

**BILL SUMMARY**  
1<sup>st</sup> Session of the 59<sup>th</sup> Legislature

<b>Bill No.:</b>	<b>HB1353</b>
<b>Version:</b>	<b>FULLPCS1</b>
<b>Request Number:</b>	<b>7381</b>
<b>Author:</b>	<b>Fetgatter</b>
<b>Date:</b>	<b>2/21/2023</b>
<b>Impact:</b>	<b>OTC Analysis:</b>
	<b>FY24: \$10,705,240 revenue decrease</b>
	<b>FY25: \$2,518,880 revenue decrease</b>

**Research Analysis**

The proposed committee substitute for HB1353 expands the definition of *manufacturing*, as it relates to the manufacturing sales tax exemption, to include custom-order manufacturers that meets the criteria of a North American Industry Classification System, Section 32 or 33 manufacturer.

Prepared By: Quyen Do

**Fiscal Analysis**

HB1353 proposes to expand the definition of manufacturing to include custom order manufacturing. This also expands an existing tax exemption that is afforded to manufacturers. This change is expected to constitute a \$10,705,240 decrease in state revenues for fiscal year 2024, and a \$2,518,880 decrease in state revenues for fiscal year 2025.

As provided by the Oklahoma Tax Commission:

Based on Tax Commission records, as of January, 2023, 3,946 entities currently hold Manufacturer Sales Tax Exemption Permits (MSEP). According to the FY 22 Tax Expenditure Report, sales and use taxes of \$2,484,883,000<sup>1</sup> are attributable to the exemption afforded manufacturers. Dividing the 3,946 permit holders by the total sales and use tax exemption, yields an estimated exemption amount per permit holder of \$629,722 in exempt state sales/use taxes. In addition, OTC estimates indicate that a total of 128 applicants were denied a MSEP from July 1, 2019 through December, 2022 because their manufacturing operation was deemed to be "custom". For purposes of this impact it is assumed that an additional 35 applicants engaged in custom manufacturing will be denied from January 2023 to November 1, 2023 and that another 7 "custom" applicants from previous years will re-apply resulting in a minimum of 42 entities that will be issued an MSEP between the effective date of the measure and the end of FY 24. 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 \$62,972 (\$629,722 X 10% = \$62,972). Multiplying 170 "custom" manufacturers by the average \$62,972 in annual exempt state sales/use taxes per "custom manufacturer" results in an estimated decrease of \$10,705,240 in state sales and use tax revenues for FY 24. Assuming another 40 applicants apply and are approved in FY 25, a decrease in state sales and use tax revenues of \$2,518,880 is estimated to occur in FY 25 (40 X \$62,972).

In addition, the issuance of the permit would make the entities eligible for the investment/new jobs income tax credit<sup>2</sup>.

<sup>1</sup> \$7,929,000 in state use taxes and \$2,476,954,000 in state sales taxes.

<sup>2</sup> 68 O.S. § 2357.4

Prepared By: Zachary Penrod, House Fiscal Staff

**Other Considerations**

None.

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