



# **State of Oklahoma**

# **Incentive Evaluation Commission**

## **Draft Home Office Tax Credit Evaluation**

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**PFM Group Consulting LLC**  
BNY Mellon Center  
1735 Market Street  
43<sup>rd</sup> Floor  
Philadelphia, PA 19103



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# **Key Findings and Recommendations**



## Incentive Overview

Established in 1987, Oklahoma’s Home Office Tax Credit provides insurance companies that establish or expand a home or regional home office in Oklahoma a tax credit against insurance premium tax liability, which varies depending on the company’s employment in Oklahoma. To claim the credit, foreign insurers must have at least 200 employees in the State, while domestic insurers must have at least 400 employees.<sup>1</sup> The value of the credit ranges from 15 to 50 percent of insurance premium tax liability depending on the insurance company’s status as foreign or domestic and its level of Oklahoma employment.<sup>2</sup>

**Recommendation: Reconfigure the program to more directly encourage job creation.**

## Key Findings

- **Insurance industry employment is declining in Oklahoma.** Employment in the industry declined 22.0 percent, from 9,189 in 2010 to 7,170 in 2019.<sup>3</sup> Over the same period, industry employment increased nationally, and four of six neighboring states increased their share of national insurance employment as Oklahoma’s has declined.
- **Use of the credit increased from \$15.7 million in tax year 2010 to \$18.6 million in tax year 2020.** Use steadily increased from 2010 to its peak in 2018 (at \$25.7 million), before declining the next year when two insurance groups no longer qualified for the credit.

**Table 1: Use of the Credit**

Tax Year	Insurance Groups	Credit Amount Used
2010	9	\$15,743,564
2011	9	\$16,854,789
2012	9	\$18,186,151
2013	10	\$18,837,453
2014	10	\$21,286,787
2015	10	\$22,563,268
2016	10	\$23,560,586
2017	10	\$24,573,966
2018	10	\$25,717,879
2019	8	\$19,510,343
2020	8	\$18,552,866

*Source: Oklahoma Insurance Department*

- **Growth in credit use is not commensurate with employment.** As the amount of credit generated increased by 17.2 percent from \$15.7 million 2010 to \$18.5 million in 2020, the total number of employees reported on credit claims declined by 24.7 percent, from 6,323 to 4,761.
- **From 2010 through 2020, there were 23 instances of an insurer claiming an increased credit amount while reporting fewer employees than the prior year.** One insurer did this in five consecutive years, and over this period its credit amount increased 25.4 percent while its employment decreased by nearly half.

<sup>1</sup> In this context, “foreign” and “domestic” refer to an insurer’s state of domicile. An insurer domiciled outside Oklahoma is a foreign insurer.

<sup>2</sup> Effective credit percentages range from 7 to 24 percent after a portion of premium tax is allocated to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund

<sup>3</sup> US Bureau of Labor Statistics, Quarterly Census of Employment and Wages



## Recommendations

- The program provides a credit based on employment, but it doesn't necessarily reward employment growth or wage growth. The program should be reconfigured to do so.
  - One option is to provide a credit against insurance premium tax that is either a flat amount per new job created, or equal to some portion of new payroll. Arkansas and Florida each offer a tax credit equal to a percentage of salaries paid to insurance employees in the State. These incentives have a direct relationship to employment and depending on qualification requirements for the credit, the State can ensure that only newly created jobs generate a benefit and that benefit is provided over a limited time period.
  - The Home Office Tax Credit currently has no requirements related to new payroll, new jobs, average wages paid or benefits offered to employees. Any reconfiguration of the program should consider these factors in awarding benefits. The Quality Jobs program, for example, features requirements related to each of these items and also places a limit on the length of time a firm can qualify for benefits for the same activity. Adopting a similar approach in this incentive would improve program results and help control costs.<sup>4</sup>
- **Require a specific job verification process.** Conversations with Oklahoma Insurance Department staff revealed challenges in finding resources for verification of applicants' job claims. Other State incentive programs, like the Quality Jobs program, include statutory provisions for assistance with employment verification from the Oklahoma Employment Security Commission. Adding a similar provision to assist the Department's verifications for the Home Office Tax Credit, would improve the administration of the program.

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<sup>4</sup> It is worth noting that if the Home Office Tax Credit were repealed rather than reconfigured, insurance firms would still have access to job creation incentives through the Quality Jobs program.



# 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 report 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; as well as recommendations for any 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 modify each incentive under review. It then submits a final report to the Governor and Legislature.

## Summary of 2017 Evaluation Findings and Recommendations

Based on the preceding framework, significant findings from the 2017 evaluation of the Home Office Tax Credit program are summarized in the following table.

**Table 2: Summary of 2017 Evaluation Findings and Recommendations**

Evaluation Category	Significant Finding(s)
Overall Findings	<ul style="list-style-type: none"> <li>- Insurance industry employment declined from 2001 to 2015, despite the credit</li> <li>- Program benefits show little connection to employment growth. Program costs increased 43 percent from 2009 to 2015 while the number of employees reported by qualifying firms increased just 11 percent.</li> </ul>
Fiscal and Economic Impact	<ul style="list-style-type: none"> <li>- No economic impact could be attributed to the program due to its lack of connection to job growth</li> <li>- \$20.9 million fiscal impact in 2015 (per 2017 evaluation)</li> </ul>
Future Fiscal Impact Protections	<ul style="list-style-type: none"> <li>- The incentive does not provide specific financial protections</li> </ul>
Administrative Effectiveness	<ul style="list-style-type: none"> <li>- Reporting and administrative issues exist.</li> </ul>
Achievement of Goals	<ul style="list-style-type: none"> <li>- Insurance industry employment declined from 2001 to 2016 as it increased in neighboring states.</li> </ul>
Retain, Reconfigure or Repeal	<ul style="list-style-type: none"> <li>- Based on its analysis of available data, the project team recommended in 2017 that the tax credit be reconfigured.</li> </ul>
Other Recommendations	<ul style="list-style-type: none"> <li>- If program is retained, reconfigure the tax credit to tie more directly to job creation.</li> </ul>



## **2021 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 and, as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation.

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

- Change in employment for eligible insurers before/after credit;
- Distribution within the categories of number of full-time employees claimed;
- Change in payroll for eligible insurers before/after credit;
- Average wage for eligible insurers before/after credit;
- Change in employment for industry versus other states without credit;
- State return on investment.



