

By: Kerr, Littlefield and
Coffee of the Senate

and

Braddock and Sweeden of
the House

[economic development - inventor tax incentives
provided under Inventors Assistance Act -
effective date]

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 74 O.S. 2001, Section 5064.3, is
amended to read as follows:

Section 5064.3 As used in Section 5064.1 et seq. of this title:

1. "Commercial stage" means the point at which the product has
advanced beyond the theoretical and prototype stage and is capable
of being manufactured or reduced to practice commercially;

2. "Inventor" means any person who perceives a new concept
which may result in a product or patentable process;

3. "Person" means any individual, sole proprietor, partnership
or corporation;

4. "Product" means any device, technique or process;

5. "Qualified product" means any product that is patented, in
patent pending, or trademarked pursuant to federal law and
registered with the Oklahoma Center for the Advancement of Science
and Technology (OCAST);

6. "Proposal" means a plan provided by the inventor which
includes technical and descriptive information on the concept; ~~and~~

~~6.~~ 7. "Royalties" means all things of value received by an
inventor in connection with the licensing, rental or sale of a
qualified product patented, in patent pending, or trademarked

~~pursuant to federal law.~~ The term "royalties" shall include, for an inventor who is also the manufacturer and seller of a qualified product, net profits or net proceeds received by the inventor in connection with the sale of the qualified product directly to its customers; and

8. "Net profits" or "net proceeds" means the gross sales of the qualified product minus the cost of goods sold, calculated in accordance with generally accepted accounting principles, allocable to the qualified product, minus selling, general, and administrative expenses allocable on a pro rata basis to the qualified product.

SECTION 2. AMENDATORY 74 O.S. 2001, Section 5064.7, is amended to read as follows:

Section 5064.7 A. The following incentives shall be available to inventors for qualified products developed and manufactured in this state and to instate manufacturers of said qualified products; provided, ~~to qualify for the incentives, the product shall be patented or have patent pending pursuant to federal law and shall be registered with the Oklahoma Center for the Advancement of Science and Technology (OCAST)~~ when an inventor is both the inventor and manufacturer of a qualified product, the inventor shall be entitled to both incentives set forth in this subsection:

1. ~~Royalty~~ Royalties earned by an inventor from a qualified product developed and manufactured in this state shall be exempt from state income tax for a period of seven (7) years from January 1 of the first year in which such ~~royalty is~~ royalties are received as long as the manufacturer remains in the state; and

2. An instate manufacturer of a qualified product developed in this state by an inventor shall be eligible for a tax credit, as provided for in Section 2357.4 of Title 68 of the Oklahoma Statutes. In addition such manufacturer may exclude from Oklahoma taxable income, or in the case of an individual, the Oklahoma adjusted gross income, sixty-five percent (65%) of the cost of depreciable property

purchased and utilized directly in manufacturing the product. The maximum exclusion shall not exceed Five Hundred Thousand Dollars (\$500,000.00). If the exclusion allowed by this paragraph exceeds the Oklahoma taxable income, or in the case of an individual, the Oklahoma adjusted gross income, the amount of the exclusion that is in excess of such income may be carried forward as an exclusion against subsequent Oklahoma taxable income or in the case of an individual, subsequent Oklahoma adjusted gross income, for a period not to exceed four (4) years. For the purposes of this paragraph, "depreciable property" means machinery, fixtures, equipment, buildings, or substantial improvements thereto, placed in service in this state during the taxable year.

B. The Oklahoma Tax Commission, in conjunction with the Oklahoma Center for the Advancement of Science and Technology, shall promulgate rules to implement the provisions of this section.

SECTION 3. AMENDATORY 68 O.S. 2001, Section 2359, is amended to read as follows:

Section 2359. A. A person or organization exempt from federal income taxation under the provisions of the Internal Revenue Code shall also be exempt from the tax imposed by Section 2351 et seq. of this title in each year in which such person or organization satisfies the requirements of the Internal Revenue Code for exemption from federal income taxation. If the exemption applicable to any person or organization under the provisions of the Internal Revenue Code is limited or qualified in any manner, the exemption from taxes imposed by this article shall be limited or qualified in a similar manner.

B. Notwithstanding the provisions of subsection A of this section, the unrelated business taxable income or other income subject to tax, as computed under the provisions of the Internal Revenue Code, of any person or organization exempt from the tax imposed by this act and subject to the tax imposed on such income by

the Internal Revenue Code shall be subject to the tax which would have been imposed by this act but for the provisions of subsection A of this section.

C. Insurance companies paying, during or for the taxable year, a tax to this state on gross premium income shall be exempt from the provisions of this article and the taxes levied thereby.

D. ~~Royalty~~ Royalties earned by an inventor from qualified products developed and manufactured in this state shall be exempt from the tax imposed by Section 2355 of this title for a seven-year period, pursuant to the provisions of Section 5064.7 of Title 74 of the Oklahoma Statutes.

E. Sponsors and tenants of small business incubators shall be exempt for the tax imposed by Section 2355 of this title, pursuant to the provisions of Sections 5075 and 5078 of Title 74 of the Oklahoma Statutes.

SECTION 4. This act shall become effective January 1, 2004.
Passed the Senate the 5th day of March, 2003.

Presiding Officer of the Senate

Passed the House of Representatives the ____ day of _____,
2003.

Presiding Officer of the House
of Representatives