

State of Oklahoma

Incentive Evaluation Commission

Investment/New Jobs Tax Credit Draft Evaluation

September 30, 2025

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Key Findings and Recommendations

Incentive Overview

In 1988, Oklahoma established the Investment New Jobs Tax Credits in order to incentivize capital investment and job creation. Manufacturing, aircraft maintenance, or web search portal facilities may qualify for a tax credit equal to one percent of the cost of investments made in depreciable property greater than \$50,000, or \$500 per new employee. The credit may be claimed annually for up to five years.

The credit amount doubles for investments in depreciable property greater than \$40 million.

Credits earned for investment in depreciable property may be carried forward indefinitely, while credits earned for job creation may be carried forward for 15 years beyond the initial five-year period.

Recommendation: Reconfigure.

Key Findings

- **Use of the credit to offset tax liability has decreased over time, while the amount of unused credit carried forward has continued to increase.** Low credit usage on an annual basis, combined with the credit program's unlimited carry-forward for capital investment credits, contributes to this trend. It is thus likely that the carried forward liability to the State will continue to increase.

Table 1: Credit Use, Tax Years 2020 through 2023 (Dollars in Millions)

Tax Year	Number of Returns	Total Amount Claimed	Amount Used to Reduce Tax Liability	Unused Credit Carried Forward
2020	709	\$217.0	\$1.6	\$213.4
2021	601	\$243.7	\$2.4	\$215.8
2022	619	\$210.7	\$2.5	\$222.4
2023	451	\$15.2	\$0.8	\$226.3

- **Nearly all of the credits claimed were for capital investment.** Capital investment continues to account for more than 99 percent of new credits claimed. Less than one percent of credits claimed were related to job creation.
- **New credit claims in Tax Year 2023 were associated with \$164.4 million in capital investments.** Of this total, approximately 79.1 percent occurred in an enterprise zone.
- **It is unlikely that the credit is significantly influencing business investment and hiring decisions.** In Tax Years 2022 and 2023, the amount of the credit used of the amount claimed averaged 13 percent. It is difficult to expect the credit to have a significant influence on business decision making with such a low percentage of use of earned credits. Excluding Tax Years 2020 and 2021, which saw significant fluctuations due to COVID-19 impacts on business decisions and tax liabilities, the percent of the credit claimed that is used decreased by 21.1 percent between Tax Year 2008 and Tax Year 2019.¹
- **Unused credits for capital investment may be carried forward indefinitely, creating a growing tax liability for the State.** The unlimited carry forward period both disconnects the investments made from the value of the credit and creates significant vulnerability for the State in the event of a high volume of carried forward claim use.

¹ Tax Years 2016 and 2017 are excluded, as usage in these years was subject to a \$25 million cap.

- **In contrast to both comparable programs in other states and many other incentives offered by Oklahoma, the Investment-New Jobs tax credit is by-right and does not require advance notice or an application and approval process to receive the benefits.** The credit is claimed on tax returns and does not require an application, so firms may claim the credit regardless of whether it played a role in the investment decision.
- **Since the 2021 evaluation, the value of the new jobs tax credit has continued to decline.** While the capital investment tax credit has been able to keep up with inflation because it is applied as a percentage of the total investment, the fixed value of the \$500 new jobs tax credit has not kept pace with growth in average annual pay.
- **The minimum salary requirement for the new jobs component of the tax credit has not been updated since the credit was created in 1980.** The minimum salary required to qualify for the new jobs tax credit is, because of federal minimum wage requirements, impossibly low at \$7,000. This is equal to 9.9 percent of average annual pay for manufacturing jobs in Oklahoma in 2024.²
- **The breakeven analysis indicates that 20 percent of capital investment activity and 10 percent of job creation activity must occur as a direct result of the incentive program for the State to ‘break even’ on the program costs.** This analysis does not consider unused claims that are carried forward. It may be more indicative of the low claim usage than the effectiveness of the program itself.
- **Oklahoma’s growth in manufacturing employment has slowed relative to peer states since the last evaluation, when it ranked second among the seven states.** Despite this, Oklahoma leads payroll growth and ranks second in capital investment growth from 2001 to 2024, even outperforming states like Arkansas and Kansas, which offer more generous capital investment incentives.

Table 2: Compound Annual Growth for Manufacturing, 2001 to 2024

State	Employment	Payroll	Capital Expenditures ³
Texas	-0.24%	3.15%	0.9%
Kansas	-0.47%	2.74%	1.3%
Missouri	-0.79%	2.84%	-0.6%
Oklahoma	-0.82%	3.20%	2.0%
Colorado	-0.88%	2.80%	0.5%
Arkansas	-1.45%	3.17%	5.9%
New Mexico	-1.54%	2.71%	-4.5%
Oklahoma Rank	4 of 7	1 of 7	2 of 7
US Total	-1.09%	3.04%	2.9%

Recommendations

- **Eliminate the job creation tax credit for manufacturing firms.** The job creation portion of the Investment New Jobs Tax Credit has low and declining utilization, indicating that many firms may already be opting for the Quality Jobs Tax Credit. Further, the low wage requirement of \$7,000 per job in the Investment New Jobs Tax Credit creates essentially no barrier or threshold for claimants, limiting the incenting ability of the credit program. While an alternative would be to increase the wage threshold in order to incent the creation of high-paying jobs, this intent is already addressed through the Quality Jobs tax credit programs available in Oklahoma.