# Industry Background



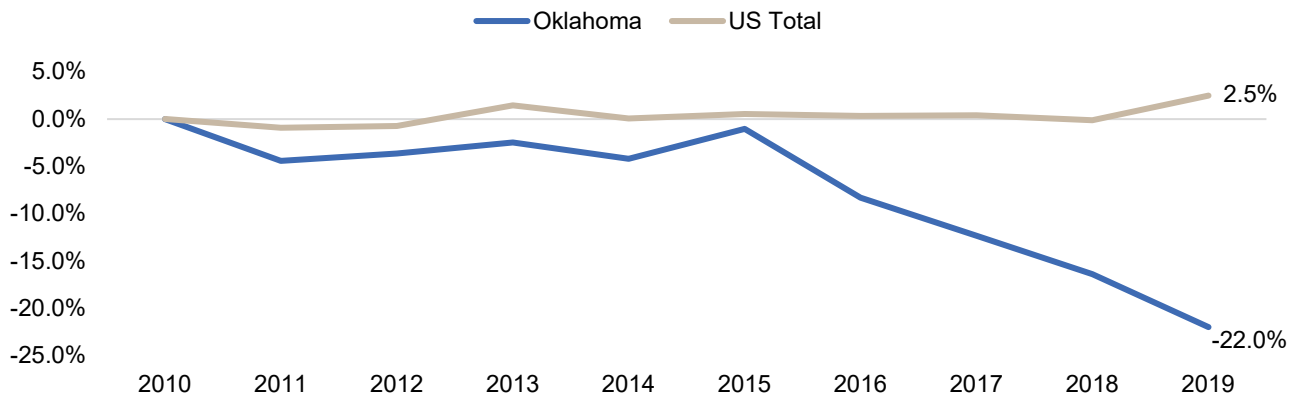
## Industry Background

### Industry Trends

The insurance industry, as represented by insurance carriers, has contracted as a share of total employment both nationally and in Oklahoma. In 2010, insurance carriers accounted for 1.1 percent of total employment nationally and 0.8 percent in Oklahoma. In 2019, its share of national employment declined moderately to 1.0 percent but fell to 0.6 percent of total Oklahoma employment.

Nationally from 2010 to 2019, insurance carrier employment levels changed very little, increasing to 2.5 percent above 2010 levels in 2019, with most of this increase coming in 2019. Over the same period, Oklahoma insurance carrier employment decreased -22.0 percent, with significant decreases in employment each year from 2016 through 2019.

**Figure 1: Cumulative Growth in Insurance Carrier Employment Since 2010, 2010 to 2019**



Year	Oklahoma	US Total
2010	9,189	1,171,417
2011	8,782	1,160,742
2012	8,854	1,162,819
2013	8,961	1,188,167
2014	8,802	1,172,052
2015	9,093	1,177,518
2016	8,425	1,175,113
2017	8,056	1,176,077
2018	7,684	1,169,780
2019	7,170	1,200,388

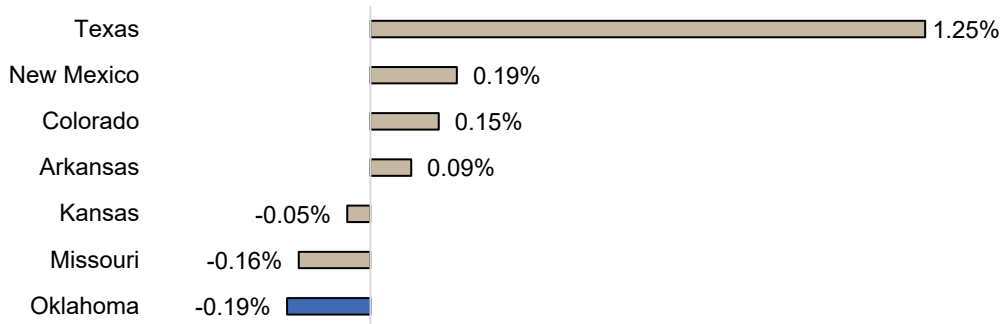
Source: US Bureau of Labor Statistics, Quarterly Census of Employment and Wages

The number of insurance carrier establishments decreased sharply both nationally and in Oklahoma. In Oklahoma, establishments declined by nearly one third, from 383 in 2010 to 262 in 2019, which was more than twice the national decline of -15.2 percent.

Oklahoma's 0.6 percent share of national insurance carrier employment in 2019 ranked as the second-lowest among surrounding states, just ahead of New Mexico, with 0.5 percent, and well behind Texas, which accounts for the highest share, with 1.4 percent. From 2010 to 2019, Oklahoma showed the greatest decrease in its share of national insurance carrier employment, decreasing by 0.2 percentage points. Over the same period, four surrounding states (Arkansas, Colorado, New Mexico, and Texas) increased their share of national insurance carrier employment.



**Figure 2: Percentage Point Change in Share of US Insurance Carrier Employment, 2010 to 2019**



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

### Industry Taxation

Insurance carriers are subject to an insurance premium tax. This tax is applied as a percentage of the dollar value of premiums written by a carrier in Oklahoma. In most states, insurers pay this tax in-lieu of a corporate income tax. Insurance premium tax rates across states are often significantly lower than corporate income tax rates, ranging from 0.5 percent to 4.3 percent. However, while a corporate income tax applies to net income, insurance premium tax is due on all policies written, regardless of whether the company is generating a profit. This difference can make the tax a greater burden on insurance companies than a typical corporate income tax, despite its lower rate.

States may tax different types of insurance at different rates, but 45 states, including Oklahoma, have a general rate that is applied to most insurance. Among those states, Oklahoma's 2.25 percent tax rate is tied (with three other states) for the tenth-highest rate, and is above the median of 2.00 percent.

**Table 3: Insurance Premium Tax Rates<sup>5</sup>, 2020**

Tax Rate	State	Tax Rate	State
4.27%	Hawaii	1.90%	North Carolina
3.50%	Nevada	1.75%	Arizona, Florida, North Dakota
3.00%	New Mexico, Mississippi, West Virginia	1.60%	Texas
2.75%	Montana	1.50%	Connecticut, Idaho
2.70%	Alaska	1.40%	Ohio
2.50%	Arkansas, South Dakota, Tennessee	1.30%	Indiana
2.35%	California	1.25%	New Hampshire, South Carolina
2.28%	Massachusetts	1.00%	Iowa, Nebraska
<b>2.25%</b>	<b>Georgia, Oklahoma, Utah, Virginia</b>	0.75%	Wyoming
2.10%	New Jersey	0.50%	Illinois
2.00%	Colorado, Delaware, Kansas, Kentucky, Maine, Maryland, Minnesota, Missouri, New York, Pennsylvania, Rhode Island, Vermont, Washington		

Source: National Association of Insurance Commissioners

The tax base for the insurance premium tax is the dollar amount of premiums written in the State. Premiums written in Oklahoma have increased steadily in recent years, from \$14.8 billion in 2010 to \$20.7 million in 2019 – a compound annual growth rate of 3.8 percent.<sup>6</sup> However, this growth is slower than the national rate of 5.3 percent over the same period.<sup>7</sup> The following chart shows cumulative growth in written premiums from

<sup>5</sup> Tax rate may vary from general rates shown, depending on line of insurance.

