

THE HOUSE OF REPRESENTATIVES
Thursday, March 1, 2007

Committee Substitute for
House Bill No. 1386

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 1386 - By: TERRILL, BANZ and SEARS of the House and MAZZEI and WILLIAMSON of the Senate.

(Revenue and taxation – franchise tax - income tax - corporations - modifying rates – tax credit – qualified interns – rules – codification - effective date)

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

1 SECTION 1. AMENDATORY 68 O.S. 2001, Section 1205, as amended by
2 Section 1, Chapter 388, O.S.L. 2005 (68 O.S. Supp. 2006, Section 1205), is amended to
3 read as follows:
4 Section 1205. A. In determining the amount of tax to be levied, assessed and
5 collected under the terms of this Article, the maximum amount shall not exceed Twenty
6 Thousand Dollars (\$20,000.00).
7 B. If, as a result of the computation of tax required by Section 1209 of this title, the
8 resulting liability is ~~Ten Dollars (\$10.00)~~ Two Hundred Fifty Dollars (\$250.00) or less,
9 the corporation or other entity shall be exempt from the tax levied by Section 1203 or
10 Section 1204 of this title for such reporting period.

1 SECTION 2. AMENDATORY 68 O.S. 2001, Section 2355, as last amended by
2 Section 3, Chapter 42, 2nd Extraordinary Session, O.S.L. 2006 (68 O.S. Supp. 2006,
3 Section 2355), is amended to read as follows:

4 Section 2355. A. Individuals. For all taxable years beginning after December 31,
5 1998 and before January 1, 2006, a tax is hereby imposed upon the Oklahoma taxable
6 income of every resident or nonresident individual, which tax shall be computed at the
7 option of the taxpayer under one of the two following methods:

8 1. METHOD 1.

9 a. Single individuals and married individuals filing separately not
10 deducting federal income tax:

11 (1) 1/2% tax on first \$1,000.00 or part thereof,

12 (2) 1% tax on next \$1,500.00 or part thereof,

13 (3) 2% tax on next \$1,250.00 or part thereof,

14 (4) 3% tax on next \$1,150.00 or part thereof,

15 (5) 4% tax on next \$1,300.00 or part thereof,

16 (6) 5% tax on next \$1,500.00 or part thereof,

17 (7) 6% tax on next \$2,300.00 or part thereof, and

18 (8) (a) for taxable years beginning after December 31, 1998, and
19 before January 1, 2002, 6.75% tax on the remainder,

20 (b) for taxable years beginning on or after January 1, 2002,
21 and before January 1, 2004, 7% tax on the remainder, and

- 1 (c) for taxable years beginning on or after January 1, 2004,
2 6.65% tax on the remainder.
- 3 b. Married individuals filing jointly and surviving spouse to the extent
4 and in the manner that a surviving spouse is permitted to file a joint
5 return under the provisions of the Internal Revenue Code and heads of
6 households as defined in the Internal Revenue Code not deducting
7 federal income tax:
- 8 (1) 1/2% tax on first \$2,000.00 or part thereof,
9 (2) 1% tax on next \$3,000.00 or part thereof,
10 (3) 2% tax on next \$2,500.00 or part thereof,
11 (4) 3% tax on next \$2,300.00 or part thereof,
12 (5) 4% tax on next \$2,400.00 or part thereof,
13 (6) 5% tax on next \$2,800.00 or part thereof,
14 (7) 6% tax on next \$6,000.00 or part thereof, and
15 (8) (a) for taxable years beginning after December 31, 1998, and
16 before January 1, 2002, 6.75% tax on the remainder,
17 (b) for taxable years beginning on or after January 1, 2002,
18 and before January 1, 2004, 7% tax on the remainder, and
19 (c) for taxable years beginning on or after January 1, 2004,
20 6.65% tax on the remainder.

21 2. METHOD 2.

