

Fiscal Impact
2nd Session of the 57th Legislature

Bill No.:
Version:
Author:
Date:

SB 1715
CS
Sen. Pugh
02/24/2020

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: February 24, 2020
SUBJECT: SB 1715 – Proposed Committee Substitute (57-2-3924)
TO: Rick Miller, Director *RAM*
FROM: Michael C. Kaufmann, Tax Policy Analyst

The Proposed Committee Substitute (57-2-3924) for SB 1715 proposes to amend 68 O.S. § 2357.301 relating to the Credit for Employees in Aerospace Sector and the Credit for Employers in Aerospace Sector by adding instructor pilots as a qualified employee¹ effective for tax year 2021 and subsequent years. Under current law, there are three aerospace income tax credits:

1. An income tax credit is allowed for a qualified employer in the aerospace sector for tuition reimbursement to a qualified employee. The amount of the credit is 50% of the tuition reimbursed to a *qualified employee* for the first through fourth years of employment.
2. An income tax credit is allowed for a qualified employer in the aerospace for compensation paid to a *qualified employee*. The amount of the credit is 10% of the compensation paid for the first through fifth years of employment in the aerospace sector if the qualified employee graduated from an institution located in this state; or 5% if the qualified employee graduated from an institution located outside this state. The credit cannot exceed \$12,500 for each qualified employee annually.
3. An income tax credit is allowed for a *qualified employee* in the aerospace sector of up to \$5,000 per year for a period of time not to exceed five years. Any credit claimed, but not used, may be carried over up to five subsequent taxable years.

Qualified programs are programs that are accredited by the Engineering Accreditation Commission (EAC) of the Accreditation Board for Engineering and Technology (ABET) and that award undergraduate or graduate degrees.

All of these credits are set to expire for tax years ending before January 1, 2025.

The definition of qualified employee would be expanded to include instructor pilots. Instructor pilot is defined as any person who is licensed as a Certified Flight Instructor by the Federal Aviation Administration (FAA) and is employed in Oklahoma in support of a contract with the

¹ A qualified employee is defined as 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, 2009, who has been awarded an undergraduate or graduate degree from a qualified program by an institution, and who was not employed in the aerospace sector in this state immediately preceding employment or contracting with a qualified employer.

federal government to provide instruction either live or on a flight simulator.

This measure would not only affect the credit for the employee, but the employer credits as well.

Data from the FAA shows a total of 1,376 flight instructors in Oklahoma as of December 30, 2018.² It is unknown how many qualifying instructor pilots will be employed in Oklahoma on or after January 1, 2021; an unknown decrease in income tax collections would occur as early as FY21.

² U.S. Civil Airmen Statistics, 2018; *Table 5 Estimated Active Pilots and Flight Instructors by FAA Region and State December 31, 2018* - Federal Aviation Administration

https://www.faa.gov/data_research/aviation_data_statistics/civil_airmen_statistics/

If all 1,376 flight instructors contracted with the federal government, the estimated impact of this part of the proposed measure could result in a revenue decrease of at least \$6.9 million. There is no minimum amount of work or contract size required to qualify for the credit.