



State of Oklahoma

Incentive Evaluation Commission

Capital Gains Deduction Draft Evaluation

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Key Findings and Recommendations



Incentive Overview

The incentive provides a 100 percent deduction from taxable income for gains from the sale of qualified Oklahoma-based property. Qualified gains include the sale of real and tangible personal property based in Oklahoma and stock or ownership interest in a business entity with a primary headquarters in Oklahoma.

Recommendation: Reconfigure

Key Findings

- **Since 2018, deduction claims and the amount deducted have been volatile and without a clear trend.** Individual income tax returns claiming the deduction ranged from 15,209 to 19,935 annually between 2019 and 2024, generating an estimated \$801.6 million in foregone state revenue over that six-year period, compared with \$716.3 million over 2014-2018.
- **The benefit remains concentrated among high-income claimants.** From 2019 through 2024, claimants with Adjusted Gross Income (AGI) above \$1.0 million accounted for 4.8 percent of returns but 62.5 percent of the total amount deducted. Claimants with AGI above \$25.0 million, fewer than 0.1 percent of claimants, accounted for 14.0 percent of the total amount deducted.
- **The actual amount of foregone revenue is greater than the reported amounts deducted.** The Oklahoma Tax Commission (OTC) cannot isolate corporate use of the deduction. Corporate claims remain embedded in Form 512 calculations rather than separately reported, so all usage data in this evaluation reflect individual income tax claims only.
- **Oklahoma's rate reductions have modestly lowered the deduction's fiscal cost.** The drop from a 5.0 percent top rate to 4.75 percent (2022-2025) and 4.5 percent (2026 forward) reduced foregone revenue by an estimated \$21.0 million over 2019-2024 versus the prior 5 percent rate.
- **While it cannot be established definitively, available evidence does not support the deduction as a widespread driver of investment decisions.** A 2025 Congressional Research Service analysis found the long-run behavioral response of capital gains realizations to tax changes has an elasticity of 0.29 to 0.45, meaning investors' decisions to sell assets are only modestly sensitive to the resulting tax treatment. For many stock sales of Oklahoma-based companies, the state tax deduction is far outweighed by federal tax considerations.
- **The return on investment for the capital gains deduction is negative.** Over the 2019-2024 period, the total economic impact of the capital gains deduction is \$306.7 million, compared with \$801.6 million in foregone revenue to the State. Economic impacts of the deduction are far less (38.3 percent) than the deduction itself, a wider gap than found in the 2021 evaluation, when economic impacts equaled 56.3 percent of foregone revenue.
- **The deduction is the largest state tax incentive.** In tax year 2023, the Capital Gains Deduction generated \$123.3 million in foregone revenue, compared with \$23.5 million used to reduce tax liability under the Investment/New Jobs Credit, the state's largest capital-investment incentive, which ties its benefit to documented job creation and payroll thresholds.¹
- **The deduction has been narrowed or eliminated in other states.** No additional states have adopted a comparable deduction since the 2021 evaluation, and several have narrowed theirs: Louisiana repealed its deduction effective 2025, Colorado narrowed eligibility to Schedule F

¹ Oklahoma Tax Commission, Income Tax Credits Claimed for Tax Year 2023.



agricultural filers with a 2030 sunset, and Utah's credit rate declined to 4.55 percent.

- **The deduction does not map to any of the 5 pillars or 10 measurable goals in the Oklahoma Department of Commerce's 2025 Strategic Plan for Economic & Community Development.**² The plan's "Regional Industry Targeting" pillar directs Commerce toward seven priority sectors: Energy; Aerospace, Space & Defense; Agriculture & Food Production; Information Technology; Healthcare & Bioscience; Manufacturing; and Transportation & Distribution. None of the state's 10 measurable strategic goals can be tracked against the deduction. It carries no industry, job, or reinvestment requirement and applies uniformly regardless of sector.
- **The deduction is too small relative to Oklahoma's economy to constitute a macro-level competitive advantage.** Over the 2005-2024 period, foregone revenue averaged 0.07 percent of Oklahoma's gross state product annually, though it represented a more material 4.0 percent of individual income tax collections on average (see Appendix E). It is possible that the requirements to maintain a company within the state for a number of years (which varies in the statute) will affect micro decisions.
- **No cost controls are in place.** There are no cap, phase-out, or sunset provisions, though realized foregone revenue has stayed within a \$99.9 million to \$189.1 million band since 2019 despite the volatility of capital gains as a revenue source.
- **The statute does not identify the goal or goals of the deduction.**

Recommendations

- Reconfigure the program with legislative intent tied to a specific strategic goal or one of Commerce's seven priority industries.
- Narrow the eligible capital gains allowed to be deducted under the program; for example, keeping agriculture sector transactions but limiting other types of investments that are less likely to be influenced by the program.
- Consider capping the value of an individual or corporate deduction to limit fiscal exposure, informed by benchmarking (Colorado: \$100,000; Vermont: \$350,000).
- Improve OTC data collection on corporate claims, property type, and industry to support the but-for and strategic-alignment assessments required in future evaluation cycles.

² Oklahoma Department of Commerce, Oklahoma's Strategic Plan for Economic & Community Development, 2025, pp. 2-3, 11.



Introduction



Oklahoma Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created in 2015 via HB 2182. The Commission is directed to produce objective evaluations of the State of Oklahoma's wide array of business incentives. The Commission is comprised of five voting members, with each appointed by the Governor, President Pro Tempore of the Senate, Speaker of the House of Representatives, Oklahoma Economic Development Partnership, and the Oklahoma Accountancy Board. Representatives of the Department of Commerce, the Office of Management and Enterprise Services, and the Oklahoma Tax Commission serve as ex officio (non-voting) members.

Under the enabling legislation, each of the State's business incentives³ must be evaluated once every four years⁴ according to a formal set of general criteria, including (but not limited to) economic output, fiscal impact, return on investment, and effectiveness of administration, as well as criteria specific to each incentive.

Since the Commission's inception, it has contracted with PFM Group Consulting LLC (PFM) to serve as the independent evaluator of each incentive scheduled for review. PFM issues a final report on each incentive with recommendations as to how Oklahoma can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured or repealed. The reports also generally include recommendations for any changes to State policy, rules or statutes that would allow the incentive to be more easily or conclusively evaluated in the future.

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – voting to retain, repeal or modify each incentive under review. It then submits a final report to the Governor and Legislature.

In April 2026, SB 1990 was signed by Governor Stitt. SB 1990 revised the Incentive Evaluation statute to include additional requirements for the incentive evaluations. Most notably, these were:

- Analyze whether a business receiving the incentive would likely have taken any action required to receive the incentive in the absence of the incentive;
- Broaden the comparison of results of the incentive to other state of Oklahoma incentives or economic development strategies to also include other states;
- An assessment of whether the incentive furthers a strategic economic goal or an industry within this state;
- An assessment of whether the incentive creates a competitive advantage for Oklahoma by evaluating the overall effectiveness of the incentive at a macroeconomic level.

The SB 1990 statutory changes took effect on August 13, 2026. The PFM project team has, to the extent possible, taken them into consideration during the 2026 evaluation process. They will be more fully incorporated into the 2027 incentive evaluation process.

Summary of 2021 Evaluation Findings and Recommendations

This incentive was last evaluated in 2021. Significant findings from that evaluation of the Capital Gains Deduction are summarized in the following table.

³ The statute defines a business incentive as “a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma.”

⁴ The statute provides the Commission the authority to set a threshold and choose to exempt from evaluation incentives that do not meet this threshold for foregone revenue or expenditures. That threshold is currently set at \$1.0 million.



Table 1: Summary of 2021 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	- The deduction resulted in an estimated \$716.3 million in foregone revenue in tax years 2014 through 2018. Most benefits of the program were received by individuals with reported income of \$200,000 or more. Due to lack of legislative intent and broad eligibility, it is unclear exactly what the program intends to accomplish.
Fiscal and Economic Impact	- Based on economic and fiscal impact analysis, foregone revenue far exceeded estimated tax revenue generated.
Future Fiscal Impact Protections	- The incentive does not provide a cap or any other limit to future costs.
Administrative Effectiveness	- The Tax Commission was unable to provide information on the use of the deductions by corporations. The evaluation focused only on its use for individual income tax.
Achievement of Goals	- Due to lack of legislative intent and broad eligibility, it is unclear exactly what the program intends to accomplish. Data showed that the share of tax returns reporting any net capital gain or loss decreased since the program was established.
Retain, Reconfigure or Repeal	- Based on its analysis of available data, the project team recommended in 2021 the deduction be repealed.
Other Recommendations	- If program is retained, target the incentive to a specific industry. - Require gains to be reinvested in Oklahoma. - Improve data collection for future evaluation.

The 2021 PFM evaluation recommended repeal; the Commission rejected that recommendation and instead directed an interagency task force be formed to study the incentive. Following the task force study, no statutory or programmatic changes have been implemented. The deduction remains in effect.

In 2025, HB2764 reduced Oklahoma's top individual income tax rate from 4.75 percent to 4.5 percent effective tax year 2026. This rate reduction decreases the tax benefit value of the capital gains deduction for affected claimants. For example, a taxpayer previously claiming a \$1 million deduction at the 4.75 percent rate saved \$47,500 in taxes; that same deduction now provides a \$45,000 benefit at the 4.5 percent rate. The deduction itself remains unchanged at 100 percent of qualifying gains, but the monetary benefit to claimants is proportionally reduced.

2026 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation.

To assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

- Number of realized capital gains
- Employment/capital/payroll associated with realized capital gains
- Change in realized capital gains before/after the deduction
- State return on investment



2026 Evaluation Approach

To conduct its 2026 review of the Capital Gains Deduction, the project team conducted the following activities:

- Submitted a data request to the Oklahoma Tax Commission (OTC);
- Reviewed and analyzed OTC-provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from OTC;
- Conducted external stakeholder interviews with industry representatives;
- Benchmarked Oklahoma to other states.



Incentive Use and Administration



Incentive Characteristics

The incentive provides a deduction from taxable income for gains from the sale of qualified Oklahoma-based property. Qualified gains include the sale of real and tangible personal property based in Oklahoma and stock or ownership interest in a business entity with a primary headquarters in Oklahoma.

The statute that established the deduction does not include legislative intent, so it is not clear what the legislature intended the deduction to accomplish. However, the design of this incentive suggests it intends to encourage investments in Oklahoma-based property and businesses. By not taxing profits generated from the sale of Oklahoma-based assets, the State is increasing the potential return on those investments, making them more attractive compared to a similar investment made outside the State.

Capital Gains Taxation Background

A capital gain is profit from the sale of an asset. Although assets may appreciate in value over many years, that value is taxed only when an asset is sold and profit is “realized” by a taxpayer.

At the federal level, capital gains are taxed at a lower rate than ordinary income. This rate varies, depending on a taxpayer's income and filing status. As shown in table 2, in 2025, capital gains for single filers were not subject to tax if taxable income was less than \$48,350, taxed at 15 percent if taxable income was between \$48,350 to \$533,400, and 20 percent if taxable income was greater than \$533,400. Most states, including Oklahoma, tax capital gains at the same rate as ordinary income. In Oklahoma, the top individual income tax rate is 4.5 percent.

Table 2: 2025 Federal Tax Rate on Long-Term Capital Gains, by Filing Status and Taxable Income

Tax Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
Zero	Below \$48,350	Below \$96,700	Below \$64,750	Below \$48,350
15%	\$48,350 to \$533,400	\$96,700 to \$600,050	\$64,750 to \$566,700	\$48,350 to \$300,000
20%	Greater than \$533,400	Greater than \$600,050	Greater than \$566,700	Greater than \$300,000

Source: IRS.gov

The federal tax rate on capital gains has generated significant debate over the last several decades. Discussions relating to the federal tax rate on capital gains focus on what tax rate is optimal rather than the impact of a deduction of capital gains income. However, discussion of the tax rate's impact on investor behavior and economic growth can provide helpful context for understanding Oklahoma's deduction.

Proponents of a low (zero) capital gains tax rate argue that high tax rates discourage savings and investment, which ultimately decreases long-term economic growth. One way that a high tax rate may dampen economic growth is through the “lock-in” effect. A high tax rate may decrease the after-tax return on an investment enough to discourage the realization of gains, causing taxpayers to keep gains “locked” in their assets rather than realizing and possibly reinvesting or spending them.⁵ It has been argued that this effect is especially important for start-up companies, which often rely on funding from wealthy angel investors who reinvest gains.⁶ However, recent research suggests the magnitude of this effect may be more modest than historical studies indicated. A 2025 Congressional Research Service analysis found that the long-run permanent behavioral response to capital gains tax changes has an elasticity between 0.29 to 0.45, substantially lower

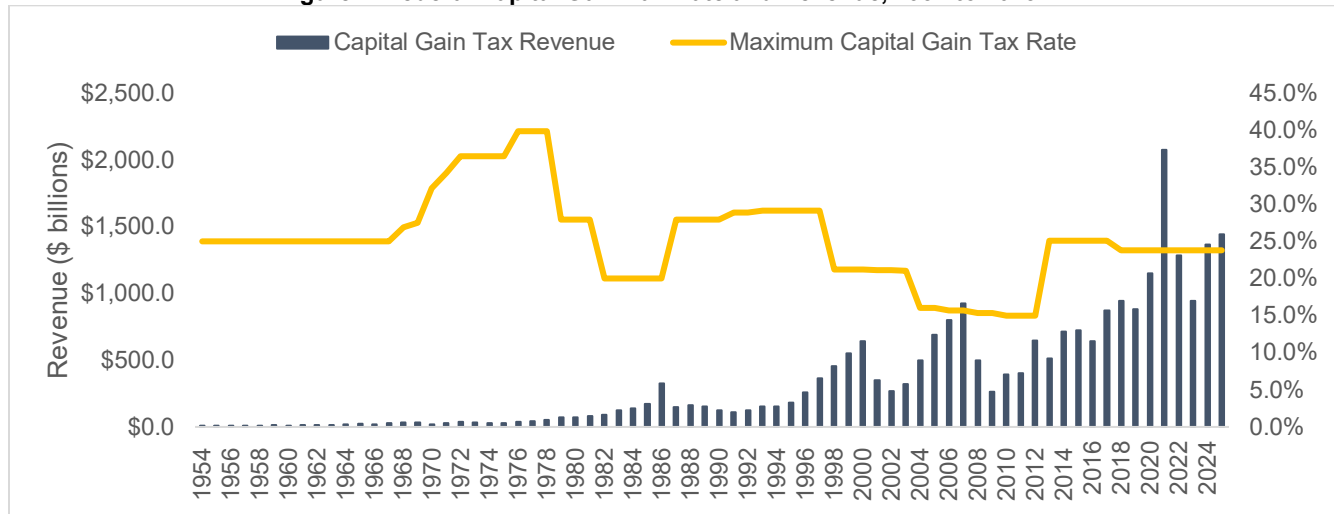
⁵ “Should we Ax the Capital Gains Tax?” Federal Reserve Bank of St. Louis, July 1, 1995. Accessed electronically at: <https://www.stlouisfed.org/publications/regional-economist/july-1995/should-we-ax-the-capital-gains-tax>

⁶ “Six Reasons to Keep Capital Gains Tax Rates Low,” Cato Institute, December 28, 2012. Accessed electronically at: <https://www.cato.org/commentary/six-reasons-keep-capital-gains-tax-rates-low>



than earlier estimates.⁷ In practical terms, this means a 10 percent reduction in the capital gains tax rate is associated with roughly a 3 to 4.5 percent increase in the amount of gains taxpayers choose to realize, a modest behavioral response. Evidence of temporary behavioral responses can be observed when tax rate changes are announced, as taxpayers accelerate realizations before rates increase. However, these responses are transitory and realizations decline in subsequent years. In addition, a 2018 Congressional Research Service report found little historical evidence that the capital gains tax rate has had a meaningful impact on economic growth.⁸

Figure 1: Federal Capital Gain Tax Rate and Revenue, 1954 to 2025



Source: Tax Foundation

Proponents of maintaining the federal capital gains tax rate question the fairness of taxing capital gains at a lower rate than ordinary income and argue that decreasing the tax rate would disproportionately benefit wealthy taxpayers. Recent data from the Tax Policy Center show that in 2023, taxpayers with adjusted gross income (AGI) exceeding \$1.0 million reported average capital gains of \$799,400, accounting for 25 percent of their income. Taxpayers with AGI of less than \$100,000 reported average capital gains of \$290, or 1 percent of their income. Consequently, capital gains taxation disproportionately benefits high-income taxpayers. Additionally, capital gains tax revenues have historically been volatile, averaging 9 percent of individual income tax revenues over the past two decades but fluctuating significantly with economic activity.⁹ For example, capital gains tax revenue fell 41 percent from 2001 to 2002 and 49 percent from 2008 to 2009 during the two most recent recessions, before rising 10 percent in 2020 and 64 percent in 2021 amid a strong stock market.

The federal capital gains rate debate has limited relevance to the evaluation of Oklahoma's deduction. For example, the argument that decreased revenue due to a lower capital gains tax rate will be offset by an increase in the tax base due to increased gain realizations does not apply to Oklahoma's full deduction of qualifying gains. Because it is a full deduction, rather than a reduced rate or partial deduction, an increase in the tax base cannot offset foregone revenue. The benefit Oklahoma may receive from allowing the deduction is entirely determined by any indirect benefits it generates. Indirect benefits may include greater reinvestment of capital gains by investors and business owners, which may create jobs and economic activity that would lead to increases in other State revenue streams. These benefits are difficult to quantify, as there is no assurance that gains deducted from Oklahoma taxable income are reinvested in the State.

⁷ "Boundaries on the Long-Run Realization Response to Changes in Capital Gains Taxes," Congressional Research Service, June 2025 (Report No. R48562).

⁸ "Capital Gains Taxes: An Overview," Congressional Research Service, March 16, 2018. Accessed electronically at: <https://crsreports.congress.gov/product/pdf/RS/96-769>

⁹ Peter G. Peterson Foundation, "How Does the Capital Gains Tax Work, and What Are Some Proposed Reforms?," updated April 7, 2026.

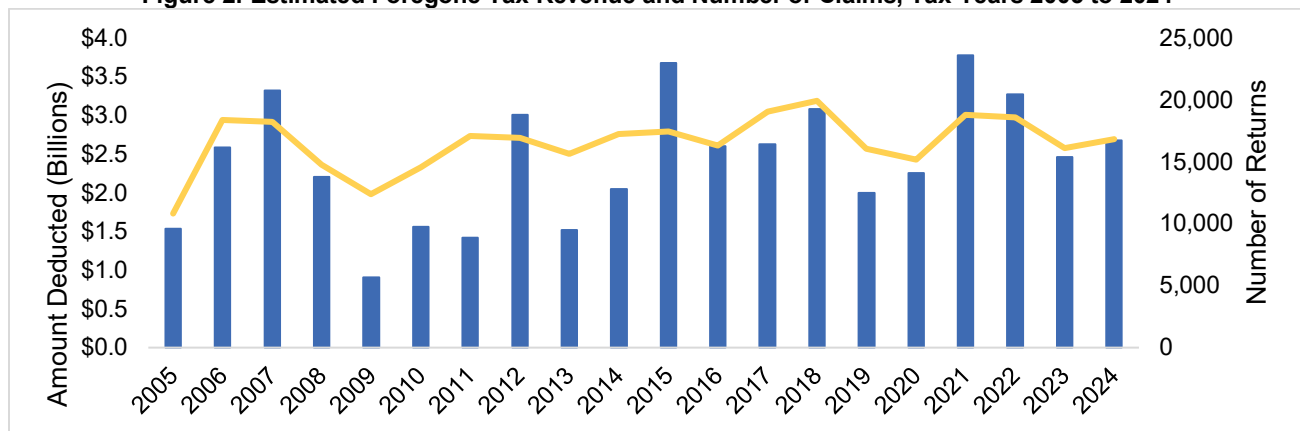


However, the discussion of who benefits from reduced capital gains taxes is applicable to Oklahoma's deduction. Oklahoma's deduction is used by a small portion of taxpayers and many of the claimants who benefit most report high incomes.

