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February 24, 2015

**AS AMENDED**

SENATE BILL NO. 498

By: Mazzei, Brecheen, Allen,  
Shortey, Quinn, and  
Halligan of the Senate

and

## Sears of the House

[ ad valorem tax - exemption for certain  
manufacturers - requirements - effective date ]

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

SECTION 1. AMENDATORY 68 O.S. 2011, Section 2902, as amended by Section 1, Chapter 306, O.S.L. 2012 (68 O.S. Supp. 2014, Section 2902), is amended to read as follows:

Section 2902. A. Except as otherwise provided by subsection H of Section 3658 of this title pursuant to which the exemption authorized by this section may not be claimed, a qualifying manufacturing concern, as defined by Section 6B of Article X of the Oklahoma Constitution, and as further defined herein, shall be exempt from the levy of any ad valorem taxes upon new, expanded or acquired manufacturing facilities, including facilities engaged in research and development, for a period of five (5) years. The provisions of Section 6B of Article X of the Oklahoma Constitution

1 requiring an existing facility to have been unoccupied for a period  
2 of twelve (12) months prior to acquisition shall be construed as a  
3 qualification for a facility to initially receive an exemption, and  
4 shall not be deemed to be a qualification for that facility to  
5 continue to receive an exemption in each of the four (4) years  
6 following the initial year for which the exemption was granted.  
7 Such facilities are hereby classified for the purposes of taxation  
8 as provided in Section 22 of Article X of the Oklahoma Constitution.

9 B. For purposes of this section, the following definitions  
10 shall apply:

11 1. "Manufacturing facilities" means facilities engaged in the  
12 mechanical or chemical transformation of materials or substances  
13 into new products and shall include:

- 14 a. establishments which have received a manufacturer  
15 exemption permit pursuant to the provisions of Section  
16 1359.2 of this title,
- 17 b. facilities, including repair and replacement parts,  
18 primarily engaged in aircraft repair, building and  
19 rebuilding whether or not on a factory basis,
- 20 c. establishments primarily engaged in computer services  
21 and data processing as defined under Industrial Group  
22 Numbers 5112 and 5415, and U.S. Industry Number 334611  
23 and 519130 of the NAICS Manual, latest revision, and  
24 which derive at least fifty percent (50%) of their

1 annual gross revenues from the sale of a product or  
2 service to an out-of-state buyer or consumer, and as  
3 defined under Industrial Group Number 5142 of the  
4 NAICS Manual, latest revision, which derive at least  
5 eighty percent (80%) of their annual gross revenues  
6 from the sale of a product or service to an out-of-  
7 state buyer or consumer. Eligibility as a  
8 manufacturing facility pursuant to this subparagraph  
9 shall be established, subject to review by the  
10 Oklahoma Tax Commission, by annually filing an  
11 affidavit with the Tax Commission stating that the  
12 facility so qualifies and such other information as  
13 required by the Tax Commission. For purposes of  
14 determining whether annual gross revenues are derived  
15 from sales to out-of-state buyers, all sales to the  
16 federal government shall be considered to be an out-  
17 of-state buyer,

- 18 d. for which the investment cost of the construction,  
19 acquisition or expansion of the manufacturing facility  
20 is Two Hundred Fifty Thousand Dollars (\$250,000.00) or  
21 more. Provided, "investment cost" shall not include  
22 the cost of direct replacement, refurbish, repair or  
23 maintenance of existing machinery or equipment, and  
24

1 e. establishments primarily engaged in distribution as  
2 defined under Industry Numbers 49311, 49312, 49313 and  
3 49319 and Industry Sector Number 42 of the NAICS  
4 Manual, latest revision, and which meet the following  
5 qualifications;

- 6 (1) construction with an initial capital investment  
7 of at least Five Million Dollars (\$5,000,000.00),  
8 (2) employment of at least one hundred (100) full-  
9 time-equivalent employees, as certified by the  
10 Oklahoma Employment Security Commission,  
11 (3) payment of wages or salaries to its employees at  
12 a wage which equals or exceeds one hundred  
13 seventy-five percent (175%) of the federally  
14 mandated minimum wage, as certified by the  
15 Oklahoma Employment Security Commission, and  
16 (4) commencement of construction on or after November  
17 1, 2007, with construction to be completed within  
18 three (3) years from the date of the commencement  
19 of construction.

