

OKLAHOMA TAX COMMISSION

**REVENUE IMPACT STATEMENT
SECOND REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE**

DATE OF IMPACT STATEMENT: February 4, 2022

BILL NUMBER: SB 1715 **STATUS AND DATE OF BILL:** Introduced 1/20/2022

AUTHORS: House n/a Senate Leewright

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

PROPOSAL: New Law

SB 1715 proposes to enact the *Strategic Industrial Development Enhancement Tax Credit Act*, creating a new, non-refundable income tax credit for amounts invested for strategic industrial development enhancement (SIDE) projects effective for tax years 2023 through 2027. This credit is to be allocated by the Oklahoma Department of Commerce (Commerce) to a qualifying project and is transferable.

EFFECTIVE DATE: January 1, 2023

REVENUE IMPACT:

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

- FY 23: \$4 million decrease in income tax collections.
- FY 24: \$8 million decrease in income tax collections.
- FY 25: \$12 million decrease in income tax collections.

Feb 18, 2022
DATE

Rick Miller
DIVISION DIRECTOR

mk

2/18/2022
DATE

Huan Gong
HUAN GONG, ECONOMIST

2/18/2022
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 1715 [Introduced] Prepared 2/4/2022

SB 1715 proposes to enact the *Strategic Industrial Development Enhancement Tax Credit Act*, creating a new, non-refundable income tax credit for amounts invested for strategic industrial development enhancement (SIDE) projects effective for tax years 2023 through 2027. This credit is to be allocated by the Oklahoma Department of Commerce (Commerce) to a qualifying project and is transferable.

In order to generate the proposed SIDE income tax credit a project sponsor must submit a project application¹ to Commerce. The proposed credit will generally be an amount that may not exceed 10% of an eligible entity's qualified economic development expenditures for a qualifying project as determined by Commerce. Qualified initial infrastructure expenditures may be earned at a rate of 50% of qualified initial infrastructure expenditures. The project tax credit amount may not exceed \$3 million for qualified initial infrastructure expenditures per qualifying project or \$6 million for qualified economic development expenditures per qualifying project. The total amount of credits allowed are \$6 million per qualifying project. Credits awarded must be allocated over a 3 year period in equal amounts. Commerce will issue the project tax credit amounts subject to a review of eligible expenditures.² Any credits allowed but not used in any taxable year may be carried over in order to each of the 5 subsequent tax years.

SIDE credits allocated by Commerce that are not used may be transferred to a customer, vendor, project investor, or partner of an eligible entity; however, there is no time limit on when the credits may be transferred.

As used in this measure:

- "Eligible entity" means a means a limited liability company, partnership, or corporation located in this state with a qualifying project in a qualifying project location;
- "Qualifying project" means the new construction or expansion of an eligible entity or a development generating qualified initial infrastructure expenditures to serve an eligible entity in a qualifying project location;
- "Qualifying project location" means a project located in an industrial park, economic development zone, or port located within a county in this state with a population of less than one hundred thousand (100,000) persons or a project located adjacent to a terminal, switching, or Class II or III railroad;
- "Project sponsor" means a local economic development organization or authority, organized under Internal Revenue Code, 26 U.S.C., Section 501(c), port authority, industrial park, or a terminal, switching, or Class II or III railroad carriers as defined in 49 CFR, Part 1201.1-1;
- "Qualifying economic development expenditure" means an expenditure for land improvements, building construction, building improvements and expansion, port terminal improvements, and the purchase of machinery and equipment;
- "Qualifying initial infrastructure expenditure" means an expenditure for new railroad infrastructure or improvements to existing railroad infrastructure, that includes the acquisition of right of way, project engineering, construction of new railroad including but not limited to tracks, leads, switches, spurs, and sidings, loading dock improvements, and transloading structures involved with providing freight rail service;
- "Project tax credit amount" means the amount of tax credits allocated by Oklahoma Department of Commerce to a qualifying project for qualified economic development and initial infrastructure expenditures.

¹ The project applications require a description of the qualifying project, the project location, an itemized list of project costs, and a summary of the expected net economic benefit and job creation.

² Commerce must notify the Oklahoma Tax Commission when an eligible entity has been allocated tax credits. Commerce is also required to promulgate rules to implement the provisions of this measure.

In addition to the per project cap outlined above, Commerce may not allocate more than \$12 million, of SIDE credits for any tax year, further limited to 1/3 of that amount in any tax year.³ It is anticipated that estimated tax payments would be adjusted to account for the tax credits in 2023; therefore, a decrease of up to \$4 million income tax collections would occur in FY23, a decrease of up to \$8 million would occur in FY24 and a decrease of \$12 million should occur in FY25.

³ Qualifying projects that have submitted an application and are not allocated all or part of credit for qualified economic development expenditures or qualified initial infrastructure expenditures due to the tax year limit are eligible for credit in subsequent tax years.