Historic Use of the Deduction

The number of returns claiming the deduction peaked in 2018 at 19,935, then declined to 16,075 in 2019, and 15,209 in 2020, before rebounding to 18,821 in 2021. Since 2021, claims have settled in the range of roughly 16,000 to 18,600 annually, with 16,863 returns in 2024. The amount of income deducted also more than doubled over this period, from \$1.5 billion to \$3.1 billion. The following chart shows the estimated foregone tax revenue due to deducted gains and the number of returns claiming them over time.¹⁰

Figure 2: Estimated Foregone Tax Revenue and Number of Claims, Tax Years 2005 to 2024



Tax Year	Returns Claiming the Deduction	Total Amount Deducted	Estimated Foregone Tax Revenue
2005	10,828	\$1,539,922,016	\$87,005,594
2006	18,379	\$2,582,859,065	\$145,931,537
2007	18,223	\$3,325,139,828	\$182,882,691
2008	14,785	\$2,203,512,997	\$121,193,215
2009	12,369	\$905,343,747	\$49,793,906
2010	14,584	\$1,561,014,955	\$85,855,823
2011	17,106	\$1,420,260,932	\$78,114,351
2012	16,962	\$3,009,138,923	\$157,979,793
2013	15,649	\$1,520,093,410	\$79,804,904
2014	17,274	\$2,047,103,649	\$107,472,942
2015	17,446	\$3,675,894,222	\$192,984,447
2016	16,330	\$2,606,876,225	\$130,343,811
2017	19,078	\$2,624,369,667	\$131,218,483
2018	19,935	\$3,086,488,916	\$154,324,446
2019	16,075	\$1,997,856,274	\$99,892,814
2020	15,209	\$2,254,194,346	\$112,709,717
2021	18,821	\$3,781,445,340	\$189,072,267
2022	18,606	\$3,272,727,309	\$163,636,366
2023	16,115	\$2,465,424,787	\$123,271,240
2024	16,863	\$2,681,118,322	\$134,055,916

Source: Oklahoma Tax Commission

¹⁰ Foregone tax revenue estimated using the top income tax rate in each year.

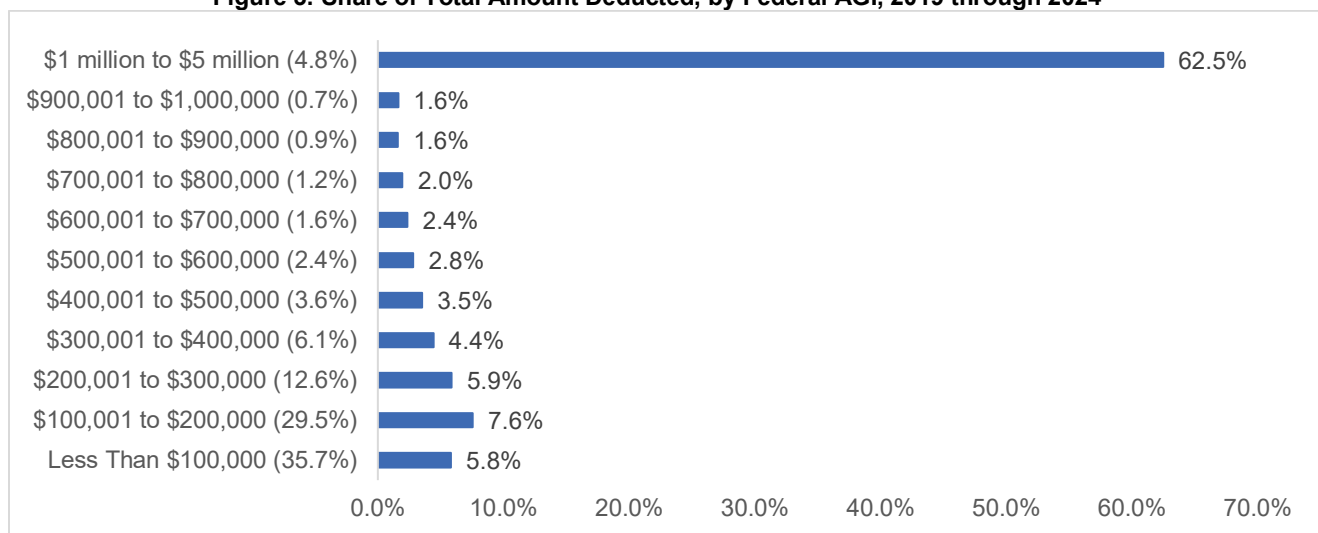


In 2022, the most recent year available, 1.1 percent of Oklahomans claimed the Deduction. As a share of total Oklahoma federal returns reporting a capital gain or loss, they totaled 7.5 percent.

The Tax Commission (OTC) was able to provide detailed data for tax years 2019 through 2024, showing aggregate count and amount of deductions by federal adjusted gross income (AGI) level, with the number of returns in each income category broken down by the amount of deduction claimed.

This data shows that, in aggregate from 2019 through 2024, claimants with federal AGI greater than \$1.0 million, who accounted for 4.8 percent of total returns claiming a deduction, claimed nearly two-thirds (62.5 percent) of the total amount deducted. Filers with AGI of less than \$0.1 million were the most frequent claimants of the deduction but accounted for 5.8 percent of the total amount deducted.

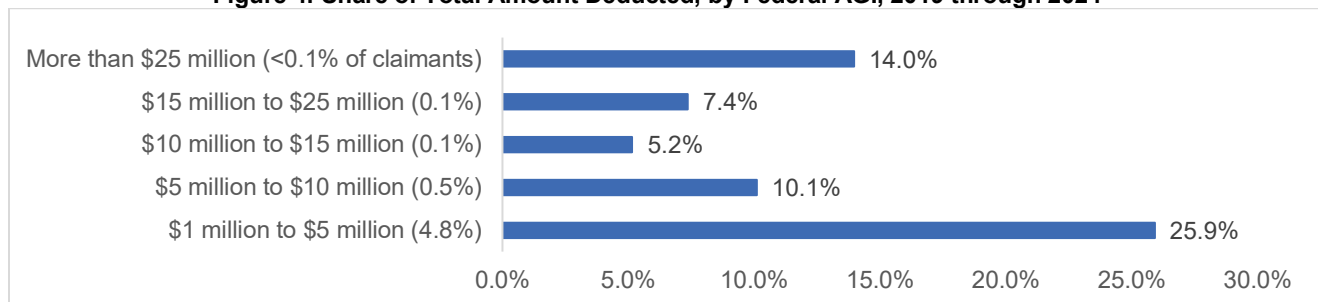
Figure 3: Share of Total Amount Deducted, by Federal AGI, 2019 through 2024



Source: OTC

A further breakdown of claimants with AGI greater than \$1.0 million shows that claimants with AGI greater than \$25.0 million accounted for less than 0.1 percent of total claimants but about 14.0 percent of the total amount deducted over this period.

Figure 4: Share of Total Amount Deducted, by Federal AGI, 2019 through 2024



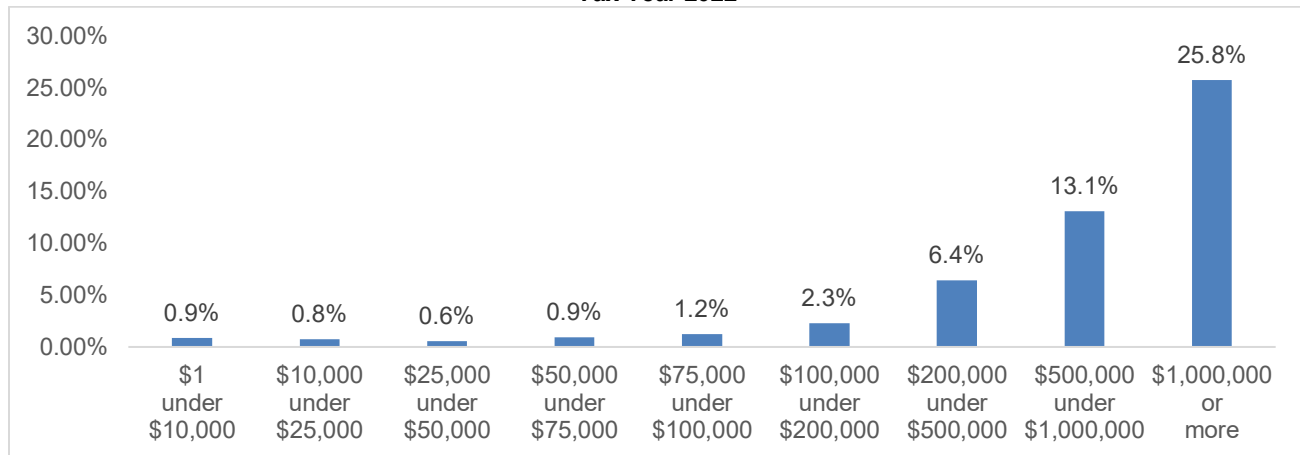
Source: OTC

Most claimants deduct amounts of \$0.1 million or less. From 2019 through 2024, more than three-fourths (79.4 percent) of returns deducted amounts of \$0.1 million or less.



