

OKLAHOMA TAX COMMISSION

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

DATE OF IMPACT STATEMENT: February 8, 2023

BILL NUMBER: SB 1068 STATUS AND DATE OF BILL: Introduced 01/19/2023

AUTHORS: House: n/a Senate: Howard

TAX TYPE (S): SUBJECT: Exemption

PROPOSAL:

The measure proposes to amend Sections 1352 & 1359 of Title 68 to modify and expand the definition of "manufacturing" to include the manufacturing, compounding, processing or fabrication of materials into articles of tangible personal property according to the special order of a customer (custom order manufacturing) by manufacturers classified as operating in the North American Industry Classification System (NAICS) Sectors 32 and 33¹, but does not include custom order manufacturing by manufacturers classified in other NAICS code sectors.

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: \$10,705,000 decrease in state sales tax revenues

FY 25: \$2,519,000 decrease in state sales tax revenues

Feb. 8, 2023
DATE

Rick Miller
DIVISION DIRECTOR

msm

2/8/2023
DATE

Huan Gong
HUAN GONG, ECONOMIST

2/8/2023
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.

¹ NAICS classification 32 encompasses manufacturing of wood & paper products, petroleum & chemical products, pesticides & fertilizers, pharmaceutical & medicinal products, explosive products, plastic products, nonmetallic mineral and glass production, concrete & concrete products, lime and gypsum production, and other similar lines of manufacturing. NAICS classification 33 encompasses metal product manufacturing, such as piping, sheet metal, ingots (smelting), forging & stamping products, tool products, metal building, tank & storage products, machine shops, wiring manufacturing, engraved metal products, metal valves, machinery manufacturing, farm, lawn, mining, construction, oil & gas, industrial, equipment, photographic & optical equipment, hvac equipment, metal working equipment, engines, turbine, transmission equipment, computers, radio broadcasting equipment, semiconductors, software media, electrical lighting, household appliances, transportation & aerospace equipment & parts, ship building, furniture, and other miscellaneous manufacturing.

ATTACHMENT TO REVENUE IMPACT –SB 1068 [Introduced] Prepared 01/24/2023

The measure proposes to amend Sections 1352 & 1359 of Title 68 to modify and expand the definition of “manufacturing” to include the manufacturing, compounding, processing or fabrication of materials into articles of tangible personal property according to the special order of a customer (custom order manufacturing) by manufacturers classified as operating in the North American Industry Classification System (NAICS) Sectors 32 and 33, but does not include custom order manufacturing by manufacturers classified in other NAICS code sectors.

Based on Tax Commission records, as of January, 2023, 3,946 entities currently hold Manufacturer Sales Tax Exemption Permits (MSEP). According to the FY 22 Tax Expenditure Report, sales and use taxes of \$2,484,883,000² are attributable to the exemption afforded manufacturers. Dividing the 3,946 permit holders by the total sales and use tax exemption, yields an estimated exemption amount per permit holder of \$629,722 in exempt state sales/use taxes. In addition, OTC estimates indicate that a total of 128 applicants were denied a MSEP from July 1, 2019 through December, 2022 because their manufacturing operation was deemed to be “custom”. For purposes of this impact it is assumed that an additional 35 applicants engaged in custom manufacturing will be denied from January 2023 to November 1, 2023 and that another 7 “custom” applicants from previous years will re-apply resulting in a minimum of 42 entities that will be issued an MSEP between the effective date of the measure and the end of FY 24. It is also projected that the average exempt sales/use tax exemption amount per “custom manufacturer” is less than that of current manufacturers and, as such, is assumed to be 10% or \$62,972 ($\$629,722 \times 10\% = \$62,972$). Multiplying 170 “custom” manufacturers by the average \$62,972 in annual exempt state sales/use taxes per “custom manufacturer” results in an estimated decrease of \$10,705,240.00 in state sales and use tax revenues for FY 24. Assuming another 40 applicants apply and are approved in FY 25, results in an estimated decrease of \$2,518,880 for FY 25 ($40 \times 62,972$).

In addition, the issuance of the permit would make the entities eligible for the investment/new jobs income tax credit³.

² \$7,929,000 in state use taxes and \$2,476,954,000 in state sales taxes.

³ 68 O.S. § 2357.4