OKLAHOMA TAX COMMISSION

REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT
SECOND REGULAR SESSION, FIFTY-EIGHTH OKLAHOMA LEGISLATURE

DATE OF IMPACT STATEMENT: March 14, 2022

BILL NUMBER: HB 3687 **STATUS AND DATE OF BILL:** Floor Sub. 3/9/22

AUTHORS: House McDugle and Manger Senate Daniels

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

PROPOSAL: New Law

The Floor Substitute for HB 3687 proposes to enact a new income tax credit for retired military personnel who have taxable nonmilitary income. The credit is $2,500, effective for tax year 2023 and subsequent years. In addition, a new income tax credit is proposed for taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance. The credit is $2,500, effective for tax years 2023 and subsequent years.

EFFECTIVE DATE: January 1, 2023

REVENUE IMPACT:

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

FY 23: Unknown decrease in income tax revenue.
FY 24: Estimated decrease in income tax revenue of $40.1 million.

Mar. 15, 2022 Rick Miller bdf
DATE DIVISION DIRECTOR

3/15/2022 Huan Gong
DATE HUAN GONG, ECONOMIST

3/18/2022 Joseph P. Gappa
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 – HB 3687 [Floor Sub.] Prepared 3/14/2022

The Floor Substitute for HB 3687 proposes to enact a new income tax credit for retired military personnel who have taxable nonmilitary income. The credit is $2,500, effective for tax year 2023 and subsequent years. In addition, a new income tax credit is proposed for taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance.[1] The credit is $2,500, effective for tax years 2023 and subsequent years.[2] A taxpayer is permitted to claim either the credit for retired military personnel who have taxable nonmilitary income or the credit for taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance, but no taxpayer is permitted to claim both credits.

The U.S. Bureau of Labor Statistics (BLS) reported 123,000 veterans who were employed in Oklahoma during 2020.[3] For 2017, the U.S. Department of Veterans Affairs reported that 12.04% of Oklahoma veterans were military retirees.[4] Assuming similar activity for tax year 2023, estimated credits of approximately $37 million may be claimed by retired military personnel who have taxable nonmilitary income, beginning for tax year 2023.

Internet research indicates approximately 1.7 million individuals, including government employees and private contractors, held secret and/or top secret security clearances during 2019.[5] BLS records further indicate that approximately 5.71% of all persons employed during 2017 were veterans. Using the available information, a total estimated number of Oklahoma taxpayers who have served in the military or who are retired military personnel and who are employed in a position that requires a security clearance was calculated as follows:

Estimated Number of OK Veterans Employed with Secret/Top Secret Security Clearance	Count	Est. % w/Security Clearance	Est. Security Clearance
US Individuals Holding Secret/Top Secret Security Clearance, 2019			1,700,000
Total Veterans Employed, 2020	8,338,000	5.71%	97,035
Total Nonveterans Employed, 2020	137,739,000	94.29%	1,602,965
Subtotal	146,077,000	100.00%	
Est. OK Veterans Employed in 2020 with Secret/Top Secret Security Clearance (123,000/8,338,000)		1.48%	1,431
Est. OK Veterans Employed in 2020 with Secret/Top Secret Security Clearance Who Are Not Military Retirees (100% - 12.04%)		87.96%	1,259

Based on these estimates, annual credits for taxpayers who have served in the military who are not military retirees and who are employed in a position that requires a security clearance are calculated to be approximately $3.1 million. Combined with the estimated $37 million in credits for retired military personnel who have taxable nonmilitary income, the total revenue impact of this proposal is an estimated decrease in income tax collections of approximately $40.1 million for FY 24 when the 2023 returns are filed. An unknown partial impact may be expected for FY 23, due to a corresponding reduction in withholding and estimated payments.

[1] "Security clearance" means a current and final clearance of either secret or top secret from the United States.
[2] Taxable income of approximately $82,000 is required for a taxpayer to claim the full $2,500 for either proposed credit.
[3] See https://www.bls.gov/news.release/pdf/vet.pdf.
[4] See https://www.va.gov/vetdata/docs/SpecialReports/State_Summaries_Oklahoma.pdf.
[5] See https://fcw.com/acquisition/2021/06/security-clearance-demands-are-exploding-and-government-must-keep-up/258405/.