

Oklahoma Tax Incentives

Quality Jobs Benefits

Qualified projects may receive quarterly cash payments of up to 5% of newly created gross taxable payroll for up to ten years. A contract with the Oklahoma Department of Commerce must be executed; payments are not retroactive for employees hired previous to the date of contract.

Payments are made quarterly to the contracted company during the first three years regardless of the new payroll level provided employees are paid at or above the county's average wage. If all thresholds are achieved, the contract continues for the additional seven years.

A qualified company must achieve a \$2.5 million annualized payroll for the new full-time employees for any four consecutive quarters during its first 12 quarters in the program. If this payroll requirement is not achieved, payments cease without a payback penalty.

The business must offer basic health insurance coverage and require no more than 50% premium participation by employees. Initially, the company has 180 days to institute a qualified basic health insurance policy. Thereafter, the plan must permit employees to access the coverage within 180 days of employment. Eighty percent of employees included in the payroll benefit claim must work at least 30 hours per week.

All employees included in the program must be paid a wage equal to the average county wage where the project is located. If approved by the Department of Commerce, leased employees may be included in payroll calculations.

In order to apply, companies must contact a Quality Jobs representative. A cost-benefit analysis will disclose estimated benefit payments that may be obtained. If the company wishes to pursue application for the program, it must then submit a formal application. A contract will be offered to qualified applicants.

The Quality Jobs Program preempts use of certain other available incentives.

Most businesses that qualify receive payments in the range of 4% of new payroll; the percentage fluctuates by the average weighted salary of the new jobs based on economic impact. When participants (for at least 12 months) expand, a new contract can be added allowing up to 6% of the newly contracted payroll provided all thresholds are met and the wage level is at least 150% of those wages on which the benefits had previously been claimed.

“Change of Control” Quality Jobs Benefits

Some companies experiencing a “Change in Control Event” that could cause jobs to leave the state to qualify under a “retention” basis for Quality Jobs benefits.

A Change in Control Event is defined as more than 50% of the voting interests of the transferring party or more than 50% of the assets of the establishment are being transferred to new ownership. Such companies may count their existing jobs as “new direct jobs” and receive benefits on them if they meet certain criteria. One requirement is to pay all employees at a wage level of at least 125% of the average county wage; another is to maintain at least the level of employment previous to the change in control.

Companies participating in the program must meet all other Quality Job Program criteria. Benefits must be refunded should the company exit the state within a 3 year period. Companies interested in this program must complete a “pre-application,” to be approved by the Department of Commerce, before formal application can be made.

Quality Investment Benefits

This incentive provides annual cash payments to support retention of manufacturing establishments that: (1) yield higher long-term benefits for job retention and increase the wealth of the state; (2) create competitive advantages for the state of Oklahoma in attracting and retaining industries and jobs (3) hold the promise of significant modernization and retooling that will assure the stability of the industry and expand the tax base.

The incentive is a five (5) year Quality Investment Contract with incentive payments for up to 10% of capital costs invested pursuant to the contract. Annual total maximum payments under all contracts cannot exceed \$10,000,000.

Applications are considered for companies (1) engaged in manufacturing activities described under Industry Group Nos. 31 through 33 of the NAICS Manual; (2) that incur capital costs for new retooling or modernization projected to equal or exceed one million dollars (\$1,000,000.00) within twenty-four (24) months of the start date; and (3) apply to and enter into a Quality Investment Contract specifying (a) the amount of capital investment the establishment must make within twenty-four (24) months of the start date in order to remain in the program; (b) the total minimum amount of Oklahoma taxable payroll it will maintain in the state during the course of the agreement; (c) the total amount in incentive payments it may receive; (d) if applicable, the amount of local revenues a county or municipality intends to apportion to the establishment annually; and (e) that it will offer "basic health insurance" as defined in the Quality Jobs Act.

Training for Industry Program

Whether a new or expanding company in Oklahoma; the nationally acclaimed Training for Industry Program (TIP) can prepare new employees to meet the required skills.

