

**BILL SUMMARY**  
1<sup>st</sup> Session of the 58<sup>th</sup> Legislature

<b>Bill No.:</b>	<b>HB 2041</b>
<b>Version:</b>	<b>FA1</b>
<b>Request Number:</b>	<b>NA</b>
<b>Author:</b>	<b>Rep. Virgin</b>
<b>Date:</b>	<b>3/11/2021</b>
<b>Impact:</b>	<b>Tax Commission</b>

**Income Tax Revenue Decrease  
of the Amendment**

**(\$100.4 Million)**

**Research Analysis**

The first floor amendment to HB 2041 provides that up to \$10,000 of unemployment compensation shall be exempt from taxable income for taxable years beginning January 1, 2020, and ending December 31, 2021.

Prepared By: Emily McPherson

**Fiscal Analysis**

Review provided by the Tax Commission:

The Floor Amendment for HB 2041 proposes to add an exemption from Oklahoma income tax for unemployment compensation included in federal adjusted gross income of up to \$10,000 per tax return for tax years 2020 and 2021. Under current law, Oklahoma taxable income is increased by any unemployment compensation exempted under Section 85(c) of the Internal Revenue Code.<sup>1</sup>

Due to the Covid-19 pandemic, record amount of unemployment compensation was paid out in 2020; therefore, data from tax year 2020 was analyzed. Based on data from the Oklahoma Employment Security Commission (OESC), approximately 346,000 Oklahomans were paid "first time" unemployment benefits which averaged approximately \$350 per week in 2020<sup>2</sup>. For purposes of this analysis, it is assumed that the proposed \$10,000 exemption level will be met. Assuming 346,000 persons exclude \$10,000 from their Oklahoma taxable income results in an additional \$3.46 billion of unemployment compensation (income) exempt from Oklahoma income tax. Applying an effective income tax rate of 3.05% results in an estimated decrease in income tax collections of \$105.5 million for tax year 2021, under current law.

This potential decrease is further adjusted to account for the proposed rate reduction credit outlined in the CS for HB 2041. Scaling the impact to the effect of the rate reduction credit suggests a potential revenue decrease in excess of \$100.4 million.<sup>3</sup> No change to estimated tax or withholding is anticipated so the full impact should occur in FY22 when the 2021 income tax returns are filed.

<sup>1</sup> 68 O.S. § 2358 (E) 22

<sup>2</sup> These dollar amounts and number of recipients do not include the non-state provided benefits under the CARES Act; additional unemployment benefits were provided by the federal government and these are not reflected in the OESC data.

<sup>3</sup> The rate reduction credit reduces tax on average 5% for all filers. This reduction was factored to arrive at the \$100.4 million.

Prepared By: Mark Tygret

**Other Considerations**

None.

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