



# **State of Oklahoma**

# **Incentive Evaluation Commission**

## **Investment/New Jobs Tax Credit Evaluation**

**November 21, 2022**

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# **Key Findings and Recommendations**



## Incentive Overview

The State of Oklahoma began offering the Investment-New Jobs Tax Credit in 1980. The credit is available to manufacturers, aircraft maintenance facilities, and web search portal companies who either invest in depreciable property of at least \$50,000 or create new jobs in the State. The tax credit is equal to one percent of the cost of the depreciable property or \$500 per new employee, which may be claimed for five years. The credit is doubled if a company makes an investment of at least \$40 million or is located in an Enterprise Zone.

## Recommendation: Reconfigure

### Key Findings

- **Use of the credit to offset tax liability has generally decreased over time, while the amount of unused carried forward credit has increased to \$734.1 million as of Tax Year 2020.** Low credit usage combined with the unlimited carry forward period for unused capital investment credits make it likely this number will continue to grow.

Table 1: Credit Use, Tax Years 2015 through 2020 (Dollars in Millions)

Tax Year	Number of Returns	Total Amount Claimed	Amount Used to Reduce Tax Liability	Unused Credit Carried Forward
2015	1,009	\$622.3	\$64.8	\$557.4
2016	1,010	\$303.0	\$25.6	\$277.4
2017	1,017	\$270.2	\$24.6	\$245.6
2018	921	\$525.3	\$47.0	\$478.3
2019	861	\$408.8	\$38.5	\$370.3
2020	692	\$743.3	\$9.2	\$734.1

Source: Oklahoma Tax Commission

- **The Oklahoma Tax Commission (OTC) is not statutorily required to and does not collect data for the purpose of analyzing program effectiveness, or to track the usage of the program in detail.** As a result, the OTC was not able to provide basic information regarding usage by year, including how much credit was taken for capital investment versus new jobs, the total amount of capital investment associated with claims, the total number of new jobs associated with claims, the number of claims made in an enterprise zone, and the number of claims associated with an investment of over \$40 million. For this evaluation, the OTC was able to provide more detailed information for one tax year upon special request. Without this information for each year of the program, evaluations of the credit will continue to be limited.
- **An analysis of a set of claims submitted for investments or jobs placed in service during Tax Year 2019 showed the following<sup>1</sup>**
  - **Based on the economic activity associated with the claims, the credit generates \$0.73 in new State tax revenue for each \$1.00 of foregone State revenue.**
  - **Nearly all the credits claimed were for capital investment.** Capital investment accounted for 99.7 percent of new credits claimed; less than one percent of credit claims were related to new jobs. This is in line with the previous evaluation of this credit that found 98.3 percent of new credit claims in Tax Year 2016 were for capital investment.

<sup>1</sup> This analysis included 220 completed 2019 506 forms. Data provided by the Tax Commission included 499 2019 506 forms were submitted in 2019, but many of these were missing key information including the total amount of credit claimed, the rate applied to calculate credit claimed, or the number of new jobs created. Forms missing this information were excluded from the analysis, as were forms claiming credit amounts that appeared to be for investments of less than \$50,000. Forms submitted by pass-through entities were also excluded as these entities do not report credit usage on Form 506.



- **Most credits were claimed on corporate income tax returns.** Corporate returns accounted for 80.5 percent of the total dollar amount of credits claimed, with 19.5 percent claimed on individual income tax returns.
- **New credit claims made in Tax Year 2019 were associated with \$1,300 million in capital investment.** Of this investment, 86 percent was in an Enterprise Zone in Oklahoma.
- **Most new capital investment credits claimed (89.2 percent) were made by facilities located in enterprise zones.** About half of all new capital investment associated with credits claimed in Tax Year 2019 was located in Enterprise Zones.
- **Oklahoma's tax benefit ranks 9th of 11 among comparable state programs.** Because Oklahoma's one percent credit is claimed over a five-year period, the present value of the capital investment tax credit is four percent of total investment cost, despite its nominal total benefit of five percent.
- **In general it is unlikely that the credit is significantly influencing business decisions:**
  - **From Tax Year 2008 through Tax Year 2019, excluding years a cap was in effect, an average of 21.1 percent of the total reported value of credits claimed was used to reduce tax liability.<sup>2</sup>** This suggests claimants may not have sufficient tax liability to make use of credits earned. Unused credits for capital investment may be carried forward indefinitely, remaining a liability to the State. The State's corporate and top individual income tax rate declined from 6.0 to 4.0 percent, and 5.0 to 4.75 percent, respectively, starting in Tax Year 2022 and is likely to increase the amount of carried forward credit.
  - **The investment tax credit's impact on location decisions is likely negligible.** On a present value basis, the investment tax credit reduces investment costs by 4.0 percent, assuming credits claimed in each year of the five-year period are fully used to offset tax liability. The economic research literature has examined how business taxes affect business activity, suggesting that a 1 percent cost reduction (measured as a percent of business value-added) increases the likelihood of making a desired location or expansion decision by 10 percentage points.<sup>3</sup> Using this approach, it is estimated that the 4.0 percent reduction in costs over the five-year period equates to 0.24 percent of the estimated value-added generated by a given capital investment.<sup>4</sup> Thus, the cost reduction generated by the credit is equivalent to a 2.4 percentage point increase in a favorable location decision. If these estimates are adjusted to reflect the reality that claimants are not using all credits claimed each year to offset tax liability, the impact on location decisions decreases.
  - A similar increase of 2.3 percentage points was estimated for the new jobs tax credit.
- **In contrast to many other incentives offered by Oklahoma, the Investment-New Jobs tax credit does not require an application or advanced notice to receive benefits.** The credit is claimed on tax returns, so firms may claim the credit regardless of whether it played a role in the investment decision.
- **While the capital investment tax credit has been able to keep up with inflation and cost growth because it is a percentage of total investment, the new jobs tax credit as a fixed dollar amount has fallen behind.** From 2001 to 2021, the value of the \$500 tax credit per new job has declined from 1.5 percent to 0.8 percent of Oklahoma's average annual pay in manufacturing.<sup>5</sup>

<sup>2</sup> Tax Year 2020 excluded as this year is likely an outlier due to the impact of the COVID-19 pandemic. Tax Years 2016 and 2017 also excluded, as usage in these years was subject to a \$25 million cap.

<sup>3</sup> Timothy J. Bartik, "Making Sense of Incentives: Taming Business Incentives to Promote Prosperity," accessed electronically at: <https://www.upjohn.org/research-highlights/making-sense-incentives-taming-business-incentives-promote-prosperity>

<sup>4</sup> Manufacturing capital expenditures and value added data from the US Census Bureau's 2019 Annual Survey of Manufactures used to calculate a ratio of \$13.66 value added per dollar of capital investment as part of this approach.

<sup>5</sup> US Bureau of Labor Statistics, Quarterly Census of Employment and Wages



- **Key program requirements expressed as dollar amounts in statute have not been updated since the credit was created in 1980.** The minimum salary required to qualify for the new jobs tax credit is extremely low, at \$7,000. This equates to 11.2 percent of average annual pay for manufacturing in Oklahoma in 2021.<sup>6</sup> The minimum required investment amount of \$50,000 has also not been changed since 1980. Adjusted for inflation, this is equivalent to about \$170,000 in 2022. As a result, the State may be incenting creation of low wage jobs and allowing credits for the equivalent of less than one-third of what was originally intended.
- **Oklahoma's growth in manufacturing employment, payroll, and capital expenditures from 2003 to 2019 exceeded most neighboring states, and its employment and payroll growth exceeded the national average.**<sup>7</sup> Oklahoma ranks either first or second in each of these metrics when compared to neighboring states, including those with more generous investment tax credits (Arkansas, Kansas, New Mexico).