TIP has served thousands of companies in virtually every industry sector ranging from manufacturing and advanced manufacturing to warehouse and distribution centers, business services to aviation, biotech to food processing. Oklahoma's CareerTech System has the expertise and experience to provide, with little or no cost to employers, a totally customized and flexible workforce training advantage. A local state-of-the-art technology center is used to deliver the training on campus, in leased facilities or on site.

Technology centers provide ongoing, customized training for incumbent employees at significant cost savings. Each year thousands of Oklahoma companies keep their employees on the leading edge by taking advantage of programs like Customized Business and Industry Training, Existing Industry Training, Management and Organization Development, Career Development for Adults and Safety Training.

Whether using TIP for start-up or expansion training (or the programs for existing industry), companies can expect expertise in everything from software to inventory management, customer service to safety, industrial maintenance to ISO, SPC, Lean, and process improvement, team and interpersonal skills to blueprint reading.

Oklahoma CareerTech and local Technology Center representatives are readily available to discuss customized programs to meet company requirements.

Property Tax Exemptions

Certain new and expanding manufacturers, research and development companies, certain computer services and data processing companies with significant out-of state sales, aircraft repair companies, oil refineries, and certain windpower generators may be eligible for ad valorem tax exemptions for up to five years.

Computer services and data processing companies must meet certain conditions. SIC Industry Group Numbers 5112, 5415 and U.S. Industry Number 334611 and 518112 of the NAICS Manual must have out-of-state sales of at least 50%. Industrial Group Number 5142 of the NAICS Manual must have out-of-state sales of at least 80%. Computer data processing classified in Industrial Group 7374 of the SIC Manual. U.S. Industry Number 514210 of the NAICS Manual latest revision may also be eligible based on payroll or capital investment.

Threshold requirements are an investment of at least \$250,000 and an addition of \$1,250,000 in annual payroll in counties with a population greater than 75,000. If a \$7 million investment is made in new facilities for certain computer service companies, no new payroll is required. Replacement, repair, or maintenance of existing machinery or equipment does not qualify.

Inventory Tax Exemption

Oklahoma's Freeport Law exempts from taxation goods, wares and merchandise that come from outside the state and leave the state within nine months if held within the state for assembly, storage, manufacturing, processing or fabricating purposes. Exemption requests for approval must be filed with the county assessor.

The State Constitution and statutes exempt intangible personal property including cash, receivables, bonds, stocks and annuities from ad valorem taxation. All tangible personal property is reported to the County Assessor no later than March 15th of each year. A Freeport exemption application must accompany the report.

Investment / New Jobs Income Tax Credit

Manufacturers holding an Oklahoma manufacturer's sales tax exemption permit may claim an income tax credit based on either an investment in depreciable property or on the addition of full-time equivalent employees engaged in manufacturing, processing or aircraft maintenance.

Participation is prohibited by manufacturers participating in the Quality Jobs Program.

Manufacturers investing in qualified new depreciable property and also hiring new employees may compute the five year tax credit either (1) by calculating 1% of the qualifying investment or (2) by multiplying \$500 per new employee, and then choosing whichever credit is larger. The maximum credit in the first five years equals up to 5% of the investment, or \$2,500 per new employee. The credit doubles for most investments in excess of \$40 million. Credits may reach as high as 10% of new investment, or \$5,000 per new employee. Any credit allowed but not used in the initial five-year period, may be carried over until used by the company.

Investment in depreciable property must equal at least \$50,000, and the number of employees must not decrease as a result of the investment. Qualified property includes all machinery, fixtures and buildings, including warehousing or substantial improvements to buildings used in a

manufacturing operation on a manufacturing site. Eligibility is initially determined each year by the taxpayer on its income tax return.

Employers wishing to take the credit based on an increase in the number of full-time equivalent employees engaged in manufacturing, processing or aircraft maintenance, each new position on which the credit is based must earn at least \$7,000 in wages or salary per year. After the first year of the initial employee increase, an additional credit may be earned for up to four more years.

