

BILL SUMMARY

1st Session of the 58th Legislature

Bill No.:	HB 2701
Version:	FULLPCS1
Request Number:	7689
Author:	Rep. Hasenbeck
Date:	2/24/2021
Impact:	Tax Commission:

Increased Credit Caps:

Granting Organizations: Increase of (\$6.5 Million)

Public School: Increase of (\$18.5 Million)

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

**Administrative Cost:
Significant**

Research Analysis

The proposed committee substitute to HB 2701 creates the Education and Investment for Oklahoma Act. The measure modifies the Oklahoma Equal Opportunity Education Scholarship Act by increasing the amount of the tax credit from a \$1,000 to a maximum of \$2,800 for single individuals and from \$2,000 to a maximum of \$5,600 for married individuals filing jointly. The measure allows suspended tax credits to be used the next immediate tax year. The measure requires a scholarship-granting organization and educational improvement grant organization to submit an audited financial statement to the Oklahoma Tax Commission and make the statement publically available on its website. The measure provides that if a contribution is made to an eligible educational improvement grant organization to benefit a school district which has less than 2,000 students enrolled on October 1 as determined by the State Department of Education, the amount of the credit shall be 100% of the amount contributed to an eligible educational improvement grant organization, but shall be subject to the maximum credit amounts based on filing status. If the taxpayer preserves either an electronic file or record created by the State Department of Education or produces a document by printing information contained in an electronic data file originally created by the State Department of Education, the information shall be conclusive with respect to the student enrollment number for purposes of claiming the tax credit. If total credits claimed exceed the cap amount, the credit shall be equal to the taxpayer's proportionate share of the cap for the taxable year. The measure provides that after the effective date of the act, there is to be allowed a credit for any taxpayer who makes a contribution to an eligible public school district. The measure provides that for any taxpayer who makes a contribution to an eligible public school district and 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 seventy-five percent (75%) of the total amount of the contribution made during a taxable year, not to exceed the cap amount. The taxpayer is to provide evidence of the written commitment to the Oklahoma Tax Commission at the time of filing the refund claim. The credits authorized pursuant to this subsection 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 authorized. Tax credits which are 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 \$2,800.00 for single individuals or limited to \$5,600.00 for married persons filing a joint return. The measure requires eligible public school district to which contributions have been made for purposes of the tax credit authorized by this subsection shall annually account for all revenue and expenditures through the Oklahoma Cost Accounting System (OCAS) and annually publish on its website the total dollar amount raised. The measure also allows for a credit for a taxpayer who makes a contribution to an eligible public school foundation. The measure requires eligible public school foundations to submit an audited financial statement. The measure increases the cap amount of credits from \$3.5 million to \$10 million annually for contributions to an eligible scholarship-granting organization. The measure increases the cap amount of credits from \$1.5 million to \$20 million annually for contributions to an eligible educational improvement grant organization. The measure modifies the definition of *eligible student* by lowering the annual income threshold from 300% to 235% of the income standard to qualify for a free or reduced school lunch. The measure modifies the definition of *educational scholarships* to include scholarships to low-income eligible students and eligible military students. The measure modifies the definition of *eligible school* to mean any public school. The measure provides a definition for *eligible public school foundation*. The measure directs the Oklahoma Tax Commission to allocate credits which are in excess of the per-public-school-district cap. The measure requires scholarship-granting organizations to report certain information to the Tax Commission by September 1 each year.

Prepared By: Brad Wolgamott

Fiscal Analysis

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 FY22, and up to \$25 million decrease in FY23.⁸ This could accelerate by 25% annually for the eligible scholarship-granting organization and eligible educational improvement grant organization components.

Administrative Impact:

In order to implement a monitoring system for contributions to over 500 school districts to administer these credits would result in potential significant administrative costs to the OTC. Additional costs are also anticipated due to reporting requirements by scholarship-granting organizations regarding the educational scholarships funded by the organization in the previous academic year which the OTC will make available on its website.

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Other Considerations

None.