

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: February 8, 2016

SUBJECT: SB 1376 Committee Substitute (Req. No. 3060) - Revised

TO: Joe Gappa, Deputy Director

FROM: Michael C. Kaufmann, Tax Policy Analyst

The Committee Substitute for SB 1376 (Req. No. 3060) proposes to amend various tax credits by limiting these credits effective July 1, 2016 to 75% of the amount allowed under current law. In order to estimate the fiscal impact of this proposal, income tax data from tax years 2008 through 2014¹ was analyzed and an estimate of the average amount of each credit used to offset Oklahoma income tax annually was computed.

The numbers in the table below reflect an estimate for tax years 2016 and 2017. For tax year 2016 it is assumed that one-half of a year of the 75% limitation occurs and for tax year 2017 it is assumed that a whole year of the 75% limitation occurs. No change to estimated tax or withholding is anticipated. The impact of the credit reduction for one-half of tax year 2016 would occur when the returns are filed in FY17. The full impact should occur in FY18 when tax year 2017 income tax returns are filed.

¹2008-2013 Oklahoma Form 511 CR Data, *Oklahoma Tax Commission* or Tax Year 2014 Oklahoma Individual Income Tax Return Data. Generally, the average for 2008-2013 was used for all the credits with the exception of the following credits; Credit for Cancer Center Contribution; Credit for Biomedical Research Contribution; Credit for Contributions to a Scholarship-Granting Organization; Credit for Contributions to an Educational Improvement Grant Organization; Volunteer Firefighter Credit. Preliminary tax year 2014 data was used for these credits.

Cite	Credit	FY17	FY18
68 O.S § 2357.4	Oklahoma Investment/New Jobs Credit ²	\$0	\$0
68 O.S § 2357.11	Oklahoma Coal Production/Purchase	\$27,000	\$53,000
68 O.S § 2357.22	Credit for Conversion of Motor Vehicles to Clean Burning Fuel	\$561,000	\$1,122,000
68 O.S § 2357.27	Credit for Entities in the Business of Providing Child Care Services ³	\$0	\$0
68 O.S § 2357.32A	Credit for Electricity Generated by Zero-Emission Facilities ⁴	\$0	\$5,819,000
68 O.S § 2357.41	Credit for Qualified Rehabilitation Expenditures ⁵	\$264,000	\$528,000
68 O.S § 2357.45	Credit for Biomedical Research Contribution	\$76,000	\$152,000
68 O.S § 2357.45	Credit for Cancer Center Contribution	\$33,000	\$65,000
68 O.S § 2357.46	Credit for the Construction of Energy Efficient Homes ⁶	\$0	\$0
68 O.S § 2357.47	Credit for Modification Expenses Paid for an Injured Employee ⁷	\$0	\$0
68 O.S § 2357.104	Credit for Railroad Modernization	\$120,000	\$239,000
68 O.S. § 2357.206	Credit for Contributions to a Scholarship-Granting Organization	\$68,000	\$136,000
68 O.S. § 2357.206	Credit for Contributions to an Educational Improvement Grant Organization	\$0	\$0
68 O.S. § 2357.302	Aerospace Employer Credit for Tuition Reimbursement	\$50,000	\$100,000
68 O.S. § 2357.303	Aerospace Employer Credit for Compensation Paid <i>claimed with above</i>	\$0	\$0
68 O.S. § 2357.304	Aerospace Employee Credit	\$243,000	\$486,000
68 O.S. § 2357.401	Wire Transmitter Credit	\$49,000	\$98,000
68 O.S. § 2357.403	Affordable Housing Credit	\$0	\$1,000,000
68 O.S. § 2358.7	Volunteer Firefighter Credit	\$79,000	\$159,000
68 O.S. § 2370	Financial Institutions making Loans under Rural Economic Development Loan Act	\$0	\$0
	Total	\$1,570,000	\$9,957,000

²The Oklahoma Investment/New Jobs Credit has significant amount of unused carryover. The 75% limitation proposed in this measure would not have any effect on income tax collections.

³The Credit for Entities in the Business of Providing Child Care Services could no longer be generated after December 31, 2016 under current law.

⁴Income tax return filing patterns suggests that most of the returns claiming this credit are filed on extension, typically on October 15. Therefore any tax year 2017 impact would occur after July 1, 2018 (FY19). Preliminary tax year 2014 data suggests that \$46.55 million dollars was used to reduce tax or refunded directly to the taxpayer at eighty-five percent (85%) of the face amount of the credit, with an additional \$40 million available for carryover.

⁵The Credit for Qualified Rehabilitation Expenditures estimate does not include any potential impact on the Premium Tax.

⁶The Credit for the Construction of Energy Efficient Homes has significant amount of unused carryover. The 75% limitation proposed in this measure would not have any short term effect on income tax collections. There is a potential unknown positive effect on income tax collections in the future when the unused carryover credits have been exhausted.

⁷The Credit for Modification Expenses Paid for an Injured Employee can no longer be generated after December 31, 2016 under current law.