follows:

- 36% Tourism Promotion Fund
- 64% Tourism Capital Improvement Fund.

Vending machines – In lieu of sales tax, an annual fee is imposed on coin-operated devices. The amount of the fee depends on the type of device. Municipalities are allowed to levy a license fee upon these devices in an amount up to 75 percent of the state fee. All of the revenue goes to the General Revenue Fund.

Administered by other than the Oklahoma Tax Commission

Workers' compensation insurance premium – All insurance carriers writing workers' compensation insurance in this state or providing a workers' compensation equivalent insurance product are required to pay a tax at a rate of 1 percent of all gross direct premiums written each quarter. All of the revenue from this tax goes to the General Revenue Fund. Until the Individual Self-Insured Guaranty Fund contains $1 million, individual self-insured employers are taxed at a rate of 1 percent of the total compensation for permanent partial disability awards paid during each quarter. All of the revenue from this tax goes to the Individual Self-Insured Guaranty Fund. Until the Group Self-Insurance Fund contains $1 million, group self-insured associations are taxed at a rate of 1 percent of the total compensation for permanent partial disability awards with the revenue going to the Group Self-Insurance Association Guaranty Fund.

Insurance Premium Tax – All insurance companies (domestic and foreign) doing business in the state are subject to an annual tax of 2.25 percent on all direct premiums, net of returned premiums and dividends to policyholders. This tax is in lieu of all other taxes except ad valorem taxes. A credit is allowed for the establishment of regional offices. Revenue generated by this tax goes to the Firefighters and Police Retirement Funds and the General Revenue Fund. This tax is administered by the Insurance Commission.

Employers Tax – The cash benefits provided through unemployment insurance are financed by taxes or "contributions" paid by employers. The range of the rates of tax varies from year to year. The standard rate of contribution is 1 percent or the average contribution rate paid for the second year preceding the current calendar year; however, most employers pay their contributions under the experience rating provisions which is a means of varying individual employers' tax rates on the basis of individual experience with employment, wage and unemployment. The Oklahoma Employment Security Commission administers this tax.

Waste tire recycling – A fee is assessed on waste tires of:

- $1 per tire is assessed, when the tire rim diameter 17.5 inches or less,
- $2.50 per tire is assessed, when the tire rim diameter is between 17.5 inches and 19.5 inches,
- $3.50 per tire is assessed when the tire rim diameter is greater than 19.5 inches, and
- $1 per tire is assessed for motorcycle, minibike, motor-driven cycles and motorized bicycle tires.

The revenue is apportioned as follows:

- 92.00 percent to the Waste Tire Recycling Indemnity Fund,
- 05.75 percent to the Department of Environmental Quality Revolving Fund, and
- 02.25 percent to the Oklahoma Tax Commission Fund.

The Waste Tire Recycling Indemnity Fund is disbursed to persons recycling waste tires and to persons using processed waste tires to provide energy, as a part of a product, or to control erosion.

Local Taxation

Local governments in Oklahoma are limited in the number of sources of revenue available for funding their general operations. Municipalities and counties both receive revenue dedicated from certain state taxes. Most of this revenue comes from motor fuel taxes and vehicle registration taxes and fees and is to be used for road and street maintenance. In terms of the tax sources that the local governments have, the ad valorem tax provides the majority of funding for general county government operations, while the sales tax is the principal funding source for municipalities.

Ad Valorem Taxation

History

Oklahoma has had an ad valorem tax system since statehood in 1907. In 1911, the Legislature abolished township assessors and provided for a scheme of elected county assessors. In 1933, an amendment to the Oklahoma Constitution was adopted which prohibited the state from using ad valorem tax revenue. This change, still in effect, means that ad valorem taxes are used only at the local level for local expenditures.