**Table 2: Compound Annual Growth, Manufacturing, 2003 to 2019**

	Employment	Payroll	Capital Expenditures
Arkansas	-1.7%	1.0%	5.9%
Colorado	-1.2%	1.0%	0.5%
Kansas	-0.9%	1.7%	1.3%
Missouri	-1.0%	1.3%	-0.6%
New Mexico	-3.4%	-1.2%	-4.5%
<b>Oklahoma</b>	<b>-1.0%</b>	<b>1.8%</b>	<b>2.0%</b>
Texas	-1.2%	1.5%	0.9%
<b>Oklahoma Rank</b>	<b>2 of 7</b>	<b>1 of 7</b>	<b>2 of 7</b>
<b>United States Total</b>	<b>-1.1%</b>	<b>1.4%</b>	<b>2.9%</b>

*Source: US Census Bureau, Annual Survey of Manufactures*

## Recommendations

- **Limit the carryforward period to seven years.** The carryforward period for capital investment credits is indefinite, contributing to the continued growth in the State's unused tax credit liability. Limiting the carryforward period to seven years after a credit is claimed would reduce the State's liability over time, while still allowing claimants some flexibility. This is in line with the Commission's recommendation following the last evaluation of this credit.

If applied to the set of analyzed new claims submitted in Tax Year 2019, a carryforward limit of seven years beyond the initial five-year credit claiming period would reduce costs to the State by about 6 percent, assuming usage continues at 2019 rates until the carryforward balance is exhausted.

- **Require claims to be filed with the Tax Commission each year of the carry forward period, regardless of whether the credit is used to offset tax liability.** Regular annual claims can require claimants to attest that the capital investment is still in use and, in aggregate, these annual claims would provide the State a clearer picture of how much credit is still available to be used. Currently, following the initial five-year credit period, the annual submission of Form 506 (the Tax Commission's claim form) is not required. This causes the credit amount claimed and the unused carried forward amount reported in Tax Commission data to fluctuate based on the number of companies submitting a form each year.
- **Require an application and approval before allowing claims.** The application would be submitted within 60 days of the capital investment being placed in service and would need to be approved before

<sup>6</sup> US Bureau of Labor Statistics, Quarterly Census of Employment and Wages. The preliminary average annual pay for manufacturing in Oklahoma as of 2021 is \$62,546.

<sup>7</sup> US Census Bureau Annual Survey of Manufactures



the taxpayer could claim the credit on a tax return. The Department of Commerce has an Incentive Approval Committee, which would be a logical place for this application and approval process to take place. Applying in a timely manner would increase the likelihood that firms would have to plan to plan on taking the credit when making a qualifying investment. An application process is common among the comparison group, with five of 11 states requiring an application or certification.

Without an application, it is more likely firms that did not need, or possibly were not aware of the credit, would make claims. The ease of claiming the credit may also be a factor in the continued growth of unused carried forward credit. Firms may claim the credit for capital investment simply because it is available to them, without an immediate need for it based on tax liability, and carry the credit forward indefinitely.

Many State incentives, including the Quality Jobs Program, the Quick Action Closing Fund, and the newly enacted LEAD act each require applications to receive benefits. This approach of requiring intent from incentive claimants is also in line with the project team's recommendation to require advance notice for claiming the Five-Year Ad Valorem Exemption for manufacturers.

- **Eliminate the new jobs credit, in favor of incenting manufacturing job creation through the Quality Jobs Program.** The Investment-New Jobs Tax Credit needs significant updates to its job creation requirements. As noted in key findings, the minimum annual pay required of \$7,000 is equal to 11.2 percent of the manufacturing's average annual pay in Oklahoma. There is also no requirement related to benefits provided to new jobs. Only one new job is required to receive a new job tax credit.

The Quality Jobs Program, which is available to manufacturers, is favorable as it generally requires that \$2.5 million in new payroll is generated by new jobs earning at least the average county wage, that receive health benefits for which the company pays half of premiums.



# Introduction





## Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by HB 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and Tax Commission.

Under the enabling legislation, each of the State's economic incentives must be evaluated once every four years according to a formal set of general criteria, including (but not limited to) economic output, fiscal impact, return on incentive and effectiveness of administration, as well as criteria specific to each incentive.

Since the Commission's inception, it has contracted with PFM Group Consulting LLC (PFM) to serve as the independent evaluator of each incentive scheduled for review in a given year. PFM issues a final draft evaluation on each incentive with recommendations as to how Oklahoma can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured or repealed. The project team also makes recommendations (where indicated) for changes to State policy, rules or statutes that would allow the incentive to be more easily or conclusively evaluated in the future.

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or reconfigure each incentive under review. It then submits a final report to the Governor and Legislature. This incentive was last evaluated in 2018.

## Summary of 2018 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Fiscal and Economic Impact	Data collected by the Oklahoma Tax Credit was insufficient for economic impact analysis.
Future Fiscal Impact Protections	As of Tax Year 2015, the program to date has incurred a \$557.4 million potential liability for the State, and that liability is expected to continue to grow.
Administrative Effectiveness	No administrative issues were raised, other than a lack of sufficient data for economic impact analysis
Achievement of Goals	In Tax Year 2016, credits claimed were associated with total capital investment of \$2.0 billion and 737 jobs.
Retain, Reconfigure or Repeal	Based on its analysis of available data, the project team recommended reconfiguring the program.
Other Recommendations	<p>The project team recommended several modifications to control program costs including:</p> <ul style="list-style-type: none"> <li>▪ Awarding credits only in the year a capital investment is made,</li> <li>▪ limiting the credit carryforward period to five years,</li> <li>▪ reducing the credit amount to equal four percent of capital investment or \$2,000 per job,</li> <li>▪ implementing stricter reporting requirements and claw back provisions,</li> <li>▪ restricting eligibility to specific industries,</li> <li>▪ restricting the credit to only capital expenditures for new or expanding facilities rather than capital replacement,</li> <li>▪ increasing the wage requirement for new jobs,</li> <li>▪ maintaining the annual cap on expenditures,</li> <li>▪ and improving data collection.</li> </ul>



Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve PFM's recommendation to reconfigure the incentive but modified two recommendations. It recommended the carryforward period be reduced to seven rather than five years, and the wage requirement be increased to match the Quality Jobs Program requirement. No statutory changes were made since these recommendations were made.

