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1 2. There shall be deducted amounts included in such income that
2 the state is prohibited from taxing because of the provisions of the
3 Federal Constitution, the State Constitution, federal laws or laws
4 of Oklahoma.

5 3. The amount of any federal net operating loss deduction shall
6 be adjusted as follows:

7 a. For carryovers and carrybacks to taxable years
8 beginning before January 1, 1981, the amount of any
9 net operating loss deduction allowed to a taxpayer for
10 federal income tax purposes shall be reduced to an
11 amount which is the same portion thereof as the loss
12 from sources within this state, as determined pursuant
13 to this section and Section 2362 of this title, for
14 the taxable year in which such loss is sustained is of
15 the total loss for such year;

16 b. For carryovers and carrybacks to taxable years
17 beginning after December 31, 1980, the amount of any
18 net operating loss deduction allowed for the taxable
19 year shall be an amount equal to the aggregate of the
20 Oklahoma net operating loss carryovers and carrybacks
21 to such year. Oklahoma net operating losses shall be
22 separately determined by reference to Section 172 of
23 the Internal Revenue Code, 26 U.S.C., Section 172, as
24 modified by the Oklahoma Income Tax Act, Section 2351

1 et seq. of this title, and shall be allowed without
2 regard to the existence of a federal net operating
3 loss. For tax years beginning after December 31,
4 2000, and ending before January 1, 2008, the years to
5 which such losses may be carried shall be determined
6 solely by reference to Section 172 of the Internal
7 Revenue Code, 26 U.S.C., Section 172, with the
8 exception that the terms "net operating loss" and
9 "taxable income" shall be replaced with "Oklahoma net
10 operating loss" and "Oklahoma taxable income". For
11 tax years beginning after December 31, 2007, and
12 ending before January 1, 2009, years to which such
13 losses may be carried back shall be limited to two (2)
14 years. For tax years beginning after December 31,
15 2008, the years to which such losses may be carried
16 back shall be determined solely by reference to
17 Section 172 of the Internal Revenue Code, 26 U.S.C.,
18 Section 172, with the exception that the terms "net
19 operating loss" and "taxable income" shall be replaced
20 with "Oklahoma net operating loss" and "Oklahoma
21 taxable income".

22 4. Items of the following nature shall be allocated as
23 indicated. Allowable deductions attributable to items separately
24 allocable in subparagraphs a, b and c of this paragraph, whether or

1 not such items of income were actually received, shall be allocated
2 on the same basis as those items:

3 a. Income from real and tangible personal property, such
4 as rents, oil and mining production or royalties, and
5 gains or losses from sales of such property, shall be
6 allocated in accordance with the situs of such
7 property;

8 b. Income from intangible personal property, such as
9 interest, dividends, patent or copyright royalties,
10 and gains or losses from sales of such property, shall
11 be allocated in accordance with the domiciliary situs
12 of the taxpayer, except that:

13 (1) where such property has acquired a nonunitary
14 business or commercial situs apart from the
15 domicile of the taxpayer such income shall be
16 allocated in accordance with such business or
17 commercial situs; interest income from
18 investments held to generate working capital for
19 a unitary business enterprise shall be included
20 in apportionable income; a resident trust or
21 resident estate shall be treated as having a
22 separate commercial or business situs insofar as
23 undistributed income is concerned, but shall not
24 be treated as having a separate commercial or

1 business situs insofar as distributed income is
2 concerned,

3 (2) for taxable years beginning after December 31,
4 2003, capital or ordinary gains or losses from
5 the sale of an ownership interest in a publicly
6 traded partnership, as defined by Section 7704(b)
7 of the Internal Revenue Code of 1986, as amended,
8 shall be allocated to this state in the ratio of
9 the original cost of such partnership's tangible
10 property in this state to the original cost of
11 such partnership's tangible property everywhere,
12 as determined at the time of the sale; if more
13 than fifty percent (50%) of the value of the
14 partnership's assets consists of intangible
15 assets, capital or ordinary gains or losses from
16 the sale of an ownership interest in the
17 partnership shall be allocated to this state in
18 accordance with the sales factor of the
19 partnership for its first full tax period
20 immediately preceding its tax period during which
21 the ownership interest in the partnership was
22 sold; the provisions of this division shall only
23 apply if the capital or ordinary gains or losses
24 from the sale of an ownership interest in a

1 partnership do not constitute qualifying gain
2 receiving capital treatment as defined in
3 subparagraph a of paragraph 2 of subsection F of
4 this section,

5 (3) income from such property which is required to be
6 allocated pursuant to the provisions of paragraph
7 5 of this subsection shall be allocated as herein
8 provided;

9 c. Net income or loss from a business activity which is
10 not a part of business carried on within or without
11 the state of a unitary character shall be separately
12 allocated to the state in which such activity is
13 conducted;

14 d. In the case of a manufacturing or processing
15 enterprise the business of which in Oklahoma consists
16 solely of marketing its products by:

17 (1) sales having a situs without this state, shipped
18 directly to a point from without the state to a
19 purchaser within the state, commonly known as
20 interstate sales,

21 (2) sales of the product stored in public warehouses
22 within the state pursuant to "in transit"
23 tariffs, as prescribed and allowed by the
24

1 Interstate Commerce Commission, to a purchaser
2 within the state,

3 (3) sales of the product stored in public warehouses
4 within the state where the shipment to such
5 warehouses is not covered by "in transit"
6 tariffs, as prescribed and allowed by the
7 Interstate Commerce Commission, to a purchaser
8 within or without the state,

9 the Oklahoma net income shall, at the option of the
10 taxpayer, be that portion of the total net income of
11 the taxpayer for federal income tax purposes derived
12 from the manufacture and/or processing and sales
13 everywhere as determined by the ratio of the sales
14 defined in this section made to the purchaser within
15 the state to the total sales everywhere. The term
16 "public warehouse" as used in this subparagraph means
17 a licensed public warehouse, the principal business of
18 which is warehousing merchandise for the public;

19 e. In the case of insurance companies, Oklahoma taxable
20 income shall be taxable income of the taxpayer for
21 federal tax purposes, as adjusted for the adjustments
22 provided pursuant to the provisions of paragraphs 1
23 and 2 of this subsection, apportioned as follows:
24

1 (1) except as otherwise provided by division (2) of
2 this subparagraph, taxable income of an insurance
3 company for a taxable year shall be apportioned
4 to this state by multiplying such income by a
5 fraction, the numerator of which is the direct
6 premiums written for insurance on property or
7 risks in this state, and the denominator of which
8 is the direct premiums written for insurance on
9 property or risks everywhere. For purposes of
10 this subsection, the term "direct premiums
11 written" means the total amount of direct
12 premiums written, assessments and annuity
13 considerations as reported for the taxable year
14 on the annual statement filed by the company with
15 the Insurance Commissioner in the form approved
16 by the National Association of Insurance
17 Commissioners, or such other form as may be
18 prescribed in lieu thereof,

19 (2) if the principal source of premiums written by an
20 insurance company consists of premiums for
21 reinsurance accepted by it, the taxable income of
22 such company shall be apportioned to this state
23 by multiplying such income by a fraction, the
24 numerator of which is the sum of (a) direct

1 premiums written for insurance on property or
2 risks in this state, plus (b) premiums written
3 for reinsurance accepted in respect of property
4 or risks in this state, and the denominator of
5 which is the sum of (c) direct premiums written
6 for insurance on property or risks everywhere,
7 plus (d) premiums written for reinsurance
8 accepted in respect of property or risks
9 everywhere. For purposes of this paragraph,
10 premiums written for reinsurance accepted in
11 respect of property or risks in this state,
12 whether or not otherwise determinable, may at the
13 election of the company be determined on the
14 basis of the proportion which premiums written
15 for insurance accepted from companies
16 commercially domiciled in Oklahoma bears to
17 premiums written for reinsurance accepted from
18 all sources, or alternatively in the proportion
19 which the sum of the direct premiums written for
20 insurance on property or risks in this state by
21 each ceding company from which reinsurance is
22 accepted bears to the sum of the total direct
23 premiums written by each such ceding company for
24 the taxable year.

