State of Oklahoma
Incentive Evaluation Commission
Investment/New Jobs Tax Credit Evaluation

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Contents

Key Findings and Recommendations 3
Introduction 9
Incentive Usage and Administration 13
Economic and Fiscal Impact 18
Incentive Benchmarking 20
Appendices 24

Key Findings and Recommendations

Overview

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

Overall Recommendation: Based on its analysis of available data, the project team recommends reconfiguring the program.

Key Findings Related to Established Criteria for Evaluation

As of Tax Year 2015, there is $557.4 million of unused carried forward credits. This represents the potential amount of credits that may be used in future tax years and creates a significant liability for the State. In response to this accumulation, a temporary cap has been applied to the program that devalues credits to restrict the annual cost to about $25 million per year. To accomplish this, the Oklahoma Tax Commission (OTC) reduces the yearly claimed credits to a percentage of their original value, which is calculated by dividing $25 million by the amount of credits used two years prior. For example, for 2017, $25 million was divided by the amount used in 2015 ($64.8 million) to arrive at 38.6 percent. This percentage is then applied to all credits used to reduce the total amount that can be used that year.

An analysis of 2016 returns claiming the credit shows 245 new claims reporting total capital investment of $2.0 billion and 737 new jobs. The total value of these credits for 2016 is estimated to be $38.9 million, of which $38.2 million (98.3 percent) is for capital investment.

Capital investment associated with new 2016 credit claims accounts for about 87.8 percent of total manufacturing capital expenditures in the State that year.[1] This suggests almost all capital expenditures in the sector are receiving this incentive.

Almost half of all claims qualify for the doubled credit by locating in an Enterprise Zone or investing $40 million or more. About 49.4 percent of all claims qualify for doubled credits, accounting for 91.4 percent of total capital investment and 80.0 percent of new jobs. Credits for investments of $40 million or more account for 84.9 percent of all new 2016 claims.

The minimum annual salary requirement for new jobs to qualify for a tax credit is very low. The minimum requirement is an annual salary of $7,000. A minimum wage worker (working 40 hours a week over 52 weeks) would earn $15,080 annually. In essence, the existing salary requirement is no requirement at all and means that the State may be incenting low wage jobs. About 80 percent of new jobs (590 jobs) claimed in 2016 were located in Enterprise Zones, which qualifies them for $1,000 in credits per job. Because of the low salary threshold, low quality jobs may be incented in the State's most economically distressed areas (at twice the value as elsewhere in the State).

The nominal tax benefit for a manufacturer receiving both the Investment Tax Credit and the Five Year Ad Valorem Exemption for manufacturers can equal more than 10 percent of the original value of a capital investment. As an example of how this works in practice, the following table shows the benefits a manufacturer would receive from both incentives for a $1 million real property investment in Oklahoma County

[1] Total Oklahoma manufacturing capital expenditures were $2.3 billion according to U.S. Census Bureau Annual Survey of Manufacturers, 2016

(a large urban county) and Dewey County (a more rural county), based on assessment rates and average millage rates in each county, assuming the investment is not made in an Enterprise Zone.

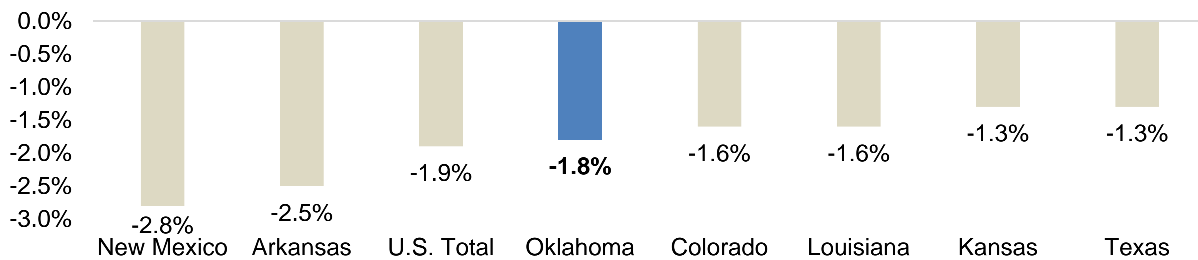
Table 1: Tax Benefit for $1 Million Capital Investment[2]

	Oklahoma County			Dewey County		
	Average 2017 millage rate: 109.02 Assessment rate: 11.00%			Average 2017 millage rate: 71.60 Assessment rate: 11.00%		
	Ad Valorem Exemption Benefit	**Investment Tax Credit Benefit**	**Total**	**Ad Valorem Exemption Benefit**	**Investment Tax Credit Benefit**	**Total**
Year 1	$11,851	$10,000	$21,851	$7,783	$10,000	$17,783
Year 2	$11,544	$10,000	$21,544	$7,581	$10,000	$17,581
Year 3	$11,237	$10,000	$21,237	$7,380	$10,000	$17,380
Year 4	$10,928	$10,000	$20,928	$7,177	$10,000	$17,177
Year 5	$10,621	$10,000	$20,621	$6,976	$10,000	$16,976
Total	**$56,181**	**$50,000**	**$106,181**	**$36,897**	**$50,000**	**$86,897**

Data collected by the Oklahoma Tax Commission (OTC) is insufficient for economic impact analysis. The number of jobs and the amount of capital investment associated with the credits is not regularly processed for aggregate analysis by the OTC. The data collected by the OTC is also lacking important details (such as payroll for newly created jobs, industry codes, and the nature of capital investments made), which are necessary for accurately estimating economic impact.

Oklahoma's employment growth in manufacturing ranks fifth of seven nearby states, while on average annual pay in the sector, Oklahoma ranks third. The results show Oklahoma's manufacturing sector is generally following regional and national employment and wage trends.

