



State of Oklahoma

Incentive Evaluation Commission

Tax Deduction for Eligible Investors Draft Evaluation

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Key Findings and Recommendations



Incentive Overview

The incentive provides a deduction from Oklahoma taxable income or adjusted gross income for qualified equity investments made by accredited investors in eligible Oklahoma venture capital companies. An accredited investor may deduct up to \$25 million per taxable year. The deduction may not reduce Oklahoma taxable income below zero, and no carryover is allowed. The venture capital company accumulates funds to invest in for-profit business entities, and the Oklahoma Center for the Advancement of Science and Technology (OCAST) determines whether a business qualifies as an eligible Oklahoma business venture for receipt of that investment. The Oklahoma Tax Commission (OTC) administers the deduction.

The deduction was authorized for tax years 2022 through 2026 and was extended through tax year 2031 by HB 4028 (2026), effective January 1, 2027.¹

Recommendation: Retain, with modifications

Key Findings

- **The project team was unable to identify any use of the program over the evaluation period.** This is due to both data collection challenges and potentially small sample sizes of taxpayers taking the deduction. Changes to the administrative process will collect improved data in the future.
- **The combination of insufficient data and the relatively short history of the program lead to something of an “incomplete grade.”** Assuming there is sufficient participation to allow OTC data to be reported, future evaluations should be able to answer more questions about the fiscal and economic impacts.
- **Whether the deduction changes investor behavior, the “but for” question, cannot be determined from available data, and the incentive’s design offers limited assurance that it does.** No usable claim data exists for any year the deduction has been in effect, so it is not possible to observe whether the incentivized investments would have occurred without it. The deduction reduces tax liability after the fact with no requirement that an investor show the incentive induced the investment and no clawback if it did not.
- **The deduction is broad relative to comparable incentives and lacks the performance guardrails common to both peer-state programs and Oklahoma’s own performance-based incentives.** Most comparable state programs deliver a percentage credit tied to a certified investment, often with per-investor and annual caps and, in several states, clawbacks. Oklahoma allows a full deduction of the investment amount up to \$25 million per investor per year with no lifetime cap and no job-creation or net-benefit test.
- **The deduction aligns with Oklahoma’s strategic goal of encouraging new private investment but is not targeted to any of the state’s priority industries.** By channeling private capital into Oklahoma venture capital companies, and through them into Oklahoma business ventures, it supports the “Encourage New Private Investment” goal in the Department of Commerce’s 2025 strategic plan. Eligibility is industry-agnostic, however; OCAST weighs industry classification case by case, but the statute does not direct capital toward priority sectors, such as aerospace, energy, or biosciences, identified in the strategic plan.
- **The deduction’s macroeconomic footprint cannot be quantified.** Because the incentive’s fiscal impact is indeterminable and OCAST reported no program activity through mid-2026, its scale relative

¹ Added by Laws 2021, c. 581; amended by Laws 2024, c. 375, § 4; authorization extended through tax year 2031 by HB 4028 (2026), which became law without the Governor’s signature on May 3, 2026, effective January 1, 2027.



to the Oklahoma economy cannot be measured.

Recommendations

- **Align the program with the priority industries identified in the Commerce Department or OCAST strategic plans.** This provides flexibility, though there is a trade-off in terms of targeted design, administration, and marketing potential.
- **Define the goal of this program in relation to similarly situated venture capital and seed capital programs.** Oklahoma offers several opportunities for small businesses, investors, and other actors in the space to access funding for new enterprises.
- **Continue to enhance data collection.** The current OTC forms should capture sufficient data for a proper evaluation. OCAST should develop a plan for supplementing data gathered from OTC and its approved investors and share that plan with the Incentive Evaluation Commission.
- **Require investors to register with OCAST to build a database.** A similar program in Kansas uses registration to track participants and enables value-added activities like surveying investors on their behavior and preferences.



Introduction



Oklahoma Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created in 2015 via HB 2182. The Commission is directed to produce objective evaluations of the State of Oklahoma's wide array of business incentives. The Commission is comprised of five voting members, with each appointed by the Governor, President Pro Tempore of the Senate, Speaker of the House of Representatives, Oklahoma Economic Development Partnership, and the Oklahoma Accountancy Board. Representatives of the Department of Commerce, the Office of Management and Enterprise Services, and the Oklahoma Tax Commission serve as ex officio (non-voting) members.

Under the enabling legislation, each of the State's business incentives² must be evaluated once every four years³ according to a formal set of general criteria, including (but not limited to) economic output, fiscal impact, return on investment, 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. PFM issues a final report 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 reports also generally include recommendations for any 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 – voting to retain, repeal or modify each incentive under review. It then submits a final report to the Governor and Legislature.

In April 2026, SB 1990 was signed by Governor Stitt. SB 1990 revised the Incentive Evaluation statute to include additional requirements for the incentive evaluations. Most notably, these were:

- Analyze whether a business receiving the incentive would likely have taken any action required to receive the incentive in the absence of the incentive;
- Broaden the comparison of results of the incentive to other state of Oklahoma incentives or economic development strategies to also include other states;
- An assessment of whether the incentive furthers a strategic economic goal or an industry within this state;
- An assessment of whether the incentive creates a competitive advantage for Oklahoma by evaluating the overall effectiveness of the incentive at a macroeconomic level.