1 5. The net income or loss remaining after the separate
2 allocation in paragraph 4 of this subsection, being that which is
3 derived from a unitary business enterprise, shall be apportioned to
4 this state on the basis of the arithmetical average of three factors
5 consisting of property, payroll and sales or gross revenue
6 enumerated as subparagraphs a, b and c of this paragraph. Net
7 income or loss as used in this paragraph includes that derived from
8 patent or copyright royalties, purchase discounts, and interest on
9 accounts receivable relating to or arising from a business activity,
10 the income from which is apportioned pursuant to this subsection,
11 including the sale or other disposition of such property and any
12 other property used in the unitary enterprise. Deductions used in
13 computing such net income or loss shall not include taxes based on
14 or measured by income. Provided, for corporations whose property
15 for purposes of the tax imposed by Section 2355 of this title has an
16 initial investment cost equaling or exceeding Two Hundred Million
17 Dollars (\$200,000,000.00) and such investment is made on or after
18 July 1, 1997, or for corporations which expand their property or
19 facilities in this state and such expansion has an investment cost
20 equaling or exceeding Two Hundred Million Dollars (\$200,000,000.00)
21 over a period not to exceed three (3) years, and such expansion is
22 commenced on or after January 1, 2000, the three factors shall be
23 apportioned with property and payroll, each comprising twenty-five
24 percent (25%) of the apportionment factor and sales comprising fifty

1 percent (50%) of the apportionment factor. The apportionment
2 factors shall be computed as follows:

3 a. The property factor is a fraction, the numerator of
4 which is the average value of the taxpayer's real and
5 tangible personal property owned or rented and used in
6 this state during the tax period and the denominator
7 of which is the average value of all the taxpayer's
8 real and tangible personal property everywhere owned
9 or rented and used during the tax period.

10 (1) Property, the income from which is separately
11 allocated in paragraph 4 of this subsection,
12 shall not be included in determining this
13 fraction. The numerator of the fraction shall
14 include a portion of the investment in
15 transportation and other equipment having no
16 fixed situs, such as rolling stock, buses, trucks
17 and trailers, including machinery and equipment
18 carried thereon, airplanes, salespersons'
19 automobiles and other similar equipment, in the
20 proportion that miles traveled in Oklahoma by
21 such equipment bears to total miles traveled,

22 (2) Property owned by the taxpayer is valued at its
23 original cost. Property rented by the taxpayer
24 is valued at eight times the net annual rental

1 rate. Net annual rental rate is the annual
2 rental rate paid by the taxpayer, less any annual
3 rental rate received by the taxpayer from
4 subrentals,

5 (3) The average value of property shall be determined
6 by averaging the values at the beginning and
7 ending of the tax period but the Oklahoma Tax
8 Commission may require the averaging of monthly
9 values during the tax period if reasonably
10 required to reflect properly the average value of
11 the taxpayer's property;

12 b. The payroll factor is a fraction, the numerator of
13 which is the total compensation for services rendered
14 in the state during the tax period, and the
15 denominator of which is the total compensation for
16 services rendered everywhere during the tax period.
17 "Compensation", as used in this subsection means those
18 paid-for services to the extent related to the unitary
19 business but does not include officers' salaries,
20 wages and other compensation.

21 (1) In the case of a transportation enterprise, the
22 numerator of the fraction shall include a portion
23 of such expenditure in connection with employees
24 operating equipment over a fixed route, such as

1 railroad employees, airline pilots, or bus
2 drivers, in this state only a part of the time,
3 in the proportion that mileage traveled in
4 Oklahoma bears to total mileage traveled by such
5 employees,

6 (2) In any case the numerator of the fraction shall
7 include a portion of such expenditures in
8 connection with itinerant employees, such as
9 traveling salespersons, in this state only a part
10 of the time, in the proportion that time spent in
11 Oklahoma bears to total time spent in furtherance
12 of the enterprise by such employees;

13 c. The sales factor is a fraction, the numerator of which
14 is the total sales or gross revenue of the taxpayer in
15 this state during the tax period, and the denominator
16 of which is the total sales or gross revenue of the
17 taxpayer everywhere during the tax period. "Sales",
18 as used in this subsection does not include sales or
19 gross revenue which are separately allocated in
20 paragraph 4 of this subsection.

21 (1) Sales of tangible personal property have a situs
22 in this state if the property is delivered or
23 shipped to a purchaser other than the United
24 States government, within this state regardless

1 of the FOB point or other conditions of the sale;
2 or the property is shipped from an office, store,
3 warehouse, factory or other place of storage in
4 this state and (a) the purchaser is the United
5 States government or (b) the taxpayer is not
6 doing business in the state of the destination of
7 the shipment.

8 (2) In the case of a railroad or interurban railway
9 enterprise, the numerator of the fraction shall
10 not be less than the allocation of revenues to
11 this state as shown in its annual report to the
12 Corporation Commission.

13 (3) In the case of an airline, truck or bus
14 enterprise or freight car, tank car, refrigerator
15 car or other railroad equipment enterprise, the
16 numerator of the fraction shall include a portion
17 of revenue from interstate transportation in the
18 proportion that interstate mileage traveled in
19 Oklahoma bears to total interstate mileage
20 traveled.

21 (4) In the case of an oil, gasoline or gas pipeline
22 enterprise, the numerator of the fraction shall
23 be either the total of traffic units of the
24 enterprise within Oklahoma or the revenue

1 allocated to Oklahoma based upon miles moved, at
2 the option of the taxpayer, and the denominator
3 of which shall be the total of traffic units of
4 the enterprise or the revenue of the enterprise
5 everywhere as appropriate to the numerator. A
6 "traffic unit" is hereby defined as the
7 transportation for a distance of one (1) mile of
8 one (1) barrel of oil, one (1) gallon of gasoline
9 or one thousand (1,000) cubic feet of natural or
10 casinghead gas, as the case may be.

11 (5) In the case of a telephone or telegraph or other
12 communication enterprise, the numerator of the
13 fraction shall include that portion of the
14 interstate revenue as is allocated pursuant to
15 the accounting procedures prescribed by the
16 Federal Communications Commission; provided that
17 in respect to each corporation or business entity
18 required by the Federal Communications Commission
19 to keep its books and records in accordance with
20 a uniform system of accounts prescribed by such
21 Commission, the intrastate net income shall be
22 determined separately in the manner provided by
23 such uniform system of accounts and only the
24 interstate income shall be subject to allocation

1 pursuant to the provisions of this subsection.

2 Provided further, that the gross revenue factors
3 shall be those as are determined pursuant to the
4 accounting procedures prescribed by the Federal
5 Communications Commission.

6 In any case where the apportionment of the three factors
7 prescribed in this paragraph attributes to Oklahoma a portion of net
8 income of the enterprise out of all appropriate proportion to the
9 property owned and/or business transacted within this state, because
10 of the fact that one or more of the factors so prescribed are not
11 employed to any appreciable extent in furtherance of the enterprise;
12 or because one or more factors not so prescribed are employed to a
13 considerable extent in furtherance of the enterprise; or because of
14 other reasons, the Tax Commission is empowered to permit, after a
15 showing by taxpayer that an excessive portion of net income has been
16 attributed to Oklahoma, or require, when in its judgment an
17 insufficient portion of net income has been attributed to Oklahoma,
18 the elimination, substitution, or use of additional factors, or
19 reduction or increase in the weight of such prescribed factors.
20 Provided, however, that any such variance from such prescribed
21 factors which has the effect of increasing the portion of net income
22 attributable to Oklahoma must not be inherently arbitrary, and
23 application of the recomputed final apportionment to the net income

1 of the enterprise must attribute to Oklahoma only a reasonable
2 portion thereof.

3 6. For calendar years 1997 and 1998, the owner of a new or
4 expanded agricultural commodity processing facility in this state
5 may exclude from Oklahoma taxable income, or in the case of an
6 individual, the Oklahoma adjusted gross income, fifteen percent
7 (15%) of the investment by the owner in the new or expanded
8 agricultural commodity processing facility. For calendar year 1999,
9 and all subsequent years, the percentage, not to exceed fifteen
10 percent (15%), available to the owner of a new or expanded
11 agricultural commodity processing facility in this state claiming
12 the exemption shall be adjusted annually so that the total estimated
13 reduction in tax liability does not exceed One Million Dollars
14 (\$1,000,000.00) annually. The Tax Commission shall promulgate rules
15 for determining the percentage of the investment which each eligible
16 taxpayer may exclude. The exclusion provided by this paragraph
17 shall be taken in the taxable year when the investment is made. In
18 the event the total reduction in tax liability authorized by this
19 paragraph exceeds One Million Dollars (\$1,000,000.00) in any
20 calendar year, the Tax Commission shall permit any excess over One
21 Million Dollars (\$1,000,000.00) and shall factor such excess into
22 the percentage for subsequent years. Any amount of the exemption
23 permitted to be excluded pursuant to the provisions of this
24 paragraph but not used in any year may be carried forward as an

1 exemption from income pursuant to the provisions of this paragraph
2 for a period not exceeding six (6) years following the year in which
3 the investment was originally made.

