

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT SECOND REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: March 23, 2022

BILL NUMBER: HB 3675 STATUS AND DATE OF BILL: Engrossed 3/9/2022

AUTHORS: House Wolfley Senate Bullard

TAX TYPE (S): Income Tax SUBJECT: Exemption

PROPOSAL: Amendatory

Engrossed HB 3675 proposes to amend 68 O.S. § 2358 by allowing certain Oklahoma income tax filers that claim the standard deduction on their federal return to “itemize” on their Oklahoma return effective for tax year 2023 and subsequent tax years.

EFFECTIVE DATE: November 1, 2022

REVENUE IMPACT:

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

FY 23: -0-

FY 24: Significant decrease in individual income tax collections.

Apr. 6, 2022
DATE

Rick Miller
DIVISION DIRECTOR

mk

4/6/2022
DATE

Huan Gong
HUAN GONG, ECONOMIST

4/8/2022
DATE

Joseph P. Gappa
FOR THE COMMISSION

The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.

ATTACHMENT TO REVENUE IMPACT – HB 3675[Engrossed] Prepared 3/23/22

Engrossed HB 3675 proposes to amend 68 O.S. § 2358 by allowing certain Oklahoma income tax filers that claim the standard deduction on their federal return to “itemize” on their Oklahoma return effective for tax year 2023 and subsequent tax years.

Under current law; the election to either claim the standard deduction or itemize deductions for federal income tax purposes is binding for calculating Oklahoma taxable income. The amount of Oklahoma standard deduction for tax year 2018 and subsequent tax years as follows:

- \$12,700 for taxpayers filing as married filing jointly or qualifying widower with dependent child
- \$9,350 for taxpayers filing as head of household
- \$6,350 for taxpayer filing as single or married filing separately

Federal itemized deductions are required to be modified for calculating Oklahoma taxable income. Beginning with tax year 2016, state and local income taxes included in itemized deductions are added back to calculate Oklahoma taxable income (by subtracting them from itemized deductions). Beginning with tax year 2018, itemized deductions may not exceed \$17,000, not including charitable contributions or medical expenses.

This measure would allow a taxpayer that claims the standard deduction on their federal return to “itemize” on their Oklahoma return if the itemized deductions for federal purposes **could have been** in excess of:

- \$10,750 for taxpayer filing as single or married filing separately
- \$16,650.00 for taxpayers filing as head of household
- \$21,500 for taxpayers filing as married filing jointly or qualifying widower with dependent child

If that occurs, then they can claim an Oklahoma itemized deduction which is more than the current Oklahoma standard deduction. The limitations on itemized deductions (adding back of state and local taxes and the \$17,000 cap) would still apply.

If a taxpayer chooses this option, the taxpayer may not claim the standard deduction for the same tax year; provided that the federal taxable income is less than \$40,525 on a single filer return, \$54,200 for a filer claiming head of household status, or \$81,050 for a joint return.

Data is not available to estimate the number of income tax filers whose itemized deductions will be less than the federal standard deduction¹ but enough to meet the thresholds in this proposal. A significant decrease in individual income tax collections is expected in FY24 when the tax year 2023 income tax returns are filed.

¹ The amount of federal standard deduction is indexed for inflation every tax year. For tax year 2021; the federal standard deduction is \$25,100 for taxpayers filing as married filing jointly or qualifying widower with dependent child, \$18,800 for taxpayers filing as head of household, and \$12,550 for taxpayer filing as single or married filing separately.