

# OKLAHOMA TAX COMMISSION

## REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT SECOND REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: January 26, 2022

BILL NUMBER: SB 1471 STATUS AND DATE OF BILL: Introduced 1/20/2022

AUTHORS: House NA Senate Paxton

TAX TYPE (S): Income Tax SUBJECT: Credit

PROPOSAL: New Law

SB 1471 proposes to enact a new income tax credit for qualifying educational expenses incurred during the tax year for any family with a child who is eligible to be enrolled in a public school in Oklahoma and who qualifies as the taxpayer's dependent for federal tax purposes. Effective for tax year 2023 and subsequent tax years, the maximum education expenses tax credit allowable for each tax year, including carryover credits, is \$2,500, and if the amount of the allowable credit exceeds \$2,500, such excess may be carried forward to two subsequent tax years.

EFFECTIVE DATE: November 1, 2022

### REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 23: None.

FY 24: Estimated decrease in income tax revenue of \$416 million.

Feb. 2, 2022

DATE

Rick Miller

DIVISION DIRECTOR

bdf

2/2/2022

DATE

Huan Gong

HUAN GONG, ECONOMIST

2/7/2022

DATE

[Signature]  
FOR THE COMMISSION

*The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.*

## ATTACHMENT TO REVENUE IMPACT - SB 1471 [Introduced] Prepared 1/26/2022

SB 1471 proposes to enact a new income tax credit for qualifying educational expenses incurred during the tax year for any family with a child who is eligible to be enrolled in a public school in Oklahoma and who qualifies as the taxpayer's dependent for federal tax purposes. Effective for tax year 2023 and subsequent tax years, the maximum education expenses tax credit allowable for each tax year, including carryover credits, is \$2,500, and if the amount of the allowable credit exceeds \$2,500, such excess may be carried forward to two subsequent tax years. Amounts claimed may not be itemized as deductions for the same tax year when computing Oklahoma taxable income.

The following definitions are provided:

- “Academic instruction” means instruction in reading, writing, mathematics, science, history, art, music, geography, civics, economics, literature, philosophy, religion, foreign languages, and related subjects;
- “Close relatives” refers to a person's children, grandchildren, mother, father, brothers, sisters, aunts, or uncles whether by blood, marriage, or adoption;
- “Qualifying education expenses” include:
  - a. tuition and fees for concurrent enrollment as described in Section 628.13 of Title 70 of the Oklahoma Statutes for a student who meets the requirements set forth in subsection C of that section,
  - b. tuition and other instructional fees charged by a qualified school,
  - c. costs associated with activities at a qualified school including the cost of fees, clothing, and equipment required to participate in athletic teams, musical groups, clubs, or similar school activities,
  - d. tuition and other instructional fees charged for tutoring, private instruction, or remedial education services for the purposes of academic instruction and not provided by a close relative,
  - e. costs associated with the provision of instruction by other means in prekindergarten through grade twelve directed by the parent or guardian including the cost of computer equipment, software, online instruction, cooperative educational programs, textbooks, workbooks, curricula, and other written materials used primarily for academic instruction, and
  - f. costs associated with activities comparable to those defined in subparagraph c of this paragraph for a student being educated by other means in prekindergarten through grade twelve directed by the parent or guardian; and
- “Qualified school” means either a public elementary or secondary school or a private educational program that can be used to satisfy the state's compulsory school attendance requirements.

The Oklahoma Tax Commission (OTC) will promulgate rules and develop tax forms, directions, and worksheets, as necessary, to implement the provisions of this proposal. The rules will modify the state tax forms, directions, and worksheets to provide a reasonably convenient way for taxpayers to claim the proposed credit. The OTC may require a taxpayer to submit with the tax return copies of such receipts or similar financial documentation as may be necessary to confirm the taxpayer's statement of the allowable credit; however, the OTC will not require any school or other organization to provide documentation or otherwise act to verify claims for the credit.

The OTC will determine the total amount of credits claimed on all state income tax returns and the type and amount of expenses for the credits claimed for each tax year and shall report the same to the cabinet secretary with applicable authority by the end of the calendar year following the tax year. Within 60 days prior to the start of each legislative session, the cabinet secretary with applicable authority will present a report to the Chair of the Senate Finance Committee and the Chair of the

House Appropriations and Budget Committee projecting the total dollar amount of credits expected to be claimed on returns for the current tax year and follow tax year as of the date of the report.

The Oklahoma Department of Education's State Public Enrollment Totals for FY 2020/2021 indicate 694,113<sup>1</sup> qualifying students enrolled in public schools. For purposes of this analysis, qualifying educational expenses incurred by a family are assumed to be approximately \$500 per public school student per year.

According to Private School Review, there are 210 private schools in Oklahoma serving 37,774 students for the 2022 school year.<sup>2</sup> The average private tuition is \$6,577 for elementary schools and \$7,535 for high schools. The number of families with one or more children enrolled in a private school is unknown; however, it is expected that each family would be eligible to claim the full annual credit amount of \$2,500.

Additional data published by the Coalition for Responsible Home Education indicates that an estimated 22,709 students were homeschooled in Oklahoma during 2015 – 2016.<sup>3</sup> For purposes of this analysis, qualifying educational expenses incurred by a family are assumed to be approximately \$500 per homeschooled student per year.

IRS Tax Statistics for Oklahoma for tax year 2019 indicate the child and other dependent tax credit was claimed on 460,250 returns.<sup>4</sup> Using the available information, estimated credit amounts for qualifying educational expenses were calculated as follows:

Institution	Students	% of Total Students	Estimated Number of Returns	Estimated Number of Students Per Return	Estimated Credit Per Return	Estimated Credit Amount
Public School	694,113	92%	423,360	1.64	\$ 819.77	\$ 347,056,500.00
Private School	37,774	5%	23,039	1.64	\$ 2,500.00	\$ 57,598,647.16
Homeschool	22,709	3%	13,851	1.64	\$ 819.77	\$ 11,354,500.00
Totals	754,596		460,250			\$ 416,009,647.16

Based on these estimates, the potential revenue impact of the proposal is a decrease in income tax revenue of approximately \$416 million, beginning for FY 24 when the 2023 tax returns are filed.

<sup>1</sup> See State Totals by Percentages table at <https://sde.ok.gov/documents/2014-02-13/state-student-public-enrollment-2013>.

<sup>2</sup> See [https://www.privateschoolreview.com/oklahoma#:~:text=For%20the%202022%20school%20year,\(view%20national%20tuition%20averages\)](https://www.privateschoolreview.com/oklahoma#:~:text=For%20the%202022%20school%20year,(view%20national%20tuition%20averages)).

<sup>3</sup> See <https://responsiblehomeschooling.org/research/summaries/homeschooling-numbers/>.

<sup>4</sup> See Tax Year 2019: Historic Table 2 for Oklahoma at <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>.