The SB 1990 statutory changes took effect on August 13, 2026. The PFM project team has, to the extent possible, taken them into consideration during the 2026 evaluation process. They will be more fully incorporated into the 2027 incentive evaluation process.

First Evaluation of the Incentive

This is the first evaluation of the Tax Deduction for Eligible Investors since its enactment in 2021. Because the incentive has not previously been reviewed by the Commission, there are no prior evaluation findings, recommendations, or subsequent legislative responses to summarize.

² The statute defines a business incentive as “a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma.”

³ The statute provides the Commission the authority to set a threshold and choose to exempt from evaluation incentives that do not meet this threshold for foregone revenue or expenditures. That threshold is currently set at \$1.0 million.



The deduction was added by Laws 2021, c. 581, effective November 1, 2021, and first applied to tax year 2022. It was amended by Laws 2024, c. 375, section 4. Originally authorized for tax years 2022 through 2026, it was extended through tax year 2031 by HB 4028 (2026), effective January 1, 2027.⁴

2026 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:

- Incentive usage over time (number and value of the deduction)
- Type of entity claiming the deduction, by year
- Value of income tax paid by entities claiming the deduction, by year
- Value of corporate taxes paid by entities claiming the deduction, by year
- Value of investments by venture capital entity, by year
- Value of investments by geography, by industry or sector, or other available characteristics

2026 Evaluation Approach

To conduct its review of the Tax Deduction for Eligible Investors, the project team conducted the following activities:

- Submitted a data request to the Oklahoma Tax Commission (OTC);
- Reviewed and analyzed OTC-provided data;
- Completed subject matter expert and internal stakeholder interviews with representatives from OTC;
- Conducted external stakeholder interviews with program administrators and industry representatives;
- Benchmarked Oklahoma to other states.

⁴ Added by Laws 2021, c. 581; amended by Laws 2024, c. 375, § 4; authorization extended through tax year 2031 by HB 4028 (2026), which became law without the Governor's signature on May 3, 2026, effective January 1, 2027.



Incentive Usage and Administration



Incentive Characteristics

The incentive allows an accredited investor to deduct up to \$25 million per taxable year from Oklahoma taxable income or adjusted gross income the amount of a qualified equity investment made in an eligible Oklahoma venture capital company. A qualified equity investment is a transfer of cash or its equivalent to the venture capital company, documented by the issuance of shares of stock, membership interest, or other evidence of the acquired equity interest.

An eligible Oklahoma venture capital company is a lawfully recognized business entity whose primary purpose is to accumulate funds for investment in lawful for-profit businesses. Oklahoma Center for Advancement of Science & Technology (OCAST) determines whether a business qualifies as an eligible Oklahoma business venture for receipt of that investment. In making the determination, OCAST considers the entity's primary location, its number of Oklahoma employees, state and local revenue generated, economic benefit to the state, the type and amount of the investment, capitalization level and strategy, and industry classification.

The statute does not include a statement of legislative intent, so the goal of the deduction is not defined in law.⁵ The design of the incentive suggests it is intended to channel private capital toward Oklahoma-based venture capital companies and, through them, into Oklahoma businesses selected for their potential economic impact.

Anti-Abuse and Recordkeeping Provisions

The statute restricts the return of a qualified equity investment to a period of three years where the accredited investor is a natural person, and five years where the investor is a lawful business entity, unless the return is a dividend or other payment agreed to at or before the investment and is based on financial performance. Comparable restrictions apply to returns made to related persons (within three degrees of direct familial relationship or through marriage) or to related entities (those owning, or owned by, 51 percent or more of the voting equity interest). Records of the equity interest must be maintained by both the investor and the venture capital company for at least five years.

Historic Use of the Deduction

Program use cannot be quantified from currently available data. The deduction was not a separate item on the Oklahoma income tax return until tax year 2024, and no usable claim data has been produced for the years the incentive has been in effect. The reasons differ by year, as summarized in the following table.

Table 1: Availability of Deduction Data by Tax Year

Tax Year	Data Availability
2022	No data captured on the return.
2023	Co-mingled on the "other deduction" line of the return.
2024	First year a separate line was provided on the return; a search returned no usable data.
2025	Information unavailable.

Source: Oklahoma Tax Commission

Because reliable claim counts and deduction amounts are not available, the evaluation criteria that depend on usage data cannot be assessed in this draft. The most recent Oklahoma Tax Expenditure Report characterizes the fiscal impact of the deduction as indeterminable, because the deduction is commingled with other deductions on Form 511. To the extent that data from Tax Form 582-I (the standalone form used for the Deduction) could be aggregated and evaluated, there may be sufficient data to determine impacts. However it is unclear whether there are limitations to reported data due to the privacy limitations invoked by OTC.

⁵ Intent is not stated in statute; intent inferred by the PFM project team.



Incentive Administration

Administration of the incentive involves two agencies. OTC administers the deduction as claimed on the Oklahoma income tax return. OCAST determines whether a business qualifies as an eligible Oklahoma business venture for receipt of a venture capital company's investment.

