



Oklahoma Tax Commission

State Senate
TAX INCENTIVES

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TAX INCENTIVES

- Income Tax
 - Credits
 - Exemptions and Deductions
- Sales Tax
 - Exemptions

Income Tax Definitions

- A *tax credit* is a direct offset against a tax liability. It is a dollar for dollar reduction in tax liability.

(\$100 credit = \$100 tax savings)

- A *tax exemption or deduction* is a reduction of income that is able to be taxed. It reduces tax liability by a fraction.

(\$100 deduction = \$5 tax savings)

Income Tax Definitions

- A transferrable credit is a credit that allows taxpayer to transfer or sell unused credits to another taxpayer.

Example:

Corporate taxpayer earns \$1000 credit. Taxpayer anticipates \$0 tax liability. Taxpayer “sells” credit to another corporation that uses the credit to reduce its tax liability.

- Carryover period refers to the time frame in which a portion of a credit which cannot be taken entirely in one tax year may be used to offset a tax liability in a future tax year.

Example:

Taxpayer has \$1000 tax liability and \$1500 credit. Taxpayer will pay \$0 tax and “carryover” \$500 credit to the following year.

Income Tax Definitions

- A refundable credit is a credit that allows a taxpayer to reduce their tax liability below zero and allows them to receive a refund.

Example 1:

Individual taxpayer has a \$100 tax liability and \$240 sales tax relief credit. Taxpayer will pay \$0 tax and receive \$140 refund (Sales tax relief credit is 100% refundable).

Example 2:

Corporate taxpayer has a \$10,000 tax liability and \$15,000 zero-emission tax credit. Taxpayer will pay \$0 tax and receive refund of \$4250 (Zero-emission credit is 85% refundable).

Current Income Tax Credits

- Taxes Paid to Another State
- Volunteer Firefighter Credit
- OK Investment / New Jobs
- Coal Production
- Clean-Burning Vehicles
- Qualified Rehabilitation Bldgs
- Railroad Reconstruction
- Small Business Guarantee
- Aerospace Tax Credits
- Affordable Housing Credit
- Zero-Emission Facilities
- Biomedical Research Donations
- Cancer Research Donations
- Education Scholarship Donations
- Child Care/ Child Tax Credit
- Earned Income Tax Credit
- Sales Tax Relief
- Low Income Property Tax Relief
- Natural Disaster Tax Credit

Description of Credits

- Taxes Paid to Another State
 - Allowed for taxes paid to another state by resident individuals on wages earned in the other state. Not allowed for other sources of income. No carryover is allowed.
- Volunteer Firefighter Credit
 - Allowed in the amount of \$200 or \$400 for a volunteer firefighter who completes annual continuing education, training and certification requirements. No carryover is allowed.

Description of Credits

- **OK Investment / New Jobs**
 - Allowed for either an investment in property used in manufacturing or for increase in employment per year for 5 years. Carryover period is indefinite for credits earned for investments in property and 15 years for new jobs.
- **Coal Production**
 - Allowed to businesses purchasing coal to provide water, heat, light or power and to businesses primarily engaged in mining of coal. Credit is 85% refundable.
- **Clean-Burning Vehicles**
 - Allowed for purchasers of CNG vehicles or investments in equipment used to deliver CNG to vehicles. Carryover period is 5 years.
- **Qualified Rehabilitation Buildings**
 - Allowed for rehabilitation expenditures for any certified historic structure. Credit is equal to 100% of the federal credit. Carryover period is 10 years.

Description of Credits

- **Railroad Reconstruction**
 - Allowed for a qualified railroad reconstruction or replacement expenditures. The credit is equal to 25% of the expenditures. Carryover period is 5 years and is transferable.
- **Small Business Guarantee**
 - Allowed against the bank “in-lieu” tax for any bank or state credit union for the amount of the guaranty fee paid to the U.S. Small Business Administration. Carryover period is 5 years.
- **Aerospace Employees and Employers**
 - Allowed for a qualified employee in an amount up to \$5,000 per year for a period of time not to exceed five (5) years. Carryover period is 5 years.
 - Allowed for aerospace employers in an amount equal to 50% of tuition reimbursement for a qualified employee or 10% (5% if out-of-state graduate) of the wages paid to the employee.