² US Bureau of Labor Statistics, Quarterly Census of Employment and Wages. Average annual pay for manufacturing in Oklahoma as of 2024 is \$70,892.

³ The capital expenditure CAGR is based on 2003-2017 data from the Annual Survey of Manufacturers. More recent data at the state level is not yet available.

- **Raise the wage threshold to at minimum meet the average annual wages for manufacturing employees in the State.** By creating a higher wage threshold, Oklahoma can ensure the quality of jobs created, aligning the incentive better with the State's overall goals of creating stronger, better paying jobs.⁴ Additionally, by requiring higher wages, the State can ensure a stronger return on investment due to increased consumer spending and greater income and sales tax revenue derived from newly created jobs.
- **Require an application process for claimants instead of offering the benefits by right, and include requirements for awarded tax credits.** An application process will ensure that claimants meet eligibility criteria, help tie the use of the credit to the investment activity itself, and limit exposure to runaway costs associated with by right entitlement. The application process would require claimants to justify their investment activities and can create a low but thoughtful barrier for applicants such that the credit doesn't act as a blanket subsidy but rather a strategic tool. Further, imposing an application process would allow Oklahoma to better capture detail on investment data to support impact analysis.
- **Limit the current indefinite carryforward period for capital investment credits to seven years.** The lengthier carryforward period dilutes the value of the credit and creates an ever-growing unused tax credit liability for the State.
- **Amend the program statute to require additional data collection.** The Oklahoma Tax Commission (OTC) currently collects data from claimants through Form 506, however, this information is not stored in a way that makes it readily usable for evaluation purposes. The statute should be amended to require the OTC to store the information reported on Form 506 for the purposes of program evaluation, as well as to require additional data points to be collected and stored:
 - North American Industry Classification System (NAICS) code.
 - Amount of unused carried forward for the new jobs tax credit.
 - Amount of unused carried forward for the capital investment tax credit.
 - Average wage of new jobs created.
 - Type of capital investment (i.e. new or expanding facility, equipment upgrade or replacement).

⁴ Oklahoma Department of Commerce, Oklahoma's Strategic Plan for Economic and Community Development (2025). Available at <https://www.okcommerce.gov/wp-content/uploads/Oklahomas-Strategic-Plan-for-Economic-and-Community-Development.pdf>.

Introduction

Incentive Evaluation Commission Overview

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

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

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

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or reconfigure each incentive under review. It then submits a final report to the Governor and Legislature. This incentive was first evaluated in 2018 and last evaluated in 2022.

Summary of 2022 Evaluation Findings and Recommendations

Table 1: Summary of 2022 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Fiscal and Economic Impact	Data collected by the Oklahoma Tax Credit was insufficient for economic impact analysis. As of Tax Year 2022, the program to date has incurred a \$734.1 million potential liability for the State. Based on data from Tax Year 2019, the credit generates \$0.73 in new State tax revenue for each \$1.00 of foregone State revenue.
Administrative Effectiveness	No administrative issues were raised, other than a lack of sufficient data for economic impact analysis.
Achievement of Goals	In Tax Year 2019, credits claimed were associated with total capital investment of \$1.3 billion and 72 jobs.
Retain, Reconfigure or Repeal	Based on its analysis of available data, the project team recommended reconfiguring the program.
Other Recommendations	<p>The project team recommended several modifications to control program costs including:</p> <ul style="list-style-type: none">▪ Limiting the carry forward to seven years;▪ Requiring claims to be filed each year of the carry forward period, regardless of whether the credit was used to offset tax liability,▪ Requiring an application and approval before allowing claims,▪ Eliminating the new jobs credit, in favor of incenting job creation through the Quality Jobs program,▪ Amending the statute to require data collection for the purposes of incentive evaluation and usage tracking.

Based on PFM's analysis and consideration of other factors, the Commission voted 5-0 to approve PFM's recommendation to reconfigure the incentive with the modification that the application submittal date change from within 30 to within 60 days of the capital investment being placed in service, and to add a review process by the Incentive Approval Committee.⁵ No statutory changes were made since these recommendations were made.