Oklahoma Tax Commission

The deduction is claimed on the taxpayer's Oklahoma income tax return. Beginning in tax year 2024, OTC added a separate line on the return to distinguish the deduction from other deductions previously reported on a single "other" line. Form 582-I is the reporting form that each eligible Oklahoma venture capital company must make available to its investors by January 31 each year. The form captures the investor's entity type (individual, trust, corporation, or partnership), the investment date, type, and amount, and information on any return of investment, including whether the return was to a related person or entity and whether it met the statute's financial performance requirements.

OTC reported that entity-type detail may be available from the form, but its ability to release aggregated data may be limited by privacy regulations and the small sample size.⁶ OTC also reported that investee entities do not make a corresponding filing with OTC, and that aggregating usable data over the life of the program is not possible under current reporting.

Oklahoma Center for the Advancement of Science and Technology

OCAST is responsible for determining eligible Oklahoma business ventures under the statute, may promulgate rules to enforce the program, and is required to publish an annual report on the program.⁷ Responsibility for the program transferred from the Oklahoma Department of Commerce to OCAST in 2025. At the time of the transfer, neither Commerce nor OCAST were aware of any activity related to the program.

In February 2026, OCAST developed a Board Program Specification, a memorandum to the Oklahoma Science and Technology Research and Development Board, and an internal standard operating procedure to implement the certification determination. OCAST elected to implement the program through Board-approved program specifications rather than formal administrative rulemaking under the Oklahoma Administrative Procedures Act, on the basis that the determination criteria already existed within its statutes, administrative rules, and program specifications. Under the adopted framework, OCAST applies a three-part test: (1) lawful entity status and registration and good standing with the Oklahoma Secretary of State; (2) a primary and substantive Oklahoma business presence evaluated under a totality-of-circumstances standard; and (3) reasonable employment and economic benefit within Oklahoma. As of August 2026, OCAST had not received or processed any inquiries into the program.

Incentive Best Practices

The PFM Project Team has established a set of best practices that can apply broadly to incentive program designs.⁸ These are based on decades of experience evaluating programs professionally as well as reviewing the associated academic literature and evaluations of programs by state agencies or departments. A program can then be judged to either fully adopt, partly adopt, or not adopt a given practice.

The Deduction for Eligible Investors aligns with several best practices for incentive design. It leverages significant private capital through the venture capital market. It is relatively simple to understand and access and has a listed sunset date which encourages reflection and active engagement from legislators. Negative aspects are the lack of transparency and accountability, though it is unclear how much of this gap is due to the relative lack of utilization as opposed to data collection or reporting. The program targets Oklahoma-

⁶ Oklahoma Tax Commission, 2026 IEC data request response and June 2026 site visit responses.

⁷ 68 O.S. § 2358.110(A)(2), (J); OCAST program administration correspondence and Board materials, February 2026.

⁸ Details on the best practices and their establishment can be found in the Appendices.



based investments which can be a positive for the state economy. Individuals are capped on a per year basis, but there is no minimum period for investment nor are there any lifetime caps on the program usage.

Figure 1: Incentive Best Practice Alignment

Best Practice	Investors
Targeted to specific companies or industries	☐
Discretionary	☐
Leverage significant private capital	☒
Limited duration / front-load benefits to 1-3 years	☐
State / Local conditions considered	☐
Overcoming practical barriers to growth	☐
Transparency	☐
Accountability	☐
Cap on value of awards	☐
Simple and understandable	☒
Sunset on program duration	☒



Economic and Fiscal Impact



Fiscal and Economic Impact

Due to a lack of participation over the course of the program, there is not enough data to evaluate the fiscal and/or economic impact of the program. The deduction first applied to tax year 2022, and no usable claim data has been produced for tax years 2022 through 2025. The most recent Oklahoma Tax Expenditure Report characterizes the fiscal impact as indeterminable because the deduction is commingled with other deductions on the return. A five-year series is not yet available; tax year 2026 is the fifth year of the program and those returns have not been filed.

Table 2: Estimated Foregone Revenue by Tax Year

Tax Year	Returns Claiming	Amount Deducted	Estimated Foregone Revenue
2022	Not captured	Not captured	Indeterminable
2023	Not available	Not available	Indeterminable
2024	No usable data returned	No usable data returned	Indeterminable
2025	Not available	Not available	Indeterminable
2026	Returns not yet filed	Returns not yet filed	To be determined

The economic impact of the program cannot be measured without data on the number and size of deductions taken.

Effect on Business Behavior

As previously noted, SB 1990 requires the incentive evaluations to consider “the extent to which the incentive changes business behavior, including whether the business receiving the incentive would likely have taken any action required to receive the incentive in the absence of such incentive.”

Business location, hiring and investment decisions rely on a combination of considerations, including market factors, worker availability, infrastructure, access to suppliers and customers, and a reasonable cost structure, which can include taxes. Incentives that lower costs, provide capital, or offer services are one factor among many that can influence business behavior.