- 1 a. Single individuals and married individuals filing separately deducting
2 federal income tax:
- 3 (1) 1/2% tax on first \$1,000.00 or part thereof,
4 (2) 1% tax on next \$1,500.00 or part thereof,
5 (3) 2% tax on next \$1,250.00 or part thereof,
6 (4) 3% tax on next \$1,150.00 or part thereof,
7 (5) 4% tax on next \$1,200.00 or part thereof,
8 (6) 5% tax on next \$1,400.00 or part thereof,
9 (7) 6% tax on next \$1,500.00 or part thereof,
10 (8) 7% tax on next \$1,500.00 or part thereof,
11 (9) 8% tax on next \$2,000.00 or part thereof,
12 (10) 9% tax on next \$3,500.00 or part thereof, and
13 (11) 10% tax on the remainder.
- 14 b. Married individuals filing jointly and surviving spouse to the extent
15 and in the manner that a surviving spouse is permitted to file a joint
16 return under the provisions of the Internal Revenue Code and heads of
17 households as defined in the Internal Revenue Code deducting federal
18 income tax:
- 19 (1) 1/2% tax on the first \$2,000.00 or part thereof,
20 (2) 1% tax on the next \$3,000.00 or part thereof,
21 (3) 2% tax on the next \$2,500.00 or part thereof,
22 (4) 3% tax on the next \$1,400.00 or part thereof,

- 1 (5) 4% tax on the next \$1,500.00 or part thereof,
- 2 (6) 5% tax on the next \$1,600.00 or part thereof,
- 3 (7) 6% tax on the next \$1,250.00 or part thereof,
- 4 (8) 7% tax on the next \$1,750.00 or part thereof,
- 5 (9) 8% tax on the next \$3,000.00 or part thereof,
- 6 (10) 9% tax on the next \$6,000.00 or part thereof, and
- 7 (11) 10% tax on the remainder.

8 B. Individuals. For all taxable years beginning on or after January 1, 2006, a tax is
9 hereby imposed upon the Oklahoma taxable income of every resident or nonresident
10 individual, which tax shall be computed as follows:

11 1. Single individuals and married individuals filing separately:

- 12 (a) 1/2% tax on first \$1,000.00 or part thereof,
- 13 (b) 1% tax on next \$1,500.00 or part thereof,
- 14 (c) 2% tax on next \$1,250.00 or part thereof,
- 15 (d) 3% tax on next \$1,150.00 or part thereof,
- 16 (e) 4% tax on next \$2,300.00 or part thereof,
- 17 (f) 5% tax on next \$1,500.00 or part thereof,
- 18 (g) 6.25% tax on the remainder for the 2006 tax year,
- 19 (h) 5.65% tax on the remainder for the 2007 tax year,
- 20 (i) 5.55% tax on the remainder for the 2008 tax year,

1 (j) 5.50% tax on the remainder for the 2009 tax year and any subsequent
2 tax year unless the rate prescribed by subparagraph (k) of this
3 paragraph is in effect, and

4 (k) 5.25% tax on the remainder for the 2010 and subsequent tax years.
5 The decrease in the top marginal individual income tax rate otherwise
6 authorized by this subparagraph shall be contingent upon the
7 determination required to be made by the State Board of Equalization
8 pursuant to Section ~~3~~ 2355.1A of this ~~act~~ title.

9 2. Married individuals filing jointly and surviving spouse to the extent and in the
10 manner that a surviving spouse is permitted to file a joint return under the provisions of
11 the Internal Revenue Code and heads of households as defined in the Internal Revenue
12 Code:

- 13 (a) 1/2% tax on first \$2,000.00 or part thereof,
- 14 (b) 1% tax on next \$3,000.00 or part thereof,
- 15 (c) 2% tax on next \$2,500.00 or part thereof,
- 16 (d) 3% tax on next \$2,300.00 or part thereof,
- 17 (e) 4% tax on next \$2,400.00 or part thereof,
- 18 (f) 5% tax on next \$2,800.00 or part thereof,
- 19 (g) 6.25% tax on the remainder for the 2006 tax year,
- 20 (h) 5.65% tax on the remainder for the 2007 tax year,
- 21 (i) 5.55% tax on the remainder for the 2008 tax year,

UNDERLINED language denotes Amendments to present Statutes.
BOLD FACE CAPITALIZED language denotes Committee Amendments.
~~Strike thru~~ language denotes deletion from present Statutes.

