

BILL SUMMARY
1st Session of the 58th Legislature

Bill No.:	HB 2040
Version:	FA1
Request Number:	7916
Author:	Mr. Speaker
Date:	3/10/2021
Impact:	Sales Tax Exemption

Exemption Administered as a Rebate

Requires Certain Verifications

Rebates:
FY-23: Maximum of \$20,000,000
Population Density Allocation

FY-24: Maximum of \$20,000,000
Based on Incentive Award Formula

Research Analysis

Pending

Prepared By: House Research Staff

Fiscal Analysis

The measure provides a sales tax exemption, in the form of rebates, on sales of qualifying broadband equipment, if the property is directly used or consumed by the provider or subsidiary in or during the distribution of Internet services.

Claims for rebates will be approved only if the equipment was purchased to establish or expand broadband services in underserved or unserved areas and the claimant establishes that as a result of the equipment purchase there is net growth in the number of potential customers served in the underserved or unserved areas,

To qualify for rebate payments during FY-22 equipment or other qualifying items must be purchased and put in service between January 1, 2022 and December 31, 2022. All claims must be processed not later than November 1, 2023. To qualify for rebate payments during FY-23 equipment or other qualifying items must be purchased and put in service between January 1, 2022 and December 31, 2022. All claims must be processed not later than November 1, 2023.

For FY-23, total rebates will not exceed \$20,000,000, with \$15,000,000 being reserved for eligible projects in counties having a population density of fewer than 100 persons per square mile. The remaining \$5,000,000 is reserved for eligible projects located in counties with a population density of 100 persons or more per square mile.

For FY-24 and subsequent years rebates are capped at \$20,000,000. The allocations will be made using an incentive award formula as enacted into law by the Legislature after recommendation by the Rural Broadband Expansion Council.

Actual effect on sales tax revenue for fiscal years beginning with FY-22 will depend on the amount of rebates qualifying and rebates paid during a fiscal year. In addition, the administration of the rebate program may include cost considerations for the Tax Commission (response pending).

Review by the Tax Commission

Fiscal Impact

The measure will result in an unknown decrease in state sales/use tax revenues for FY 22.

Administrative Costs and Concerns

The Administrative Impact is unknown at this time.

While it could be assumed that all items, which are not specifically excluded by statute and directly result in the distribution of broadband Internet service constitute qualifying broadband equipment, a definition of the term, which is not presently provided in the measure, could facilitate the administration of the exemption and rebate process. Also, additional explanation or identifiers regarding qualification of a claimant as a "provider of Internet service" or "subsidiary" would also aid in the rebate process.

For claims submitted on or before September 1, 2023, mandating a deadline of November 1, 2023 for the OTC to verify qualifying use and eligibility of equipment in addition to auditing significant amounts of documentation submitted in support of rebate claims along with payment of claims consistent with the established cap does not afford the Commission sufficient time to perform these functions without the OTC incurring additional administrative costs for new audit personnel. A determination by the Rural Broadband Expansion Council or other appropriate group prior to submission of the rebate claim of a project's eligibility that the "qualified broadband equipment" was used to establish or expand broadband services in an underserved or unserved area resulting in a net growth in the number of potential customers served would expedite the processing of the rebate claims by the Commission.

In addition, it appears that the OTC is required under the measure to maintain certain information related to location of the qualifying equipment, the geographic area served as a result of the qualifying equipment and the total number of potential new customers receiving qualifying broadband services resulting from the project in such a format to allow the ready capture and compilation of the information for purposes of submission to the Oklahoma Department of Commerce and

the Rural Broadband Expansion Council. It is anticipated that modification to current OTC processes and systems to perform the described functions would result in an increase in administrative costs to be incurred by the OTC.

Further, it is assumed that both state and local taxes are to be refunded for qualifying equipment. If so, large concentrated refunds of local sales and use taxes can present the affected local taxing jurisdictions with budgetary and funding difficulties.

Prepared By: Mark Tygret

Other Considerations

None.