

OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT FIRST REGULAR SESSION, FIFTY-SEVENTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: May 3, 2019

BILL NUMBER: SB 746

STATUS AND DATE OF BILL: Engrossed House Amendment to Engrossed SB 4/25/19

AUTHORS: House Pfeiffer Senate Smalley

TAX TYPE (S): Income Tax SUBJECT: Credit

PROPOSAL: New

SB 746 proposes to enact a nonrefundable income tax credit for individuals employed as qualified software or cybersecurity employees effective for tax years 2020 through 2029. The credit will be either \$2,200 or \$1,800, depending upon the employee's level of education and is available for no more than seven (7) years. This measure also proposes to enact an income tax credit equal to five percent (5.0%) of the qualifying compensation earned by a qualifying doctor directly related to the practice of medicine or osteopathic medicine in a qualifying rural area of the state not to exceed \$25,000 annually per physician beginning with tax year 2020, and is available for no more than five (5) years.

EFFECTIVE DATE: November 1, 2019

REVENUE IMPACT:

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

FY 20: Decrease of \$400,000 in state income tax revenue.

FY 21: Decrease of \$3,560,000 in state income tax revenue.

May 6, 2019
DATE

Rick Miller
DIVISION DIRECTOR

mck

5-6-2019
DATE

Huan Gong
HUAN GONG, ECONOMIST

5-7-19
DATE

Jimmy Miller
FOR THE COMMISSION

The estimated 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.

SB 746 proposes to enact a nonrefundable income tax credit for individuals employed as qualified software or cybersecurity employees effective for tax years 2020 through 2029. The credit will be either \$2,200 or \$1,800, depending upon the employee's level of education¹ and is available for no more than seven (7) years. This measure also proposes to enact an income tax credit equal to five percent (5.0%) of the qualifying compensation earned by a qualifying doctor directly related to the practice of medicine or osteopathic medicine in a qualifying rural area of the state not to exceed \$25,000² annually per physician beginning with tax year 2020, and is available for no more than five (5) years.

Qualified Software / Cybersecurity Employee Credit

A "qualified software or cybersecurity employee" means any person employed by a qualifying employer in a qualifying industry on or after the effective date of this measure, who has met certain educational requirements.

An employer may apply to the Oklahoma Tax Commission for qualification as a "qualified employer". The qualified employer must be in a "qualifying industry"³ and pay all employees a "qualifying compensation"⁴ for the county in which the qualified employer has its primary Oklahoma address in order for the qualified software or cybersecurity employees to qualify for the tax credit.

This measure caps⁵ the credits at \$5 million beginning with tax year 2022.

A "degree-producing institution" is defined as any college or university that has accredited programs from ABET.

"Accredited program" is defined as:

- An undergraduate or graduate cybersecurity, information technology, computer science and engineering or software 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 a degree-producing institution, or
- A software, cybersecurity, programming, software programming, coding, application development, computer science or information technology program requiring more than eight hundred (800) hours of class time.

¹ The amount of the credit is \$2,200 for a qualified software or cybersecurity employee who has been awarded a bachelor's or higher degree from an accredited program at a degree-producing institution, or \$1,800 for a qualified software or cybersecurity employee who has been awarded an associate's degree from an accredited program at a degree-producing institution or a credential or certificate from an accredited program at a technology center.

² This amount is \$50,000 for a joint tax return.

³ "Qualified industry" means a qualified employer whose activities are defined or classified in the most recent North American Industry Classification System (NAICS) manual under U.S. Sector Nos. 21, 22, 31-33, 48, 51, 52, 54, 55, 62 and 92.

⁴ "Qualifying compensation" is the average annualized wages paid by a qualifying employer which is at least one hundred ten percent (110%) of the average county wage for the county in which the employer is located as that percentage is determined by the Oklahoma Department of Commerce based on the most recent U.S. Department of Commerce data; or, for federal employees, such employees shall meet a GS-5 or equivalent initial hiring threshold in lieu of the wage requirement. For the purposes of this definition, annual wages shall not include employer-provided health care or retirement benefits.

⁵ The Tax Commission is required to calculate and publish the percentage by which the authorized credits will be reduced so the total credits used to offset tax do not exceed \$5 million per year. The formula to be used for the percentage adjustment is \$5 million divided by the credits claimed in the second preceding year.

There are 81 ABET certified accredited programs in the United States⁶:

- Thirty-nine (39) institutions have accredited information technology programs.
- Two (2) institutions have accredited cybersecurity programs.
- Eleven (11) institutions have accredited computer science and engineering programs.
- Twenty-nine (29) institutions have accredited software engineering degree programs.

Nine (9) Oklahoma colleges or universities are ABET accredited institutions; however only one offers an accredited program degree:

- *Oklahoma State University Institute of Technology*, Bachelor of Technology in Information Technology

Data from Oklahoma Department of Career and Technology Education shows that in the past five (5) years an average of 1,377 career tech certificates were conferred (eligible for \$1,800 credit) in potentially qualifying fields of studies. Data from Oklahoma State University Institute of Technology⁷ shows thirty-seven (37) Bachelor of Technology degrees were conferred (eligible for the \$2,200 credit). These combined certificates and degrees suggest a potential revenue decrease of \$2.56 million⁸ in tax year 2020. If the credits claimed in tax year 2021 exceed \$5 million, the credits authorized in tax year 2023 will be reduced as a result of the cap.