The extent to which an incentive changes an individual business’s behavior has been widely debated. Since incentives are just one factor among many influencing any given business decision, incentives rarely, if ever, are 100 percent responsible for a given investment. At the same time, it is unlikely that an incentive had absolutely no impact at all.

Based on a review of 30 different studies, Timothy J. Bartik of the W.E. Upjohn Institute estimated incentives probably affect between 2 percent and 25 percent of incented firms making business location, expansion, or job retention decisions.⁹ However, a discretionary incentive that includes a robust application and review process and requires regular reporting on milestone achievement is likely to affect behavior differently than a statutory tax break with few accountability mechanisms. Incentive programs with these design features may have a greater effect on investment decisions.¹⁰ While it is difficult to quantify the impact of an incentive to an individual firm’s decision making, evidence does suggest that certain factors do influence both business choice and incentive effectiveness. Nevertheless, Bartik concluded, “Overall, the research literature on incentives’ “but for” effects is not as rigorous as one might hope.”¹¹

⁹ Bartik, Timothy J. “‘But For’ Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?” W.E. Upjohn Institute for Employment Research. 2018.

¹⁰ “Michigan Business Development Program Effectiveness Study.” W.E. Upjohn Institute and Center for Regional and Economic Competitiveness. January 2019.

¹¹ Bartik, 2018.



Given the challenges of determining the specific extent to which an individual incentive changes individual business behavior, the evaluations consider the factors that are most likely to indicate that the incentive influenced business decisions. These include:

- **Features of the incentive offer.** The relative size of the incentive benefit affects its impact^{12,13} as do the incentive type and structure, leverage generated, timing of the application, and whether a firm is a first-time or repeat incentive recipient.^{14,15}
- **Firm attributes.** Cost-sensitive or efficiency-seeking operations (such as manufacturing, call centers, and distribution centers) and foreign investors have also been found to be more likely to be influenced by the availability of incentives, as are companies for whom the incentive meets a specified need, such as project financing or support services.¹⁶
- **Details obtained in the application process or built into project eligibility requirements** that indicate need for or value of the incentive to the individual business.
- **Consideration of multiple investment locations.** Companies that have credibly considered multiple locations that are able to meet their operational needs or have functions that are mobile (that is, they do not need to locate in a specific place in order to meet their operational needs) are more likely to value state and local incentives in their decision process.^{17,18,19}
- **Changes in desired outcomes documented by compliance and evaluation procedures.**

These factors indicate but do not definitively determine whether a business receiving the incentive would likely have taken any action required to receive the incentive in the absence of such incentive. Because the incentive's precise impact on individual business decisions and, therefore, the outcomes generated cannot be known, the Fiscal and Economic Impact Analysis for evaluations often estimates a breakeven level where the total benefits from the incentive program would have to be attributable to the incentive in order for the State to break even on its investment. However, the lack of data for this incentive makes a breakeven calculation impossible to calculate.

Application to the Deduction for Eligible Investors

This incentive differs from most incentives the Commission reviews in that the recipient of the benefit is an investor rather than an operating business, and the action required to receive the benefit is a transfer of capital to an eligible Oklahoma venture capital company. Of the factors previously discussed, four of the five yield little or no evidence of a behavioral effect, and the fifth cannot be assessed.

¹² James, Sebastian. "Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications." Investment Climate Advisory Services of the World Bank Group. 2013.

¹³ Bartik, Timothy J. "Who Benefits from Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." W.E. Upjohn Institute Technical Report No. 18-034. 2018.

¹⁴ Foley, Paul. "Local Economic Policy and Job Creation: A Review of Evaluation Studies." *Urban Studies* 29(3/4): 557-598. 1992.

¹⁵ Lenihan, et al. "Developing an Evaluative Framework for Industrial Policy in Ireland: Fulfilling the Audit Trail or an Aid to Policy Development." *Quarterly Economic Commentary*. 2005.

¹⁶ Tavares-Lehmann, et al. "Rethinking Investment Incentives: Trends and Policy Options." 2016.

¹⁷ James, 2013.

¹⁸ Jensen, Nathan M. "Exit Options in Firm-Government Negotiations: An Evaluation of the Texas Chapter 313 Program." Washington Center for Equitable Growth Working Paper series. 2017.

¹⁹ Tavares-Lehmann, 2016.



Features of the incentive offer. The relative size of the benefit is the most significant consideration here, and it is smaller than the \$25 million maximum figure would suggest. If the taxpayer has Oklahoma income tax liability, then its value equals the amount invested multiplied by the investor's marginal Oklahoma income tax rate. At the current top individual rate of 4.5 percent, an investor placing \$1.0 million with an eligible venture capital company reduces Oklahoma tax liability by approximately \$45,000, or roughly \$0.045 per \$1.00 invested. The comparison states reviewed in the Incentive Benchmarking chapter deliver \$0.25 to \$0.50 per \$1.00 through percentage credits. The \$25.0 million annual cap is generous in absolute terms, but the effective subsidy rate is low relative to peers and is further reduced by the State's recent income tax rate reductions. A benefit of that magnitude is unlikely on its own to convert a marginal investment decision, though it may influence the size or timing of an investment an accredited investor was already prepared to make.

