



Oklahoma Economic Report™

State Treasurer Randy McDaniel

News and analysis of Oklahoma's economy • A publication of the State Treasurer's Office

The growing significance of use tax

Due to a number of factors, use tax is quickly becoming a significant revenue source for the state of Oklahoma.

Last fiscal year, FY-19, use tax generated \$684.8 million in gross collections. That is an increase of more than 36 percent from the previous fiscal year and is 32 percent more than gross receipts from the corporate income tax.

About 55 percent of use tax collections

is retained by the state, with the remainder passed on to counties and municipalities.

Use tax defined

Use tax is sales tax owed on out-of-state purchases that are shipped to the buyer.

The use tax, which is the same rate

as the sales tax, is meant to ensure uniformity of taxation and to prevent tax avoidance by the purchase of items from another state with lower or no sales tax.

“ In FY-19, gross use tax collections were \$684.8 million, up by 36 percent.”

When the online seller does not

SEE USE TAX PAGE 3

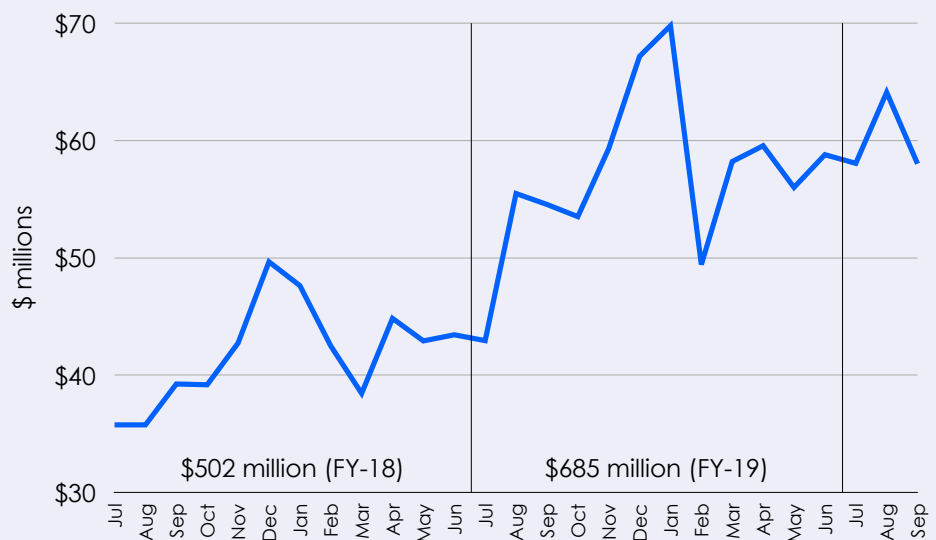
Contents

- Guest commentary by Lt. Gov. Matt Pinnell: Modernizing tourism and developing the economy
- Spotlight on Financial Literacy: Importance of Financial Planning
- Monthly oil and gas tax collections drop
- State jobless rate unchanged for fifth consecutive month
- Economic Indicators

Editor

Tim Allen, Deputy Treasurer for Communications and Program Administration

Use Tax Collections Climb



Source: Oklahoma Tax Commission



Guest Commentary

By Matt Pinnell,
Oklahoma Lieutenant Governor

Modernizing tourism and developing the economy

Since taking office earlier this year as our state’s seventeenth Lt. Governor, we have hit the ground running with a heavy focus on tourism, economic development, and branding. Shortly after being inaugurated, Governor Stitt named me to his cabinet as Secretary of Tourism and Branding.

In recent months, we have taken major strides in modernizing the Oklahoma Tourism and Recreation Department, and especially our state parks system. For the first time in history, visitors to our state parks can now use an online registration system for camping and RV spots. Additionally, our Oklahoma state parks now accept credit card payments, where cash had previously been the only payment

accepted. And in cooperation with our new Executive Director of the Tourism Department, we will soon be unveiling a master plan that ensures the stability and success of our state parks.