2025 Criteria for Evaluation

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

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

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

Manufacturing in Oklahoma

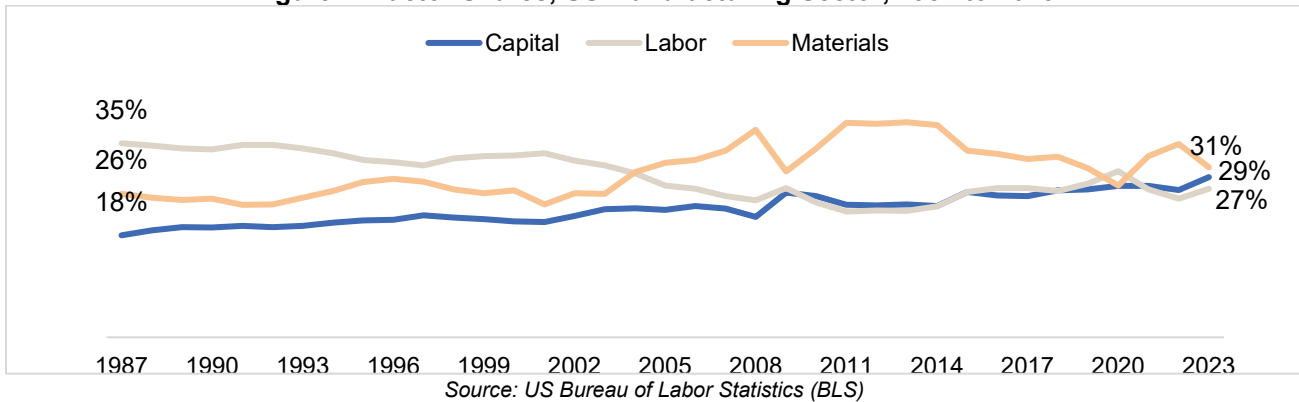
The Investment-New Jobs Tax Credit is one of three major incentives for manufacturers offered by Oklahoma, along with the Five-Year Ad Valorem Tax Exemption and the Quality Jobs Program.⁶ While the Five-Year Ad Valorem Tax Exemption reduces overhead costs and the Quality Jobs Program reduces the cost of labor, this Credit primarily seeks to reduce the cost of capital investment.

Capital investment is increasingly important in manufacturing, as automation and technological developments push many traditional manufacturers towards more capital-intensive models. Overall, capital has been increasing, particularly since 2010, while labor's factor share, the proportion of total economic output attributed to a particular factor of production, has been decreasing. Capital surpassed labor in 2010 as the largest factor share of manufacturing productivity. Since 1987, capital has grown as a factor of productivity in United States manufacturing by a compound annual growth rate (CAGR) of 1.6 percent, while labor and materials declined by 0.5 percent and 0.3 percent, respectively. Technological advancements that reduce capital costs in combination with both the offshoring and automation of labor in manufacturing are possible drivers of this shift.

⁵ Oklahoma Incentive Evaluation Commission, "Tax Incentive Evaluation Report," (2022). Available at https://oklahoma.gov/content/dam/ok/en/omes/documents/iec/archive/reports/IEC2022FinalReport_FINAL.pdf.

⁶ The most recent Five-Year Ad Valorem Tax Exemption Report is available at https://oklahoma.gov/content/dam/ok/en/omes/documents/AdValoremExemption_Draft_%2010.1.2024.pdf. The most recent Quality Jobs report is available at <https://oklahoma.gov/content/dam/ok/en/omes/documents/iec/archive/reports/2021IECReport.pdf>. The Quality Jobs program is being evaluated in the 2025 evaluation cycle.

Figure 1: Factor Shares, US Manufacturing Sector, 1987 to 2023



This national trend is reflected in Oklahoma, where manufacturing employment has declined by a CAGR of 0.8 percent from 2001 to 2024, while manufacturing capital expenditures increased at twice the rate (2.0 percent). Compared to neighboring states, manufacturing payroll grew fastest in Oklahoma, and the State trailed only Kansas in employment growth, and Arkansas in capital expenditure growth.

Table 2: Compound Annual Growth, Manufacturing, 2001 to 2024

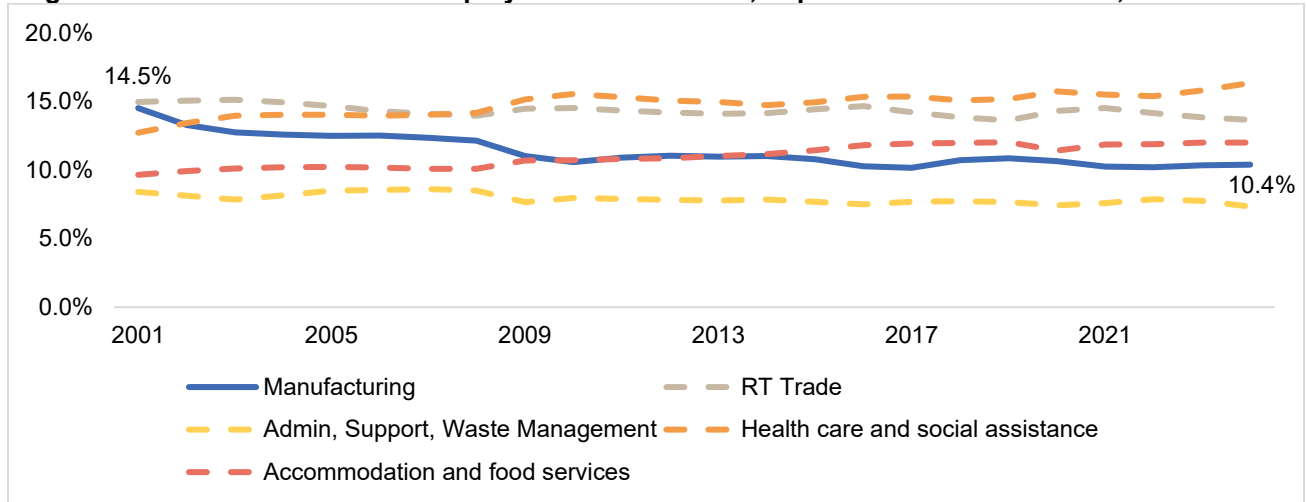
State	Employment	Payroll	Capital Expenditures ⁷
Arkansas	-1.45%	3.17%	5.9%
Colorado	-0.88%	2.80%	0.5%
Kansas	-0.47%	2.74%	1.3%
Missouri	-0.79%	2.84%	-0.6%
New Mexico	-1.54%	2.71%	-4.5%
Oklahoma	-0.82%	3.20%	2.0%
Texas	-0.24%	3.15%	0.9%
Oklahoma Rank	4 of 7	1 of 7	2 of 7
US Total	-1.09%	3.04%	2.9%