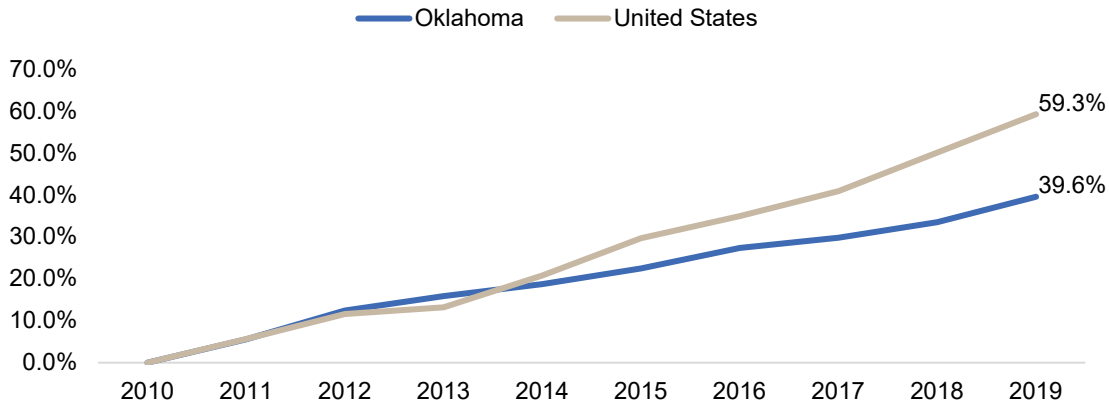
<sup>6</sup> According to Oklahoma Insurance Department data

<sup>7</sup> National Association of Insurance Commissioners



2010 to 2019. Written premiums increased by 59.3 percent nationally over this period compared to 39.6 percent in Oklahoma. Since 2014, the growth disparity has widened. In 2019, premiums written in Oklahoma accounted for just 0.8 percent of total premiums written across the country.

**Figure 3: Cumulative Growth in Written Premium Since 2010, 2010 to 2019**



Year	Premium Written in Oklahoma	US Total Written Premium
2010	\$14,798,744,828	\$1,647,775,427,232
2011	\$15,622,936,465	\$1,740,742,771,792
2012	\$16,640,500,426	\$1,838,665,674,657
2013	\$17,144,736,217	\$1,864,933,906,038
2014	\$17,568,357,277	\$1,990,355,248,591
2015	\$18,124,576,795	\$2,136,531,404,383
2016	\$18,848,914,941	\$2,223,691,773,906
2017	\$19,204,697,822	\$2,321,473,401,603
2018	\$19,754,087,537	\$2,473,199,970,251
2019	\$20,654,659,845	\$2,624,105,156,967

Source: Oklahoma Insurance Department and National Association of Insurance Commissioners

An important feature of insurance industry taxation is the retaliatory tax. When an insurer domiciled in one state writes premiums in another, it must pay the greater of the taxes imposed by that state, or the taxes that would be imposed by the insurer's home state. For example, an insurer based in New Mexico that writes premiums in Oklahoma would pay insurance premium tax to Oklahoma at New Mexico's 3.0 percent rate, rather than Oklahoma's 2.25 percent rate. This dynamic means states can lower their own premium tax rate to attract the insurance industry to locate there, while still collecting higher rates from insurers based in other states with higher tax rates.



# **Incentive Usage and Administration**



### Incentive Characteristics

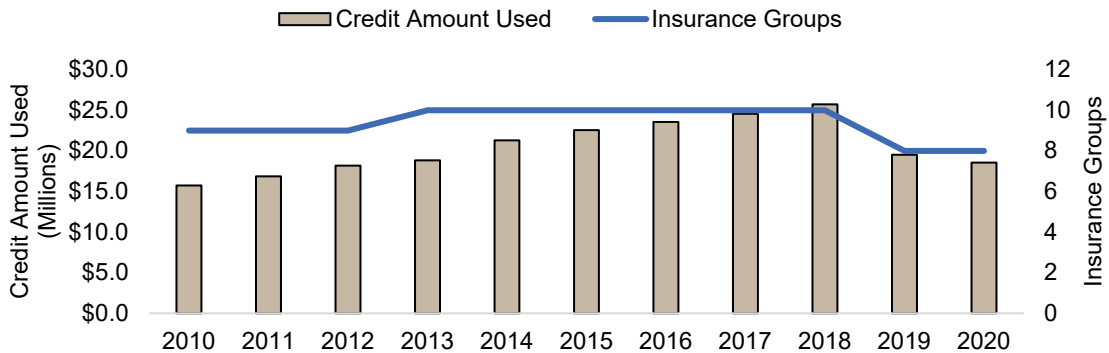
Oklahoma’s Home Office Tax Credit, established in 1987, allows insurance companies that establish or expand a home or regional home office in Oklahoma to claim a tax credit against insurance tax liability depending on the company’s employment in Oklahoma. Foreign insurers must have at least 200 employees in the State while domestic insurers must have at least 400 employees.<sup>8</sup> The value of the credit ranges from 15 to 50 percent of premium tax liability depending on the insurance company’s status as foreign or domestic and its level of Oklahoma employment.<sup>9</sup>

The Home Office Tax Credit reduces premium tax liability, which is a key cost of doing business for the insurance industry. By reducing costs for qualified insurers doing business in Oklahoma, the incentive has the potential to encourage insurers to hire more staff and write more premiums in the State.

### Historic Use of the Credit

Use of the credit increased from \$15.7 million in tax year 2010 to \$18.6 million in tax year 2020, or by 17.8 percent. Over this period, the number of insurance groups claiming the credit decreased from nine to eight. Use of the credit peaked in 2018 when 10 groups used \$25.7 million, then declined by 24.1 percent to \$19.5 million in 2019, as two insurance groups – State Farm and Hartford Group – no longer qualified for the credit. In 2020, the amount used declined by another five percent, as premiums written by the remaining companies declined.

**Figure 4: Number of Insurance Groups Claiming the Credit and Amount Used, 2010 to 2020**



Tax Year	Insurance Groups	Credit Amount Used
2010	9	\$15,743,564
2011	9	\$16,854,789
2012	9	\$18,186,151
2013	10	\$18,837,453
2014	10	\$21,286,787
2015	10	\$22,563,268
2016	10	\$23,560,586
2017	10	\$24,573,966
2018	10	\$25,717,879
2019	8	\$19,510,343
2020	8	\$18,552,866

Source: Oklahoma Insurance Department

<sup>8</sup> In this context, “foreign” and “domestic” refer to an insurer’s state of domicile. An insurer domiciled outside Oklahoma is a foreign insurer.

<sup>9</sup> Effective credit percentages range from 7 to 24 percent after a portion of premium tax is allocated to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund



Within the program’s employment tiers, companies appear to be significantly outperforming minimum requirements. The following table summarizes the average employment of insurance groups within each employment tier. Each average is significantly higher than the minimum in range and this trend is also seen in previous years.