1 (j) 5.50% tax on the remainder for the 2009 tax year and any subsequent
2 tax year unless the rate prescribed by subparagraph (k) of this
3 paragraph is in effect, and

4 (k) 5.25% tax on the remainder for the 2010 and subsequent tax years.
5 The decrease in the top marginal individual income tax rate otherwise
6 authorized by this subparagraph shall be contingent upon the
7 determination required to be made by the State Board of Equalization
8 pursuant to Section ~~3~~ 2355.1A of this ~~act~~ title.

9 No deduction for federal income taxes paid shall be allowed to any taxpayer to
10 arrive at taxable income.

11 C. Nonresident aliens. In lieu of the rates set forth in subsection ~~A~~ B above, there
12 shall be imposed on nonresident aliens, as defined in the Internal Revenue Code, a tax of
13 eight percent (8%) instead of thirty percent (30%) as used in the Internal Revenue Code,
14 with respect to the Oklahoma taxable income of such nonresident aliens as determined
15 under the provision of the Oklahoma Income Tax Act.

16 Every payer of amounts covered by this subsection shall deduct and withhold from
17 such amounts paid each payee an amount equal to eight percent (8%) thereof. Every
18 payer required to deduct and withhold taxes under this subsection shall for each
19 quarterly period on or before the last day of the month following the close of each such
20 quarterly period, pay over the amount so withheld as taxes to the Tax Commission, and
21 shall file a return with each such payment. Such return shall be in such form as the Tax
22 Commission shall prescribe. Every payer required under this subsection to deduct and

1 withhold a tax from a payee shall, as to the total amounts paid to each payee during the
2 calendar year, furnish to such payee, on or before January 31, of the succeeding year, a
3 written statement showing the name of the payer, the name of the payee and the payee's
4 social security account number, if any, the total amount paid subject to taxation, and the
5 total amount deducted and withheld as tax and such other information as the Tax
6 Commission may require. Any payer who fails to withhold or pay to the Tax Commission
7 any sums herein required to be withheld or paid shall be personally and individually
8 liable therefor to the State of Oklahoma.

9 D. Corporations. For all taxable years beginning after December 31, 1989, and
10 ending not later than December 31, 2008, a tax is hereby imposed upon the Oklahoma
11 taxable income of every corporation doing business within this state or deriving income
12 from sources within this state in an amount equal to six percent (6%) thereof.

13 There shall be no additional Oklahoma income tax imposed on accumulated taxable
14 income or on undistributed personal holding company income as those terms are defined
15 in the Internal Revenue Code.

16 For all taxable years beginning on or after January 1, 2008, a tax is hereby imposed
17 upon the Oklahoma taxable income of every corporation doing business within this state
18 or deriving income from sources within the state in the following amounts:

- 19 1. For corporations with Oklahoma taxable income for the year of less than Ten
20 Thousand Dollars (\$10,000.00), no tax shall be imposed;

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1 2. For corporations with Oklahoma taxable income for the year of Ten Thousand
2 Dollars (\$10,000.00) or more, but less than Fifty Thousand Dollars (\$50,000.00), the tax
3 rate shall be one percent (1%);

4 3. For corporations with Oklahoma taxable income for the year of Fifty Thousand
5 Dollars (\$50,000.00) or more, but less than One Hundred Thousand Dollars
6 (\$100,000.00), the tax rate shall be two and one-half percent (2.5%);

7 4. For corporations with Oklahoma taxable income for the year of One Hundred
8 Thousand Dollars (\$100,000.00) or more, but less than Two Hundred Thousand Dollars
9 (\$200,000.00), the tax rate shall be four and one-half percent (4.5%); and

10 5. For corporations with Oklahoma taxable income for the year of Two Hundred
11 Thousand Dollars (\$200,000.00) or more, the tax rate shall be six percent (6%).