Base

Ad valorem taxation is also known as property taxation. Ad valorem is a Latin term that means "according to value" and it is upon the economic value of real property (land and things affixed to land) and personal property (movable items) on which ad valorem taxes are imposed. The first step in the process is to determine the fair cash value of the real or personal property. Basically, the value is supposed to reflect what a willing buyer would pay and willing seller would accept for the property. The Oklahoma Constitution requires real property to be assessed at the percentage of its fair cash value for the highest and best use for which the property was actually used or classified for use. This is known as "use valuation." County assessors are responsible for determining this value for most types of taxable property in the county. Taxpayers are required by law to report values of personal property to the assessor, but the assessor is still responsible for valuation of personal property. The fair cash value of household goods is 10 percent of the appraised value of the improvements to the real estate (house). If the taxpayer disagrees with this value, then the taxpayer has the option to list the taxpayer's household goods with the assessor. Counties do have the option to exempt certain personal property from taxation. The Oklahoma Constitution provides that a county may exempt household goods and livestock from property tax upon voter approval. A formula is provided to adjust the millage rates in order to replace the revenue lost from the exemption. Currently 47 counties have exempted household goods and livestock from the ad valorem tax. The property of public service corporations, such as utility companies, railroads and others, is valued by the Oklahoma Tax Commission acting for the State Board of Equalization.

County assessors are required to establish a program in which there is an individual inspection of all taxable real property at least once each four years. Information gathered in the visual or physical inspection process is used to make estimates of the fair cash values of taxable property by the use of accepted mass appraisal methodology. The Tax Commission monitors the progress of valuation in each county as it occurs and is required to establish three categories of noncompliance as part of this monitoring process.

After a value is established for property, this value is reduced by an assessment percentage, also known as the assessment ratio. The Oklahoma Constitution sets the range of assessment ratios for locally assessed real property at 11 percent to 13.5 percent and the range for locally assessed personal property at 10 percent to 15 percent. The Oklahoma Constitution specifies that the ratio for property assessed by the State Board of Equalization is set at its ratio as of January 1, 1996, which is 22.85 percent for public service corporation properties and 11.64 percent for airline and railroad properties. The ratio for locally assessed real and tangible personal property can be increased upon voter approval. This ratio cannot be increased within the constitutional range by more than one percentage point per year. After the assessment percentage is applied, an assessed value results. After subtracting certain exemptions, the net assessed value is determined. After the values are established, the tax rolls are prepared and the millage levies are applied to the assessed values. One mill is equal to $1 of tax liability for each $1,000 of assessed valuation. The county treasurer collects the tax revenue and distributes the tax dollars to the governmental entities entitled to the revenue. The amount of money that a county, city, town, school district or other taxing unit derives from ad valorem taxes depends upon the assessed value of all property within its geographical boundary and the number of mills the tax unit is authorized to levy.

The Oklahoma Constitution provides that the fair cash value of any parcel of locally assessed real property cannot be increased by more than 5 percent in any taxable year. This cap shall not apply in any year when title to the property is transferred, changed or conveyed to another person or when improvements have been made to the property. Counties not in compliance with laws or regulations governing the valuation of locally assessed real property are not subject to the cap until the county is deemed in compliance. The cap does not apply to personal property or public service corporation property.

Tax Rates

Tax rates are commonly referred to as mill levies; a mill is one-tenth of a cent. A one mill levy means that the taxpayer owes $1 for every $1,000 in taxable property value. The rate applied usually represents an aggregation of the various rates of different taxing jurisdictions where the property is located. Later in this section the various authorized millage rates are listed.

Exemptions

Homestead exemption

Homestead exemption and credit programs are the most widely used forms of property tax relief. Forty-eight states and the District of Columbia make homestead exemptions or credits available to at least one class of qualified homeowners. Only Missouri and North Dakota have no homestead exemption programs. In the states with programs, veterans and the disabled are the most common recipients of tax relief.

