Bill No.:	**HB 3698**
Version:	**SUBPCS1**
Request Number:	**10302**
Author:	**Rep. McEntire**
Date:	**2/21/2022**
Impact:	**Tax Commission:**
	Revenue Decrease:
	FY-23: ($90,800,000)
	FY-24: ($92,800,000)

Research Analysis

Pending

Prepared By: House Research Staff

Fiscal Analysis

Analysis provided by the Tax Commission:

The Proposed Committee Substitute for HB 3498 proposes to enact a new income tax credit for a qualified employer for compensation paid to a qualified software employee. Effective for tax year 2022 and subsequent years, the credit is either:

- 10% of the compensation paid for the first through fifth years of employment if the qualified software employee graduated from an institution located in Oklahoma; or
- 5% of the compensation paid for the first through fifth years of employment if the qualified software employee graduated from an institution located outside Oklahoma.

Under this proposal, it appears that certain taxpayers could claim the proposed credit in addition to the existing Credit for Employees in the Aerospace Sector[2] and Credit for Employees in the Vehicle Manufacturing Industry.[3]

For this analysis, it is assumed that a qualified software employee must be hired in Oklahoma by a qualifying employer on or after January 1, 2022, to be eligible to claim the credit, and employment with a qualified employer in Oklahoma prior to the new hire date would not preclude a software employee from claiming the credit.

The total annual compensation credit per employee may not exceed $12,500, and no credit may be claimed after the fifth year of employment.

In addition, a new income tax credit is proposed for a qualified software employee, effective for tax year 2022 and subsequent years. The credit is $5,000 per year for a period of time not to exceed five years, and any unused credit may be carried over for five subsequent tax years. A qualified software employee may claim either the proposed credit or the existing Credit for Software or Cybersecurity Employees,[1] and no qualified software employee is allowed to claim both credits.

U.S. Bureau of Labor Statistics (BLS) records indicate 7,400 software developers and software quality assurance analysts and testers were employed in Oklahoma during 2020 with an annual mean wage of approximately $90,000.[4] The BLS further predicts that employment of software developers, quality assurance analysts and testers will increase by 22% from 2020 to 2030,[5] or an average of 2.2% per year. Using the available information, a total estimated credit amount for this proposal was calculated as follows:

Estimated Credits for Qualified Software Employers and Employees		
	FY 2023	FY 2024
Est. Qualified Software Employees	7,729	7,899
Est. Qualified Software Employee Credit	$38.6 million	$39.5 million
Annual Mean Wage	$90,000	$90,000
Est. Qualified Employer Compensation Credit (7.5% of Annual Mean Wage)	$52.2 million	$53.3 million
Total Estimated Credits	**$90.8 million**	**$92.8 million**

Based on these combined estimates, the potential revenue impact of this proposal is an estimated decrease in income tax revenue of approximately $90.8 million for FY 23 and $92.8 million for FY 24.

[2] 68 O.S. §§ 2357.301 and 2357.304
[3] 68 O.S. § 2357.404
[4] See https://www.bls.gov/oes/current/oes_ok.htm#15-0000.

Prepared By: Mark Tygret

Other Considerations

None.