

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: February 17, 2023

BILL NUMBER: SB 578 **STATUS AND DATE OF BILL:** Introduced 1/17/23

AUTHORS: House: n/a Senate: Montgomery

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

PROPOSAL: New Law

SB 578 proposes two new income tax credits: a qualified employer income tax credit for compensation paid to a qualified software employee hired on or after January 1, 2024, and a tax credit for a qualified software employee, beginning with tax year 2024.

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: Estimated decrease in income tax revenue of \$4.8 million.
FY 25: Estimated decrease in income tax revenue of \$7.4 million.

Feb. 17, 2023
DATE

Rick Miller
DIVISION DIRECTOR mk

2/17/2023
DATE

Huan Gong
HUAN GONG, ECONOMIST

2/17/2023
DATE

Joseph P Gappa
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 578 [Introduced] Prepared 2/17/23

SB 578 proposes to enact a new income tax credit for a qualified employer for compensation paid to a qualified software employee hired on or after January 1, 2024. Effective for tax year 2024 and subsequent years, the credit is either:

- 10% of the compensation paid for the first through fifth years of employment if the qualified software employee graduated from an institution located in Oklahoma; or
- 5% of the compensation paid for the first through fifth years of employment if the qualified software employee graduated from an institution located outside Oklahoma.

The total annual compensation credit per employee may not exceed \$12,500, and no credit may be claimed after the fifth year of employment. A qualified employer is permitted to claim either the proposed credit for the compensation paid to a qualified software employee or to claim other credits for the compensation or education expenses paid to or on behalf of the qualified software employee, but is not allowed to claim more than one credit for the same taxable period with respect to compensation or education expenses paid to or on behalf of the same employee. A qualified employer claiming the proposed credit is not eligible for payment of incentives for qualified software employees pursuant to:

1. The Oklahoma Quality Jobs Program Act;
2. The 21st Century Quality Jobs Incentive Act; or
3. The Oklahoma Remote Quality Jobs Incentive Act.

In addition, a new income tax credit is proposed for a qualified software employee, effective for tax year 2024 and subsequent years. The credit is \$5,000 per year for a period of time not to exceed five years, and any unused credit may be carried over for five subsequent tax years. A qualified software employee may claim either the proposed credit or the existing Credit for Employees in the Aerospace Sector¹ or the Credit for Software or Cybersecurity Employees,² and no qualified software employee is allowed to claim multiple credits for employment as a qualified software engineer.³

The following definitions are provided (in part):

- "Institution" means an institution within The Oklahoma State System of Higher Education or any other public or private college or university that is accredited by a national accrediting body;
- "Qualified employer" means a sole proprietor, general partnership, limited partnership, limited liability company, corporation, other legally recognized business entity or public entity;

¹ 68 O.S. §§ 2357.301 and 2357.304

² 68 O.S. § 2357.405 - Data is not complete to determine the number of taxpayers who previously claimed the Credit for Software or Cybersecurity Employees and would therefore be ineligible to claim the proposed credit.

³ The possibility may exist for a taxpayer who claimed the existing Credit for Employees in the Vehicle Manufacturing Industry (68 O.S. § 2357.404) to also claim the proposed credit, if the taxpayer was not previously employed as a software engineer.

- “Qualified software employee” means any person employed in Oklahoma by a qualified employer hired on or after January 1, 2022, who:
 - has been awarded a degree in a qualified program from an institution or a technology center, and
 - is employed as a software engineer by a qualified employer;
- “Qualified program” means:
 - an undergraduate or graduate information technology, computer science, or computer engineering degree program accredited by the Computing Accreditation Commission (CAC) or the Engineering Accreditation Commission (EAC) of the Accreditation Board for Engineering and Technology (ABET) offered at an institution, or
 - a software, programming, software programming, coding, application development, computer science, or information technology program requiring more than eight hundred (800) hours of class time; and
- “Technology center” means an institution within the Oklahoma State Board of Career and Technology Education that offers qualified programs as defined in this section.

U.S. Bureau of Labor Statistics (BLS) records indicate 7,140 software developers and software quality assurance analysts and testers were employed in Oklahoma during 2021 with an annual mean wage of approximately \$109,020.⁴ The BLS further predicts that employment of software developers, quality assurance analysts and testers will increase by 25% from 2021 to 2031,⁵ or an average of 2.5% per year. Using the available information, a total estimated credit amount for this proposal was calculated as follows:

Estimated Credits for Qualified Software Employers and Employees		
	<u>FY 2025</u>	<u>FY 2026</u>
Est. Qualified Software Employees ⁶	370	563
Est. Qualified Software Employee Credit	\$1.8 million	\$2.8 million
Annual Mean Wage	\$109,020	\$109,020
Est. Qualified Employer Compensation Credit (7.5% of Annual Mean Wage)	\$3 million	\$46 million
Total Estimated Credits	\$4.8 million	\$7.4 million

Based on these combined estimates, the potential revenue impact of this proposal is an estimated decrease in income tax revenue of approximately \$4.8 million for FY 25 and \$7.4 million for FY 26.

⁴ See https://www.bls.gov/oes/current/oes_ok.htm#15-0000.

⁵ See <https://www.bls.gov/ooi/computer-and-information-technology/software-developers.htm#tab-1>.

⁶ The estimate reflects the expected annual growth in new software employees and does not include software engineers employed in Oklahoma prior to January 1, 2023, who may subsequently change employers and qualify to claim the credit.