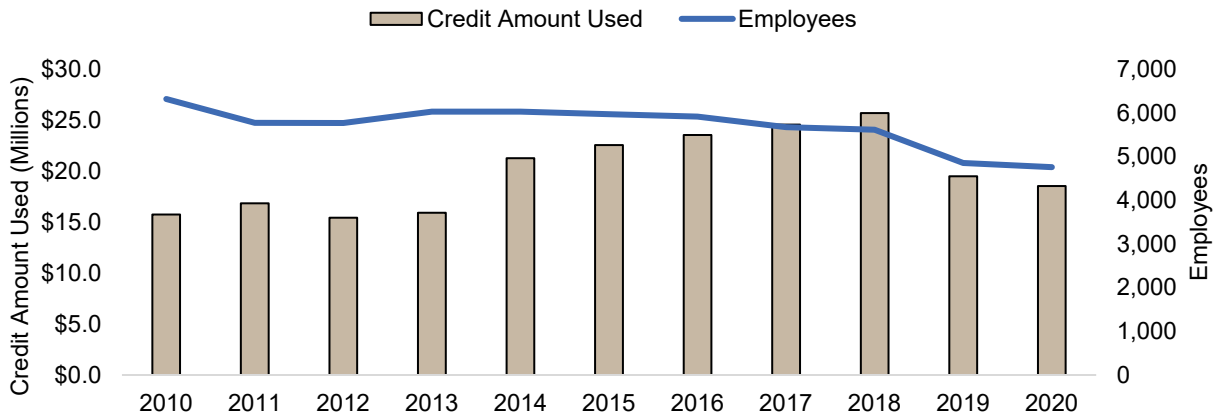
**Table 4: Average Employment, Tax Year 2020**

Employment Range	Average Employment
201 to 299	259
301 to 399	396
401 to 499	460
500 or more	908

Source: Oklahoma Insurance Department

Despite the employment requirements set in statute, growth in credit amount used is not commensurate with employment. As the amount of credit generated increased by 17.2 percent from 2010 to 2020, the total number of employees reported on credit claims declined by -24.7 percent, from 6,323 to 4,761. From 2010 through 2020, there were 23 instances of an insurer claiming an increased credit amount while reporting fewer employees than the year prior. One insurer did this in five consecutive years, while over this period its credit amount generated increased 25.4 percent and its employment decreased by nearly half.

**Figure 5: Reported Employees and Credit Amount Used, 2010 to 2020**



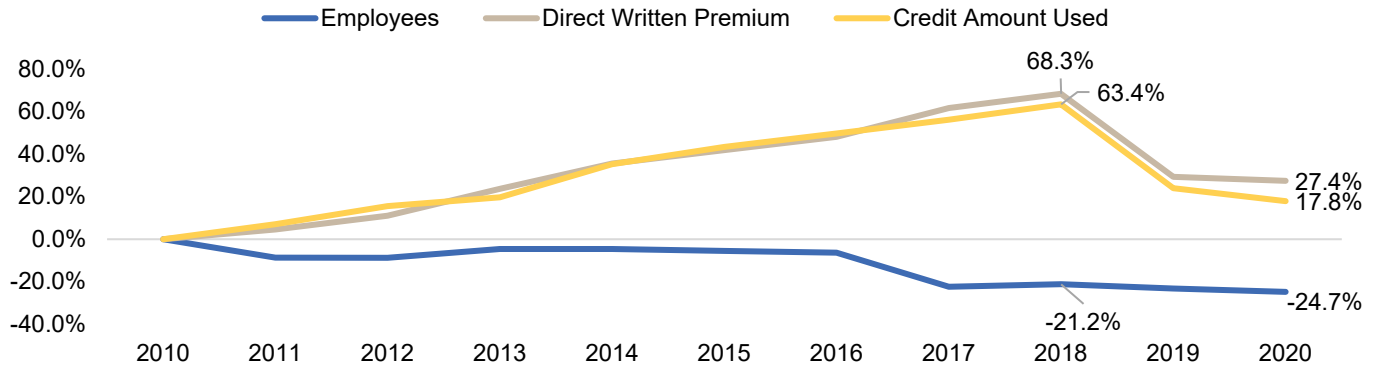
Tax Year	Employees	Credit Amount Used
2010	6,323	\$15,743,564
2011	5,774	\$16,854,789
2012	5,772	\$18,186,151
2013	6,032	\$18,837,453
2014	6,031	\$21,286,787
2015	5,974	\$22,563,268
2016	5,920	\$23,560,586
2017	5,675	\$24,573,966
2018	5,618	\$25,717,879
2019	4,856	\$19,510,343
2020	4,761	\$18,552,866

Source: Oklahoma Insurance Department



As credit generation climbed to its peak from 2010 to 2018, it showed a clear positive relationship to premium written by claimants, but employment moved in the opposite direction. The following chart shows cumulative growth in credit generated, premium written, and employment among claimants from 2010 to 2018.

**Figure 6: Cumulative Growth in Employees, Written Premium, and Credit Amount Used Since 2010, 2010 to 2020**



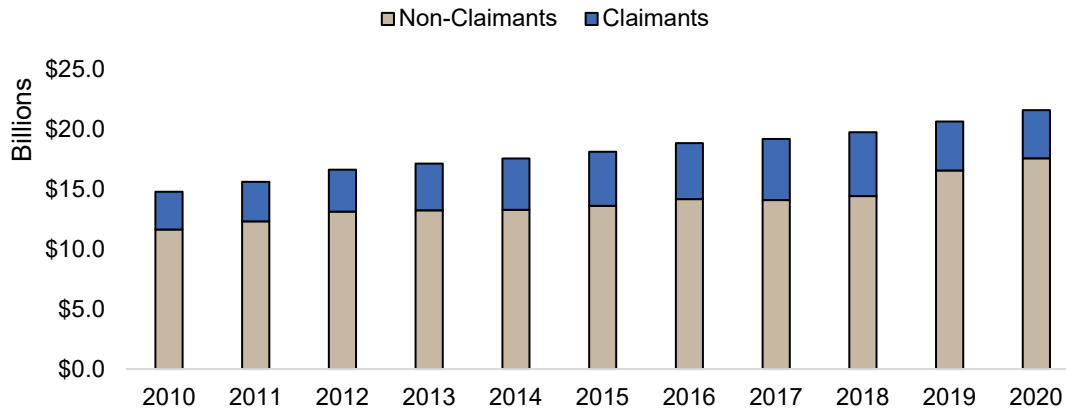
Tax Year	Employees	Credit Used	Direct Written Premium
2010	6,323	\$15,743,564	\$3,158,964,358
2011	5,774	\$16,854,789	\$3,303,423,588
2012	5,772	\$18,186,151	\$3,506,811,013
2013	6,032	\$18,837,453	\$3,906,333,448
2014	6,031	\$21,286,787	\$4,281,159,428
2015	5,974	\$22,563,268	\$4,510,784,524
2016	5,920	\$23,560,586	\$4,676,663,238
2017	5,675	\$24,573,966	\$5,105,196,353
2018	5,618	\$25,717,879	\$5,316,643,217
2019	4,856	\$19,510,343	\$4,084,566,262
2020	4,761	\$18,552,866	\$4,024,535,699

Source: Oklahoma Insurance Department

Insurers claiming the credit accounted for 21.3 percent of total premiums written in Oklahoma in 2010. This share increased to a peak of 26.9 percent in 2018, before falling to 19.8 percent in 2019, when two insurance groups stopped claiming the credit and total premiums written by claimants declined from \$5.3 million to \$4.1 million. Despite fewer claimants and less premium written by claimants, the total amount of premiums written in Oklahoma by all insurers increased 4.6 percent in 2019, its highest year-over-year growth rate since 2012, and increased again at that rate in 2020.