Eligibility is determined each year by the taxpayer on the annual tax return.

The credit is computed on a year-by-year basis. Therefore, a company that had qualified in one year for the credit based on new employees hired, but experiences a reduction in employment the next year, would still qualify for a partial credit, unless employment fell below the employment level for the year prior to the first year the credit was allowable. If, in later years, additional qualifying employees were added, a new base employment level would be calculated and the new series of credits could be taken for the number of employees above that base level of employment.

The number of jobs may fluctuate if the credit is based on investment. However, the loss of jobs must not be attributable to the new investment.

Tax Credit for Provision of Childcare

Employers making provisions for childcare on behalf of their employee's dependents may take a credit against eligible expenses. Employers providing the cost of care to an employee's dependent, employers creating and maintaining an on-site daycare center, or employers supporting a childcare referral system may claim a credit for expenses equal to 20% of specified maximums.

Employers generating a credit, but not able to use it in a given year, may carry the credit forward for four consecutive years.

Recycling, Reuse and Source Reduction Incentives

Manufacturing and service industries may receive an income tax credit of up to 20% of investment costs for purchase and installation of equipment used to recycle, reuse or reduce hazardous waste at the source of generation.

Credits are limited to \$50,000. Companies must apply and approval certified of net investment cost to the Oklahoma Tax Commission. The credit must be taken on the income tax return within three years of actual use of the equipment.

Gas Usage Tax Credit for Manufacturing

Operators of manufacturing establishments in Oklahoma are allowed a tax credit proportionate to the amount of gas used or consumed in Oklahoma manufacturing operations, at a rate of 3 mills per 1,000 cubic feet of gas during each taxable year (not applying to the first 25,000 MCF).

Alternative Fuel Vehicle (AFV) Tax Credit

Oklahoma provides a one-time income tax credit for 50% of the cost of converting a vehicle to operate on an alternative fuel or for 50% of the incremental cost of purchasing a new OEM AFV. The alternative fuels eligible for the credit include compressed natural gas (CNG), liquefied natural gas (LNG), liquefied petroleum gas (LPG), methanol and electricity. This tax credit extends to low-speed electric vehicles as defined by NHTSA in 49 C.F.R. 571.500, to forklifts and other similar self-propelled vehicles, and to qualified electric and hybrid electric vehicles. For qualified electric vehicle property propelled by electricity only, the basis for the credit is the full purchase price of the vehicle. For vehicles also equipped with an internal combustion engine, the basis for the credit is limited to the portion of such motor vehicle which is attributable to the propulsion of the vehicle by electricity.

Alternative Fuel Vehicle (AFV) and Refueling Infrastructure Tax Credit the state provides a tax credit for up to 50% of the cost of installing refueling infrastructure for AFVs.

These tax credits may be carried forward for up to three years. The alternative fuels eligible for the credit include compressed natural gas (CNG), liquefied natural gas (LNG), liquefied petroleum gas (LPG), methanol, and electricity.

Biodiesel Production Facility Tax Credit

A biodiesel production facility may be allowed a credit of \$0.20 per gallon of biodiesel produced. The credit shall be allowed for 60 months beginning with the first month for which the facility is eligible to receive the credit and ending not later than December 31, 2011. Eligible facilities can also receive a credit of \$0.20 per gallon for biodiesel produced in excess of the original nameplate design capacity which results from expansion of the facility. Additional restrictions apply.

Agricultural Commodity Processing Facility Income Tax Exemption

Owners of new or expanding agricultural commodity processing facilities may exclude from Oklahoma taxable income up to 15% of their investment. Agricultural commodity processing facilities include buildings, fixtures, and improvements used to process or package agricultural commodities, as long as more than mere storage, cleaning or transporting takes place in the facility. Individual investors, or the entity owned by such investors, may take the exclusion. Certain dairy operations may also qualify. No more than a total of \$1,000,000 annually may be excluded by all qualified investors. The Oklahoma Tax Commission applies a formula to reduce the percentage allowable to assure exclusions do not exceed the \$1,000,000. Excluded amounts may be carried over for six years. The exclusion is taken on the income tax return at the end of the tax year, and for the five years following, if not fully depleted.

