

STATE OF OKLAHOMA

1st Session of the 59th Legislature (2023)

SENATE BILL 585

By: Montgomery

AS INTRODUCED

An Act relating to income tax; amending 68 O.S. 2021, Section 2358, as last amended by Section 1, Chapter 377, O.S.L. 2022 (68 O.S. Supp. 2022, Section 2358), which relates to adjustments to arrive at Oklahoma taxable income; exempting payments to beneficiaries of certain survivor benefit plans; updating statutory language; and providing an effective date.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 68 O.S. 2021, Section 2358, as last amended by Section 1, Chapter 377, O.S.L. 2022 (68 O.S. Supp. 2022, Section 2358), is amended to read as follows:

Section 2358. For all tax years beginning after December 31, 1981, taxable income and adjusted gross income shall be adjusted to arrive at Oklahoma taxable income and Oklahoma adjusted gross income as required by this section.

1 A. The taxable income of any taxpayer shall be adjusted to
2 arrive at Oklahoma taxable income for corporations and Oklahoma
3 adjusted gross income for individuals, as follows:

4 1. There shall be added interest income on obligations of any
5 state or political subdivision thereto which is not otherwise
6 exempted pursuant to other laws of this state, to the extent that
7 such interest is not included in taxable income and adjusted gross
8 income.

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

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

15 a. For carryovers and carrybacks to taxable years
16 beginning before January 1, 1981, the amount of any
17 net operating loss deduction allowed to a taxpayer for
18 federal income tax purposes shall be reduced to an
19 amount which is the same portion thereof as the loss
20 from sources within this state, as determined pursuant
21 to this section and Section 2362 of this title, for
22 the taxable year in which such loss is sustained is of
23 the total loss for such year; and

1 b. For carryovers and carrybacks to taxable years
2 beginning after December 31, 1980, the amount of any
3 net operating loss deduction allowed for the taxable
4 year shall be an amount equal to the aggregate of the
5 Oklahoma net operating loss carryovers and carrybacks
6 to such year. Oklahoma net operating losses shall be
7 separately determined by reference to Section 172 of
8 the Internal Revenue Code, 26 U.S.C., Section 172, as
9 modified by the Oklahoma Income Tax Act, Section 2351
10 et seq. of this title, and shall be allowed without
11 regard to the existence of a federal net operating
12 loss. For tax years beginning after December 31,
13 2000, and ending before January 1, 2008, the years to
14 which such losses may be carried shall be determined
15 solely by reference to Section 172 of the Internal
16 Revenue Code, 26 U.S.C., Section 172, with the
17 exception that the terms "net operating loss" and
18 "taxable income" shall be replaced with "Oklahoma net
19 operating loss" and "Oklahoma taxable income". For
20 tax years beginning after December 31, 2007, and
21 ending before January 1, 2009, years to which such
22 losses may be carried back shall be limited to two (2)
23 years. For tax years beginning after December 31,
24 2008, the years to which such losses may be carried

1 back shall be determined solely by reference to
2 Section 172 of the Internal Revenue Code, 26 U.S.C.,
3 Section 172, with the exception that the terms "net
4 operating loss" and "taxable income" shall be replaced
5 with "Oklahoma net operating loss" and "Oklahoma
6 taxable income".

7 4. Items of the following nature shall be allocated as
8 indicated. Allowable deductions attributable to items separately
9 allocable in subparagraphs a, b, c and c of this paragraph, whether or
10 not such items of income were actually received, shall be allocated
11 on the same basis as those items:

12 a. Income from real and tangible personal property, such
13 as rents, oil and mining production or royalties, and
14 gains or losses from sales of such property, shall be
15 allocated in accordance with the situs of such
16 property;

17 b. Income from intangible personal property, such as
18 interest, dividends, patent or copyright royalties,
19 and gains or losses from sales of such property, shall
20 be allocated in accordance with the domiciliary situs
21 of the taxpayer, except that:

22 (1) where such property has acquired a nonunitary
23 business or commercial situs apart from the
24 domicile of the taxpayer such income shall be
25

1 allocated in accordance with such business or
2 commercial situs; interest income from
3 investments held to generate working capital for
4 a unitary business enterprise shall be included
5 in apportionable income; a resident trust or
6 resident estate shall be treated as having a
7 separate commercial or business situs insofar as
8 undistributed income is concerned, but shall not
9 be treated as having a separate commercial or
10 business situs insofar as distributed income is
11 concerned,

12 (2) for taxable years beginning after December 31,
13 2003, capital or ordinary gains or losses from
14 the sale of an ownership interest in a publicly
15 traded partnership, as defined by Section 7704(b)
16 of the Internal Revenue Code, shall be allocated
17 to this state in the ratio of the original cost
18 of such partnership's tangible property in this
19 state to the original cost of such partnership's
20 tangible property everywhere, as determined at
21 the time of the sale; if more than fifty percent
22 (50%) of the value of the partnership's assets
23 consists of intangible assets, capital or
24 ordinary gains or losses from the sale of an

1 ownership interest in the partnership shall be
2 allocated to this state in accordance with the
3 sales factor of the partnership for its first
4 full tax period immediately preceding its tax
5 period during which the ownership interest in the
6 partnership was sold; the provisions of this
7 division shall only apply if the capital or
8 ordinary gains or losses from the sale of an
9 ownership interest in a partnership do not
10 constitute qualifying gain receiving capital
11 treatment as defined in subparagraph a of
12 paragraph 2 of subsection F of this section, or

13 (3) income from such property which is required to be
14 allocated pursuant to the provisions of paragraph
15 5 of this subsection shall be allocated as herein
16 provided;

17 c. Net income or loss from a business activity which is
18 not a part of business carried on within or without
19 the state of a unitary character shall be separately
20 allocated to the state in which such activity is
21 conducted;

22 d. In the case of a manufacturing or processing
23 enterprise the business of which in Oklahoma consists
24 solely of marketing its products by:

1 (1) sales having a situs without this state, shipped
2 directly to a point from without the state to a
3 purchaser within the state, commonly known as
4 interstate sales,

5 (2) sales of the product stored in public warehouses
6 within the state pursuant to "in transit"
7 tariffs, as prescribed and allowed by the
8 Interstate Commerce Commission, to a purchaser
9 within the state, or

10 (3) sales of the product stored in public warehouses
11 within the state where the shipment to such
12 warehouses is not covered by "in transit"
13 tariffs, as prescribed and allowed by the
14 Interstate Commerce Commission, to a purchaser
15 within or without the state,

16 the Oklahoma net income shall, at the option of the
17 taxpayer, be that portion of the total net income of
18 the taxpayer for federal income tax purposes derived
19 from the manufacture and/or processing and sales
20 everywhere as determined by the ratio of the sales
21 defined in this section made to the purchaser within
22 the state to the total sales everywhere. The term
23 "public warehouse" as used in this subparagraph means
24

1 a licensed public warehouse, the principal business of
2 which is warehousing merchandise for the public;

3 e. In the case of insurance companies, Oklahoma taxable
4 income shall be taxable income of the taxpayer for
5 federal tax purposes, as adjusted for the adjustments
6 provided pursuant to the provisions of paragraphs 1
7 and 2 of this subsection, apportioned as follows:

8 (1) except as otherwise provided by division (2) of
9 this subparagraph, taxable income of an insurance
10 company for a taxable year shall be apportioned
11 to this state by multiplying such income by a
12 fraction, the numerator of which is the direct
13 premiums written for insurance on property or
14 risks in this state, and the denominator of which
15 is the direct premiums written for insurance on
16 property or risks everywhere. For purposes of
17 this subsection, the term "direct premiums
18 written" means the total amount of direct
19 premiums written, assessments, and annuity
20 considerations as reported for the taxable year
21 on the annual statement filed by the company with
22 the Insurance Commissioner in the form approved
23 by the National Association of Insurance
24

Commissioners, or such other form as may be
prescribed in lieu thereof,

- (2) if the principal source of premiums written by an insurance company consists of premiums for reinsurance accepted by it, the taxable income of such company shall be apportioned to this state by multiplying such income by a fraction, the numerator of which is the sum of (a) direct premiums written for insurance on property or risks in this state, plus (b) premiums written for reinsurance accepted in respect of property or risks in this state, and the denominator of which is the sum of (c) direct premiums written for insurance on property or risks everywhere, plus (d) premiums written for reinsurance accepted in respect of property or risks everywhere. For purposes of this paragraph, premiums written for reinsurance accepted in respect of property or risks in this state, whether or not otherwise determinable, may at the election of the company be determined on the basis of the proportion which premiums written for insurance accepted from companies commercially domiciled in Oklahoma bears to

1 premiums written for reinsurance accepted from
2 all sources, or alternatively in the proportion
3 which the sum of the direct premiums written for
4 insurance on property or risks in this state by
5 each ceding company from which reinsurance is
6 accepted bears to the sum of the total direct
7 premiums written by each such ceding company for
8 the taxable year.

9 5. The net income or loss remaining after the separate
10 allocation in paragraph 4 of this subsection, being that which is
11 derived from a unitary business enterprise, shall be apportioned to
12 this state on the basis of the arithmetical average of three factors
13 consisting of property, payroll, and sales or gross revenue
14 enumerated as subparagraphs a, b, and c of this paragraph. Net
15 income or loss as used in this paragraph includes that derived from
16 patent or copyright royalties, purchase discounts, and interest on
17 accounts receivable relating to or arising from a business activity,
18 the income from which is apportioned pursuant to this subsection,
19 including the sale or other disposition of such property and any
20 other property used in the unitary enterprise. Deductions used in
21 computing such net income or loss shall not include taxes based on
22 or measured by income. Provided, for corporations whose property
23 for purposes of the tax imposed by Section 2355 of this title has an
24 initial investment cost equaling or exceeding Two Hundred Million

1 Dollars (\$200,000,000.00) and such investment is made on or after
2 July 1, 1997, or for corporations which expand their property or
3 facilities in this state and such expansion has an investment cost
4 equaling or exceeding Two Hundred Million Dollars (\$200,000,000.00)
5 over a period not to exceed three (3) years, and such expansion is
6 commenced on or after January 1, 2000, the three factors shall be
7 apportioned with property and payroll, each comprising twenty-five
8 percent (25%) of the apportionment factor and sales comprising fifty
9 percent (50%) of the apportionment factor. The apportionment
10 factors shall be computed as follows:

11 a. The property factor is a fraction, the numerator of
12 which is the average value of the taxpayer's real and
13 tangible personal property owned or rented and used in
14 this state during the tax period and the denominator
15 of which is the average value of all the taxpayer's
16 real and tangible personal property everywhere owned
17 or rented and used during the tax period.

18 (1) Property, the income from which is separately
19 allocated in paragraph 4 of this subsection,
20 shall not be included in determining this
21 fraction. The numerator of the fraction shall
22 include a portion of the investment in
23 transportation and other equipment having no
24 fixed situs, such as rolling stock, buses, trucks

1 and trailers, including machinery and equipment
2 carried thereon, airplanes, salespersons'
3 automobiles, and other similar equipment, in the
4 proportion that miles traveled in Oklahoma by
5 such equipment bears to total miles traveled,

6 (2) Property owned by the taxpayer is valued at its
7 original cost. Property rented by the taxpayer
8 is valued at eight times the net annual rental
9 rate. Net annual rental rate is the annual
10 rental rate paid by the taxpayer, less any annual
11 rental rate received by the taxpayer from
12 subrentals,

13 (3) The average value of property shall be determined
14 by averaging the values at the beginning and
15 ending of the tax period, but the Oklahoma Tax
16 Commission may require the averaging of monthly
17 values during the tax period if reasonably
18 required to reflect properly the average value of
19 the taxpayer's property;

20 b. The payroll factor is a fraction, the numerator of
21 which is the total compensation for services rendered
22 in the state during the tax period, and the
23 denominator of which is the total compensation for
24 services rendered everywhere during the tax period.

1 "Compensation", as used in this subsection means those
2 paid-for services to the extent related to the unitary
3 business but does not include officers' salaries,
4 wages, and other compensation.

5 (1) In the case of a transportation enterprise, the
6 numerator of the fraction shall include a portion
7 of such expenditure in connection with employees
8 operating equipment over a fixed route, such as
9 railroad employees, airline pilots, or bus
10 drivers, in this state only a part of the time,
11 in the proportion that mileage traveled in
12 Oklahoma bears to total mileage traveled by such
13 employees,

14 (2) In any case the numerator of the fraction shall
15 include a portion of such expenditures in
16 connection with itinerant employees, such as
17 traveling salespersons, in this state only a part
18 of the time, in the proportion that time spent in
19 Oklahoma bears to total time spent in furtherance
20 of the enterprise by such employees;

21 c. The sales factor is a fraction, the numerator of which
22 is the total sales or gross revenue of the taxpayer in
23 this state during the tax period, and the denominator
24 of which is the total sales or gross revenue of the
25

1 taxpayer everywhere during the tax period. "Sales",
2 as used in this subsection does not include sales or
3 gross revenue which are separately allocated in
4 paragraph 4 of this subsection.

5 (1) Sales of tangible personal property have a situs
6 in this state if the property is delivered or
7 shipped to a purchaser other than the United
8 States government, within this state regardless
9 of the FOB point or other conditions of the sale;
10 or the property is shipped from an office, store,
11 warehouse, factory, or other place of storage in
12 this state and (a) the purchaser is the United
13 States government or (b) the taxpayer is not
14 doing business in the state of the destination of
15 the shipment.

16 (2) In the case of a railroad or interurban railway
17 enterprise, the numerator of the fraction shall
18 not be less than the allocation of revenues to
19 this state as shown in its annual report to the
20 Corporation Commission.

21 (3) In the case of an airline, truck, or bus
22 enterprise or freight car, tank car, refrigerator
23 car, or other railroad equipment enterprise, the
24 numerator of the fraction shall include a portion

1 of revenue from interstate transportation in the
2 proportion that interstate mileage traveled in
3 Oklahoma bears to total interstate mileage
4 traveled.

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

19 (5) In the case of a telephone or telegraph or other
20 communication enterprise, the numerator of the
21 fraction shall include that portion of the
22 interstate revenue as is allocated pursuant to
23 the accounting procedures prescribed by the
24 Federal Communications Commission; provided that

1 in respect to each corporation or business entity
2 required by the Federal Communications Commission
3 to keep its books and records in accordance with
4 a uniform system of accounts prescribed by such
5 Commission, the intrastate net income shall be
6 determined separately in the manner provided by
7 such uniform system of accounts and only the
8 interstate income shall be subject to allocation
9 pursuant to the provisions of this subsection.
10 Provided further, that the gross revenue factors
11 shall be those as are determined pursuant to the
12 accounting procedures prescribed by the Federal
13 Communications Commission.