Oklahoma has allowed a homestead exemption since 1935. Taxpayers who qualify may deduct $1,000 from the assessed value of the homestead property (such as the principal residence and land upon which it is located). The additional homestead exemption allows a qualifying taxpayer to deduct an additional $1,000 from the assessed valuation of the homestead. This exemption is available to persons with a gross household income of $20,000 or less. Another form of tax relief is contained in the "circuit-breaker" provision in which a qualified taxpayer can obtain a refund of property taxes paid in excess of 1 percent of income subject to a limit of $200. This form of relief is designed to assist persons with disabilities or persons age 65 years or older whose gross household income is $12,000 or less.

Effective January 1, 2006, veterans with a 100 percent disability are entitled to an ad valorem tax exemption for the full amount of the fair cash value of their homestead.

Manufactured Home Exemption

Persons age 62 years or older with a gross household income of $10,000 or less who own and reside in a manufactured home which is located on land not owned by the owner of the manufactured home may receive a property tax exemption on the manufactured home in an amount equal to $2,000.

Persons age 65 years or older with a gross household income that does not exceed the estimated median income for such county or statistical area, which includes such county, is eligible to have the fair cash value of their homestead frozen. The freeze remains in place until the owner dies, the owner's income exceeds the qualifying amount or the ownership of property is changed.

Qualified Manufacturing Facilities Exemption

The Oklahoma Constitution provides that certain property, such as property owned by government entities and intangible property, is exempt from ad valorem taxation. In addition, the Oklahoma Constitution provides a limited five-year exemption from ad valorem taxes to qualified manufacturing facilities. The state is required to reimburse ad valorem recipients for revenues lost to such recipients as a result of this exemption. The Legislature is required to define "qualified manufacturing facilities" for purposes of this exemption.

Circuit Breaker Programs

Another form of tax relief is contained in the "circuit breaker" provision. Circuit breaker programs are property tax relief programs that target relief to low and moderate income homeowners and sometimes renters. Program specifics vary by state, but, in general, benefits are inversely proportional to income, meaning as income increases, benefits decline. Most states set a maximum income above which homeowners and renters may not qualify for the program. However, a few states set an asset limit instead.

In Oklahoma, any person:

- 65 years of age or older or any totally disabled person,
- Who is head of a household,
- A resident of the state during the entire preceding calendar year, and
- Whose gross household income did not exceed $12,000,

may receive an income-tax credit up to a maximum of $200.

Deferral Programs

Property tax deferral programs allow low-income elderly homeowners to defer payment of property taxes. Deferral programs are available to homeowners in 24 states and the District of Columbia, although in six of these states the programs are offered at the option of local governments. Currently, Oklahoma does not have a tax deferral program.

Other County Taxation

Beginning January 1, 1984, counties with a population of 300,000 or less were given the authority to levy a sales tax not to exceed 2 percent upon the gross proceeds or gross receipts derived from all sales or services in the county upon which a consumer's sales tax is levied by the state. Effective September 1, 1994, counties with a population in excess of 300,000 were granted the authority to levy this sales tax. Before the tax may be levied by the county, the imposition of the tax must first be approved by a majority of the registered voters of the county voting at such election. If the issue fails, it may not be brought up for another vote for six months. The sales tax must be designated for a particular purpose, including but not limited to, general operations, capital improvements, county roads or any other purpose deemed by a majority vote of the board of county commissioners as necessary to promote safety, security and the general wellbeing of the county. The life of the tax may be either limited or unlimited in duration and must be identified when presented to the voters. Currently 74 counties levy a county sales tax.

Counties levying a sales tax may levy a county use tax upon resolution of the board of county commissioners at a rate not to exceed the rate of that county's sales tax. Currently, 66 counties levy a county use tax.

Counties with a population of less than 200,000 may levy a lodging tax at a rate not to exceed 5 percent upon voter approval. This tax is not applicable to the furnishing of public lodging in the corporate limits of a municipality in any county which has levied a lodging tax. Currently, nine counties levy a lodging tax.

The real estate mortgage tax is levied and collected by the county. The tax on real estate mortgages is a variable rate based on the length of the mortgage. The revenue generated by this tax goes to the common schools in the county. In addition, a fee of $5 is collected by the county treasurer on each mortgage presented for certification. All of this revenue goes to the county general fund and is appropriated to the county treasurer.