4 For purposes of this paragraph:

5 a. "Agricultural commodity processing facility" means
6 building, structures, fixtures and improvements used
7 or operated primarily for the processing or production
8 of marketable products from agricultural commodities.
9 The term shall also mean a dairy operation that
10 requires a depreciable investment of at least Two
11 Hundred Fifty Thousand Dollars (\$250,000.00) and which
12 produces milk from dairy cows. The term does not
13 include a facility that provides only, and nothing
14 more than, storage, cleaning, drying or transportation
15 of agricultural commodities, and

16 b. "Facility" means each part of the facility which is
17 used in a process primarily for:

18 (1) the processing of agricultural commodities,
19 including receiving or storing agricultural
20 commodities, or the production of milk at a dairy
21 operation,

22 (2) transporting the agricultural commodities or
23 product before, during or after the processing,
24 or

1 (3) packaging or otherwise preparing the product for
2 sale or shipment.

3 7. Despite any provision to the contrary in paragraph 3 of this
4 subsection, for taxable years beginning after December 31, 1999, in
5 the case of a taxpayer which has a farming loss, such farming loss
6 shall be considered a net operating loss carryback in accordance
7 with and to the extent of the Internal Revenue Code, 26 U.S.C.,
8 Section 172(b)(G). However, the amount of the net operating loss
9 carryback shall not exceed the lesser of:

10 a. Sixty Thousand Dollars (\$60,000.00), or

11 b. the loss properly shown on Schedule F of the Internal
12 Revenue Service Form 1040 reduced by one-half (1/2) of
13 the income from all other sources other than reflected
14 on Schedule F.

15 8. In taxable years beginning after December 31, 1995, all
16 qualified wages equal to the federal income tax credit set forth in
17 26 U.S.C.A., Section 45A, shall be deducted from taxable income.
18 The deduction allowed pursuant to this paragraph shall only be
19 permitted for the tax years in which the federal tax credit pursuant
20 to 26 U.S.C.A., Section 45A, is allowed. For purposes of this
21 paragraph, "qualified wages" means those wages used to calculate the
22 federal credit pursuant to 26 U.S.C.A., Section 45A.

23 9. In taxable years beginning after December 31, 2005, an
24 employer that is eligible for and utilizes the Safety Pays OSHA

1 Consultation Service provided by the Oklahoma Department of Labor
2 shall receive an exemption from taxable income in the amount of One
3 Thousand Dollars (\$1,000.00) for the tax year that the service is
4 utilized.

5 10. For taxable years beginning on or after January 1, 2010,
6 there shall be added to Oklahoma taxable income an amount equal to
7 the amount of deferred income not included in such taxable income
8 pursuant to Section 108(i)(1) of the Internal Revenue Code of 1986
9 as amended by Section 1231 of the American Recovery and Reinvestment
10 Act of 2009 (P.L. No. 111-5). There shall be subtracted from
11 Oklahoma taxable income an amount equal to the amount of deferred
12 income included in such taxable income pursuant to Section 108(i)(1)
13 of the Internal Revenue Code of 1986, as amended by Section 1231 of
14 the American Recovery and Reinvestment Act of 2009 (P.L. No. 111-5).

15 B. 1. The taxable income of any corporation shall be further
16 adjusted to arrive at Oklahoma taxable income, except those
17 corporations electing treatment as provided in subchapter S of the
18 Internal Revenue Code, 26 U.S.C., Section 1361 et seq., and Section
19 2365 of this title, deductions pursuant to the provisions of the
20 Accelerated Cost Recovery System as defined and allowed in the
21 Economic Recovery Tax Act of 1981, Public Law 97-34, 26 U.S.C.,
22 Section 168, for depreciation of assets placed into service after
23 December 31, 1981, shall not be allowed in calculating Oklahoma
24 taxable income. Such corporations shall be allowed a deduction for

1 depreciation of assets placed into service after December 31, 1981,
2 in accordance with provisions of the Internal Revenue Code, 26
3 U.S.C., Section 1 et seq., in effect immediately prior to the
4 enactment of the Accelerated Cost Recovery System. The Oklahoma tax
5 basis for all such assets placed into service after December 31,
6 1981, calculated in this section shall be retained and utilized for
7 all Oklahoma income tax purposes through the final disposition of
8 such assets.

9 Notwithstanding any other provisions of the Oklahoma Income Tax
10 Act, Section 2351 et seq. of this title, or of the Internal Revenue
11 Code to the contrary, this subsection shall control calculation of
12 depreciation of assets placed into service after December 31, 1981,
13 and before January 1, 1983.

14 For assets placed in service and held by a corporation in which
15 accelerated cost recovery system was previously disallowed, an
16 adjustment to taxable income is required in the first taxable year
17 beginning after December 31, 1982, to reconcile the basis of such
18 assets to the basis allowed in the Internal Revenue Code. The
19 purpose of this adjustment is to equalize the basis and allowance
20 for depreciation accounts between that reported to the Internal
21 Revenue Service and that reported to Oklahoma.

22 2. For tax years beginning on or after January 1, 2009, and
23 ending on or before December 31, 2009, there shall be added to
24 Oklahoma taxable income any amount in excess of One Hundred Seventy-

1 five Thousand Dollars (\$175,000.00) which has been deducted as a
2 small business expense under Internal Revenue Code, Section 179 as
3 provided in the American Recovery and Reinvestment Act of 2009.

4 C. 1. For taxable years beginning after December 31, 1987, the
5 taxable income of any corporation shall be further adjusted to
6 arrive at Oklahoma taxable income for transfers of technology to
7 qualified small businesses located in Oklahoma. Such transferor
8 corporation shall be allowed an exemption from taxable income of an
9 amount equal to the amount of royalty payment received as a result
10 of such transfer; provided, however, such amount shall not exceed
11 ten percent (10%) of the amount of gross proceeds received by such
12 transferor corporation as a result of the technology transfer. Such
13 exemption shall be allowed for a period not to exceed ten (10) years
14 from the date of receipt of the first royalty payment accruing from
15 such transfer. No exemption may be claimed for transfers of
16 technology to qualified small businesses made prior to January 1,
17 1988.

18 2. For purposes of this subsection:

19 a. "Qualified small business" means an entity, whether
20 organized as a corporation, partnership, or
21 proprietorship, organized for profit with its
22 principal place of business located within this state
23 and which meets the following criteria:
24

- (1) Capitalization of not more than Two Hundred Fifty Thousand Dollars (\$250,000.00),
- (2) Having at least fifty percent (50%) of its employees and assets located in Oklahoma at the time of the transfer, and
- (3) Not a subsidiary or affiliate of the transferor corporation;

b. "Technology" means a proprietary process, formula, pattern, device or compilation of scientific or technical information which is not in the public domain;

c. "Transferor corporation" means a corporation which is the exclusive and undisputed owner of the technology at the time the transfer is made; and

d. "Gross proceeds" means the total amount of consideration for the transfer of technology, whether the consideration is in money or otherwise.

D. 1. For taxable years beginning after December 31, 2005, the taxable income of any corporation, estate or trust, shall be further adjusted for qualifying gains receiving capital treatment. Such corporations, estates or trusts shall be allowed a deduction from Oklahoma taxable income for the amount of qualifying gains receiving capital treatment earned by the corporation, estate or trust during

1 the taxable year and included in the federal taxable income of such
2 corporation, estate or trust.