“I am doing everything in my power to foster a climate that allows our entrepreneurs to not only start their business in Oklahoma, but grow it and ensure they are well funded as they continue to grow.”

I’ve often said that tourism is the front door to economic development. Getting people off of our roads and bridges to spend money in our communities has a major economic impact. Last year, there was a total of \$8.6 billion in direct visitor travel spending, which resulted in nearly \$650 million in local and state sales tax revenue in Oklahoma. When we’re talking about tourism, we’re talking about major revenue to our state.

When Governor Stitt named me to his cabinet, it was in the unique and



unprecedented role of Secretary of Tourism and Branding. While our most well-known branding effort in recent years is “Oklahoma is OK!” the truth is we have largely gone unbranded for many years. So, this summer we collected over 100 of the brightest marketing, design, and PR experts in our state for a collective effort to develop a new logo, slogan, and brand. Tangible items such as Welcome to Oklahoma signage and new license plates are likely as a result of this branding campaign. These might seem like small things, but I contend they are not. First impressions matter, and if we are not defining our state to visitors and potential job creators, the rest of the country will define our state for us. I’m proud of the work our team has done on this effort, and I’m excited to launch the new brand sometime next year.

The other focus of mine since
SEE PINNELL PAGE 3



Pinnell

FROM PAGE 2

taking office has been economic development. More and better-paying jobs are what fuels our economy and allows our state the resources to improve our schools, infrastructure, and vital social services. I serve on the Department of Commerce Executive Committee, and in that role I have focused on small business and entrepreneurship. Over 52 percent of Oklahomans are employed by small business, so they truly are the

backbone of our economy. Ensuring that these small businesses can thrive and expand is a top priority. Our entrepreneurs are some of the most innovative and cutting-edge components of our economy. Who knows when and where the next Apple or Google will be created. I am doing everything in my power to foster a climate that allows our entrepreneurs to not only start their business in Oklahoma, but grow it and ensure they are well-funded as they continue to grow. Workforce plays a critical role in

all of this, and it will take all hands on deck to get us where we need to be, from career tech, to higher education, to a strong internship and apprenticeship culture.

The first ten months have taken me all across Oklahoma to discuss these priorities and more. I'm proud of the work we've done in the first year, and I'm excited about the potential for the next three years. I remain grateful and humbled to serve as your Lt. Governor.

Use tax

FROM PAGE 1

collect use tax on internet purchases, the tax is still owed.

State law has long required individual taxpayers to voluntarily remit use tax owed on out-of-state purchases through their income tax returns. But in 2017, the effort resulted in only \$4.4 million in collections.

Why the increase?

Two factors are primarily driving the growth in use tax collections – increased compliance and the ongoing expansion of internet purchases.

The use tax rate is not a factor in the growth. Oklahoma's sales and use tax rate has been the same – 4.5 percent – for almost 30 years. Many county and municipal rates have changed during

those years, but those changes have been gradual.

Use of the internet to make consumer purchases is a driver, but it, too, is a measured growth. The U.S. Department of Commerce estimates that nationwide internet purchases accounted for 14.3 percent of retail sales in 2018, up from 12.9 percent in 2017, and 11.6 percent in 2016.

None of those data points come close to explaining a 36 percent one-year increase in use tax receipts.

Consider this: Between July 1, 2018 and July 1, 2019, the number of remote sellers collecting and remitting use tax to the Oklahoma Tax Commission increased by 4,334. Those new sellers, alone, collected

\$44.4 million in state taxes during FY-19.

The catalysts

Three events, one at the United States Supreme Court, one involving cooperation among the states, and the other in the Oklahoma Legislature, were the catalysts in boosting use tax collections this past fiscal year.

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that a state could not require a vendor to collect its tax unless the vendor had a physical presence in the state. Therefore, internet and other remote retailers were able to make sales for shipment into Oklahoma without charging and collecting tax from state residents.