20 Eligibility as a manufacturing facility pursuant to this  
21 subparagraph shall be established, subject to review by the Tax  
22 Commission, by annually filing an affidavit with the Tax Commission  
23 stating that the facility so qualifies and containing such other  
24 information as required by the Tax Commission.

1        Provided, eating and drinking places, as well as other retail  
2 establishments, shall not qualify as manufacturing facilities for  
3 purposes of this section, nor shall centrally assessed properties.

4        Eligibility as a manufacturing facility pursuant to this  
5 subparagraph shall be established, subject to review by the Tax  
6 Commission, by annually filing an application with the Tax  
7 Commission stating that the facility so qualifies and containing  
8 such other information as required by the Tax Commission;

9        2. "Facility" and "facilities" means and includes the land,  
10 buildings, structures, improvements, machinery, fixtures, equipment,  
11 and other personal property used directly and exclusively in the  
12 manufacturing process; and

13        3. "Research and development" means activities directly related  
14 to and conducted for the purpose of discovering, enhancing,  
15 increasing or improving future or existing products or processes or  
16 productivity.

17        C. The following provisions shall apply:

18        1. A manufacturing concern shall be entitled to the exemption  
19 herein provided for each new manufacturing facility constructed,  
20 each existing manufacturing facility acquired and the expansion of  
21 existing manufacturing facilities on the same site, as such terms  
22 are defined by Section 6B of Article X of the Oklahoma Constitution  
23 and by this section;  
24

1        2. Except as otherwise provided in paragraph 5 of this  
2 subsection, no manufacturing concern shall receive more than one  
3 five-year exemption for any one manufacturing facility unless the  
4 expansion which qualifies the manufacturing facility for an  
5 additional five-year exemption meets the requirements of paragraph 4  
6 of this subsection and the employment level established for any  
7 previous exemption is maintained;

8        3. Any exemption as to the expansion of an existing  
9 manufacturing facility shall be limited to the increase in ad  
10 valorem taxes directly attributable to the expansion;

11        4. Except as provided in paragraphs 5 and 6 of this subsection,  
12 all initial applications for any exemption for a new, acquired or  
13 expanded manufacturing facility shall be granted only if:

- 14            a. there is a net increase in annualized payroll of at  
15                least Two Hundred Fifty Thousand Dollars (\$250,000.00)  
16                if the facility is located in a county with a  
17                population of fewer than seventy-five thousand  
18                (75,000), according to the most recent federal  
19                decennial census, while maintaining or increasing  
20                payroll in subsequent years, or at least One Million  
21                Dollars (\$1,000,000.00) if the facility is located in  
22                a county with a population of seventy-five thousand  
23                (75,000) or more, according to the most recent federal  
24                decennial census, while maintaining or increasing

1 payroll in subsequent years; provided the payroll  
2 requirement of this subparagraph shall be waived for  
3 claims for exemptions, including claims previously  
4 denied or on appeal on March 3, 2010, for all initial  
5 applications for exemption filed on or after January  
6 1, 2004, and on or before March 31, 2009, and all  
7 subsequent annual exemption applications filed related  
8 to the initial application for exemption, for an  
9 applicant, if the facility has been located in  
10 Oklahoma for at least fifteen (15) years engaged in  
11 marine engine manufacturing as defined under U.S.  
12 Industry Number 333618 of the NAICS Manual, latest  
13 revision, and has maintained an average employment of  
14 five hundred (500) or more full-time-equivalent  
15 employees over a ten-year period. Any applicant that  
16 qualifies for the payroll requirement waiver as  
17 outlined in the previous sentence and subsequently  
18 closes its Oklahoma manufacturing plant prior to  
19 January 1, 2012, may be disqualified for exemption and  
20 subject to recapture. For an applicant engaged in  
21 paperboard manufacturing as defined under U.S.  
22 Industry Number 322130 of the NAICS Manual, latest  
23 revision, union master payouts paid by the buyer of  
24 the facility to specified individuals employed by the

1 facility at the time of purchase, as specified under  
2 the purchase agreement, shall be excluded from payroll  
3 for purposes of this section.