Manufacturers Sales Tax Exemptions and Refunds

Oklahoma has a comprehensive sales tax exemption for manufacturers who obtain a Manufacturer's Sales Tax Exemption permit from the Oklahoma Tax Commission. The permit must be renewed every three years. This permit must be presented to the vendor and a claim for exemption is required, at or before the time of purchase, to relieve the vendor of the liability for collecting sales tax.

Machinery, Equipment & Tangibles

The exemptions cover purchases of machinery and equipment, energy and tangible personal property used in design, development and manufacturing.

Sales to a manufacturer of exempt property must be used in the manufacturing operation at a manufacturing site. The exemption is not extended to purchases for administration, sales, distribution, transportation, site construction or site maintenance.

Manufacturers Sales Tax Refunds

Oklahoma offers sales tax refunds for qualified companies. To qualify, a company submits an "Intent to Qualify" application to the Oklahoma Tax Commission to establish an interest-bearing account. Upon receiving the application and documentation concerning the sales/use taxes to be paid by the applicant or their contractors, the Oklahoma Tax Commission will determine whether a company qualifies. If so, the Oklahoma Tax Commission will immediately set up an account to track sales taxes paid on sales as shown by the invoices submitted.

Construction Materials Refund

Sales taxes paid on construction materials incorporated in certain new manufacturing facilities by the manufacturer or by a contractor or subcontractor on behalf of a qualified manufacturer are refundable.

Sales taxes paid for machinery and equipment by certain service businesses (computer services, R & D and aircraft repair) are also refundable.

Invoices of each vendor that distinguish the state and local sales taxes paid must be submitted with claims. Affidavits from vendors or contractors that the sales taxes were charged, paid and not refunded by the vendor must be submitted with claims.

Eligible applicants must file for a refund within 36 months of the date of purchase. The Oklahoma Tax Commission requires certification from the Oklahoma Employment Security Commission regarding the number of jobs.

Note: Participation in the Quality Jobs Program or other incentive payment programs precludes participation in these refunds.

Construction Materials Sales Tax Exemption

Oklahoma refunds sales taxes paid on construction materials for certain new or expanding manufacturing facilities, including:

Facilities with construction costs exceeding \$5 million those creates 100 new manufacturing jobs and are maintained for a minimum of 36 months. Construction costs include building and construction costs and engineering and architectural fees, but not legal fees.

Facilities with construction costs exceeding \$10 million, and with combined total costs of material, construction and machinery exceeding \$50 million which add 75 new employees.

Facilities with construction costs exceeding Three Hundred Million Dollars (\$300,000,000.00) which maintain an employment level of a least 1,750 full time equivalent employees.

Qualified new or expanding aircraft maintenance and overhaul facilities that create 250 or more jobs, with construction costs totaling at least \$5 million.

These construction exemptions are unique not only because they are refunds, but also because they allow contractors or subcontractors that have previously entered into a written contractual relationship with the manufacturer or a qualified aircraft maintenance facility operator, to make refundable purchases on behalf of manufacturers. The manufacturer may use invoices made out in the contractors' names for proof when applying for sales tax refunds.

Generally refundable purchases do not include machinery and equipment.

Warehousing/Distribution for manufacturers, structures or land used for packaging, re-packaging, labeling or assembly for distributing products that are at least 70% made in Oklahoma, but at an off-site, in-state manufacturing facility or facilities are also deemed manufacturing facilities for purposes of these sales tax refunds.

Economic Development Corporation & Authority

Broken Arrow's Economic Development Corporation offers finance options for permanent financing of real estate and equipment.

