

# OKLAHOMA TAX COMMISSION

## REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-NINTH OKLAHOMA LEGISLATURE

**DATE OF IMPACT STATEMENT:** February 1, 2023

**BILL NUMBER:** SB 81    **STATUS AND DATE OF BILL:** Introduced 12/28/2022

**AUTHORS:** House: n/a    Senate: Dahm

**TAX TYPE (S):** Income Tax    **SUBJECT:** Exemption

**PROPOSAL:** Amendatory

SB 81 proposes to amend various paragraphs 68 O.S. § 2358 relating to the taxability of certain retirement benefits<sup>1</sup> by increasing the amount not subject to Oklahoma individual income tax to 100% effective for tax year 2024 and subsequent tax years.

**EFFECTIVE DATE:** November 1, 2023

### REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 24: Projected decrease of \$78.8 million in income tax collections.  
FY 25: Projected decrease of \$197.0 million in income tax collections.

Feb 5, 2023  
DATE

Rick Miller  
DIVISION DIRECTOR

mk

2/6/2023  
DATE

Huan Gong  
HUAN GONG, ECONOMIST

2/7/2023  
DATE

Joseph P Gappa  
FOR THE COMMISSION

***The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.***

<sup>1</sup> There are also grammatical changes contained in this legislation throughout 68 O.S. § 2358.

ATTACHMENT TO REVENUE IMPACT STATEMENT – SB 81 [Introduced]  
Prepared 2/1/2023

SB 81 proposes to amend 68 O.S. § 2358 relating to the taxability of certain retirement benefits by increasing the amount not subject to Oklahoma individual income tax to 100% effective for tax year 2024 and subsequent tax years.<sup>2</sup>

Under current law, Oklahoma imposes income tax on most Oklahoma and federal government retirement benefits as well as specified private retirement benefits<sup>3</sup> in excess of \$10,000 of the amount that is included in federal adjusted gross income.

In order to estimate the revenue impact of this measure, IRS<sup>4</sup> and Oklahoma Tax Commission pension data<sup>5</sup> from tax year 2019 was examined. The current amounts exempted in Oklahoma were subtracted from the pension benefits reported to the IRS resulting in an additional \$6.455 billion in retirement benefits which will be excluded from Oklahoma income in tax year 2024 under this measure. Applying an effective tax rate of 3.05%, it is expected that tax year 2024 revenue would decrease by \$197 million. Withholding and estimated tax payments would change as a result of the enactment of this measure which would occur in part in FY24. It is expected the revenue impact for FY24 would be a decrease of \$78.8 million in income tax collections and for FY25 a decrease of \$197 million in income tax collections.

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<sup>2</sup> Lump- sum distributions from employer plans of deferred compensation, which are not qualified plans per IRC § 401(a) which are deposited in and accounted for within a separate bank account or brokerage account in a financial institution within this state, are currently excluded from taxable income in the same manner as a qualifying rollover contribution to an individual retirement account within the meaning of IRC § 408. Amounts withdrawn from such bank or brokerage account, including any earnings thereon, however are included in taxable income. Effective for tax year 2024 and subsequent, these types of withdrawals will also be fully exempt under this proposal.

<sup>3</sup> Income from the following plans are the specified private retirement benefits:

- Employee pension benefit plans per IRC 26 U.S.C. § 401
- Eligible deferred compensation plans per IRC 26 U.S.C. § 457
- Individual Retirement Accounts or Simplified Employee Plans per IRC 26 U.S.C. § 408
- Employee annuities per IRC 26 U.S.C. § 403 (a) or (b)
- United States Retirement Bonds per IRC 26 U.S.C. § 86
- Lump-sum distributions from a retirement plan IRC 26 U.S.C. § 402(e)

Additionally, under current law Civil Service Retirement in Lieu of Social Security is fully exempt, and for the year this analysis is based on military retirement is up to 75% exempt. These were included in the analysis since the amount on the federal returns was the starting point for the calculation.

<sup>4</sup> Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2019 - IRS, Statistics of Income Division, Individual Master File System, December 2021.

<sup>5</sup> Oklahoma Tax Commission – Simple Statistics Tax Year 2019