Source: US Census Annual Survey of Manufacturers

Manufacturing in Oklahoma has remained a top-five sector by share of total private employment, but its share has declined significantly. In 2001, manufacturing accounted for 14.5 percent of employment in the State, but this declined to 10.4 percent in 2024.

⁷ The capital expenditure CAGR is based on 2003-2017 data from the Annual Survey of Manufacturers. More recent data at the state level is not yet available.

Figure 2: Share of Total Private Employment in Oklahoma, Top-Five Sectors as of 2021, 2001 to 2024



Source: US BLS

Incentive Usage and Administration

Program Administration

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

Claims Process

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

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

Eligibility and Benefits – Capital Investment

To qualify for the capital investment tax credit, qualified firms must make a minimum investment of \$50,000 in depreciable property. Eligible property includes machinery, equipment, fixtures, buildings, or significant improvements to such property, placed into service with the State during the tax year. Additionally, the investment must not result in a reduction in the number of full-time equivalent employees at the facility.

The tax credit is equal to one percent of the cost of depreciable property and may be claimed in the year the property is placed in service, as well as over the following four tax years, provided the property is not sold, transferred, or otherwise disposed of. Any unused credit may be carried forward indefinitely. The credit is doubled to two percent of the cost of depreciable property if the claimant makes a capital investment in excess of \$40 million or is located in an Enterprise Zone, as designated by the Oklahoma Department of Commerce.⁸

Eligibility and Benefits – New Jobs

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

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

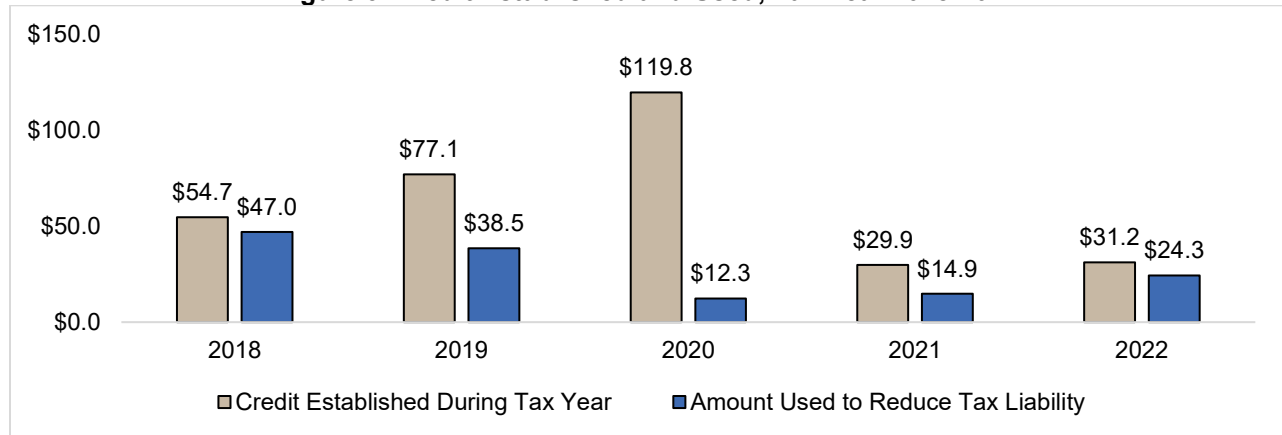
Program Use

The number of returns claiming the credit declined by 32.1 percent, from 921 in Tax Year 2018, to 625 in 2022. Over the same period, the total amount established by year decreased by 43.0 percent, from \$54.7 million to \$31.2 million. In Tax Year 2020, the amount of credit used declined to its lowest point during the

⁸ 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.

period, at \$12.3 million, perhaps due to diminished tax liability because of the economic impacts of COVID-19. During the same year, the amount established reached its highest over this time period, at \$119.8 million, driven in part by pandemic stimulus, historically low interest rates, and growing industrial investments, particularly in logistics and warehousing. Based on the most recent data from Tax Year 2022, \$311.7 million is available to be claimed in the future. Since the majority of the credit is claimed for capital investment, the majority of this amount is eligible for indefinite carry forward.