Description of Credits

- Affordable Housing Credit
 - Allowed for qualified housing projects in an amount equal to federal low-income housing tax credit and not to exceed \$4.0 million per allocation year. The credit is allowed for a period of 10 years. Carryover period is 5 years.
- Zero-Emission Facilities
 - Allowed based on the amount of electricity generated by a qualified zero-emission facility. The credit is available for 10 years after the qualified zero-emission facility is placed in operation. Credits earned prior to January 1, 2014, are transferable and carryover period is 10 years. For credits earned on or after January 1, 2014, credits not used are 85% refundable. Facility must be in use before July 1, 2017.

Description of Credits

- **Biomedical Research Donations**
 - Allowed for donations to a qualified independent biomedical research institute. The credit is 50% of the amount donated, not to exceed \$1,000. Carryover period is 4 years.
- **Cancer Research Donations**
 - Allowed for donations to a cancer research institute. The credit is 50% of the amount donated, not to exceed \$1,000. Carryover period is 4 years.
- **Education Scholarship Donations**
 - Allowed in the amount of 50% of the amount donated to a scholarship granting organization or an educational improvement grant organization (credit is 75% if taxpayer makes a 2 year commitment to donate) not to exceed \$1,000 for single taxpayer or \$2,000 for married taxpayers filing jointly. Carryover period is 3 years.

Description of Credits

- **Child Care/ Child Tax Credit**
 - Allowed for the greater of 20% of the federal child care credit or 5% of the federal child tax credit. To qualify, the taxpayer's federal adjusted gross income cannot exceed \$100,000. There is no carryover period.
- **Earned Income Tax Credit**
 - Allowed in the amount of 5% of the federal Earned Income Tax Credit. This credit is nonrefundable beginning with tax year 2016. There is no carryover period.
- **Sales Tax Relief**
 - Allowed for taxpayers whose gross household income does not exceed \$20,000 for singles and \$50,000 for those who claim a dependent, are at least 65 years old or have a physical disability. The credit is \$40 per household member and there is no carryover period.

Description of Credits

- Low Income Property Tax Relief
 - Allowed for taxpayer who is at least 65 years old or totally disabled and whose gross household income does not exceed \$12,000. The credit is equal to the property tax that exceeds 1% of the household income but is limited to a maximum credit of \$200.
- Natural Disaster Tax Credit
 - Allowed for owners whose primary residence was damaged or destroyed in a natural disaster. The amount of the credit is the difference between the property tax paid on the property prior to the damage or destruction and the property tax paid the first year after the improvement is complete. Eligible taxpayers will be entitled to claim this credit for 5 consecutive years. After the first year the credit is claimed, the amount of the credit will be 80% of the previous year's credit.

Recently Expired or Repealed Tax Credits

- Electric Motor Vehicles
- Agricultural Processing
- Child Care Providers
- Small Wind Turbines
- Energy Efficient Homes
- Wages for Injured Workers
- Small Business Capital
- Poultry Litter Tax Credit
- Film and Music Investment
- Trained Canine Credit
- Dry Fire Hydrant Credit
- Wire Transmitter Fee
- Rural Economic Loans
- R&D New Job Incentives