14 In any case where the apportionment of the three factors
15 prescribed in this paragraph attributes to Oklahoma a portion of net
16 income of the enterprise out of all appropriate proportion to the
17 property owned and/or business transacted within this state, because
18 of the fact that one or more of the factors so prescribed are not
19 employed to any appreciable extent in furtherance of the enterprise;
20 or because one or more factors not so prescribed are employed to a
21 considerable extent in furtherance of the enterprise; or because of
22 other reasons, the Tax Commission is empowered to permit, after a
23 showing by a taxpayer that an excessive portion of net income has
24 been attributed to Oklahoma, or require, when in its judgment an

1 insufficient portion of net income has been attributed to Oklahoma,
2 the elimination, substitution, or use of additional factors, or
3 reduction or increase in the weight of such prescribed factors.
4 Provided, however, that any such variance from such prescribed
5 factors which has the effect of increasing the portion of net income
6 attributable to Oklahoma must not be inherently arbitrary, and
7 application of the recomputed final apportionment to the net income
8 of the enterprise must attribute to Oklahoma only a reasonable
9 portion thereof.

10 6. For calendar years 1997 and 1998, the owner of a new or
11 expanded agricultural commodity processing facility in this state
12 may exclude from Oklahoma taxable income, or in the case of an
13 individual, the Oklahoma adjusted gross income, fifteen percent
14 (15%) of the investment by the owner in the new or expanded
15 agricultural commodity processing facility. For calendar year 1999,
16 and all subsequent years, the percentage, not to exceed fifteen
17 percent (15%), available to the owner of a new or expanded
18 agricultural commodity processing facility in this state claiming
19 the exemption shall be adjusted annually so that the total estimated
20 reduction in tax liability does not exceed One Million Dollars
21 (\$1,000,000.00) annually. The Tax Commission shall promulgate rules
22 for determining the percentage of the investment which each eligible
23 taxpayer may exclude. The exclusion provided by this paragraph
24 shall be taken in the taxable year when the investment is made. In

1 the event the total reduction in tax liability authorized by this
2 paragraph exceeds One Million Dollars (\$1,000,000.00) in any
3 calendar year, the Tax Commission shall permit any excess over One
4 Million Dollars (\$1,000,000.00) and shall factor such excess into
5 the percentage for subsequent years. Any amount of the exemption
6 permitted to be excluded pursuant to the provisions of this
7 paragraph but not used in any year may be carried forward as an
8 exemption from income pursuant to the provisions of this paragraph
9 for a period not exceeding six (6) years following the year in which
10 the investment was originally made.

11 For purposes of this paragraph:

- 12 a. "Agricultural commodity processing facility" means
13 ~~building~~ buildings, structures, fixtures, and
14 improvements used or operated primarily for the
15 processing or production of marketable products from
16 agricultural commodities. The term shall also mean a
17 dairy operation that requires a depreciable investment
18 of at least Two Hundred Fifty Thousand Dollars
19 (\$250,000.00) and which produces milk from dairy cows.
20 The term does not include a facility that provides
21 only, and nothing more than, storage, cleaning,
22 drying, or transportation of agricultural commodities,
23 and
24

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

- 3 (1) the processing of agricultural commodities,
4 including receiving or storing agricultural
5 commodities, or the production of milk at a dairy
6 operation,
7 (2) transporting the agricultural commodities or
8 product before, during, or after the processing,
9 or
10 (3) packaging or otherwise preparing the product for
11 sale or shipment.

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

- 19 a. Sixty Thousand Dollars (\$60,000.00), or
20 b. the loss properly shown on Schedule F of the Internal
21 Revenue Service Form 1040 reduced by one-half (1/2) of
22 the income from all other sources other than reflected
23 on Schedule F.

1 8. In taxable years beginning after December 31, 1995, all
2 qualified wages equal to the federal income tax credit set forth in
3 26 U.S.C.A., Section 45A, shall be deducted from taxable income.
4 The deduction allowed pursuant to this paragraph shall only be
5 permitted for the tax years in which the federal tax credit pursuant
6 to 26 U.S.C.A., Section 45A, is allowed. For purposes of this
7 paragraph, "qualified wages" means those wages used to calculate the
8 federal credit pursuant to 26 U.S.C.A., Section 45A.

9 9. In taxable years beginning after December 31, 2005, an
10 employer that is eligible for and utilizes the Safety Pays OSHA
11 Consultation Service provided by the ~~Oklahoma~~ Department of Labor
12 shall receive an exemption from taxable income in the amount of One
13 Thousand Dollars (\$1,000.00) for the tax year that the service is
14 utilized.

15 10. For taxable years beginning on or after January 1, 2010,
16 there shall be added to Oklahoma taxable income an amount equal to
17 the amount of deferred income not included in such taxable income
18 pursuant to Section 108(i)(1) of the Internal Revenue Code of 1986
19 as amended by Section 1231 of the American Recovery and Reinvestment
20 Act of 2009 (P.L. No. 111-5). There shall be subtracted from
21 Oklahoma taxable income an amount equal to the amount of deferred
22 income included in such taxable income pursuant to Section 108(i)(1)
23 of the Internal Revenue Code by Section 1231 of the American
24 Recovery and Reinvestment Act of 2009 (P.L. No. 111-5).

1 11. For taxable years beginning on or after January 1, 2019,
2 there shall be subtracted from Oklahoma taxable income or adjusted
3 gross income any item of income or gain, and there shall be added to
4 Oklahoma taxable income or adjusted gross income any item of loss or
5 deduction that in the absence of an election pursuant to the
6 provisions of the Pass-Through Entity Tax Equity Act of 2019 would
7 be allocated to a member or to an indirect member of an electing
8 pass-through entity pursuant to Section 2351 et seq. of this title,
9 if (i) the electing pass-through entity has accounted for such item
10 in computing its Oklahoma net entity income or loss pursuant to the
11 provisions of the Pass-Through Entity Tax Equity Act of 2019, and
12 (ii) the total amount of tax attributable to any resulting Oklahoma
13 net entity income has been paid. The Oklahoma Tax Commission shall
14 promulgate rules for the reporting of such exclusion to direct and
15 indirect members of the electing pass-through entity. As used in
16 this paragraph, "electing pass-through entity", "indirect member",
17 and "member" shall be defined in the same manner as prescribed by
18 Section 2355.1P-2 of this title. Notwithstanding the application of
19 this paragraph, the adjusted tax basis of any ownership interest in
20 a pass-through entity for purposes of Section 2351 et seq. of this
21 title shall be equal to its adjusted tax basis for federal income
22 tax purposes.