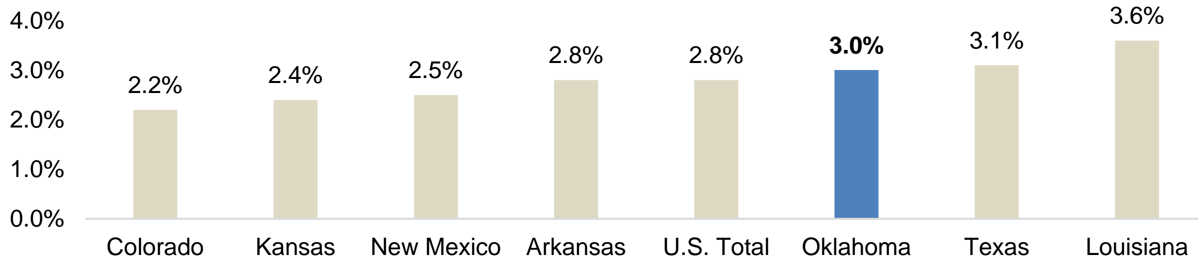
Figure 1: 15-Year Manufacturing Employment CAGR (2001 - 2016)



Source: U.S. Bureau of Labor Statistics

[2] A depreciation schedule for buildings, provided by the Department of Commerce, has been applied in the calculation of the ad valorem tax exemption benefit.

Figure 2: 15-Year Manufacturing Average Annual Pay CAGR (2001 - 2016)



Source: U.S. Bureau of Labor Statistics

Recommended Changes to improve the program

Control costs through changes in incentive design. The program to date has incurred a $557.4 million potential liability for the State, and that liability is expected to continue to grow. There are several features of this incentive's design that have contributed to this significant future financial commitment, most notably the indefinite carryforward period for capital investment credits. The following recommendations address opportunities for incentive design changes intended to slow this trend in the future.

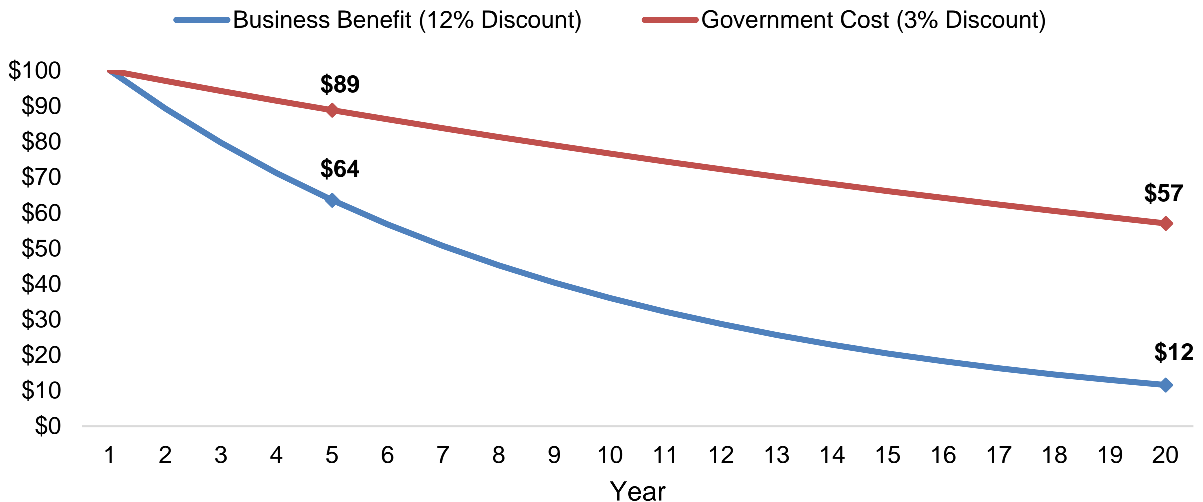
Recommendation 1: Award credits only in the year the investment is made or when new jobs are created. Credits are most valuable for companies in the year the investment is made. The goal of the program is to influence a company's decision to make a capital investment or create new jobs in the State. Tax credits would be most effective in meeting this goal if they are awarded as close as possible to when that decision is made.

Due to the differences in how businesses and governments value money, when the State makes a commitment to award credits in equal amounts over the next five years, the State's payment in year five is worth 89 percent of its value in year one (the year the investment is made). Businesses generally apply a higher discount rate to future payments. Academic research estimates the average discount rate used by businesses is about 12 percent, while governments use a discount rate of about 3 percent.[3]

The following example illustrates the differences in the value of $100 to businesses and governments at different points in the future. From a business perspective, $100 five years from now has a present value of $64. The State values the same $100 five years from now at $89, meaning the cost to the State of providing the tax credit is higher than the benefit the business is receiving. This difference becomes greater the further into the future a payment is received. By awarding credits only in the year the investment or new job is made, the State would be receiving better value for its foregone tax revenue.

[3] Timothy J. Bartik, W.E. Upjohn Institute for Employment Research – A new Panel Database on Business Incentives for Economic Development (February 2017). Accessed electronically at https://upjohn.org/models/bied/maps/ReportFinal.pdf

Figure 3: Present Value of $100 Tax Credit over Time



Recommendation 2: Limit the credit carryforward period to five years. Most benchmark states have a limit, ranging from 3 to 14 years, while Oklahoma's credit for capital investment may be carried forward indefinitely. Reducing the carryforward period would control the long term costs of the program for the State while improving its effectiveness. Under current rules, a company can claim a capital investment credit and use it indefinitely (which may be far into the future). As shown in the previous present value analysis, the value of the credit to businesses declines significantly in the years following the decision to make a capital investment. As time passes, it becomes less likely that the tax credit had an impact on the business decision it was intended to encourage.

According to Oklahoma Tax Commission data, each year from Tax Year 2008 through 2015, no more than 35.6 percent of the credits claimed in a year were used. This has generated the program's significant unused carryforward credit liability. By reducing the carryforward period, credits generated in any year moving forward would be cleared within five years rather than remaining an indefinite State liability.

Recommendation 3: Reduce the credit amount to equal four percent of capital investment or $2,000 per new job. After the program is adjusted to award the full credit amount in the year the investment is made, the original credit amount of 5 percent of capital investment, or $2,500 per job over 5 years, can be reduced while offering the same benefit to companies. Using a 12 percent discount rate, the present value of a 1 percent tax credit each year for 5 years is equal to about 4 percent. The present value of the new jobs credit equal to $500 each year for 5 years is about $2,000. This change can reduce the State's costs by 14 percent in present value terms. The following table shows the nominal savings of this adjustment, using new credit claims for 2016 as an example.

