

Bill Summary
1st Session of the 57th Legislature

Bill No.:	SB 747
Version:	CS1
Request No.:	1837
Author:	Sen. McCortney
Date:	02/18/2019

Proposed Committee Substitute (PCS)

SB 747 increases the qualifying amounts needed to claim the income tax credit related to qualified depreciable property or a net increase in the number of full-time-equivalent. Investments into property will require at least \$150,000.00, an increase from the \$50,000.00 currently required by law. The CS for SB 747 creates an employee wage calculation to replace the \$7,000.00 minimum wage for an employer to claim an employee for the credit. The calculation shall replace the \$7,000.00 wage after the effective date of the measure and shall be 110% of the county's average wage including health benefits or 100% of the county's average wage without health benefits. In no case shall the required minimum wage exceed \$25,000.00. This maximum wage threshold shall be indexed and modified from time to time based on the latest Consumer Price Index year-to-date percent change.

Prepared by: Kalen Taylor

MEMORANDUM

OKLAHOMA TAX COMMISSION
TAX POLICY AND RESEARCH

DATE: February 15, 2019

SUBJECT: Committee Substitute (57-1-1837) for SB 747

TO: Rick Miller, Director *RLM*
Tax Policy Division

FROM: Michael C. Kaufmann, Tax Policy Analyst

The Committee Substitute (57-1-1837) for SB 747 proposes to amend 68 O.S. § 2357.4 which relates to the *Investment / New Jobs Income Tax Credit*. This measure proposes to modify the minimum investment amounts and the minimum salary or wage requirement to claim the credit. This measure also reduces the number of years unused credits may be carried forward.

Current Law:

Under current law, manufacturers, entities engaged in aircraft maintenance and web search portal firms are eligible for a non-refundable income tax credit for either an investment in depreciable property or for the addition of full-time equivalent employees¹. In order to qualify for the investment component the minimum annual investment must be \$50,000.00 in qualified depreciable property. In order to qualify for the job component (net increase in employment), the annual salary or wages of full-time equivalent employees must be in excess of \$7,000.00.

Generally the credit is one percent of the amount of investment in depreciable property or \$500.00 per new job². The credit is allowed for the tax year the investment is made or when the increase in jobs occurs and is also allowed in each of the four (4) subsequent years if the level of new employees is maintained or the qualified property is not sold, disposed of or transferred. Any credit allowed but not used may be carried over in order to each of the four (4) years following the year of qualification and to the extent not used in those years in order to each of the fifteen (15) years following the initial five-year period. To the extent not used, any credit from qualified depreciable property placed in service on or after January 1, 2000, may be utilized in subsequent tax years after the initial twenty-year period. Effective for tax years 2016 through 2018, there is a statewide cap of \$25 million on this credit.

Proposed Law:

This measure would modify the minimum investment amounts and the minimum wage or salary

¹ Web Search Portal firms are only eligible for the investment component of this credit.

² Credits double (2% of the amount of investment in depreciable property or \$1000.00 per new job) if the entity is located in an enterprise zone or if the initial investment is in excess of \$40 million.

requirement to claim the credit effective for tax year 2019³ and subsequent tax years. The proposed minimum investment amount is \$150,000.00. The proposed annual salary or wages of full-time equivalent employee hired after the effective date (November 1, 2019) of this act must equal or exceed either:

- one hundred ten percent (110%) of the average county wage as determined by the Department of Commerce based on the most recent U.S. Department of Commerce data for the county in which the new job is located. For purposes of this paragraph, health care premiums paid by the employer for an employee shall be *included* in the annualized wage, or
- one hundred percent (100%) of the average county wage as that percentage is determined by the Department of Commerce based upon the most recent U.S. Department of Commerce data for the county in which the new job is located. For purposes of this paragraph, health care premiums paid by the employer for an employee shall *not be included* in the annualized wage.

However, no average wage requirement shall exceed Twenty-five Thousand Dollars (\$25,000.00), in any county. This maximum wage threshold shall be indexed and modified from time to time based on the latest Consumer Price Index year-to-date percent change release as of the date of the annual average county wage data release from the Bureau of Economic Analysis of the U.S. Department of Commerce.

This measure also limits the unused credit carryover provisions. If the credit is based on an investment in depreciable property on or after February 1, 2019, the credit may be carried over to each of the five (5) years following the year of qualification. If the credit is based on a net increase in employment on or after February 1, 2019, the credit may be carried over to each of the ten (10) years following the year of qualification.