Claimants with high AGI claim most of the benefits of the deduction, because capital gains account for a greater share of income as income increases. The following chart shows net capital gains as a share of total income for Oklahoma Federal income tax filers in tax year 2022. At AGI between \$25,000 to \$50,000, net capital gains account for 0.6 percent of total income, but this share grows to 25.8 percent at AGI levels above \$1,000,000.

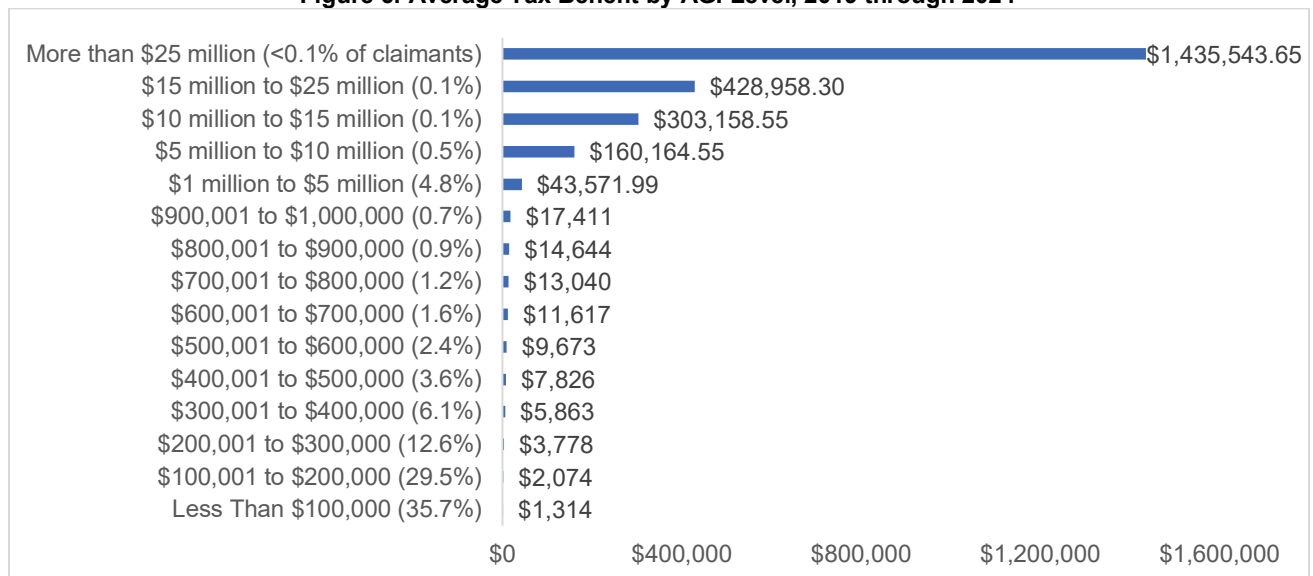
Figure 5: Oklahoma Federal Income Taxpayer Net Capital Gain as a Share of Total Income, by Federal AGI, Tax Year 2022



Source: US Internal Revenue Service, Statistics of Income

Another example of this point is to examine the average tax benefit received by deduction claimants, estimated using the top marginal individual income tax rate in effect each year, at different levels of AGI.. From AGI of \$100,000 or less to AGI between \$900,001 and \$1,000,000, income levels are 10 times greater, but the average tax benefit is more than 34 times greater, increasing from \$1,314 to \$17,411. The following chart shows the growth in average tax benefit received at different AGI levels.

Figure 6: Average Tax Benefit by AGI Level, 2019 through 2024



Source: OTC

For tax year 2022, Oklahoma reduced its top marginal individual income tax rate from 5.0 percent to 4.75. It made an additional reduction to 4.5 percent for tax year 2026. Because foregone revenue is a function of both



the amount deducted and the applicable tax rate, these reductions lower the revenue cost of the deduction relative to a constant-rate baseline. As shown in Table 3, over the 2019 through 2024 period the rate reduction is estimated to have reduced foregone revenue by approximately \$21.0 million compared with a 5 percent baseline.

Table 3: Impacts of Top Marginal Tax Rate Reduction on Foregone Revenues, 2019-2024

Tax Year	Total Deduction Claimed	Top OK Marginal Tax Rate	Est. Foregone Revenue (Actual Rate)	Est. Foregone Revenue (5% Baseline)	Difference (Actual vs. Baseline)
2019	\$1,997,856,274	5.00%	\$99,892,814	\$99,892,814	-
2020	\$2,254,194,346	5.00%	\$112,709,717	\$112,709,717	-
2021	\$3,781,445,340	5.00%	\$189,072,267	\$189,072,267	-
2022	\$3,272,727,309	4.75%	\$155,454,547	\$163,636,365	\$(8,181,818)
2023	\$2,465,424,787	4.75%	\$117,107,677	\$123,271,239	\$(6,163,562)
2024	\$2,681,118,322	4.75%	\$127,353,120	\$134,055,916	\$(6,702,796)
Total	\$16,452,766,378		\$801,590,143	\$822,638,319	\$(21,048,176)

Source: OTC, PFM Calculations

Incentive Administration

The OTC administers the deduction. Taxpayers claiming the deduction submit a form along with other income tax forms. The following summarizes the essential components of this process:

Eligibility

Net gain from the sale of Oklahoma-based real or tangible property, or stock or ownership interest in an Oklahoma-based business entity is eligible to be deducted from income for state income tax purposes for individuals, estates, trusts, and corporations. Real or tangible property must be owned for at least five years prior to the sale. Stock or ownership interests must be in a business entity that has had a primary headquarters in Oklahoma for at least three years prior to the sale. Estates, trusts, and corporations must have owned the stock or ownership interest for three years prior to the sale. For individuals, this requirement is reduced to two years. If the gain results from the sale of all or substantially all of the assets of an Oklahoma-based company, the holding period is two years for individuals and three years for estates, trusts, and corporations.

Deduction Claims

Taxpayers may claim the deduction by completing Tax Form 561. Taxpayers report qualifying gains by location or address for tangible property or Federal ID number for stock or ownership interests. Other information reported on the form includes acquisition date, sale date, and associated gain.

Reporting

Estimates of the cost of the capital gain deduction are reported in the Tax Expenditure report published bi-annually by the OTC. Due to difficulties in aggregating the data associated with corporate tax deductions, estimates are only made for the cost of personal income tax deductions.

The OTC does not disaggregate information collected on Form 561 such as the holding period of capital, the industry that corporations benefiting from the deduction operate in, or data identifying deduction amounts for real property versus stock or ownership interests.



Incentive Best Practices

The PFM Project Team has established a list of best practices that can apply broadly to incentive program designs.¹¹ These are based on decades of experience evaluating programs professionally as well as reviewing the associated academic literature and evaluations of programs by state agencies or departments. A program can then be judged to either fully adopt, partly adopt, or not adopt a given practice.

The Capital Gains deduction does not align well with established best practice for incentive design. The most positive aspect is that it is relatively simple in its design. However, it is very broad in terms of eligibility, lacks transparency and accountability in terms of data and reporting, and does not address a barrier to growth in Oklahoma. It is targeted to benefit Oklahoma-based businesses, but does not target specific industries or types of firms that the State intends to grow through its economic development strategy.

Figure 7: Incentive Best Practice Alignment

Best Practice	Capital Gains
Targeted to specific companies or industries	☐
Discretionary	☐
Leverage significant private capital	☐
Limited duration / front-load benefits to 1-3 years	☐
State / Local conditions considered	☐
Overcoming practical barriers to growth	☐
Transparency	☐
Accountability	☐
Cap on value of awards	☐
Simple and understandable	☒
Sunset on program duration	☐

¹¹ Details on the best practices and their establishment can be found in the Appendices.



Economic and Fiscal Impact



Economic and Fiscal Impacts

For this analysis, PFM uses the IMPLAN economic impact software, a proprietary model. PFM has obtained a license for use of the IMPLAN model for these evaluations. IMPLAN uses Social Accounting Matrices (SAMs) to capture the actual dollar amounts of all business transactions taking place in a regional economy, as reported each year by businesses and government agencies. The IMPLAN model identifies three kinds of economic effects: direct, indirect, and induced. The project team then translates the combined economic effects into state tax revenue for comparison purposes.

Additional information on the IMPLAN model and methodology are provided in Appendix C.

The economic gains resulting from the capital gains deduction flow directly to the income of the claimant, who may be an individual, estate, trust, or corporation. As discussed in the Incentive Usage and Administration section, a majority of the deduction's benefit accrues to claimants with the highest incomes.

Economists use a number of statistics to describe regional economic activity. Four common measures are Output, which describes total economic activity and is generally equivalent to a firm's gross sales; Value Added, which equals gross output of an industry or a sector less its intermediate inputs; Labor Income, which corresponds to wages and benefits; and Employment, which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of effects: direct, indirect, and induced.

Direct effects are production changes associated with the immediate effects or final demand changes. Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries. Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects.

A multiplier reflects the interaction between different sectors of the economy. The larger the multiplier, the greater the impact will be in the regional economy.

For the capital gains tax deduction, the foregone tax amounts were allocated to claimant incomes according to spending characteristics of differing household income profiles, developed by IMPLAN. Analysis of household income impacts differs from industry income impacts, as household incomes are not a function of production and payroll. As a result, the economic impacts of household income changes result only in induced economic effects and have no direct or indirect economic impact. This is consistent with the modeling results below, which show no direct or indirect activity in any year.