12 E. Certain foreign corporations. In lieu of the tax imposed in ~~the first paragraph of~~
13 subsection ~~€~~ D of this section, for all taxable years beginning after December 31, 1989,
14 and before January 1, 2008, there shall be imposed on foreign corporations, as defined in
15 the Internal Revenue Code, a tax of six percent (6%) instead of thirty percent (30%) as
16 used in the Internal Revenue Code, where such income is received from sources within
17 Oklahoma, in accordance with the provisions of the Internal Revenue Code and the
18 Oklahoma Income Tax Act. In lieu of the tax imposed pursuant to subsection D of this
19 section, for all taxable years beginning on or after January 1, 2008, a tax is hereby
20 imposed upon the Oklahoma taxable income of foreign corporations, as defined in the
21 Internal Revenue Code of 1986, as amended, a tax in the following amounts, where such

1 income is received from sources within Oklahoma, in accordance with the provisions of
2 the Internal Revenue Code and the Oklahoma Income Tax Act:

3 1. For corporations with Oklahoma taxable income for the year of less than Ten
4 Thousand Dollars (\$10,000.00), no tax shall be imposed;

5 2. For corporations with Oklahoma taxable income for the year of Ten Thousand
6 Dollars (\$10,000.00) or more, but less than Fifty Thousand Dollars (\$50,000.00), the tax
7 rate shall be one percent (1%);

8 3. For corporations with Oklahoma taxable income for the year of Fifty Thousand
9 Dollars (\$50,000.00) or more, but less than One Hundred Thousand Dollars
10 (\$100,000.00), the tax rate shall be two and one-half percent (2.5%);

11 4. For corporations with Oklahoma taxable income for the year of One Hundred
12 Thousand Dollars (\$100,000.00) or more, but less than Two Hundred Thousand Dollars
13 (\$200,000.00), the tax rate shall be four and one-half percent (4.5%); and

14 5. For corporations with Oklahoma taxable income for the year of Two Hundred
15 Thousand Dollars (\$200,000.00) or more, the tax rate shall be six percent (6%).

16 Every payer of amounts covered by this subsection shall deduct and withhold from
17 such amounts paid each payee an amount equal to ~~six percent (6%)~~ the applicable
18 percentage thereof. Every payer required to deduct and withhold taxes under this
19 subsection shall for each quarterly period on or before the last day of the month following
20 the close of each such quarterly period, pay over the amount so withheld as taxes to the
21 Tax Commission, and shall file a return with each such payment. Such return shall be in
22 such form as the Tax Commission shall prescribe. Every payer required under this

1 subsection to deduct and withhold a tax from a payee shall, as to the total amounts paid
2 to each payee during the calendar year, furnish to such payee, on or before January 31, of
3 the succeeding year, a written statement showing the name of the payer, the name of the
4 payee and the payee's social security account number, if any, the total amounts paid
5 subject to taxation, the total amount deducted and withheld as tax and such other
6 information as the Tax Commission may require. Any payer who fails to withhold or pay
7 to the Tax Commission any sums herein required to be withheld or paid shall be
8 personally and individually liable therefor to the State of Oklahoma.

9 F. Fiduciaries. A tax is hereby imposed upon the Oklahoma taxable income of
10 every trust and estate at the same rates as are provided in subsection B of this section
11 for single individuals. Fiduciaries are not allowed a deduction for any federal income tax
12 paid.

13 G. Tax rate tables. For all taxable years beginning after December 31, 1991, in lieu
14 of the tax imposed by subsection A or B of this section, as applicable there is hereby
15 imposed for each taxable year on the taxable income of every individual, whose taxable
16 income for such taxable year does not exceed the ceiling amount, a tax determined under
17 tables, applicable to such taxable year which shall be prescribed by the Tax Commission
18 and which shall be in such form as it determines appropriate. In the table so prescribed,
19 the amounts of the tax shall be computed on the basis of the rates prescribed by
20 subsections A and B of this section. For purposes of this subsection, the term "ceiling
21 amount" means, with respect to any taxpayer, the amount determined by the Tax
22 Commission for the tax rate category in which such taxpayer falls.

