

OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

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June 26, 2002

Dear

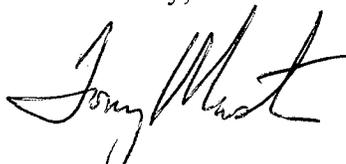
This is in response to your letter of June 25, 2002 regarding your constituent inquired as to the double taxation of state income tax refunds.

Please be advised that the Oklahoma Tax Commission is required under Internal Revenue Code Section 6050 to notify both the IRS and taxpayers whenever a state income tax refund is issued. This is accomplished by the issuance of a Form 1099-G.

As to the taxability of a state income tax refund I offer the following general comments. If a taxpayer is able to claim itemized deductions for a tax year, said taxpayer most likely claimed state income taxes as a deduction. The amount of state income taxes that were deducted should have been the amount that was reflected on the taxpayers W-2 form. This resulted in an itemized deduction of gross state income tax. Under federal tax rules, only net taxes are deductible. As a result, taxpayers are required to recapture any state tax refund in the following year. Please see enclosed excerpts from the IRS Publication 17, which further details this.

If I can be of further assistance, please feel free to call me at (405) 521-3123

Sincerely,



Tony Mastin
Director