The structure offers no leverage and no timing advantage. The benefit is realized at filing, after the capital has been committed, rather than at the point of decision. The statute does not distinguish between first-time and repeat claimants.

Investor attributes. The statute limits eligibility to accredited investors as defined under federal securities regulation, a population defined by income or net worth thresholds. These are investors with existing capacity to make equity investments, which weighs against a conclusion that the deduction is supplying capital that would not otherwise be available. Whether the deduction met a specified need for any particular claimant cannot be determined, as no claimant has been identified.

Application process and eligibility requirements. This factor produces no evidence, because the program has no investor-side application. An accredited investor claims the deduction on the Oklahoma income tax return and files Form 582-I. There is no advance certification of the investor, no statement of need, no competitive review, and no determination by any State agency that the investment required the incentive. OCAST's certification function runs to the eligibility of the underlying business venture and does not evaluate the investor's counterfactual. Among the peer programs reviewed, Kansas relied on advance certification of investors to define a participant population that could be surveyed. That method is not available in Oklahoma under the current design.

Alternative uses of the capital. Many incentives are designed to attract incentive to one state over another. Since this incentive is only for activity within Oklahoma, a more relevant question is whether the incentivized capital would otherwise have been deployed outside Oklahoma. The statute requires the recipient to be an eligible Oklahoma venture capital company, which establishes an in-state nexus at the point of transfer. It does not require the investor to demonstrate that an out-of-state alternative was under consideration, and it does not on its face condition the deduction on the venture capital company's subsequent deployment of those funds into an OCAST-certified eligible Oklahoma business venture. The in-state requirement therefore attaches to the intermediary rather than to the ultimate use of the capital.

Compliance and evaluation documentation. No compliance data has been made available to the evaluation team. No claim data has been produced for tax years 2022 through 2025, and OCAST reported no program activity through mid-2026. There are no milestone reporting requirements, no performance conditions, and no clawback where an investment would have occurred regardless of the incentive. Subsection I permits the Tax Commission to disallow a deduction and recalculate liability where statutory requirements were not met, but that authority addresses eligibility rather than inducement.

Without additional data the project team cannot conclude that the deduction changes investor behavior, and several design features weigh against it: a low effective subsidy rate relative to peer programs, a benefit delivered after the decision is made, no assessment of investor need at any stage, and no mechanism that would distinguish an induced investment from one that would have occurred regardless.



Goals, Strategy, and Competitive Considerations



As noted, the 2026 passage of SB 1990 provided some additional factors to consider when evaluating the State's business incentives. This chapter analyzes the criteria that have not been included in other chapters of the evaluation. Because the incentive has produced no usable claim data, the assessments below rest on program design and statutory structure rather than on observed outcomes.²⁰

The strategic goals and priority industries referenced in this chapter are drawn from the Oklahoma Department of Commerce's strategic plan for economic and community development.²¹ The Deduction for Eligible Investors was created by the Legislature and assigned to OCAST for administration; OCAST did not request or design the program. References to Commerce's strategic priorities are therefore used as a benchmark for alignment, not as a statement of the program's originating intent.

Goals Achievement

The statute does not state a legislative intent, so the goal of the deduction is not defined in law. As noted earlier in this report, the project team infers that the deduction is intended to channel private capital into Oklahoma venture capital companies and, through them, into Oklahoma business ventures selected for their potential economic impact.

Whether the incentive is achieving that inferred goal cannot be determined at this time. No usable claim data exists for any year the deduction has been in effect, and OCAST reported no program activity through mid-2026. The program's design is capable of furthering the inferred goal, in that it offers a substantial tax benefit for qualifying investments and directs capital through an intermediary into Oklahoma businesses. There is, however, no evidence of uptake on which to base a conclusion that the goal is being met.

Effect on a Strategic Economic Goal or Industry

The deduction aligns with the "Encourage New Private Investment" goal in Commerce's strategic plan, which calls for activating investment tools to attract private capital and to increase investment in Oklahoma projects and funds. Its intermediary structure also relates to the plan's support for small business and entrepreneurship, to the extent the venture capital companies deploy capital into early-stage Oklahoma businesses. Among the plan's five pillars, it is most closely associated with Relevant Incentives.

The deduction is not, however, targeted to any of the priority industries identified in the plan. The plan names energy, aerospace and defense, agriculture and food, information technology, healthcare and bioscience, manufacturing, and transportation and distribution as recruitment and retention priorities. The deduction is industry-agnostic. OCAST weighs a business venture's industry classification as one factor in its certification determination, but the statute does not direct capital toward any particular sector, so alignment with the plan's industry-targeting objective is incidental rather than by design.

In-State Incentive Comparison

SB 1990 broadened the required comparison of the incentive to other incentives and economic development strategies with similar goals to include comparisons within the state. Among currently active Oklahoma incentives, the Investment Tax Credit is the closest comparator by goal, in that both use the income tax code to encourage private capital investment in the state. The two programs are structured differently, as summarized below.

²⁰ See the Incentive Usage and Administration chapter of this report.

²¹ Oklahoma Department of Commerce, Oklahoma's Strategic Plan for Economic and Community Development (2025).



