

MEMORANDUM

OKLAHOMA TAX COMMISSION TAX POLICY DIVISION

Date: February 28, 2014
To: Rick Miller Director
Tax Policy and Research Division
From: Marc Morrison
Tax Policy Analyst
Subject: Floor amendment to SB 0862

This memo is in response to your request for a revenue impact for the floor amendment to SB 862 which changes the beginning operative tax year for purposes of the income tax exemption provided in SB 862 to tax year 2015 instead of 2014. There is no revenue or administrative impact associated with the proposed floor amendment to SB 862.

Set forth below is an analysis of the language outlined in SB 862 along with applicable impacts of the proposed floor amendment. SB 862 proposes to designate gold and silver coins issued by the United States government as legal tender in the State of Oklahoma. This measure also amends the current sales tax exemption for sales of gold, silver, platinum, palladium or other bullion items such as coins, bars and legal tender of any nation by removing the requirement that allows for the sales of such items to be exempted so long as such items are stored in a recognized depository facility. Further this measure provides for an income tax exemption beginning with tax year 2015, for the capital gain realized on the sale or exchange of gold or silver for another form of legal tender.

SALES TAX ANALYSIS

Based on Tax Commission sales tax remittance records, an estimated \$309,523 is attributable to sales of gold, silver, palladium or other bullion items in FY 13. The estimated decrease in sales tax collections for FY 15 (including growth rate adjustments¹) is \$330,992.

With an effective date of November 1, 2014, an estimated decrease in state sales tax collections of \$193,079 will occur in FY 15 and an estimated decrease in state sales tax collections of \$344,232 will occur in FY 16 (again applying a 4% growth rate adjustment).

INCOME TAX ANALYSIS

Utah enacted a similar capital gain incentive and based on their estimate², 0.5% of all reported capital gains would occur from the sale or exchange of gold or silver. For this analysis, Oklahoma capital gain data was examined and averaged from 2005 through 2010³, resulting in an average of \$4.55 billion in Oklahoma capital gains. Assuming 0.5% will be from the sale of gold or silver, it is estimated there will be \$22,751,000 in gold or silver capital gains. Reducing this figure by the exclusion in 68 O.S. § 2358(F), results in approximately \$11.04 million in capital gains realized from the sale or exchange of gold or silver⁴.

¹ In accordance with the Oklahoma Tax Commission – Revenue Estimates and Forecasts issued February 13, 2014, growth rate adjustments of 2.8% for FY 14 and 4% for FY 15 are applied.

² Email from Matthew Lund Utah State Tax Commission Economic and Statistical Unit

³ IRS, Statistics of Income Division, Individual Master File System.

⁴ The effect of this exemption was not estimated for corporate income tax. It is anticipated that there will be a minimal decrease in corporate income tax collections as a result of this exemption.

The top individual income tax rate of 5.25% was applied with the expectation that most of these capital gains would fall in the highest tax bracket. This results in a potential income tax decrease of \$580,000. With the measure becoming effective for tax year 2015, the full impact should occur in FY16 when tax year 2015 income tax returns are filed.

Table 1 below shows the FY impact for both sales and income tax.

| Table 1 – FY Estimates | | |
|-------------------------------|-------------|-------------|
| Component | FY15 | FY16 |
| Sales Tax | -\$193,000 | -\$344,000 |
| Income Tax | \$0 | -\$580,000 |
| Total | -\$193,000 | -\$930,000 |