Figure 3: Credit Established and Used, Tax Year 2018-2022



Source: Oklahoma Tax Commission

Table 3: Investment/New Jobs Tax Credit Claims, Usage, and Carryforward, Tax Year 2018-2022 (Dollar amounts in millions)

Tax Year	Number of Returns	Unused Credit Carried Over from Prior Year	Credit Established During Tax Year	Total Amount Claimed	Amount Used to Reduce Tax Liability
2018	921	\$483.35	\$54.69	\$525.33	\$47.02
2019	861	\$331.69	\$77.12	\$408.80	\$38.55
2020	697	\$650.76	\$119.76	\$770.52	\$12.27
2021	607	\$502.24	\$29.93	\$532.18	\$14.86
2022	625	\$280.51	\$31.18	\$311.69	\$24.32

Source: Oklahoma Tax Commission

The OTC does not typically store information collected on Form 506 for analysis, but for the purposes of this evaluation, the OTC provided detailed data on tax returns claiming Investment-New Jobs Tax Credits for Tax Years 2020 through 2023. The data provided included information on tax credits claimed on Form 511-CR and supporting information submitted on Form 506.

The data submitted on Form 506 is helpful, as it includes detail related to the number of new jobs and amount of investment used to claim the credit. A review of the completed Form 506s found that nearly all of the claims were made for investments in depreciable property (99.4 percent in 2023). Less than one percent was claims for job creation. Based on the credits allowed in each category and the percentage credit reported, the estimated capital investment associated with these claims was roughly \$166.9 million in 2023, a significant decrease from the \$584.4 million estimate in 2022. A total of 34 jobs were added by claimants claiming the new jobs tax credit. The majority of the credit amount claimed (88.0 percent in Tax Year 2023) was located in an Enterprise Zone. Claimants are not required to submit wage information as part of their reporting, therefore it is not known what the average wage of new jobs created is.

Alignment with Best Practices

The Investment/New Jobs Tax Credit aligns moderately with incentive best practices in that the benefits are targeted to specific industries, leverage significant private capital, and are transparent and easy to understand. Conversely, the credit fails to align with best practices due to its duration beyond three years, its lack of a sunset date, and its lack of a cap on the value of awards. Further, the credit is only somewhat discretionary in that it has an investment threshold, however it does not have an application, meaning so long as a firm meets the threshold, they are eligible for the credit.

Figure 4: Best Practice Implementation in Incentive Program Designs

Best Practice	Investment / New Jobs
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	○

Legend: Dark circle = full adoption, Light circle = partial adoption, Empty circle = limited adoption

Fiscal and Economic Impact

Economic and Fiscal Impact

Based on the most recent Tax Expenditure Report, the financial impact of the Investment New Jobs Tax Credit was \$24.3 million in Tax Year 2024.⁹ This impact represents the foregone tax revenue to the State. Once operationalized, the new jobs and capital investments generate ongoing economic activity, subsequently generating additional fiscal impacts to the State. These impacts are not possible to measure prior to conducting a full economic impact analysis. In order for the program to have a positive return on investment, the fiscal impact of the initial job creation and capital investment as well as the ongoing fiscal impact of the investment operationalization must exceed the financial cost (foregone revenue) to the State.

For purposes of determining economic impact, the project team used the input-output IMPLAN modeling software.¹⁰ The economic impacts and revenues to the state from the program are comprised of the initial investment reports on claims, the number of jobs reported, plus the ongoing economic impact of the operationalization of the initial capital investment and new jobs created.

Table 4: Summary of Form 506 Data Used, Tax Year 2023

2023		
Investment	Count of Returns	318
	Credit Amount Claimed	\$3,028,007
	Credit Amount Used	\$411,903
	Carried Forward	\$2,616,104
	Estimated Capital Investment	\$166,949,600
New Jobs	Count of Returns	2
	Credit Amount Claimed	\$30,000
	Credit Amount Used	\$4,000
	Carried Forward	\$26,000
	Jobs	34
	Economic Output of Jobs	\$9,231,291
Total	Count of Returns	320
	Credit Amount Claimed	\$3,058,007
	Credit Amount Used	\$415,903

Tables 5 and 6 provide detail on the economic impacts and tax revenues associated with the program, while Table 4 provides detail on the economic impacts of the \$166.9 million investment reported on tax forms. Qualifying investments include machinery, fixtures, equipment, buildings, or substantial improvements thereto, place in service during the taxable year. The result of investment activity is \$295.2 million in economic activity and \$7.6 million in state tax revenues.

Table 5: Economic Impact of Capital Investments, 2023

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax Revenue
Direct	869	\$53,463,178	\$77,217,739	\$166,949,600	\$4,094,543
Indirect	290	\$21,117,813	\$36,202,091	\$75,249,741	\$1,919,650

⁹ Oklahoma Tax Commission, Tax Expenditure Report 2023-2024. Accessed electronically at <https://oklahoma.gov/content/dam/ok/en/tax/documents/resources/reports/tax-expenditure/TaxExpenditureReport-2023-2024.pdf>.

¹⁰ Additional discussion and information on IMPLAN is provided in Appendix B.

