

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: March 11, 2014

SUBJECT: SB 2011 - Floor Amendment (Req. No. 3500)

TO: Rick Miller, Director
Joe Gappa, Deputy Director

FROM: Michael C. Kaufmann, Tax Policy Analyst

The Floor Amendment (Req. No. 3500) for SB 2011 proposes to 1) amend 68 O.S. §§ 1203 and 1204 regarding the levy of franchise tax, 2) amend 68 O.S. § 2357.4 relating to the Oklahoma Investment / New Jobs Income Tax Credit, and 3) amend 68 O.S. § 2358 relating to itemized deductions.

Sections 1 and 2 - Franchise Tax

The first two (2) sections terminate the levy of franchise tax beginning with tax year 2015. For purposes of this analysis, it is assumed tax year 2015 is analogous with calendar year 2015.

Franchise tax was under moratorium for the taxable periods beginning July 1, 2010, and ending before July 1, 2013. The anticipated revenue collections for FY15 (2013 franchise tax returns due to be filed in 2014) are \$35.48 million¹. With the proposed final year for franchise tax being 2014, an anticipated decrease in revenue of \$35.48 million in FY16 would occur.

Section 3 - Oklahoma Investment / New Jobs Income Tax Credit

This section amends 68 O.S. § 2357.4 (Oklahoma Investment/New Jobs) by limiting the credit to the new jobs portion only beginning with tax year 2015 and for all subsequent tax years. It is anticipated that limiting this credit to the jobs component would result in increased income tax collections of \$10.84 million for tax year 2015. No change to withholding or estimated tax is anticipated, so the full effect should occur in FY16.

¹ Oklahoma Tax Commission Revenue Forecast for FY15 (February 13, 2014)

Section 4 – Add Back of State and Local Taxes

Beginning with tax year 2015, this section amends 68 O.S. § 2358 by requiring **state and local taxes**² included in itemized deductions to be added back into Oklahoma taxable income. The table below summarizes the impact of adding back state and local taxes.

Fiscal Impact			
Tax year 2015	\$131,003,000		
Tax year 2016	\$132,799,000		
FY CONVERSION		FY15	FY16
Tax year 2015	\$131,003,000	\$52,401,000	\$78,602,000
Tax year 2016	\$132,799,000		\$53,120,000
	FY TOTAL	\$52,401,000	\$131,722,000

Revenue Impact:

It is anticipated this measure would result in an increase in revenue collections of \$52.4 million for FY15, and \$107.08 million in FY16.

Revenue Impact	FY15	FY16
Franchise Tax		\$(35,480,000)
Investment / New Jobs Credit		\$10,840,000
Add back of state and local taxes	\$52,401,000	\$131,722,000
TOTAL	\$52,401,000	\$107,082,000

² State and local taxes that are deductible are either state income taxes or state general sales taxes; real estate taxes, and personal property taxes. [26 U.S.C. Section 164]