Table 2: Credit Reduction Savings

	Total Credits for 2016 Claims (Over 5 Years)	Total Credits for 2016 Claims (1 Year, Reduced Credit Amount)	Savings
Capital Credits	$191.1 million	$152.8 million	$38.2 million
New Jobs Credits	$3.3 million	$2.7 million	$0.7 million
Total Credits	**$194.4 million**	**$155.5 million**	**$38.9 million**

Recommendation 4: Implement strict reporting requirements and claw-back provisions. One important feature of the current five-year credit period is its requirement that the jobs and investments associated with the tax credits be maintained in the State. In order to maintain this protection, claw-back provisions should be implemented, rescinding the tax credits if jobs or investments are not maintained over a five year period.

Recommendation 5: Restrict credit eligibility to specific industries. Adding more specific industry restrictions can help reduce costs by shrinking the eligible pool of claimants while better targeting the credit toward the State's economic development goals. Since the credit's creation in 1980, eligible industries have been expanded to include aircraft maintenance facilities and internet-related industries, but the program's original target of manufacturing firms generally has not been refined. By targeting the incentive to high wage and high multiplier industries within the manufacturing sector, the State can increase the likelihood that this incentive is a net economic benefit (and may reduce the cost of the program).

Recommendation 6: Restrict the credit to only capital expenditures for new or expanding facilities, rather than capital replacement. Expenditures to replace or update existing equipment provide little value in terms of economic activity and is not likely to influence firm location decisions. Instead, the program should focus on incenting expenditures on new or expanding facilities that increase economic activity and increase the likelihood that the program is a net economic benefit for the State.

Recommendation 7: Increase the wage requirement for new jobs. Statute currently requires new jobs qualifying for tax credits to pay at least $7,000 per year. This extremely low threshold (a full time minimum wage job would result in a salary over twice the current wage requirement) results from a lack of updates to this part of the program's statutory requirements. While most of the use of the program is for capital investment, the State should update this requirement in order to ensure that any credits for job creation are incentivizing the creation of higher wage jobs. For example, the new threshold could match the Quality Jobs Program, which mandates that the average wage of jobs created by its beneficiaries is greater than or equal to the county average. This may reduce the pool of eligible claimants and also help control the cost of the program. Increasing this wage requirement should also increase the benefit to the State of any incented job creation through the multiplier effects of higher income workers.

Recommendation 8: Maintain a cap on annual expenditures for tax credits awarded prior to implementation of credit changes. The temporary cap currently in place is designed to keep annual expenditures close to $25 million. This is a key cost control measure for the State as $557 million in unused carryforward credits have accumulated as a potential liability.

Recommendation 9: Improve Data Collection. Data currently collected by the Oklahoma Tax Commission is insufficient for an accurate economic impact analysis. In order to make an accurate economic impact analysis possible in the future, the following data needs to be collected:

- Baseline employment and payroll data in the year the credit is claimed
- Updated employment and total payroll for each of the 5 years claiming the credit
- The nature of capital investments made – expanding new facilities, new projects, retooling existing facilities, etc.
- North American Industry Classification System (NAICS) code of companies claiming credits

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The first set of 11 evaluations were conducted in 2016, and an additional 12 were conducted in 2017.

The Investment/New Jobs Tax Credit is one of 11 incentives scheduled for review by the Commission in 2018. Based on this evaluation and their collective judgement, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Incentive Background

Oklahoma's Investment/New Jobs Tax Credit (Credit) is an incentive offered to manufacturers, aircraft maintenance facilities, and web search portal companies who either invest in depreciable property or create new jobs in the State.[4] Manufacturers may qualify for a tax credit equal to one percent of the cost of the depreciable property purchased, or $500 per new employee. According to the Oklahoma Tax Commission, the credit is most often used for investment in depreciable property, rather than the creation of new jobs.

Manufacturing in Oklahoma

The Credit is part of an effort by the State to incentivize business activity in the manufacturing sector. Two of the State's other major incentives for manufacturers, the Five-Year Ad Valorem Tax Exemption and the Quality Jobs Program, have already been reviewed by the Incentive Evaluation Commission. While the Five-Year Ad Valorem Tax Exemption reduces overhead costs and the Quality Jobs Program reduces the cost of labor, this Credit primarily targets the cost of capital investment. It is likely that there is some overlap between the programs, particularly as it relates to the Investment Tax Credit and the Ad Valorem Tax Exemption.

Since 1987, capital has grown as a factor of productivity in United States manufacturing, while labor's share has declined. Technological advancements leading to the reduction in the costs of capital, and the offshoring of labor in manufacturing have been suggested as explanations for this shift.[5]

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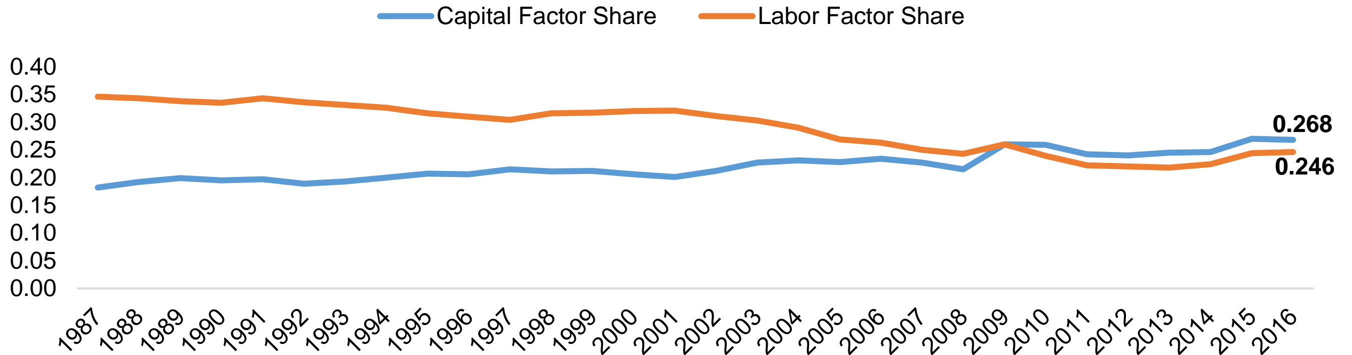
[4] A "web search portal" means an establishment classified under NAICS code 519130 which operates websites that use a search engine to generate and maintain extensive databases of Internet addresses and content in an easily searchable format
[5] National Bureau of Economic Research – Trends in Factor Shares; Facts and Implications (2017). Accessed electronically at http://www.nber.org/reporter/2017number4/karabarbounis.html
Brookings Institution - The Decline of the U.S. Labor Share (Fall 2013). Accessed electronically at https://www.brookings.edu/wp-content/uploads/2016/07/2013b_elsby_labor_share.pdf