Table 3: Deduction for Eligible Investors Compared to the Investment Tax Credit

Dimension	Deduction for Eligible Investors	Investment Tax Credit
Goal	Encourage private equity investment into Oklahoma venture capital companies and business ventures	Encourage private investment in new depreciable manufacturing property
Benefit form	Full income-tax deduction of the investment amount	Income-tax credit of 1% per year for five years; doubles in an Enterprise Zone or for investment above \$40 million
Cap	\$25 million per investor per year; no lifetime cap	Rate-based; tied to the amount of qualifying property
Beneficiary	Accredited investor	Manufacturing company making the investment
Industry targeting	Industry-agnostic; ventures certified by OCAST	Manufacturing sector
Administration	OTC and OCAST	OTC; marketed by Commerce
Performance linkage	None beyond the return-of-investment restrictions	Tied to actual qualifying investment; no job-creation test

Source: PFM analysis of program materials and the Oklahoma Department of Commerce strategic plan.

The cost profiles differ in kind. The Investment Tax Credit's cost is a defined percentage of documented qualifying property, which limits the per-dollar exposure and makes the cost more predictable. The deduction's cost is capped only per investor, is uncapped in aggregate, and cannot currently be measured because usage data is unavailable. Relative to the Investment Tax Credit, the deduction places more revenue at risk per participating investor and provides less visibility into who benefits and to what effect.

Macroeconomic Competitive Advantage

SB 1990 requires an assessment of whether the incentive creates a competitive advantage for the state by evaluating its overall effectiveness at a macroeconomic level. A quantitative comparison of the incentive's fiscal footprint to the size of the Oklahoma economy was not possible, because the incentive's fiscal impact is indeterminable and no program activity was reported through mid-2026. At the statutory maximum, a single investor's benefit is modest, on the order of \$1.1 million where a \$25 million deduction is applied against the current top individual income tax rate.²² The aggregate cost, and therefore any measurable macroeconomic effect, is unknown.

On terms, the deduction is competitive with, though structurally different from, peer-state investment incentives. As discussed in Incentive Benchmarking, roughly half of states currently offer an angel investor or early-stage equity incentive, and several have repealed or allowed such programs to expire. Most peer programs provide a capped percentage credit for direct investment in a qualifying business. Oklahoma instead provides a full deduction routed through a venture capital intermediary, which can yield a larger per-dollar benefit for high-liability investors than a typical percentage credit but is atypical in form. On the available evidence, there is no basis to conclude that the deduction has produced a measurable macroeconomic competitive advantage for the state.

²² Calculation: \$25,000,000 multiplied by 4.5 percent equals \$1,125,000, using the current top individual income tax rate. A corporate investor would compute the benefit against the corporate income tax rate.



Incentive Benchmarking



State	Program	Structure / Benefit	Cap	Eligible Investment / Investor
Oklahoma	Qualified Equity Investment Deduction (68 O.S. 2358.110)	Full deduction of the investment amount	\$25M per investor, per year	Accredited investor's equity investment in an eligible Oklahoma venture capital company; underlying business ventures certified by OCAST
Kansas	Angel Investor Tax Credit	50% credit	Annual and per-investor limits apply	Investment in certified Kansas businesses
New Mexico	Angel Investment Tax Credit	25% credit	Per-investment and annual limits apply	Investment in qualifying research or manufacturing companies
Louisiana	Angel Investor Tax Credit	25% credit (35% enhanced)	Per-business limits; annual cap	Accredited investor's investment in certified Louisiana Entrepreneurial Businesses (Act 515 of 2025)
Illinois	Angel Investment Tax Credit	25% credit (35% set-aside)	\$2M per investment; \$15M annual	Direct investment in certified Qualified New Business Ventures
Connecticut	Angel Investor Tax Credit	25% credit	\$250,000 per investor	Cash investment of \$25,000+ by accredited investors in qualified Connecticut businesses
New Jersey	Angel Investor Tax Credit	35-40% refundable credit	\$25M cumulative annual cap	Qualified investment in NJ emerging technology businesses
Texas	Certified Capital Company (CAPCO)	Premium tax credit (structural analog)	Authorized in fixed tranches	Insurance company investment in a certified intermediary fund that invests in qualified Texas small businesses

Source: PFM analysis of state program materials

Evaluations of Benchmark Programs

Kansas. The Legislative Division of Post Audit evaluated the Angel Investor Tax Credit in February 2024, focusing on whether the credit changed investor and business behavior.²⁴ Because there is no direct way to observe what participants would have done without the credit, the auditors surveyed 1,073 investors and 158 businesses that had participated between 2015 and 2022, receiving complete responses from 355 investors and 52 business representatives. Of the responding investors, 58 percent said they would have invested less or later without the credit and 27 percent said they would not have invested at all, while 10 percent reported no change in behavior.

The auditors paired the survey with program data from the Departments of Commerce and Revenue showing that 123 Kansas start-ups received \$102.1 million in investment from 1,161 investors, generating \$44.4 million in credits, or roughly \$2.30 of investment per dollar of credit issued. Kansas can conduct this analysis because both businesses and investors register with Commerce, which produces an identifiable participant roster with contact information.