The table below describes the induced economic impacts of foregone tax revenue to the State for tax years 2019 through 2024, applying the top Oklahoma marginal individual income tax rate in effect each year (5.00 percent for tax years 2019 through 2021, 4.75 percent for tax years 2022 through 2024).

Table 4: Induced Economic Impact of Foregone Tax Revenue, Tax Years 2019 to 2024

Tax Year	Estimated Foregone Tax Revenue	Economic Impact (Output)	Employment	State Tax Revenue
2019	\$99,892,814	\$36,181,364	184	\$1,230,133
2020	\$112,709,717	\$38,167,709	196	\$1,418,603
2021	\$189,072,267	\$57,441,123	288	\$2,135,332
2022	\$155,454,547	\$43,888,996	227	\$1,626,543
2023	\$117,107,677	\$59,893,167	333	\$1,947,604



Tax Year	Estimated Foregone Tax Revenue	Economic Impact (Output)	Employment	State Tax Revenue
2024	\$127,353,120	\$71,112,305	378	\$2,001,344
2019-2024 Total	\$801,590,143	\$306,684,664	268 (avg. annual)	\$10,359,559

Source: IMPLAN, PFM. Employment total reflects the average annual jobs figure, consistent with 2021 report convention; all other totals are period sums.

Over the six-year period from 2019 through 2024, the total economic impact of the capital gains deduction is \$306.7 million, compared with \$801.6 million in foregone revenue to the State. Economic impacts of the deduction are far less (38.3 percent) than the deduction itself. It should be noted there are several limitations to this figure. One main issue is that IMPLAN software does not disaggregate household income above \$200,000 per year. The vast majority of the impacts are in these higher income brackets, so the loss of fidelity is a limitation on the accuracy of this analysis. As mentioned previously, this also does not include corporate claimants as OTC is not able to provide this data to the evaluation team. Finally, data on where or whether claimants spend or reinvest their capital gain is not available.

The return on investment for the capital gains deduction remains negative, and the gap between foregone revenue and induced economic impact has widened relative to the 2021 evaluation period (2014 through 2018), when economic impacts equaled 56.3 percent of foregone revenue.

By comparison, if the State were to spend the \$801.6 million in foregone revenue as part of its budgeted operations, the resulting economic output would reach an estimated \$880.6 million, more than 2.5 times the \$306.7 million generated when that revenue remains with claimants. On a per-dollar basis, the deduction generates approximately \$0.38 in economic output for every \$1.00 of foregone revenue, compared with an estimated \$1.10 for every \$1.00 spent through the state budget. Employment impacts follow a similar pattern, with government spending supporting roughly four times as many jobs per dollar as the deduction.

Table 5: Comparative Economic Impact, Tax Years 2019 to 2024

Measure	Household Income (Induced Only)	Government Spending (Direct + Indirect + Induced)
Total Output	\$306.7 million	\$880.6 million
Output per \$1 of Foregone Revenue	\$0.38	\$1.10
Jobs Supported per \$1 Million	2.0	8.4

Source: IMPLAN, PFM.

The return on investment for the capital gains deduction remains negative under this comparison, consistent with the finding in the 2021 evaluation.

The Capital Gains Deduction has no cap, phase-out, or sunset provision. As shown in Table 4, foregone revenue ranged from \$99.9 million to \$189.1 million annually between 2019 and 2024, moving with capital gains realizations rather than any statutory limit. Without a cap or similar mechanism, fiscal impact could exceed this range in future years if realization behavior shifts, consistent with the recommendation elsewhere in this report to consider capping the deduction informed by benchmarking.

Effect on Business Behavior

As previously noted, SB 1990 requires the incentive evaluations to consider “the extent to which the incentive changes business behavior, including whether the business receiving the incentive would likely have taken any action required to receive the incentive in the absence of such incentive.”



Business location, hiring and investment decisions rely on a combination of considerations, including market factors, worker availability, infrastructure, access to suppliers and customers, and a reasonable cost structure, which can include taxes. Incentives that lower costs, provide capital, or offer services are one factor among many that can influence business behavior.

The extent to which an incentive changes an individual business's behavior has been widely debated. Since incentives are just one factor among many influencing any given business decision, incentives rarely, if ever, are 100 percent responsible for a given investment. At the same time, it is unlikely that an incentive had absolutely no impact at all.

Based on a review of 30 different studies, Timothy J. Bartik of the W.E. Upjohn Institute estimated incentives probably affect between 2 percent and 25 percent of incented firms making business location, expansion, or job retention decisions.¹² However, a discretionary incentive that includes a robust application and review process and requires regular reporting on milestone achievement is likely to affect behavior differently than a statutory tax break with few accountability mechanisms. Incentive programs with these design features may have a greater effect on investment decisions.¹³ While it is difficult to quantify the impact of an incentive to an individual firm's decision making, evidence does suggest that certain factors do influence both business choice and incentive effectiveness. Nevertheless, Bartik concluded, "Overall, the research literature on incentives' 'but for' effects is not as rigorous as one might hope."¹⁴

Given the challenges of determining the specific extent to which an individual incentive changes individual business behavior, the evaluations consider the factors that are most likely to indicate that the incentive influenced business decisions. These include:

- **Features of the incentive offer.** The relative size of the incentive benefit affects its impact^{15,16} as do the incentive type and structure, leverage generated, timing of the application, and whether a firm is a first-time or repeat incentive recipient.^{17,18}
- **Firm attributes.** Cost-sensitive or efficiency-seeking operations (such as manufacturing, call centers, and distribution centers) and foreign investors have also been found to be more likely to be influenced by the availability of incentives, as are companies for whom the incentive meets a specified need, such as project financing or support services.¹⁹
- **Details obtained in the application process or built into project eligibility requirements** that indicate need for or value of the incentive to the individual business.

¹² Bartik, Timothy J. "But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" W.E. Upjohn Institute for Employment Research. 2018.

¹³ "Michigan Business Development Program Effectiveness Study." W.E. Upjohn Institute and Center for Regional and Economic Competitiveness. January 2019.

¹⁴ Bartik, 2018.

¹⁵ James, Sebastian. "Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications." Investment Climate Advisory Services of the World Bank Group. 2013.

¹⁶ Bartik, Timothy J. "Who Benefits from Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." W.E. Upjohn Institute Technical Report No. 18-034. 2018.

¹⁷ Foley, Paul. "Local Economic Policy and Job Creation: A Review of Evaluation Studies." *Urban Studies* 29(3/4): 557-598. 1992.

¹⁸ Lenihan, et al. "Developing an Evaluative Framework for Industrial Policy in Ireland: Fulfilling the Audit Trail or an Aid to Policy Development." *Quarterly Economic Commentary*. 2005.

¹⁹ Tavares-Lehmann, et al. "Rethinking Investment Incentives: Trends and Policy Options." 2016.



- **Consideration of multiple investment locations.** Companies that have credibly considered multiple locations that are able to meet their operational needs or have functions that are mobile (that is, they do not need to locate in a specific place in order to meet their operational needs) are more likely to value state and local incentives in their decision process.^{20,21,22}
- **Changes in desired outcomes documented by compliance and evaluation procedures.**

These factors indicate but do not definitively determine whether a business receiving the incentive would likely have taken any action required to receive the incentive in the absence of such incentive. Because the incentive's precise impact on individual business decisions and therefore the outcomes generated cannot be known, analyses like a breakeven level could help to triangulate the effects of the program on behavior. In some cases, including the Capital Gains Deduction, this analysis was not possible due to data limitations.

Application to the Capital Gains Deduction

Unlike an incentive built around an application or an award, the Capital Gains Deduction is a by-right program tax deduction. Of the factors previously identified, three of the five provide do not support the deduction having an effect on business behavior, one is mixed, and one cannot be assessed with available data.

Features of the incentive offer. The value of the deduction equals the qualifying gain multiplied by the claimant's top marginal Oklahoma income tax rate. For claimants with Oklahoma income tax liability, at the current 4.5 percent rate, a claimant deducting \$1.0 million in gain saves \$45,000 in state tax, or \$0.045 for every \$1.00 of gain, down from \$0.05 when the top rate was 5.0 percent. For many of the higher-income claimants who receive most of the deduction's benefit, this state-level savings is modest next to the federal tax treatment of the same transaction, which a 2025 Congressional Research Service analysis found only weakly influences the decision to realize a gain. The structure also offers no leverage requirement and no timing advantage: the benefit is realized at filing, after the sale has already occurred, and the statute draws no distinction between first-time and repeat claimants.

Claimant attributes. Eligibility is not limited by firm type, industry, or investor characteristics; any qualifying individual, estate, trust, or corporation may claim the deduction. Claimants with federal AGI above \$1.0 million account for 4.8 percent of returns but 62.5 percent of the amount deducted, which identifies who benefits but not what kind of investment or business decision, if any, the deduction affected. OTC's data does not identify claimant industry or entity type, so this factor cannot be tested directly.

Application process and eligibility requirements. This factor produces no evidence of a behavioral effect. A claimant reports a completed transaction on Form 561, providing the sale date, acquisition date, gain amount, and either a property address or a federal ID number. There is no advance application, no certification, and no requirement to show that the sale or the underlying investment depended on the deduction, consistent with the finding elsewhere in this report that the deduction's design departs from established best practice for incentives that should be discretionary (see Appendix D, Best Practice 2).

