

Oklahoma Business Incentives

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With You Today



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OUTLINE

- ▶ **The Oklahoma Quality Jobs Program**
- ▶ New Jobs/New Investment Income Tax Credit for Manufacturers
- ▶ Ad Valorem Exemptions for Manufacturers
- ▶ Indian Employment Credit
- ▶ WOTC

OK DEPARTMENT OF COMMERCE

<https://www.okcommerce.gov/>



Oklahoma Business Incentives & Tax Guide

Fiscal Year 2020

OUTLINE

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The Oklahoma Quality Jobs Program (QJP) - OVERVIEW

- ▶ The QJP - designed to attract and keep companies in Oklahoma.
- ▶ Pays cash rebates based on payroll increases
- ▶ Since the program's inception approximately 1,000 contracts have been issued paying out over \$1 billion

Regular Program Benefits:

- ▶ Cash payments of up to 5% of new payroll for up to 10 years
- ▶ Claims may be paid prior to hitting \$2.5M annual payroll increase threshold if average wage is met
- ▶ Benefits are a powerful incentive and provide enabling assistance to companies considering expansion in Oklahoma

Regular Program

Duration of Benefits:

- ▶ Eligible to receive rebate for the first 12 complete quarters once participation is approved
- ▶ If the company achieves the \$2.5M payroll threshold, rebates are payable for 40 quarters (10 years) - *UNLESS*:
- ▶ *Or until contract maximum value is reached.*
****Trap for the Unwary*

Regular Program

Duration of Benefits:

- ▶ If payroll falls below the \$2.5M threshold
 - ▶ Payroll remains above base payroll:
 - ▶ benefits will continue to be paid based on remaining incremental payroll
 - ▶ Payroll falls below base payroll:
 - ▶ payment will cease
 - ▶ Can begin again if thresholds are met during the remaining term of the contract

Regular Program Requirements:

Company must:

- ▶ Be a qualifying industry - by NAICS code
- ▶ Pay average wage at least lesser of average county wage or average state wage (about \$35K in 2020)
 - Applicants located in opportunity zones, are exempted from the average wage requirement

Regular Program Requirements:

- ▶ Project \$2.5M increase in annual payroll within 3 years
 - (\$1.5M for food processors and R&D and Testing Labs)
- ▶ Meets threshold - 10 year duration of program
- ▶ Failed to meet threshold - removed from the program.

Regular Program Requirements:

- ▶ Offer basic health insurance to employees within 180 days of employment and pay at least 50% of employee only cost

ALL VERSION OF OQJP Generally: Who is eligible to participate?

- ▶ Qualifying NAICS categories:
 - ▶ Manufacturing: 31-33; 5111; 11331
 - ▶ R&D and Testing Laboratories
 - ▶ Central Admin, Corporate, and Technical Service offices
 - ▶ Aircraft maintenance, repair and testing (488190)
 - ▶ Certain Jobs related to mining of oil & gas (2111, 213111, 213112 and 486) (not applicable to small jobs)
 - ▶ Warehouse/Distribution Centers - if >40% of inventory shipped out-of-state

ALL VERSION OF OQJP Generally: Who is eligible to participate?

- ▶ Qualifying NAICS categories - continued:
 - ▶ SERVICES (require 75% sales out-of-state)
 - ▶ Insurance carriers and processors
 - ▶ Debt Adjustment and Collection Services (>75% loans to OOS debtors)
 - ▶ Computer Programming, Data Processing, and Other Computer Related Services
 - ▶ Engineering, Management and Related Svc.

ALL VERSION OF OQJP Generally: Who is eligible to participate?

- ▶ Qualifying NAICS categories - continued:
 - ▶ SERVICES (require 75% sales out-of-state)
 - ▶ Motor Freight Transportation and Warehousing NAICS (484, 4884-4889, 493)
 - ▶ Medical Laboratories
 - ▶ Many other minor categories

ALL VERSION OF QJP: Other Provisions:

- ▶ Cannot be combined with Manufacturing Investment/New Jobs income tax credit UNLESS...
- ▶ Claw Back - No clawback for failure to reach payroll threshold UNLESS ...

Small Employer QJP

Additional Specifications

- ▶ Maximum base level employment: 500 employees
- ▶ Minimum new job requirement varies by community population - greater of:
 - ▶ <3,500: 5 employees or 5% of workforce
 - ▶ 3,500 to 6,999 - 10 employees or 7.5% of workforce
 - ▶ => 7,000 - 15 employees or 10% of workforce

Small Employer QJP Additional Specifications

- ▶ Minimum Job creation must be reached within 8 complete quarters of participation - or dismissed from program

Small Employer QJP Additional Specifications

- ▶ Average wage must meet or exceed 110% of the average wage of the county in which jobs will be created.
- ▶ Health insurance requirement is the same as Large Employer Program.

