State of Oklahoma
Incentive Evaluation Commission
Excise Tax Exemption on Aircraft Sales Draft Evaluation

September 30, 2025

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Oklahoma State Statute provides for a 3.25 percent excise tax on the purchase price of aircraft sold in the State. Revenue derived from this source primarily supports the (ODAA), specifically the ODAA's revolving fund. State statute provides 17 types of aircraft sales that are exempt from the excise tax.

Recommendation: Retain with modifications.

Key Findings

- **Aircraft Excise Tax collections are estimated to have increased by a compound annual growth rate (CAGR) of 9.7 percent since 2019.** While there is incomplete data, preliminary findings suggest $4.3 million in foregone excise tax revenue. Growth in excise tax collections shows the market for aircraft transactions continues to grow in Oklahoma, highlighting the enduring strength of this industry and its' importance to Oklahoma's economy. This is higher than the CAGR of 3.2 percent in the last excise tax evaluation, which measured growth from 2015-2019.
- **The economic impact of the exemption is difficult to assess.** There is currently no systematic reporting on the economic activity associated with exempt aircraft sales and the reasons for exemption claims are not tracked.
- **Oklahoma has a high number of aircraft registrations relative to the surrounding states.** On a per 100,000 resident basis, with 151, Oklahoma has more than most surrounding states, with the exception of Kansas (at 184). According to the FAA, with a total of more than 6,500 aircraft registrations, Oklahoma has fewer than Texas and Colorado and has more than Arkansas, Kansas, Missouri and New Mexico.
- **Oklahoma ranks high in number of recent aircraft registrations nationwide.** Oklahoma has the fifth highest number of recent aircraft registrations according to the FAA, with 140 aircraft registered in the previous 30 days. Although lower than Texas, Florida, California and Delaware, Oklahoma ranks above Washington, Ohio, Utah, Minnesota, and Georgia.
- **Aircraft excise tax collections and administration of the excise tax exemption was moved from the Oklahoma Tax Commission (OTC) to Service Oklahoma in 2024.** Due to the transition of data collection processes between the two agencies, updated data on total aircraft units sold, total exempt units sold, and total purchase price for the previous five fiscal years was not available during the evaluation timeline. Per Service Oklahoma, it is possible this data will be made available in February 2026.
- **Comparable tax exemptions exist in most states.** While most states do not apply a specific excise tax on aircraft sales, all of Oklahoma's neighboring states offer similar tax exemptions for various types of aircraft transactions.
- **Service Oklahoma does not collect information on the reasons exemptions are claimed for the aircraft excise tax.** While the agency administers multiple forms related to the tax—including the monthly dealer report and the application for registration of aircraft form—neither requires dealers or purchasers to identify the basis for an exemption if claimed. Dealers must report the number of aircraft sold and purchased each month, including exempt units, but are not required to provide the exemption reason or the value of exempt sales. Similarly, the registration form collects detailed purchaser and aircraft information but does not capture whether the sale was taxable or exempt, or why. As a result, the State's ability to evaluate the use and impact of exemptions is limited.

Recommendations

- **Improve the data collection process.** Service Oklahoma should update its aircraft dealer report to require that the dealer explain whether the sale was taxable or exempt, and if exempt, for what reason. Additionally, Service Oklahoma should update its aircraft registration form for individuals to require that the owner state whether the aircraft was exempt from the excise tax and on what grounds.
- **Focus the excise tax exemptions around a specific policy goal.** As currently structured, none of the State's excise tax exemptions for aircraft sales include policy goals. Effective tax incentives are

designed in support of well-defined policy goals and objectives. Goals and objectives provide metrics that can support rigorous analysis of program effectiveness and return on investment. Well-defined goals facilitate the identification of policy targets (e.g., private sector jobs) and the identification and design of specific policy instruments (e.g., wage-based corporate tax credits to promote employment creation). In this case of this incentive, a specific policy goal might be to increase aerospace manufacturing industry employment.

- **Identify the history of/basis for each excise tax exemption and evaluate whether it aligns with the State's economic and policy goals.** There are 17 categories of aircraft sales that are exempt from the excise tax. Some, like the sale to state or federal government, can be categorized as tax rather than business incentive policy, as the government does not collect taxes from itself and cannot collect them from the federal government. Others can be considered discretionary and may not have a clear reason to exist without a specific policy goal. If an exemption is found to be out of alignment, consider repealing the specific tax preference.