SEE USE TAX PAGE 4

Opinions and positions cited in the *Oklahoma Economic Report™* are not necessarily those of Oklahoma State Treasurer Randy McDaniel or his staff, with the exception of the *Treasurer's Commentary*, which is, of course, the viewpoint of the treasurer.



Use tax

FROM PAGE 3

In 2016, South Dakota passed a law that required out-of-state sellers to collect and remit sales tax, “as if the seller had a physical presence in the state.”

The obligation on out-of-state retailers applied only if, on an annual basis, the retailer delivered more than \$100,000 of goods or services or engaged in 200 or more separate transactions for delivery into the state.

Wayfair, Inc. sued South Dakota to challenge the constitutionality of the law. In June 2018, the Court overturned its previous decision in *Quill* and held, “the physical presence rule of *Quill* is unsound and incorrect.” As a result of the ruling, Oklahoma was free to require internet retailers to charge and collect its tax.

To encourage voluntary collection and remittance of taxes by out-of-state vendors, many states came together in 1999 to simplify and modernize sales and use tax collection.

Oklahoma was a key player in the Streamlined Sales and Use Tax Agreement that currently involves 24 full member states. Approximately 6,500 sellers are registered under the agreement. As a member, Oklahoma received about \$33.5 million in state tax collections in FY-19 from these sellers.

In a recent special session, the Legislature enacted House Bill 1019 to require companies that host third-party internet sellers to collect and remit use tax from those third parties. As a result, in FY-19 the tax commission collected an additional \$36.9 million.

Spotlight on Financial Literacy

Importance of Financial Planning

Financial planning helps consumers determine whether they are on track to meet their goals and outlines their path to overall financial success.

Today financial advisors face the challenge of providing services to address consumers' complicated financial lives and meeting their demands for fee transparency and value.

1. How much should I save for retirement?
2. What is the amount of life insurance that I need?
3. What type of investments should I own?
4. Can we afford a new house?
5. Is there a way we can save on taxes?

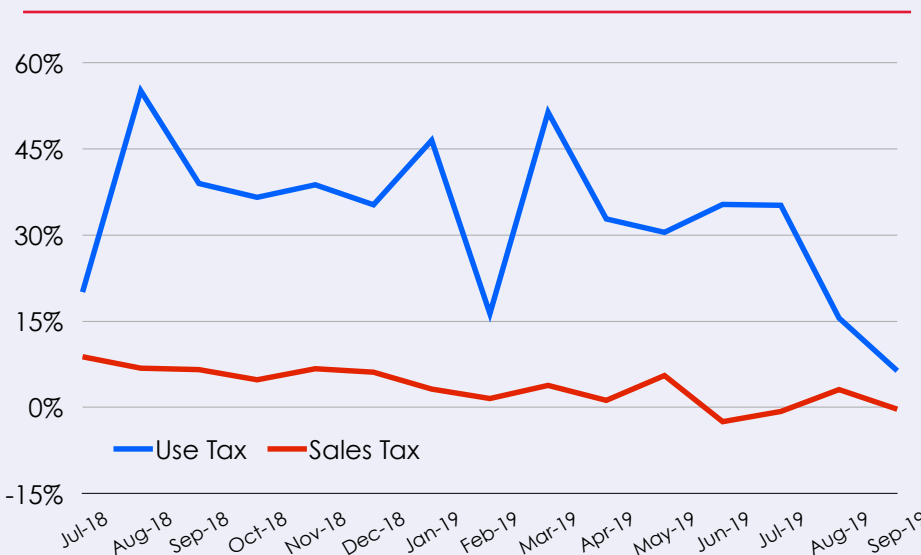
Most consumers do not have the time to answer these questions and manage their financial needs without a financial advisor that can take the time to understand their total financial picture.