Location of the underlying property or business. For real and tangible personal property, which must be held in Oklahoma for at least five years before the sale, the asset's location is fixed well before the transaction that triggers the deduction, so a competing-location decision is unlikely at the point of realization. A genuine locational choice is more plausible for the sale of stock or an ownership interest in an Oklahoma-headquartered company, but the deduction rewards the later sale of that interest rather than the earlier decision to headquarter in the state, and this effect is not observable in available data. One exception, noted in the Goals, Strategies, and Competitive Considerations chapter, is agricultural real property, where the

²⁰ James, 2013.

²¹ Jensen, Nathan M. "Exit Options in Firm-Government Negotiations: An Evaluation of the Texas Chapter 313 Program." Washington Center for Equitable Growth Working Paper series. 2017.

²² Tavares-Lehmann, 2016.



holding-period and location requirements are more likely to influence the timing of a farm sale than the decision to sell.

Compliance and evaluation documentation. No milestone reporting, clawback, or post-claim monitoring applies to this deduction beyond OTC's standard administration of the tax return (see Incentive Use and Administration). No program-specific data exists to document a change in claimant behavior attributable to the deduction.

The modeled induced state tax revenue in Table 4, \$10.4 million over the 2019-2024 period, already reflects the assumption that the full \$801.6 million in foregone revenue is attributable to the deduction. Even under that most generous assumption, induced state tax revenue recovers only about 1.3 percent of foregone revenue, so there is no plausible attribution rate at which the modeled fiscal effects would allow the State to break even on this incentive.



Goals, Strategies, and Competitive Considerations



As noted, the 2026 passage of SB 1990 provided some additional factors to consider when evaluating the State's business incentives. This chapter analyzes the criteria that have not been included in other chapters of the evaluation.

Strategic Economic Goal Alignment

The Oklahoma Department of Commerce's 2025 Strategic Plan for Economic & Community Development sets out the state's current economic development strategy through five pillars for driving growth, Responsive Partnerships, Regional Industry Targeting, Ready Workforce, Ready Sites, and Relevant Incentives. The plan translates these pillars into ten measurable goals, such as Direct New Jobs, Increase Average Annual Wage, and Encourage New Private Investment. It also identifies seven industries for statewide recruitment and retention including Energy, Aerospace, Space & Defense, and Manufacturing.

The Capital Gains Deduction cannot be directly credited toward, or measured against, any of these ten goals or seven priority industries. Eligibility turns solely on the location of the underlying asset and the length of time it was held, three to five years depending on asset type. The statute imposes no requirement tied to job creation, wage levels, capital investment, or industry, so a taxpayer selling an Oklahoma apartment building, a stake in an oil and gas company, or shares in an aerospace manufacturer all qualify on identical terms. This is consistent with the finding elsewhere in this report that the program's statute contains no legislative intent and does not target a specific industry or type of firm.

Because the deduction is sector-neutral, imposes no performance conditions, and cannot be linked to Commerce's stated goals or targeted industries, it does not further a strategic economic goal or industry as contemplated by the statute.

In-State Incentive Comparison

Oklahoma's other major capital-investment incentives generally condition their benefit on a specific, measurable outcome. In tax year 2023, the Capital Gains Deduction generated \$123.3 million in foregone revenue, more than five times the \$23.5 million used to reduce tax liability under the Investment/New Jobs Credit, another of Oklahoma's large capital-investment incentives, which ties its benefit to documented job creation and payroll thresholds. The Capital Gains Deduction imposes no comparable performance requirement, so its cost to the state is not linked to any verifiable job, wage, or investment outcome in the way most of Oklahoma's other incentive programs are.

Macroeconomic Impacts, Sector Impacts, and Competitive Advantage

On scale, the Capital Gains Deduction is small relative to Oklahoma's economy. As shown in Appendix E, the deduction's estimated foregone revenue averaged 0.07 percent of Oklahoma's gross state product annually over the 2005-2024 period and never exceeded 0.12 percent of GDP in any single year. Measured against the State's individual income tax collections, a more directly comparable base, the deduction represented a more material but still modest 4.0 percent on average, ranging from roughly 2.0 to 7.0 percent depending on the year. A program of this size is unlikely to be decisive at a macroeconomic level, regardless of its effect on the individual taxpayers who claim it.

One area of outsized impact is found in the agricultural sector. It is common for farmers to find themselves asset-rich and cash-poor throughout their careers. Selling the farm to another operator or entity once the individual is ready to retire often represents a large share of savings for retirement. Protecting this specific type of asset transfer in a key industry is a positive aspect among the many challenges presented by this program.

On comparison to peer states, the trend since the 2021 evaluation has moved away from broad, uncapped capital gains incentives rather than toward them. No additional state has adopted a program comparable to Oklahoma's since 2021. Oklahoma's deduction has remained largely unchanged since 2005 as a full deduction, with no cap, no industry restriction, and no reinvestment requirement, available to both individual



and corporate filers. It does not correspond to any state-specific asset, workforce, or industry strength that a targeted incentive is typically designed to reinforce.



Incentive Benchmarking



Benchmarking

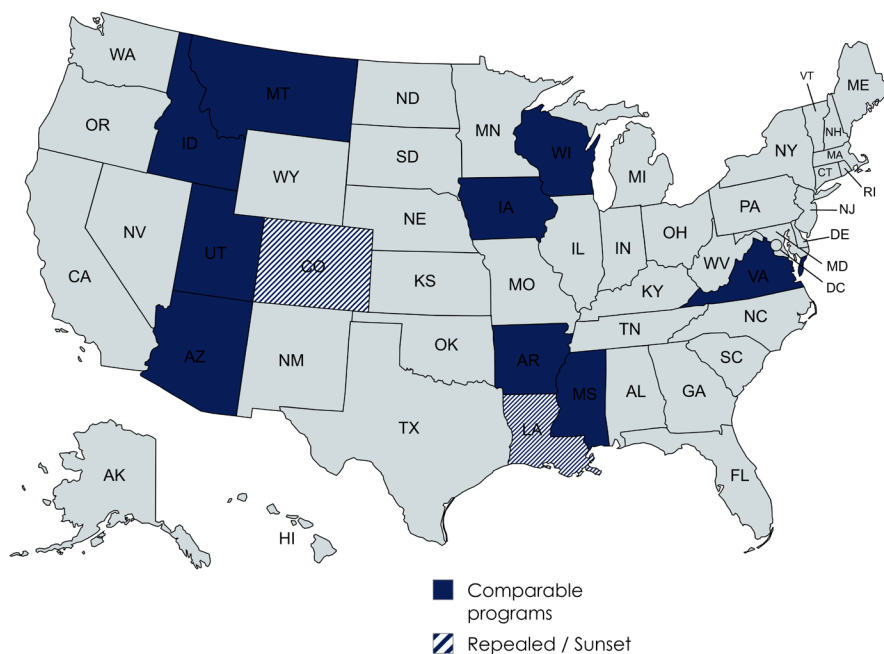
A detailed description of comparable state programs can be found in **Appendix B**.

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are ‘perfect peers’ – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.²³ These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

For Oklahoma’s Capital Gains Deduction, the comparison group consists of 12 states, including two neighboring states – Arkansas and Colorado. The comparison group was created with a focus on states that use a capital gain deduction as a targeted incentive. Several states outside the comparison group allow for a standard percentage of capital gains to be deducted from taxable income. These deductions function more as features of the tax code than incentives. For example, New Mexico and South Carolina allow 40 and 44 percent of capital gains to be deducted from taxable income, respectively, with no special requirements as to the type of property or location of property, effectively creating a lower tax rate for all income from capital gains. The deductions offered by Oklahoma and the chosen comparators are different because they limit the deduction to certain types of property, held for a certain period.

Figure 8: States with Comparable Incentives



²³ The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.



Incentive Targets

Oklahoma's deduction is uniquely broad relative to comparable state incentives. The key requirements for Oklahoma's deduction are the location requirement and the holding period requirement. There are no other requirements that involve specific industries or revenue-generating activities and all types of property – real, personal, intangible, may qualify. All other comparable state incentives target a specific industry or type of property. It is also worth noting that two of the prior comparable states have either repealed or set a sunset date for their deductions. Several more have moved to increase taxation of capital gains.

- Four states – Arizona, Montana, Utah and Virginia – target gains from small business investment. Among those states, Virginia further specifies that the small businesses must be technology-based businesses.
- Colorado's incentive was geographically broad in that the property which generated the gains could be located anywhere, but had to be tangible personal property. Effective for tax years beginning in 2022, Colorado narrowed the incentive to real property classified as agricultural land in Colorado, and limited eligibility to taxpayers required to file IRS Schedule F. It is now scheduled to be repealed in 2030.
- Idaho limits its deduction to real property and revenue-generating tangible personal property.
- Iowa limits its deduction to gains from the sale of a business, real property used in a business, cattle, horses, breeding livestock, and timber.
- Mississippi limits its deduction to gains from the sale of ownership interests in businesses domiciled in the state.
- Vermont limits its deduction to the sale of Vermont-based business assets.
- Louisiana repealed its deduction effective for tax years beginning in 2025.

Location Requirement

All states in the comparison group now require qualifying capital gains to be sourced from in-state property or businesses. Colorado, which previously had no location restriction, narrowed its incentive effective 2022 to real property classified as agricultural land in Colorado, eliminating the last exception in the group. Some states have flexible requirements.

Benefit Amount

Oklahoma's deduction is similar to most comparable state incentives in that it offers a full deduction of qualified gains. Seven comparable state incentives also provide a full deduction of qualified gains.²⁴ One-third of comparable state incentives limit the deduction to a percentage of the total gain, while Utah's incentive is in the form of a tax credit that effectively reduces the tax rate on qualified capital gains.

Benefit Caps

Only two comparable state incentives feature a cap. Colorado limits the amount of capital gain income a taxpayer can deduct to \$100,000, though this cap now applies only to taxpayers who file IRS Schedule F claiming gains on agricultural real property. Vermont caps its deduction at \$350,000 per taxpayer.

