

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: February 14, 2021

BILL NUMBER: SB 387 **STATUS AND DATE OF BILL:** Introduced 1/13/2021

AUTHORS: House n/a Senate Haste

TAX TYPE (S): Sales Tax **SUBJECT:** Exemption

PROPOSAL: Amendatory

The measure proposes to amend Sections 1352 & 1359 of Title 68 to modify and expand the definition of “manufacturing” to include the manufacturing, compounding, processing or fabrication of materials into articles of tangible personal property according to the special order of a customer (custom order manufacturing) by manufacturers classified as operating in the North American Industry Classification System (NAICS) Sectors 32 and 33¹, but does not include custom order manufacturing by manufacturers classified in other NAICS code sectors.

EFFECTIVE DATE: November 1, 2021

REVENUE IMPACT:

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

FY 22: \$3,000,000 decrease in sales tax revenues

FY 23: \$1,831,000 decrease in sales tax revenues

February 15, 2021

DATE

Rick Miller

DIVISION DIRECTOR

msm

2/15/2021

DATE

Huan Gong

HUAN GONG, ECONOMIST

2/18/21

DATE

Jay Doyle

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.

¹ NAICS classification 32 encompasses manufacturing of wood & paper products, petroleum & chemical products, pesticides & fertilizers, pharmaceutical & medicinal products, explosive products, plastic products, nonmetallic mineral and glass production, concrete & concrete products, lime and gypsum production, and other similar lines of manufacturing. NAICS classification 33 encompasses metal product manufacturing, such as piping, sheet metal, ingots (smelting), forging & stamping products, tool products, metal building, tank & storage products, machine shops, wiring manufacturing, engraved metal products, metal valves, machinery manufacturing, farm, lawn, mining, construction, oil & gas, industrial, equipment, photographic & optical equipment, hvac equipment, metal working equipment, engines, turbine, transmission equipment, computers, radio broadcasting equipment, semiconductors, software media, electrical lighting, household appliances, transportation & aerospace equipment & parts, ship building, furniture, and other miscellaneous manufacturing.

ATTACHMENT TO REVENUE IMPACT – SB 387 – [Introduced] – Prepared 2/14/2021

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Based on Tax Commission records, as of January, 2021, 4,164 entities currently hold Manufacturer Sales Exemption Permits (MSEP). According to the FY 20 Tax Expenditure Report sales and use taxes of \$2,117,585,000² are attributable to the exemption afforded manufacturers. Dividing the 4,164 permit holders by the total sales and use tax exemption, yields an estimated exemption amount per permit holder of \$508,546 in exempt state sales/use taxes. In addition, OTC data indicates that a total of 36 applicants were denied an Oklahoma Manufacturers Sales Tax Exemption Permit (MSEP) from July 1, 2019 through December 2020 because their manufacturing operation was deemed to be “custom”. For purposes of this impact it is assumed that an additional 16 applicants engaged in custom manufacturing will be denied from January 2021 to November 1, 2021 and that another 7 “custom” applicants from previous years will re-apply resulting in a minimum of 59 entities that will be issued an MSEP between the effective date of the measure and the end of FY 22. It is also projected that the average exempt sales/use tax exemption amount per “custom manufacturer” is less than that of current manufacturers and, as such, is assumed to be 10% or \$50,855 (\$508,546 X 10% = \$50,855). Multiplying 59 “custom” manufacturers by the average \$50,855 in annual exempt state sales/use taxes per “custom manufacturer” results in an estimated decrease of \$3,000,445 in state sales and use tax revenues for FY 22. Assuming another 36 applicants apply and are approved in FY 23, results in an estimated decrease of \$1,830,780 for FY 23 (36 X 50,855).

In addition, the issuance of the permit would make the entities eligible for the five year ad valorem manufacturing³ exemption and the investment/new jobs income tax credit⁴.

² \$6,312,000 in state use taxes and \$2,111,273,000 in state sales taxes.

³ 68 O.S. § 2902

⁴ 68 O.S. § 2357.4