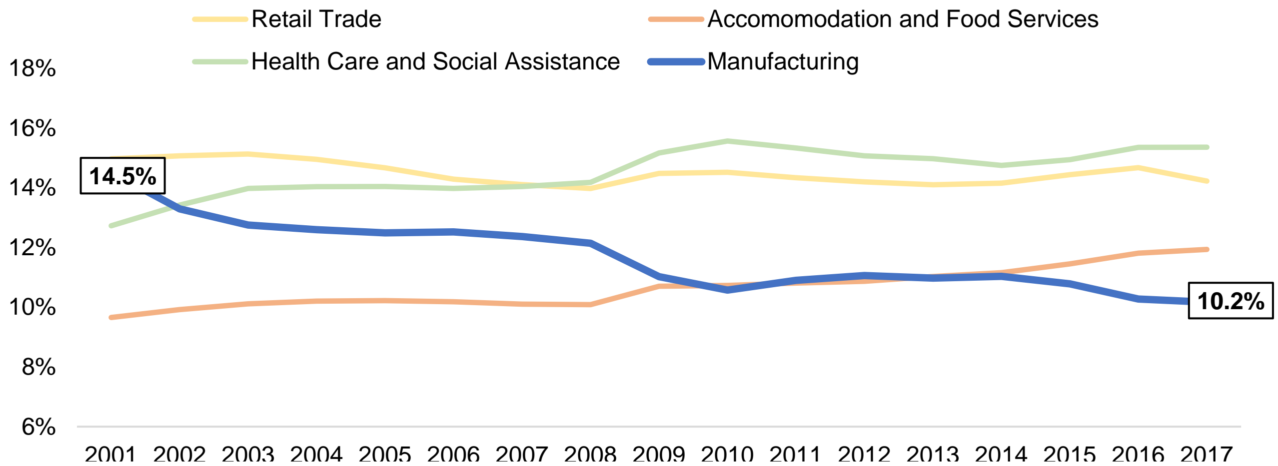
Figure 4: Capital and Labor Factor Shares in U.S. Manufacturing, 1987 to 2016



Source: U.S. Bureau of Labor Statistics

Employment has declined as manufacturing has become more capital-intensive, Oklahoma manufacturing employment has declined by 24.6 percent between 2001 and 2017. In 2001, manufacturing was the State's second-largest employment sector, with 14.5 percent of all private employment in the State. In 2017, its share was 10.2 percent, ranking as its fourth-highest employment sector, behind retail trade and the growing sectors of health care and social assistance, and accommodation and food services.

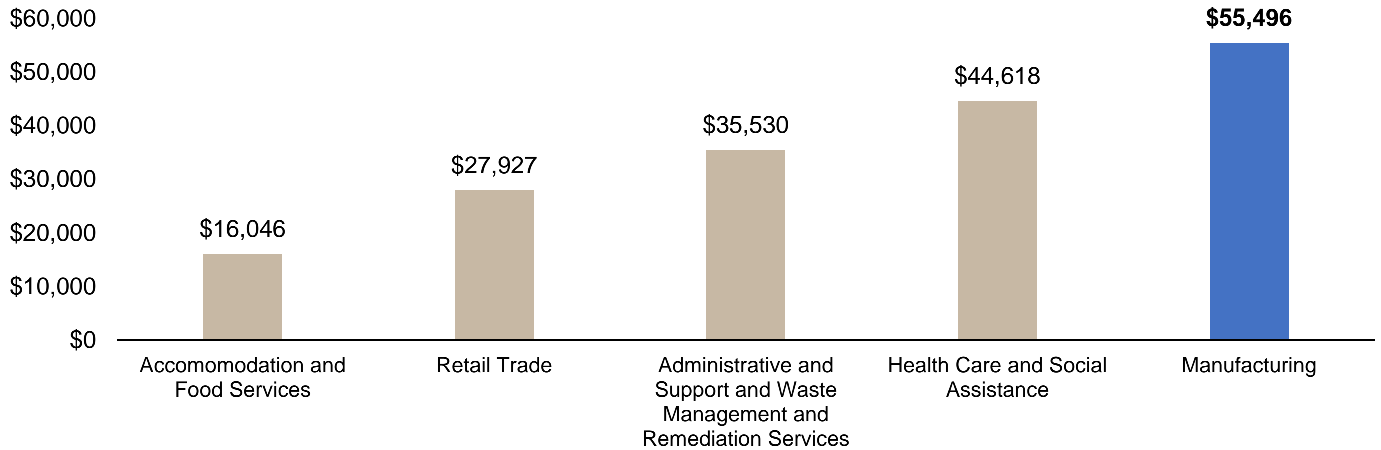
Figure 5: Share of Total Oklahoma Private Employment, 2001 to 2017



Source: U.S. Bureau of Labor Statistics

The manufacturing sector provides relatively high-paying jobs, with average annual pay 22.8 percent higher than the statewide average. Of the State's five largest employment sectors, manufacturing, the highest paying sector, has average annual pay that is more than 24 percent higher than health care and social assistance, the State's next highest pay sector.

Figure 6: Average Annual Pay in Oklahoma's Five Highest-Employment Sectors, 2017



Source: U.S. Bureau of Labor Statistics

Criteria for 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. In the case of this program, while its goals are not clearly stated in statute, they appear to be to stimulate the formation of capital and create jobs in its targeted industries.

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

- Change in employment and payroll from qualified facilities
- Change in employment and payroll from qualified industries before/after program
- Change in employment and payroll in qualified industries in other states
- Return on investment analysis

The criteria focus on what are generally considered key goals of incentive programs (such as the generation of economic activity). Ultimately, incentive programs have to weigh both the benefits (outcomes related to achieving policy goals and objectives) and the costs, and that is also a criterion for evaluation (State return on investment). These will be discussed throughout the balance of the evaluation.

