BILL SUMMARY

1st Session of the 60th Legislature

Bill No.:	**HB1834**
Version:	**CS**
Request Number:	**13171**
Author:	**Rep. Hefner**
Date:	**3/10/2025**
Impact:	**FY26: No Impact**
	FY27: Unknown decrease in revenue

Research Analysis

The committee substitute for HB1834 establishes an income tax deduction for contributions to a disaster savings account beginning tax year 2026. Any interest earned by the account or distribution that is used to cover qualified expenses is also exempt from state income taxes. Qualified expenses include the cost of the deductible for the taxpayer's individual homeowners policy and disaster expenses related to major disaster that has received a federal or state emergency declaration.

A taxpayer with an insurance deductible that is less than $1000 may contribute up to $2000 to the account. Those with an insurance deductible greater than $1000 may contribute up to $15,000. A taxpayer that self-insures and has no homeowners insurance may contribute up to $350,000 or the value of their legal residence, whichever is less. These contributions limits will increase every year by 5 percent.

Prepared By: Quyen Do

Fiscal Analysis

In its current form, HB1834 establishes an income tax deduction for contributions to a disaster savings account. Interest earned by the account and withdrawals used to cover qualified disaster expenses are exempt from state income tax. The committee substitute does not change the fiscal impact of the bill.

The Oklahoma Tax Commission has provided the following analysis:

ESTIMATED REVENUE IMPACT:

FY26: $0

FY27: Unknown decrease in income tax collections.

ANALYSIS: The Proposed Committee Substitute for HB 1834 (Req. No. 12844) provides that the amount of excess contributions withdrawn will be included in Oklahoma taxable income but will not be subject to the additional 2.5% income tax rate.

HB 1834 allows A taxpayer to establish A Disaster Savings Account (DSA) to save money for insurance deductibles and other costs related to natural disasters, beginning in tax year 2026. Contributions are deductible from Oklahoma taxable income. Interest earned and withdrawn excess contributions are exempt from Oklahoma taxable income. Contribution limits vary based on an individual's insurance situation and amount of deductible, from $1,000 up to $350,000.

Withdrawals from these accounts are tax-free when used for qualified disaster expenses. Distributions for other purposes are subject to Oklahoma income tax plus an additional 2.5% tax, though exceptions exist for account holders aged 70 and older or those who no longer own a residence.

Available data from similar programs in other states suggest limited participation[1]. For example, Alabama's 2024 tax expenditure report[2] estimates the cost of its Catastrophe Savings Accounts (CSA) program at approximately $120,000. Expenditure reports for Mississippi and South Carolina do not provide specific data on CSA-related tax impacts, indicating minimal participation and a negligible effect on state revenues.

Due to the lack of detailed participation data, the total revenue impact cannot be accurately determined.

ADMINISTRATIVE CONCERNS:

- The original bill's structure of imposing an additional tax, rather than a penalty, for nonqualified withdrawals presents administrative challenges.
- The legislation fails to specify a minimum time period during which a taxpayer must meet the requirements to qualify for DSA tax benefits. This creates a potential loophole where a taxpayer could qualify for a substantial deduction by being self-insured for as little as one day during the tax year.

ADDITIONAL INFORMATION: Contribution limits vary based on an individual's insurance situation: those with insurance deductibles of $1,000 or less can contribute up to $2,000, while those with higher deductibles can save up to $15,000 or twice their deductible amount, whichever is less. Self-insured individuals can contribute up to $350,000, not exceeding their home's value.

Prepared By: Zach Penrod, House Fiscal Staff

Other Considerations

None.