## 2022 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation.

To assist in a determination of program effectiveness, the Incentive Evaluation Commission has adopted the following criteria:

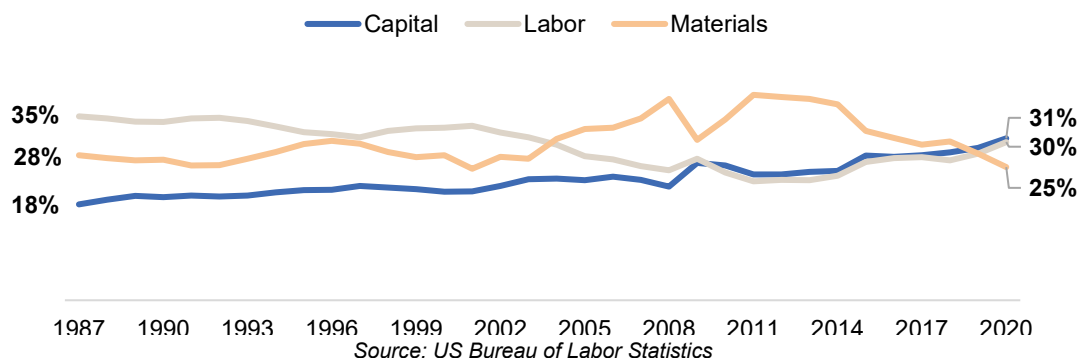
- Change in employment, payroll, and capital investment from qualified facilities
- Change in employment, payroll, and capital investment from qualified industries before/after program
- Change in employment, payroll and capital investment in qualified industries in other states
- State return on investment

## Manufacturing in Oklahoma

The Credit is one of three major incentives for manufacturers offered by Oklahoma, along with the Five-Year Ad Valorem Tax Exemption and the Quality Jobs Program. While the Five-Year Ad Valorem Tax Exemption reduces overhead costs and the Quality Jobs Program reduces the cost of labor, this Credit primarily targets the cost of capital investment.

Capital investment is increasingly important in manufacturing. Since 1987, capital has grown as a factor of productivity in United States manufacturing by a compound annual growth rate (CAGR) of 1.6 percent, while labor and materials declined by 0.5 percent and 0.3 percent, respectively. Since 2010, capital has maintained a higher factor share of manufacturing productivity than labor. Technological advancements leading to the reduction in the costs of capital, and the offshoring of labor in manufacturing have been suggested as explanations for this shift.

**Figure 1: Factor Shares, US Manufacturing Sector, 1987 to 2020**



This national trend is reflected in Oklahoma, where manufacturing employment has declined by a CAGR of 1.0 percent from 2003 to 2019 while manufacturing capital expenditures increased at twice the rate (2.0 percent). Compared to neighboring states, manufacturing payroll grew fastest in Oklahoma, and the State trailed only Kansas in employment growth, and Arkansas in capital expenditure growth.



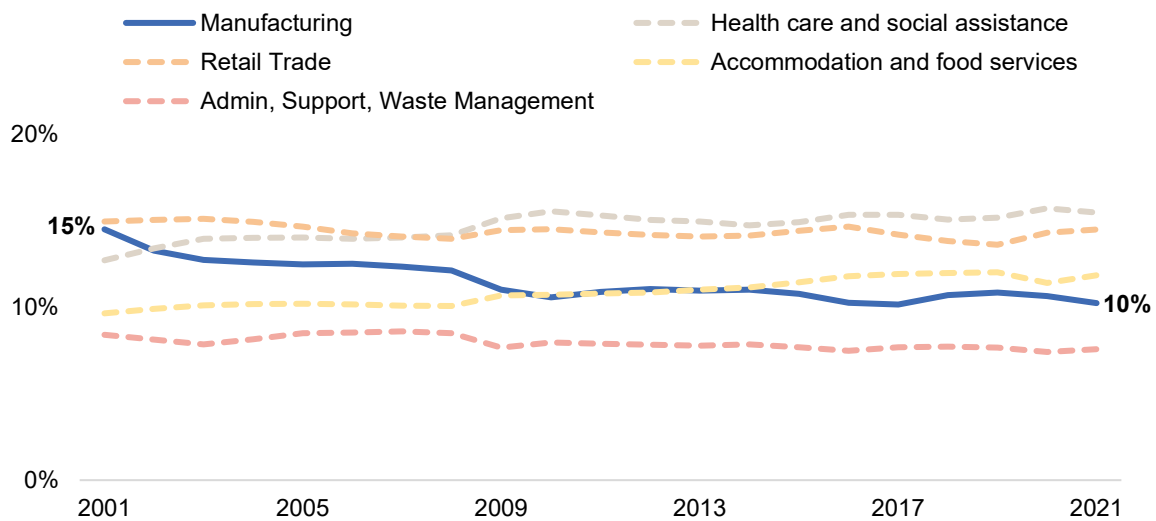
**Table 3: Compound Annual Growth, Manufacturing, 2003 to 2019**

	Employment	Payroll	Capital Expenditures
Arkansas	-1.7%	1.0%	5.9%
Colorado	-1.2%	1.0%	0.5%
Kansas	-0.9%	1.7%	1.3%
Missouri	-1.0%	1.3%	-0.6%
New Mexico	-3.4%	-1.2%	-4.5%
<b>Oklahoma</b>	<b>-1.0%</b>	<b>1.8%</b>	<b>2.0%</b>
Texas	-1.2%	1.5%	0.9%
<b>Oklahoma Rank</b>	<b>2 of 7</b>	<b>1 of 7</b>	<b>2 of 7</b>
<b>US Total</b>	<b>-1.1%</b>	<b>1.4%</b>	<b>2.9%</b>

Source: US Census Annual Survey of Manufactures

Manufacturing has remained a top-five sector by share of total private employment in Oklahoma, but its share has declined significantly. In 2001, manufacturing accounted for about 15.0 percent of employment in the State, but this declined to about 10.0 percent in 2021.

**Figure 2: Share of Total Private Employment in Oklahoma, Top-Five Sectors as of 2021, 2001 to 2021**



Source: US Bureau of Labor Statistics



# **Incentive Usage and Administration**



## Program Administration

The Investment/New Jobs Tax Credit is administered by the OTC. Individuals, partnerships, fiduciaries, and corporations may claim the credit against income tax for qualifying investment or job creation. The credit is claimed on tax returns, accompanied by an additional form the OTC uses to collect qualifying information.

### *Claims Process*

In addition to an income tax return, claimants of the Investment/New Jobs Tax Credit submit Form 506, which asks for the following information.

- For the New Jobs Tax Credit: Base employment, new employment, and the net increase used to calculate the new jobs credit claimed.
- For the Investment Tax Credit: The dollar amount invested, net of any reductions and the rate (one or two percent, depending on qualifications) used to calculate the Investment Tax Credit claimed.
- It also asks for the credit generated that year, the amount of credit used in prior years, the amount used this year, the amount of carryover credits, and an indication of whether the facility is in an enterprise zone.

### *Eligibility and Benefits – Capital Investment*

To qualify for the credit for capital investment, an investment in depreciable property of at least \$50,000 must be made. Qualified depreciable property includes machinery, fixtures, equipment, buildings, or substantial improvements thereto, placed in service in the State during the taxable year. This investment must not cause a decline in the number of full-time-equivalent employees at the facility.

The tax credit is equal to one percent of the cost of depreciable property. The credit can be claimed in the tax year the property is placed in service and the next four tax years, if the property is not sold, disposed of, or transferred. Unused tax credits may be carried forward indefinitely. The credit is doubled to two percent of the cost of depreciable property if the claimant makes a capital investment of at least \$40.0 million or is located in an Enterprise Zone.<sup>8</sup>

### *Eligibility and Benefits – New Jobs*

The credit for job creation requires a net increase in the number of full-time-equivalent employees. New jobs must be paid at least \$7,000 per year. The net change in positions is calculated by comparing the current and prior year's monthly average full-time-equivalent employees (FTE) in the fourth quarter of the taxable year.

The tax credit is equal to \$500 per new employee. It may be claimed in the tax year the net increase in employment is made and may be taken in each of the next four tax years if employment levels are maintained over that period. Unused tax credits may be carried forward for 15 years beyond the initial five-year period. The credit is doubled to \$1,000 per new employee if the claimant makes a capital investment of at least \$40.0 million or is located in an Enterprise Zone.