Tax Increment Financing

Tax increment financing (TIF) is another way that property tax breaks are used as economic development incentives. Under state statutory guidelines, a TIF district designates a TIF zone. Property values are assessed and recorded at current values. The taxing authorities then identify a pool of money from existing public funds or issue bonds to generate cash that, in turn, is used to make physical improvements within the TIF zone. Once such improvements are made, presumably business activity will increase within the TIF district and property values will rise. The resulting increase in tax revenue over pre-TIF levels is captured and used to pay back the bonds or TIF fund. TIF use by local governments has grown steadily during the last three decades. Forty-eight states and the District of Columbia authorize the use of TIF; only North Carolina and West Virginia do not.

Municipal Taxation

Municipalities were given the authority in 1963 to assess, levy and collect for purposes of municipal government any type of tax which the Legislature may levy and collect except for ad valorem and sales taxes. In 1965 the prohibition against sales tax was removed. Since then, the sales tax has become the primary source of revenue for municipalities in Oklahoma. Currently, approximately 505 cities and towns levy a sales tax. The imposition of the tax or any changes in the rate must be approved by a majority vote of the registered voters of the municipality voting at such election. If the question fails, it may not be resubmitted within six months following its defeat. There is no limit on the rate that may be imposed by municipalities. Currently the municipal rates in Oklahoma range from one-quarter of one percent to 5 percent.

Municipalities are allowed to enter into a contract with the Oklahoma Tax Commission whereby the Commission administers and collects the local sales tax and remits net revenues to the municipality. Under the terms of this contract, municipal sales taxes must apply to the same items as the state sales tax and for the most part carry the same exemptions. The Oklahoma Tax Commission is allowed to retain, depending on the rate of tax, up to 1.75 percent of the gross collections from the municipal sales tax.

In 1980, municipalities levying a sales tax were given the authority to levy a municipal use tax on out-of-state purchases of tangible personal property at a rate not to exceed the municipal sales tax rate. This tax only applied to transactions in excess of $5,000. Effective January 1, 1985, the $5,000 stipulation was removed so all transactions would be subject to the tax. Currently, approximately 361 municipalities levy the use tax.

Municipalities are authorized to levy and assess by ordinance an annual tax upon the gross receipts from residential and commercial sales of utilities at a rate not to exceed 2 percent. The tax is in lieu of any other franchise, license or excise tax levied by such city or town and it shall not apply to any firm or corporation operating under a valid franchise from such city or town. This tax is rarely utilized since most gas and electric companies operate under a valid franchise. However, in these situations the franchise agreement provides that the utility pays a franchise fee to the municipality similar to the tax.

In addition, municipalities are authorized to tax specific trades and occupations. There is no statutory limitation on the amount of the tax.

Other County and Municipal Taxation

Municipalities and counties are authorized to jointly create a transportation authority for the purpose of planning, financing and constructing transportation-related projects located within the boundaries of these local governments. A transportation authority may levy a sales tax, not to exceed 2 percent, upon voter approval in each of the local governments comprising the authority. Municipalities and counties are authorized to jointly create a hospital authority for the purpose of planning, financing and constructing a hospital or related medical facilities. A hospital authority may levy a sales tax, not to exceed 2 percent, upon voter approval in each of the local governments comprising the authority.

A provision in the Oklahoma Constitution gives the Legislature the authority to write laws to give municipalities and counties the ability to provide various forms of tax relief for historic preservation, reinvestment or enterprise areas that are exhibiting economic stagnation or decline; the authority to use tax increment financing; and the authority to plan, finance and carry out the development or redevelopment of areas determined to be unproductive, undeveloped, underdeveloped or blighted. The Local Development Act is the enabling legislation for this positional provision, and it provides the framework and procedures that are to be followed when using increment financing or when granting exemptions or incentives.