3 2. As used in this subsection:

4 a. "qualifying gains receiving capital treatment" means
5 the amount of net capital gains, as defined in Section
6 1222(11) of the Internal Revenue Code, included in the
7 federal income tax return of the corporation, estate
8 or trust that result from:

9 (1) the sale of real property or tangible personal
10 property located within Oklahoma that has been
11 directly or indirectly owned by the corporation,
12 estate or trust for a holding period of at least
13 five (5) years prior to the date of the
14 transaction from which such net capital gains
15 arise,

16 (2) the sale of stock or on the sale of an ownership
17 interest in an Oklahoma company, limited
18 liability company, or partnership where such
19 stock or ownership interest has been directly or
20 indirectly owned by the corporation, estate or
21 trust for a holding period of at least three (3)
22 years prior to the date of the transaction from
23 which the net capital gains arise, or
24

1 (3) the sale of real property, tangible personal
2 property or intangible personal property located
3 within Oklahoma as part of the sale of all or
4 substantially all of the assets of an Oklahoma
5 company, limited liability company, or
6 partnership where such property has been directly
7 or indirectly owned by such entity owned by the
8 owners of such entity, and used in or derived
9 from such entity for a period of at least three
10 (3) years prior to the date of the transaction
11 from which the net capital gains arise,

12 b. "holding period" means an uninterrupted period of
13 time. The holding period shall include any additional
14 period when the property was held by another
15 individual or entity, if such additional period is
16 included in the taxpayer's holding period for the
17 asset pursuant to the Internal Revenue Code,

18 c. "Oklahoma company", "limited liability company", or
19 "partnership" means an entity whose primary
20 headquarters have been located in Oklahoma for at
21 least three (3) uninterrupted years prior to the date
22 of the transaction from which the net capital gains
23 arise,
24

1 d. "direct" means the taxpayer directly owns the asset,
2 and

3 e. "indirect" means the taxpayer owns an interest in a
4 pass-through entity (or chain of pass-through
5 entities) that sells the asset that gives rise to the
6 qualifying gains receiving capital treatment.

7 (1) With respect to sales of real property or
8 tangible personal property located within
9 Oklahoma, the deduction described in this
10 subsection shall not apply unless the pass-
11 through entity that makes the sale has held the
12 property for not less than five (5) uninterrupted
13 years prior to the date of the transaction that
14 created the capital gain, and each pass-through
15 entity included in the chain of ownership has
16 been a member, partner, or shareholder of the
17 pass-through entity in the tier immediately below
18 it for an uninterrupted period of not less than
19 five (5) years.

20 (2) With respect to sales of stock or ownership
21 interest in or sales of all or substantially all
22 of the assets of an Oklahoma company, limited
23 liability company, or partnership, the deduction
24 described in this subsection shall not apply

1 unless the pass-through entity that makes the
2 sale has held the stock or ownership interest or
3 the assets for not less than three (3)
4 uninterrupted years prior to the date of the
5 transaction that created the capital gain, and
6 each pass-through entity included in the chain of
7 ownership has been a member, partner or
8 shareholder of the pass-through entity in the
9 tier immediately below it for an uninterrupted
10 period of not less than three (3) years.

11 E. The Oklahoma adjusted gross income of any individual
12 taxpayer shall be further adjusted as follows to arrive at Oklahoma
13 taxable income:

14 1. a. In the case of individuals, there shall be added or
15 deducted, as the case may be, the difference necessary
16 to allow personal exemptions of One Thousand Dollars
17 (\$1,000.00) in lieu of the personal exemptions allowed
18 by the Internal Revenue Code.

19 b. There shall be allowed an additional exemption of One
20 Thousand Dollars (\$1,000.00) for each taxpayer or
21 spouse who is blind at the close of the tax year. For
22 purposes of this subparagraph, an individual is blind
23 only if the central visual acuity of the individual
24 does not exceed 20/200 in the better eye with

1 correcting lenses, or if the visual acuity of the
2 individual is greater than 20/200, but is accompanied
3 by a limitation in the fields of vision such that the
4 widest diameter of the visual field subtends an angle
5 no greater than twenty (20) degrees.

6 c. There shall be allowed an additional exemption of One
7 Thousand Dollars (\$1,000.00) for each taxpayer or
8 spouse who is sixty-five (65) years of age or older at
9 the close of the tax year based upon the filing status
10 and federal adjusted gross income of the taxpayer.
11 Taxpayers with the following filing status may claim
12 this exemption if the federal adjusted gross income
13 does not exceed:

- 14 (1) Twenty-five Thousand Dollars (\$25,000.00) if
15 married and filing jointly;
16 (2) Twelve Thousand Five Hundred Dollars (\$12,500.00)
17 if married and filing separately;
18 (3) Fifteen Thousand Dollars (\$15,000.00) if single;
19 and
20 (4) Nineteen Thousand Dollars (\$19,000.00) if a
21 qualifying head of household.

22 Provided, for taxable years beginning after December
23 31, 1999, amounts included in the calculation of
24 federal adjusted gross income pursuant to the

1 conversion of a traditional individual retirement
2 account to a Roth individual retirement account shall
3 be excluded from federal adjusted gross income for
4 purposes of the income thresholds provided in this
5 subparagraph.

6 2. a. For taxable years beginning on or before December 31,
7 2005, in the case of individuals who use the standard
8 deduction in determining taxable income, there shall
9 be added or deducted, as the case may be, the
10 difference necessary to allow a standard deduction in
11 lieu of the standard deduction allowed by the Internal
12 Revenue Code, in an amount equal to the larger of
13 fifteen percent (15%) of the Oklahoma adjusted gross
14 income or One Thousand Dollars (\$1,000.00), but not to
15 exceed Two Thousand Dollars (\$2,000.00), except that
16 in the case of a married individual filing a separate
17 return such deduction shall be the larger of fifteen
18 percent (15%) of such Oklahoma adjusted gross income
19 or Five Hundred Dollars (\$500.00), but not to exceed
20 the maximum amount of One Thousand Dollars
21 (\$1,000.00).

22 b. For taxable years beginning on or after January 1,
23 2006, and before January 1, 2007, in the case of
24 individuals who use the standard deduction in

1 determining taxable income, there shall be added or
2 deducted, as the case may be, the difference necessary
3 to allow a standard deduction in lieu of the standard
4 deduction allowed by the Internal Revenue Code, in an
5 amount equal to:

6 (1) Three Thousand Dollars (\$3,000.00), if the filing
7 status is married filing joint, head of household
8 or qualifying widow; or

9 (2) Two Thousand Dollars (\$2,000.00), if the filing
10 status is single or married filing separate.

11 c. For the taxable year beginning on January 1, 2007, and
12 ending December 31, 2007, in the case of individuals
13 who use the standard deduction in determining taxable
14 income, there shall be added or deducted, as the case
15 may be, the difference necessary to allow a standard
16 deduction in lieu of the standard deduction allowed by
17 the Internal Revenue Code, in an amount equal to:

18 (1) Five Thousand Five Hundred Dollars (\$5,500.00),
19 if the filing status is married filing joint or
20 qualifying widow; or

21 (2) Four Thousand One Hundred Twenty-five Dollars
22 (\$4,125.00) for a head of household; or
23
24

1 (3) Two Thousand Seven Hundred Fifty Dollars
2 (\$2,750.00), if the filing status is single or
3 married filing separate.

4 d. For the taxable year beginning on January 1, 2008, and
5 ending December 31, 2008, in the case of individuals
6 who use the standard deduction in determining taxable
7 income, there shall be added or deducted, as the case
8 may be, the difference necessary to allow a standard
9 deduction in lieu of the standard deduction allowed by
10 the Internal Revenue Code, in an amount equal to:

11 (1) Six Thousand Five Hundred Dollars (\$6,500.00), if
12 the filing status is married filing joint or
13 qualifying widow, or

14 (2) Four Thousand Eight Hundred Seventy-five Dollars
15 (\$4,875.00) for a head of household, or

16 (3) Three Thousand Two Hundred Fifty Dollars
17 (\$3,250.00), if the filing status is single or
18 married filing separate.

19 e. For the taxable year beginning on January 1, 2009, and
20 ending December 31, 2009, in the case of individuals
21 who use the standard deduction in determining taxable
22 income, there shall be added or deducted, as the case
23 may be, the difference necessary to allow a standard
24

1 deduction in lieu of the standard deduction allowed by
2 the Internal Revenue Code, in an amount equal to:

- 3 (1) Eight Thousand Five Hundred Dollars (\$8,500.00),
4 if the filing status is married filing joint or
5 qualifying widow, or
6 (2) Six Thousand Three Hundred Seventy-five Dollars
7 (\$6,375.00) for a head of household, or
8 (3) Four Thousand Two Hundred Fifty Dollars
9 (\$4,250.00), if the filing status is single or
10 married filing separate.

11 Oklahoma adjusted gross income shall be increased by
12 any amounts paid for motor vehicle excise taxes which
13 were deducted as allowed by the Internal Revenue Code.