If financial advisors are going to sustain the value they want to deliver and earn the fees they need to run their businesses, they will have to offer more than just investment management.

Learn more at [Forbes](https://www.forbes.com).

Sales Tax vs. Use Tax Collections

Percentage change from same month of prior year



Source: Oklahoma Tax Commission



September Gross Receipts to the Treasury & General Revenue compared

September Gross Receipts to the Treasury totaled \$1.16 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$554.3 million, or 47.9%, of the total.

The GRF received between 39.7% and 59% of monthly gross receipts during the past 12 months.

From September gross receipts, the GRF received:

- Individual income tax: 74.6%
- Corporate income tax: 72.8%
- Sales tax: 38.8%
- Use tax: 42.8%
- Gross production-Gas: 73.3%
- Gross production-Oil: 0.1%
- Motor vehicle tax: 3.9%
- Other sources: 29.2%

September GRF allocations were below the estimate by 6.2%.

September insurance premium taxes totaled \$63.5 million, an increase of \$8 million, or 14.4%, from the prior year.

Tribal gaming fees generated \$13.7 million during the month, up by \$1.2 million, or 9.8%, from September 2018.

Monthly oil and gas tax collections drop

September Gross Receipts to the Treasury showed modest overall growth, State Treasurer Randy McDaniel announced. The increase was less than one percent, driven by a downturn in oil and gas tax collections and a drop in sales tax revenues.

up from the same month of the prior year by \$3.8 million, or 0.3 percent.

It is the smallest amount of growth in 30 months.

“Growth in the state’s economy has leveled off in recent months primarily due to a decline in oil field activity.”

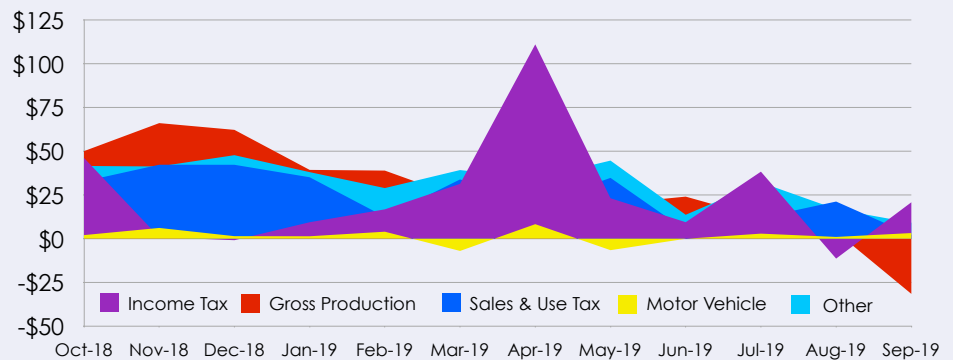
“On a positive note, Gross Receipts to the Treasury show improvement continues with stable expansion in income, motor vehicle, and use tax

receipts,” McDaniel said. “However, the report also indicates that growth

SEE REVENUE PAGE 6

Total monthly gross receipts from all revenue sources were \$1.16 billion,

Monthly Gross Receipts vs. Prior Year



(In \$ millions)	September-18	September-19	Variance From Prior Year	
Total Income Tax	410.0	430.8	20.8	5.1%
Individual	320.3	337.4	17.1	5.3%
Corporate	89.7	93.4	3.7	4.2%
Sales & Use Tax (1)	464.0	466.2	2.2	0.5%
Sales Tax	409.4	408.1	(1.3)	-0.3%
Use Tax	54.6	58.1	3.5	6.4%
Gross Production	105.3	73.8	(31.5)	-29.9%
Motor Vehicle	60.0	63.3	3.2	5.4%
Other Sources (2)	114.0	123.1	9.1	8.0%
TOTAL REVENUE	1,153.4	1,157.2	3.8	0.3%

Dollar change (in millions) from prior year

Source: Office of the State Treasurer



Revenue

FROM PAGE 5

in the state’s economy has leveled off in recent months primarily due to a decline in oil field activity.”

