*MEMORANDUM*

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***OKLAHOMA TAX COMMISSION***
TAX POLICY AND RESEARCH

DATE: August 22, 2002

SUBJECT: LR 02-131; Income Tax - Sales Tax Relief Credit

TO: Linda Stanley, Audit Division
Mary Hanson, Audit Division
Monte Bivens, Audit Division

FROM: Michael C. Kaufmann, Tax Policy Analyst

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You recently posed a question concerning eligibility criteria for the Sales Tax Relief Credit (68 O.S. § 5010 et seq.). Following are the facts outlined in your memorandum, the question posed and our response thereto.

***Facts:***

Taxpayer elected to transfer regular IRA to a Roth IRA four years ago. Taxpayers elected to have it taxed over a period of four years and this was the last year of the four year period.

In the year 2001, the household income without the IRA taxable figures was within the statutes to receive the Sales Tax Credit on the Oklahoma Income Tax Return. Taxpayer took the sales tax credit on the 2001 Oklahoma Tax Return.

***Question:***

Does the amount of the IRA rollover that is subject to federal income tax and included in federal AGI, to be used in the calculation of gross household income for the purpose of determining eligibility for the sales tax credit on the Oklahoma Income Tax Return?

***Response:***

No, the amount of IRA rollover included in tax year 2001 federal adjusted gross income is not to be considered when calculating gross household income for the sales tax relief credit.

First, the rollover from a traditional IRA to a Roth IRA actually occurred in 1998. For federal income tax purposes, this rollover was subject to federal income tax. Taxpayers were allowed to elect to spread the tax on the rollover out over a four-year period. This was accomplished by dividing the rollover amount by four and including that amount in federal AGI over the four-year period. This was a matter of calculating federal taxable income to ease the tax liability that would have occurred in one year of converting from a traditional IRA to a Roth IRA. There is no actual income in 2001. Under federal rules, the conversion from a traditional IRA to a Roth IRA had to be completed in 1998 to qualify for the four-year spread of tax. As such, tax year 2001 is the final year in which this is an issue.

Second, as for conversions or rollovers from traditional IRA's to Roth IRA's after 1998, these conversions / rollovers should be included in gross income for both federal and state income tax purposes for the tax year of the transaction and consequently are subject to inclusion in the determination of gross household income under the Sales Tax Relief Act.