23 B. 1. The taxable income of any corporation shall be further
24 adjusted to arrive at Oklahoma taxable income, except those

1 corporations electing treatment as provided in subchapter S of the
2 Internal Revenue Code, 26 U.S.C., Section 1361 et seq., and Section
3 2365 of this title, deductions pursuant to the provisions of the
4 Accelerated Cost Recovery System as defined and allowed in the
5 Economic Recovery Tax Act of 1981, Public Law 97-34, 26 U.S.C.,
6 Section 168, for depreciation of assets placed into service after
7 December 31, 1981, shall not be allowed in calculating Oklahoma
8 taxable income. Such corporations shall be allowed a deduction for
9 depreciation of assets placed into service after December 31, 1981,
10 in accordance with provisions of the Internal Revenue Code, 26
11 U.S.C., Section 1 et seq., in effect immediately prior to the
12 enactment of the Accelerated Cost Recovery System. The Oklahoma tax
13 basis for all such assets placed into service after December 31,
14 1981, calculated in this section shall be retained and utilized for
15 all Oklahoma income tax purposes through the final disposition of
16 such assets.

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

22 For assets placed in service and held by a corporation in which
23 accelerated cost recovery system was previously disallowed, an
24 adjustment to taxable income is required in the first taxable year
25

1 beginning after December 31, 1982, to reconcile the basis of such
2 assets to the basis allowed in the Internal Revenue Code. The
3 purpose of this adjustment is to equalize the basis and allowance
4 for depreciation accounts between that reported to the Internal
5 Revenue Service and that reported to Oklahoma.

6 2. For tax years beginning on or after January 1, 2009, and
7 ending on or before December 31, 2009, there shall be added to
8 Oklahoma taxable income any amount in excess of One Hundred Seventy-
9 five Thousand Dollars (\$175,000.00) which has been deducted as a
10 small business expense under Internal Revenue Code, Section 179 as
11 provided in the American Recovery and Reinvestment Act of 2009.

12 C. 1. For taxable years beginning after December 31, 1987, the
13 taxable income of any corporation shall be further adjusted to
14 arrive at Oklahoma taxable income for transfers of technology to
15 qualified small businesses located in Oklahoma. Such transferor
16 corporation shall be allowed an exemption from taxable income of an
17 amount equal to the amount of royalty payment received as a result
18 of such transfer; provided, however, such amount shall not exceed
19 ten percent (10%) of the amount of gross proceeds received by such
20 transferor corporation as a result of the technology transfer. Such
21 exemption shall be allowed for a period not to exceed ten (10) years
22 from the date of receipt of the first royalty payment accruing from
23 such transfer. No exemption may be claimed for transfers of
24

1 technology to qualified small businesses made prior to January 1,
2 1988.

3 2. For purposes of this subsection:

4 a. "Qualified small business" means an entity, whether
5 organized as a corporation, partnership, or
6 proprietorship, organized for profit with its
7 principal place of business located within this state
8 and which meets the following criteria:

9 (1) ~~Capitalization~~ capitalization of not more than
10 Two Hundred Fifty Thousand Dollars (\$250,000.00),

11 (2) ~~Having~~ having at least fifty percent (50%) of its
12 employees and assets located in Oklahoma at the
13 time of the transfer, and

14 (3) ~~Not~~ not a subsidiary or affiliate of the
15 transferor corporation;

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

20 c. "Transferor corporation" means a corporation which is
21 the exclusive and undisputed owner of the technology
22 at the time the transfer is made; and
23
24
25

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

4 D. 1. For taxable years beginning after December 31, 2005, the
5 taxable income of any corporation, estate, or trust, shall be
6 further adjusted for qualifying gains receiving capital treatment.
7 Such corporations, estates, or trusts shall be allowed a deduction
8 from Oklahoma taxable income for the amount of qualifying gains
9 receiving capital treatment earned by the corporation, estate, or
10 trust during the taxable year and included in the federal taxable
11 income of such corporation, estate, or trust.

12 2. As used in this subsection:

13 a. "qualifying gains receiving capital treatment" means
14 the amount of net capital gains, as defined in Section
15 1222(11) of the Internal Revenue Code, included in the
16 federal income tax return of the corporation, estate,
17 or trust that result from:

18 (1) the sale of real property or tangible personal
19 property located within Oklahoma that has been
20 directly or indirectly owned by the corporation,
21 estate, or trust for a holding period of at least
22 five (5) years prior to the date of the
23 transaction from which such net capital gains
24 arise,

1 (2) the sale of stock or on the sale of an ownership
2 interest in an Oklahoma company, limited
3 liability company, or partnership where such
4 stock or ownership interest has been directly or
5 indirectly owned by the corporation, estate, or
6 trust for a holding period of at least three (3)
7 years prior to the date of the transaction from
8 which the net capital gains arise, or

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

20 b. "holding period" means an uninterrupted period of
21 time. The holding period shall include any additional
22 period when the property was held by another
23 individual or entity, if such additional period is
24

1 included in the taxpayer's holding period for the
2 asset pursuant to the Internal Revenue Code,

3 c. "Oklahoma company", "limited liability company", or
4 "partnership" means an entity whose primary
5 headquarters have been located in Oklahoma for at
6 least three (3) uninterrupted years prior to the date
7 of the transaction from which the net capital gains
8 arise,

9 d. "direct" means the taxpayer directly owns the asset,
10 and

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

15 (1) With respect to sales of real property or
16 tangible personal property located within
17 Oklahoma, the deduction described in this
18 subsection shall not apply unless the pass-
19 through entity that makes the sale has held the
20 property for not less than five (5) uninterrupted
21 years prior to the date of the transaction that
22 created the capital gain, and each pass-through
23 entity included in the chain of ownership has
24 been a member, partner, or shareholder of the
25

1 pass-through entity in the tier immediately below
2 it for an uninterrupted period of not less than
3 five (5) years.

4 (2) With respect to sales of stock or ownership
5 interest in or sales of all or substantially all
6 of the assets of an Oklahoma company, limited
7 liability company, or partnership, the deduction
8 described in this subsection shall not apply
9 unless the pass-through entity that makes the
10 sale has held the stock or ownership interest or
11 the assets for not less than three (3)
12 uninterrupted years prior to the date of the
13 transaction that created the capital gain, and
14 each pass-through entity included in the chain of
15 ownership has been a member, partner or
16 shareholder of the pass-through entity in the
17 tier immediately below it for an uninterrupted
18 period of not less than three (3) years.

19 E. The Oklahoma adjusted gross income of any individual
20 taxpayer shall be further adjusted as follows to arrive at Oklahoma
21 taxable income:

22 1. a. In the case of individuals, there shall be added or
23 deducted, as the case may be, the difference necessary
24 to allow personal exemptions of One Thousand Dollars
25

1 (\$1,000.00) in lieu of the personal exemptions allowed
2 by the Internal Revenue Code.

3 b. There shall be allowed an additional exemption of One
4 Thousand Dollars (\$1,000.00) for each taxpayer or
5 spouse who is blind at the close of the tax year. For
6 purposes of this subparagraph, an individual is blind
7 only if the central visual acuity of the individual
8 does not exceed 20/200 in the better eye with
9 correcting lenses, or if the visual acuity of the
10 individual is greater than 20/200, but is accompanied
11 by a limitation in the fields of vision such that the
12 widest diameter of the visual field subtends an angle
13 no greater than twenty (20) degrees.

14 c. There shall be allowed an additional exemption of One
15 Thousand Dollars (\$1,000.00) for each taxpayer or
16 spouse who is sixty-five (65) years of age or older at
17 the close of the tax year based upon the filing status
18 and federal adjusted gross income of the taxpayer.
19 Taxpayers with the following filing status may claim
20 this exemption if the federal adjusted gross income
21 does not exceed:

22 (1) Twenty-five Thousand Dollars (\$25,000.00) if
23 married and filing jointly~~+~~L

- 1 (2) Twelve Thousand Five Hundred Dollars (\$12,500.00)
2 if married and filing separately~~+~~+
3 (3) Fifteen Thousand Dollars (\$15,000.00) if single~~+~~+
4 and
5 (4) Nineteen Thousand Dollars (\$19,000.00) if a
6 qualifying head of household.