In September, year-over-year collections on the production of oil and gas were down by \$31.5 million, or 29.9 percent. During the year, oil prices dropped by 19.2 percent and rig counts plunged by 32.6 percent.

Sales tax receipts fell slightly below those of the same month of the prior year for the third time in four months. September sales tax collections were down by \$1.3 million, or 0.3 percent.

Business conditions

The Oklahoma Business Conditions index for September returned to positive territory after dipping the prior month. September’s rate of 50.1 is up from 49.6 in August. The index has been below growth neutral in three of the past six months. Numbers above 50 indicate anticipated economic expansion during the next one to two quarters.

September collections

September gross collections total \$1.16 billion, up by \$3.8 million, or 0.3 percent, from September 2018.

Gross income tax collections, a combination of individual and corporate income taxes, generated \$430.8 million, an increase of \$20.8 million, or 5.1 percent, from the previous September.

Individual income tax collections for the month are \$337.4 million, up by

\$17.1 million, or 5.3 percent, from the prior year.

Corporate collections are \$93.4 million, an increase of \$3.7 million, or 4.2 percent.

Combined sales and use tax collections, including remittances on behalf of cities and counties, total \$466.2 million in September. That is \$2.2 million, or 0.5 percent, more than September 2018.

Sales tax collections in September total \$408.1 million, a drop of \$1.3 million, or 0.3 percent from the same month of the prior year.

Use tax receipts, collected on out-of-state purchases including online sales, generated \$58.1 million, an increase of \$3.5 million, or 6.4 percent, over the year.

Gross production taxes on oil and natural gas generated \$73.8 million in September, a decrease of \$31.5 million, or 29.9 percent, from last September.

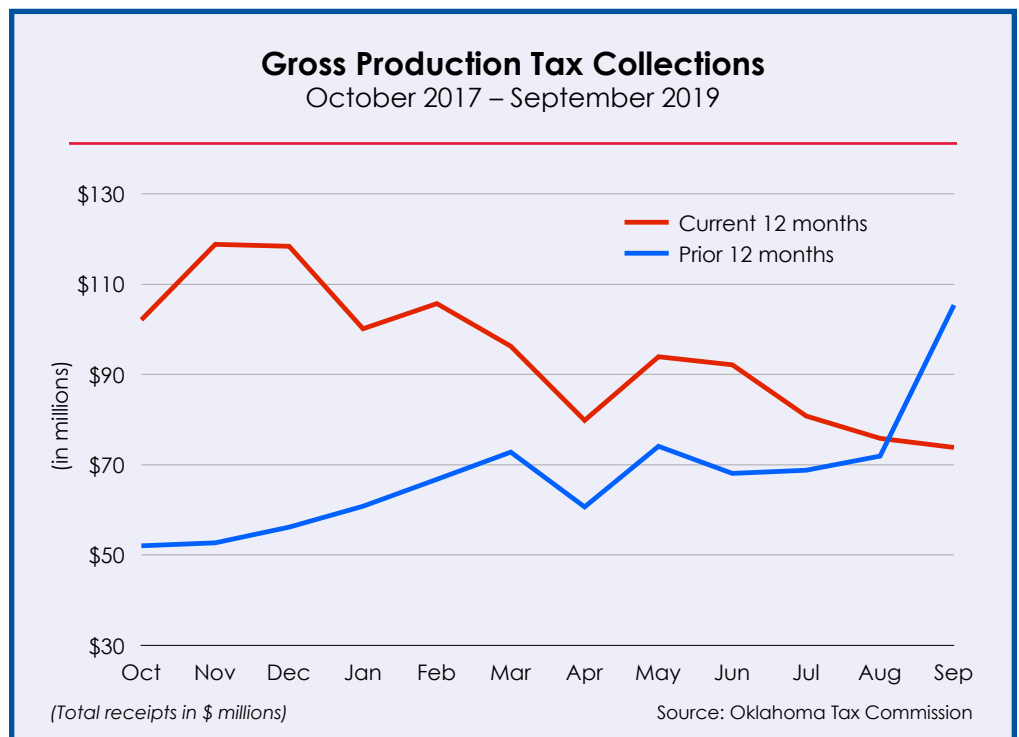
Compared to August 2019 reports, gross production collections are down by \$2 million, or 2.7 percent.

