

Frequently Asked Questions Regarding the Engineer Tax Credit Program for the Oklahoma Aerospace Industry

(UPDATE as of 8/19/2010): During the 2010 legislative session, state lawmakers placed the following moratorium on the Aerospace Industry Engineer Tax Credits:

No tax credit may be claimed for any event, transaction, investment, expenditure or other act occurring on or after July 1, 2010, for which the engineer tax credit would otherwise be allowable. Beginning July 1, 2012, the tax credit may be claimed for any event, transaction, investment, expenditure or other act occurring on or after July 1, 2012.

1. What is the purpose of the program and what does it do?

It provides income tax credits to engineers hired by or contracting with aerospace companies after December 31, 2008, and the companies that hire them, with the purpose of enhancing the state's ability to attract and retain a top-notch workforce pool for the Oklahoma aerospace industry.

2. When does the program become effective?

January 1, 2009

3. What are the specific tax credits?

a. Employee Tax Credit

Provides an income tax credit for qualified employees of up to \$5,000 per year for a maximum of 5 years. Any amount of unused credit can be carried over to the following year. If there is still an amount of credit remaining after 5 years, that unused amount may be carried over to subsequent years. However, the qualified employee stops accruing the \$5,000 tax credit per year after the 5th year.

b. Employer Tax Credit for Compensation Paid

Provides an annual income tax credit of up to 5 years for qualified employers of 10% of the compensation paid to a qualified employee if the employee received his degree from a university or college in Oklahoma and 5% if the employee received his degree from outside Oklahoma. This credit cannot exceed \$12,500 for each qualified employee annually.

c. Employer Tax Credit for Tuition Reimbursement

Provides an annual income tax credit of up to 4 years for qualified employers for tuition reimbursed to qualified employees. This credit shall be 50% of the tuition reimbursed to a qualified employee but cannot exceed 50% of the average annual tuition in a qualified program at a public university in Oklahoma. This credit may only be claimed if the qualified employee received his undergraduate or graduate degree within 1 year of beginning employment with the qualified employer.

Note: None of these income tax credits may be used to reduce the tax liability of the qualified employee or qualified employer to less than zero.

4. Who qualifies for these tax credits?

The legislation (House Bill 3239) provides that “qualified employees” and “qualified employers” may claim these tax credits.

- a. A “qualified employee” is any person hired by or contracting with a “qualified employer” after December 31, 2008, who has been awarded an undergraduate or graduate degree from a “qualified program” by a college or university, and who was not employed in the aerospace sector in this state immediately preceding employment or contracting with a qualified employer. Aerospace, mechanical, industrial, electrical engineers in addition to other that are qualified employees are also eligible for these tax credits.
- b. A “qualified employer” is any legally recognized business entity such as a general or limited partnership, or a corporation, or a public entity whose principal business activity involves the aerospace sector.
- c. A “qualified program” is a program that has been accredited by the Engineering Accreditation Commission of the Accreditation Board for Engineering and Technology, and awards an undergraduate or graduate degree. A 2-year Associate’s Degree does not qualify.

5. With respect to the compensation-based tax credit for the qualified employers, is there a cap on the number of qualified employees (engineers) the employer can claim on an annual basis?

No.

6. What agency will administer this tax credit program?

The Oklahoma Tax Commission -- call (405) 521-3160.

7. Where are the tax guidelines that define the eligibility for this tax credit? What forms need to be filled out and to whom are they submitted? What additional documentation is required and when is it due? How do I file my Oklahoma Tax return as it pertains to this incentive?

The Oklahoma Tax Commission has prepared guidelines (rules) that are described on the following tax forms used to file for this credit.

- Form 564 – “Credit for Employees in the Aerospace Sector” – tax form is located at: www.tax.ok.gov/it2009/564-09.pdf
- Form 565 – “Credits for Employers in the Aerospace Sector” – tax form is located at: www.tax.ok.gov/it2009/565-09.pdf

Once again, if you have questions concerning the preparation of your tax return and claiming these credits, contact your tax preparer or the Oklahoma Tax Commission at the contact information provided above.

8. Will this lower my taxable income or my tax liability?

These are income tax credits; therefore, they will reduce your tax liability. That is much better for you, the taxpayer.

9. What happens to the tuition rebate and the employee tax credit if an employee moves to another company within the first four years of his/her employment?

If the new employer gives a tuition rebate, the tax credit base upon that rebate applies until a total of four years of credit for the employee is reached. Also, if you are working for an Oklahoma aerospace company and subsequently get hired by a second Oklahoma company, you do not qualify for the tax credit.

10. Can I resign from my current job with an Oklahoma aerospace company and get rehired by the same company, therefore, qualifying me for this tax credit?

An engineer choosing this path would not qualify in view of the language in the law defining a “qualified employee.” If a reasonable amount of time passes before the engineer is rehired (2-3 months), the engineer will qualify for the tax credit because it would not violate the “immediately preceding” requirement in the definition of “qualified employee.”

11. Where can I find more information?

The Oklahoma Aeronautics Commission at (405) 604-6900 or oac@oac.ok.gov

12. Where can I read House Bill 3239 that establishes this tax credit program?

The Oklahoma Aeronautics Commission website, www.aeronautics.ok.gov, or the Oklahoma Aerospace Alliance website, www.okaero.com

SPECIAL NOTES:

The information included in this FAQ is not based upon an official interpretation or rules of the Oklahoma Tax Commission.

The information included in this FAQ is current as of January 26, 2010.