7 Provided, for taxable years beginning after December
8 31, 1999, amounts included in the calculation of
9 federal adjusted gross income pursuant to the
10 conversion of a traditional individual retirement
11 account to a Roth individual retirement account shall
12 be excluded from federal adjusted gross income for
13 purposes of the income thresholds provided in this
14 subparagraph.

- 15 2. a. For taxable years beginning on or before December 31,
16 2005, in the case of individuals who use the standard
17 deduction in determining taxable income, there shall
18 be added or deducted, as the case may be, the
19 difference necessary to allow a standard deduction in
20 lieu of the standard deduction allowed by the Internal
21 Revenue Code, in an amount equal to the larger of
22 fifteen percent (15%) of the Oklahoma adjusted gross
23 income or One Thousand Dollars (\$1,000.00), but not to
24 exceed Two Thousand Dollars (\$2,000.00), except that
25

1 in the case of a married individual filing a separate
2 return such deduction shall be the larger of fifteen
3 percent (15%) of such Oklahoma adjusted gross income
4 or Five Hundred Dollars (\$500.00), but not to exceed
5 the maximum amount of One Thousand Dollars
6 (\$1,000.00).

7 b. For taxable years beginning on or after January 1,
8 2006, and before January 1, 2007, in the case of
9 individuals who use the standard deduction in
10 determining taxable income, there shall be added or
11 deducted, as the case may be, the difference necessary
12 to allow a standard deduction in lieu of the standard
13 deduction allowed by the Internal Revenue Code, in an
14 amount equal to:

15 (1) Three Thousand Dollars (\$3,000.00), if the filing
16 status is married filing joint, head of
17 household, or qualifying widow~~r~~, or

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

20 c. For the taxable year beginning on January 1, 2007, and
21 ending December 31, 2007, in the case of individuals
22 who use the standard deduction in determining taxable
23 income, there shall be added or deducted, as the case
24 may be, the difference necessary to allow a standard
25

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

3 (1) Five Thousand Five Hundred Dollars (\$5,500.00),
4 if the filing status is married filing joint or
5 qualifying widow~~+~~or,

6 (2) Four Thousand One Hundred Twenty-five Dollars
7 (\$4,125.00) for a head of household~~+~~or

8 (3) Two Thousand Seven Hundred Fifty Dollars
9 (\$2,750.00), if the filing status is single or
10 married filing separate.

11 d. For the taxable year beginning on January 1, 2008, and
12 ending December 31, 2008, 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) Six Thousand Five Hundred Dollars (\$6,500.00), if
19 the filing status is married filing joint or
20 qualifying widow, ~~or~~

21 (2) Four Thousand Eight Hundred Seventy-five Dollars
22 (\$4,875.00) for a head of household, or
23
24
25

1 (3) Three Thousand Two Hundred Fifty Dollars
2 (\$3,250.00), if the filing status is single or
3 married filing separate.

4 e. For the taxable year beginning on January 1, 2009, and
5 ending December 31, 2009, 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) Eight Thousand Five Hundred Dollars (\$8,500.00),
12 if the filing status is married filing joint or
13 qualifying widow, ~~or~~

14 (2) Six Thousand Three Hundred Seventy-five Dollars
15 (\$6,375.00) for a head of household, or

16 (3) Four Thousand Two Hundred Fifty Dollars
17 (\$4,250.00), if the filing status is single or
18 married filing separate.

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

22 f. For taxable years beginning on or after January 1,
23 2010, and ending on December 31, 2016, in the case of
24 individuals who use the standard deduction in
25

determining taxable income, there shall be added or deducted, as the case may be, the difference necessary to allow a standard deduction equal to the standard deduction allowed by the Internal Revenue Code, based upon the amount and filing status prescribed by such Code for purposes of filing federal individual income tax returns.

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

- (1) Six Thousand Three Hundred Fifty Dollars (\$6,350.00) for single or married filing separately,
- (2) Twelve Thousand Seven Hundred Dollars (\$12,700.00) for married filing jointly or qualifying widower with dependent child, and
- (3) Nine Thousand Three Hundred Fifty Dollars (\$9,350.00) for head of household.

3. a. In the case of resident and part-year resident individuals having adjusted gross income from sources

1 both within and without the state, the itemized or
2 standard deductions and personal exemptions shall be
3 reduced to an amount which is the same portion of the
4 total thereof as Oklahoma adjusted gross income is of
5 adjusted gross income. To the extent itemized
6 deductions include allowable moving expense, proration
7 of moving expense shall not be required or permitted
8 but allowable moving expense shall be fully deductible
9 for those taxpayers moving within or into Oklahoma and
10 no part of moving expense shall be deductible for
11 those taxpayers moving without or out of Oklahoma.
12 All other itemized or standard deductions and personal
13 exemptions shall be subject to proration as provided
14 by law.

- 15 b. For taxable years beginning on or after January 1,
16 2018, the net amount of itemized deductions allowable
17 on an Oklahoma income tax return, subject to the
18 provisions of paragraph 24 of this subsection, shall
19 not exceed Seventeen Thousand Dollars (\$17,000.00).
20 For purposes of this subparagraph, charitable
21 contributions and medical expenses deductible for
22 federal income tax purposes shall be excluded from the
23 amount of Seventeen Thousand Dollars (\$17,000.00) as
24 specified by this subparagraph.

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

13 5. a. Before July 1, 2010, the first One Thousand Five
14 Hundred Dollars (\$1,500.00) received by any person
15 from the United States as salary or compensation in
16 any form, other than retirement benefits, as a member
17 of any component of the Armed Forces of the United
18 States shall be deducted from taxable income.

19 b. On or after July 1, 2010, one hundred percent (100%)
20 of the income received by any person from the United
21 States as salary or compensation in any form, other
22 than retirement benefits, as a member of any component
23 of the Armed Forces of the United States shall be
24 deducted from taxable income.

1 c. Whenever the filing of a timely income tax return by a
2 member of the Armed Forces of the United States is
3 made impracticable or impossible of accomplishment by
4 reason of:

5 (1) absence from the United States, which term
6 includes only the states and the District of
7 Columbia~~†~~‡

8 (2) absence from ~~the State of Oklahoma~~ this state
9 while on active duty~~†~~‡ or

10 (3) confinement in a hospital within the United
11 States for treatment of wounds, injuries,‡ or
12 disease,

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

17 (a) ~~Such~~ such individual shall return to the
18 United States if the extension is granted
19 pursuant to subparagraph a of this
20 paragraph, return to ~~the State of Oklahoma~~
21 this state if the extension is granted
22 pursuant to subparagraph b of this paragraph
23 or be discharged from such hospital if the
24

1 extension is granted pursuant to
2 subparagraph c of this paragraph~~7~~, or
3 (b) ~~An~~ an executor, administrator, or
4 conservator of the estate of the taxpayer is
5 appointed, whichever event occurs the
6 earliest.

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

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

23 7. a. An individual taxpayer, whether resident or
24 nonresident, may deduct an amount equal to the federal
25

1 income taxes paid by the taxpayer during the taxable
2 year.