### *Program Changes*

Since the incentive was reviewed in 2018, the cap placed on the amount that may be used per year (which was effective starting in Tax Year 2016), expired as scheduled at the end of Tax Year 2018. The cap was designed to limit aggregate credit use to \$25.0 million per year. The cap was implemented by applying a percentage to the credits used, calculated by dividing \$25.0 million by the amount of credits used two years prior. For example, for Tax Year 2017, \$25.0 million was divided by the amount used in Tax Year 2015, \$64.8 million, to arrive at 38.6 percent. This kept the amount used near \$25.0 million in Tax Year 2016 and 2017. However, due to the

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<sup>8</sup> Enterprise Zones are counties or areas designated by the Department of Commerce as a result of population decline or other economic distress, including high levels of poverty.



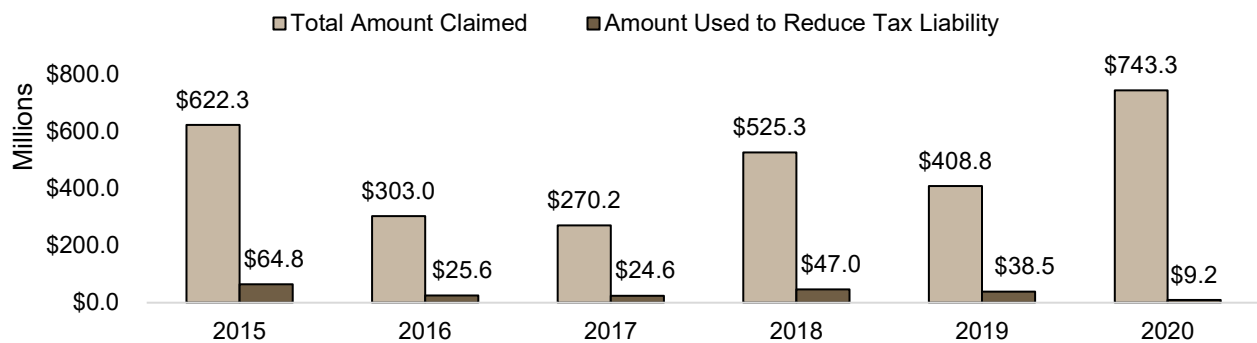
cap formula, despite the three-year term of the cap, there was almost no limit enforced during its third year, Tax Year 2018, as \$25.0 million was divided by the amount used in Tax Year 2016, \$25.6 million, to arrive at 97.7 percent.

## Program Use

The number of returns claiming the credit declined by 31.4 percent, from 1,009 in Tax Year 2015, to 692 in 2020. Over the same period, the total amount claimed increased by 19.5 percent, from \$622.3 million to \$743.3 million. The amount of credit used to offset tax liability declined sharply in Tax Year 2016, as the \$25.0 million cap took effect. In Tax Year 2018, the amount used nearly doubled, to \$47.0 million, as the cap was effectively lifted, and it remained high in Tax Year 2019. In Tax Year 2020, the amount of credit used declined to its lowest point during the period, at \$9.2 million, perhaps due to diminished income tax liability because of the economic impacts of COVID-19.

Based on returns claiming the credit in Tax Year 2020, \$734.1 million in tax credits is available to be claimed in the future. Since the credit is mostly claimed for capital investment, it is likely that most of these credits will be carried forward indefinitely.

**Figure 3: Credit Claimed and Used, Tax Year 2015 - 2020**



Source: Oklahoma Tax Commission

**Table 4: Investment/New Jobs Tax Credit Claims, Usage, and Carryforward, Tax Year 2015 – 2020**  
(Dollar amounts in millions)

Tax Year	Number of Returns	Unused Credit Carried Over from Prior Year	Credit Established During Tax Year	Total Amount Claimed	Amount Used to Reduce Tax Liability
2015	1,009	\$521.7	\$100.4	\$622.3	\$64.8
2016	1,010	\$627.0	\$71.2	\$303.0	\$25.6
2017	1,017	\$636.6	\$63.3	\$270.2	\$24.6
2018	921	\$483.3	\$54.7	\$525.3	\$47.0
2019	861	\$331.7	\$77.1	\$408.8	\$38.5
2020	692	\$628.3	\$114.9	\$743.3	\$9.2

Source: Oklahoma Tax Commission

The OTC does not typically store information collected on Form 506 for analysis, but for the purposes of this evaluation, the OTC provided detailed data on tax returns claiming Investment-New Jobs Tax Credits in Tax Year 2019. The data provided included information on tax credits claimed on Form 511-CR and supporting information submitted on Form 506. The value of this data is limited due to its small sample size of one year, but it is still helpful to describe how the credit is being used.



The data submitted on Form 506 is helpful, as it includes detail related to the number of new jobs and amount of investment used to claim the credit. A review of the completed Form 506s from 2019 showed that 80.5 percent of the dollar amount of new credit claims in Tax Year 2019 were reported on corporate income tax returns, while individual income tax returns accounted for just 19.5 percent of total. The average amount of credit claimed per corporate return that year was \$226,000, while the average individual claim per return was about \$27,179.

Nearly all claims on these forms were made for investment in depreciable property (99.7 percent of total) . Less than one percent was claimed for new job creation. Based on credits allowed in each category and the percentage credit reported, the estimated capital investment associated with these claims was \$1,263 million. Facilities in Enterprise zone accounted for 89.3 percent of the total \$20.5 million claimed for capital investment, and these facilities accounted for 86.3 percent of the total estimated capital investment. A total of 72 new jobs were added by taxpayers claiming a new jobs tax credit. More than half (61.1 percent) were located in an Enterprise Zone. No information is known about the average wage of these jobs.



# **Economic and Fiscal Impact**





## Economic and Fiscal Impact

The economic impact analysis is based on a review of data provided by the Tax Commission for returns claiming the credit in Tax Year 2019. The analysis includes all returns submitting a complete 2019 506 form, claiming the credit for investment or jobs placed in service during the tax year.<sup>9</sup> The economic impacts associated with new jobs and investment was estimated using the IMPLAN economic impact software. The methodology for using the IMPLAN model is explained in Appendix C.

These forms report \$1,263 million of investments placed into service that year where an investment tax credit was claimed, and a net increase of 72 jobs claiming the new jobs tax credit. The annual economic output from the jobs is estimated to be \$15.6 million per year. The total credit claimed on these forms in 2019 is \$20.5 million. The amount of credits used, which represents the actual cost to the State, is \$7.9 million.

For an economic impact analysis, it is assumed that these claimants will continue to claim the same amount of credit in each of the remaining four years of the credit period and continue to use these same amounts in each year until the carried forward credit is exhausted. At 2019 credit usage rates, total credit carried forward from these claims would be exhausted in 2034. The net present value of the annual cost to the State of credit usage over this period is estimated to be \$77.8 million.

