

**Fiscal Impact**  
1<sup>st</sup> Session of the 57<sup>th</sup> Legislature

**Bill No.:**  
**Version:**  
**Author:**  
**Date:**

**HB 2665**  
**ENGR**  
**Sen. Leewright**  
**03/25/2019**

**Fiscal Analysis**

FY'20 Impact: Minimal

Full Year Impact: Minimal

This measure would allow certain pass-through entities to irrevocably elect to pay income tax at the entity level, effective for tax year 2019 and subsequent tax years. OK income, gain, loss or deduction that the electing pass-through entity included in computing its tax pursuant to this measure would not be allocated to a partner, member or shareholder of the electing entity. The tax rate for the electing pass-through entity will be the highest marginal individual income tax rate if the entity is taxed on income that is distributed to individuals, trusts or estates. The tax rate for the electing pass-through entity will be 6% if the income is distributed to a corporation.

Prepared by: Oklahoma Tax Commission

**OKLAHOMA TAX COMMISSION**

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

DATE OF IMPACT STATEMENT: March 19, 2019

BILL NUMBER: HB 2665 STATUS AND DATE OF BILL: Engrossed Bill 3/6/19

AUTHORS: House Wallace, Roberts (Sean), Kannady, McBride & Lepak Senate Leewright

TAX TYPE (S): Income Tax SUBJECT: Other

PROPOSAL: Amendatory and New Law

HB 2665 proposes to enact the *Pass-Through Entity Tax Equity Act of 2019*. This measure would allow certain pass-through entities (those required to file either an Oklahoma partnership income tax return or an Oklahoma S corporation income tax return) to irrevocably elect to pay income tax at the entity level, effective for tax year 2019 and subsequent tax years. Oklahoma income, gain, loss or deduction that the electing pass-through entity included in computing its tax pursuant to this measure would not be allocated to a partner, member or shareholder of the electing entity. The tax rate for the electing pass-through entity will be the highest marginal individual income tax rate if the entity is taxed on income that is distributed to individuals, trusts or estates. The tax rate for the electing pass-through entity will be six percent (6%) if the income is distributed to a corporation.

EFFECTIVE DATE: Emergency - Upon Passage and Approval

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 20: Minimal  
FY 21: Minimal

ADMINISTRATIVE IMPACT:

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 20: Unknown

<u>Mar. 21, 2019</u> DATE	<u>Rick Miller</u> DIVISION DIRECTOR	mck
<u>3-22-2019</u> DATE	<u>Huan Gong</u> HUAN GONG, ECONOMIST	
<u>3-25-19</u> DATE	<u>Jim Mint</u> FOR THE COMMISSION	

*The estimated 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 - HB2665 [Engrossed] Prepared: March 19, 2019**

HB 2665 proposes to enact the *Pass-Through Entity Tax Equity Act of 2019*. This measure would allow certain pass-through entities (those required to file either an Oklahoma partnership income tax return or an Oklahoma S corporation income tax return) to irrevocably elect to pay income tax at the entity level, effective for tax year 2019 and subsequent tax years. Oklahoma income or losses that the electing pass-through entity included in computing its tax pursuant to this measure would not be allocated to a partner, member or shareholder of the electing entity.

The tax rate for the electing pass-through entity will be the highest marginal individual income tax rate<sup>1</sup> if the entity is taxed on income that is distributed to individuals, trusts or estates. The tax rate for the electing pass-through entity will be six percent (6%) if the income is distributed to a corporation.

Also, 68 O.S. §§ 2358, 2365, 2368, 2370.2 and 2372 have been amended to conform with the *Pass-Through Entity Tax Equity Act of 2019*.

Under current law, entities required to file partnership returns or Oklahoma S corporation returns do not pay tax at the entity level<sup>2</sup>, rather income and losses are passed to the partner, member or shareholder and reported on the partner, member or shareholder's income tax return.

The potential revenue impact of this proposal is minimal and the administrative costs are unknown.

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<sup>1</sup> Currently five percent (5%) - 68 O.S. § 2355

<sup>2</sup> Oklahoma Partnership returns and Oklahoma S Corporation returns allow non-resident partners or shareholders to elect to pay the tax at the entity level in lieu of filing an Oklahoma individual income tax return.

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