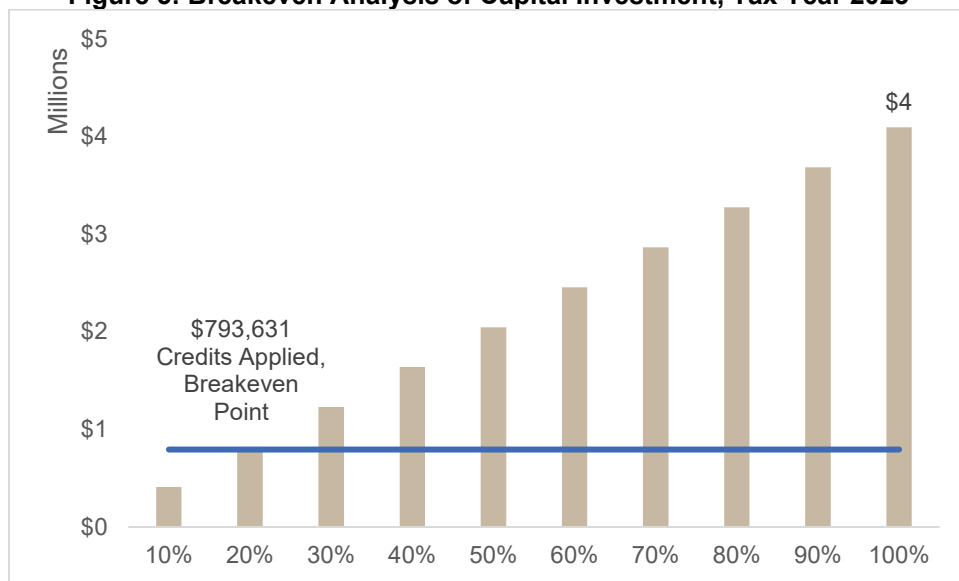
Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax Revenue
Induced	293	\$15,748,595	\$30,508,364	\$53,045,146	\$1,617,735
Total	1,452	\$90,329,586	\$143,928,193	\$295,244,487	\$7,631,928

Once put in place, the new jobs and investments generate ongoing economic activity. This activity represents the claimant's return on investment, which will then generate annual economic activity each year the claim is used. State tax revenues are estimated by applying the long-term ratio of gross state tax collections to Gross State Product. Additional information on this approach can be found in the Appendix.

The amount of credit used in tax year 2023 is \$793,631, which is a net gain of about \$3.3 million in revenue for the State. One method for estimating the 'but-for' component of a tax incentive is to use the revenue breakeven method. In this methodology, the cost of the program in terms of credits paid to awardees is compared to the revenues generated by the credit activity's direct impacts. This analysis shows the point where the cost of the program and the benefit of the program align, or "breakeven", for the capital investment component of the credit.

To achieve a positive return on investment for the State, 20 percent of activity would have to be attributed to the incentive. In other words, 80 percent of incentive activity could have occurred without the credit for the breakeven to achieve a positive return for the State.

Figure 5: Breakeven Analysis of Capital Investment, Tax Year 2023



While this breakeven analysis indicates that, on an annual basis, only roughly one fifth of capital investment activity needs to be directly attributable to the program in order for the State to recoup the cost of the program through tax revenues, it does not consider the growing State liability associated with the program. While \$793,631 in credits were used in the most recent tax year, over \$15.2 million in credits were claimed, and the difference is available to be carried forward indefinitely for the capital investment component of the program.

This amount is increasing annually due to claimants foregoing taking the entire amount claimed in a single year. While the breakeven test may indicate positive returns in a single year, it does not consider this ongoing liability for the State nor what would happen if claimants decided to take all of this unused, forward credit amount.

Job Creation Impacts

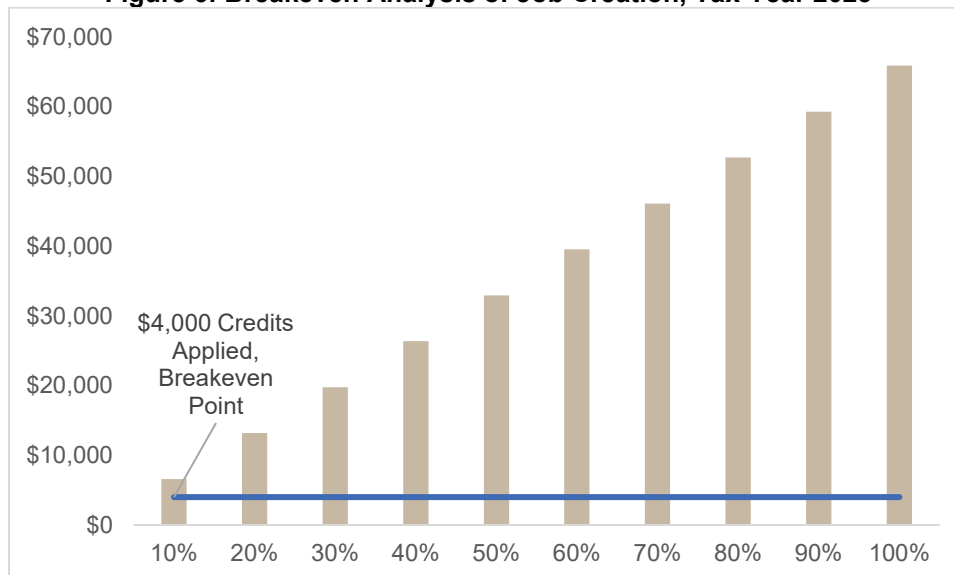
In tax year 2023, the 34 newly created jobs reported for the incentive program were associated with \$9.2 million in economic output and \$65,874 in State tax revenue, as estimated by IMPLAN. While the amount of credit claimed was \$30,000, only \$4,000 in credit was used, creating a significant return for the State due to the low annual amount of credits paid.

