

**OKLAHOMA TAX COMMISSION**

**REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT  
FIRST REGULAR SESSION, FIFTY-NINTH OKLAHOMA LEGISLATURE**

**DATE OF IMPACT STATEMENT:** February 6, 2023

**BILL NUMBER: SB 406 STATUS AND DATE OF BILL:** Introduced 01/16/2023

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

**TAX TYPE (S):** Sales **SUBJECT:** Exemption

**PROPOSAL:** Amendatory

The measure proposes amendment to Section 1356 of Title 68 by exempting from the sales tax levy the following transactions:

Sales of tangible personal property or services to an organization which is exempt from taxation pursuant to Internal Revenue Code, 26 U.S.C., § 501(c)(3), the principal functions of which are to prevent child abuse and neglect through education, treatment, and advocacy, and operates a facility that offers comprehensive community-based services for abused or neglected children from birth through 18 years of age.

Sales of tangible personal property or services to or by an organization in this state which is exempt from taxation pursuant to Internal Revenue Code, 26 U.S.C., § 501(c)(3), and provides documentation to the Oklahoma Tax Commission ("OTC") showing the organization's principal purpose is to provide school supplies or articles of clothing for underserved students attending grades pre-K through at public schools in this state. The proposed exemption includes materials, supplies, and equipment used in the construction or improvement of buildings and other structures owned by the organization and operated in pursuit of the organization's primary and principal purpose and shall apply to sales to the organization and to sales to any person with whom the organization has duly entered into a construction contract, necessary for carrying out the contract or to any subcontractor to the construction contract.

**EFFECTIVE DATE:** November 1, 2023

**REVENUE IMPACT:**

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

FY 24: \$11,000 decrease in state sales tax collections  
FY 25: \$19,000 decrease in state sales tax collections

<u>Feb. 6, 2023</u>	<u>Rick Miller</u>	<u>bjs</u>
DATE	DIVISION DIRECTOR	
<u>2/6/2023</u>	<u>Huan Gong</u>	
DATE	HUAN GONG, ECONOMIST	
<u>2/7/2023</u>	<u>Joe Gappa</u>	
DATE	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 406 [Introduced] Prepared 02/06/2023**

Section 1 proposes amendment to Section 1356 of Title 68 by exempting from the sales tax levy the following:

Sales of tangible personal property or services to an organization which is exempt from taxation pursuant to Internal Revenue Code, 26 U.S.C., § 501(c)(3), the principal functions of which are to prevent child abuse and neglect through education, treatment, and advocacy, and operates a facility that offers comprehensive community-based services for abused or neglected children from birth through 18 years of age. To be eligible for the exemption, the organization must provide to the OTC, articles of incorporation, organizational by-laws, and a notarized letter from the president or chairman of the organization stating the services provided by the organization.

Presently, one potentially qualifying entity has been located. Information obtained from the organization indicates that in FY 22, it paid \$25,811 in state and local [city/county] sales taxes on taxable purchases of tangible personal property and services. Of this amount 52% or \$13,422 is attributed to state sales tax.

The measure proposes an effective date of November 1, 2023. Assuming similar taxable expenditures for FY 24 and FY 25 as those incurred in FY 22 in addition to application of inflation rate adjustments<sup>1</sup> results in an estimated decrease in state sales tax collections of \$8,314 for FY 24<sup>2</sup> and \$14,537 for FY 25.

Sales of tangible personal property or services to or by an organization in this state which is exempt from taxation pursuant to Internal Revenue Code, 26 U.S.C., § 501(c)(3), and provides documentation to the OTC showing the organization's principal purpose is to provide school supplies or articles of clothing for underserved students attending grades pre-K through 12 at public schools in this state. The proposed exemption includes materials, supplies, and equipment used in the construction or improvement of buildings and other structures owned by the organization and operated in pursuit of the organization's primary and principal purpose. The exemption applies to sales to the organization and to any person with whom the organization has duly entered into a construction contract, necessary for carrying out the contract or to any subcontractor to the construction contract.

Currently, one organization has been identified which could qualify for the proposed sales tax exemption. Information obtained from the organization indicates that in FY 22, it paid \$7,500 in state and local [city/county] sales tax on taxable purchases of tangible personal property and services. Of this amount 52% or \$3,900 is attributed to state sales tax. The entity indicates that its only sales during FY 22 relate to the auction of donated items which are sales tax exempt pursuant to 68 O.S. § 1356(75) and, as such, are not included for purposes of the revenue estimate calculation. Furthermore, the organization represents that it has no building construction or improvement plans for FY 24 and FY 25.

The measure proposes an effective date of November 1, 2023. Assuming similar taxable expenditure for FY 24 and FY 25 as those incurred in FY 22 in addition to application of inflation rate adjustments<sup>1</sup> results in an estimated decrease in state sales tax collections of \$2,416 for FY 24<sup>2</sup> and \$4,224 for FY 25.

### **Net Revenue Impact:**

FY 24 \$10,730 estimated decrease in state sales tax collections.

FY 25 \$18,761 estimated decrease in state sales tax collections.

<sup>1</sup> IHS Markit/US Forecast Flash, January 3, 2023 [3.9% for FY 23, 2.2% for FY 24 and 2.0% for FY 25].

<sup>2</sup> Includes seven months of sales tax collections