Revenue Impact:

The proposed changes to the investment requirement and the wage minimums are assumed to be November 1, 2019 and would have no impact on Oklahoma income tax collections in the short term.⁴ A review of tax year 2016 data indicates that approximately \$698 million in *Investment / New Jobs Income Tax Credit* were claimed; comprising of \$627 million in credits that were carried over from prior years and \$71 million in credits that were generated in tax year 2016. The total amount used to offset tax for 2016 was \$25.6 million – less than 4% of the unused carryover portion of the credit.

³ The effective date of Senate Bill 747 is November 1, 2019.

⁴ The credits earned for investment or increase in employment prior to February 1, 2019 and not used are not affected by this measure.

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT
FIRST REGULAR SESSION, FIFTY-SEVENTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: March 1, 2019

BILL NUMBER: SB 747 STATUS AND DATE OF BILL: Committee Substitute 2/20/19

AUTHORS: House n/a Senate McCortney

TAX TYPE (S): Income Tax SUBJECT: Credit

PROPOSAL: Amendatory

SB 747 proposes to amend 68 O.S. § 2357.4 which relates to the *Investment / New Jobs Income Tax Credit*. This measure proposes to modify the minimum investment amounts and the minimum salary or wage requirement to claim the credit effective for tax year 2019 and subsequent tax years. This measure also reduces the number of years unused credits may be carried forward.

EFFECTIVE DATE: November 1, 2019

REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 20: None

FY 21: None

Mar. 4, 2019
DATE

Rick Miller
DIVISION DIRECTOR

mck

3-4-2019
DATE

Huan Gong
HUAN GONG, ECONOMIST

3-5-19
DATE

Jay Mark
FOR THE COMMISSION

The estimated 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 747 [Comm. Sub.] Prepared: March 1, 2019

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Under current law, manufacturers, entities engaged in aircraft maintenance and web search portal firms are eligible for a non-refundable income tax credit for either an investment in depreciable property or for the addition of full-time equivalent employees¹. In order to qualify for the investment component the minimum annual investment must be \$50,000 in qualified depreciable property. In order to qualify for the job component (net increase in employment), the annual salary or wages of full-time equivalent employees must be in excess of \$7,000.

Generally the credit is one percent of the amount of investment in depreciable property or \$500 per new job². The credit is allowed for the tax year the investment is made or when the increase in jobs occurs and is also allowed in each of the four (4) subsequent years if the level of new employees is maintained or the qualified property is not sold, disposed of or transferred. Any credit allowed but not used may be carried over in order to each of the four (4) years following the year of qualification and to the extent not used in those years in order to each of the fifteen (15) years following the initial five-year period. To the extent not used, any credit from qualified depreciable property placed in service on or after January 1, 2000, may be utilized in subsequent tax years after the initial twenty-year period. Effective for tax years 2016 through 2018, there is a statewide cap of \$25 million on this credit.

Proposed Law:

This measure would modify the minimum investment amounts and the minimum wage or salary requirement to claim the credit effective for tax year 2019³ and subsequent tax years. The proposed minimum investment amount is \$150,000. The proposed annual salary or wages of full-time equivalent employee hired after the effective date (November 1, 2019) of this act must equal or exceed either:

- one hundred ten percent (110%) of the average county wage as determined by the Department of Commerce based on the most recent U.S. Department of Commerce data for the county in which the new job is located. For purposes of this paragraph, health care premiums paid by the employer for an employee shall be *included* in the annualized wage, or
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However, no average wage requirement shall exceed \$25,000 in any county. This maximum wage threshold shall be indexed and modified from time to time based on the latest Consumer Price Index year-to-date percent change release as of the date of the annual average county wage data release from the Bureau of Economic Analysis of the U.S. Department of Commerce.

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Revenue Impact:

A review of tax year 2016 data indicates that approximately \$698 million in *Investment / New Jobs Income Tax Credit* were claimed; comprising of \$627 million in credits that were carried over from prior years and \$71 million in credits that were generated in tax year 2016. The total amount used to offset tax for 2016 was \$25.6 million – less than 4% of the unused carryover portion of the credit. The proposed changes to the carryover provisions (for property placed in service or net increase in full-time employees occurring on or after February 1, 2019), would have no impact on Oklahoma income tax collections in the short term.

The proposed changes to the investment requirement and the wage minimums are assumed to be November 1, 2019 and would have no impact on Oklahoma income tax collections.