

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: February 17, 2014

SUBJECT: SB 2011 – Committee Substitute (Req. No. 3360)

TO: Rick Miller, Director

FROM: Michael C. Kaufmann, Tax Policy Analyst

The Committee Substitute (Req. No. 3360) 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.

Section 4 – Itemized Deduction Limits

This section amends 68 O.S. § 2358 by limiting **itemized deductions** to 80% of the itemized deduction value if federal adjusted gross income is greater than \$100,000 (\$200,000 for married joint filers and head of household filers). It also requires **state and local taxes** included in itemized deductions be added back into taxable income (by subtracting them from itemized deductions).

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

The table below summarizes the impact of limiting itemized deductions.

FY EFFECT INCOME TAX - ITEMIZED DEDUCTION LIMITED				
Fiscal Impact				
Tax year 2015	\$124,936,000			
Tax year 2016	\$129,096,000			
Tax year 2017	\$133,713,000			
FY CONVERSION		FY15	FY16	FY17
Tax year 2015	\$124,936,000	\$49,974,000	\$74,962,000	
Tax year 2016	\$129,096,000		\$51,638,000	\$77,458,000
Tax year 2017	\$133,713,000			\$53,485,000
	FY TOTAL	\$49,974,000	\$126,600,000	\$130,943,000
Source: Oklahoma Individual Income Tax Micro-Simulation Model.				

Revenue Impact:

It is anticipated this measure would result in an increase in revenue collections of \$49.97 million for FY15, and \$101.96 million in FY16.