**Table 5: Assumed Schedule of Credit Claims and Use**

<b>Tax Year</b>	<b>Credit Amount Claimed</b>	<b>Credit Amount Used</b>	<b>Credit Carried Forward</b>	<b>Present Value of Credit Used</b>
2019 Actual	\$20,517,753	\$7,877,604	\$12,640,149	\$7,877,604
2020 Projected	\$20,517,753	\$7,877,604	\$25,280,298	\$7,502,480
2021 Projected	\$20,517,753	\$7,877,604	\$37,920,447	\$7,145,219
2022 Projected	\$20,517,753	\$7,877,604	\$50,560,596	\$6,804,971
2023 Projected	\$20,517,753	\$7,877,604	\$63,200,745	\$6,480,924
2024 Projected	\$0	\$7,877,604	\$55,323,141	\$6,172,309
2025 Projected	\$0	\$7,877,604	\$47,445,537	\$5,878,390
2026 Projected	\$0	\$7,877,604	\$39,567,932	\$5,598,466
2027 Projected	\$0	\$7,877,604	\$31,690,328	\$5,331,873
2028 Projected	\$0	\$7,877,604	\$23,812,724	\$5,077,974
2029 Projected	\$0	\$7,877,604	\$15,935,120	\$4,836,166
2030 Projected	\$0	\$7,877,604	\$8,057,516	\$4,605,872
2031 Projected	\$0	\$7,877,604	\$179,912	\$4,386,545
2032 Projected	\$0	\$152,742	\$27,170	\$81,002
2033 Projected	\$0	\$22,345	\$4,825	\$11,286
2034 Projected	\$0	\$4,825	\$0	\$2,321
<b>Total</b>	<b>\$102,588,766</b>	<b>\$102,588,766</b>		<b>\$77,793,401</b>

The annual economic output from employment and investment are both estimated through 2034, to estimate economic activity and revenues to the State during the period the credit is assumed to be used. Costs and revenues are both discounted to the present value using a 5 percent discount rate, reflecting the estimated sum of long-term government borrowing rates plus long-term inflation rates.

The ongoing economic activity resulting from the initial investment (return) is estimated to be 8 percent of the initial investment per year, and as noted, discounted by 5 percent to the net present value.

<sup>9</sup> Form 506 data was considered complete if it included a clearly reported credit claim amount and the percentage applied to investment cost (1 or 2 percent) to arrive at that number, or a net increase of employment and clear credit amount claimed for a new jobs tax credit. Form 506s that reported full investment credit information that did not equate to an investment of \$50,000 or more was excluded. Form 506s submitted by pass through entities were excluded as these entities do not report credit used on these forms.



The economic impacts and revenues to the state then are comprised of the initial investment reported on the claims, plus the small number of jobs reported, plus the impacts of ongoing economic activity (operations) associated with the initial investment and initial new jobs formations noted in the credit claim information, through 2038.

**Table 6: Summary of Form 506 Data Used, Tax Year 2019**

		2019
<b>Investment</b>	Returns	210
	Credit Amount Claimed	\$20,449,753
	Credit Amount Used	\$7,855,259
	Carried Forward	\$12,594,494
	Estimated Capital Investment	\$1,263,412,618
<b>New Jobs</b>	Returns	10
	Credit Amount Claimed	\$68,000
	Credit Amount Used	\$22,345
	Carried Forward	\$45,655
	Jobs	72
	Annual Jobs Economic Output	\$15,615,432
<b>Total</b>	Returns	220
	Credit Amount Claimed	\$20,517,753
	Credit Amount Used	\$7,877,604

Tables 7 through 9 illustrate the economic impacts and tax revenues associated with the program. Table 6 describes the economic impacts of the \$1,263 million initial investment. Qualifying investments generally include machinery, fixtures, equipment, buildings, or substantial improvements thereto, placed in service in during the taxable year. The result of this activity is \$1,696 million in economic activity plus \$29.9 million in state tax revenues.

**Table 7: Economic Impact of Investment, 2019**

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax
<b>Direct</b>	7,096	\$410,462,539	\$411,402,330	\$972,827,715	\$10,113,776
<b>Indirect</b>	1,670	\$106,170,571	\$160,550,783	\$345,210,281	\$8,373,536
<b>Induced</b>	2,572	\$111,366,321	\$202,205,240	\$378,099,513	\$11,434,883
<b>Total</b>	11,338	\$627,999,431	\$774,158,352	\$1,696,137,510	\$29,922,195

Note: Employment reflects permanent jobs; All other measures are cumulative over the survey period  
Source: PFM; IMPLAN 2022

Once put in place, the new jobs and investments generate ongoing economic activity, representing the business' return on investment. This has been estimated at an 8 percent return on investment per year. The return on investment will generate annual economic activity each year the claim is used. The annual returns have been discounted to present value, using a 5 percent discount rate, for the purposes of comparison with the State program expenditure. Table 8 illustrates the economic impacts of ongoing activity generated by the initial investments and new jobs formed. The net present value economic impacts of the follow-on activity is \$1,919 million and \$26.5 million in state tax revenue.



**Table 8: Economic Impact of Follow-on Activity from Investment and Employment 2019-2034, Net Present Value**

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax
<b>Direct</b>	4,381	\$347,894,109	\$380,656,262	\$1,242,607,724	\$9,158,171
<b>Indirect</b>	1,833	\$111,512,219	\$165,148,023	\$341,599,220	\$7,217,611
<b>Induced</b>	2,276	\$98,597,204	\$179,131,078	\$334,937,912	\$10,135,028
<b>Total</b>	8,489	\$558,003,531	\$724,935,363	\$1,919,144,856	\$26,510,810

Note: Employment reflects permanent jobs; All other measures are cumulative over the survey period  
Source: PFM; IMPLAN 2022

Table 9 is the sum of tables 7 and 8, combining the initial activity plus the net present value of follow-on activity. This results in total economic activity associated with the program of \$3,615 million in total economic impact. This level of activity generates \$56.4 million in state tax revenues.

**Table 9: Economic Impact of Investment-New Jobs Tax Credit Program, 2019-2034, Net Present Value**

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax
<b>Direct</b>	11,477	\$758,356,647	\$792,058,592	\$2,215,435,439	\$19,271,947
<b>Indirect</b>	3,503	\$217,682,790	\$325,698,806	\$686,809,501	\$15,591,147
<b>Induced</b>	4,847	\$209,963,525	\$381,336,318	\$713,037,426	\$21,569,911
<b>Total</b>	19,827	\$1,186,002,962	\$1,499,093,715	\$3,615,282,366	\$56,433,005

Note: Employment reflects permanent jobs; All other measures are cumulative over the survey period  
Source: PFM; IMPLAN 2022

The \$56.4 million in state tax revenues is less than the \$77.8 million in projected foregone revenue for the 2019 activity, projected through 2034 when claims will be exhausted. The Investment-New Jobs Tax Credit generates only 73 cents in new state tax revenues for each dollar it costs the State. If credit usage increases as a share of total credits claimed, the negative revenue impact will increase accordingly.

Of the \$1,263 million in investment, 86 percent takes place within an Enterprise Zone in Oklahoma. Further, the follow-on jobs associated with the ongoing activity have created 424 permanent jobs. More than half of these jobs are expected to occur within Enterprise Zones. This is in addition to the one-time construction and machinery manufacturing jobs created by initial investments.