4 The Tax Commission shall verify payroll information through the  
5 Oklahoma Employment Security Commission by using reports from the  
6 Oklahoma Employment Security Commission for the calendar year  
7 immediately preceding the year for which initial application is made  
8 for base-line payroll, which must be maintained or increased for  
9 each subsequent year; provided, a manufacturing facility shall have  
10 the option of excluding from its payroll, for purposes of this  
11 section, payments to sole proprietors, members of a partnership,  
12 members of a limited liability company who own at least ten percent  
13 (10%) of the capital of the limited liability company or  
14 stockholder-employees of a corporation who own at least ten percent  
15 (10%) of the stock in the corporation. A manufacturing facility  
16 electing this option shall indicate such election upon its  
17 application for an exemption under this section. Any manufacturing  
18 facility electing this option shall submit such information as the  
19 Tax Commission may require in order to verify payroll information.  
20 Payroll information submitted pursuant to the provisions of this  
21 paragraph shall be submitted to the Tax Commission and shall be  
22 subject to the provisions of Section 205 of this title, and

23 b. the facility offers, or will offer within one hundred  
24 eighty (180) days of the date of employment, a basic



1 health benefits plan to the full-time-equivalent  
2 employees of the facility, which is determined by the  
3 Department of Commerce to consist of the elements  
4 specified in subparagraph b of paragraph 1 of  
5 subsection A of Section 3603 of this title or elements  
6 substantially equivalent thereto.

7 For purposes of this section, calculation of the amount of  
8 increased payroll shall be measured from the start of initial  
9 construction or expansion to the completion of such construction or  
10 expansion or for three (3) years from the start of initial  
11 construction or expansion, whichever occurs first. The amount of  
12 increased payroll shall include payroll for full-time-equivalent  
13 employees in this state who are employed by an entity other than the  
14 facility which has previously or is currently qualified to receive  
15 an exemption pursuant to the provisions of this section and who are  
16 leased or otherwise provided to the facility, if such employment did  
17 not exist in this state prior to the start of initial construction  
18 or expansion of the facility. The manufacturing concern shall  
19 submit an affidavit to the Tax Commission, signed by an officer,  
20 stating that the construction, acquisition or expansion of the  
21 facility will result in a net increase in the annualized payroll as  
22 required by this paragraph and that full-time-equivalent employees  
23 of the facility are or will be offered a basic health benefits plan  
24 as required by this paragraph. If, after the completion of such

1 construction or expansion or after three (3) years from the start of  
2 initial construction or expansion, whichever occurs first, the  
3 construction, acquisition or expansion has not resulted in a net  
4 increase in the amount of annualized payroll, if required, or any  
5 other qualification specified in this paragraph has not been met,  
6 the manufacturing concern shall pay an amount equal to the amount of  
7 any exemption granted, including penalties and interest thereon, to  
8 the Tax Commission for deposit to the Ad Valorem Reimbursement Fund;

9 5. If a facility fails to meet the payroll requirement of  
10 subparagraph a of paragraph 4 of this subsection, the payroll  
11 requirement shall be waived for claims for exemptions, including  
12 claims previously denied or on appeal on June 1, 2009, for all  
13 initial applications for exemption filed on or after January 1,  
14 2004, and on or before March 31, 2009, and all subsequent annual  
15 exemption applications filed related to such initial application for  
16 exemption, for an applicant, if the facility:

- 17 a. has been located for at least five (5) years as of  
18 March 31, 2009, in a county in Oklahoma with a  
19 population of six hundred thousand (600,000) or more;
- 20 b. is owned by an applicant that has been engaged in  
21 manufacturing as defined under U.S. Industry Numbers  
22 323110, 323111, 323121 and 323122 of the NAICS Manual,  
23 latest revision;  
24

- 1           c.    is owned by an applicant that maintains a workforce of  
2                   at least three hundred (300) employees on June 1,  
3                   2009;
- 4           d.    is owned by an applicant that has filed multiple  
5                   applications for exemption pursuant to this section;  
6                   and
- 7           e.    is owned by an applicant that operates at least one  
8                   facility in this state of at least seven hundred  
9                   thirty thousand (730,000) square feet on June 1, 2009.

