

**OKLAHOMA TAX COMMISSION**

**FISCAL IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT  
FIRST REGULAR SESSION, FIFTY-FOURTH OKLAHOMA LEGISLATURE**

**DATE OF IMPACT STATEMENT:** February 13, 2013

**BILL NUMBER:** SB 660 **STATUS AND DATE OF BILL:** Introduced 01/16/2013

**AUTHORS:** House n/a Senate Mazzei

**TAX TYPE (S):** Sales Tax **SUBJECT:** Exemption

**PROPOSAL:** Amendatory Amends 68 O.S. §§ 1352, 1359 & 1359.2

Section 1 amends the definition of "manufacturing" to include custom-order manufacturing, excluding artisan or craft products produced in quantities of less than ten.

Section 2 expands the sales/use tax exemption afforded manufacturers to include sales made by general or custom manufacturers and corrects an inaccurate statutory reference.

Section 3 transfers the responsibility, currently assigned to the Tax Commission, regarding determination of whether an entity qualifies for the manufacturing exemption to the Commerce Department. Responsibility for issuance of the manufacturer exemption permit remains with the Commission upon notification of approval by the Commerce Department.

**EFFECTIVE DATE:** November 1, 2013

**REVENUE IMPACT:**

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 14: Sections 1 & 2-\$5,449,000 estimated decrease in state sales tax revenues  
Section 3- None

FY 15: Sections 1 & 2-\$9,500,000 estimated decrease in state sales tax revenues  
Section 3 - None

**ADMINISTRATIVE IMPACT:**

Insert the estimated cost or savings to the Tax Commission due to this proposed legislation.

FY 14: Unknown decrease

Feb. 14, 2013 Rick Miller msm  
DATE DIVISION DIRECTOR

2-15-2013 Reece Womack  
DATE REECE WOMACK, ECONOMIST

2/15/13 Don Cash  
DATE FOR THE COMMISSION

**ATTACHMENT TO FISCAL IMPACT SB 660 [Introduced] Prepared February 13, 2013.**

**Section 1**

Amends the definition of "manufacturing" to include custom-order manufacturing, excluding artisan or craft products produced in quantities of less than ten.

**Section 2-68 O.S. § 1359**

Expands the sales/use tax exemption afforded manufacturers to include sales made by general or custom manufacturers and corrects an inaccurate statutory reference.

Based on Tax Commission records, as of January, 2013, 4,740 entities currently hold Manufacturer Exemption Permits. According to the FY 12 Tax Expenditure Report sales and use taxes of \$1,837,010,000 is attributable to the exemption afforded manufacturers. Dividing the 4,740 permit holders by the total sales and use tax exemption, yields an estimated exemption amount per permit holder of \$387,555. Assuming that the number of registered manufacturers will increase by five percent 5% or 237 entities and that the sales and use tax exemption per new entity is 10% of the estimated exemption amount for current manufacturers or \$38,756 results in an estimated decrease of \$9,185,172 in sales and use taxes for FY 13.

The estimated decrease in sales tax collections for FY 14 (including a 1.7% inflation rate adjustment) is \$9,341,320.

With an effective date of November 1, 2013, an estimated decrease in state sales tax collections of \$5,449,103 will occur in FY 14<sup>1</sup> and a decrease in state sales tax collections of \$9,500,122 will occur in FY 15 (again applying a 1.7% inflation rate adjustment).

Also, the issuance of the permit would make the entities eligible for the five year ad valorem manufacturing<sup>2</sup> exemption and the investment/new jobs income tax credit<sup>3</sup>.

**Section 3-68 O.S. § 1359.2**

Transfers the responsibility, currently assigned to the Tax Commission, regarding determination of whether an entity qualifies for the manufacturing exemption to the Commerce Department. Responsibility for issuance of the manufacturer exemption permit remains with the Commission upon notification of approval by the Commerce Department. No revenue impact is attributable to this Section.

The Tax Commission currently designates a full time employee to administer the manufacturer exemption examination process. An additional FTE's time is spent providing secondary support when needed. Facility inspection and process review are the primary functions of two additional FTEs. Therefore, based on the above, an unknown decrease in administrative costs incurred by the Tax Commission is associated with Section 2 of this measure.

Additional personnel assist with application submission, payment processing and permit issuance. Since the functions relating to the issuance of the manufacturer permit remain with the OTC under the proposed measure no administrative savings is attributable thereto.

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1 Includes seven months of sales tax collections.

2 68 O.S. § 2902

3 68 O.S. § 2357.4