# Incentive Benchmarking



## Benchmarking

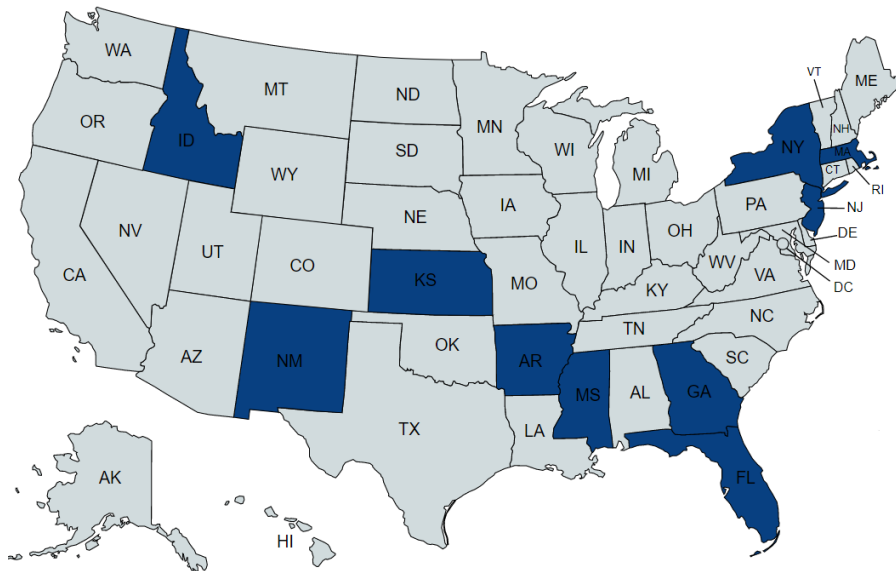
A detailed description of comparable state programs can be found in **Appendix B**.

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are ‘perfect peers’ – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.<sup>10</sup> These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

For this incentive program, the selected comparison group includes three neighboring states (Arkansas, Kansas, and New Mexico) and seven additional states (Florida, Georgia, Idaho, Massachusetts, Mississippi, New Jersey, and New York). These programs are differentiated by eligibility requirements, benefit structure, program caps, and carryforward periods.

**Figure 4: States Selected for Comparison**



## Eligibility

An incentive’s eligibility requirements are key to controlling costs and ensuring the incentive is being used as intended. States in the comparison group vary in their approach to credit eligibility.

Oklahoma’s credit is available to claim on a tax return if program qualifications are met. Five of the ten comparable programs are administered similarly. The other five programs require some form of application approval or certification to begin claiming the credit. This helps ensure eligibility and allows for the collection of specific data on recipients. States requiring an application or approval process generally enforce more specific job creation or capital thresholds.

<sup>10</sup> The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.  
Investment-New Jobs Tax Credit Evaluation



Most comparison group states focus on incenting manufacturing activity. Mississippi, New Jersey, and New Mexico make their credits available only to manufacturing firms. Like Oklahoma, Georgia and Kansas offer credits to selected industries in addition to manufacturing. Florida's credit is available to state target industries and those the state deems "high impact," including aerospace aviation, automotive and silicon technology. No specific industry restrictions are placed on the credits in Arkansas and Kansas.

Two states, Arkansas and Florida, have significant threshold requirements for both capital investment and payroll. Arkansas requires at least \$2.0 million in capital investment and \$0.8 million in new payroll, while Florida requires at least \$25 million in capital investment and 100 new jobs. Oklahoma requires only that jobs be maintained in order to claim its investment tax credit. Other states in the comparison group have low or no minimum capital investment requirement, similar to Oklahoma.

### *Benefit Structure*

Among the comparison group, Florida's credit is by far the most generous, with credits equal to 5.0 percent of the qualifying capital investment each year over a 20-year period. Arkansas and Kansas each offer credits equal to 10.0 percent of qualifying investment. Other states in the comparison group range from 3.0 percent to 5.1 percent.

Eight states in the comparison group award a credit only once, in the year the capital investment was made. Two states spread the award over multiple years: New Jersey's credit may be taken over three years, and Florida's credit is available each year for 20 years.

The timing of credits has important implications on the present value of the incentive. Incentives with a greater present value are more likely to influence business decisions. Oklahoma offers a credit equal to 1.0 percent of a qualifying capital investment to be taken annually, over 5 years. Nominally, this amounts to a total of 5.0 percent of the total capital investment, placing Oklahoma near the average nominal rate (which excludes Florida as an outlier), of 5.8 percent. However, because the credit is awarded over 5 years, the present value of the award is decreased. Using a fairly standard 12.0 percent business discount rate, the present value of Oklahoma's credit is equal to about 4.0 percent.

This methodology can be applied across each state in the comparison group to better compare different benefit structures. The table below summarizes the results of this analysis, using a \$25 million capital investment. The value of Oklahoma's credit drops from 6<sup>th</sup> to 9<sup>th</sup> highest among the 11-state comparison group. Most states front-load credit awards in the year of qualifying investment and thus are not impacted by the adjustment for present value.

Oklahoma decreased its corporate income tax rate from 6.0 percent to a flat 4.0 percent, starting in Tax Year 2022. Among states with a flat rate, only North Carolina has a lower rate 2.5 percent). Oklahoma is tied with Kansas and Missouri for the second-lowest corporate tax rate in the nation.<sup>11</sup> The State's top individual income tax rate also decreased, from 5.0 percent to 4.75 percent starting Tax Year 2022. With decreased income tax liability, the perceived value of these credits may decline further.

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<sup>11</sup> "Range of State Corporate Income Tax Rates, for tax year 2022," Federation of Tax Administrators, accessed electronically at [https://www.taxadmin.org/assets/docs/Research/Rates/corp\\_inc.pdf](https://www.taxadmin.org/assets/docs/Research/Rates/corp_inc.pdf)



**Table 10: Investment Tax Credit Value as a Percent of a \$25.0 million Capital Investment**

	Nominal Value	Per Year Value	Years	Present Value
<b>Florida</b>	100.0%	5.0%	20	41.8%
<b>Arkansas</b>	10.0%	10.0%	1	10.0%
<b>Kansas</b>	10.0%	10.0%	1	10.0%
<b>New Jersey</b>	6.0%	2.0%	3	5.4%
<b>New Mexico</b>	5.1%	5.1%	1	5.1%
<b>Georgia</b>	5.0%	5.0%	1	5.0%
<b>Mississippi</b>	5.0%	5.0%	1	5.0%
<b>New York</b>	5.0%	5.0%	1	5.0%
<b>Oklahoma</b>	<b>5.0%</b>	<b>1.0%</b>	<b>5</b>	<b>4.0%</b>
<b>Idaho</b>	3.0%	3.0%	1	3.0%
<b>Massachusetts</b>	3.0%	3.0%	1	3.0%
<b>Oklahoma Rank</b>	<b>6 of 11</b>	<b>11 of 11</b>	<b>2 of 11</b>	<b>9 of 11</b>

### *Program Caps*

Most states (6 of 10) limit either the total amount of credit one recipient can claim, or limit the amount used per year as a share of total tax liability. Mississippi and New Jersey each cap the amount that can be claimed by one recipient at \$1.0 million. Arkansas, Florida, Georgia, and Massachusetts limit the amount that can be used in one year to 50 percent of tax liability, but Florida increases this percentage for projects with especially high investment. As in Oklahoma, Kansas, Idaho, New Mexico, and New York apply no cap on the amount that can be claimed or used.

### *Carryforward*

Among the comparison group, New Mexico and Oklahoma allow capital investment tax credits to be carried forward indefinitely. Half of the comparison group limits carryforward to 10 years or less, with the other states ranging from 14 to 30 years.