Administration of State Taxes

The Oklahoma Tax Commission is the state agency charged with the administration and enforcement of state tax laws and the collection of a majority of all state-levied taxes and fees. The Commission is responsible for apportioning tax revenues to various state funds and for allocating directly to local units of government certain state-collected levies earmarked to these governments. The Commission was established in 1931. The Commission is composed of three members who are appointed by the Governor by and with the consent of the State Senate. The current members are Thomas E. Kemp, Jr., Chairman; Jerry Johnson, Vice-Chairman; and Constance Irby, Secretary-Member.

No more than two members of the Commission can be from the same political party. Terms are for six years and are set up so terms expire at two-year intervals. Commissioners may be removed only for cause and in the manner provided by law for the removal of state officials not subject to impeachment. The commissioners serve equally in an administrative and quasi-judicial capacity. The members of the Commission serve on a full-time basis and their salaries are statutory. There is an administrator who serves at the pleasure of the Commission. The administrator manages the activities of the Commission's employees and is the administrative officer of the Commission. In addition to the daily administration of the various state taxes, the Commission spends a great deal of its time collecting and enforcing these taxes. In recent years, an effort has been made to increase collections. The Commission has been given additional employees, and many laws have been strengthened in order to achieve this goal.

The Commission is required by law to prepare a report on all provisions of state tax law that reduce state revenue through exclusion, deductions, credits, exemptions, deferrals or other preferential tax treatments. This tax expenditure report includes the Commission's best estimate of the amount of state revenue that would have been collected but for the existence of each preferential tax treatment allowed by law for the previous year. This report is published every other year.

Property taxes are administered at the local level. Each county has an assessor that levies the tax and a treasurer to collect the tax. The Tax Commission assists the counties and values public service property for the counties. In the area of ad valorem taxation, the Commission provides technical assistance to county assessors and information to the State Board of Equalization as to the adjustment and equalization of the valuation of real and personal properties of the counties and as to the valuation of public service corporations. The Commission allocates directly to local units of a government certain state tax revenue earmarked to counties, cities and school districts. The Commission enters into contracts with municipalities and counties for the administration, collection, enforcement and distribution of city and county sales and use taxes.

The majority of motor vehicle registration taxes and fees are collected by motor license agents; however, the Commission takes an active role in the administration of the motor vehicle registration system. The Commission appoints the motor license agents in accordance with statutes and rules and regulations. Also the Commission promulgates rules for the motor license agents to follow in their daily operations.

State Tax Burden

State tax burden is a concept used in judging how much people in one state pay in taxes compared to what people pay in another state or in other states.

There are many ways to measure tax burden and make comparisons. Just as a person cannot know what a measurement of length means unless it is expressed in feet, yards, meters, or some other standard, a person cannot know what the tax burden means unless the measuring device is explicitly defined. A person also needs to know whether the measuring device is appropriate.

Tax burden comparisons based on a combination of state and local tax payments are thought to be the most reliable for interstate comparisons. This measure avoids distortion of the information when comparing states supporting more local government activities from state taxes than other states do.

The following are several different measures of Oklahoma's tax burden compared to the states in the region.

Measures of Comparative Tax Burden

1. **Per Capita Taxes** – The dollars collected in state and local taxes are divided equally among the state population. It is the most common comparison.

2. **State and Local Taxes per $1,000 of Personal Income** – Taxes per $1,000 of personal income provides a different measure of tax burden. This measure does not adjust for cost of living differences among states or for exportation of tax burden outside the state. This measure relates tax burden to state resources.

