

**BILL SUMMARY**  
1<sup>st</sup> Session of the 58<sup>th</sup> Legislature

<b>Bill No.:</b>	<b>HB 2701</b>
<b>Version:</b>	<b>FA5</b>
<b>Request Number:</b>	<b>7892</b>
<b>Author:</b>	<b>Rep. Hasenbeck</b>
<b>Date:</b>	<b>3/9/2021</b>
<b>Impact:</b>	<b>Public School Investment:</b>

**Additional \$23.125 to \$27.5 Million**  
**(Depending on Commitment)**

**Revenue Impact:**  
**Tax Commission:**

**Increased Credit Caps:**

**Granting Organizations: Increase of (\$6.5 Million)**  
**Public School: Increase of (\$18.5 Million)**

**FY-22: Potential Impact: Unknown**  
**FY-23 Potential Impact: (\$25,000,000)**

**Potential Increases in Caps in Future Years**

**Administrative Cost:**  
**Under Review**

**Modifications Contained in Floor Substitute**

The floor substitute for HB 2701 strikes language regarding the allocation of total combined credits for contributions made to scholarship-granting organizations in order to not exceed total maximum credits authorized. The substitute also reduces the tax credit cap adjustment from 25 percent to 15 percent. Finally, the substitute adds “drill status National Guard and Reservists” to the description of one of the student scholarship categories.

**Research Analysis**

The committee substitute for HB 2701 creates the Education Investment for Oklahoma Act. The measure modifies the Oklahoma Equal Opportunity Education Scholarship by increasing the amount of credit allowed for taxpayers who have contributed to a scholarship-granting organization, from \$1,000 to \$2,800 for individuals and from \$2,000 to \$5,600 for married individuals filing jointly. The measure also allows suspended tax credits to be used the next immediate tax year.

The measure requires any scholarship-granting organization, educational improvement grant organization or eligible public school foundation to submit to the Oklahoma Tax Commission and make available on its website an audited financial statement.

The measure provides that if a contribution is made to an eligible educational improvement grant organization to benefit a school district, or to an eligible public school district, with fewer than 2,000 students enrolled students on October 1, as determined by the State Department of Education, the credit for such contributions shall be 100 percent of the amount contributed by shall be subject to the maximum credit amounts.

The measure also provides for any taxpayer who makes a contribution to an eligible public school district a credit of equal to 50 percent of the amount contributed, capped at \$2,800 for individuals and \$5,600 for married individuals filing jointly. If the individual makes a written commitment to contribute the same amount for an additional year, the credit for the first year and the additional year shall be equal to 75 percent of the total amount contributed during a taxable year, not to exceed the cap amount. The written commitment must be present to the Commission at the time of filing the refund claim.

The credits shall be allocable to the partners, shareholders, members or other equity owners of a taxpayer that is authorized to be treated as a partnership for purposes of federal income tax reporting for the taxable year for which the tax credits are authorized. Tax credits allocated to such equity owners shall only be limited in amount for the income tax return of a natural person or persons based upon the limitation of the total credit amount to the entity from which the tax credits have been allocated, and shall not be limited to \$2,800 for individuals or \$5,600 for married persons filing jointly.

The measure requires eligible public school districts that have received contributions for the purposes of this tax credit to annually account for all revenue and expenditures through the Oklahoma Cost Accounting System (OCAS) and to annually publish on its website the total dollar amount raised. The measure also requires eligible public school foundations to submit an individuals and \$5,600 for married individuals filing jointly. If the individual makes a written commitment to contribute the same amount for an additional year, the credit for the first year and the additional year shall be equal to 75 percent of the total amount contributed during a taxable year, not to exceed the cap amount. The written commitment must be present to the Commission at the time of filing the refund claim.

The credits shall be allocable to the partners, shareholders, members or other equity owners of a taxpayer that is authorized to be treated as a partnership for purposes of federal income tax reporting for the taxable year for which the tax credits are authorized. Tax credits allocated to such equity owners shall only be limited in amount for the income tax return of a natural person or persons based upon the limitation of the total credit amount to the entity from which the tax credits have been allocated, and shall not be limited to \$2,800 for individuals or \$5,600 for married persons filing jointly.

The measure requires eligible public school districts that have received contributions for the purposes of this tax credit to annually account for all revenue and expenditures through the Oklahoma Cost Accounting System (OCAS) and to annually publish on its website the total dollar amount raised. The measure also requires eligible public school foundations to submit an **Fiscal Analysis**

### **Public School Investment:**

Assuming investments in schools are made to the stated cap provided in the measure, significant increases in public school investment would be realized. The amount of added investment will be

a result of the nature of commitments by participating taxpayers. Based on the cap, additional public school investment would increase by a range between \$23,125,000 and \$27,500,000.

### **Revenue Impact:**

Analysis provided by the Tax Commission:

#### **Revenue Impact:**

- ✓ **Scholarship-Granting Organizations.** The cap for contributions to an eligible scholarship-granting organization is increased by \$6.5 million to \$10 million (plus suspended credits) for tax year 2022. As a result of the increase in the amount of credit allowed for contributions (\$2,800 for individuals, and to \$5,600 for married individuals filing jointly) it is likely that contributions to eligible scholarship-granting organizations will increase and hit the \$10 million cap, resulting in a \$6.5 million decrease in revenue for tax year 2022. Due to the higher value of the credits, it is possible that estimated tax payments and withholding may decrease, resulting in an unknown decrease in income tax collections as early as FY22 and a decrease in income tax collections for FY23 of \$6.5 million.
  
- ✓ **Educational Improvement Grant Organizations; Public School Districts; Public School Foundations.** The cap for contributions to an eligible educational improvement grant organization is increased by \$18.5 million to \$20 million (plus suspended credits) for tax year 2022. Also, a credit is now allowed for contributions to public school districts and public school foundations; these are also subject to this \$20 million cap. A significant number of the over 500 public school districts in Oklahoma already receive contributions that would now be eligible for the proposed credit. If half of the public school districts hit the maximum annual amount (\$200,000), this would result in potentially \$50 million in tax credits. As a result of the increase in the amount of credit allowed for contributions (\$2,800 for individuals, and to \$5,600 for married individuals filing jointly) it is likely that contributions will increase sufficiently to hit the \$20 million cap, resulting in an \$18.5 million decrease in revenue for tax year 2022. Due to the higher value of the credits, it is possible that estimated tax payments and withholding may decrease, resulting in an unknown decrease in income tax collections as early as FY22 and a decrease in income tax collections for FY23 of \$18.5 million.

**Revenue Impact:** It is estimated that an unknown decrease in income tax collections could occur in FY-22, and up to \$25.0 million in FY-23. This could accelerate by fifteen percent (15%) annually for the eligible scholarship granting organization and eligible educational improvement grant components.

### **Administrative**

The Tax Commission has indicated the provisions of the measure may include certain administrative requirements related to monitoring and reporting. An administrative estimate affecting operations of the Commission remains under review.

Prepared By: Mark Tygret

### **Other Considerations**

None.

© 2021 Oklahoma House of Representatives, see Copyright Notice at [www.okhouse.gov](http://www.okhouse.gov)