Rural Doctor Credit

In order to qualify for the tax credit, a doctor⁹ (medical doctor or osteopathic physician) must be licensed in this state and have graduated from a college of medicine or osteopathic medicine located in this state or have completed his or her residency in this state, and the doctor's professional services must be performed in a qualifying rural area. For purposes of the proposed credit, a qualifying rural county is any area with a population of less than thirty-six thousand (36,000) persons and a qualifying rural municipality is any municipality in Oklahoma which has a population not exceeding twenty-five thousand (25,000)¹⁰, as determined by the most recent Federal Decennial Census or most recent population estimate. Taxpayers must prequalify with the Oklahoma Tax Commission to ensure the cumulative total of taxes forgone does not exceed \$1 million annually.¹¹ Once a taxpayer has obtained a prequalification certificate, the taxpayer is eligible to claim the income tax credit for each of the following income tax years for which the tax credit is available if the taxpayer meets all of the qualifications and requirements with respect to the rendition of professional services in a qualified rural area. The credit is available for a period of five (5) years.¹²

Based on data obtained from the Oklahoma State Board of Medical Licensure and Supervision, there are approximately 6,118 medical doctors (MD's) licensed and practicing in Oklahoma¹³. Of that number approximately 808 currently practice in a qualifying rural area¹⁴. Assuming ten percent

⁶ <http://main.abet.org/aps/Accreditedprogramsearch.aspx>

⁷ <https://go.osuit.edu/advancement/research/sites/go.osuit.edu/advancement/research/files/media/factbook-2018.pdf>

⁸ It is unknown how many additional employees will relocate to Oklahoma and qualify for the credit.

⁹ This measure does not require doctors eligible for this credit to be new to the rural area. This income tax credit is available to those already meeting the qualifications.

¹⁰ Oklahoma City, Tulsa, Norman, Broken Arrow, Lawton, Edmond, Moore, Midwest City, Enid, Stillwater, Muskogee, Bartlesville, Shawnee, Owasso, and Ponca City are the only municipalities in Oklahoma with population greater than 25,000. Source: 2010 Census Redistricting Data (Public Law 94-171) Summary File.

¹¹ Once the Tax Commission has prequalified \$1 million in credits for a tax year, no more credits are available for that particular tax year.

¹² This credit is scheduled to sunset beginning with tax year 2025.

¹³ Oklahoma State Board of Medical Licensure and Supervision *Report of Distribution of Medical Doctors, by County*. [www http://www.okmedicalboard.org/public_resources](http://www.okmedicalboard.org/public_resources).

¹⁴ Oklahoma State Board of Medical Licensure and Supervision *Active MDs practicing in Rural Areas of Oklahoma*. [www http://www.okmedicalboard.org/public_resources](http://www.okmedicalboard.org/public_resources)

(10%) of the remaining 5,310 physicians establish residency and employment in a qualifying rural area, an additional 531 physicians would be eligible for the credit.

Based on data obtained from the Oklahoma State Board of Osteopathic Examiners, there are approximately 2,458 osteopathic physicians licensed and practicing in Oklahoma¹⁵. Of that number, approximately 689 osteopathic physicians practice in a qualifying area. Assuming ten percent (10%) of the remaining 1,769 physicians establish residency and employment in a qualifying rural area, an additional 177 osteopathic physicians would be eligible for the credit.

Data from the Bureau of Labor Statistics indicates the average annual income of doctors licensed and practicing in Oklahoma was \$190,135 in 2018. Applying an effective income tax rate of 3.05% to the average annual salary results in an estimated Oklahoma income tax liability of \$5,799 per qualifying physician.

It is assumed as many as 1,177¹⁶ medical doctors and 728¹⁷ osteopathic physicians will apply for a prequalification certificate and the Tax Commission will issue \$1 million in prequalification certificates for tax year 2020. The total impact for tax year 2020 is a projected decrease in income tax collections of \$1 million.

Revenue Impact:

Credit	TY 2020	FY20	FY21
Qualified Software /Cybersecurity Employee Credit ¹⁸	\$2,560,000	-0-	\$2,560,000
Rural Doctor Credit ¹⁹	\$1,000,000	\$400,000	\$1,000,000
TOTAL	\$3,560,000	\$400,000	\$3,560,000

¹⁵ Oklahoma Osteopathic Board of Examiners – *Physician Directory 2-10-17*

¹⁶ Physicians practicing in Owasso were included in the report from the Oklahoma State Board of Medical Licensure and Supervision. They have been removed due to Owasso's population is in excess of 25,000. The existing number of rural physicians has been reduced by 20% to account for not qualifying based on location of medical school graduation.

¹⁷ The estimated number of existing rural physicians has been reduced by 20% to account for not qualifying based on location of medical school graduation or residency.

¹⁸ No changes to withholding or estimated tax as a result of this credit are expected; therefore all the tax year 2020 impact should occur in FY21.

¹⁹ Changes to withholding or estimated tax as a result of this credit are expected; therefore some impact would occur in FY20. A projected decrease in income tax collections of \$400,000 should occur in FY20. For FY21 the estimated decrease in income tax collections would be \$1 million.