Incentive Usage and Administration

Incentive Characteristics

The State of Oklahoma began offering the Investment/New Jobs Tax Credit (Credit) in 1980. It offers a tax credit for investments in qualified depreciable property or job creation to businesses engaged in manufacturing, aircraft maintenance or manufacturing, or web search portals in the State.

Benefits

The tax credit is equal to one percent of the cost of depreciable property or $500 per new employee. If a company makes an investment in depreciable property of $40 million or more and that property is placed into service within three years of the qualifying expenditure or if the company is located in an Enterprise Zone, the credit is doubled to two percent of the cost of that property or $1,000 per employee. Enterprise Zones are counties or areas designated by the Department of Commerce as a result of population decline or other economic distress, including high levels of poverty.

The credits may be claimed for five years as long as there is no decline in the number of full-time-equivalent employees at the firm, and the qualifying depreciable property is not sold, transferred, or disposed of in any of those years. Credits claimed but not used in those years may be carried forward for an additional 15 years if claimed for job creation or indefinitely if claimed for capital investment.

Table 3: Investment/New Jobs Tax Credit Values

	Credit Amount*	Carryforward Period
Capital Investment Credit	1% of Cost of Capital Investment	Indefinite
New Jobs Credit	$500 per job	15 years

*Amounts are doubled for $40 million investments or companies located in Enterprise Zones

Qualification Requirements

In order to qualify for the credit for capital investment, a company must make an investment in depreciable property of at least $50,000. According to the statute establishing the credit, qualified depreciable property includes machinery, fixtures, equipment, buildings, or substantial improvements thereto, placed in service in the state during the taxable year.

In an effort to avoid the substitution of capital for labor in manufacturing, an additional restriction is included in statute mandating that the qualifying investment in depreciable property cannot be the cause of a decline in full-time-equivalent employees.

The credit for job creation requires a net increase in the number of full-time-equivalent employees. In order to qualify as full-time-equivalent, statute requires that an employee be paid at least $7,000 per year. The net change in positions is calculated by comparing the current and prior year's monthly average full-time-equivalent employees (FTE) in the fourth quarter of the taxable year.

Annual Cap

For tax years beginning on or after January 1, 2016 and ending on or before December 31, 2018, the amount of tax credits that may be used to offset tax liability is limited to $25 million. Although the cap seeks to limit credits used to $25 million, in practice the cap may be exceeded. The Oklahoma Tax Commission (OTC) imposes the cap by reducing outstanding credits to a percentage of their original value, which is calculated by dividing $25 million by the amount of credits used two years prior. For example, for 2017, $25 million was divided by the amount used in 2015 ($64.8 million) to arrive at 38.6 percent. This percentage is then applied to all credits used to reduce the total amount that can be used that year. It should be noted that this percentage reduction in the value of the credit that may be taken does not reduce the value of the credit for

future years, it only reduces the portion that may be taken in any given year. In essence, this requires the eligible business to extend the timeframe for receipt of the tax benefit.

Program Administration

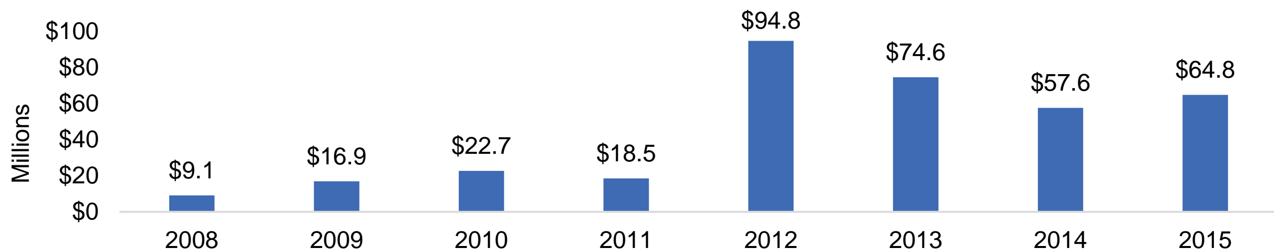
The OTC is responsible for the administration of the credit. Taxpayers claiming the credits report information regarding the employee count and capital investment associated with the credits on Form 506. On this form, the OTC asks for the name of the business, location, manufacturing sales tax exemption permit, and business structure. Companies claiming the credit for new jobs must list the average monthly FTEs and the number of FTEs in the previous year. On a separate schedule the company is instructed to attach documentation showing how the employee count was calculated, job descriptions, annual wages for each employee and the date the job was created.[6] Related to the credit for investment, claimants must provide the cost of the depreciable property investment as well as a description of the property and the date it was put into service.

Program Use

From 2008 to 2015, the amount of credits used to offset tax liability increased from $9.1 to $64.8 million. Use of the credit increased by $76.3 million from 2011 to 2012, when it peaked at $94.8 million. This sharp increase may be partially caused by a restriction that credits accrued between July 1, 2010 and June 30, 2012 could not be used to offset tax liability until tax year 2012. While it has declined somewhat, it has averaged over $65 million a year since then.

In recent years, the amount of credits used represents a significant reduction in overall state corporate income tax revenue. The amount of credits used from tax year 2012 through 2015 is equal to 12.6 percent of total state corporate income tax revenue in fiscal years 2012 through 2015.

Figure 7: Credit Amount Used, Tax Year 2008 through 2015



Source: Oklahoma Tax Commission

The OTC does not regularly process and store the amount of capital investment and number of new jobs associated with credit claims but was able to provide this data for 2016 returns. Based on this data, there were 245 new claims for Investment/ New Jobs Tax Credits in 2016. The total value of these credits is estimated to be $38.9 million. Capital investment credits accounted for $38.2 million of this total, equal to 98.3 percent of total credits.

Returns claiming the credit for capital investment reported a total of $2.0 billion in capital investment. About 49.8 percent of claims qualified for the two percent per year credit and these claims accounted for 91.4 percent of all reported capital investment. A total of $1.7 billion in capital investment was reported by projects investing at least $40 million. Of the total of seven returns reporting capital investment of $40 million or more, five indicated they are located in an Enterprise Zone. Reported investment in Enterprise Zones totaled $1.6 billion.

