

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: April 30, 2018

SUBJECT: SB 1585 – Committee Substitute (Req. No. 3671)

TO: Joe Gappa, Deputy Director

FROM: Michael C. Kaufmann, Tax Policy Analyst

The Committee Substitute SB 1585 (Req. No. 3671) proposes to enact three (3) new income tax credits for qualified employers and engineers in the vehicle manufacturing industry.

This measure proposes the following three (3) income tax credits effective for tax year 2019 and subsequent tax years:

1. An income tax credit would be allowed for a qualified employer in the vehicle manufacturing industry for tuition reimbursement to a qualified employee. The amount of the credit is fifty percent (50%) of the tuition reimbursed to a qualified employee for the first through fourth years of employment.
2. An income tax credit would be allowed for a qualified employer in the vehicle manufacturing industry for compensation paid to a qualified employee. The amount of the credit is ten percent (10%) of the compensation paid for the first through fifth years of employment in the vehicle manufacturing industry if the qualified employee graduated from an institution located in this state; or five percent (5%) if the qualified employee graduated from an institution located outside this state. The credit cannot exceed Twelve Thousand Five Hundred Dollars (\$12,500.00) for each qualified employee annually.
3. An income tax credit would be allowed for a qualified employee in the vehicle manufacturing industry of up to Five Thousand Dollars (\$5,000.00) per year for a period of time not to exceed five (5) years. Any credit claimed, but not used, may be carried over up to five (5) subsequent taxable years.

Vehicle manufacturing¹ means a private or public company first placed in operation in this state after the effective date of this act, which is engaged in the research,

¹ Qualified employers must be involved in vehicle manufacturing.

development, design and manufacture of motor vehicles which may be driven on the avenues of public access. For purposes of this section, "motor vehicle" does not include buses, low-speed electric vehicles, truck-tractors or motor vehicles manufactured primarily for off-road use, such as primarily for use on a golf course.

Qualified employees are any person, regardless of the date of hire, employed in this state by or contracting in this state with a qualified employer on or after January 1, 2018, who has been awarded an undergraduate or graduate degree from a qualified program by an institution, and who was not employed in vehicle manufacturing in this state immediately preceding employment or contracting with a qualified employer. Provided, the definition shall not be interpreted to exclude any person who was employed in vehicle manufacturing, but not as a full-time engineer, prior to being awarded an undergraduate or graduate degree from a qualified program by an institution or any person who has been awarded an undergraduate or graduate degree from a qualified program by an institution and is employed by a professional staffing company and assigned to work in vehicle manufacturing in this state.

The two (2) credits available to employers (based on tuition reimbursement and compensation paid) are subject to an annual cap of three million dollars (\$3,000,000). The credit available to employees is subject to an annual cap of two million dollars (\$2,000,000). The combined credit cap is five million dollars (\$5,000,000) annually.

There is no estimated fiscal impact for FY 19 and unknown decrease in income tax collections is expected in FY 20.²

² The cap requires a two (2) year look back to calculate. This effectively renders the cap ineffective until two (2) years after credits in excess of the cap are claimed. Therefore, there is an unknown decrease in income tax collections in FY20, assuming the credit is claimed in tax year 2019.