The auditors nonetheless found the agency's program data incomplete and inaccurate as initially provided and noted that data errors of that kind delay any evaluation that depends on them. A 2020 Post Audit evaluation of the same program compared the survival and job creation of participating businesses against peer businesses using state administrative data.

²⁴ Kansas Legislative Division of Post Audit, *Evaluating the Angel Investor Tax Credit Program*, February 2024



Connecticut. The Auditors of Public Accounts issued a performance audit of Connecticut Innovations' administration of the Angel Investor Tax Credit in January 2026.²⁵ The audit found that the credit has no defined purpose, objectives, or performance measures and that none appear in its enabling legislation; that required annual reporting was limited to the statutory minimum and did not present a sufficiently comprehensive picture of the credit's economic impact; and that the credit's terms are less competitive than those of other states and may discourage investment.

On data collection, Connecticut statute requires Connecticut Innovations to report annually on the credit's cumulative effectiveness, including the number and type of businesses receiving investment, the number and aggregate amount of cash investments, the status of each recipient business, and employment in each year following the investment. Those reports are published within the Department of Economic and Community Development's annual report, and the Department of Revenue Services separately publishes credits claimed each year.

The auditors found that reporting to the statutory minimum was insufficient and recommended adding industry classification codes, geographic distribution of investors and businesses, employment and credit trends, jobs preserved, economic return on investment, and the number of businesses certified that never received an investment. Advance certification of both businesses and investors also allowed the auditors to conduct a town-by-town analysis of where investment landed and to survey participants directly on their experience with the credit.

²⁵ State of Connecticut Auditors of Public Accounts, *Performance Audit: Connecticut Innovations' Administration of the Angel Investor Tax Credit Program, Fiscal Years Ended June 30, 2022 and 2023*, January 8, 2026.



Appendices



Appendix A: Incentive Statute

68 O.S. § 2358.110 — *Qualified Equity Investment Deduction (as amended)*. Reproduced below, reflecting the extended authorization period enacted by HB 4028 (2026).

A. As used in this section:

1. “Accredited investor” means a person or entity as defined pursuant to Section 230.501 of Title 17 of the Code of Federal Regulations;
2. “Eligible Oklahoma business venture” means a lawful business entity that is determined by the Oklahoma Center for the Advancement of Science and Technology (OCAST) for receipt of an equity investment by an eligible Oklahoma venture capital company. In determining whether an investment is a qualified equity investment, OCAST shall consider the potential impact the investment would have on the local and state economy and shall consider the following factors: the primary location of the entity; the number of employees located or to be located in this state; state and local revenues generated from the investment; the economic benefits to the state; the type and amount of the investment; the current capitalization level and strategy; and the industry classification of the entity;
3. “Eligible Oklahoma venture capital company” means a lawfully recognized business entity the primary business purpose of which is to accumulate funds for making investments in lawful for-profit business entities, organized as a general partnership, limited partnership, limited liability partnership, limited liability company, corporation, or other lawfully recognized business entity;
4. “Lawful business entity” means a person, a general partnership, a limited partnership, a limited liability partnership, a limited liability company, or a corporation; and
5. “Qualified equity investment” means a transfer of cash or its equivalent by an accredited investor to an eligible Oklahoma venture capital company, in an amount not in excess of Twenty-five Million Dollars (\$25,000,000.00) by an accredited investor during a taxable year.

B. For tax years 2022 through 2031, there shall be allowed a deduction from Oklahoma taxable income or Oklahoma adjusted gross income as determined pursuant to Section 2358 of this title equal to the amount of qualified equity investment in an eligible Oklahoma venture capital entity made by an accredited investor.

C. The maximum amount of qualified equity investment made by an accredited investor for purposes of the deduction shall not exceed Twenty-five Million Dollars (\$25,000,000.00) for any taxable year of the investor.

D. Any qualified equity investment shall be documented by the issuance of shares of stock, membership interest or other evidence of the equity interest acquired by the accredited investor, which may take the form of physical shares or the electronic equivalent.

E. Records of the equity interest acquired by an accredited investor shall be maintained by the accredited investor and the eligible Oklahoma venture capital company for a period of at least five (5) years from the date the equity investment is made.

F. A qualified equity investment shall not be returned by the eligible Oklahoma venture capital company to an accredited investor who is a natural person, or to any person related to such natural person within the third degree of consanguinity or affinity, for a period of three (3) years from the date of the investment, unless the return is in the form of a dividend or other payment agreed to prior to or simultaneously with the equity investment transfer and is based on the financial performance of the venture capital company or of one or more for-profit business entities in which its funds are further invested.

G. A qualified equity investment shall not be returned by the eligible Oklahoma venture capital company to an accredited investor that is a lawful business entity, or to any entity owning fifty-one percent (51%) or more of



the voting equity interest of the accredited investor, or to any lawful business entity in which the accredited investor owns fifty-one percent (51%) or more of the voting equity interest, within a period of five (5) years from the date of the investment, subject to the same dividend or financial performance exception described in subsection F.

H. The deduction shall not reduce Oklahoma taxable income or adjusted gross income below zero. There shall not be any carryover with respect to the deduction.