14 f. For taxable years beginning on or after January 1,
15 2010, and ending on December 31, 2016, in the case of
16 individuals who use the standard deduction in
17 determining taxable income, there shall be added or
18 deducted, as the case may be, the difference necessary
19 to allow a standard deduction equal to the standard
20 deduction allowed by the Internal Revenue Code of
21 1986, as amended, based upon the amount and filing
22 status prescribed by such Code for purposes of filing
23 federal individual income tax returns.
24

1 g. For taxable years beginning on or after January 1,
2 2017, in the case of individuals who use the standard
3 deduction in determining taxable income, there shall
4 be added or deducted, as the case may be, the
5 difference necessary to allow a standard deduction in
6 lieu of the standard deduction allowed by the Internal
7 Revenue Code of 1986, as amended, as follows:

8 (1) Six Thousand Three Hundred Fifty Dollars
9 (\$6,350.00) for single or married filing
10 separately,

11 (2) Twelve Thousand Seven Hundred Dollars
12 (\$12,700.00) for married filing jointly or
13 qualifying widower with dependent child, and

14 (3) Nine Thousand Three Hundred Fifty Dollars
15 (\$9,350.00) for head of household.

16 3. In the case of resident and part-year resident individuals
17 having adjusted gross income from sources both within and without
18 the state, the itemized or standard deductions and personal
19 exemptions shall be reduced to an amount which is the same portion
20 of the total thereof as Oklahoma adjusted gross income is of
21 adjusted gross income. To the extent itemized deductions include
22 allowable moving expense, proration of moving expense shall not be
23 required or permitted but allowable moving expense shall be fully
24 deductible for those taxpayers moving within or into Oklahoma and no

1 part of moving expense shall be deductible for those taxpayers
2 moving without or out of Oklahoma. All other itemized or standard
3 deductions and personal exemptions shall be subject to proration as
4 provided by law.

5 4. A resident individual with a physical disability
6 constituting a substantial handicap to employment may deduct from
7 Oklahoma adjusted gross income such expenditures to modify a motor
8 vehicle, home or workplace as are necessary to compensate for his or
9 her handicap. A veteran certified by the Department of Veterans
10 Affairs of the federal government as having a service-connected
11 disability shall be conclusively presumed to be an individual with a
12 physical disability constituting a substantial handicap to
13 employment. The Tax Commission shall promulgate rules containing a
14 list of combinations of common disabilities and modifications which
15 may be presumed to qualify for this deduction. The Tax Commission
16 shall prescribe necessary requirements for verification.

- 17 5. a. Before July 1, 2010, the first One Thousand Five
18 Hundred Dollars (\$1,500.00) received by any person
19 from the United States as salary or compensation in
20 any form, other than retirement benefits, as a member
21 of any component of the Armed Forces of the United
22 States shall be deducted from taxable income.
- 23 b. On or after July 1, 2010, one hundred percent (100%)
24 of the income received by any person from the United

1 States as salary or compensation in any form, other
2 than retirement benefits, as a member of any component
3 of the Armed Forces of the United States shall be
4 deducted from taxable income.

5 c. Whenever the filing of a timely income tax return by a
6 member of the Armed Forces of the United States is
7 made impracticable or impossible of accomplishment by
8 reason of:

9 (1) absence from the United States, which term
10 includes only the states and the District of
11 Columbia;

12 (2) absence from the State of Oklahoma while on
13 active duty; or

14 (3) confinement in a hospital within the United
15 States for treatment of wounds, injuries or
16 disease,

17 the time for filing a return and paying an income tax
18 shall be and is hereby extended without incurring
19 liability for interest or penalties, to the fifteenth
20 day of the third month following the month in which:

21 (a) Such individual shall return to the United
22 States if the extension is granted pursuant
23 to subparagraph a of this paragraph, return
24 to the State of Oklahoma if the extension is

1 granted pursuant to subparagraph b of this
2 paragraph or be discharged from such
3 hospital if the extension is granted
4 pursuant to subparagraph c of this
5 paragraph; or

6 (b) An executor, administrator, or conservator
7 of the estate of the taxpayer is appointed,
8 whichever event occurs the earliest.

9 Provided, that the Tax Commission may, in its discretion, grant
10 any member of the Armed Forces of the United States an extension of
11 time for filing of income tax returns and payment of income tax
12 without incurring liabilities for interest or penalties. Such
13 extension may be granted only when in the judgment of the Tax
14 Commission a good cause exists therefor and may be for a period in
15 excess of six (6) months. A record of every such extension granted,
16 and the reason therefor, shall be kept.

17 6. Before July 1, 2010, the salary or any other form of
18 compensation, received from the United States by a member of any
19 component of the Armed Forces of the United States, shall be
20 deducted from taxable income during the time in which the person is
21 detained by the enemy in a conflict, is a prisoner of war or is
22 missing in action and not deceased; provided, after July 1, 2010,
23 all such salary or compensation shall be subject to the deduction as
24 provided pursuant to paragraph 5 of this subsection.

- 1 7. a. An individual taxpayer, whether resident or
2 nonresident, may deduct an amount equal to the federal
3 income taxes paid by the taxpayer during the taxable
4 year.
- 5 b. Federal taxes as described in subparagraph a of this
6 paragraph shall be deductible by any individual
7 taxpayer, whether resident or nonresident, only to the
8 extent they relate to income subject to taxation
9 pursuant to the provisions of the Oklahoma Income Tax
10 Act. The maximum amount allowable in the preceding
11 paragraph shall be prorated on the ratio of the
12 Oklahoma adjusted gross income to federal adjusted
13 gross income.
- 14 c. For the purpose of this paragraph, "federal income
15 taxes paid" shall mean federal income taxes, surtaxes
16 imposed on incomes or excess profits taxes, as though
17 the taxpayer was on the accrual basis. In determining
18 the amount of deduction for federal income taxes for
19 tax year 2001, the amount of the deduction shall not
20 be adjusted by the amount of any accelerated ten
21 percent (10%) tax rate bracket credit or advanced
22 refund of the credit received during the tax year
23 provided pursuant to the federal Economic Growth and
24 Tax Relief Reconciliation Act of 2001, P.L. No. 107-

1 16, and the advanced refund of such credit shall not
2 be subject to taxation.

3 d. The provisions of this paragraph shall apply to all
4 taxable years ending after December 31, 1978, and
5 beginning before January 1, 2006.

6 8. Retirement benefits not to exceed Five Thousand Five Hundred
7 Dollars (\$5,500.00) for the 2004 tax year, Seven Thousand Five
8 Hundred Dollars (\$7,500.00) for the 2005 tax year and Ten Thousand
9 Dollars (\$10,000.00) for the 2006 tax year and all subsequent tax
10 years, which are received by an individual from the civil service of
11 the United States, the Oklahoma Public Employees Retirement System,
12 the Teachers' Retirement System of Oklahoma, the Oklahoma Law
13 Enforcement Retirement System, the Oklahoma Firefighters Pension and
14 Retirement System, the Oklahoma Police Pension and Retirement
15 System, the employee retirement systems created by counties pursuant
16 to Section 951 et seq. of Title 19 of the Oklahoma Statutes, the
17 Uniform Retirement System for Justices and Judges, the Oklahoma
18 Wildlife Conservation Department Retirement Fund, the Oklahoma
19 Employment Security Commission Retirement Plan, or the employee
20 retirement systems created by municipalities pursuant to Section 48-
21 101 et seq. of Title 11 of the Oklahoma Statutes shall be exempt
22 from taxable income.

23 9. In taxable years beginning after December 31, 1984 and
24 ending on or before December 31, 2018, Social Security benefits

1 received by an individual shall be exempt from taxable income, to
2 the extent such benefits are included in the federal adjusted gross
3 income pursuant to the provisions of Section 86 of the Internal
4 Revenue Code, 26 U.S.C., Section 86; provided, for taxable years
5 beginning on or after January 1, 2019, such benefits shall be exempt
6 if the taxpayer's federal adjusted gross income does not exceed:

7 a. Two Hundred Thousand Dollars (\$200,000.00) if
8 filing status is married and filing jointly or
9 qualifying widow, and

10 b. One Hundred Thousand Dollars (\$100,000.00) if
11 filing status is single, qualifying head of
12 household or married and filing separately.

