

**Fiscal Impact**  
2<sup>nd</sup> Session of the 57<sup>th</sup> Legislature

**Bill No.:**  
**Version:**  
**Author:**  
**Date:**

**SB 1322**  
**INT**  
**Sen. Smalley**  
**02/06/2020**

**OKLAHOMA TAX COMMISSION**

REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT  
SECOND REGULAR SESSION, FIFTY-SEVENTH OKLAHOMA LEGISLATURE

**DATE OF IMPACT STATEMENT:** January 29, 2020

**BILL NUMBER:** SB 1322

**STATUS AND DATE OF BILL:** Introduced 1/13/2020 [REVISED]

**AUTHORS:** House n/a Senate Smalley

**TAX TYPE (S):** Income Tax **SUBJECT:** Credit

**PROPOSAL:** Amendatory

SB 1322 proposes to amend 68 O.S. §2357.104, which relates to the Railroad Modernization Credit. This measure proposes to increase both the individual credit amount and the total annual credit cap for tax years 2020 through 2024. The credit is eliminated for tax years beginning on or after January 1, 2025.

**EFFECTIVE DATE:** November 1, 2020

**REVENUE IMPACT:**

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

FY 21: Estimated decrease of \$5,875,000 in income tax collections.

Jan. 30, 2020  
DATE

Rick Miller  
DIVISION DIRECTOR

bdf

1/30/2020  
DATE

Huan Gong  
HUAN GONG, ECONOMIST

1/31/2020  
DATE

[Signature]  
FOR THE COMMISSION

*The 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 1322 [INTRODUCED] 1/29/20 [REVISED]**

SB 1322 proposes to amend 68 O.S. §2357.104, which relates to the Railroad Modernization Credit. This measure proposes to increase both the individual credit amount and the total annual credit cap for tax years 2020 through 2024<sup>1</sup>. The credit is eliminated for tax years beginning on or after January 1, 2025.

Currently an eligible taxpayer<sup>2</sup> is allowed an income tax credit of 50% of qualified railroad reconstruction or replacement expenditures. The credit is \$2,000 per mile of railroad track that is owned or leased within Oklahoma by the taxpayer at the end of the taxable year. Beginning with tax year 2016, the credit was further reduced by 25% of the amount allowed. Total credits are capped at \$2,000,000 per year.

Under this proposal, qualified railroad reconstruction and replacement expenditures are expanded to include track maintenance, natural disasters and crossings. The amount of credit for tax years 2020 through 2024 is increased to \$5,000 per mile of railroad track that is owned or leased within Oklahoma by an eligible taxpayer at the end of the taxable year, and the amount of the credit is no longer reduced by 25%. Total credits are capped at \$5,000,000 per year effective for tax year 2020 and all subsequent tax years.

To estimate the potential revenue effect of this proposal, the Oklahoma 2018-2020 State Railroad Map<sup>3</sup> was obtained from the Oklahoma Department of Transportation (ODOT). ODOT records indicate that 1,439 miles of railroad track are owned and/or leased within Oklahoma by Class III railroads. Because reconstruction and replacement expenditures now include track maintenance, natural disasters and crossings, it is assumed the credit may be claimed for all 1,439 railroad track miles.

Applying the \$5,000 per mile credit to 1,439 railroad track miles results in a total credit of \$7,195,000 for tax year 2020. OTC income tax data indicates \$1,320,000 in railroad credits were used to offset tax in 2017. Assuming similar activity in tax year 2020, an estimated decrease in income tax collections of approximately \$5,875,000 is expected for tax year 2020<sup>4</sup>. This decrease would occur in FY21 when the 2020 income tax returns are filed. No changes in withholding or estimated tax payments are anticipated.

<sup>1</sup> Additional obsolete language is deleted from this measure.

<sup>2</sup> "Eligible taxpayer" means any Class II or Class III railroad. Oklahoma Department of Transportation records indicate that no railroad miles are owned and/or operated in Oklahoma by any Class II railroad.

<sup>3</sup> See <https://www.ok.gov/odot/documents/Rail%20Map%202018-2020.pdf>.

<sup>4</sup> The Tax Commission is required to calculate and publish the percentage by which the authorized credits will be reduced so the total credits used to offset tax do not exceed \$5 million per year beginning with tax year 2020. The formula to be used for the percentage adjustment is \$5 million divided by the credits claimed in the second preceding year. It is expected that 100% of the credit amount will be allowed in 2020 and 2021 because the credits claimed in 2018 and 2019 are not expected to exceed the \$5 million cap.