

# OKLAHOMA TAX COMMISSION

## REVENUE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE

**DATE OF IMPACT STATEMENT:** February 22, 2021

**BILL NUMBER:** SB 932 **STATUS AND DATE OF BILL:** Introduced 1/21/21

**AUTHORS:** House n/a Senate David

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

**PROPOSAL:** Amendatory

SB 932 proposes to amend 68 O.S. § 2359; generally, an organization exempt from Federal income taxation is exempt from Oklahoma income taxation. This measure provides that private hospitals, as defined in 63 O.S. § 1-701, will no longer be exempt from Oklahoma income tax. Due to the November 1, 2021, effective date of this proposal, private hospitals would lose their Oklahoma income tax exemption beginning with tax year 2021.

**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: Estimated potential increase in income tax collections – see attached analysis.

Mar. 1, 2021  
DATE

Rick Miller  
DIVISION DIRECTOR

mck

3/1/2021  
DATE

Huan Gong  
HUAN GONG, ECONOMIST

3/1/21  
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 932 [Introduced] Prepared 2/22/2021

SB 932 proposes to amend 68 O.S. §2359; generally, an organization exempt from Federal income taxation is exempt from Oklahoma income taxation. This measure provides that private hospitals, as defined in 63 O.S. § 1-701<sup>1</sup>, will no longer be exempt from Oklahoma income tax. Due to the November 1, 2021, effective date of this proposal, private hospitals would lose their Oklahoma income tax exemption beginning with tax year 2021.

63 O.S. § 1-701 does not define hospitals as private or public institutions; however a study entitled *The Profitability of Nonprofit Hospitals: Do They Really Need More Money?*<sup>2</sup> was reviewed. This study found 32 nonprofit hospitals in Oklahoma. A review of Oklahoma Form 512-E<sup>3</sup> filed by private hospitals<sup>4</sup> suggest an estimated \$257 million net revenue annually.<sup>5</sup> Using this net revenue figure as a proxy for net taxable income suggests potentially \$15.4 million<sup>6</sup> in corporate income tax collections annually.

Due to the November 1, 2021, effective date of this proposal, private hospitals would lose their Oklahoma income tax exemption for tax year 2021. An increase in revenue of \$15.4 million is expected for FY 22 when the 2021 income tax returns are filed.

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<sup>1</sup> "Hospital" means any institution, place, building or agency, public or private, whether organized for profit or not, primarily engaged in the maintenance and operation of facilities for the diagnosis, treatment or care of patients admitted for overnight stay or longer in order to obtain medical care, surgical care, obstetrical care, or nursing care for illness, disease, injury, infirmity, or deformity. Except as otherwise provided by paragraph 5 of this subsection, places where pregnant females are admitted and receive care incident to pregnancy, abortion or delivery shall be considered to be a "hospital" within the meaning of this article, regardless of the number of patients received or the duration of their stay. The term "hospital" includes general medical surgical hospitals, specialized hospitals, critical access and emergency hospitals, and birthing centers.

<sup>2</sup> *The Profitability of Nonprofit Hospitals: Do They Really Need More Money?* by Baylee Butler and Byron Schlomach – September 2017. <https://qkm.4a8.myftpupload.com/wp-content/uploads/2019/12/The-Profitability-of-Nonprofit-Hospitals-Do-They-Really-Need-More-Money-Full-Text.pdf>

<sup>3</sup> Organizations exempt from tax under 68 O.S. § 2359 file Oklahoma Income Tax Form 512-E.

<sup>4</sup> Four private hospitals requested extensions of time to file Form 512-E; these four are not included in this analysis.

<sup>5</sup> Federal Form 990 is enclosed as an attachment to Form 512-E. Federal Form 990 reports two annual periods of income and expenses. This net amount was averaged for the two-year period to arrive at the estimated annual net income for a given tax year. This net income was used as a proxy for taxable income. A two-year average income was used.

<sup>6</sup> The impact was derived using the corporate income tax rate of 6% of Oklahoma taxable income under 68 O.S. § 2355.