13 10. For taxable years beginning after December 31, 1994, lump-
14 sum distributions from employer plans of deferred compensation,
15 which are not qualified plans within the meaning of Section 401(a)
16 of the Internal Revenue Code, 26 U.S.C., Section 401(a), and which
17 are deposited in and accounted for within a separate bank account or
18 brokerage account in a financial institution within this state,
19 shall be excluded from taxable income in the same manner as a
20 qualifying rollover contribution to an individual retirement account
21 within the meaning of Section 408 of the Internal Revenue Code, 26
22 U.S.C., Section 408. Amounts withdrawn from such bank or brokerage
23 account, including any earnings thereon, shall be included in
24 taxable income when withdrawn in the same manner as withdrawals from

1 individual retirement accounts within the meaning of Section 408 of
2 the Internal Revenue Code.

3 11. In taxable years beginning after December 31, 1995,
4 contributions made to and interest received from a medical savings
5 account established pursuant to Sections 2621 through 2623 of Title
6 63 of the Oklahoma Statutes shall be exempt from taxable income.

7 12. For taxable years beginning after December 31, 1996, the
8 Oklahoma adjusted gross income of any individual taxpayer who is a
9 swine or poultry producer may be further adjusted for the deduction
10 for depreciation allowed for new construction or expansion costs
11 which may be computed using the same depreciation method elected for
12 federal income tax purposes except that the useful life shall be
13 seven (7) years for purposes of this paragraph. If depreciation is
14 allowed as a deduction in determining the adjusted gross income of
15 an individual, any depreciation calculated and claimed pursuant to
16 this section shall in no event be a duplication of any depreciation
17 allowed or permitted on the federal income tax return of the
18 individual.

19 13. a. In taxable years beginning after December 31, 2002,
20 nonrecurring adoption expenses paid by a resident
21 individual taxpayer in connection with:
22 (1) the adoption of a minor, or
23 (2) a proposed adoption of a minor which did not
24 result in a decreed adoption,

1 may be deducted from the Oklahoma adjusted gross
2 income.

3 b. The deductions for adoptions and proposed adoptions
4 authorized by this paragraph shall not exceed Twenty
5 Thousand Dollars (\$20,000.00) per calendar year.

6 c. The Tax Commission shall promulgate rules to implement
7 the provisions of this paragraph which shall contain a
8 specific list of nonrecurring adoption expenses which
9 may be presumed to qualify for the deduction. The Tax
10 Commission shall prescribe necessary requirements for
11 verification.

12 d. "Nonrecurring adoption expenses" means adoption fees,
13 court costs, medical expenses, attorney fees and
14 expenses which are directly related to the legal
15 process of adoption of a child including, but not
16 limited to, costs relating to the adoption study,
17 health and psychological examinations, transportation
18 and reasonable costs of lodging and food for the child
19 or adoptive parents which are incurred to complete the
20 adoption process and are not reimbursed by other
21 sources. The term "nonrecurring adoption expenses"
22 shall not include attorney fees incurred for the
23 purpose of litigating a contested adoption, from and
24 after the point of the initiation of the contest,

1 costs associated with physical remodeling, renovation
2 and alteration of the adoptive parents' home or
3 property, except for a special needs child as
4 authorized by the court.

5 14. a. In taxable years beginning before January 1, 2005,
6 retirement benefits not to exceed the amounts
7 specified in this paragraph, which are received by an
8 individual sixty-five (65) years of age or older and
9 whose Oklahoma adjusted gross income is Twenty-five
10 Thousand Dollars (\$25,000.00) or less if the filing
11 status is single, head of household, or married filing
12 separate, or Fifty Thousand Dollars (\$50,000.00) or
13 less if the filing status is married filing joint or
14 qualifying widow, shall be exempt from taxable income.
15 In taxable years beginning after December 31, 2004,
16 retirement benefits not to exceed the amounts
17 specified in this paragraph, which are received by an
18 individual whose Oklahoma adjusted gross income is
19 less than the qualifying amount specified in this
20 paragraph, shall be exempt from taxable income.

21 b. For purposes of this paragraph, the qualifying amount
22 shall be as follows:

23 (1) in taxable years beginning after December 31,
24 2004, and prior to January 1, 2007, the

1 qualifying amount shall be Thirty-seven Thousand
2 Five Hundred Dollars (\$37,500.00) or less if the
3 filing status is single, head of household, or
4 married filing separate, or Seventy-five Thousand
5 Dollars (\$75,000.00) or less if the filing status
6 is married filing jointly or qualifying widow,
7 (2) in the taxable year beginning January 1, 2007,
8 the qualifying amount shall be Fifty Thousand
9 Dollars (\$50,000.00) or less if the filing status
10 is single, head of household, or married filing
11 separate, or One Hundred Thousand Dollars
12 (\$100,000.00) or less if the filing status is
13 married filing jointly or qualifying widow,
14 (3) in the taxable year beginning January 1, 2008,
15 the qualifying amount shall be Sixty-two Thousand
16 Five Hundred Dollars (\$62,500.00) or less if the
17 filing status is single, head of household, or
18 married filing separate, or One Hundred Twenty-
19 five Thousand Dollars (\$125,000.00) or less if
20 the filing status is married filing jointly or
21 qualifying widow,
22 (4) in the taxable year beginning January 1, 2009,
23 the qualifying amount shall be One Hundred
24 Thousand Dollars (\$100,000.00) or less if the

1 filing status is single, head of household, or
2 married filing separate, or Two Hundred Thousand
3 Dollars (\$200,000.00) or less if the filing
4 status is married filing jointly or qualifying
5 widow, and

6 (5) in the taxable year beginning January 1, 2010,
7 and subsequent taxable years, there shall be no
8 limitation upon the qualifying amount.

9 c. For purposes of this paragraph, "retirement benefits"
10 means the total distributions or withdrawals from the
11 following:

12 (1) an employee pension benefit plan which satisfies
13 the requirements of Section 401 of the Internal
14 Revenue Code, 26 U.S.C., Section 401,

15 (2) an eligible deferred compensation plan that
16 satisfies the requirements of Section 457 of the
17 Internal Revenue Code, 26 U.S.C., Section 457,

18 (3) an individual retirement account, annuity or
19 trust or simplified employee pension that
20 satisfies the requirements of Section 408 of the
21 Internal Revenue Code, 26 U.S.C., Section 408,

22 (4) an employee annuity subject to the provisions of
23 Section 403(a) or (b) of the Internal Revenue
24 Code, 26 U.S.C., Section 403(a) or (b),

(5) United States Retirement Bonds which satisfy the requirements of Section 86 of the Internal Revenue Code, 26 U.S.C., Section 86, or
(6) lump-sum distributions from a retirement plan which satisfies the requirements of Section 402(e) of the Internal Revenue Code, 26 U.S.C., Section 402(e).

d. The amount of the exemption provided by this paragraph shall be limited to Five Thousand Five Hundred Dollars (\$5,500.00) for the 2004 tax year, Seven Thousand Five Hundred Dollars (\$7,500.00) for the 2005 tax year and Ten Thousand Dollars (\$10,000.00) for the tax year 2006 and for all subsequent tax years. Any individual who claims the exemption provided for in paragraph 8 of this subsection shall not be permitted to claim a combined total exemption pursuant to this paragraph and paragraph 8 of this subsection in an amount exceeding Five Thousand Five Hundred Dollars (\$5,500.00) for the 2004 tax year, Seven Thousand Five Hundred Dollars (\$7,500.00) for the 2005 tax year and Ten Thousand Dollars (\$10,000.00) for the 2006 tax year and all subsequent tax years.

15. In taxable years beginning after December 31, 1999, for an individual engaged in production agriculture who has filed a

1 Schedule F form with the taxpayer's federal income tax return for
2 such taxable year, there shall be excluded from taxable income any
3 amount which was included as federal taxable income or federal
4 adjusted gross income and which consists of the discharge of an
5 obligation by a creditor of the taxpayer incurred to finance the
6 production of agricultural products.

7 16. In taxable years beginning December 31, 2000, an amount
8 equal to one hundred percent (100%) of the amount of any scholarship
9 or stipend received from participation in the Oklahoma Police Corps
10 Program, as established in Section 2-140.3 of Title 47 of the
11 Oklahoma Statutes shall be exempt from taxable income.

12 17. a. In taxable years beginning after December 31, 2001,
13 and before January 1, 2005, there shall be allowed a
14 deduction in the amount of contributions to accounts
15 established pursuant to the Oklahoma College Savings
16 Plan Act. The deduction shall equal the amount of
17 contributions to accounts, but in no event shall the
18 deduction for each contributor exceed Two Thousand
19 Five Hundred Dollars (\$2,500.00) each taxable year for
20 each account.