Fiscal Impact of Credits

Tax Year 2015 Report on Income Tax Credits

Credit	Number of Returns	Unused Credit Carried Over from Prior Year(s) (Col A)	Credit Established During Tax Year 2015 (Col B)	Total Amount Claimed (Col A + B = C)	Amount Used to Reduce Tax Liability
Credit for Taxes Paid to Other State	29,781	\$0	\$34,449,431	\$34,449,431	\$34,203,666
Volunteer Firefighter Credit	2,242	\$0	\$785,732	\$785,732	\$718,746
Oklahoma Investment/New Jobs Credit	973	\$461,585,104	\$79,535,854	\$541,297,140	\$42,626,076
Coal Production Credit	12	\$85,344	\$4,821,572	\$4,906,916	\$4,414,630
Credit for Investment in a Clean-Burning Motor Vehicle Fuel Property					
Purchase or Conversion of Motor Vehicle	407	\$5,925,872	\$1,753,867	\$7,736,554	\$1,682,460
Investment in Fuel Delivery Equipment	270	\$3,673,859	\$20,341,490	\$24,103,849	\$11,782,216
Qualified Rehabilitation Expenditures	82	\$6,672,000	\$6,420,138	\$13,097,138	\$4,836,838
Railroad Reconstruction	15	\$284,401	\$1,703,292	\$1,987,693	\$151,727
Small Business Guaranty Fee Credit	58	\$333,391	\$1,325,896	\$1,662,707	\$1,336,301
Aerospace Tax Credits					
Employees in the Aerospace Sector	1,968	\$4,951,073	\$8,673,136	\$13,872,911	\$6,202,068
Employers in the Aerospace Sector	35	\$0	\$3,790,763	\$3,790,763	\$2,915,558
Affordable Housing Credit	0	\$0	\$0	\$0	\$0
Electricity Generated by Zero-Emission Facilities	244	\$44,657,571	\$73,698,496	\$118,383,700	\$66,876,581
Biomedical Research Donations	1,079	\$94,804	\$662,083	\$768,962	\$668,790
Cancer Research Donations	1,572	\$33,767	\$415,366	\$454,951	\$365,587
Education Scholarship Donations	1,783	\$62,754	\$1,244,491	\$1,326,039	\$1,090,834
Child Care/Child Tax Credit	380,265	\$0	\$32,635,532	\$32,635,532	\$26,950,343
Earned Income Tax Credit	330,087	\$0	\$41,267,226	\$41,267,226	\$41,267,226
Sales Tax Relief Credit	461,668	\$0	\$39,280,748	\$39,280,748	\$39,280,748
Low Income Property Tax Credit	833	\$0	\$144,899	\$144,899	\$144,899
Natural Disaster Tax Credit	489	\$0	\$116,001	\$116,001	\$116,001
TOTALS		\$528,359,940	\$317,830,850	\$846,833,729	\$252,708,883

Income Tax

Exemptions and Deductions

- Exemption – refers to income that is not subject to taxation.
- Deduction – refers to amount which may be subtracted from federal adjusted gross income to arrive at “taxable income”.

Income Tax

Exemptions and Deductions

- Personal Exemption – Exemption is allowed in the amount of \$1,000 per dependent.
- Itemized Deductions – Deduction is allowed equal to the federal itemized deductions except for “state income or sales taxes paid”.
- Standard Deduction – Deduction is allowed in the amount of \$6,350 for singles, \$9,350 for head of household and \$12,700 for married filing jointly.

Income Tax

Exemptions and Deductions

- **Public Retirement Benefits** - Exemption is allowed for the first \$10,000 of most Oklahoma and federal government retirement benefits.
- **Private Retirement Benefits** - Exemption is allowed for the first \$10,000 of specified private retirement benefits.
- **Military Retirement Benefits** - Exemption for military retirement benefits equal to the greater of 75% of the military retirement benefits or \$10,000.
- **Social Security Benefits** - Exemption is allowed for all Social Security benefits that are taxed at the federal level.
- **Civil Service Retirement Benefits** – Exemption is allowed for certain federal civil service benefits received in lieu of Social Security.