**Figure 7: Insurance Premiums Written in Oklahoma, 2010 to 2020**



Tax Year	Non-Claimants	Claimants	Total
2010	\$11,639,780,470	\$3,158,964,358	\$14,798,744,828
2011	\$12,319,512,877	\$3,303,423,588	\$15,622,936,465
2012	\$13,133,689,413	\$3,506,811,013	\$16,640,500,426
2013	\$13,238,402,769	\$3,906,333,448	\$17,144,736,217
2014	\$13,287,197,849	\$4,281,159,428	\$17,568,357,277
2015	\$13,613,792,271	\$4,510,784,524	\$18,124,576,795
2016	\$14,172,251,703	\$4,676,663,238	\$18,848,914,941
2017	\$14,099,501,469	\$5,105,196,353	\$19,204,697,822
2018	\$14,437,444,320	\$5,316,643,217	\$19,754,087,537
2019	\$16,570,093,583	\$4,084,566,262	\$20,654,659,845
2020	\$17,577,351,741	\$4,024,535,699	\$21,601,887,440

Source: Oklahoma Insurance Department

### Incentive Administration

The Oklahoma Insurance Department administers the Home Office Tax Credit. Each year, on March 1, companies submit applications to the Insurance Department to claim the credit. The application collects information including company identification, a list of states the office serves, description of the types of services performed at the office, whether the building is leased or owned, the percentage of building space occupied by the insurance company, and the date the building was first occupied. The Insurance Department does not collect any information on payroll or the wages of reported jobs on its application.

An insurance company may qualify for the credit for operating a home office or regional home office in the State. A regional home office is an insurance office serving other states, located in a building that is owned or leased by the insurance company in which insurance company operations that give rise to receipts subject to premium tax are conducted. A home office is defined in statute as the executive offices of an insurance company domiciled in the State.

An insurer's eligibility for the credit is determined by a company's domicile and number of employees. Foreign insurers need more than 200 employees to qualify, while domestic insurers need more than 400. Employees must be full-time Oklahoma employees. Unlike other jobs-based incentives such as the Quality Jobs program, there are no requirements related to wages or benefits.



The credit is equal to 15 to 50 percent of premium tax liability, depending on a company's qualifications. This percentage is applied after 53 percent of premium tax liability is apportioned to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund is applied. The following table summarizes the nominal and effective credit amounts by level of qualification.

**Table 5: Home Office Tax Credit Rates and Requirements**

<b>Full-time Employees</b>	<b>Foreign/Alien Insurers (Nominal)</b>	<b>Effective</b>	<b>Domestic Insurers (Nominal)</b>	<b>Effective</b>
201 to 299	15%	7%	-	
301 to 399	25%	12%	-	
401 to 499	35%	16%	35%	16%
500 or more	50%	24%	50%	24%

One challenge encountered by Insurance Department staff responsible for administering the program is the verification of applicant employment levels. The Department may be under resourced to carry out thorough verification. Statute grants the Insurance Commissioner the authority to conduct an examination of insurer qualifications to ensure each applicant is meeting requirements. Some other state incentive programs call for a more specific verification process, utilizing other state agencies. For example, the Quality Jobs Program statute specifically calls for the Tax Commission, which administers payments for the program, to verify participant payroll levels through the Oklahoma Employment Security Commission. No similar verification process is outlined in the Home Office Tax Credit statute, but this may assist the Insurance Department in conducting its verifications.



# **Economic and Fiscal Impact**



## Economic and Fiscal Impact

Economists use a number of statistics to describe regional economic activity. Four common measures are **Output**, which describes total economic activity and is generally equivalent to a firm's gross sales; **Value Added**, which equals gross output of an industry or a sector less its intermediate inputs; **Labor Income**, which corresponds to wages and benefits; and **Employment**, which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of effects: **direct, indirect, and induced**. The IMPLAN software model used for these analyses utilizes an input-output analysis approach.

**Direct effects** are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

**Indirect effects** are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

**Induced effects** are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

**Figure : The Flow of Economic Impacts**



Over the past 10 years, employment in Oklahoma's insurance sector has declined, while tax credits claimed under this program have increased. The tax credit is not directly linked to net new employment, does not have a maximum credit per job, and does not have a time limit as to how long claims can continue to be made or whether/when payments may be spent by the recipient. As a result, it is difficult to determine whether or how this credit has influenced long-term employment patterns or other economic development metrics. As a result, there is no clear tie to incentive evaluation.

If the tax credit was ended, there are a few logical outcomes. First, there might be a reduction in Oklahoma insurance sector employment if relocating or shifting employment to another state offered substantially lower costs. Second, insurance companies might absorb the loss of these incentives and not pass along their higher costs related to the tax to consumers through higher premiums. Third, the insurance companies might pass along the loss of incentives to consumers in the form of higher premiums. If this occurs, consumers might buy less expensive coverage, pay the higher costs or shop around for lower priced coverage. If



consumers pay more for the same insurance product with no additional benefits, residents will have less money to spend in the economy on other services and goods. Finally, all of the above might occur in varying degrees with no meaningful negative or positive impact on the economy.

However, because the claims paid are real, it is possible to conduct an analysis on the value of the claims paid by the State to determine the economic impact of these payments to the economy. Further, these payments can also be viewed as an “opportunity cost” for the State. In this regard, an analysis can be made comparing the economic impacts of this spending if it were to occur in the insurance industry versus if the spending were to occur through the State budget. Both the value of the spending and the value of the opportunity cost are presented below.

