

BILL SUMMARY
2nd Session of the 58th Legislature

Bill No.:	HB 3675
Version:	SUBPCS1
Request Number:	10603
Author:	Rep. Wolfley
Date:	2/21/2022
Impact:	Tax Commission:

Decrease in Income Tax Revenue

**Data Unavailable to Determine Number of Filers
Significant Revenue Decrease Anticipated in FY-24**

Research Analysis

The subcommittee substitute for HB3675 allows taxpayers who claim the standard deduction on their federal income tax return to elect to itemize deductions on their state income tax return when the total itemized deductions exceed the following amounts:

- \$21,500 for a joint return; or
- \$10,750 for an individual return.

Current law requires taxpayers that claim the standard deduction on their federal return to claim the Oklahoma standard deduction. The state standard deduction is fixed at \$6,350 for single filers and \$12,700 for joint filers.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

The Proposed Committee Substitute (Req. No. 10603) for HB 3675 proposes to amend 68 O.S. § 2358 by allowing 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 (\$21,500 for joint filers). 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.

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.

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Other Considerations

None.