



THE OKLAHOMAN

Q&A with Sheppard F. Miers: Federal tax reform could affect state tax determinations



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Q: Would tax reform at the federal level affect the taxes we pay at the state level?

A: Oklahoma state income tax generally conforms to the federal income tax imposed under the Internal Revenue Code. In general, income and expenditures are treated the same way for Oklahoma income tax purposes as they are for federal income tax purposes. Terms used in Oklahoma's law generally have the same meaning as when used in a comparable context in the federal tax code. Also, Oklahoma income taxpayers' status and elections are generally regarded the same as they are for federal income tax purposes. As a result, federal "tax reform" could affect the way Oklahoma state income tax is determined and the amount of state income tax payable.

Q: Could revisions to the federal income tax change the amount of state income tax Oklahomans pay?

A: Because Oklahoma income tax is based on and tied to federal income tax, some of the major federal tax reform changes that are currently being considered and debated in Washington could affect Oklahomans' state income taxes. At present, there are various proposals being considered, including one advanced by President Donald Trump and a different plan proposed by the Republican majority in the U.S. House of Representatives. These proposals for tax reform include changes in the timing of and amounts included in income and allowed as deductions. The exact impact to Oklahoma's income tax would of course depend on what is enacted changing the federal tax code. It also would depend on the extent to which the Oklahoma income tax law continued to conform to the federal tax code.

Q: If the federal tax code changes, what are some examples of the impact to state income tax?

A: The federal tax reform proposals include a repeal for itemized deductions other than charitable contributions and mortgage interest deductions, which could result in fewer deductions at the federal and state level for some taxpayers and increase Oklahoma taxable income. The federal proposal to simplify the law that would significantly increase the federal standard deduction, on the other hand, would balance that by triggering an increase in the Oklahoma standard deduction, thereby decreasing Oklahoma taxable income. However, the Oklahoma Legislature recently enacted a change to the Oklahoma Income Tax Act to prevent that and freeze the state income tax standard deduction at the current federal standard deduction level. So, it's possible taxpayers using the standard deduction could see federal income tax reductions, but their state income tax remain the same or be higher.

Q: Could the current Internal Revenue Code proposed changes impact state corporate taxes?

A: It's likely they would. Several changes to the federal tax code being considered could impact federal and Oklahoma corporate income taxes. Those include accelerated immediate deduction of capital expenditures, and denying deduction of interest on corporate business investment debt. The federal tax reform proposals also call for lowering corporate rates while eliminating "special-interest deductions;" and a destination-basis tax exempting exports and taxing imports in international transactions. Because of Oklahoma income tax conformity with the federal income tax these proposed federal tax reform changes could impact Oklahoma corporate income tax if enacted. However, that might not occur if and to the extent Oklahoma enacted changes in its income tax law to provide that it would no longer conform to and in effect be "decoupled" from such federal tax reform changes on corporate income tax.