3 b. Federal taxes as described in subparagraph a of this
4 paragraph shall be deductible by any individual
5 taxpayer, whether resident or nonresident, only to the
6 extent they relate to income subject to taxation
7 pursuant to the provisions of the Oklahoma Income Tax
8 Act. The maximum amount allowable in the preceding
9 paragraph shall be prorated on the ratio of the
10 Oklahoma adjusted gross income to federal adjusted
11 gross income.

12 c. For the purpose of this paragraph, "federal income
13 taxes paid" shall mean federal income taxes, surtaxes
14 imposed on incomes or excess profits taxes, as though
15 the taxpayer was on the accrual basis. In determining
16 the amount of deduction for federal income taxes for
17 tax year 2001, the amount of the deduction shall not
18 be adjusted by the amount of any accelerated ten
19 percent (10%) tax rate bracket credit or advanced
20 refund of the credit received during the tax year
21 provided pursuant to the federal Economic Growth and
22 Tax Relief Reconciliation Act of 2001, P.L. No. 107-
23 16, and the advanced refund of such credit shall not
24 be subject to taxation.

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

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

21 9. In taxable years beginning after December 31, 1984, Social
22 Security benefits received by an individual shall be exempt from
23 taxable income, to the extent such benefits are included in the
24

1 federal adjusted gross income pursuant to the provisions of Section
2 86 of the Internal Revenue Code, 26 U.S.C., Section 86.

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

17 11. In taxable years beginning after December 31, 1995,
18 contributions made to and interest received from a medical savings
19 account established pursuant to Sections 2621 through 2623 of Title
20 63 of the Oklahoma Statutes shall be exempt from taxable income.

21 12. For taxable years beginning after December 31, 1996, the
22 Oklahoma adjusted gross income of any individual taxpayer who is a
23 swine or poultry producer may be further adjusted for the deduction
24 for depreciation allowed for new construction or expansion costs
25

1 which may be computed using the same depreciation method elected for
2 federal income tax purposes except that the useful life shall be
3 seven (7) years for purposes of this paragraph. If depreciation is
4 allowed as a deduction in determining the adjusted gross income of
5 an individual, any depreciation calculated and claimed pursuant to
6 this section shall in no event be a duplication of any depreciation
7 allowed or permitted on the federal income tax return of the
8 individual.

9 13. a. In taxable years beginning after December 31, 2002,
10 nonrecurring adoption expenses paid by a resident
11 individual taxpayer in connection with:

12 (1) the adoption of a minor, or

13 (2) a proposed adoption of a minor which did not
14 result in a decreed adoption,

15 may be deducted from the Oklahoma adjusted gross
16 income.

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

20 c. The Tax Commission shall promulgate rules to implement
21 the provisions of this paragraph which shall contain a
22 specific list of nonrecurring adoption expenses which
23 may be presumed to qualify for the deduction. The Tax
24

1 Commission shall prescribe necessary requirements for
2 verification.

3 d. "Nonrecurring adoption expenses" means adoption fees,
4 court costs, medical expenses, attorney fees, and
5 expenses which are directly related to the legal
6 process of adoption of a child including, but not
7 limited to, costs relating to the adoption study,
8 health and psychological examinations, transportation, and
9 and reasonable costs of lodging and food for the child
10 or adoptive parents which are incurred to complete the
11 adoption process and are not reimbursed by other
12 sources. The term "nonrecurring adoption expenses"
13 shall not include attorney fees incurred for the
14 purpose of litigating a contested adoption, from and
15 after the point of the initiation of the contest,
16 costs associated with physical remodeling, renovation
17 and alteration of the adoptive parents' home or
18 property, except for a special needs child as
19 authorized by the court.

20 14. a. In taxable years beginning before January 1, 2005,
21 retirement benefits not to exceed the amounts
22 specified in this paragraph, which are received by an
23 individual sixty-five (65) years of age or older and
24 whose Oklahoma adjusted gross income is Twenty-five
25

1 Thousand Dollars (\$25,000.00) or less if the filing
2 status is single, head of household, or married filing
3 separate, or Fifty Thousand Dollars (\$50,000.00) or
4 less if the filing status is married filing joint or
5 qualifying widow, shall be exempt from taxable income.
6 In taxable years beginning after December 31, 2004,
7 retirement benefits not to exceed the amounts
8 specified in this paragraph, which are received by an
9 individual whose Oklahoma adjusted gross income is
10 less than the qualifying amount specified in this
11 paragraph, shall be exempt from taxable income.

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

- 14 (1) in taxable years beginning after December 31,
15 2004, and prior to January 1, 2007, the
16 qualifying amount shall be Thirty-seven Thousand
17 Five Hundred Dollars (\$37,500.00) or less if the
18 filing status is single, head of household, or
19 married filing separate, or Seventy-five Thousand
20 Dollars (\$75,000.00) or less if the filing status
21 is married filing jointly or qualifying widow,
22 (2) in the taxable year beginning January 1, 2007,
23 the qualifying amount shall be Fifty Thousand
24 Dollars (\$50,000.00) or less if the filing status

1 is single, head of household, or married filing
2 separate, or One Hundred Thousand Dollars
3 (\$100,000.00) or less if the filing status is
4 married filing jointly or qualifying widow,

5 (3) in the taxable year beginning January 1, 2008,
6 the qualifying amount shall be Sixty-two Thousand
7 Five Hundred Dollars (\$62,500.00) or less if the
8 filing status is single, head of household, or
9 married filing separate, or One Hundred Twenty-
10 five Thousand Dollars (\$125,000.00) or less if
11 the filing status is married filing jointly or
12 qualifying widow,

13 (4) in the taxable year beginning January 1, 2009,
14 the qualifying amount shall be One Hundred
15 Thousand Dollars (\$100,000.00) or less if the
16 filing status is single, head of household, or
17 married filing separate, or Two Hundred Thousand
18 Dollars (\$200,000.00) or less if the filing
19 status is married filing jointly or qualifying
20 widow, and

21 (5) in the taxable year beginning January 1, 2010,
22 and subsequent taxable years, there shall be no
23 limitation upon the qualifying amount.
24

1 c. For purposes of this paragraph, "retirement benefits"
2 means the total distributions or withdrawals from the
3 following:

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

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

10 (3) an individual retirement account, annuity or
11 trust, or simplified employee pension that
12 satisfies the requirements of Section 408 of the
13 Internal Revenue Code, 26 U.S.C., Section 408,

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

17 (5) United States Retirement Bonds which satisfy the
18 requirements of Section 86 of the Internal
19 Revenue Code, 26 U.S.C., Section 86, or

20 (6) lump-sum distributions from a retirement plan
21 which satisfies the requirements of Section
22 402(e) of the Internal Revenue Code, 26 U.S.C.,
23 Section 402(e).
24

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

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

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

15 b. In taxable years beginning after December 31, 2004,
16 each taxpayer shall be allowed a deduction for
17 contributions to accounts established pursuant to the
18 Oklahoma College Savings Plan Act. The maximum annual
19 deduction shall equal the amount of contributions to
20 all such accounts plus any contributions to such
21 accounts by the taxpayer for prior taxable years after
22 December 31, 2004, which were not deducted, but in no
23 event shall the deduction for each tax year exceed Ten
24 Thousand Dollars (\$10,000.00) for each individual

1 taxpayer or Twenty Thousand Dollars (\$20,000.00) for
2 taxpayers filing a joint return. Any amount of a
3 contribution that is not deducted by the taxpayer in
4 the year for which the contribution is made may be
5 carried forward as a deduction from income for the
6 succeeding five (5) years. For taxable years
7 beginning after December 31, 2005, deductions may be
8 taken for contributions and rollovers made during a
9 taxable year and up to April 15 of the succeeding
10 year, or the due date of a taxpayer's state income tax
11 return, excluding extensions, whichever is later.
12 Provided, a deduction for the same contribution may
13 not be taken for two (2) different taxable years.

