

Editor's note: This is one of a series of stories about Oklahoma tax breaks reported by reporters from the Tulsa World, The Oklahoman and Oklahoma Watch. Oklahoma Watch is an independent, nonprofit investigative reporting team that collaborates with other media organizations.

Buy food for your family, pay sales taxes. Buy food for your earthworm farm, no sales taxes. Buy a \$9 ticket to the movies, pay sales taxes. Buy a \$275 ticket to an NBA basketball game, no sales taxes. Buy a bottle of aspirin, pay sales taxes. Buy a bottle of prescription Oxycontin, no sales taxes. Seem confusing? Oklahoma's sales-tax rules are pretty simple in theory. Everything that's sold in the state is subject to the sales tax - unless there's an exemption. But there's the rub: There are 149 exceptions at last count. State and federal law, court decisions and interpretations by the Oklahoma Tax Commission have created a network of exemptions, some of which are peculiar and complex. If you buy a cotton gin, you won't pay sales taxes ... but if you buy a conveyor belt for your cotton gin, the state gets its due. If you buy a bottle of vitamins, it's tax time ... unless you buy it in your chiropractor's office. If you buy an artist's painting, it's taxable ... unless you commission the painting beforehand. Sen. Mike Mazzei, R-Tulsa, heads a task force looking at tax reform - including changes to the state's system of sales-tax exemptions. He says the state has a problem with the number of exemptions it has granted. "It has exploded to somewhat of an out-of-control level," Mazzei said. Last year, the Oklahoma Tax Commission estimated the revenue impact of 64 of the exemptions. The total was just short of \$4.1 billion a year - more than half the state's annual budget. But getting big state-revenue hikes by wiping out exemptions isn't all that simple. The two biggest exemptions are the \$1.5 billion exemption on sales of goods that will be sold again and the \$1.7 billion exemption for sales to manufacturers. While both exemptions represent a huge revenue loss to the state, their removal would amount to double taxation on consumers

- products would be taxed before they got to the final consumer and again

when they are sold retail - and would result in a significant increase in

prices. Fundamental to growth The manufacturers' exemption is also fundamental to the future growth of the state economy, a top official with the state chamber of commerce said.

"You take away that sales-tax exemption for manufacturing and those manufacturers aren't going to stay here," said Mike Seney, senior vice president of the State Chamber of Oklahoma.

Mazzei said he doesn't foresee the state taking on the manufacturers' exemption or the wholesale exemption, but the state can trim the number of exemptions, make sure the remaining ones are pulling their own weight and use savings from the others to

either lower other taxes or increase funding to high priority state budget items. "I

don't think it makes a lot of sense to exempt people from paying sales

taxes on going to an NBA basketball game or a minor league baseball game,

... but requiring people to pay sales taxes on groceries, which is obviously a

needed item," Mazzei said. "I think in Oklahoma we've gotten some things backwards." Perhaps

the most controversial exemptions are those for industries that the Legislature has decided to

support over the years. The state decides to promote brew pubs, so low-point beer

producers get an exemption on the purchases of machinery. The state gets behind a

move to attract a professional sports franchise to the state and there go NBA

ticket sales. Dozens of exemptions have been added over the years, including newspapers and

periodicals, radio stations, television stations, cable television systems, motion picture production companies, aircraft

motor vehicle leases, some child-care centers, returnable oil and chemical drum sales, computer sales

to aircraft maintenance facilities, aircraft parts, aircraft repairs, diesel fuel for barges, leased rail

cars used to transport coal to electrical generators and pre-written computer software. Worm farmers

Some of the oddest exemptions fall in this group. There's an exemption for eggs,

feed, supplies, machinery and equipment purchased by worm, fish or insect farmers. Then there's

the exemption for the sale of railroad track spikes manufactured and used in the

state. That exemption benefits only one company: Gerdau, owner of Sand Springs Rail Products, Oklahoma's only railroad spike manufacturer. The plant employs 25 people. Kim Selph, spokeswoman for Gerdau, said the exemption was approved by the Legislature as part of the package to entice Gerdau's predecessor to move its operations from Texas. "Since there was no sales tax on spike sales in Texas or any other states, the Oklahoma legislators recognized that if (the company) was required to collect sales tax, it would be at a competitive disadvantage and unable to survive," she said. Other exemptions target religious and charitable activities, including some very specific causes. Dues paid to fraternal, religious, civic, charitable or education organizations are exempt. The price tag: \$3.6 million a year. So are sales of property or services to churches - another \$5.4 million a year. Charities exempt The cost to the state for many of those exemptions has never been estimated or is negligible. For example, the tax commission puts the cost of an exemption on sales to the Blue Star Mothers of America Inc. at \$2,000 a year. While the exemptions may be small potatoes to the state, they can be critically important to charities. Daniel Rabovsky, executive director of Meals on Wheels of Metro Tulsa, said: "It means more meals for people who are homebound and disabled and unable to make meals for themselves." The exemption applies to Meals on Wheels' food and packaging purchases, about \$670,000 of the charity's annual budget. The saving from the exemption means more than 19,000 meals a year for homebound Tulsans. Another set of exemptions targets farmers, including one peculiar statutory exemption covering eggs, feed, supplies, machinery and equipment purchased by people who raise worms, fish or insects. The biggest agricultural exemptions cover the sale of livestock, animal feed and farm machinery. That costs the state \$64.7 million a year. A separate statutory exemption covers the sale of horses for any reason - \$1.1 million. Livestock purchased outside the state is exempt from the state's use tax, at a price of \$57.9 million a year. Mike Spradling, president of the Oklahoma Farm Bureau, said the exemptions can make a difference between

profit and loss for many farmers. "That 8 percent can make a lot of difference in the survival of farms in a lot of years," Spradling said. In rough years, the exemption can be the only difference between a profit and a loss, he said. When the Legislature gets through reviewing the state's sales-tax exemptions, Seney said he suspects it will decide not to change much of substance. "You would think that there is a bonanza, if you just eliminated them all across the board," he said. "You may look at a bonanza for a very short period of time, but most of it would be on moving trucks moving people out of the state." State doesn't tax itself, or the feds One of the biggest beneficiaries of sales-tax exemptions in Oklahoma is Oklahoma. A series of exemptions keep the sales-tax burden off virtually all levels of government. Sales to the federal government are also exempt from the sales taxes, keeping the state in line with a U.S. Supreme Court ruling that the state cannot tax the federal government. Federal contractors, federally funded facilities, counties, cities, school districts, rural water districts, port authorities, state colleges, state parks, bordering states and their political subdivisions, state and country fairs, public libraries, volunteer fire departments and school cafeterias all enjoy sales-tax exemptions. Tuition is also sale tax exempt – at public and private schools. The state hasn't estimated the costs of most of those exemptions. Sen. Mike Mazzei, R-Tulsa, said the exemptions pre-date his time as chairman of the Senate Finance Committee, but said there is a logical rationale at least to the exemption that covers sales to the state. If you eliminate the state exemption, the state might get \$92 million more tax revenue, but the cost of state government also would go up by about \$92 million. World Staff Writer Randy Krehbiel contributed to this report. Wayne Greene 918-581-8308 Original Print Headline: Sales tax exemptions cost state nearly \$4.1 billion in 2010