



MEMO

Tax Policy Division

To: Rick Miller - Director *RYM*
From: Mike Kaufmann - Tax Policy Analyst
Cc: Lisa Haws - Tax Policy Analyst
Date: 04/06/2023
Re: HB 2020 – Proposed Committee Substitute (Req. No. 2090)

The Proposed Committee Substitute for HB 2020 (Req. No.2090) proposes to amend various paragraphs of 68 O.S. § 2358 relating to the taxability of certain retirement benefits by increasing the amount not subject to Oklahoma individual income tax to \$12,500 effective for tax year 2024 and subsequent tax years.

Under current law, Oklahoma imposes income tax on most Oklahoma and federal government retirement benefits as well as specified private retirement benefits¹ in excess of \$10,000 of the amount that is included in federal adjusted gross income. This measure would increase the exemption to \$12,500 for tax year 2024 and subsequent tax years.

The revenue impact of this measure was estimated using the Oklahoma individual income tax micro-simulation model. The table below shows the revenue impact for this proposal:

| HB 2020 - FY EFFECT INCOME TAX INCREASE RETIREMENT EXCLUSION TO \$12,500 | | | | |
|--|---------------|--------------|---------------|---------------|
| FY CONVERSION | | FY24 | FY25 | FY26 |
| Tax year 2024 | -\$19,271,000 | -\$7,708,000 | -\$11,563,000 | |
| Tax year 2025 | -\$19,903,000 | | -\$7,961,000 | -\$11,942,000 |
| Tax year 2026 | -\$20,602,000 | | | -\$8,241,000 |
| | FY TOTAL | -\$7,708,000 | -\$19,524,000 | -\$20,183,000 |

Source: Oklahoma Individual Income Tax Micro-Simulation Model.

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 \$7.7 million in income tax collections and for FY25 a decrease of \$19.5 million in income tax collections.

¹ Private retirement benefits [68 O.S. § 2358(E)(13)(c)]:

- 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)

Note: Under current law, military retirement income and civil service retirement benefits paid in lieu of Social Security benefits are fully exempt.