**Table 6: Economic Impact of Foregone State Revenue as Spent Through the Insurance Industry 2016-2020**

Impact	Average Annual Employment	Labor Income	Value Added	Output	State Tax Revenue	Claim Amount Used
Direct	107	\$34,817,246	\$64,584,953	\$111,915,640	\$5,782,974	
Indirect	60	\$16,264,216	\$25,443,502	\$62,152,460	\$970,439	
Induced	50	\$11,067,957	\$20,116,883	\$37,610,018	\$1,135,108	
<b>Total</b>	<b>217</b>	<b>\$62,149,419</b>	<b>\$110,145,338</b>	<b>\$211,678,118</b>	<b>\$7,888,521</b>	<b>\$111,915,640</b>

**Table 7: Economic Impact of Foregone Revenue as Oklahoma Budget Opportunity Cost, 2016-2020**

Impact	Average Annual Employment	Labor Income	Value Added	Output	State Tax Revenue	Claim Amount
Direct	196	\$59,891,392	\$75,367,542	\$93,224,143	\$1,812,480	
Indirect	16	\$4,640,443	\$7,561,061	\$16,278,235	\$442,387	
Induced	62	\$13,856,310	\$25,188,082	\$47,090,707	\$1,421,400	
<b>Total</b>	<b>274</b>	<b>\$78,388,145</b>	<b>\$108,116,685</b>	<b>\$156,593,085</b>	<b>\$3,676,267</b>	<b>\$111,915,640</b>

In the case of the insurance industry spending, an annual average of 217 jobs are created, with economic impacts reaching \$211.5 million over the five-year period. By comparison, spending these funds through the State budget will create 274 jobs with \$156.6 million in total economic impacts. Thus, through State spending an additional 58 jobs per year are created with \$16.2 million in additional wages paid. By the same token, total economic activity through private sector spending is greater by \$55.1 million. The majority of additional impacts flow mainly from indirect (business to business) spending effects. Last, while these results are generally comparable, it remains unclear whether the forgone revenues received are spent at all, over what period the spending may occur or, if spent, are they spent in Oklahoma. Because these are unanswered questions, the impacts of the spending by industry may represent the maximum possible impacts, with actual impacts likely to be lower, both in terms of jobs and total economic impacts. The effect of the opportunity cost analysis implies spending through the State budget would generate greater employment and similar total economic impacts than spending through industry.

The opportunity cost scenario to model state government spending is generated through the use of the IMPLAN Institutional Spending Pattern for State and Local Government. This is a means to model government spending much like the Industrial Output Pattern used to model insurance industry spending.



# Incentive Benchmarking



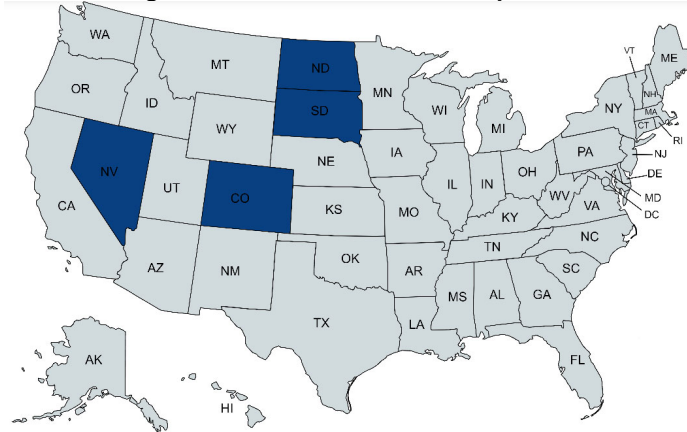
## Benchmarking

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

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.<sup>10</sup> 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.

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. For the Home Office Tax Credit, four states were found to have a similar program, including one neighboring state.

**Figure 8: States Chosen for Comparison**



Colorado, Nevada, North Dakota, and South Dakota each have an incentive similar to Oklahoma’s that encourages insurance companies to develop regional or home offices in their state. Each of the programs in these states has less stringent qualification requirements than Oklahoma’s and three of four comparable incentives provide an equal or greater benefit to qualified insurers.

### *Requirements*

Oklahoma’s Home Office Tax Credit benefit amount is tied to the number of employees at qualifying locations. No incentive in the comparison group similarly ties its benefit amount to the number of employees. For example, in Colorado, if the insurer qualifies as having a home or regional home office in the state based on the functions it performs and the number of other states it serves, it may be eligible for a 50 percent premium tax rate reduction. Similar qualifications are in place in Nevada, North Dakota, and South Dakota, where there are no minimum employment requirements and the benefit is not tiered based on employment levels as it is in Oklahoma.

### *Benefit Amount*

<sup>10</sup> The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.



Oklahoma's maximum benefit amount of 50 percent of premium tax liability is equal to Colorado's 50 percent rate reduction, and is a lower benefit than what is offered by Nevada and South Dakota. Both Nevada and South Dakota offer a tax credit equal to 50 percent of premium tax liability for qualified insurers, but include an additional credit amount equal to ad valorem taxes paid, up to 30 percent of premium tax liability. North Dakota offers a tax credit equal to ad valorem taxes paid by the insurer.

### *Program Caps*

Nevada is the only state that places an aggregate cap on its comparable incentive. Total tax credits awarded through Nevada's incentive are limited to \$5 million per year. This cap helped to limit the cost of Nevada's generous incentive which offers up to an 80 percent reduction in premium tax liability. In FY 2016, the year before Nevada's cap took effect, the incentive's tax expenditure was \$45.8 million and it has reached the \$5 million cap in each subsequent year.<sup>11</sup> South Dakota, which offers a similarly generous incentive with no aggregate cap, estimated a tax expenditure of \$15.9 million for its incentive in FY 2020. Colorado's 50 percent reduction in the premium tax rate with no aggregate program cap generated a tax expenditure of \$89.7 million FY 2018 (the latest estimate available).

### **Evaluations of Comparable Programs**

Colorado conducted a review of its program in 2020. It found that the incentive's costs grew significantly without a proportional increase in associated employment. Like Oklahoma's Home Office Tax Credit, Colorado's incentive cost per job increased from \$3,543 in 2009 to \$6,060 in 2018 as the cost of the incentive increased faster than employment.

### **Different Approaches**

Other states take different approaches to insurance industry incentives. Arkansas and Florida, for example, each offer a tax credit equal to a percentage of salaries paid to insurance employees. Arkansas allows insurers to claim a tax credit equal to salaries and wages paid to Arkansas-based employees regardless of whether a home or regional home office is established, up to the lesser of \$18 million or 70 percent of an insurer's premium tax liability.<sup>12</sup> Similarly, Florida offers a premium tax credit equal to 15 percent of salaries paid to insurance employees in the state, not to exceed 65 percent of tax liability. These approaches more directly encourage industry employment and wages. Under these programs, insurers can only increase the amount of tax credit received by hiring more employees and paying current employees higher wages.

In Oklahoma and many other states, insurance companies are often eligible for job creation incentives. Oklahoma's Quality Jobs Program allows insurers to receive cash rebates equal to a percentage of payroll, but it may not be taken in conjunction with the Home Office Tax Credit, and no insurance carriers participated in the Quality Jobs Program from 2011 through 2020. Insurers qualify for similar types of incentives in Arizona and Maryland.

