

BILL SUMMARY
2nd Session of the 58th Legislature

Bill No.:	HB 3687
Version:	INT
Request Number:	8494
Author:	Rep. McDugle
Date:	2/18/2022
Impact:	Tax Commission

Income Tax Revenue Decrease:
FY-23: Unknown Decrease
FY-24: (\$40,600,000)

Research Analysis

HB3687, as introduced, creates an income tax credit for retired military personnel who have taxable nonmilitary income. The measure also creates a second tax credit for former and retired military personnel who are employed in a position that requires a security clearance. Both credits may be claimed beginning tax year 2023, are limited to \$2500 per year, are nonrefundable and cannot be carried over for use in subsequent tax years.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

HB 3687 proposes to enact a new income tax credit for retired military personnel who have taxable nonmilitary income. The credit is \$2,500, effective for tax year 2023 and subsequent years. In addition, a new income tax credit is proposed for taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance.¹ The credit is \$2,500, effective for tax years 2023 and subsequent years.

It is assumed that certain taxpayers who claim the \$2,500 credit for retired military personnel would be allowed to claim the additional \$2,500 credit for taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance.

The U.S. Bureau of Labor Statistics (BLS) reported 123,000 veterans who were employed in Oklahoma during 2020.² For 2017, the U.S. Department of Veterans Affairs reported that 12.04% of Oklahoma veterans were military retirees.³ Assuming similar activity for tax year 2023, estimated credits of approximately \$37 million may be claimed by retired military personnel who have taxable nonmilitary income, beginning for tax year 2023.

Internet research indicates approximately 1.7 million individuals, including government employees and private contractors, held secret and/or top secret security clearances during 2019.⁴ BLS records further indicate that approximately 5.71% of all persons employed during 2017 were veterans. Using the available information, a total estimated number of Oklahoma taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance was calculated as follows:

Estimated Number of OK Veterans Employed with Secret/Top Secret Security Clearance

	<u>Count</u>	<u>Est. % w/Security Clearance</u>	<u>Est. Security Clearance</u>
US Individuals Holding Secret/Top Secret Security Clearance, 2019			1,700,000
Total Veterans Employed, 2020	8,338,000	5.71%	97,035
Total Nonveterans Employed, 2020	<u>137,739,000</u>	<u>94.29%</u>	<u>1,602,965</u>
<i>Subtotal</i>	<u>146,077,000</u>	<u>100.00%</u>	
Est. OK Veterans Employed in 2020 with Secret/Top Secret Security Clearance (123,000/8,338,000)		1.48%	1,431

Based on these estimates, annual credits for taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance are calculated to be approximately \$3.6 million. Combined with the estimated \$37 million in credits for retired military personnel who have taxable nonmilitary income, the total revenue impact of this proposal is an estimated decrease in income tax collections of approximately \$40.6 million for FY 24 when the 2023 returns are filed. An unknown partial impact may be expected for FY 23, due to a corresponding reduction in withholding and estimated payments.

¹ "Security clearance" means a current and final clearance of either secret or top secret from the United States.

² See <https://www.bls.gov/news.release/pdf/vet.pdf>.

³ See https://www.va.gov/vetdata/docs/SpecialReports/State_Summaries_Oklahoma.pdf.

⁴ See <https://fcw.com/acquisition/2021/06/security-clearance-demands-are-exploding-and-government-must-keep-up/258405/>.

Prepared By: Mark Tygret

Other Considerations

None.