²⁴ Colorado provides a full deduction, up to \$100,000



Holding Period

Oklahoma's holding period requirement of three to five years is one of the longest among comparable incentives. Iowa has the longest holding period requirement among comparable incentives, requiring businesses and real property used in a business to be held for 10 years prior to its sale in order to qualify. Three state incentives require a holding period of five years, Vermont requires three years, Idaho requires one to two years depending on the type of property sold, and four states require a one-year holding period. Montana and Utah have no holding period requirement associated with their incentives.

Deduction Applicability

Oklahoma's deduction is available for both individual and corporate income tax. Only two other states allow their incentive for both individual and corporate income. Colorado previously allowed its incentive for both individual and corporate income but limited eligibility to individual Schedule F filers effective 2022. The remaining comparable state incentives provide a deduction only for individual income.

Evaluations of Benchmark Programs

Colorado. The Office of the State Auditor evaluated Colorado's Capital Gain Deductions in July 2021 as part of the state's statutorily required tax expenditure review program.²⁵ The evaluation covered both the deduction for gains on Colorado real and tangible personal property acquired before June 2009 and a separate deduction for tangible personal property gains regardless of acquisition date. These are the versions of the incentive in effect before the 2022 narrowing to agricultural Schedule F filers.

As in this evaluation, the auditors found that neither statute nor the enacting legislation stated a purpose for the deductions, and inferred a likely purpose from legislative history rather than testing against a stated goal. They found that 7,499 taxpayers claimed the deductions in tax year 2018, reducing state revenue by \$19.4 million that year, up from \$5 million in 2013, and that taxpayers with federal AGI of at least \$200,000 received 61 percent of the benefit in the most recent year with available data.

The auditors concluded that the deductions "likely do not provide a substantial economic impact beyond the benefits they provide to taxpayers," and specifically found that the real property deduction no longer functions as an investment incentive because eligible property had to have been purchased before June 2009, more than a decade before the evaluation. They also hit the same data ceiling as this evaluation: Colorado's tax system could not extract whether a claim originated from a direct sale or passed through from a business entity, or which category of property generated the gain.

Notably, the Colorado auditors' own benchmarking identified Oklahoma as one of only two states, with Idaho, offering a comparable in-state real property deduction, and one of three, with Idaho and Vermont, offering one for tangible personal property, making the two evaluations mutual points of reference. No evaluation of the current, narrower version of the program has been identified.

²⁵ Colorado Office of the State Auditor, "Capital Gain Deductions," Report No. 2021-TE18, July 2021



Appendices



Appendix A: Incentive Statute

68 O.S. § 2358D

- D. 1. For taxable years beginning after December 31, 2005, the taxable income of any corporation, estate or trust, shall be further adjusted for qualifying gains receiving capital treatment. Such corporations, estates or trusts shall be allowed a deduction from Oklahoma taxable income for the amount of qualifying gains receiving capital treatment earned by the corporation, estate or trust during the taxable year and included in the federal taxable income of such corporation, estate or trust.
2. As used in this subsection:
- a. "qualifying gains receiving capital treatment" means the amount of net capital gains, as defined in Section 1222(11) of the Internal Revenue Code, included in the federal income tax return of the corporation, estate or trust that result from:
- (1) the sale of real property or tangible personal property located within Oklahoma that has been directly or indirectly owned by the corporation, estate or trust for a holding period of at least five (5) years prior to the date of the transaction from which such net capital gains arise,
 - (2) the sale of stock or on the sale of an ownership interest in an Oklahoma company, limited liability company, or partnership where such stock or ownership interest has been directly or indirectly owned by the corporation, estate or trust for a holding period of at least three (3) years prior to the date of the transaction from which the net capital gains arise, or
 - (3) the sale of real property, tangible personal property or intangible personal property located within Oklahoma as part of the sale of all or substantially all of the assets of an Oklahoma company, limited liability company, or partnership where such property has been directly or indirectly owned by such entity owned by the owners of such entity, and used in or derived from such entity for a period of at least three (3) years prior to the date of the transaction from which the net capital gains arise,
- b. "holding period" means an uninterrupted period of time. The holding period shall include any additional period when the property was held by another individual or entity, if such additional period is included in the taxpayer's holding period for the asset pursuant to the Internal Revenue Code,
- c. "Oklahoma company", "limited liability company", or "partnership" means an entity whose primary headquarters have been located in Oklahoma for at least three (3) uninterrupted years prior to the date of the transaction from which the net capital gains arise,
- d. "direct" means the taxpayer directly owns the asset, and
- e. "indirect" means the taxpayer owns an interest in a pass-through entity (or chain of pass-through entities) that sells the asset that gives rise to the qualifying gains receiving capital treatment.
- (1) With respect to sales of real property or tangible personal property located within Oklahoma, the deduction described in this subsection shall not apply unless the pass-through entity that makes the sale has held the property for not less than five (5) uninterrupted years prior to the date of the transaction that created the capital gain, and each pass-through entity included in the chain of ownership has been a



member, partner, or shareholder of the pass-through entity in the tier immediately below it for an uninterrupted period of not less than five (5) years.

(2) With respect to sales of stock or ownership interest in or sales of all or substantially all of the assets of an Oklahoma company, limited liability company, or partnership, the deduction described in this subsection shall not apply unless the pass-through entity that makes the sale has held the stock or ownership interest or the assets for not less than three (3) uninterrupted years prior to the date of the transaction that created the capital gain, and each pass-through entity included in the chain of ownership has been a member, partner or shareholder of the pass-through entity in the tier immediately below it for an uninterrupted period of not less than three (3) years.

68 O.S. § 2358F

F. 1. For taxable years beginning after December 31, 2004, a deduction from the Oklahoma adjusted gross income of any individual taxpayer shall be allowed for qualifying gains receiving capital treatment that are included in the federal adjusted gross income of such individual taxpayer during the taxable year.

2. As used in this subsection:

a. "qualifying gains receiving capital treatment" means the amount of net capital gains, as defined in Section 1222(11) of the Internal Revenue Code, included in an individual taxpayer's federal income tax return that result from:

(1) the sale of real property or tangible personal property located within Oklahoma that has been directly or indirectly owned by the individual taxpayer for a holding period of at least five (5) years prior to the date of the transaction from which such net capital gains arise,

(2) the sale of stock or the sale of a direct or indirect ownership interest in an Oklahoma company, limited liability company, or partnership where such stock or ownership interest has been directly or indirectly owned by the individual taxpayer for a holding period of at least two (2) years prior to the date of the transaction from which the net capital gains arise, or

(3) the sale of real property, tangible personal property or intangible personal property located within Oklahoma as part of the sale of all or substantially all of the assets of an Oklahoma company, limited liability company, or partnership or an Oklahoma proprietorship business enterprise where such property has been directly or indirectly owned by such entity or business enterprise or owned by the owners of such entity or business enterprise for a period of at least two (2) years prior to the date of the transaction from which the net capital gains arise,

b. "holding period" means an uninterrupted period of time. The holding period shall include any additional period when the property was held by another individual or entity, if such additional period is included in the taxpayer's holding period for the asset pursuant to the Internal Revenue Code,

c. "Oklahoma company," "limited liability company," or "partnership" means an entity whose primary headquarters have been located in Oklahoma for at least three (3) uninterrupted years prior to the date of the transaction from which the net capital gains arise,

d. "direct" means the individual taxpayer directly owns the asset,



e. "indirect" means the individual taxpayer owns an interest in a pass-through entity (or chain of pass-through entities) that sells the asset that gives rise to the qualifying gains receiving capital treatment.

(1) With respect to sales of real property or tangible personal property located within Oklahoma, the deduction described in this subsection shall not apply unless the pass-through entity that makes the sale has held the property for not less than five (5) uninterrupted years prior to the date of the transaction that created the capital gain, and each pass-through entity included in the chain of ownership has been a member, partner, or shareholder of the pass-through entity in the tier immediately below it for an uninterrupted period of not less than five (5) years.

(2) With respect to sales of stock or ownership interest in or sales of all or substantially all of the assets of an Oklahoma company, limited liability company, partnership or Oklahoma proprietorship business enterprise, the deduction described in this subsection shall not apply unless the pass-through entity that makes the sale has held the stock or ownership interest for not less than two (2) uninterrupted years prior to the date of the transaction that created the capital gain, and each pass-through entity included in the chain of ownership has been a member, partner or shareholder of the pass-through entity in the tier immediately below it for an uninterrupted period of not less than two (2) years. For purposes of this division, uninterrupted ownership prior to July 1, 2007, shall be included in the determination of the required holding period prescribed by this division, and

f. "Oklahoma proprietorship business enterprise" means a business enterprise whose income and expenses have been reported on Schedule C or F of an individual taxpayer's federal income tax return, or any similar successor schedule published by the Internal Revenue Service and whose primary headquarters have been located in Oklahoma for at least three (3) uninterrupted years prior to the date of the transaction from which the net capital gains arise.