Table 6: Economic Impact of Job Creation, 2023

Impact Type	Employment	Labor Income	Value Added	Economic Output	State Tax Revenue
Direct	34	\$1,988,582	\$2,393,660	\$9,231,391	\$65,874
Indirect	15.43	\$1,025,249	\$1,707,166	\$3,431,025	\$80,058
Induced	11.81	\$634,495	\$1,229,400	\$2,137,219	\$69,888
Total	61.24	\$3,648,326	\$5,330,226	\$14,799,635	\$215,820

Similar to the capital investment analysis, the project team took the tax year 2023 job creation credits applied, representing the actual cost paid by the State, and compared it to the estimated State tax revenues as a result of the jobs created. For the new jobs component of the tax credit to 'pay for itself', 10 percent of job creation activity would need to have happened due to the incentive. While the carryover period for job creation tax credits is only available for five years, this analysis does not consider unused, carried forward credit amounts and therefore may ultimately understate the breakeven point.

Figure 6: Breakeven Analysis of Job Creation, Tax Year 2023



Incentive Benchmarking

Benchmarking Peer State Programs

In incentive evaluations, benchmarking can shed light on how peer states design, implement, and assess similar incentives. It should, at the outset, be acknowledged that no states are ‘perfect peers’ – there will be inherent differences in economic, demographic, and political factors that must be accounted for in any analysis. Moreover, it is exceedingly rare for any two state incentive programs to be identical. These realities must be understood when making cross-state comparison.

The process of establishing a comparison group for incentives typically begins with neighboring states. This is generally the starting point, as proximity often leads states to vie for similar regional businesses or industry investments. Additionally, neighboring states often (though not always) share similar market and demographic patterns that facilitate better comparisons.

Business development tax credits like Oklahoma’s Investment New Jobs Tax Credit are commonly used by states throughout the U.S. For benchmarking purposes, the selected comparison group includes Georgia, Indiana, Iowa, Kansas, North Carolina, and Wisconsin. Each of these programs are differentiated by eligibility requirements, amount of credit, duration, etc.