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 inception of the Commission, it has contracted with PFM Group Consulting LLC (PFM) to serve as the independent evaluator of each incentive scheduled for review in each 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 inventive under review. It then submits a final report to the Governor and Legislature.

2020 Evaluation Findings and Recommendations

Key findings from the 2020 evaluation are displayed in the following table:

Table 1: Summary of Findings, 2020 Evaluation

Topic Area	Findings
Fiscal and Economic Impact	**Fiscal Impact:** An average of $2.6 million in excise tax revenue is foregone annually, which is about 40 percent of actual collections. Collections are earmarked to support the operations of the Oklahoma Aeronautics Commission, so they do not have a broad programming impact. **Economic Impact:** The available data was insufficient to conduct an economic impact analysis.
Adequate Protections for Future Fiscal Impact?	The available data was insufficient to conduct a comprehensive future fiscal impact analysis. Absent a material change in this industry in Oklahoma, it is unlikely that these exemptions will have a significant future fiscal impact.
Effective Administration?	Useful information related to the identity of the purchaser and the purchased aircraft is collected; however, dealers are not required to explain whether the reported sale was taxable or tax exempt, and if exempt, for what reason.
Achieving Its Goals?	Goals are not identified, and data does not provide a ready method of determining overall impact on the industry in the state.
Changes to Improve Future Evaluation	Require dealer reporting on aircraft transactions to identify the rationale for exempting sales from excise tax.

Based on these findings, the 2020 recommendation was to reconfigure the program by focusing it around a policy goal. The Commission voted 5-0 to approve this recommendation.

While the legislature did not act on this recommendation, the administration and collection of aircraft excise taxes was moved from the Oklahoma Tax Commission to Service Oklahoma following the passage of SB 773, effective July 1, 2024.

Aircraft Incentives Overview

Four distinct aircraft and aerospace tax exemptions are included in the 2025 evaluation schedule. The chart below highlights statute citations, relevant taxpayer entities who qualify, summary of benefits and any incentive usage data for each exemption.

Incentive	Statute Citation	Taxpayer Entity/Type	Benefit Summary	Incentive Usage
Aircraft Excise Tax Exemption	O.S. § 68-6003.	Individuals and entities completing qualified transactions.	Certain categories of aircraft/aircraft transactions are exempt from the 3.25% excise tax	Total usage unknown due to lack of data
Aircraft Facilities Sales Tax Exemption on Aircraft Parts	68 O.S. § 1357 [20]	Individuals and entities completing qualified transactions at a qualified aircraft maintenance facility.	Certain transactions of aircraft and aircraft parts are exempt from sales tax provided they occur at a qualified aircraft maintenance facility.	No usage data – last five fiscal years
Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemption	68 O.S. § 1357 [16], [17]	Qualified aircraft maintenance facility; Contractor or subcontractor who has entered into a contractual relationship with a qualified aircraft maintenance facility.	Sales of computers, data processing equipment, tangible personal property consumed or incorporated into the construction or expansion of qualified aircraft maintenance facilities are exempt from Oklahoma sales tax.	One applicant - did not complete application.
Aircraft Repairs and Modifications Sales Tax Exemption	68 O.S. § 1357 [28]	Entities and individuals purchasing aircraft engine repairs, modification and replacement parts.	Certain sales of aircraft engine repairs, modification and replacement parts, other aircraft modification services and parts purchased are exempt from Oklahoma sales tax.	Per Tax Expenditure Report: $3,248,000 in FY2024

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 established in state statute or legislation. In the case of this program, a specific goal is not provided.

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

- Growth in sales of exempted aircraft within the state – comparison to the period prior to the exemption and with other comparable states.
- Growth in employment in aircraft industry within the state – comparison to the period prior to the exemption and with other comparable states.
- Return on investment related to economic impact from exemption versus its cost.
- Use with other related State business incentives.

2025 Evaluation Approach

To conduct its 2025 review of the Excise Tax Exemption on Aircraft Sales, the project team conducted the following activities:

- Submitted an information request to the OTC and Service Oklahoma
- Reviewed and analyzed OTC-provided data.
- Completed subject matter expert/internal stakeholder interviews with representatives from OTC and the Oklahoma Aeronautics Commission (OAC).
- Benchmarked Oklahoma’s incentive relative to peer state programs.
- Conducted an economic impact analysis of the incentive.