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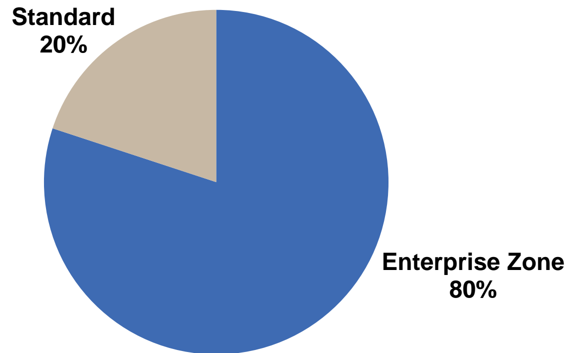
[6] This information is not currently processed by the OTC for aggregate analysis.

Returns claiming the credit for creating new jobs reported a total of 737 new jobs. About 80 percent of new jobs reported are located in Enterprise Zones.

Figure 8: Distribution of New Jobs Reported, Tax Year 2016



Source: Oklahoma Tax Commission

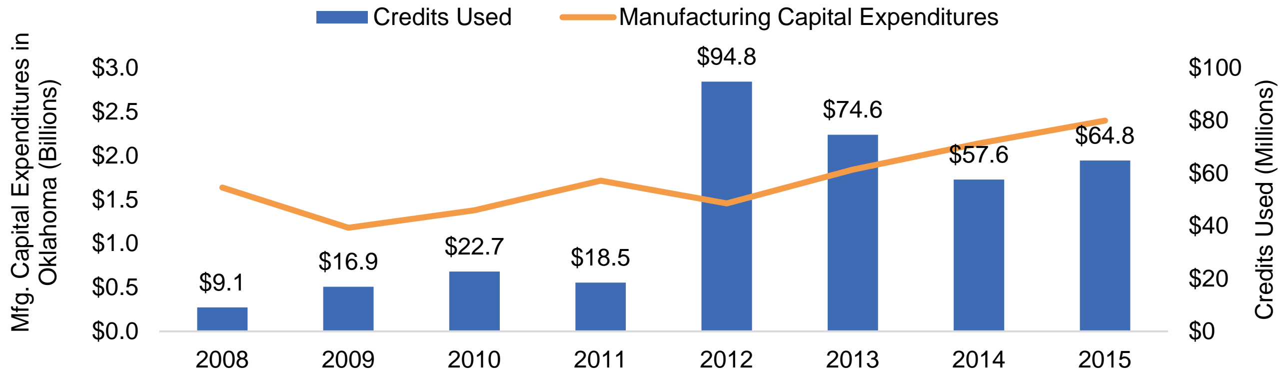
While the support of investment and job creation in Enterprise Zones and projects investing major amounts of capital may be a positive outcome of the program, it also increases the program's cost. The credit amount is doubled to two percent of capital investment or $1,000 per new job in Enterprise Zones or if the amount of capital investment is $40 million or more. Due to the number of claims that qualify for these doubled credits, the overall cost of the credit is 1.9 percent of capital investment and $900 per new job. It should be noted that these are estimates of only the first year of a five year credit period.

In addition to the increased cost associated with Enterprise Zone credits, another area of potential concern is the nature of the jobs created by the program, especially in Enterprise Zones. At first glance, having 590 of the 737 total new jobs reported located in Enterprise Zones appears to be an achievement for the program. However, there is no information on the payroll associated with these jobs. The only payroll requirement enforced by the program is that employees earn an annual salary no less than $7,000, so there is no indication that these are quality jobs.

Cost Controls

Indefinite carryforward for credits earned for capital investment placed in service on or after January 1, 2000 means that the use of the credit does not necessarily align with any recent capital investment. For example, it is possible that credits used in 2012, were generated by capital investments placed into service in 2002. Because the credit can be used as needed, fluctuations in corporate income is another important factor driving credit use. As companies earn more income, it increases their ability to make use of these credits to offset tax liability. The following figure, showing the amount of credits used per year alongside capital investment in manufacturing in Oklahoma, illustrates how the amount of credits used in a given year does not always follow trends in capital investment.

Figure 9: Credit Amount Used and Manufacturing Capital Expenditures in Oklahoma, 2008 through 2015



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics

In tax year 2014, the OTC began requiring companies filing claims for the credit to report the amount established in the current tax year and the amount of unused credit carried over from prior years. In 2014 and 2015, the amount of unused credits carried forward by claimants was $443 million and $521 million, respectively.

The significant potential State liability led to the creation of the program cap, which is in effect from 2016 through 2018. The cap is intended to limit the per year cost to the State to $25 million. However, due to the method used to impose this cap, the amount used per year can be much higher than $25 million. In 2015, the total amount of unused credits claimed was $557 million. Under the cap, the value of these credits for 2017 would be $215 million. If one-fifth of those credits were used, the cost to the state would be $43 million.

Even a strict $25 million limit would not mitigate the long-term potential fiscal liability of these tax credits. As of 2015, it would take 23 years (with a $25 million yearly cap) for the State to clear the $557 million in unused credits. This also assumes that no new credits are awarded. Of course, if the cap is not maintained beyond 2018, there are no other measures in place to restrict the per-year, or aggregate cost of these credits to the State.

Economic and Fiscal Impact

Economic and Fiscal Impact

The State of Oklahoma was not able to provide detailed enough information for companies claiming this tax credit. Therefore, it was not possible to calculate the annual economic impact of the program. Based on the data provided by the Oklahoma Tax Commission, the majority of companies claiming the credit is based on new investment not an increase in employment. However, there is no standard metric that X amount of capital investment equals Y new jobs or Z new output. It is likely the recipient firms are increasing employment and sales to justify the expenditure (ex. expanding a manufacturing plant) versus retooling a facility with no net new growth.

From a tax revenue perspective, the Investment/New Jobs Tax Credit does not require net new output, employment, wages, or tax revenue generated. For a company claiming the credit, it was not possible to accurately estimate net new State of Oklahoma tax revenue linked to the credit or the overall return on investment for the program.