10   In the event that any applicant obtaining a waiver of the payroll  
11   requirement pursuant to this paragraph ceases to operate all of its  
12   facilities in this state on or before a date that is four years  
13   after any initial application for an exemption is filed by such  
14   applicant, all sums of property taxes exempted under this paragraph  
15   through a waiver of the payroll requirement that relate to such  
16   application shall become due and payable as if such sums were  
17   assessed in the year in which the applicant ceases to operate all of  
18   its facilities in the state.

19       6.   Any new, acquired or expanded automotive final assembly  
20   manufacturing facility which does not meet the requirements of  
21   paragraph 4 of this subsection shall be granted an exemption only if  
22   all other requirements of this section are met and only if the  
23   investment cost of the construction, acquisition or expansion of the  
24   manufacturing facility is Three Hundred Million Dollars

1 (\$300,000,000.00) or more and the manufacturing facility retains an  
2 average employment of one thousand seven hundred fifty (1,750) or  
3 more full-time-equivalent employees in the year in which the  
4 exemption is initially granted and in each of the four (4)  
5 subsequent years only if an average employment of one thousand seven  
6 hundred fifty (1,750) or more full-time-equivalent employees is  
7 maintained in the subsequent year. Any property installed to  
8 replace property damaged by the tornado or natural disaster that  
9 occurred May 8, 2003, may continue to receive the exemption provided  
10 in this paragraph for the full five-year period based on the value  
11 of the previously qualifying assets as of January 1, 2003. The  
12 exemption shall continue in effect as long as all other  
13 qualifications in this paragraph are met. If the average employment  
14 of one thousand seven hundred fifty (1,750) or more full-time-  
15 equivalent employees is reduced as a result of temporary layoffs  
16 because of a tornado or natural disaster on May 8, 2003, then the  
17 average employment requirement shall be waived for year 2003 of the  
18 exemption period. Calculation of the number of employees shall be  
19 made in the same manner as required under Section 2357.4 of this  
20 title for an investment tax credit. As used in this paragraph,  
21 "expand" and "expansion" shall mean and include any increase to the  
22 size or scope of a facility as well as any renovation, restoration,  
23 replacement or remodeling of a facility which permits the  
24 manufacturing of a new or redesigned product;

1        7. Any new, acquired, or expanded computer data processing,  
2 data preparation, or information processing services provider  
3 classified in Industrial Group Number 7374 of the SIC Manual, latest  
4 revision, and U.S. Industry Number 514210 of the North American  
5 Industrial Classification System (NAICS) Manual, latest revision,  
6 may apply for exemptions under this section for each year in which  
7 new, acquired, or expanded capital improvements to the facility are  
8 made if:

- 9            a. there is a net increase in annualized payroll of the  
10                applicant at any facility or facilities of the  
11                applicant in this state of at least Two Hundred Fifty  
12                Thousand Dollars (\$250,000.00), which is attributable  
13                to the capital improvements, or a net increase of  
14                Seven Million Dollars (\$7,000,000.00) or more in  
15                capital improvements, while maintaining or increasing  
16                payroll at the facility or facilities in this state  
17                which are included in the application, and  
18            b. the facility offers, or will offer within one hundred  
19                eighty (180) days of the date of employment of new  
20                employees attributable to the capital improvements, a  
21                basic health benefits plan to the full-time-equivalent  
22                employees of the facility, which is determined by the  
23                Department of Commerce to consist of the elements  
24                specified in subparagraph b of paragraph 1 of

subsection A of Section 3603 of this title or elements substantially equivalent thereto; and

8. An entity engaged in electric power generation by means of wind, as described by the North American Industry Classification System, No. 221119, which does not meet the requirements of paragraph 4 of this subsection shall be granted an exemption only if all other requirements of this section are met and only if there is a net increase in annualized payroll at the facility of at least ~~Two Hundred Fifty Thousand Dollars (\$250,000.00)~~ or One Million Dollars (\$1,000,000.00) and a net increase of Two Million Dollars (\$2,000,000.00) or more in capital improvements while maintaining or increasing payroll.