14 c. In taxable years beginning after December 31, 2006,
15 deductions for contributions made pursuant to
16 subparagraph b of this paragraph shall be limited as
17 follows:

18 (1) for a taxpayer who qualified for the five-year
19 carryforward election and who takes a rollover or
20 nonqualified withdrawal during that period, the
21 tax deduction otherwise available pursuant to
22 subparagraph b of this paragraph shall be reduced
23 by the amount which is equal to the rollover or
24 nonqualified withdrawal, and

1 (2) for a taxpayer who elects to take a rollover or
2 nonqualified withdrawal within the same tax year
3 in which a contribution was made to the
4 taxpayer's account, the tax deduction otherwise
5 available pursuant to subparagraph b of this
6 paragraph shall be reduced by the amount of the
7 contribution which is equal to the rollover or
8 nonqualified withdrawal.

9 d. If a taxpayer elects to take a rollover on a
10 contribution for which a deduction has been taken
11 pursuant to subparagraph b of this paragraph within
12 one (1) year of the date of contribution, the amount
13 of such rollover shall be included in the adjusted
14 gross income of the taxpayer in the taxable year of
15 the rollover.

16 e. If a taxpayer makes a nonqualified withdrawal of
17 contributions for which a deduction was taken pursuant
18 to subparagraph b of this paragraph, such nonqualified
19 withdrawal and any earnings thereon shall be included
20 in the adjusted gross income of the taxpayer in the
21 taxable year of the nonqualified withdrawal.

22 f. As used in this paragraph:
23
24
25

- 1 (1) "non-qualified withdrawal" means a withdrawal
2 from an Oklahoma College Savings Plan account
3 other than one of the following:
- 4 (a) a qualified withdrawal,
5 (b) a withdrawal made as a result of the death
6 or disability of the designated beneficiary
7 of an account,
8 (c) a withdrawal that is made on the account of
9 a scholarship or the allowance or payment
10 described in Section 135(d)(1)(B) or (C) or
11 by the Internal Revenue Code, received by
12 the designated beneficiary to the extent the
13 amount of the refund does not exceed the
14 amount of the scholarship, allowance, or
15 payment, or
16 (d) a rollover or change of designated
17 beneficiary as permitted by subsection F of
18 Section 3970.7 of Title 70 of Oklahoma
19 Statutes, and
- 20 (2) "rollover" means the transfer of funds from the
21 Oklahoma College Savings Plan to any other plan
22 under Section 529 of the Internal Revenue Code.

23 18. For tax years 2006 through 2021, retirement benefits
24 received by an individual from any component of the Armed Forces of
25

1 the United States in an amount not to exceed the greater of seventy-
2 five percent (75%) of such benefits or Ten Thousand Dollars
3 (\$10,000.00) shall be exempt from taxable income but in no case less
4 than the amount of the exemption provided by paragraph 14 of this
5 subsection. For tax year 2022 and subsequent tax years, retirement
6 benefits received by an individual from any component of the Armed
7 Forces of the United States shall be exempt from taxable income.

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

- 15 a. in the taxable year beginning January 1, 2007, twenty
16 percent (20%) of such benefits shall be exempt,
- 17 b. in the taxable year beginning January 1, 2008, forty
18 percent (40%) of such benefits shall be exempt,
- 19 c. in the taxable year beginning January 1, 2009, sixty
20 percent (60%) of such benefits shall be exempt,
- 21 d. in the taxable year beginning January 1, 2010, eighty
22 percent (80%) of such benefits shall be exempt, and
23
24
25

1 e. in the taxable year beginning January 1, 2011, and
2 subsequent taxable years, one hundred percent (100%)
3 of such benefits shall be exempt.

4 20. a. For taxable years beginning after December 31, 2007, a
5 resident individual may deduct up to Ten Thousand
6 Dollars (\$10,000.00) from Oklahoma adjusted gross
7 income if the individual, or the dependent of the
8 individual, while living, donates one or more human
9 organs of the individual to another human being for
10 human organ transplantation. As used in this
11 paragraph, "human organ" means all or part of a liver,
12 pancreas, kidney, intestine, lung, or bone marrow. A
13 deduction that is claimed under this paragraph may be
14 claimed in the taxable year in which the human organ
15 transplantation occurs.

16 b. An individual may claim this deduction only once, and
17 the deduction may be claimed only for unreimbursed
18 expenses that are incurred by the individual and
19 related to the organ donation of the individual.

20 c. The Oklahoma Tax Commission shall promulgate rules to
21 implement the provisions of this paragraph which shall
22 contain a specific list of expenses which may be
23 presumed to qualify for the deduction. The Tax
24

1 Commission shall prescribe necessary requirements for
2 verification.

3 21. For taxable years beginning after December 31, 2009, there
4 shall be exempt from taxable income any amount received by the
5 beneficiary of the death benefit for an emergency medical technician
6 or a registered emergency medical responder provided by Section 1-
7 2505.1 of Title 63 of the Oklahoma Statutes.

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

12 23. For taxable years beginning after December 31, 2008, there
13 shall be exempt from taxable income any payment in an amount less
14 than Six Hundred Dollars (\$600.00) received by a person as an award
15 for participation in a competitive livestock show event. For
16 purposes of this paragraph, the payment shall be treated as a
17 scholarship amount paid by the entity sponsoring the event and the
18 sponsoring entity shall cause the payment to be categorized as a
19 scholarship in its books and records.

20 24. For taxable years beginning on or after January 1, 2016,
21 taxable income shall be increased by any amount of state and local
22 sales or income taxes deducted under 26 U.S.C., Section 164 of the
23 Internal Revenue Code. If the amount of state and local taxes
24 deducted on the federal return is limited, taxable income on the

1 state return shall be increased only by the amount actually deducted
2 after any such limitations are applied.

3 25. For taxable years beginning after December 31, 2020, each
4 taxpayer shall be allowed a deduction for contributions to accounts
5 established pursuant to the Achieving a Better Life Experience
6 (ABLE) Program as established in Section 4001.1 et seq. of Title 56
7 of the Oklahoma Statutes. For any tax year, the deduction provided
8 for in this paragraph shall not exceed Ten Thousand Dollars
9 (\$10,000.00) for an individual taxpayer or Twenty Thousand Dollars
10 (\$20,000.00) for taxpayers filing a joint return. Any amount of
11 contribution not deducted by the taxpayer in the tax year for which
12 the contribution is made may be carried forward as a deduction from
13 income for up to five (5) tax years. Deductions may be taken for
14 contributions made during the tax year and through April 15 of the
15 succeeding tax year, or through the due date of a taxpayer's state
16 income tax return excluding extensions, whichever is later.
17 Provided, a deduction for the same contribution may not be taken in
18 more than one (1) tax year.