Appendix B: Comparable State Programs

Capital Gains Deduction Benchmarking						
State	Description	Benefit Amount	Cap	Holding Period Requirement	Deduction applied to	Location Requirement
Oklahoma	Gains from the sale of Oklahoma-based property are fully deductible	Full Deduction	None	Three to five years	Individual and Corporate income tax	Companies must be headquartered in Oklahoma for three consecutive years prior to sale. Property sold must be located in Oklahoma.
Arizona	Gains from qualified small business investment are fully deductible	Full Deduction	None	One year	Individual income tax	Business must have a portion of its operations in Arizona
Arkansas	Gains from the sale of in-state venture capital investments are fully deductible	Full Deduction	None	Five years	Individual income tax	Qualified businesses are certified by the Arkansas Economic Development Commission
Colorado	Gains from the sale of qualified agricultural real property are fully deductible. Effective for tax years beginning in 2022, tangible personal property no longer qualifies, and eligibility is limited to taxpayers required to file IRS Schedule F. The provision is scheduled to repeal December 31, 2030.	Full Deduction	Up to \$100,000 of qualified gains can be deducted	Five years	Individual (Schedule F filers only)	Real property must be classified as agricultural land in Colorado
Idaho	Gains from the sale of revenue-generating tangible personal property located in Idaho, or any real property located in Idaho is eligible for 60% deduction	60 percent deduction	None	One year for real or tangible personal property, two years for timber, cattle, and horses	Individual income tax	Must be located in Idaho
Iowa	Gains from the sale of a business or real property used in a business, cattle, horses, breeding livestock, and timber are fully deductible	Full Deduction	None	One to two years for cattle, horses, breeding livestock and timber. 10 years for businesses and business property.	Individual income tax	Must be located in Iowa



Capital Gains Deduction Benchmarking (continued)

State	Description	Benefit Amount	Cap	Holding Period Requirement	Deduction applied to	Location Requirement
Louisiana	Repealed. The deduction for gains from the sale of an equity interest or substantially all assets of a nonpublicly traded business domiciled in Louisiana was repealed in its entirety by Act 11 of the 2024 Third Extraordinary Session, effective for tax years beginning January 1, 2025 and after.	Repealed	N/A	N/A	N/A	N/A
Mississippi	Gains from the sale of ownership interests in domestic businesses may be fully deducted	Full Deduction	None	One year	Individual income tax	Must be located in Mississippi
Montana	Gains from investments in Small Business Investment Companies benefiting Montana are fully deductible	Full Deduction	None	None	Individual income tax	Small Business Investment Company must benefit Montana businesses
Utah	A credit equal to 4.55% of a taxpayer's capital gain (matching Utah's current flat individual income tax rate) is available if 70% of gains are reinvested in certain Utah small businesses within 12 months	4.55 percent of qualified gain (Tax Credit)	None	None	Individual income tax	Business receiving reinvestment must be located in Utah
Vermont	Gains from the sale of Vermont-based Business assets may be excluded from income. Real estate, stocks, bonds and financial instruments, and depreciable property other than farm	40% Deduction	Maximum tax benefit of \$350,000	Three years	Individual income tax	Must be located in Vermont



	property and standing timber do not qualify.					
Virginia	Gains from investment in small technology businesses based in Virginia are fully deductible. Investments made after June 30, 2020 do not qualify	Full deduction	None	One year	Individual and Corporate income tax	Must be located in Virginia
Wisconsin	Gains from the sale of farm assets are 60% deductible	60% Deduction	None	One year	Individual income tax	Must be located in Wisconsin



Appendix C: IMPLAN Economic Impact Methodology

The economic impact methodology utilized to determine the multiplier effects is IMPLAN (Impact Analysis for PLANning), a proprietary model; PFM has obtained a license for use of the IMPLAN model for these evaluations.

IMPLAN's Social Accounting Matrices (SAMs) capture the actual dollar amounts of all business transactions taking place in a regional economy as reported each year by businesses and government agencies. SAM accounts are a better measure of economic flow than traditional input-output accounts because they include "non-market" transactions. Examples of these transactions would be taxes and unemployment benefits.

Multipliers

SAMs can be constructed to show the effects of a given change on the economy of interest. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region-specific SAMs, they will reflect the region's unique structure and trade situation.

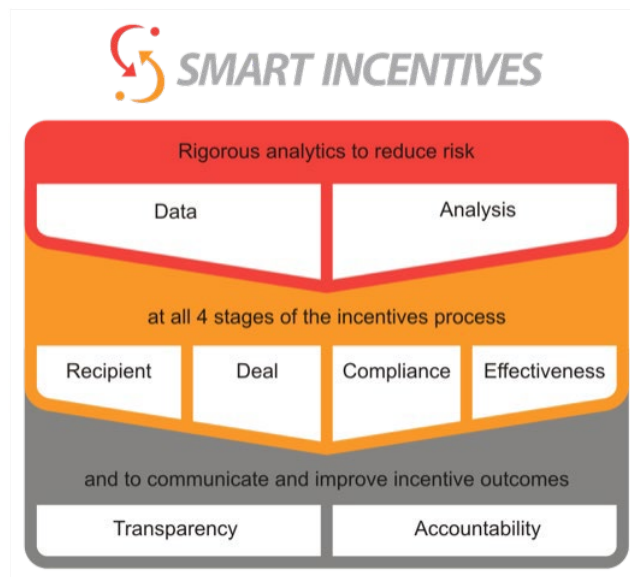
Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects which are displayed in the final report. These are the direct, indirect, and induced changes within the economy. Direct effects are determined by the Event as defined by the user (i.e. a \$10 million order is a \$10 million direct effect). The indirect effects are determined by the amount of the direct effect spent within the study region on supplies, services, labor, and taxes. Finally, the induced effect measures the money that is re-spent in the study area as a result of spending from the indirect effect. Each of these steps recognizes an important leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.



Appendix D: Business Incentives Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,²⁶ it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with

²⁶ Three resources in particular were relied upon putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness-of-business-incentives>; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf



higher wages and benefits, significant job creation, or significant capital investment.

2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.
3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.
4. **Incentives should provide most of the benefit within 1-3 years and have a limited duration.** Company discount rates are much higher than for the state, and businesses will significantly devalue incentive payments in later years.
5. **Incentives should take into consideration state and/or local as well as industry economic conditions.** Incentives that are provided in high performing areas or for stable and profitable businesses or industries will likely fail the 'but for test' – meaning the activity would likely occur without the state incentive.
6. **'Smart' incentives help businesses overcome practical barriers to growth.** In particular, customized assistance for locally owned, small and medium-sized businesses can have significant impact.
7. **Incentives should be transparent.** The incentive purpose should be clearly articulated, as are eligibility requirements, and regular, detailed reporting should be required from all program recipients.
8. **Incentives should require accountability.** When upfront financial incentives are offered in return for job creation, retention, or capital investment, there should be contract language in place that allows the state to 'claw back' state resources should the company not meet performance requirements.
9. **Incentives should have caps.** To ensure the state's financial health, program dollar caps or limits should be in place. Incentive programs should also have a limited duration, with sunsets in place to require regular review of incentive performance.
10. **Incentives should be simple and understandable.** The state should be able to easily and effectively administer the incentive, and users should be able to readily comply with its requirements.



Appendix E: State of Oklahoma Tax Collection / Gross State Product

This appendix presents Oklahoma's nominal gross state product and individual income tax collections for tax years 2005 through 2024, alongside the Capital Gains Deduction's estimated foregone revenue, to contextualize the incentive's fiscal and economic scale.^{27,28}

Tax Year	OK Nominal GDP (\$M)	OK Individual Income Tax Collections (\$M)	CGD Foregone Revenue	Foregone Rev. as % of GDP	Foregone Rev. as % of Income Tax Collections
2005	\$125,961.4	\$2,468.6	\$87,005,594	0.07%	3.53%
2006	\$138,352.3	\$2,755.8	\$145,931,537	0.11%	5.30%
2007	\$146,582.4	\$2,774.9	\$182,882,691	0.12%	6.59%
2008	\$161,609.0	\$2,787.4	\$121,193,215	0.07%	4.35%
2009	\$147,332.4	\$2,544.6	\$49,793,906	0.03%	1.96%
2010	\$155,267.5	\$2,224.8	\$85,855,823	0.06%	3.86%
2011	\$167,207.9	\$2,385.4	\$78,114,351	0.05%	3.27%
2012	\$175,361.2	\$2,774.4	\$157,979,793	0.09%	5.69%
2013	\$184,104.6	\$2,916.6	\$79,804,904	0.04%	2.74%
2014	\$197,074.1	\$2,962.1	\$107,472,942	0.05%	3.63%
2015	\$187,364.7	\$3,641.4	\$192,984,447	0.10%	5.30%
2016	\$182,238.8	\$3,324.7	\$130,343,811	0.07%	3.92%
2017	\$192,538.6	\$2,974.9	\$131,218,483	0.07%	4.41%
2018	\$204,193.9	\$3,260.4	\$154,324,446	0.08%	4.73%
2019	\$205,992.7	\$3,565.4	\$99,892,814	0.05%	2.80%
2020	\$192,222.0	\$3,364.9	\$112,709,717	0.06%	3.35%
2021	\$219,132.4	\$3,767.7	\$189,072,267	0.09%	5.02%
2022	\$247,541.5	\$4,157.8	\$163,636,366	0.07%	3.94%
2023	\$255,933.2	\$4,393.7	\$123,271,240	0.05%	2.80%
2024	\$263,695.1	\$4,511.4	\$134,055,916	0.05%	2.97%
2005-2024 Total	\$3,749,705.7	\$63,556.9	\$2,527,544,263	0.07% (avg.)	4.0% (avg.)

Source: U.S. Bureau of Economic Analysis; U.S. Census Bureau; Oklahoma Tax Commission; PFM Calculations

Over the full 20-year period, the deduction's foregone revenue never exceeded 0.12 percent of Oklahoma's GDP in any single year, but consistently represented 2 to 7 percent of the state's individual income tax collections, a much more material share of the actual tax base the deduction draws from.

²⁷ U.S. Bureau of Economic Analysis, Gross Domestic Product by State, retrieved from FRED, Federal Reserve Bank of St. Louis (series OKNGSP).

²⁸ U.S. Census Bureau, Annual Survey of State Government Tax Collections, retrieved from FRED, Federal Reserve Bank of St. Louis (series OKINCTAX).