Loans or leases can be made available through local resources via local banks and private investors, not for profit organization, i.e. Small Business Capital Corporation and economic development authorities, i.e. Broken Arrow Economic Development Authority's issuance of taxable or tax exempt bonds.

Financing can be arranged for most types of business enterprise. Qualifying projects include purchase, construction or expansion (or replacement of all or part) of new facilities. Availability of fixed or variable rate loans or leases, terms and conditions are conditional upon fixed collateral assets and other standard underwriting practices. Some projects may qualify for tax credits and credit enhanced loans.

Technology Partnerships

Extensive research being done at Oklahoma universities (information security, laser technology, robotics, biotechnology, food production, materials modification, energy, medicine, meteorology and aerospace) may be advantageous to private businesses to take innovative products and services to the world marketplace.

Technology transfer by state universities has been encouraged by allowing the institutions and researchers to participate in commercialization income of private enterprise. Applied research on technologies developed by private business may be performed in partnership with research universities. The universities and industries may enter into collaborative arrangements to facilitate commercial developments.

Research and Technology Programs

The Oklahoma Center for the Advancement of Science and Technology (OCAST) supports basic and applied research and technology programs.

The Oklahoma Health Research (OHR) program awards seed funds for one to three year basic research projects related to human health.

The Oklahoma Plant Sciences Research (OPSR) program supports basic and applied research in the field of plant sciences.

The R&D Intern Partnerships (RDIP) program supports internships between local industries and two and four year colleges and universities.

The Oklahoma Applied Research Support (OARS) program funds one to three year research and development projects with significant potential for commercialization.

NOTICE: This information is provided to acquaint interested parties with major tax incentives and related services that are authorized in Oklahoma. Only officials of the State of Oklahoma authorized to execute agreements on behalf of the State of Oklahoma can be relied upon for

authoritative judgments as to qualifications, rules and regulations, approvals, execution and enforcement.

Additional Incentive Information, Forms & Contacts

Quality Jobs Program

(68 O.S. §§ 3601 et seq.)

Quality Investment Benefits

(68 O.S. §§ 4201-4210)

Contacts: Broken Arrow Economic Development Corporation
courtnewkirk@brokenarrowedc.com
Court Newkirk: 1-866-852-5718

Oklahoma Department of Commerce:
charles_kimbrough@odoc.state.ok.us or 1-800-879-6552

Forms: <http://www.OKcommerce.gov/incentives>

Limitations on other incentive payments: If a business receives an incentive payment pursuant to an incentive contract, neither the business nor its contractors or subcontractors shall be eligible to receive the following credits or exemptions in connection with the activity for which the incentive payment was received:

1. Section 625.1 of Title 36 of the Oklahoma Statutes (premium tax credits);
2. Paragraph 7 of Section 1359 of Title 68 of the Oklahoma Statutes (construction materials sales tax refunds);
3. Section 2357.4 of Title 68 of the Oklahoma Statutes (new jobs/investment income tax credits);
4. Section 2357.7 of Title 68 of the Oklahoma Statutes (venture capital investment credits);
5. Section 2-11-303 of Title 27A of the Oklahoma Statutes (pollution control equipment investment income tax credits);
6. Section 2357.22 of Title 68 of the Oklahoma Statutes (income tax credits for investment in clean-burning motor fuel vehicles);
7. Section 2357.31 of Title 68 of the Oklahoma Statutes (small business income tax credits);
8. Section 54003 of Title 68 of the Oklahoma Statutes (research and development or computer services sales tax refunds);

9. Subsections C and D of Section 2357.29 of Title 68 of the Oklahoma Statutes (recycling income tax credits);

10. Section 2902 of Title 68 of the Oklahoma Statutes (state reimbursement to communities for property tax exemptions to manufacturers);

