

BILL SUMMARY
2nd Session of the 59th Legislature

Bill No.:	SB1477
Version:	CS
Request Number:	10972
Author:	Speaker McCall
Date:	4/24/2024
Impact:	Potential unknown negative revenue impact

Research Analysis

The proposed committee substitute for SB1477 modifies numerous provisions related to the Parental Choice Tax Credit (PCTC). The measure:

- exempts payments received pursuant to the PCTC from being used to offset or pay delinquent tax liabilities, penalties or interest or intercepted by any entity seeking to collect a debt, court fine or court-ordered judgement;
- exempts PCTC payments from taxable income effective tax year 2024;
- clarifies that students that are expected to enroll in a private school are eligible for the credit;
- allows students that attend an accredited private school that exclusively serves homeless or financially disadvantaged students to receive the maximum \$7500 credit amount or the cost to educate the student, whichever is less;
- aligns the tax credit caps with the fiscal year instead of the calendar year and requires unused credits from FY 2024 to carryover to FY 2025;
- allows taxpayers that are in receipt of income-based government benefits such as SNAP, TANF or Soonercare to bypass additional income verification requirements;
- aligns the application process for the tax credit with the school year. The application period will open on May 1, 2024 for the fall semester of 2024 and January 15 for subsequent years;
- grants priority consideration to applicants with an income of \$150,000 or less as long as the application is submitted within the first 60 days of the application period;
- requires credits to be prorated by semester, paid in two installments;
 - for student enrolled in the full school year, payments will be issued by August 30 and January 15;
 - for students not enrolled in a full school year, payments will be issued within 30 days after the application is approved or during the first 30 days of the semester that student is enrolled in, whichever is later;
- replaces the affidavit requirement with an enrollment verification form requirement that the Oklahoma Tax Commission (OTC) will use to determine the installment payment amounts;
- establishes criteria to prioritize who will receive credits if the number of applications exceed the allowed cap for the year;
 - first priority goes to taxpayers with students that received the credit the prior year,
 - second priority goes to taxpayers that receive income-based government benefits or those with income of \$150,000 or less;
 - third priority goes to siblings of eligible students of taxpayers who received the credit in the prior year;

- requires taxpayers to provide notification to the OTC within 30 days of certain actions that would disqualify them from receiving the credit;
- allows the OTC to reallocate unused credit to the next taxpayer in line within 30 days of notice from a taxpayer that they cannot or will not be participating in the program; and
- prohibits the OTC from issuing 1099 forms to taxpayers for credits received.

Prepared By: Quyen Do

Fiscal Analysis

In its current form, SB1477 modifies numerous provisions related to the Parental Choice Tax Credit.

Analysis by the Oklahoma Tax Commission:

Proposal: The Proposed Committee Substitute for Engrossed SB 1477 (Request #10932) amends the preceding Engrossed version as follows:

- Tuition and fees paid with any scholarship or tuition and fees discounted or otherwise reduced by the school are no longer excluded from qualified expenses for the private school payment.
- If an eligible student attends an accredited private school in Oklahoma that primarily serves financially disadvantaged students, the credit amount is the lesser of the maximum authorized credit or the average cost to educate the eligible student at the private school.
- PCTC payments are exempted from the offset required by 68 O.S. § 205.2.
- Private school credit caps are realigned from calendar year to fiscal year and will be applied to the fiscal year in which the installment payment is made:
 - FY 24 - \$150 million cap; any unused credits carried over to FY 25.
 - FY 25 - \$200 million cap, except for unused credits carried over from FY 24.
 - FY 26 and subsequent years - \$250 million cap.
- Homeschool credit caps are realigned from calendar year to fiscal year, beginning for FY 25, and the methodology to administer the caps is deleted.
- If an eligible taxpayer provides documentation on the application that they are a recipient of income-based government benefits, including the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or SoonerCare, the eligible taxpayer will not be required to provide additional income verification.
- The private school payment application process will be administered based on the school year:
 - The first application aligned to the school year will open on May 1, 2024, for the 2024 - 2025 school year. Prior to authorizing any credits for the 2024 - 2025 school year to taxpayers who did not receive an allocation of credits for the fall semester of 2024, the Oklahoma Tax Commission (OTC) must first automatically authorize the same amount of credits to taxpayers who were authorized credits prior to
 - Beginning in the 2025 - 2026 school year and subsequent years, the application period will open on January 15 prior to the beginning of each school year.

- Priority applications (adjusted gross income (AGI) not exceeding \$150,000) must be submitted within first 60 days.
- Any taxpayer who receives an allocation of tax credits will also have priority consideration in any subsequent period, provided that an application is submitted within the first 60 days of the application period.
- Payments will be made in two installments, one per semester, to be paid no later than August 30 and January 15, each of which will be half the total expected tuition/fees based on the enrollment verification form (limited to authorized amount).
- Beginning in the 2023 - 2024 school year and subsequent years, prorated payments will be made for students enrolled in less than the full school year and paid within 30 days of application approval or during first 30 days of the semester, whichever is later.
- If credits claimed exceed the statutory caps, the OTC must give first preference to eligible students of taxpayers who:
 - First, received the credit the prior year,
 - Second, qualify for priority applications,
 - Third, are siblings of eligible students of taxpayers who received the credit in the prior year.
- Taxpayers claiming the credit must notify the OTC not later than 30 days after the date on which the eligible student enrolls in a nonaccredited private school.
- Parental Choice Tax Credit (PCTC) payments will not constitute taxable income to a taxpayer who received the credit on behalf of an eligible student, and the OTC will not issue any Form 1099s to taxpayers.

Revenue Impact : An unknown negative impact may be expected if PCTC payments are exempt from the offset required by 68 O.S. § 205.2.

Administrative Concerns

- **Homeschool credit caps are realigned from calendar year to fiscal year, beginning for FY 25, and the methodology to administer the caps is deleted.**

Beginning for tax year 2024, the PCTC homeschool payment may be claimed on the annual Oklahoma individual income tax return, and the existing calendar year payment cap correctly aligns with the tax year filing requirements.

Administrative challenges are expected to implement a fiscal year cap on credits claimed based on a calendar (tax) year.

In addition, it is unclear how the annual credit caps should be administered.

- **PCTC payments do not constitute taxable income, and the OTC must not issue any corresponding Form 1099s.**

Issuance of Form 1099s for PCTC payments may be required under Internal Revenue Code (IRC),¹ which supersedes Oklahoma statutes. PCTC payments may be exempted from Oklahoma taxable income under the proposal; however, IRC may require the payments to be included in federal taxable income.

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Other Considerations

None.