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1 SECTION 3. NEW LAW A new section of law to be codified in the Oklahoma
2 Statutes as Section 2357.151 of Title 68, unless there is created a duplication in
3 numbering, reads as follows:

4 A. As used in this section:

5 1. "Eligible employer" means a sole proprietor, partnership, corporation, limited
6 liability company or other legally recognized business entity engaged in a lawful business
7 activity and which has been approved by the Oklahoma State Regents for Higher
8 Education or other governing board of an accredited college or university to engage the
9 services of a qualified intern;

10 2. "Eligible employment" means work performed by a qualified intern for an eligible
11 employer within the State of Oklahoma;

12 3. "Compensation" means wages or salary or other remuneration paid by an eligible
13 employer to a qualified intern during the period of time the student has been certified by
14 a college or university to be an intern;

15 4. "Qualified intern" means a student enrolled with a minimum of three (3) hours
16 in regularly graded course work at an institution within The Oklahoma State System of
17 Higher Education or any other accredited college or university located within the state
18 who is pursuing a bachelor's degree and who is considered by the applicable college or
19 university to be either a junior or senior for academic purposes or a student pursuing any
20 graduate-level program or professional degree; and

21 5. "Qualified internship recruiting expense" means:

22 a. advertising costs, and

1 b. travel and lodging expenses to the extent such expenses are directly
2 related to the process for interviewing, communications and other
3 activity, the principal purpose of which is to identify and engage the
4 services of a qualified intern.

5 B. For taxable years beginning after December 31, 2007, there shall be allowed a
6 credit against the tax imposed pursuant to Section 2355 of Title 68 of the Oklahoma
7 Statutes equal to fifty percent (50%) of the compensation paid by an eligible employer to
8 a qualified intern for eligible employment and fifty percent (50%) of internship recruiting
9 expenses paid by an eligible employer for recruiting potential qualified interns.

10 C. The Board of Regents for The Oklahoma State System of Higher Education, in
11 coordination with the governing board of any other accredited college or university
12 within the state, shall develop criteria to identify and approve both eligible employers
13 and students for internships pursuant to this section. For purposes of identifying eligible
14 students, the Board of Regents shall give consideration to the academic studies, skills or
15 interests of the student with respect to potential service as an intern for an eligible
16 employer. For purposes of identifying eligible employers, the Board of Regents shall give
17 consideration to the nature of the business activity engaged in by the eligible employer
18 and shall ensure that the nature of the business activity conducted does not pose an
19 unreasonable threat of harm, physical or otherwise, to the intern.

20 D. Any person who serves as an intern pursuant to this section shall receive college
21 credit for the hours worked if the student successfully completes all other class work in
22 which the student is enrolled with a grade of C or better and the supervising professor

1 awards a grade of C or better for the internship curricula. The Board of Regents for The
2 Oklahoma State System of Higher Education or other governing board of an accredited
3 college or university shall establish a policy regarding the number of hours of college
4 credit to be awarded based upon the number of hours worked by the intern.

5 E. In no event shall the amount of the credit authorized by this section exceed the
6 amount of any tax liability to the taxpayer.

7 F. Any credit allowed, but not used in any tax year, may be carried over, in order,
8 to each of the five (5) succeeding taxable years.

9 G. The Oklahoma Tax Commission shall, in conjunction with the Board of Regents
10 for The Oklahoma State System of Higher Education, promulgate rules necessary to
11 implement this section. The Tax Commission shall be authorized to make all
12 determinations regarding tax credits claimed pursuant to this section. The Board of
13 Regents shall be authorized to make all determinations regarding the qualification of
14 eligible employers and qualified interns pursuant to subsection C of this section.

15 SECTION 4. This act shall become effective January 1, 2008.

16 COMMITTEE REPORT BY: COMMITTEE ON APPROPRIATIONS AND BUDGET,
17 dated 02-28-07 - DO PASS, As Amended and Coauthored.