Income Tax

Exemptions and Deductions

- **Armed Services Wages** – Exemption is allowed for income received from the United States as salary or compensation as a member of the Armed Forces.
- **College Savings Program** - Deduction is allowed for contributions to an account in the amount of \$10,000 for single taxpayer or \$20,000 for taxpayers filing a joint return.
- **Oil and Gas Depletion Allowance** - Deduction is available as an allowance for depletion based upon cost of oil and gas deposit.

Income Tax

Exemptions and Deductions

- Capital Gains - Exemption allowed for certain qualifying capital gains. The qualifying gain must be earned:
 1. on real or tangible personal property located within Oklahoma;
 2. on the sale of stock or ownership interest in an Oklahoma headquartered entity; or
 3. on the sale of real property, tangible or intangible personal property located within Oklahoma as part of the sale of all or substantially all of the assets of an Oklahoma headquartered entity or an Oklahoma proprietorship business enterprise.

Fiscal Impact of Income Tax Exemptions and Deductions

Exemptions and Deductions	Estimated Impact TY14	Number of Returns
Itemized Deductions	\$513,100,000	507,329
Standard Deduction	\$404,552,000	1,259,220
Personal Exemption	\$130,137,000	1,676,922
Social Security Benefits	\$130,976,000	215,353
Public Retirement Benefits	\$23,175,000	61,632
Private Retirement Benefits	\$72,113,000	245,333
Civil Service Retirement Benefits	\$31,256,000	25,955
Military Retirement Benefits	\$21,738,000	29,829
Members of the Armed Services	\$19,312,000	22,636
Capital Gains (Individual)	\$105,325,000	18,586
Oklahoma College Savings Program	\$3,431,000	13,463
Oil and Gas Depletion Allowance	\$19,141,000	95,498

Sales Tax Exemptions

- Sales for Resale - Sales of items to a permitted retailer in the business of reselling the items purchased.
- Sales to Manufacturers – Sales of items to permitted manufacturers for use in a manufacturing operation.
- Agricultural Sales - Sales of items to permit holders for use in production of agricultural products. The exemption also includes agricultural productions sold “at or from a farm”.

Sales Tax Exemptions

- **Government Agency Sales** – Sales of items to state and federal agencies. The exemption does not include contractors.
- **Sales to Political Subdivisions** – Sales of items to counties, municipalities, public school districts, colleges and universities, etc. Sales “by” schools are also exempt. The exemption includes contractors.

Sales Tax Exemptions

- Utilities for residential use – Sales of natural or artificial gas and electricity for home use. The exemption does not apply to local sales tax levies.
- Water, Sewage and Refuse Services – Sales of water, sewage and refuse services for residential and commercial use. Applies to state and local levies.
- Drugs – Sales of drugs pursuant to a prescription written for the treatment of human beings.
- Medical equipment - Sales of medical equipment when the cost of such items is reimbursable under the Medicare or Medicaid Program.

Sales Tax Exemptions

- Churches – Sales to or by churches except sales made in the course of business for profit or savings. Purchasing exemption applies to contractors.
- 100% Disabled Veterans – Sales to veterans who have suffered a 100% permanent disability as a result of their military service. The exemption includes the surviving spouse of a qualifying veteran.
- Advertising Services - Sales of advertising space in newspapers, periodicals, programs sporting and entertainment event programs, on billboards, and television.

Fiscal Impact of Sales Tax Exemptions

SALES TAX EXEMPTIONS	FY16 ESTIMATE
Sales for Resale	\$3,721,997,000
Sales to Manufacturers	\$2,018,058,000
Utilities for Residential Use	\$136,003,000
Subdivisions or Agencies of the State	\$132,382,000
Drugs	\$153,579,000
Agricultural Sales	\$107,204,000
State of Oklahoma	\$106,423,000
Sales of Certain Types of Advertising	\$48,066,000
100% Disabled Veterans	\$32,384,000
Water, Sewage and Refuse Services	\$15,038,000
Medical Devices (Medicare / Medicaid)	\$12,330,000
Newspapers and Periodicals	\$10,784,000
Sales by Schools	\$7,608,000

Thank You!