In order to make economic impact analysis possible in the future, the following data needs to be collected:

- Baseline employment and payroll data in the year the credit is claimed
- Updated employment and total payroll for each of the 5 years claiming credit
- The nature of capital investments made – expanding new facilities, new projects, retooling existing facilities, etc.
- North American Industry Classification System (NAICS) code of companies claiming credits

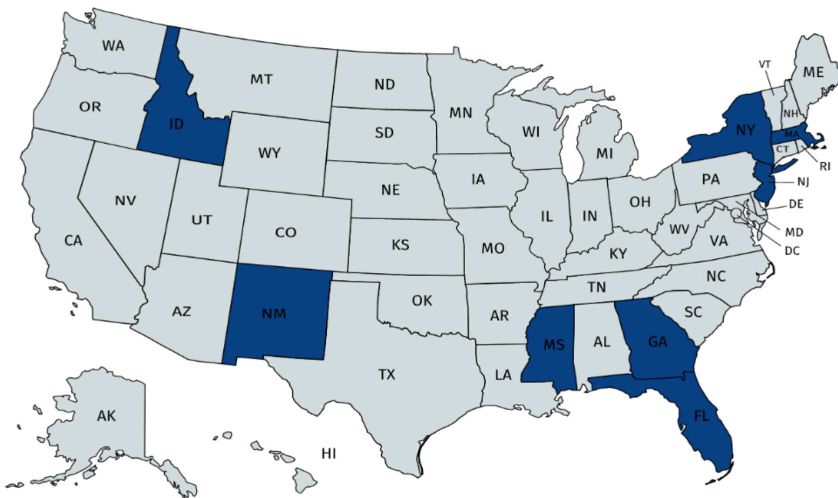
Incentive Benchmarking

Benchmarking

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

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.[7] These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

Figure 10: States Offering Comparable Investment Tax Credits



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

While many states offer some form of investment tax Credit, eight states (Florida, Georgia, Idaho, Massachusetts, Mississippi, New Jersey, New Mexico, and New York) were chosen for comparison for geographic proximity and comparable program characteristics. The following discusses some of the key characteristics of these programs.

Benefit Structure

One way to compare the benefits offered by each state is to multiply the credit amount by the number of years it may be claimed. Oklahoma's credit, equal to one percent of the cost of capital investment, is the lowest among the comparison group. However, when adjusted for the number of years it can be taken, it is greater than the benefits offered by Massachusetts and Idaho. To further estimate the benefit this offers to businesses, the time value of money must be considered for states where the total benefit of the tax credits is realized over a number of years. For example, using a business discount rate of 12%, Oklahoma's one percent per year credit taken over five years is equal to a total benefit of 4.04%.

[7] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.

Table 4: Benefits Offered by Comparable State Programs

State	Credit Amount per Year as % of Investment	Years Credit Can Be Claimed	Total Benefit as % of Investment	Present Value of Total Benefit
Florida	5.00%	20	100%	41.83%
New Jersey	2.00%	3	6.00%	5.38%
New Mexico	5.13%	1	5.13%	5.13%
Georgia	5.00%	1	5.00%	5.00%
Mississippi	5.00%	1	5.00%	5.00%
New York	5.00%	1	5.00%	5.00%
Oklahoma	**1.00%**	**5**	**5.00%**	**4.04%**
Massachusetts	3.00%	1	3.00%	3.00%
Idaho	3.00%	1	3.00%	3.00%

Carryforward

Carryforward periods are important features of tax credits, because they allow a business more opportunity to make use of the credit. For example, if a company earns a credit for capital investment but does not generate enough income to use the credit to offset tax liability for four years after the initial investment, a five-year carryforward period would allow them to do so, while a three year carryforward period means the company would not be able to fully benefit from the credit.

Oklahoma's carryforward period for credits earned for job creation has a 15-year carryforward period, while credits earned for capital investment may be carried forward indefinitely. Only one state, New Mexico, also offers an indefinite carryforward period. The other comparable programs have carryforward periods ranging from 3 to 15 years. This component of Oklahoma's program would be appealing to eligible businesses relative to the comparison group.

Table 5: Carryforward Periods Offered by Comparable State Programs

State	Carryforward Period
New Mexico	Indefinitely
Oklahoma	**15 years if based on job creation, indefinitely otherwise**
New York	15 years
Idaho	14 years
Florida	10 Years
Georgia	10 years
New Jersey	7 years
Mississippi	5 years
Massachusetts	3 years

Program Cap

In 2016, Oklahoma introduced a cap on the amount of credits that can be claimed in one year. From 2016 through 2018, no more than $25 million in credits per year can be claimed. None of the comparable programs impose a cap on credits claimed. Two states, Mississippi and New Jersey, attempt to limit costs by imposing a limit of $1 million on the amount that can be claimed per project.

Benchmarking Program Evaluations

A 2008 Federal Reserve Bank of San Francisco working paper analyzed state investment tax credits data to understand if tax credits increase in-state capital investment and if the credits were drawing capital away from other states.[8] The study analyzed over 20 years of data from 48 states on output, capital, their prices and the number of in-state establishments. The study results suggest that investment tax credits generally meet their goal and draw capital away from other states. It found that state tax-induced reductions in the cost of capital increased the formation of capital in that state. It also found that reductions in the cost of capital in competitive states reduced in-state capital formation. The results suggest that a relative reduction in tax can move capital from one state to another. However, equal changes in taxes in two competitive states have no effect on capital formation in either state, suggesting state capital tax policy is a zero sum game.

While the study generally suggests that investment tax credits can increase a state's capital stock, it estimates the amount to which it does so to be small. The paper estimates that if the average state eliminated its investment tax credit, its capital stock would decrease by 2.34 percent. This effectively means that 97.6 percent of capital investments would have been made without an investment tax credit.