Oklahoma's high amount of unused carried forward credits is an issue also experienced by other states in the comparison group. For example, as of 2020, \$1.8 billion of credits have been issued by Florida's Capital Investment Tax Credit while only \$269.0 million (14.6 percent) have been used.<sup>12</sup> These credits may be carried forward for 10 years beyond the credit's initial 20-year period. In Massachusetts, from 2015 to 2018, only 13 to 18 percent of available capital investment tax credits were used.<sup>13</sup>

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<sup>12</sup> Cite Florida eval

<sup>13</sup> Cite mass eval



# Appendices





## Appendix A: Incentive Statute

### 68 O.S. § 2357.4

A. Except as otherwise provided in subsection F of Section 3658 of this title and in subsections J and K of this section, for taxable years beginning after December 31, 1987, there shall be allowed a credit against the tax imposed by Section 2355 of this title for:

1. Investment in qualified depreciable property placed in service during those years for use in a manufacturing operation, as defined in Section 1352 of this title, which has received a manufacturer exemption permit pursuant to the provisions of Section 1359.2 of this title or a qualified aircraft maintenance or manufacturing facility as defined in Section 1357 of this title in this state or a qualified web search portal as defined in Section 1357 of this title; or

2. A net increase in the number of full-time-equivalent employees in a manufacturing operation, as defined in Section 1352 of this title, which has received a manufacturer exemption permit pursuant to the provisions of Section 1359.2 of this title or a qualified aircraft maintenance or manufacturing facility defined in Section 1357 of this title in this state or in a qualified web search portal as defined in Section 1357 of this title including employees engaged in support services.

B. Except as otherwise provided in subsection F of Section 3658 of this title and in subsections J and K of this section, for taxable years beginning after December 31, 1998, there shall be allowed a credit against the tax imposed by Section 2355 of this title for:

1. Investment in qualified depreciable property with a total cost equal to or greater than Forty Million Dollars (\$40,000,000.00) within three (3) years from the date of initial qualifying expenditure and placed in service in this state during those years for use in the manufacture of products described by any Industry Number contained in Division D of Part I of the Standard Industrial Classification (SIC) Manual, latest revision; or

2. A net increase in the number of full-time-equivalent employees in this state engaged in the manufacture of any goods identified by any Industry Number contained in Division D of Part I of the Standard Industrial Classification (SIC) Manual, latest revision, if the total cost of qualified depreciable property placed in service by the business entity within the state equals or exceeds Forty Million Dollars (\$40,000,000.00) within three (3) years from the date of initial qualifying expenditure.

C. The business entity may claim the credit authorized by subsection B of this section for expenditures incurred or for a net increase in the number of full-time-equivalent employees after the business entity provides proof satisfactory to the Oklahoma Tax Commission that the conditions imposed pursuant to paragraph 1 or paragraph 2 of subsection B of this section have been satisfied.

D. If a business entity fails to expend the amount required by paragraph 1 or paragraph 2 of subsection B of this section within the time required, the business entity may not claim the credit authorized by subsection B of this section but shall be allowed to claim a credit pursuant to subsection A of this section if the requirements of subsection A of this section are met with respect to the investment in qualified depreciable property or net increase in the number of full-time-equivalent employees.

E. The credit provided for in subsection A of this section, if based upon investment in qualified depreciable property, shall not be allowed unless the investment in qualified depreciable property is at least Fifty Thousand Dollars (\$50,000.00). The credit provided for in subsection A or B of this section shall not be allowed if the applicable investment is the direct cause of a decrease in the number of full-time-equivalent employees. Qualified property shall be limited to machinery, fixtures, equipment, buildings or substantial improvements thereto, placed in service in this state during the taxable year. The taxable years for which the credit may be allowed if based upon investment in qualified depreciable property shall be measured from the year in which the qualified property is placed in service. If the credit provided for in subsection A or B of this section is calculated on the basis of the cost of the qualified property, the credit shall be allowed in each of the four (4) subsequent years. If the qualified property on which a credit has previously been allowed is acquired from a related party, the date such property is placed in service by the transferor shall be considered to be the date such property is placed in service by the transferee, for purposes of determining the aggregate number of years for which credit may be allowed.



F. The credit provided for in subsection A or B of this section, if based upon an increase in the number of full-time-equivalent employees, shall be allowed in each of the four (4) subsequent years only if the level of new employees is maintained in the subsequent year. In calculating the credit by the number of new employees, only those employees whose paid wages or salary were at least Seven Thousand Dollars (\$7,000.00) during each year the credit is claimed shall be included in the calculation. Provided, that the first year a credit is claimed for a new employee, such employee may be included in the calculation notwithstanding paid wages of less than Seven Thousand Dollars (\$7,000.00) if the employee was hired in the last three quarters of the tax year, has wages or salary which will result in annual paid wages in excess of Seven Thousand Dollars (\$7,000.00) and the taxpayer submits an affidavit stating that the employee's position will be retained in the following tax year and will result in the payment of wages in excess of Seven Thousand Dollars (\$7,000.00). The number of new employees shall be determined by comparing the monthly average number of full-time employees subject to Oklahoma income tax withholding for the final quarter of the taxable year with the corresponding period of the prior taxable year, as substantiated by such reports as may be required by the Tax Commission.

G. The credit allowed by subsection A of this section shall be the greater amount of either:

1. One percent (1%) of the cost of the qualified property in the year the property is placed in service; or
2. Five Hundred Dollars (\$500.00) for each new employee. No credit shall be allowed in any taxable year for a net increase in the number of full-time-equivalent employees if such increase is a result of an investment in qualified depreciable property for which an income tax credit has been allowed as authorized by this section.

H. The credit allowed by subsection B of this section shall be the greater amount of either:

1. Two percent (2%) of the cost of the qualified property in the year the property is placed in service; or
2. One Thousand Dollars (\$1,000.00) for each new employee.

No credit shall be allowed in any taxable year for a net increase in the number of full-time-equivalent employees if such increase is a result of an investment in qualified depreciable property for which an income tax credit has been allowed as authorized by this section.

I. Except as provided by subsection G of Section 3658 of this title, any credits allowed but not used in any taxable year may be carried over in order as follows:

1. To each of the four (4) years following the year of qualification;
2. To the extent not used in those years in order to each of the fifteen (15) years following the initial five-year period;
3. If a C corporation that otherwise qualified for the credits under subsection A of this section subsequently changes its operating status to that of a pass-through entity which is being treated as the same entity for federal tax purposes, the credits will continue to be available as if the pass-through entity had originally qualified for the credits subject to the limitations of this section;
4. To the extent not used in paragraphs 1 and 2 of this subsection, such credits from qualified depreciable property placed in service on or after January 1, 2000, may be utilized in any subsequent tax years after the initial twenty-year period; and
5. Provided, for tax years beginning on or after January 1, 2016, and ending on or before December 31, 2018, the amount of credits available as an offset in a taxable year shall be limited to the percentage calculated by the Tax Commission pursuant to the provisions of subsection L of this section.

J. No credit otherwise authorized by the provisions of this section may be claimed for any event, transaction, investment, expenditure or other act occurring on or after July 1, 2010, for which the credit would otherwise be allowable until the provisions of this subsection shall cease to be operative on July 1, 2012. Beginning July 1, 2012, the credit authorized by this section may be claimed for any event, transaction, investment, expenditure or other act occurring on or after July 1, 2010, according to the provisions of this section; provided, credits accrued during the period from July 1, 2010, through June 30, 2012, shall be limited to a period of two (2) taxable years. The credit shall be limited in each taxable year to fifty percent (50%) of the



total amount of the accrued credit. Any tax credits which accrue during the period of July 1, 2010, through June 30, 2012, may not be claimed for any period prior to the taxable year beginning January 1, 2012. No credits which accrue during the period of July 1, 2010, through June 30, 2012, may be used to file an amended tax return for any taxable year prior to the taxable year beginning January 1, 2012.

