

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: April 11, 2023

BILL NUMBER: HB 2020 **STATUS AND DATE OF BILL:** Comm. Sub. 4/10/2023

AUTHORS: House: Wolfley & Roberts Senate: Montgomery & Pemberton

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

PROPOSAL: Amendatory

The Committee Substitute for HB 2020 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.

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 \$7.7 million in income tax collections.

FY 25: Projected decrease of \$19.5 million in income tax collections.

Apr. 11, 2023
DATE

Rick Miller
DIVISION DIRECTOR

mk

4/12/2023
DATE

Huan Gong
HUAN GONG, ECONOMIST

4/12/2023
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.

ATTACHMENT TO REVENUE IMPACT STATEMENT -HB 2020 [Comm. Sub.]
Prepared 4/11/2023

The Committee Substitute for HB 2020 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.