In 2017, Indiana evaluated the effectiveness of its Hoosier Business Investment Tax Credit. It found its impact on business decisions to be ambiguous. Indiana aggregates employment and capital investment figures that are required to be reported to receive the credits. Its analysis of that data found that companies receiving the investment tax credit generally followed the employment trends of all other firms in the state, but that recipients of the credits did have a faster post-recession recovery than Indiana companies overall

A 2005 study of North Carolina's Machinery and Equipment Tax Credit, which provided a tax credit equal to between 4 and 7 percent of capital investment costs, found that only 8 percent of investment associated with the credit was actually induced by the credit. The credit was repealed as of 2007.[9]

Connecticut evaluated its Fixed Capital Tax Credit in 2014. Its evaluation considered the economic and fiscal impact of the credit under different scenarios based on how much of the investment associated with the credit would have occurred with or without the credit. The following table shows state tax revenue per dollar of credit under each scenario.

Table 6: Connecticut Fixed Capital Investment Tax Credit Evaluation Results[10]

Percentage of Investment Induced by the Credit	State Revenue Received per $1 of Credit
0%	$0.03
20%	$0.25
50%	$0.57
100%	$1.11

[8] Federal Reserve Bank of San Francisco – State Investment Tax Incentives: A Zero-Sum Game?, Chirinko and Wilson (July 2008). Electronically accessed at https://www.frbsf.org/economic-research/files/wp06-47bk.pdf

[9] New England Public Policy Center Discussion Papers – State Business Tax Incentives: Examining Evidence of their Effectiveness (2009). Electronically accessed at https://www.bostonfed.org/publications/new-england-public-policy-center-discussion-paper/2009/state-business-tax-incentives-examining-evidence-of-their-effectiveness.aspx

[10] Connecticut Department of Economic and Community Development – An Assessment of Connecticut's Tax Credit and Abatement Programs (September 2014). Electronically accessed at http://www.ct.gov/ecd/lib/ecd/decd_sb_501_sec_27_report_revised_2013_final.pdf

Appendices

Appendix A: Comparable State Programs

Investment/New Jobs Tax Credit Benchmarking												
State	Program Name	Eligible Industries	Capital Investment Requirements	Job Creation Requirements	Wage Requirement	Other Eligibility Requirements	Benefit Amount	Benefit Duration	Carryforward	Per Project Cap	Aggregate Program Cap	Annual Program Cost
Oklahoma	**Investment/New Jobs Tax Credit**	**Manufacturing, aircraft maintenance and web search portals**	**At least $50,000**	**Requires net increase in employees**	**Employees must be paid at least $7,000 per year**	**-**	**1% of cost of qualified property, or $500 per new employee If capital investment exceeds $40 million, 2% of cost of qualified property or $1,000 per new employee**	**Credit may be taken for 5 years**	**20 years if based on job creation, indefinitely otherwise**	**None**	**$25 million per year**	**$25 million**
Florida	Capital Investment Tax Credit	Must operate in a state target or "high impact" sector including aerospace, aviation, automotive and silicon technology, unless locating in an enterprise zone or brownfield area	$25 million for "high impact" sectors $100 million for target industries retaining jobs $250 million for businesses locating in an enterprise zone or brownfield area	100 new jobs for "high impact" sectors 100 new jobs and 1,000 retained jobs for target industries 1,500 jobs for businesses locating in an enterprise zone or brownfield area	For businesses retaining 1,000 jobs, employees must earn wages at least 130% of the average private sector wage in the area For businesses locating in an enterprise zone or brownfield area, employees must earn wages at least 200% of the statewide average private sector wage	-	5% of eligible capital costs	Credit may be taken for 20 years	Unused amounts may be used up to 10 years following initial 20-year period	None	None	$32 million (FY 2019 estimate)
Georgia	Investment Tax Credit	Manufacturing or telecommunications	$50,000	None	N/A	Must have been operating in the state for at least 3 years	Tier 1 Counties: 5% of cost of qualified property Tier 2 Counties: 3% of cost of qualified property Tier 3 or 4 Counties: 1% of cost of qualified property	Credit is taken in the year a qualifying capital investment is made	10 years	None	None	$26 million (FY 2019 estimate)
Idaho	Capital Investment Tax Credit	No restrictions	No minimum	None	N/A	-	3% of qualified investment costs	Credit is taken in the year a qualifying capital investment is made	14 years	None	None	$47 million (CY 2018)
Massachusetts	Investment Tax Credit	Manufacturing, research and development, agriculture or commercial fishing	No minimum	None	N/A	-	3% of cost of property	Credit is taken in the year a qualifying capital investment is made	3 years	None	None	$66 million (FY 2017)
Mississippi	Manufacturing Investment Tax Credit	Manufacturing	$1 million	None	N/A	Must have been operating in the state for at least 2 years	5% of the cost of eligible investments	Credit is taken in the year a qualifying capital investment is made	5 years	$1 million	None	$4 million (FY 2018 estimate)

Investment/New Jobs Tax Credit Benchmarking												
State	**Program Name**	**Eligible Industries**	**Capital Investment Requirements**	**Job Creation Requirements**	**Wage Requirement**	**Other Eligibility Requirements**	**Benefit Amount**	**Benefit Duration**	**Carryforward**	**Per Project Cap**	**Aggregate Program Cap**	**Annual Program Cost**
New Jersey	Manufacturing Equipment and Employment Investment Tax Credit	Manufacturing	No minimum	No minimum	None	4% manufacturing equipment benefit if company has 50 or fewer employees and net income of less than $5 million	2% of the investment cost for manufacturing equipment and $1,000 for each new employee	Credit may be taken for 3 years	7 years	$1 million	None	$11 million (FY 2019 estimate)
New Mexico	Investment Tax Credit for Manufacturers	Manufacturing	No minimum	Must show a net increase of one employee from previous year for every $500,000 of property value claimed up to $30 million and for every $1 million claimed thereafter	None	-	5.125% of value of equipment	Credit is taken in the year a qualifying capital investment is made	Indefinitely	None	None	$3 million (FY 2016)
New York	Investment Tax Credit	No restrictions	No minimum	None	None	Credits of 1.5%, 2%, or 2.5% of investment cost can be taken in the two years following the initial investment tax credit if the company increases its employment from the previous year by 1%, 2%, or 3%, respectively, from the prior year	5% for first $350 million of investment, 4% thereafter; 9% for research and development property	Credit is taken in the year a qualifying capital investment is made	15 years	None	None	$125 million (FY 2016 estimate)