1. The following data is the state and local taxes on a per capita basis for the states in our region.

State and Local Taxes Per Capita Tax Burden FY-07

Rank	State	Per Capita Tax Burden	Per Capita Income
	U. S. Average	$4,422	$40,348
17	Colorado	$4,509	$43,512
21	Kansas	$4,330	$38,732
28	Louisiana	$3,808	$34,501
31	Missouri	$3,678	$36,341
36	Texas	$3,533	$38,005
38	Arkansas	$3,514	$31,145
45	New Mexico	$3,251	$33,163
46	**Oklahoma**	$3,248	$36,077

Source: Tax Foundation

2. The following data is the percent of state and local taxes per $1,000 of personal income:

State and Local Tax Burden as a Percentage of Income FY-07

Rank	State	Tax Burden as a Percentage of Income	Per Capita Income
	U. S. Average	11.0%	$40,348
13	Arkansas	11.3%	$31,145
15	Kansas	11.2%	$38,732
17	Louisiana	11.0%	$34,501
30	Colorado	10.4%	$43,512
34	Missouri	10.1%	$36,341
40	New Mexico	9.9%	$33,163
43	Texas	9.3%	$38,005
45	**Oklahoma**	9.0%	$36,077

Source: Tax Foundation

Glossary of Terms

Ad valorem: According to value; ad valorem taxes are levied according to the economic value of real or personal property.

Ad Valorem Reimbursement Fund: Monies apportioned to the fund are used to reimburse counties for the loss of revenue due to:

- The five year ad valorem tax exemption for new or expanding manufacturing facilities,
- The additional $1,000 homestead exemption to low-income home owners, and
- To the decreased valuation and assessment because of buffer strips.

Assessed Valuation: The value of property after applying an assessment percentage to its fair cash or market value.

Assessment Percentage: An expression of the relationship of assessed value of property to its fair cash value; the percentage or factor used to compute assessed valuation.

Board of Equalization: A constitutional body, the Board of Equalization is made up of the Governor, Lieutenant Governor, State Treasurer, State Auditor and Inspector, Attorney General, Superintendent of Public Instruction, and President of the State Board of Agriculture.

The Board's chief involvement with the appropriations process is the certification of funds available for appropriation.

As revised in 1985, the Oklahoma Constitution requires the Board of Equalization to estimate revenues to appropriated funds for an ensuing fiscal year and to certify that 95 percent of the estate for each fund is available for appropriation. This is done annually 30-45 days before the beginning of the legislative session, and the estimate and certified appropriation level may be revised by the Board of Equalization in the following February. Also in February, the Board is to set the appropriation ceiling for the then-current legislative session. According to the constitution, the Legislature may increase its appropriations over those of the previous session by only 12 percent adjusted for inflation.

The 5 percent of the estimated revenue to each fund that was certified for appropriation serves as a cushion against overestimation. Monies collected in excess of the certified level may be appropriated by the succeeding legislative session.

Revenues accruing to the General Revenue Fund in excess of the total estimate will be automatically deposited into the Constitutional Reserve Fund, or Rainy Day Fund, and held for future shortfalls or state emergencies. Monies accruing to funds other than General Revenue will remain in those funds and may be appropriated as cash in the succeeding legislative session.

The Board also has duties regarding the equalization of ad valorem taxes among the counties.

Circuit Breaker: A form of property tax relief that permits eligible taxpayers to receive a refund of property taxes paid in excess of a percentage of income.

Education Reform Revolving Fund: Monies apportioned to the fund are for education reform purposes required by House Bill 1017 in 1990.

Estate Tax: A death tax based on the total value of the decedent's estate regardless of the relationship of beneficiaries to the decedent.

Excise Tax: A tax on the manufacture, extraction, sale or consumption of commodities or upon certain businesses or occupations.

Fair Cash Value: A term used to describe the economic value of property for ad valorem tax purposes; the price at which a willing buyer and willing seller would enter into a contract for sale of property if neither party was under any undue pressure to buy or sell.

Fiscal Year (FY): The 12-month period beginning July 1 and ending June 30 which is used by the state government for accounting and budgetary purposes. Fiscal years are designated according to the year in which they end (e.g., fiscal year 2008 (FY-08) runs from July 1, 2007, to June 30, 2008).

Homestead Exemption: The assessed value of the principal residence and certain amounts of land upon which the residence is located can be reduced by $1,000.

Income Tax: A tax measured by income (typically net income).