States have also attracted insurance industry activity by decreasing the insurance premium tax rate across the board. Iowa is one example of this. The state gradually reduced its premium tax rate from 2.0 percent in 2003 to 1.0 percent in 2007. Although the state collected less premium tax revenue, the industry added 2,000 employees over this period.<sup>13</sup> If Oklahoma's Home Office Tax Credit was eliminated in 2019, the State could have collected the same amount of revenue with a reduced 2.10 percent tax rate, compared to the current rate of 2.25 percent rate.

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<sup>11</sup> Nevada Department of Taxation, "2015-2016 Tax Expenditure Report," May 2017. Accessed electronically at: <https://tax.nv.gov/uploadedFiles/taxnv.gov/Content/TaxLibrary/2015-2016%20Expenditure%20Report.pdf>

<sup>12</sup> Declining to 60 percent in 2022, and 50 percent for 2023 and beyond.

<sup>13</sup> Iowa Legislative Services Agency, "Impact of the Insurance Premium Tax Rate Reduction," January 21, 2009. Accessed electronically at: <https://www.legis.iowa.gov/docs/publications/IR/8917.pdf>



# Appendices



## Appendix A: Incentive Statute

### 36 O.S. § 625.1

A. A foreign or alien insurer which is subject to the tax imposed by Section 624 of this title shall be entitled to a credit against said tax actually paid to and placed in the General Revenue Fund of the state, not including any of said tax monies placed in pension funds and not including any of said tax monies placed in escrow, if, during the year for which the tax is being assessed, the insurer or its affiliate maintained a regional home office in this state in a building owned or leased by the insurer. To receive a credit against the tax imposed for the year in which the regional home office was established, said office must have been maintained continuously from on or before August 1 of that year through the last day of the calendar year. For succeeding years, an insurer or its affiliate shall have maintained the regional home office continuously from the first day of the calendar year for which the tax is imposed through the last day of that calendar year. The Home Office Credit shall be calculated as follows:

1. Until June 30, 2010, the credit shall be equal to the following percentages of the amount due after the credits authorized by Sections 624.1 and 625 of this title have been deducted:

- a. fifteen percent (15%), if there are more than two hundred full-time, year-round Oklahoma employees, but less than three hundred full-time, year-round Oklahoma employees,
- b. twenty-five percent (25%), if there are more than three hundred full-time, year-round Oklahoma employees, but less than four hundred full-time, year-round Oklahoma employees,
- c. thirty-five percent (35%), if there are more than four hundred full-time, year-round Oklahoma employees, but less than five hundred full-time, year-round Oklahoma employees, or
- d. fifty percent (50%), if there are five hundred or more full-time, year-round Oklahoma employees; and

2. Beginning July 1, 2010, in the calculation of the credit, the amount to be apportioned to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund shall be applied prior to the calculation of the credit. The amount of the credit shall be derived from amounts remaining after the apportionment to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund. The credit shall be calculated by first applying a "Home Office Credit Allotment Rate" of forty-seven percent (47%) to the gross premium tax owed by the insurer and then determining the allowable credit by applying the following percentages of the amount due after the credits authorized by Sections 624.1 and 625 of this title have been deducted:

- a. fifteen percent (15%), if there are more than two hundred full-time, year-round Oklahoma employees, but less than three hundred full-time, year-round Oklahoma employees,
- b. twenty-five percent (25%), if there are more than three hundred full-time, year-round Oklahoma employees, but less than four hundred full-time, year-round Oklahoma employees,
- c. thirty-five percent (35%), if there are more than four hundred full-time, year-round Oklahoma employees, but less than five hundred full-time, year-round Oklahoma employees, or
- d. fifty percent (50%), if there are five hundred or more full-time, year-round Oklahoma employees.



B. A domestic insurer with four hundred or more full-time, year-round Oklahoma employees which is subject to the tax imposed by Section 624 of this title shall be entitled to a credit against said tax actually paid to and placed in the General Revenue Fund of the state, not including any of said tax monies placed in pension funds and not including any of said tax monies placed in escrow, if, during the year previous to the year for which the tax is being assessed, the insurer or its affiliate maintained a regional home office in this state in a building owned or leased by the insurer and during the year for which the tax is being assessed, the insurer establishes its home office in this state in a building owned or leased by the insurer. To receive a credit against the tax imposed for the year in which the home office was established, said office must have been maintained continuously from on or before August 1 of that year through the last day of the calendar year. For succeeding years, an insurer shall have maintained the home office continuously from the first day of the calendar year for which the tax is imposed through the last day of that calendar year. Insurers who take action before August 1, 2000, to establish their home office in this state shall be entitled to a credit against the tax imposed on or after January 1, 2001, which shall be in addition to the credit the insurer is entitled to for that year. The Home Office Credit shall be calculated as follows:

1. Until June 30, 2010, the credit shall be equal to the following percentages of the amount due after the credits authorized by Sections 624.1 and 625 of this title have been deducted:

- a. thirty-five percent (35%), if there are more than four hundred full-time, year-round Oklahoma employees, but less than five hundred full-time, year-round Oklahoma employees, or
- b. fifty percent (50%), if there are five hundred or more full-time, year-round Oklahoma employees; and

2. Beginning July 1, 2010, in the calculation of the credit, the amount to be apportioned to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund shall be applied prior to the calculation of the credit. The amount of the credit shall be derived from amounts remaining after the apportionment to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund. The credit shall be calculated by first applying a "Home Office Credit Allotment Rate" of forty-seven percent (47%) to the gross premium tax owed by the insurer and then determining the allowable credit by applying the following percentages of the amount due after the credits authorized by Sections 624.1 and 625 of this title have been deducted:

- a. thirty-five percent (35%), if there are more than four hundred full-time, year-round Oklahoma employees, but less than five hundred full-time, year-round Oklahoma employees, or
- b. fifty percent (50%), if there are five hundred or more full-time, year-round Oklahoma employees.

C. A domestic insurer which is subject to the tax imposed by Section 624 of this title shall be entitled to a credit against said tax actually paid to and placed in the General Revenue Fund of the state, not including any of said tax monies placed in pension funds and not including any of said tax monies placed in escrow, if, during the year for which the tax is being assessed, the insurer maintained a regional home office in at least five or more counties in this state in buildings owned or leased by the insurer. To receive a credit against the tax imposed for the year in which the regional home offices were established, said offices must have been maintained continuously from on or before August 1 of that year through the last day of the calendar year. For succeeding years, an insurer shall have maintained the regional home offices continuously from the first day of the calendar year for which the tax is imposed through the last day of that calendar year. The Home Office Credit shall be calculated as follows:



1. Until June 30, 2010, the credit shall be equal to the percentage of the amount due after the credits authorized by Sections 624.1 and 625 of this title have been deducted as established in subsection A of this section; and

2. Beginning July 1, 2010, in the calculation of the credit, the amount to be apportioned to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund shall be applied prior to the calculation of the credit. The amount of the credit shall be derived from amounts remaining after the apportionment to the Oklahoma Firefighters Pension and Retirement Fund, the Oklahoma Police Pension and Retirement System and the Law Enforcement Retirement Fund. The credit shall be calculated by first applying a "Home Office Credit Allotment Rate" of forty-seven percent (47%) to the gross premium tax owed by the insurer and then determining the allowable credit by applying the percentage of the amount due after the credits authorized by Sections 624.1 and 625 of this title have been deducted as established in subsection A of this section.

