

BILL SUMMARY

1st Session of the 58th Legislature

Bill No.:	HB 2172
Version:	FULLPCS1
Request Number:	7329
Author:	Rep. Hilbert
Date:	2/3/2021
Impact:	Modifies Five Year Manufacturing Ad Valorem Exemption

**Future Reimbursement is Dependent
on Values of Property Subject to Exemption**

Research Analysis

HB 2172 adds facilities engaged in custom order manufacturing to a list of qualifying manufacturing concerns exempt from certain ad valorem taxes for a period of five years. With respect to assets placed in service during calendar year 2022, the measure increases, from \$250,000 or more to \$500,000 or more, the investment cost of construction, acquisition or expansion of a manufacturing facility required to be eligible for the exemption, and provides that the amount be adjusted annually by a percentage equal to the previous year's Consumer Price Index-All Urban Consumers (CPI-U). The measure directs the Oklahoma Department of Commerce to determine the adjustment by January 1 and the Oklahoma Tax Commission publish it on its website.

The measure also requires certain establishments primarily engaged in distribution to pay employees a wage which equals or exceeds the average wage requirements in the Oklahoma Quality Jobs Program Act for the year in which the real property was placed into service.

With respect to any entity applying for the exemption, the measure requires the entity to pay new direct jobs an average annual wage which equals or exceeds the average wage requirement in the Oklahoma Quality Jobs Program Act for the year in which the real or personal property was placed into service. The Tax Commission may request verification of such wages from the Department of Commerce.

Further, the measure defines *facility* as the land, buildings, structures and improvements used directly and exclusively in the manufacturing process. Effective January 1, 2022, and every calendar year thereafter, for establishments that have received a manufacturer exemption permit or facilities engaged in manufacturing activities as defined in the NAICS Manual under Industry Nos. 311111 through 339999, inclusive, and for no other establishments, machinery, fixtures, equipment and other personal property used directly and exclusively in the manufacturing process are also included in the definition of *facility*.

The measure also strikes obsolete language regarding facilities no longer in the five-year exemption period. Additionally, it modifies the classification of which computer data processing, data preparation, or information processing services provided qualify for the exemption, changing it to what is classified in U.S. Industry Number 518210 of the 2017 revision of the NAICS Manual.

Fiscal Analysis

The measure modifies several provisions and processes related to the ad valorem exemption for qualifying manufacturing concerns, as established in O.C., Article X, Section 6B. As stated in the Research Analysis, investment, wage, value determination and industry eligibility modifications are included for entities applying for the exemption on or after January 1, 2022.

The state provides reimbursement to counties for their taxing jurisdictions. One percent (1.0%) of collection from the income tax are apportioned to the Ad Valorem Reimbursement Fund. Special supplemental appropriations have been made to address the timeliness of school district reimbursements.

Future qualifying exempt property and the amount of reimbursement will depend on the value of the exempt property of the qualifying entities.

Reimbursement history including supplemental appropriations:

Five-Year Exempt Manufacturing

Historical Statistics

Year	Reimbursement Amount	Apportioned Income Tax	Difference	Appropriations/ Transfers
1987	143,257	7,643,539	7,500,282	
1988	2,346,018	9,002,830	6,656,812	
1989	3,671,120	10,265,238	6,594,118	
1990	5,564,981	10,965,622	5,400,641	
1991	9,573,063	13,571,693	3,998,630	
1992	12,583,691	13,697,342	1,113,651	
1993	13,725,074	14,451,434	726,360	
1994	13,555,765	14,818,091	1,262,326	
1995	13,974,501	15,855,081	1,880,580	
1996	13,874,217	16,932,940	3,058,723	
1997	12,764,587	19,122,653	6,358,066	
1998	14,936,129	21,021,814	6,085,685	
1999	15,065,099	22,523,253	7,458,154	
2000	15,265,381	23,034,217	7,768,836	
2001	18,978,365	24,423,967	5,445,602	
2002	20,572,439	24,553,070	3,980,631	
2003	41,306,390	21,671,690	(19,634,700)	14,400,000
2004	48,530,995	24,479,645	(24,051,350)	17,300,000
2005	52,724,671	26,774,976	(25,949,695)	25,000,000
2006	48,192,459	43,350,976	(4,841,483)	11,719,234
2007	53,294,176	33,350,976	(19,943,200)	18,800,000
2008	44,825,245	31,406,475	(13,418,770)	16,100,000
2009	40,262,724	28,803,958	(11,458,766)	0*
2010	36,137,567	24,337,204	(11,800,363)	16,000,000
2011	33,482,090	27,506,407	(5,975,683)	15,655,598
2012	37,828,753	31,360,220	(6,468,533)	12,050,000
2013	43,289,325	34,034,096	(9,255,229)	8,447,673
2014	64,356,276	32,475,733	(31,880,543)	25,523,000
2015	67,619,201	35,422,118	(32,197,083)	28,283,724
2016	80,234,967	32,531,415	(47,703,552)	47,074,091
2017	106,324,555	30,497,338	(75,827,217)	70,000,000
2018	134,381,250	34,413,651	(99,967,599)	92,700,000
2019	143,121,521	37,416,015	(105,705,506)	99,600,000
2020	161,185,445	36,097,737	(125,087,708)	112,000,000

FY-20 Income tax - Estimated based on year-to-date through May

*Review of documents continues to identify any potential supplemental funding

Prepared By: Mark Tygret

Other Considerations

Conclusion from the Tax Commission (Introduced version):

HB 2172 has no impact to state revenues for FY 22 and FY 23. The impact to reimbursement claims against the Ad Valorem Reimbursement Fund is unknown for FY 24. This proposed measure has an associated minimal administrative impact.

