

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: February 12, 2021

BILL NUMBER: HB 1982 **STATUS AND DATE OF BILL:** Introduced 1/16/21

AUTHORS: House Lepak Senate n/a

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

PROPOSAL: Amendatory

HB 1982 proposes to amend 68 O.S. § 2357.206 which relates to the Credit for Contributions to a Scholarship-Granting Organization / Credit for Contributions to an Educational Improvement Grant Organization. This measure proposes to increase the annual credit cap by 25% for contributions to both eligible scholarship-granting organizations and educational improvement grant organizations beginning with tax year 2022, for any tax year when the annual tax credit amount for the prior tax year is equal to or greater than 90% of the tax credit cap amount applicable to that tax year.

EFFECTIVE DATE: November 1, 2021

REVENUE IMPACT:

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

FY 22: None.

FY 23: Estimated decrease in income tax collections of \$1.25 million.

Feb. 13, 2021

DATE

Pick Miller

DIVISION DIRECTOR

mck

2/13/2021

DATE

Huan Gong

HUAN GONG, ECONOMIST

2/13/21

DATE

Jay Doyle

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.

HB 1982 proposes to amend 68 O.S. § 2357.206 which relates to the Credit for Contributions to a Scholarship-Granting Organization / Credit for Contributions to an Educational Improvement Grant Organization. This measure proposes to increase the annual credit cap by 25% beginning with tax year 2022, for any tax year when the annual tax credit amount for the prior tax year is equal to or greater than 90% of the tax credit cap amount applicable to that tax year.

Current Law:

Under current law, an income tax credit is allowed for contributions to an eligible scholarship-granting organization and an eligible educational improvement grant organization. The credit is generally 50%¹ of the amount contributed, not to exceed \$1,000 for an individual (\$2,000 for a married filing joint return) or \$100,000 for a legal business entity. Tax credits which are allocated to an individual(s) by a pass-through entity are limited based on the total credit limitation of the pass-through entity and not by the \$1,000 (or \$2,000) limitation for individuals. The credit may be carried over for 3 succeeding taxable years.

The aggregate credits cannot exceed \$3.5 million annually for donations to an eligible scholarship-granting organization and \$1.5 million annually for donations to an educational improvement grant organization. If total combined credits claimed for contributions to one organization exceed the cap for that organization, credits not claimed for the other organization may be allocated to the first organization, but no more than \$5 million in total credits may be claimed annually.² If the Tax Commission determines the total combined credits claimed for contributions to both eligible scholarship-granting organizations and eligible educational improvement grant organizations exceed \$5 million, the Tax Commission shall determine the percentage of the contribution which establishes the proportionate share of the credit which may be claimed by any taxpayer so that the maximum credits authorized are not exceeded.³

Proposed Law:

Beginning with tax year 2022, this measure proposes to increase by 25% the annual credit cap for contributions to eligible scholarship-granting organizations and eligible educational improvement grant organizations for any tax year when the annual tax credit amount for the prior tax year is equal to or greater than 90% of the tax credit cap amount applicable to that tax year. The credit cap will not increase in years where the total state budget of the fiscal year that begins in the relevant tax year fails to meet or exceed the size of the total state budget of the prior state fiscal year. In such case, the tax credit cap shall remain the same amount as the amount in the prior tax year.

Revenue Impact:

For purposes of this analysis, it is anticipated that the annual tax credit amount for 2021 will equal or exceed 90% of the tax credit cap amount for that year (\$5 million) and that state budget conditions will allow for the cap to increase by 25% for tax year 2022. Therefore the projected cap for tax year 2022 will increase to \$6.25 million. It is also fully expected, based on contribution amounts in prior years to qualified entities, that donations will be sufficient to fully utilize the increased cap of \$6.25 million. For tax year 2022, the projected decrease in income tax revenue will be \$1.25 million. No changes to withholding or estimated tax payments are anticipated as a result of this measure; the full decrease of \$1.25 million will occur in FY23 when the 2022 income tax returns are filed. It is further projected that the cap and usage of the credit will increase 25% for tax year 2023, resulting in a decrease in income tax collections of \$1.56 million in FY24.

¹ For taxpayers who make an eligible contribution and make a written commitment to contribute the same amount for an additional year, the credit will be 75% of the amount of the contributions for each year.

² For tax year 2020, total potential credits for both organizations (before cap) totaled \$5.9 million.

³ For tax year 2020, the percentage of the credit allowed for donations to a scholarship-granting organization is 84.4%, and 100% of the credit is allowed for donations to eligible educational improvement grant organizations.