21 b. In taxable years beginning after December 31, 2004,
22 each taxpayer shall be allowed a deduction for
23 contributions to accounts established pursuant to the
24 Oklahoma College Savings Plan Act. The maximum annual

1 deduction shall equal the amount of contributions to
2 all such accounts plus any contributions to such
3 accounts by the taxpayer for prior taxable years after
4 December 31, 2004, which were not deducted, but in no
5 event shall the deduction for each tax year exceed Ten
6 Thousand Dollars (\$10,000.00) for each individual
7 taxpayer or Twenty Thousand Dollars (\$20,000.00) for
8 taxpayers filing a joint return. Any amount of a
9 contribution that is not deducted by the taxpayer in
10 the year for which the contribution is made may be
11 carried forward as a deduction from income for the
12 succeeding five (5) years. For taxable years
13 beginning after December 31, 2005, deductions may be
14 taken for contributions and rollovers made during a
15 taxable year and up to April 15 of the succeeding
16 year, or the due date of a taxpayer's state income tax
17 return, excluding extensions, whichever is later.
18 Provided, a deduction for the same contribution may
19 not be taken for two (2) different taxable years.

- 20 c. In taxable years beginning after December 31, 2006,
21 deductions for contributions made pursuant to
22 subparagraph b of this paragraph shall be limited as
23 follows:
24

1 (1) for a taxpayer who qualified for the five-year
2 carryforward election and who takes a rollover or
3 nonqualified withdrawal during that period, the
4 tax deduction otherwise available pursuant to
5 subparagraph b of this paragraph shall be reduced
6 by the amount which is equal to the rollover or
7 nonqualified withdrawal, and

8 (2) for a taxpayer who elects to take a rollover or
9 nonqualified withdrawal within the same tax year
10 in which a contribution was made to the
11 taxpayer's account, the tax deduction otherwise
12 available pursuant to subparagraph b of this
13 paragraph shall be reduced by the amount of the
14 contribution which is equal to the rollover or
15 nonqualified withdrawal.

16 d. If a taxpayer elects to take a rollover on a
17 contribution for which a deduction has been taken
18 pursuant to subparagraph b of this paragraph within
19 one (1) year of the date of contribution, the amount
20 of such rollover shall be included in the adjusted
21 gross income of the taxpayer in the taxable year of
22 the rollover.

23 e. If a taxpayer makes a nonqualified withdrawal of
24 contributions for which a deduction was taken pursuant

1 to subparagraph b of this paragraph, such nonqualified
2 withdrawal and any earnings thereon shall be included
3 in the adjusted gross income of the taxpayer in the
4 taxable year of the nonqualified withdrawal.

5 f. As used in this paragraph:

6 (1) "non-qualified withdrawal" means a withdrawal
7 from an Oklahoma College Savings Plan account
8 other than one of the following:

9 (a) a qualified withdrawal,

10 (b) a withdrawal made as a result of the death
11 or disability of the designated beneficiary
12 of an account,

13 (c) a withdrawal that is made on the account of
14 a scholarship or the allowance or payment
15 described in Section 135(d)(1)(B) or (C) or
16 by the Internal Revenue Code, received by
17 the designated beneficiary to the extent the
18 amount of the refund does not exceed the
19 amount of the scholarship, allowance, or
20 payment, or

21 (d) a rollover or change of designated
22 beneficiary as permitted by subsection F of
23 Section 3970.7 of Title 70 of Oklahoma
24 Statutes, and

1 (2) "rollover" means the transfer of funds from the
2 Oklahoma College Savings Plan to any other plan
3 under Section 529 of the Internal Revenue Code.

4 18. For taxable years beginning after December 31, 2005,
5 retirement benefits received by an individual from any component of
6 the Armed Forces of the United States in an amount not to exceed the
7 greater of seventy-five percent (75%) of such benefits or Ten
8 Thousand Dollars (\$10,000.00) shall be exempt from taxable income
9 but in no case less than the amount of the exemption provided by
10 paragraph 14 of this subsection.

11 19. For taxable years beginning after December 31, 2006, and
12 ending on or before December 31, 2018, retirement benefits received
13 by federal civil service retirees, including survivor annuities,
14 paid in lieu of Social Security benefits shall be exempt from
15 taxable income to the extent such benefits are included in the
16 federal adjusted gross income pursuant to the provisions of Section
17 86 of the Internal Revenue Code, 26 U.S.C., Section 86, ~~according to~~
18 ~~the following schedule:~~

19 ~~a. in the taxable year beginning January 1, 2007, twenty~~
20 ~~percent (20%) of such benefits shall be exempt,~~

21 ~~b. in the taxable year beginning January 1, 2008, forty~~
22 ~~percent (40%) of such benefits shall be exempt,~~

23 ~~c. in the taxable year beginning January 1, 2009, sixty~~
24 ~~percent (60%) of such benefits shall be exempt,~~

1 ~~d. in the taxable year beginning January 1, 2010, eighty~~
2 ~~percent (80%) of such benefits shall be exempt, and~~

3 ~~e. in the taxable year beginning January 1, 2011, and~~
4 ~~subsequent taxable years, one hundred percent (100%) of such~~
5 ~~benefits shall be exempt; provided, for taxable years beginning on~~
6 or after January 1, 2019, such benefits shall be exempt if the
7 taxpayer's federal adjusted gross income does not exceed:

8 a. Two Hundred Thousand Dollars (\$200,000.00) if
9 filing status is married and filing jointly or
10 qualifying widow, and

11 b. One Hundred Thousand Dollars (\$100,000.00) if
12 filing status is single, qualifying head of
13 household or married and filing separately.

14 20. a. For taxable years beginning after December 31, 2007, a
15 resident individual may deduct up to Ten Thousand
16 Dollars (\$10,000.00) from Oklahoma adjusted gross
17 income if the individual, or the dependent of the
18 individual, while living, donates one or more human
19 organs of the individual to another human being for
20 human organ transplantation. As used in this
21 paragraph, "human organ" means all or part of a liver,
22 pancreas, kidney, intestine, lung, or bone marrow. A
23 deduction that is claimed under this paragraph may be
24

1 claimed in the taxable year in which the human organ
2 transplantation occurs.

3 b. An individual may claim this deduction only once, and
4 the deduction may be claimed only for unreimbursed
5 expenses that are incurred by the individual and
6 related to the organ donation of the individual.

7 c. The Oklahoma Tax Commission shall promulgate rules to
8 implement the provisions of this paragraph which shall
9 contain a specific list of expenses which may be
10 presumed to qualify for the deduction. The Tax
11 Commission shall prescribe necessary requirements for
12 verification.

13 21. For taxable years beginning after December 31, 2009, there
14 shall be exempt from taxable income any amount received by the
15 beneficiary of the death benefit for an emergency medical technician
16 or a registered emergency medical responder provided by Section 1-
17 2505.1 of Title 63 of the Oklahoma Statutes.

18 22. For taxable years beginning after December 31, 2008,
19 taxable income shall be increased by any unemployment compensation
20 exempted under Section 85 (c) of the Internal Revenue Code, 26
21 U.S.C., Section 85(c) (2009) .

22 23. For taxable years beginning after December 31, 2008, there
23 shall be exempt from taxable income any payment in an amount less
24 than Six Hundred Dollars (\$600.00) received by a person as an award

1 for participation in a competitive livestock show event. For
2 purposes of this paragraph, the payment shall be treated as a
3 scholarship amount paid by the entity sponsoring the event and the
4 sponsoring entity shall cause the payment to be categorized as a
5 scholarship in its books and records.

6 24. For taxable years beginning on or after January 1, 2016,
7 taxable income shall be increased by any amount of state and local
8 sales or income taxes deducted under 26 U.S.C., Section 164 of the
9 Internal Revenue Code. If the amount of state and local taxes
10 deducted on the federal return is limited, taxable income on the
11 state return shall be increased only by the amount actually deducted
12 after any such limitations are applied.

13 F. 1. For taxable years beginning after December 31, 2004, a
14 deduction from the Oklahoma adjusted gross income of any individual
15 taxpayer shall be allowed for qualifying gains receiving capital
16 treatment that are included in the federal adjusted gross income of
17 such individual taxpayer during the taxable year.