Small Employer QJP Additional Specifications

- ▶ For Service Industries: Out-of-state sales minimum:
 - ▶ 35% out of state revenue requirement for the first 8 complete quarters of participation
 - ▶ 60% thereafter
- ▶ Counts as out of state sales:
 - ▶ Sales to federal government
 - ▶ Sales to customer who then ships out of state
 - ▶ Warehousing business meeting the 40% OOS threshold

Small Employer Program Benefit Summary

- ▶ The company is eligible to receive up to 5% rebate on taxable wages associated with new employees once all thresholds are met.
- ▶ Once the required number of jobs is reached, the company qualifies to participate a full **7 years** from the date stamp or until maximum benefit is reached.

Small Employer Program Benefit Summary

- ▶ If the company falls below required number of jobs payment will cease, but will begin again if thresholds are met prior to the end of the contract duration
- ▶ The average wage must be maintained quarter to quarter to qualify to receive any benefits

21st Century Program Benefit Summary

- ▶ Net benefit rate of up to 10% rebated on taxable wages associated with new employees
- ▶ If average wage and minimum job number is maintained, the program can run 10 years or until maximum benefit is reached.
- ▶ Claims can be paid prior to hitting the 10 job threshold at a reduced rate

21st Century Program Additional Requirements

- ▶ Applicant must project at least 10 full-time jobs, within the first 12 complete quarters of participation
- ▶ Minimum annual average wage of the lesser of \$103,736 (in 2020) or 300% of the county's average wage

21st Century Program Additional Requirements

- ▶ Service industries - must meet 50% out of state revenue requirement at the time of application or within the first 4 complete quarters of participation

21st Century Program

Additional Qualifying Industries

- ▶ Specialty Hospitals
- ▶ Professional, Scientific, and Technical Services -
See NAICS No. 5411, 5412, 5413, 5414, 5418 and
5419
- ▶ Others...

Application Process

all programs

First Level - Application

- ▶ Applicant must contact ODOC to inform them of the intent to apply as soon as possible.
- ▶ An ODOC representative will meet with the applicant in the field
- ▶ An ODOC representative may accept documents via email, fax, or mail.

Application Process all programs

- ▶ Meeting with ODOC representative once all documentation is submitted
- ▶ Obtain a “date stamp” - VERY IMPORTANT

Application Process all programs

Second Level - Committee Review Team

- ▶ If ODOC deems the application acceptable, the application will be submitted for review at CRT (Committee Review Team). This review will happen in Oklahoma City at the Department of Commerce

Application Process all programs

Third Level - Committee Review Team

- ▶ Review by CRT (Committee Review Team) - in Oklahoma City at the Department of Commerce. If the application is approved in CRT, the application will then move to IAC.
- ▶ IAC (Investment Advisory Council) - final review: approve, deny, or approve with stipulation.

Application Process all programs

Final Level - Approval or Denial

- ▶ If the application is denied:
 - ▶ The applicant may reapply at a later date
 - ▶ Appeal process on paper but not in reality
- ▶ If the application is approved: ODOC will send a contract to the company for approval

Application Process

Documents Required

- ▶ Applicants must fill out the basic application (available on ODOC website)
- ▶ Projection of hiring for first 4 quarters broken down by job description, number of hires per description, and expected wage per description.
- ▶ Projection of cumulative hiring at the end of 12th complete quarter of participation broken down in the same manner using a cola for wages.

Application Process Documents Required

- ▶ OES-3 reports from the previous 4 complete quarters.
- ▶ Current headcount.
- ▶ Temporary job headcount at the time of application and average for previous 4 complete quarters.
- ▶ Company background information.

Application Process Documents Required

- ▶ Company organizational chart showing any subsidiaries , parent company, etc. which has common ownership.
- ▶ Description of current reasons for expansion.
- ▶ List of locations in and out of state.

Application Process

Documents Required

- ▶ Most current fiscal year revenue report and anticipated growth.
- ▶ New investment projections.
- ▶ Current copy of applicant's health benefits plan. Must include company name and effective date. Must include a signed statement on company letterhead stating the average annual expense (per employee) of the plan paid by employer.

