



BILL/VERSION: SB 46 PCS (Req. No. 1807)

ANALYST: TB

AUTHORS: Sen. Weaver

DATE: 2/28/2025

TAX(ES): Income Tax

SUBJECT(S): Deduction

EFFECTIVE DATE: November 1, 2025

Emergency

ESTIMATED REVENUE IMPACT:

FY26: \$0

FY27: Unknown decrease in income tax collections.

ANALYSIS: The Proposed Committee Substitute for SB 46 (Req. No. 1807) modifies the Introduced version by limiting the subtraction of state and local income tax refunds, as reported on Form 1099-G, to only those taxpayers who itemize deductions on their Oklahoma return. This change aims to prevent double taxation while maintaining the state's existing policy of disallowing the state and local tax (SALT) deduction. However, not all refunds reported on Form 1099-G are taxable at the federal level, and only the portion included in federal AGI should be subtracted from Oklahoma AGI.

To implement this policy, only the portion of a state or local tax refund that was included in federal AGI should be eligible for subtraction from Oklahoma AGI. While the bill seeks to prevent double taxation, some taxpayers receive 1099-G refunds that were never included in federal AGI due to factors such as:

1. The SALT deduction cap, which limits the federal deduction for state and local taxes, reducing or eliminating the taxpayer's benefit from deducting these payments.
2. The Alternative Minimum Tax (AMT), which disallows certain deductions, including SALT, making state and local tax payments ineligible for a deduction.
3. Other federal deduction limits, such as income-based phaseouts, which may prevent a taxpayer from receiving the full tax benefit from their state tax payments.

Because of these limitations, a 1099-G may report a state tax refund, but not all of that refund may have been included in federal AGI. Allowing taxpayers to subtract the full

2/28/25
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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.



1099-G amount without confirming whether it was included in federal AGI could result in unintended revenue loss and a larger fiscal impact than anticipated.

According to IRS data¹, 35,730 Oklahoma resident individual taxpayers in tax year 2022 added back state and local tax refunds that had been previously claimed as an itemized deduction in prior years.

Based on data from the Oklahoma Tax Commission and the IRS, it is estimated that resident individual income taxpayers adding back refunds from prior tax years generate approximately \$1.5 million in additional revenue. However, the number of nonresident individual Oklahoma taxpayers who added back state and local refunds is currently unknown.

¹<https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.irs.gov%2Fpub%2Firs-soi%2F22in37ok.xlsx&wdOrigin=BROWSELINK>