BILL SUMMARY
1st Session of the 60th Legislature

Bill No.:	**HB2745**
Version:	**INT**
Request Number:	**10895**
Author:	**Caldwell (Trey)**
Date:	**2/20/2025**
Impact:	**FY26: $2.7 million decrease in revenue**

Research Analysis

HB2745, as introduced, enacts an income tax deduction for banks and lending institutions that have a main office located in the state. Eligible entities may deduct from their taxable income, any net interest income received from a qualified agricultural real estate loan, agricultural operating loan or single-family residence loans made to Oklahoma businesses and residents.

For tax year 2025 through 2027, the aggregate deduction amount for each institution is limited to $250,000 for banks that have Oklahoma-based deposits of $750 million or less, or $500,000 for banks with more than $750 million in qualified deposits.

For tax year 2027 and subsequent years, there is a $5 million cap on deductions each year.

Prepared By: Quyen Do

Fiscal Analysis

As introduced, HB2745 provides a tax deduction for certain lending institutions whose main offices are in Oklahoma for net income received from qualified agricultural real estate loans, agriculture operating loans, and single-family residence loans attributed to Oklahoma.

The Oklahoma Tax Commission has provided the following analysis:

ESTIMATED REVENUE IMPACT:

FY26: Estimated decrease in corporate income tax collections of $2.7 million.

ANALYSIS: HB 2745 proposes to amend 68 O.S. § 2370 by providing a tax deduction, beginning for tax year 2025, for national banking associations, state banks, trust companies, savings and loan associations, and other lending institutions whose main offices are in Oklahoma, for net interest income received from qualified agricultural real estate loans, agriculture operating loans, and single-family residence loans attributed to Oklahoma. The deduction may be claimed for interest earned on eligible loans made after December 31, 2024, and before January 1, 2028.

This measure would limit the deduction based on the amount of Oklahoma-based deposits of the financial institution. For deposits of over $750 million, the max annual deduction is $500,000, and for deposits under $750 million, the max annual deduction is $250,000. Additionally, beginning in tax year 2027, there is a cap on the maximum amount of deductions of $5 million.

Total net interest income eligible for the proposed deduction is unknown. A review of Oklahoma financial institutions by deposit size[2] indicates there are 232 Oklahoma based banks, of which 34 could take the maximum deduction of $500,000, the remainder would be limited to $250,000. This analysis suggests $66.5 million of net interest income could be deducted, resulting in a potential revenue decrease of $2.7 million.

ADMINISTRATIVE CONCERN: The Oklahoma Tax Commission (OTC) would use a two-year lookback for cap administration. This may pose an administrative issue with the propensity of corporate income tax filers to file an extended income tax return, often as late as November of the calendar year prior to the year the cap must be calculated. Also, the data relating to the proposed deduction is contained in the body of the tax return and is currently not captured during tax return processing. Capturing this data on the income tax return will necessitate OTC system updates to ensure compliance.

Prepared By: Zach Penrod, House Fiscal Staff

Other Considerations

None.