Compliance and Claim Filing

- ▶ Once an approved contract has been executed, the company must request claim forms and direct deposit forms from the Oklahoma Tax Commission
- ▶ The first eligible claim period is the first complete quarter after the “date stamp”
- ▶ Claims are filed quarterly with the Oklahoma Tax Commission

Compliance and Claim Filing

- ▶ Claims must be filed regardless of employment levels to maintain compliance
- ▶ Non filing for a period of 2 years may cause dismissal from the program
- ▶ Non filing for a period of 3 years will cause dismissal from the program (8th complete quarter for Small Employer Program)

Incentives Excluded

Participation in the QJP disqualifies participation in many other credits including the following:

- Investment/New Jobs Tax Credit
- Sales and Use Tax Refunds
- Other credits - refer to Department of Commerce's website for list

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New Jobs/New Investment Income Tax Credit for Manufacturers

- ▶ Income tax credit for manufacturers who:
 - ▶ Invest in depreciable property (minimum \$50K)
 - ▶ Increase employment (minimum 1 employee)
 - ▶ Credit is the greater of these two factors
- ▶ If based on property, cannot have a decrease in employment
- ▶ Property can include buildings - including warehouses associated with manufacturer

New Jobs/New Investment Income Tax Credit for Manufacturers

- ▶ Credits doubled in Enterprise Zones
- ▶ Credits earned apply to the succeeding 4 years also as long as company maintains base employment level
- ▶ Cannot be combined with Quality Jobs Program unless an investment of \$40M is made

New Jobs/New Investment Income Tax Credit for Manufacturers

- ▶ A new layer of credits can be added each tax year - these also will apply for a total of 5 years
- ▶ Credits not taken (due to income tax limitations) can be carried forward indefinitely.
- ▶ Computing and tracking credits and carryforwards can become challenging

OK MANUFACTURER'S INCOME TAX CREDIT CALCULATIONS

Inv Credit Percentage = 1%, doubled in Enterprise Zone to 2%

Yearly Layers

*See Yearly Summary on Second Tab

INPUT into YELLOW areas ONLY

New Employee Credit = \$500, doubled in Enterprise Zone to \$1,000

IS THIS TAXPAYER IN AN ENTERPRISE ZONE: Y

Employee Counts are based on number of employees who earned at least \$7K

YEAR 1

TAX YEAR	EMPLOYEES (see note above)	EMPLOYEE INCREASE / DECREASE	EMPLOYEE APPLICABLE CREDIT RATE (see note above)	EMPLOYEE TENTATIVE CREDIT	NEW INVESTMENT FOR THE YEAR (Min. = \$50,000)	NEW INVESTMENT APPLICABLE CREDIT RATE (see note - 1% or 2%)	NEW INVESTMENT TENTATIVE CREDIT	CREDIT EARNED FOR YEAR (Greater of two options)	CREDIT USED	CARRYOVER
Base Year	10									
2014	20	10	\$1,000	\$10,000	\$450,000	2%	\$9,000	\$10,000	\$6,000	\$4,000
2015	25	5	\$1,000	\$5,000	\$700,000	2%	\$14,000	\$14,000	\$0	\$14,000
2016	20	0	\$1,000	\$0	\$300,000	2%	\$0	\$0	\$0	\$0
2017	26	6	\$1,000	\$6,000	\$400,000	2%	\$8,000	\$8,000	\$0	\$8,000
2018	15	0	\$1,000	\$0	\$100,000	2%	\$0	\$0	\$0	\$0
2019	25	10	\$1,000	\$10,000	\$900,000	2%	\$18,000	\$18,000	\$0	\$18,000
2020		0	\$1,000	\$0		2%	\$0	\$0	\$0	\$0
2021		0	\$1,000	\$0		2%	\$0	\$0	\$0	\$0
2022		0	\$1,000	\$0		2%	\$0	\$0	\$0	\$0
2023		0	\$1,000	\$0		2%	\$0	\$0	\$0	\$0