9. An entity which has been granted an exemption for a time period which included calendar year 2009 but which did not meet the base-line payroll requirements of subparagraph a of paragraph 4 of this subsection during calendar year 2009, shall be allowed an exemption, to begin on January 1 of the first calendar year after January 1, 2012, for the number of years, including calendar year 2009, remaining in the entity's five-year exemption period, provided such entity attains or increases payroll at or above the base-line payroll established for the exemption which was in force during calendar year 2009.

D. 1. Except as provided in paragraph 2 of this subsection, the five-year period of exemption from ad valorem taxes for any

1 qualifying manufacturing facility property shall begin on January 1  
2 following the initial qualifying use of the property in the  
3 manufacturing process.

4 2. The five-year period of exemption from ad valorem taxes for  
5 any qualifying manufacturing facility, as defined in subparagraph c  
6 of paragraph 1 of subsection B of this section which is located  
7 within a tax incentive district created pursuant to the Local  
8 Development Act by a county having a population of at least five  
9 hundred thousand (500,000), according to the most recent federal  
10 decennial census, shall begin on January 1 following the expiration  
11 or termination of the ad valorem exemption, abatement, or other  
12 incentive provided through the tax incentive district.

13 E. Any person, firm or corporation claiming the exemption  
14 herein provided for shall file each year for which exemption is  
15 claimed, an application therefor with the county assessor of the  
16 county in which the new, expanded or acquired facility is located.  
17 The application shall be on a form or forms prescribed by the Tax  
18 Commission, and shall be filed on or before March 15, except as  
19 provided in Section 2902.1 of this title, of each year in which the  
20 facility desires to take the exemption or within thirty (30) days  
21 from and after receipt by such person, firm or corporation of notice  
22 of valuation increase, whichever is later. In a case where  
23 completion of the facility or facilities will occur after January 1  
24 of a given year, a facility may apply to claim the ad valorem tax

1 exemption for that year. If such facility is found to be qualified  
2 for exemption, the ad valorem tax exemption provided for herein  
3 shall be granted for that entire year and shall apply to the ad  
4 valorem valuation as of January 1 of that given year. For  
5 applicants which qualify under the provisions of subparagraph b of  
6 paragraph 1 of subsection B of this section, the application shall  
7 include a copy of the affidavit and any other information required  
8 to be filed with the Tax Commission.

9 F. The application shall be examined by the county assessor and  
10 approved or rejected in the same manner as provided by law for  
11 approval or rejection of claims for homestead exemptions. The  
12 taxpayer shall have the same right of review by and appeal from the  
13 county board of equalization, in the same manner and subject to the  
14 same requirements as provided by law for review and appeals  
15 concerning homestead exemption claims. Approved applications shall  
16 be filed by the county assessor with the Tax Commission no later  
17 than June 15, except as provided in Section 2902.1 of this title, of  
18 the year in which the facility desires to take the exemption.  
19 Incomplete applications and applications filed after June 15 will be  
20 declared null and void by the Tax Commission. In the event that a  
21 taxpayer qualified to receive an exemption pursuant to the  
22 provisions of this section shall make payment of ad valorem taxes in  
23 excess of the amount due, the county treasurer shall have the  
24 authority to credit the taxpayer's real or personal property tax



1 overpayment against current taxes due. The county treasurer may  
2 establish a schedule of up to five (5) years of credit to resolve  
3 the overpayment.

4 G. Nothing herein shall in any manner affect, alter or impair  
5 any law relating to the assessment of property, and all property,  
6 real or personal, which may be entitled to exemption hereunder shall  
7 be valued and assessed as is other like property and as provided by  
8 law. The valuation and assessment of property for which an  
9 exemption is granted hereunder shall be performed by the Tax  
10 Commission.

11 H. The Tax Commission shall have the authority and duty to  
12 prescribe forms and to promulgate rules as may be necessary to carry  
13 out and administer the terms and provisions of this section.

14 SECTION 2. This act shall become effective January 1, 2016.

15 COMMITTEE REPORT BY: COMMITTEE ON FINANCE  
16 February 24, 2015 - DO PASS AS AMENDED  
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