

BILL SUMMARY
1st Session of the 59th Legislature

Bill No.:	SB406
Version:	FULLPCS1
Request Number:	
Author:	Boatman
Date:	4/19/2023
Impact:	OTC Analysis:
	FY24: \$494,028 revenue decrease
	FY25: \$19,000 revenue decrease

Research Analysis

The proposed committee substitute for SB406 provides a sales tax exemption to a nonprofit organization that primarily functions to prevent child abuse and neglect through education, treatment, advocacy and the operation of a facility that offers community-based services for abused or neglected children. To qualify for the exemption, an organization must submit documentation to the Oklahoma Tax Commission to verify its eligibility.

The measure also expands the sales tax exemption currently provided to an organization that provide food and other household products to the needy. The expansion allows products or services purchased for the construction of a facility that will be placed in service in 2023 to be exempt from sales tax. The Oklahoma Tax Commission is required to refund the full amount of sales tax paid items that were previously purchased prior to the effective date of the act.

Prepared By: Quyen Do

Fiscal Analysis

In its current form, SB406 creates an exemption from the sales tax levy certain sales of tangible personal property.¹

The proposed committee substitute further authorizes the Oklahoma Tax Commission to refund sales taxes paid on purchases that would otherwise qualify for the exemption, but occurred prior to effective date of the act.²

Officials from the Oklahoma Tax Commission have provided the following information regarding the fiscal impact of the bill:

Sales of tangible personal property or services to an organization which is exempt from taxation pursuant to Internal Revenue Code, 26 U.S.C., § 501(c)(3), the principal functions of which are to prevent child abuse and neglect through education, treatment, and advocacy, and operates a facility that offers comprehensive community-based services for abused or neglected children from birth through 18 years of age. To be eligible for the exemption, the organization must provide to the OTC, articles of incorporation, organizational by-laws, and a notarized letter from the president or chairman of the organization stating the services provided by the organization.

Presently, one potentially qualifying entity has been located. Information obtained from the organization indicates that in FY 22, it paid \$25,811 in state and local [city/county] sales taxes on taxable purchases of tangible personal property and services. Of this amount 52% or \$13,422 is attributed to state sales tax.

The measure proposes an effective date of November 1, 2023. Assuming similar taxable expenditures for FY 24 and FY 25 as those incurred in FY 22 in addition to application of inflation rate adjustments¹ results in an estimated decrease in state sales tax collections of \$8,314 for FY 24² and \$14,537 for FY 25.

Sales of tangible personal property or services to or by an organization in this state which is exempt from taxation pursuant to Internal Revenue Code, 26 U.S.C., § 501(c)(3), and provides documentation to the OTC showing the organization's principal purpose is to provide school supplies or articles of clothing for underserved students attending grades pre-K through 12 at public schools in this state. The proposed exemption includes materials, supplies, and equipment used in the construction or improvement of buildings and other structures owned by the organization and operated in pursuit of the organization's primary and principal purpose. The exemption applies to sales to the organization and to any person with whom the organization has duly entered into a construction contract, necessary for carrying out the contract or to any subcontractor to the construction contract.

Currently, one organization has been identified which could qualify for the proposed sales tax exemption. Information obtained from the organization indicates that in FY 22, it paid \$7,500 in state and local [city/county] sales tax on taxable purchases of tangible personal property and services. Of this amount 52% or \$3,900 is attributed to state sales tax. The entity indicates that its only sales during FY 22 relate to the auction of donated items which are sales tax exempt pursuant to 68 O.S. § 1356(75) and, as such, are not included for purposes of the revenue estimate calculation. Furthermore, the organization represents that it has no building construction or improvement plans for FY 24 and FY 25.

The measure proposes an effective date of November 1, 2023. Assuming similar taxable expenditure for FY 24 and FY 25 as those incurred in FY 22 in addition to application of inflation rate adjustments¹ results in an estimated decrease in state sales tax collections of \$2,416 for FY 24² and \$4,224 for FY 25.

Net Revenue Impact:

FY 24 \$10,730 estimated decrease in state sales tax collections.

FY 25 \$18,761 estimated decrease in state sales tax collections.

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Currently, there is one known organization which has constructed a facility to be placed in service in calendar year 2023. Information obtained from this organization indicates that \$928,901 was paid by eligible persons in state and local [city/county] sales tax on purchases of facility construction materials. Of this amount 52% or \$483,028 is attributed to state sales tax. Therefore, assuming all related refund claims are filed, processed and paid between November 1, 2023 and June 30, 2024, a decrease of \$483,028 in state sales tax collections is estimated for FY 24.

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Prepared By: Zachary Penrod, House Fiscal Staff

Other Considerations

None.

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