Industry Background

Oklahoma Aerospace Background and History

The roots of Oklahoma's aerospace and aviation industries date back to the early 20th century, when Clyde Cessna began testing aircraft in the state. According to historians at the University of Tulsa, following World War I, two airlines were founded in the state (both of which were eventually purchased by American Airlines). In the 1930s, Oklahoma was home to U.S. aviation pioneers Will Rogers and Wiley Post. During World War II, two large industrial facilities were built in the state to manufacture bombers for the U.S. Army Airforce. One of the facilities became Tinker Air Force Base, the largest aircraft maintenance complex and military-aviation logistics center in the world.[1]

In January 2024, the Oklahoma Department of Aerospace and Aeronautics (ODAA) published a study of the estimated economic benefits of aviation and aerospace in Oklahoma.[2] The analysis measured the economic impacts associated with three key contributors: 109 public general aviation and commercial airports; off-airport employers engaged in aviation/aerospace; and military aviation. The study concluded that each year, the industry supports $11.7 billion in payroll, accounts for $32.3 billion in spending and generates a total of $43.7 billion in economic activity.

Table 2: Total Annual Statewide Economic Impacts of Aviation and Aerospace (In Billions of Dollars)

	Payroll	Spending	Economic Activity
Public General Aviation & Commercial Airports	$3.6	$7.0	$10.6
Off-Airport Aviation/Aerospace Employers	$3.4	$10.5	$13.9
Military Aviation	$4.7	$14.6	$19.3
Total Impact	**$11.7**	**$32.2**	**$43.7**

Source: Oklahoma Department of Aerospace and Aeronautics – Oklahoma Aviation and Aerospace Economic Impact Study
Note: Numbers may not add due to rounding

Aircraft Registrations

Aircraft Registrations by State

Based on the project team's research of available data sources, comparable aircraft sales data is not readily available for other states. What is available, however, is the FAA's most recent 30-day record of aircraft registrations on a state-by-state basis, as shown in the following table.[3] Oklahoma ranks favorably among states in the aggregate, with the fifth highest number of recent aircraft registrations.

Table 3: Recent Aircraft Registrations by State

State	Count	Rank
Texas	298	1
Florida	272	2
California	260	3

[1] The University of Tulsa Department of Special Collections and University Archives, "The Rise of the Aerospace and Aviation Industries in Oklahoma," (February 18, 2013). Available at http://orgs.utulsa.edu/spcol/?p=2798
[2] Oklahoma Aeronautics Commission, "Oklahoma Aviation and Aerospace Economic Impact Study Fact Sheet." Available at https://oac.ok.gov/sites/g/files/gmc221/f/Fact%20Sheet%20%28Oklahoma%20Aviation%20%26%20Aerospace%20Economic%20Impact%29_0.pdf
[3] This query allows users to view all aircraft registered within the last 30 days. Each working day, the oldest registrations will drop off the list and the previous day's registrations will be added.

State	Count	Rank
Delaware	141	4
Oklahoma	**140**	**5**
Washington	119	6
Ohio	109	7
Utah	93	8
Minnesota	91	9
Georgia	90	10

Source: FAA Registry, "Current Registration Inquiry" results

According to the FAA, in total, there are currently 6,194 aircraft registered in Oklahoma. As shown in the following table, with 151 aircraft registrations per 100,000 residents, Oklahoma has more than most surrounding states, with the exception of Kansas. In total registrations, Oklahoma ranks below Texas and Colorado and has more registrations than in the remaining benchmarked states.[4]

Table 4: Aircraft Registrations, Oklahoma and Surrounding States

State	Aircraft Registrations	Aircraft Registrations per 100,000 Residents
Oklahoma	6,194	151
Texas	28,769	92
Colorado	7,356	123
Kansas	5,464	184
Missouri	5,728	92
Arkansas	3,477	113
New Mexico	3,030	142

Source: Federal Aviation Administration, U.S. Census Bureau Population Estimates (7/1/24)

Aerospace Manufacturing Employment by State

Growth in employment within Oklahoma's aerospace and parts manufacturing industry is increasing considerably. Between 2014 and 2024, the state's industry employment grew by a CAGR of 6.6 percent – significantly higher than in neighboring states. The second fastest growing state in Oklahoma's region was Colorado, at a much lower 2.9 percent.