Motor vehicle taxes produced \$63.3 million, up by \$3.2 million, or 5.4 percent, from the same month of 2018.

Other collections, composed of some 60 different sources including taxes on fuel, tobacco, medical marijuana, and alcoholic beverages, produced \$123.1 million during the month.

That is \$9.1 million, or 8 percent, more than last September.

SEE REVENUE PAGE 7





Revenue

FROM PAGE 6

Twelve-month collections

Gross revenue totals \$13.73 billion from the past 12 months, October 2018 through September 2019. That is \$1.2 billion, or 9.5 percent, more than collections from the previous 12-month period.

Gross income taxes generated \$4.65 billion for the 12 months, reflecting an increase of \$295.1 million, or 6.8 percent, from the prior 12 months.

Individual income tax collections total \$4.13 billion, up by \$269.5 million, or 7 percent, from the prior period.

Corporate collections are \$519.9 million for the period, an increase of \$25.5 million, or 5.2 percent, over the previous 12 months.

Combined sales and use taxes for the 12 months generated \$5.61 billion, an increase of \$293.5 million, or 5.5 percent, from the prior period.

Gross sales tax receipts total \$4.9 billion, up by \$125.9 million, or 2.6 percent, during the period.

Use tax collections generated \$712 million, an increase of \$167.6 million, or 30.8 percent over the previous 12 months.

Oil and gas gross production tax collections brought in \$1.14 billion during the 12 months, up by \$327.4 million, or 40.4 percent, from the previous period.

Motor vehicle collections total \$791.6 million for the 12 months. This is an increase of \$17 million, or 2.2 percent, from the trailing period.

Other sources generated \$1.54 billion, up by \$262.6 million, or 20.5 percent, from the previous period.

About Gross Receipts to the Treasury

The Office of the State Treasurer

developed the monthly Gross Receipts to the Treasury report in order to provide a timely and broad view of the state's economy.

It is released in conjunction with the General Revenue Fund report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary planning purposes.

The General Revenue Fund, the state's main operating account, receives less than half of the state's gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and apportioned to other state funds.

Learn more

Read the complete report along with additional charts and graphs at <https://go.usa.gov/xVHPs>

State jobless rate unchanged for fifth consecutive month

Oklahoma Unemployment Report

September 2019

September 2019	Unemp. rate*	Labor force*	Employment*	Unemployment*
Oklahoma	3.2%	1,850,869	1,791,305	59,564
United States	3.5%	164,039,000	158,269,000	5,769,000
OKLAHOMA Aug '19	3.2%	1,845,520	1,786,542	58,978
July '19	3.2%	1,838,330	1,779,808	58,522
June '19	3.2%	1,831,640	1,773,363	58,277
May '19	3.2%	1,828,733	1,769,681	59,052
April '19	3.3%	1,828,475	1,768,729	59,746
Sept '18	3.1%	1,837,174	1,780,187	56,987

* Data adjusted for seasonal factors

Source: OESC

The seasonally adjusted jobless rate for Oklahoma was unchanged at 3.2 percent in September for a fifth consecutive month. The U.S. unemployment rate dropped to 3.5 percent in September, down from 3.7 percent the prior month, according to figures released by the Oklahoma Employment Security Commission.

Since September 2018, the number of working Oklahomans has increased by 11,118, and the number of those listed as unemployed has risen by 2,577.



Economic Indicators