I. If the Oklahoma Tax Commission determines that the requirements of this section were not fulfilled, it shall notify the taxpayer that the deduction has been disallowed and recalculate the income tax liability. The taxpayer retains all rights under the Uniform Tax Procedure Code and the Oklahoma Income Tax Code to contest the disallowance.

J. OCAST may promulgate rules to enforce the provisions of this act. OCAST shall annually publish a report on the program created in this section.

Added by Laws 2021, c. 581, § 1, eff. Nov. 1, 2021. Amended by Laws 2024, c. 375, § 4, emerg. eff. June 5, 2024. Authorization period extended through tax year 2031 by HB 4028 (2026), which became law without the Governor's signature on May 3, 2026, eff. Jan. 1, 2027.



Appendix B: Comparable State Programs

State	Program	Structure / Benefit	Cap	Eligible Investment / Investor
Oklahoma	Qualified Equity Investment Deduction (68 O.S. 2358.110)	Full deduction of the investment amount	\$25M per investor, per year	Accredited investor's equity investment in an eligible Oklahoma venture capital company; underlying business ventures certified by OCAST
Kansas	Angel Investor Tax Credit	50% credit	Annual and per-investor limits apply	Investment in certified Kansas businesses
New Mexico	Angel Investment Tax Credit	25% credit	Per-investment and annual limits apply	Investment in qualifying research or manufacturing companies
Louisiana	Angel Investor Tax Credit	25% credit (35% enhanced)	Per-business limits; annual cap	Accredited investor's investment in certified Louisiana Entrepreneurial Businesses (Act 515 of 2025)
Illinois	Angel Investment Tax Credit	25% credit (35% set-aside)	\$2M per investment; \$15M annual	Direct investment in certified Qualified New Business Ventures
Connecticut	Angel Investor Tax Credit	25% credit	\$250,000 per investor	Cash investment of \$25,000+ by accredited investors in qualified Connecticut businesses
New Jersey	Angel Investor Tax Credit	35-40% refundable credit	\$25M cumulative annual cap	Qualified investment in NJ emerging technology businesses
Texas	Certified Capital Company (CAPCO)	Premium tax credit (structural analog)	Authorized in fixed tranches	Insurance company investment in a certified intermediary fund that invests in qualified Texas small businesses

Source: PFM analysis of state program materials; see footnotes. Preliminary and subject to verification.



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 government 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.

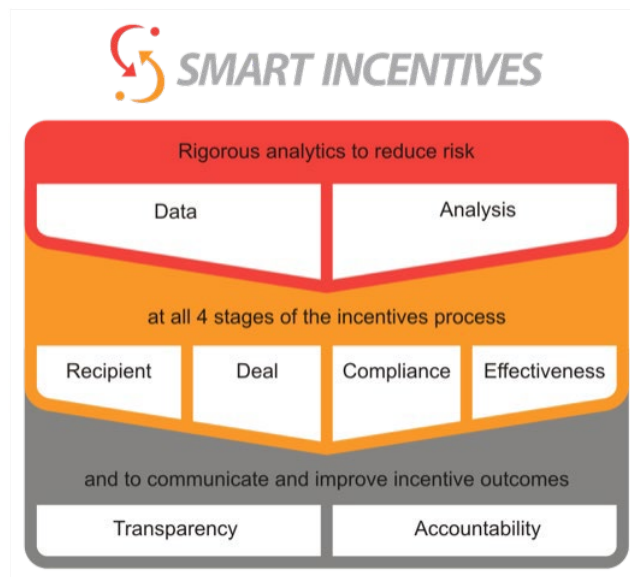
Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects which are displayed in the final report. These are the direct, indirect, and induced changes 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.



Appendix D: Business Incentives Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,²⁶ it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with

²⁶ Three resources in particular were relied upon putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness-of-business-incentives>; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf



higher wages and benefits, significant job creation, or significant capital investment.

2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.
3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.
4. **Incentives should provide most of the benefit within 1-3 years and have a limited duration.** Company discount rates are much higher than for the state, and businesses will significantly devalue incentive payments in later years.
5. **Incentives should take into consideration state and/or local as well as industry economic conditions.** Incentives that are provided in high performing areas or for stable and profitable businesses or industries will likely fail the 'but for test' – meaning the activity would likely occur without the state incentive.
6. **'Smart' incentives help businesses overcome practical barriers to growth.** In particular, customized assistance for locally owned, small and medium-sized businesses can have significant impact.
7. **Incentives should be transparent.** The incentive purpose should be clearly articulated, as are eligibility requirements, and regular, detailed reporting should be required from all program recipients.
8. **Incentives should require accountability.** When upfront financial incentives are offered in return for job creation, retention, or capital investment, there should be contract language in place that allows the state to 'claw back' state resources should the company not meet performance requirements.
9. **Incentives should have caps.** To ensure the state's financial health, program dollar caps or limits should be in place. Incentive programs should also have a limited duration, with sunsets in place to require regular review of incentive performance.
10. **Incentives should be simple and understandable.** The state should be able to easily and effectively administer the incentive, and users should be able to readily comply with its requirements.