18 2. As used in this subsection:

19 a. "qualifying gains receiving capital treatment" means
20 the amount of net capital gains, as defined in Section
21 1222(11) of the Internal Revenue Code, included in an
22 individual taxpayer's federal income tax return that
23 result from:
24

- 1 (1) the sale of real property or tangible personal
2 property located within Oklahoma that has been
3 directly or indirectly owned by the individual
4 taxpayer for a holding period of at least five
5 (5) years prior to the date of the transaction
6 from which such net capital gains arise,
- 7 (2) the sale of stock or the sale of a direct or
8 indirect ownership interest in an Oklahoma
9 company, limited liability company, or
10 partnership where such stock or ownership
11 interest has been directly or indirectly owned by
12 the individual taxpayer for a holding period of
13 at least two (2) years prior to the date of the
14 transaction from which the net capital gains
15 arise, or
- 16 (3) the sale of real property, tangible personal
17 property or intangible personal property located
18 within Oklahoma as part of the sale of all or
19 substantially all of the assets of an Oklahoma
20 company, limited liability company, or
21 partnership or an Oklahoma proprietorship
22 business enterprise where such property has been
23 directly or indirectly owned by such entity or
24 business enterprise or owned by the owners of

1 such entity or business enterprise for a period
2 of at least two (2) years prior to the date of
3 the transaction from which the net capital gains
4 arise,

5 b. "holding period" means an uninterrupted period of
6 time. The holding period shall include any additional
7 period when the property was held by another
8 individual or entity, if such additional period is
9 included in the taxpayer's holding period for the
10 asset pursuant to the Internal Revenue Code,

11 c. "Oklahoma company," "limited liability company," or
12 "partnership" means an entity whose primary
13 headquarters have been located in Oklahoma for at
14 least three (3) uninterrupted years prior to the date
15 of the transaction from which the net capital gains
16 arise,

17 d. "direct" means the individual taxpayer directly owns
18 the asset,

19 e. "indirect" means the individual taxpayer owns an
20 interest in a pass-through entity (or chain of pass-
21 through entities) that sells the asset that gives rise
22 to the qualifying gains receiving capital treatment.

23 (1) With respect to sales of real property or
24 tangible personal property located within

Oklahoma, the deduction described in this subsection shall not apply unless the pass-through entity that makes the sale has held the property for not less than five (5) uninterrupted years prior to the date of the transaction that created the capital gain, and each pass-through entity included in the chain of ownership has been a member, partner, or shareholder of the pass-through entity in the tier immediately below it for an uninterrupted period of not less than five (5) years.

(2) With respect to sales of stock or ownership interest in or sales of all or substantially all of the assets of an Oklahoma company, limited liability company, partnership or Oklahoma proprietorship business enterprise, the deduction described in this subsection shall not apply unless the pass-through entity that makes the sale has held the stock or ownership interest for not less than two (2) uninterrupted years prior to the date of the transaction that created the capital gain, and each pass-through entity included in the chain of ownership has been a member, partner or shareholder of the pass-

1 through entity in the tier immediately below it
2 for an uninterrupted period of not less than two
3 (2) years. For purposes of this division,
4 uninterrupted ownership prior to July 1, 2007,
5 shall be included in the determination of the
6 required holding period prescribed by this
7 division, and

8 f. "Oklahoma proprietorship business enterprise" means a
9 business enterprise whose income and expenses have
10 been reported on Schedule C or F of an individual
11 taxpayer's federal income tax return, or any similar
12 successor schedule published by the Internal Revenue
13 Service and whose primary headquarters have been
14 located in Oklahoma for at least three (3)
15 uninterrupted years prior to the date of the
16 transaction from which the net capital gains arise.

17 G. 1. For purposes of computing its Oklahoma taxable income
18 under this section, the dividends-paid deduction otherwise allowed
19 by federal law in computing net income of a real estate investment
20 trust that is subject to federal income tax shall be added back in
21 computing the tax imposed by this state under this title if the real
22 estate investment trust is a captive real estate investment trust.

23 2. For purposes of computing its Oklahoma taxable income under
24 this section, a taxpayer shall add back otherwise deductible rents

1 and interest expenses paid to a captive real estate investment trust
2 that is not subject to the provisions of paragraph 1 of this
3 subsection. As used in this subsection:

4 a. the term "real estate investment trust" or "REIT"
5 means the meaning ascribed to such term in Section 856
6 of the Internal Revenue Code of 1986, as amended,

7 b. the term "captive real estate investment trust" means
8 a real estate investment trust, the shares or
9 beneficial interests of which are not regularly traded
10 on an established securities market and more than
11 fifty percent (50%) of the voting power or value of
12 the beneficial interests or shares of which are owned
13 or controlled, directly or indirectly, or
14 constructively, by a single entity that is:

15 (1) treated as an association taxable as a
16 corporation under the Internal Revenue Code of
17 1986, as amended, and

18 (2) not exempt from federal income tax pursuant to
19 the provisions of Section 501(a) of the Internal
20 Revenue Code of 1986, as amended.

21 The term shall not include a real estate investment
22 trust that is intended to be regularly traded on an
23 established securities market, and that satisfies the
24 requirements of Section 856(a)(5) and (6) of the U.S.

1 Internal Revenue Code by reason of Section 856(h) (2)
2 of the Internal Revenue Code,
3 c. the term "association taxable as a corporation" shall
4 not include the following entities:
5 (1) any real estate investment trust as defined in
6 paragraph a of this subsection other than a
7 "captive real estate investment trust", or
8 (2) any qualified real estate investment trust
9 subsidiary under Section 856(i) of the Internal
10 Revenue Code of 1986, as amended, other than a
11 qualified REIT subsidiary of a "captive real
12 estate investment trust", or
13 (3) any Listed Australian Property Trust (meaning an
14 Australian unit trust registered as a "Managed
15 Investment Scheme" under the Australian
16 Corporations Act in which the principal class of
17 units is listed on a recognized stock exchange in
18 Australia and is regularly traded on an
19 established securities market), or an entity
20 organized as a trust, provided that a Listed
21 Australian Property Trust owns or controls,
22 directly or indirectly, seventy-five percent
23 (75%) or more of the voting power or value of the
24 beneficial interests or shares of such trust, or

- 1 (4) any Qualified Foreign Entity, meaning a
2 corporation, trust, association or partnership
3 organized outside the laws of the United States
4 and which satisfies the following criteria:
- 5 (a) at least seventy-five percent (75%) of the
6 entity's total asset value at the close of
7 its taxable year is represented by real
8 estate assets, as defined in Section
9 856(c) (5) (B) of the Internal Revenue Code of
10 1986, as amended, thereby including shares
11 or certificates of beneficial interest in
12 any real estate investment trust, cash and
13 cash equivalents, and U.S. Government
14 securities,
- 15 (b) the entity receives a dividend-paid
16 deduction comparable to Section 561 of the
17 Internal Revenue Code of 1986, as amended,
18 or is exempt from entity level tax,
- 19 (c) the entity is required to distribute at
20 least eighty-five percent (85%) of its
21 taxable income, as computed in the
22 jurisdiction in which it is organized, to
23 the holders of its shares or certificates of
24 beneficial interest on an annual basis,

- (d) not more than ten percent (10%) of the voting power or value in such entity is held directly or indirectly or constructively by a single entity or individual, or the shares or beneficial interests of such entity are regularly traded on an established securities market, and
- (e) the entity is organized in a country which has a tax treaty with the United States.

3. For purposes of this subsection, the constructive ownership rules of Section 318(a) of the Internal Revenue Code of 1986, as amended, as modified by Section 856(d)(5) of the Internal Revenue Code of 1986, as amended, shall apply in determining the ownership of stock, assets, or net profits of any person.

4. A real estate investment trust that does not become regularly traded on an established securities market within one (1) year of the date on which it first becomes a real estate investment trust shall be deemed not to have been regularly traded on an established securities market, retroactive to the date it first became a real estate investment trust, and shall file an amended return reflecting such retroactive designation for any tax year or part year occurring during its initial year of status as a real estate investment trust. For purposes of this subsection, a real estate investment trust becomes a real estate investment trust on

1 the first day it has both met the requirements of Section 856 of the
2 Internal Revenue Code and has elected to be treated as a real estate
3 investment trust pursuant to Section 856(c)(1) of the Internal
4 Revenue Code.

5 SECTION 2. This act shall become effective November 1, 2018.

6 COMMITTEE REPORT BY: COMMITTEE ON APPROPRIATIONS
7 February 28, 2018 - DO PASS AS AMENDED
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