19 26. For tax year 2024 and subsequent tax years, payments
20 received by a beneficiary from enrollment in a Survivor Benefit
21 Plan, a Reserve Component Survivor Benefit Plan, and a Retired
22 Serviceman's Family Protection Plan by a retiree from any component
23 of the Armed Forces of the United States.
24
25

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

6 2. As used in this subsection:

7 a. "qualifying gains receiving capital treatment" means
8 the amount of net capital gains, as defined in Section
9 1222(11) of the Internal Revenue Code, included in an
10 individual taxpayer's federal income tax return that
11 result from:

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

18 (2) the sale of stock or the sale of a direct or
19 indirect ownership interest in an Oklahoma
20 company, limited liability company, or
21 partnership where such stock or ownership
22 interest has been directly or indirectly owned by
23 the individual taxpayer for a holding period of
24 at least two (2) years prior to the date of the

1 transaction from which the net capital gains
2 arise, or

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

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

22 c. "Oklahoma ~~company~~, " company", "limited liability
23 ~~company~~, " company", or "partnership" means an entity
24 whose primary headquarters have been located in

Oklahoma for at least three (3) uninterrupted years prior to the date of the transaction from which the net capital gains arise,

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

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

(1) With respect to sales of real property or 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

1 of the assets of an Oklahoma company, limited
2 liability company, partnership, or Oklahoma
3 proprietorship business enterprise, the deduction
4 described in this subsection shall not apply
5 unless the pass-through entity that makes the
6 sale has held the stock or ownership interest for
7 not less than two (2) uninterrupted years prior
8 to the date of the transaction that created the
9 capital gain, and each pass-through entity
10 included in the chain of ownership has been a
11 member, partner, or shareholder of the pass-
12 through entity in the tier immediately below it
13 for an uninterrupted period of not less than two
14 (2) years. For purposes of this division,
15 uninterrupted ownership prior to July 1, 2007,
16 shall be included in the determination of the
17 required holding period prescribed by this
18 division, and

- 19 f. "Oklahoma proprietorship business enterprise" means a
20 business enterprise whose income and expenses have
21 been reported on Schedule C or F of an individual
22 taxpayer's federal income tax return, or any similar
23 successor schedule published by the Internal Revenue
24 Service and whose primary headquarters have been

1 located in Oklahoma for at least three (3)
2 uninterrupted years prior to the date of the
3 transaction from which the net capital gains arise.

4 G. 1. For purposes of computing its Oklahoma taxable income
5 under this section, the dividends-paid deduction otherwise allowed
6 by federal law in computing net income of a real estate investment
7 trust that is subject to federal income tax shall be added back in
8 computing the tax imposed by this state under this title if the real
9 estate investment trust is a captive real estate investment trust.

10 2. For purposes of computing its Oklahoma taxable income under
11 this section, a taxpayer shall add back otherwise deductible rents
12 and interest expenses paid to a captive real estate investment trust
13 that is not subject to the provisions of paragraph 1 of this
14 subsection. As used in this subsection:

- 15 a. the term "real estate investment trust" or "REIT"
16 means the meaning ascribed to such term in Section 856
17 of the Internal Revenue Code,
18 b. the term "captive real estate investment trust" means
19 a real estate investment trust, the shares or
20 beneficial interests of which are not regularly traded
21 on an established securities market and more than
22 fifty percent (50%) of the voting power or value of
23 the beneficial interests or shares of which are owned
24

1 or controlled, directly or indirectly, or
2 constructively, by a single entity that is:
3 (1) treated as an association taxable as a
4 corporation under the Internal Revenue Code, and
5 (2) not exempt from federal income tax pursuant to
6 the provisions of Section 501(a) of the Internal
7 Revenue Code.

8 The term shall not include a real estate investment
9 trust that is intended to be regularly traded on an
10 established securities market, and that satisfies the
11 requirements of Section 856(a)(5) and (6) of the U.S.
12 Internal Revenue Code by reason of Section 856(h)(2)
13 of the Internal Revenue Code,

14 c. the term "association taxable as a corporation" shall
15 not include the following entities:

- 16 (1) any real estate investment trust as defined in
17 paragraph a of this subsection other than a
18 "captive real estate investment trust", ~~or~~
19 (2) any qualified real estate investment trust
20 subsidiary under Section 856(i) of the Internal
21 Revenue Code, other than a qualified REIT
22 subsidiary of a ~~"captive~~ captive real estate
23 investment ~~trust", or trust,~~
24

- 1 (3) any Listed Australian Property Trust (meaning an
2 Australian unit trust registered as a "Managed
3 Investment Scheme" under the Australian
4 Corporations Act in which the principal class of
5 units is listed on a recognized stock exchange in
6 Australia and is regularly traded on an
7 established securities market), or an entity
8 organized as a trust, provided that a Listed
9 Australian Property Trust owns or controls,
10 directly or indirectly, seventy-five percent
11 (75%) or more of the voting power or value of the
12 beneficial interests or shares of such trust, or
13 (4) any Qualified Foreign Entity, meaning a
14 corporation, trust, association or partnership
15 organized outside the laws of the United States
16 and which satisfies the following criteria:
17 (a) at least seventy-five percent (75%) of the
18 entity's total asset value at the close of
19 its taxable year is represented by real
20 estate assets, as defined in Section
21 856(c) (5) (B) of the Internal Revenue Code,
22 thereby including shares or certificates of
23 beneficial interest in any real estate
24

1 investment trust, cash and cash equivalents,
2 and U.S. Government securities,

3 (b) the entity receives a dividend-paid
4 deduction comparable to Section 561 of the
5 Internal Revenue Code, or is exempt from
6 entity level tax,

7 (c) the entity is required to distribute at
8 least eighty-five percent (85%) of its
9 taxable income, as computed in the
10 jurisdiction in which it is organized, to
11 the holders of its shares or certificates of
12 beneficial interest on an annual basis,

13 (d) not more than ten percent (10%) of the
14 voting power or value in such entity is held
15 directly or indirectly or constructively by
16 a single entity or individual, or the shares
17 or beneficial interests of such entity are
18 regularly traded on an established
19 securities market, and

20 (e) the entity is organized in a country which
21 has a tax treaty with the United States.

22 3. For purposes of this subsection, the constructive ownership
23 rules of Section 318(a) of the Internal Revenue Code, as modified by
24 Section 856(d)(5) of the Internal Revenue Code, shall apply in
25

1 determining the ownership of stock, assets, or net profits of any
2 person.

3 4. A real estate investment trust that does not become
4 regularly traded on an established securities market within one (1)
5 year of the date on which it first becomes a real estate investment
6 trust shall be deemed not to have been regularly traded on an
7 established securities market, retroactive to the date it first
8 became a real estate investment trust, and shall file an amended
9 return reflecting such retroactive designation for any tax year or
10 part year occurring during its initial year of status as a real
11 estate investment trust. For purposes of this subsection, a real
12 estate investment trust becomes a real estate investment trust on
13 the first day it has both met the requirements of Section 856 of the
14 Internal Revenue Code and has elected to be treated as a real estate
15 investment trust pursuant to Section 856(c)(1) of the Internal
16 Revenue Code.

17 SECTION 2. This act shall become effective November 1, 2023.

18
19 59-1-554 QD 1/17/2023 6:23:31 PM
20
21
22
23
24
25