YEAR 2							YEAR 3						
SECOND YEAR CREDIT IS CLAIMED	EMPLOYEE CREDIT	INVESTMENT CREDIT FOR	CREDIT EARNED	CREDIT USED	NET INCREASE or DECREASE TO CARRYOVER	CUMULATIVE CARRYOVER CREDIT	THIRD YEAR CREDIT IS CLAIMED	EMPLOYEE CREDIT	INVESTMENT CREDIT FOR	CREDIT EARNED	CREDIT USED	NET INCREASE or DECREASE TO CARRYOVER	CUMULATIVE CARRYOVER CREDIT
2015	\$10,000	\$0	\$10,000	\$12,000	-\$2,000	\$2,000	2016	\$10,000	\$0	\$10,000	\$-	\$10,000	\$12,000
2016	\$0	\$14,000	\$14,000	\$0	\$14,000	\$28,000	2017	\$0	\$14,000	\$14,000		\$14,000	\$42,000
2017	\$0	\$0	\$0		\$0	\$0	2018	\$0	\$0	\$0		\$0	\$0
2018	\$0	\$0	\$0		\$0	\$8,000	2019	\$0	\$8,000	\$8,000		\$8,000	\$16,000
2019	\$0	\$0	\$0		\$0	\$0	2020	\$0	\$0	\$0		\$0	\$0
2020	\$0	\$0	\$0		\$0	\$18,000	2021	\$0	\$0	\$0		\$0	\$18,000
2021	\$0	\$0	\$0		\$0	\$0	2022	\$0	\$0	\$0		\$0	\$0
2022	\$0	\$0	\$0		\$0	\$0	2023	\$0	\$0	\$0		\$0	\$0
2023	\$0	\$0	\$0		\$0	\$0	2024	\$0	\$0	\$0		\$0	\$0
2024	\$0	\$0	\$0		\$0	\$0	2025	\$0	\$0	\$0		\$0	\$0

New Jobs/New Investment Income Tax Credit for Manufacturers

- ▶ If credits are earned, but not claimed - the years not claimed are lost, but succeeding years can be claimed

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Ad Valorem Exemptions for Manufacturers

- ▶ **Freeport Exemption** - this exempts inventory that would otherwise be subject to sales tax as of January 1 each year. The exempted portion is based on inventory ultimately to be sold out-of-state.
- ▶ **5 Year Manufacturing Expansion Exemption** - this exemption applies to new equipment added to a manufacturing facility

Freeport Exemption

- ▶ Exemption form 901F must be filed with the regular rendition due March 15
- ▶ Exemption is the lesser of: % of inventory (COGs) purchased OOS or the % of inventory sold OOS.
- ▶ Inventory must turn often enough to have <9 month average in inventory

5 Year Manufacturing Expansion Exemption

- ▶ For each year that the exemption is claimed, a form 901-XM is filed. The first year, the form is an 901XM1. Year two for that set of assets will be claimed by filing a Form an 901XM2, then 3,4, and 5.
- ▶ The OTC will send an auditor to verify that the assets meet the qualification requirements

5 Year Manufacturing Expansion Exemption

- ▶ Exemption: 5 years following the year in which the assets are placed in service
- ▶ Qualification minimums:
 - ▶ Additional assets to qualify: \$250K
 - ▶ Additional payroll of \$250K, except \$1M in counties having over 75,000 population
- ▶ Increases must be maintained in subsequent years to claim the credits for the remaining years

5 Year Manufacturing Expansion Exemption

- ▶ For the initial year, if the employment increase is not achieved, an affidavit can be signed stating that employment required to qualify for the exemption will be achieved within three years
- ▶ If a claimant fails to achieve the required employment level the tax that was exempted will be required to be paid

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Indian Employment Credit

- ▶ Nonrefundable credit is available to employers for certain wages and health insurance costs for qualified full- or part-time employees, or their spouses, who are enrolled members of an Indian tribe
- ▶ 20% credit for the first \$20,000 of qualified wages and health insurance costs paid for each qualified employee.

Indian Employment Credit

- ▶ Nonrefundable credit is available to employers for certain wages and health insurance costs for qualified full- or part-time employees, or their spouses, who are enrolled members of an Indian tribe
- ▶ 20% credit for the first \$20,000 of qualified wages and health insurance costs paid for each qualified employee.

Indian Employment Credit

- ▶ The credit has not been extended past 2017 - so no one knows if this credit will apply in 2018
- ▶ Employees earning over \$45,000 of wages are not qualified for calculating the credit
- ▶ The key is identifying qualifying employees at the time of hiring

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Work Opportunity Tax Credit “WOTC”

- ▶ WOTC is available for wages paid by employers who hire individuals from certain targeted groups of hard-to-employ individuals
- ▶ 40% of the first \$6,000 of qualified wages - max \$2,400 - (\$3,000 for qualified summer youth employees) paid to each member of a targeted group during the first year of employment
- ▶ the deduction for wages and salaries is reduced by the amount of the credit claimed