D. Proof that an insurer qualifies for the credit authorized by this section shall be on forms prescribed by the Insurance Commissioner and shall be submitted to the Commissioner annually with the report which is filed pursuant to Section 624 of the Insurance Code.

E. The credit provided for in subsections A, B and C of this section shall be based on the total number of Oklahoma employees in the regional or home office when a group of insurers which are under common management and control maintain a regional home office or home office in this state in a building owned or leased by the group of insurers. The credit provided for in subsections A, B and C of this section may be allocated among the insurance company and the insurance company affiliates at the discretion of the insurance company on a per-insurance-company basis.

F. As used in this section:

1. "Regional home office" means an office transacting insurance, as defined in Section 105 of this title, and performing insurance company operations, which is defined as one or more or any combination of the following functions and services performed in connection with the development, sale, and administration of products giving rise to receipts subject to a premium tax on domestic and foreign insurance companies, or domestic or foreign health care insurance corporations: actuarial, medical, legal, investments, accounting, auditing, underwriting, policy issuance, information, policyholder services, premium collection, claims, advertising and publications, public relations, human resources, marketing, sales office staff, training of sales and service personnel, and clerical, managerial, and other support for any such functions or services;

2. "Common management and control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an insurer, whether through the ownership of voting securities, by contract, or otherwise, unless the power is executed by a person acting in an official capacity, performing duties imposed and exercising authority granted because of the person's position as an officer or employee of the insurer. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing twenty-five percent (25%) or more of the voting securities of the insurer;

3. "Oklahoma employees" means persons who are employed in Oklahoma after January 1, 2000, and who are common law employees of an insurance company or its affiliate. Oklahoma employees do not include independent contractors or any persons to the extent that the compensation of that person is based on commissions;

4. "Insurance company" means any entity subject to a premium tax on domestic and foreign insurance companies, or domestic or foreign health care insurance corporations, including the attorney-in-fact authorized by and acting for the subscribers of a reciprocal insurer or inter-insurance exchange under powers of attorney. A reciprocal and its attorney-in-fact shall be a single entity; and



5. "Home office" means the executive offices of an insurance company which is domiciled in this state.

G. Each insurer or insurance group requesting a credit under this section shall certify by affidavit, approved as to form by the Commissioner, that the insurer has met all of the qualifications required by this section and is authorized to a credit against the premium tax which actually shall be paid to, and placed in the General Revenue Fund of the state, exclusive of any amounts of the tax which shall be credited to pension funds pursuant to law and exclusive of any amounts which shall be placed into escrow. The Commissioner may do an examination for the sole purpose of certifying that all requirements of this section are being met by the insurer requesting to obtain any credits against premium tax.

H. For the fiscal year beginning July 1, 2006, and for each fiscal year thereafter, and notwithstanding any other provisions of Title 36 of the Oklahoma Statutes or any other provision of law governing the order in which the credit authorized by this section is to be deducted from the liability of the company claiming such credit to the contrary, the credit authorized by this section shall be deducted from the insurance premium tax liability of the company claiming such credit prior to the deduction of any other credits that may be claimed against such liability.

*Laws 1987, HB 1176, c. 137, § 1, eff. November 1, 1987; Amended by Laws 2000, HB 2191, c. 346, § 1, eff. January 1, 2001; Amended by Laws 2005, HB 1547, c. 381, § 2, eff. July 1, 2006; Amended by Laws 2008, SB 565, c. 344, § 1, eff. November 1, 2008.*

#### 36 O.S. § 625.2

A. The tax credits set forth in Section 1 of this act shall apply to insurers who take action after November 1, 1987, to:

1. Establish new regional home offices; or
2. Expand existing regional home offices, and hire new employees.

B. An insurer in either category of the requirements of paragraph A of this section must also meet the hiring minimum requirements for the applicable tax credit bracket in Section 1 of this act.

*Laws 1987, HB 1176, c. 137, § 2, eff. November 1, 1987.*

#### 36 O.S. § 625.3

An insurance company that has operated a regional home office in this state that has qualified for the tax credit provided for in Section 625.1 of Title 36 of the Oklahoma Statutes and that redomiciles and moves its home office to this state shall continue to receive such tax credit under the terms for which it was originally allowed.

*Laws 2000, SB 1048, c. 315, § 10, emerg. eff. July 1, 2000.*

#### 36 O.S. § 625.4

A. One hundred percent (100%) of any assessment paid by an insurer under the Oklahoma Property and Casualty Insurance Guaranty Association Act shall be allowed to that insurer as a credit against its premium tax levied under Section 624 of Title 36 of the Oklahoma Statutes. The tax credit referred to in this section shall be allowed at a rate of ten percent (10%) per year for ten (10) successive years following the date of assessment and, at the option of the insurer, may be taken over an additional number of years. The balance of any tax credit not claimed in a particular year may be reflected in the books and records of the insurer as an admitted asset of the insurer for all purposes.



B. Available credit against premium tax allowed under subsection A of this section may be transferred or assigned among or between insurers if:

1. A merger, acquisition, or total assumption of reinsurance among or between the insurers occurs; or
2. The Insurance Commissioner by order approves the transfer or assignment.

*Laws 2002, HB 2911, c. 307, § 11, eff. November 1, 2002.*



**Appendix B: Comparable State Programs**

<b>Home Office Tax Credit Benchmarking</b>					
	<b>Oklahoma</b>	<b>Colorado</b>	<b>Nevada</b>	<b>North Dakota</b>	<b>South Dakota</b>
<b>Minimum Employment Requirement</b>	Yes	No	No	No	No
<b>Office Requirement</b>	Home or Regional Home Office	Home or Regional Home Office	Home or Regional Home Office	Home Office	Home or Regional Home Office
<b>Benefit Type</b>	Tax Credit	Reduced Rate	Tax Credit	Tax Credit	Tax Deduction
<b>Benefit Amount</b>	15 to 50 percent of premium tax*	50 percent rate reduction	50 percent of premium tax, plus an amount equal to ad valorem tax on the property, up to an additional 30 percent of premium tax	Amount equal to ad valorem taxes paid during the calendar year	50 percent of premium tax, plus an amount equal to ad valorem tax on the property or PILOTS, up to an additional 30 percent of premium tax
<b>Cap</b>	No aggregate cap	No aggregate cap	\$5 million per year aggregate cap	None	Total deduction may not exceed 70 percent of a taxpayers tax liability



## **Appendix C: IMPLAN Economic Impact Methodology**

The economic impact methodology utilized to determine the multiplier effects is IMPLAN (Impact Analysis for PLANning), 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.