Figure 7: Map of Benchmark Peer States

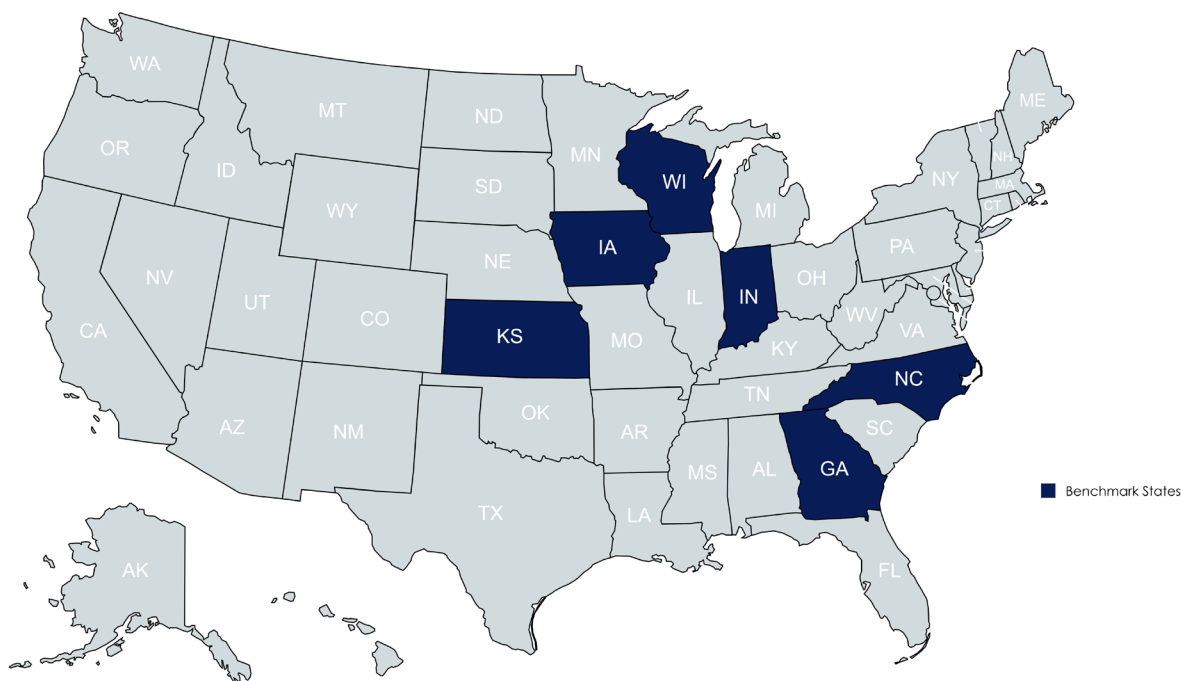


Table 7: State Peer Program Descriptions

State	Program Name	Carry Forward?	Length of Credit Period	Incentive Detail
Oklahoma	Investment-New Jobs Tax Credit	Yes	5 years	Eligible facilities may qualify for a tax credit equal to 1 percent of new investments totaling at least \$50,000 in depreciable property, or \$500 per new employee earning at least \$7,000 annually.
Wisconsin	Business Development Tax Credit ¹¹	Yes	5 years	10 percent of wages from eligible new jobs created and up to 3 percent of personal property, 5 percent of real property, or 15 percent of eligible expenditures on workforce housing and employee childcare.
Iowa	High Quality Jobs Program ¹²	Yes	Up to 7 years	Up to 6 percent of qualified investment, plus additional refunds and credits based on job creation and the total amount of investment.
North Carolina	Tax Credits for Growing Businesses ¹³	Yes	3 years	Up to 100 percent of personal income tax withholdings for newly created jobs based on location, number of jobs created, wages, and industry sector. Up to 10 percent of business property and 30 percent of real property investment, based on location and job creation.
Kansas	High Performance Incentive Program ¹⁴	Yes	Up to 16 years	10 percent of the qualified business investment exceeding \$50,000, or \$1 million for metropolitan counties. Eligible companies must pay above the average industry wage.
Georgia	Job Tax Credit ¹⁵	Yes	Up to 5 years	Up to \$4,000 per year for 5 years for each new qualified job created and sustained over the credit period, based on industry and company size.
Indiana	Hoosier Business Investment Tax Credit ¹⁶	Yes	10 years	Up to 10 percent of the qualified investment directly attributable to expanding the workforce in Indiana.

The comparison group programs are differentiated by eligibility requirements, benefit structure, program caps, and length of credit period. Regarding eligibility, states offer their incentive programs either by-right or by application. Oklahoma's program is by-right, meaning the credit is available to claim on a tax return if program qualifications are met. Other programs, like Wisconsin's Business Development Tax Credit, require

¹¹ Wisconsin Economic Development Corporation, Business Development Tax Credits. Available at <https://wedc.org/programs/business-development-tax-credits/>

¹² Iowa Economic Development and Finance Authority, High Quality Jobs Program. Available at <https://opportunityiowa.gov/media/3230/download?inline>

¹³ North Carolina Dept. of Revenue, Tax Credits for Growing Businesses. Available at https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_105/Article_3J.html

¹⁴ Kansas Dept. of Commerce, High Performance Incentive Program. Available at <https://www.kansascommerce.gov/program/business-incentives-and-services/hpip/>

¹⁵ Georgia Dept. of Economic Development, Investment Tax Credit. Available at <https://georgia.org/investment>.

¹⁶ Indiana Economic Development Corporation, Hoosier Business Investment Tax Credit. Available at <https://iedc.in.gov/indiana-advantages/investments/hoosier-business-investment-tax-credit/overview>.

application and approval in order to begin claiming the credit. Application and approval processes may help facilitate data collection from recipients, as well as enforcement of specific job creation or capital investment thresholds.

Benefit structure, including timing and duration of the credits, informs the present value of the incentive and may prove critical in incenting location decisions for job creation and capital investment. Oklahoma's Investment New Jobs Tax Credit offers a credit equal to 1 percent of the qualifying investment to be taken annually over a five-year period. Because of the length of the credit period, the present value of the award decreases annually. Therefore, longer duration tax credit programs, like Oklahoma's and Indiana's, are not necessarily more generous. For example, a 5 percent credit for one year is more generous than a 1 percent credit over 5 years.

Oklahoma's Investment New Jobs Tax Credit, as well as most (4 out of 6) of its peer programs allow for carryforward. Oklahoma allows for indefinite carryforward of credits, unlike many of its peer states, which limit carryforward to 10 years or less. This creates an ongoing and continuously growing tax liability for the State and decouples the connection between the initial investment and the application of the credit monies.

Critically, the wage threshold of Oklahoma's program of \$7,000 per year is significantly lower than that of its peer programs with wage requirements.

Appendix

Appendix A: Incentive Statute

68 O.S. § 2357.4

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix B: IMPLAN Economic Impact Methodology

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

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

Multipliers

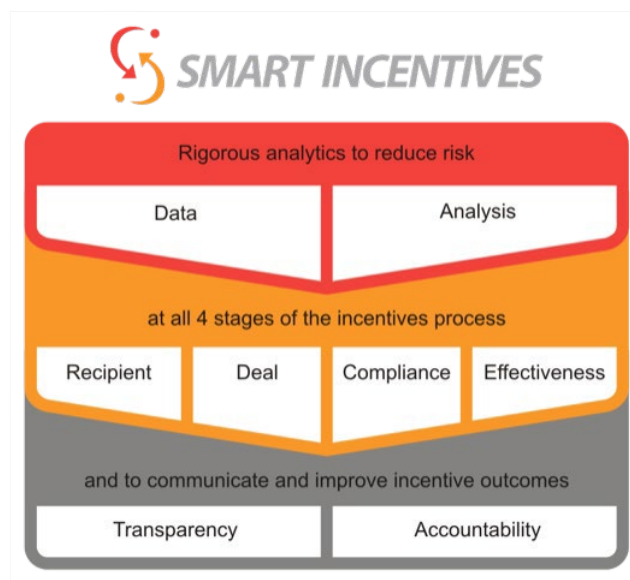
SAMs can be constructed to show the effects of a given change on the economy of interest. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region-specific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

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

Appendix C: Incentive Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,¹⁷ 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 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

¹⁷ 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

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.