K. Beginning January 1, 2017, except with respect to tax credits allowed from investment or job creation occurring prior to January 1, 2017, the credits authorized by this section shall not be allowed for investment or job creation in electric power generation by means of wind as described by the North American Industry Classification System, No. 221119.

L. For tax years beginning on or after January 1, 2016, and ending on or before December 31, 2018, the total amount of credits authorized by this section used to offset tax shall be adjusted annually to limit the annual amount of credits to Twenty-five Million Dollars (\$25,000,000.00). The Tax Commission shall annually calculate and publish a percentage by which the credits authorized by this section shall be reduced so the total amount of credits used to offset tax does not exceed Twenty-five Million Dollars (\$25,000,000.00) per year. The formula to be used for the percentage adjustment shall be Twenty-five Million Dollars (\$25,000,000.00) divided by the credits used to offset tax in the second preceding year.

M. Pursuant to subsection L of this section, in the event the total tax credits authorized by this section exceed Twenty-five Million Dollars (\$25,000,000.00) in any calendar year, the Tax Commission shall permit any excess over Twenty-five Million Dollars (\$25,000,000.00) but shall factor such excess into the percentage adjustment formula for subsequent years.



## Appendix B: Comparable State Programs

State	Program Name	Application Process	Benefit Amount	Benefit Duration	Carryforward	Per Project Cap	Eligible Industries	Capital Investment Requirements	Job Creation/Wage Requirements
OK	Investment/ New Jobs Tax Credit	Claimed on tax return	1% of cost of qualified property, or \$500 per new employee  If capital investment exceeds \$40 million, 2% of cost of qualified property or \$1,000 per new employee	Credit may be taken for 5 years	Indefinitely	None	Manufacturing, aircraft maintenance and web search portals	At least \$50,000	No job creation required for capital investment tax credit
AR	ArkPlus	Application	10% of total investment in a new location or expansion project	Credit is taken in the year a qualifying capital investment is made	9 years	50% of a business's income tax liability resulting from the project	No restrictions	At least \$2 to \$5 million, depending on the location of the project	No specific job creation threshold, but \$0.8 to \$2.0 million in payroll must be created
FL	Capital Investment Tax Credit	Application	5% of eligible capital costs	Credit may be taken for 20 years	10 years following initial 20-year period	Per year credit use is limited to: 50% for capital investment of \$25 million to \$50 million, 75% for capital investment of \$50 million to \$100 million, 100% for capital investment of \$100 million or more	Must operate in a state target or "high impact" sector including aerospace, aviation, automotive and silicon technology, unless locating in an enterprise zone or brownfield area	\$25 million for "high impact" sectors  \$100 million for target industries retaining jobs  \$250 million for businesses locating in an enterprise zone or brownfield area	100 new jobs for "high impact" sectors  100 new jobs and 1,000 retained jobs for target industries  1,500 jobs for businesses locating in an enterprise zone or brownfield area



State	Program Name	Application Process	Benefit Amount	Benefit Duration	Carryforward	Per Project Cap	Eligible Industries	Capital Investment Requirements	Job Creation/Wage Requirements
GA	Investment Tax Credit	Claimed as part of tax return	<p>Tier 1 Counties: 5% of cost of qualified property</p> <p>Tier 2 Counties: 3% of cost of qualified property</p> <p>Tier 3 or 4 Counties: 1% of cost of qualified property</p>	Credit is taken in the year a qualifying capital investment is made	10 years	Annual use is limited to 50% of a business's income tax liability resulting from the project	Manufacturing or telecommunications	\$50,000	None
KS	High Performance Incentive Program	Requires certification by the Secretary of Commerce	10% of qualified business investment exceeding \$50,000	Credit is taken in the year a qualifying capital investment is made	16 years	None	Manufacturing, corporate or regional headquarters, back office operations of a national or multi-national corporation, and certain other industries making at least 51 percent of sales to Kansas manufacturers or out-of-state customers	At least \$1 million in metropolitan counties. \$50,000 in all other counties	Companies must pay average wages greater than other firms in its NAICS code
ID	Capital Investment Tax Credit	Claimed on tax return	3% of qualified investment costs	Credit is taken in the year a qualifying capital investment is made	14 years	None	No restrictions	No minimum	None
MA	Investment Tax Credit	Claimed on tax return	3% of cost of property	Credit is taken in the year a qualifying capital investment is made	3 years	May not exceed 50% of the company's tax liability	Manufacturing, research and development, agriculture or commercial fishing	No minimum	None



State	Program Name	Application Process	Benefit Amount	Benefit Duration	Carryforward	Per Project Cap	Eligible Industries	Capital Investment Requirements	Job Creation/Wage Requirements
MS	Manufacturing Investment Tax Credit	Must submit an application to the Mississippi Department of Revenue	5% of the cost of eligible investments	Credit is taken in the year a qualifying capital investment is made	5 years	\$1 million	Manufacturing	\$1 million	None
NJ	Manufacturing Equipment and Employment Investment Tax Credit	Claimed on tax return	2% of the investment cost for manufacturing equipment and \$1,000 for each new employee	Credit may be taken for 3 years	7 years	\$1 million	Manufacturing	No minimum	No minimum
NM	Investment Tax Credit for Manufacturers	Must submit an application to the New Mexico Taxation and Revenue Department	5.125% of value of equipment, or what would be paid in gross receipts tax, if subject to gross receipts tax	Credit is taken in the year a qualifying capital investment is made	Indefinitely	None	Manufacturing	No minimum	Must show a net increase of one employee from previous year for every \$750,000 of property value claimed up to \$30 million and for every \$1 million claimed thereafter
NY	Investment Tax Credit	Claimed on tax return	5% for first \$350 million of investment, 4% thereafter; 9% for research and development property  Additional 1.5% for a 1% to 2% increase in employment, 2% for a 2% increase in employment, and 2.5% for employment increase of 3% or more	Credit for capital investment is taken in the year a qualifying capital investment is made. Employment incentive is taken in each of the following two years.	15 years	None	No restrictions	No minimum	None



## **Appendix C: IMPLAN Economic Impact Methodology**

The economic impact methodology utilized to determine the multiplier effects is IMPLAN (Impact Analysis for PLANning), a proprietary model; PFM has obtained a license for use of the IMPLAN model for these evaluations.

IMPLAN's Social Accounting Matrices (SAMs) capture the actual dollar amounts of all business transactions taking place in a regional economy as reported each year by businesses and governmental agencies. SAM accounts are a better measure of economic flow than traditional input-output accounts because they include "non-market" transactions. Examples of these transactions would be taxes and unemployment benefits.

### Multipliers

SAMs can be constructed to show the effects of a given change on the economy of interest. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region-specific SAMs, they will reflect the region's unique structure and trade situation.

Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects which are displayed in the final report. These are the direct, indirect, and induced changes within the economy. Direct effects are determined by the Event as defined by the user (i.e. a \$10 million order is a \$10 million direct effect). The indirect effects are determined by the amount of the direct effect spent within the study region on supplies, services, labor, and taxes. Finally, the induced effect measures the money that is re-spent in the study area as a result of spending from the indirect effect. Each of these steps recognizes an important leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.