11. Section 3601 et seq. of Title 68 of the Oklahoma Statutes (Oklahoma Quality Jobs Program Act);

12. Section 3701 et seq. of Title 68 of the Oklahoma Statutes (Saving Quality Jobs Act);

13. Section 3801 et seq. of Title 68 of the Oklahoma Statutes (Former Military Facilities Development Act);

14. Section 3901 et seq. of Title 68 of the Oklahoma Statutes (Small Employer Quality Jobs Incentive Act);

15. Sections 3651 through 3659 of Title 68 of the Oklahoma Statutes (Quality Jobs Incentive Leverage Act); and

16. Section 4101 et seq. of Title 68 of the Oklahoma Statutes (Oklahoma Specialized Quality Investment Act).

Training for Industry Program (TIP)

Contacts: Broken Arrow Economic Development Corporation
courtnewkirk@brokenarrowedc.com
Court Newkirk at 1-866-852-5718

Oklahoma Department of Career & Technical Education
scott_smith@okcommerce.gov
Scott Smith at 1-405-815-5110

Ad Valorem Tax Exemptions

(68 O.S. § 2902)

Inventory Tax Exemption

(68 O.S. § 2902.2)

(Art. 10, § 6A Okla. Const.)

Contacts: Broken Arrow Economic Development Corporation
courtnewkirk@brokenarrowedc.com
Court Newkirk at 1-866-852-5718

Oklahoma Tax Commission, Ad Valorem Division
kchuculate@oktax.state.ok.us
Kenny Chuculate at 1-405-521-3178

helpmaster@oktax.state.ok.us

Ken Yazel,
Tulsa County Assessor at 1-918-596-5100

Judie Thompson,
Wagoner County Assessor at 1-918-485-2367

Forms: www.oktax.state.ok.us

The Investment / New Jobs Income Tax Credit

(68 O.S. § 235 7.4)

Contacts: Broken Arrow Economic Development Corporation
courtnewkirk@brokenarrowedc.com
Court Newkirk at 1-866-852-5718

Oklahoma Tax Commission
helpmaster@oktax.state.ok.us
or 1-405-521-3133

Forms: helpmaster@oktax.state.ok.us

Tax Credit for Provision of Childcare

(68 O.S. § 2357.26)

Contacts: Oklahoma Tax Commission

Forms: helpmaster@oktax.state.ok.us or (405) 521-3133

Recycling, Reuse And Source Reduction Incentive
(27 A.O.S. §§ 2-11-301 et seq.)

Contacts: Department of Environmental Quality at 1-800-869-1400
or 1-405-702-9128

Forms: www.deq.state.ok.us/CSDnew/p2.htm

Gas Usage Tax Credit for Manufacturing
(68 O.S. § 2357 C)

Contact: Oklahoma Tax Commission
helpmaster@oktax.state.ok.us or 1-405-521-3133

Forms: www.oktax.state.ok.us

Processing Facility Income Tax Exemption
(68 O.S. § 2358 [A] [6])

Contact: Oklahoma Tax Commission
helpmaster@oktax.state.ok.us or 1-405-521-3133

Manufacturers Sales Tax Exemptions & Refunds
(68 O.S. §§ 1359, 1359.2 and 1364)

Contact: Oklahoma Tax Commission
otcmaster@tax.ok.gov or 1-405-521-3133

Forms: www.oktax.state.ok.us

Construction Materials Sales Tax Exemption
(68 O.S. § 1359 [7])

Contact: Broken Arrow Economic Development Corporation
courtnewkirk@brokenarrowedc.com
Court Newkirk at 1-866-852-5718

Oklahoma Tax Commission
otcmaster@tax.ok.gov or 1-405-521-3133

Forms: www.oktax.state.ok.us

Research & Technology Support

(70 O.S. §§ 3206.3 et seq.)

(Art 10, §§ 14 and 15 of the Oklahoma Constitution)

Contacts: Broken Arrow Economic Development Corporation
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allen-soltow@utulsa.edu or 1-918-631-2766

Research & Technology Advancement

(74 O.S. §§ 5060.1 et seq.)

Contacts: www.ocast.state.ok.us or Oklahoma Center for the Advancement of Science & Technology (OCAST) at 1-405-524-1357