Table 5: Private Aerospace and Parts Manufacturing Employment

Year	Oklahoma	Arkansas	Colorado	Kansas	Missouri	New Mexico	Texas
2014	7,085	3,305	6,658	30,479	17,778	1,056	44,698
2015	7,013	3,400	7,048	29,991	16,778	936	43,609
2016	7,132	3,301	7,259	29,823	16,044	899	44,639
2017	7,079	2,996	7,395	29,795	15,814	815	44,121
2018	13,004	2,997	7,568	31,438	16,127	734	46,060
2019	13,545	4,045	8,117	33,182	17,406	696	49,412
2020	12,944	4,192	8,593	25,793	17,814	687	48,978
2021	11,744	4,072	8,624	24,459	17,043	632	47,968
2022	11,690	4,164	8,762	27,892	17,198	637	47,672

[4] Federal Aviation Administration, "FAA Registry." Available at https://registry.faa.gov/AircraftInquiry/statecounty_inquiry.aspx

Year	Oklahoma	Arkansas	Colorado	Kansas	Missouri	New Mexico	Texas
2023	12,697	3,813	8,950	30,513	18,109	639	48,255
2024	13,455	4,307	8,902	31,424	19,010	463	50,265
Jobs added 14-24	6,370	1,002	2,244	945	1,232	-593	5,567
CAGR	6.6%	2.7%	2.9%	0.31%	0.67%	-7.9%	1.2%

Source: BLS Quarterly Census of Employment and Wages, NAICS 3364

Similarly, Oklahoma experienced the highest growth in employment among neighboring states from a numerical perspective. Between 2014 and 2024, Oklahoma added 6,370 jobs in the aerospace and parts manufacturing space, greater than the next highest state, Texas (5,567).

Incentive Usage and Administration

Incentive Characteristics

Enacted in 1984, Oklahoma State Statute provides for a 3.25 percent excise tax on the purchase price of aircraft sold in the State. Revenue derived from this source primarily supports the (ODAA), specifically the ODAA's revolving fund. The following table summarizes annual aircraft excise tax collections and distributions. Aircraft excise tax collections have steadily grown by a CAGR of 9.8% between 2015 and 2024, with a dip in 2020 revenues coinciding with a slowdown in economic activity during the COVID-19 pandemic. The passage of HB 258, effective July 1, 2022, removed the cap on revenues apportioned to the ODAA revolving fund, and now 100 percent of aircraft excise tax collections support the fund.

Table 6: Oklahoma Aircraft Excise Tax Revenue Collections and Distributions, FY2015-2024

Fiscal Year	Total Revenue Collected	Distribution of Revenue		
		OAC Revolving Fund	General Revenue Fund	Refunded
2015	$3,492,082	$3,492,082	$0	$0
2016	$4,652,043	$4,652,043	$0	$0
2017	$5,632,781	$4,500,000	$1,132,781	$0
2018	$3,683,481	$3,683,481	$0	$0
2019	$4,632,903	$4,500,000	$132,903	$0
2020	$3,075,053	$3,075,053	$0	$0
2021	$4,207,080	$4,207,080	$0	$0
2022*	$4,979,653	$4,979,653	$0	$0
2023	$8,548,783	$8,548,783	$0	$0
2024	$8,076,816	$8,076,816	$0	$0

Source: Oklahoma Tax Commission

** HB 258, effective July 1, 2022, replaced HB 2241 from 2015 by raising the aircraft excise tax revenue cap for the Oklahoma Aeronautics Commission Revolving Fund from $4,500,000 to 100% of aircraft excise tax collections.*

State statute provides 17 types of aircraft sales that are exempt from the excise tax, as follows:

Table 7: Aircraft Sales Exempt from Excise Tax

	Exemption
1	Aircraft manufactured under an FAA-approved certificate and which are owned and in the physical possession of the manufacturer of the aircraft.
2	Aircraft owned by dealers and in the dealer's inventory, not including aircraft that are used personally or for business.[5]
3	Aircraft of the federal or state government.
4	Aircraft transferred from one corporation or LLC to another corporation or LLC pursuant to reorganization of the corporation or LLC.
5	Aircraft purchased or used by commercial airlines.