In Lieu Tax: A tax or fee imposed in the place of another tax or fee.

General Revenue Fund: The fund is established by Article 10, Section 2 of the Oklahoma Constitution. The fund is the principal funding source for state government operations. State taxes, fees and charges, and proceeds from investments make up the revenue to the General Revenue Fund. The fund's resources are used for any purpose specified by legislative appropriation. All monies collected that are not dedicated to another fund are deposited into the General Revenue Fund.

Levy: Refers to millage or the act of multiplying millage by assessed valuation in order to compute the dollar amount of taxes for which property is liable.

Mill, Mills, Millage: One mill is one-tenth of one cent, one thousandth of a dollar or one dollar of taxes for each $1,000 of assessed valuation; written as a decimal = .001.

Net Assessed Valuation: The value used for calculating tax liability in ad valorem taxation; it represents the value after subtracting any available homestead exemptions.

Public Transit Revolving Fund: Monies are used for the local share or matching funds for federal capital or operating grants provided that 50 percent of the monies received will be used for benefit of the elderly and the handicapped.

Rebuilding Oklahoma Access and Driver Safety Fund: Monies are used for the construction and maintenance of state roads, bridges and highways, including the direct expenses of operating and maintaining the state highway system, including bridges; the direct expenses incurred in constructing, repairing and maintaining state highways, farm-to-market roads, county highways and bridges as authorized by law; matching federal funds; the purchase of materials, tools, machinery, motor vehicles and equipment for the construction or maintenance of the state highway system and bridges and debt service incurred prior to January 1, 2006, for Capitol Improvement Program bonds.

Revenue: All amounts of money received by a government from external sources.

Revolving Fund: A fund created statutorily or by inference to finance and account for a particular department's or division's work. Fund expenses are repaid from fees or other fund transfers, thus keeping the original fund intact. Revolving funds are continuing funds and not subject to fiscal year limitations. Agencies generally exercise greater control over the expenditure of revolving funds than they may over their appropriated dollars.

Sales Tax: A type of excise tax based on the sale at retail of certain specified goods or services in Oklahoma and added to the price of goods and borne by the consumer.

Severance Tax: A type of excise tax imposed on the privilege of severing or removing a mineral or natural resource from the ground or water.

State Board of Equalization: A board set up by the Oklahoma Constitution that is responsible for adjusting and equalizing property value between the various counties.

Tax Base: The value or unit of measure against which a tax is levied.

Tax Credit: A method to reduce tax liability which is applied after the net amount of tax due is determined.

Tax Deduction: Reductions for specified items that are allowed or deducted before calculating the tax due.

Tax: Compulsory contributions exacted by a government for public purposes.

Tax Exemption: Flat allowances deducted from the tax base.

Tax Commission: The state agency responsible for the administration of most of the major state taxes.

Teachers' Retirement System Dedicated Revenue Revolving Fund: Monies apportioned to the fund are used to fund the Teachers' Retirement System.

Tourism & Passenger Rail Revolving Fund: Monies are used to contract railroad passenger services and to provide necessary facilities, signaling and track improvements for those services.

Use Value or Use Valuation: A requirement of the Oklahoma Constitution that property be valued on the basis of the use actually made or the highest use that could have been made in the previous year for the property; use valuation is associated with agricultural land valuation.

Use Tax: An excise tax levied on the use, storage or consumption of property within a state; the tax is complementary to the sales tax.

Workers' Compensation Administration Fund: This appropriated fund, as created by Section 177 of Title 85 of the Oklahoma Statutes, is used to finance the operations of the Workers' Compensation Court. The sources of revenue for this fund are a premium tax levied against workers' compensation insurance carriers as well as self-insured employers and various fees levied by the Workers' Compensation Court. Due to the instability in the fund's revenue sources, it was abolished as a funding source for FY-98. The premium tax levy was redirected into the General Revenue Fund. Likewise, the fees were redirected to deposit into the Workers' Compensation Court Fund.