[5] For this exemption to apply, the dealer shall be licensed in accordance with Section 254.1 of Title 3 of the Oklahoma Statutes.

	Exemption
6	Aircraft transferred in connection with the dissolution or liquidation of a corporation or LLC if included in a payment in kind to the shareholders or members.
7	Aircraft transferred to a corporation for the purpose of organizing such corporation.
8	Aircraft transferred to a partnership or LLC when the organization of the partnership or LLC is by the former owners of the aircraft.
9	Aircraft transferred from a partnership or LLC to the members of the partnership or LLC if made in payment in kind in the dissolution of the partnership.
10	Aircraft transferred or conveyed to a partner of a partnership or shareholder/member of a LLC or other person who, after such sale, owns a joint interest in the aircraft and on which sales or use tax or excise tax have previously been paid on the aircraft.
11	Aircraft on which a tax levied pursuant to the provisions of the laws of another state, equal to or in excess of the excise tax levied in Oklahoma has been paid by the person using the aircraft in Oklahoma.
12	Aircraft when legal ownership of such aircraft is obtained by the applicant for a certificate of title by inheritance.
13	Aircraft when legal ownership of such aircraft is obtained by the lienholder or mortgagee under or by foreclosure of a lien or mortgage in the manner provided for by law.
14	Aircraft which is transferred between husband and wife or parent and child where no valuable consideration is given.
15	Aircraft which is purchased by a resident of this state and used exclusively in Oklahoma for agricultural spraying purposes.[6]
16	Aircraft which have a selling price in excess of $2.5 million which are transferred to a purchaser who is not a resident of Oklahoma for immediate transfer out of state.
17	Aircraft which is transferred without consideration between an individual and an express trust which that individual or the spouse, child or parent of that individual has a right to revoke.

Source: 68 O.S. § 6003

Several of the exemptions could be characterized as tax policy, as opposed to business incentive policy, decisions. For example, the State cannot tax the federal government and does not tax itself (exemption 3). Likewise, several relate to unique situations related to corporate restructuring (such as 4 and 7) or family situations (such as 14). The exemptions that most clearly focus on a business incentive are 5, 15, and 16.

In recent years, several modifications have been made to the excise tax and these exemptions, including:

- SB 773, effective July 1, 2024, transferred aircraft registrations and aircraft excise tax collections from the Oklahoma Tax Commission to Service Oklahoma.

[6] If the aircraft is sold, leased or used outside Oklahoma or for a purpose other than agricultural spraying at any time within three (3) years from the date of purchase, the excise tax is due.

- HB 258, effective July 1, 2022, replaced HB 2241 from 2015 by raising the aircraft excise tax revenue cap for the Oklahoma Aeronautics Commission Revolving Fund from $4,500,000 to 100 percent of aircraft excise tax collection.

- Effective January 1, 2018, SB 645 sunsetted the exemption for “rotary-wing aircraft purchased to be used exclusively for the purpose of training U.S. military personnel or other training authorized by the U.S. Government.” The exemption had been in place since November 1, 2013.

- Effective May 10, 2018, HB 2253 required that a “charter aircraft” qualifying for the exemption under the “aircraft purchased or used by commercial airlines” be used in that capacity for at least 50 percent of its annual operations.[7] It also modified the aircraft excise tax exemption for aircraft purchased or used by commercial airlines by providing that the aircraft, in order to qualify for this exemption, cannot operate under Part 91 of Title 14 of the Code of Federal Regulations for more than 50 percent of its annual operations.

Historic Use of the Exemption

The project team worked with the Oklahoma Tax Commission and Service Oklahoma to obtain data related to total aircraft sales, total units sold, and total number of units exempt from the aircraft excise tax. Ultimately it was determined this data was unavailable for this year’s evaluation.

The following table summarizes excise tax exemption claims related to the sale of aircraft in Oklahoma between FY2019 and FY2024.

Data provided by the Oklahoma Tax Commission on total aircraft purchases and excise tax collections for 2020 through 2023 may not represent the full scope of activity. Because the completeness of the data set cannot be verified, it is possible that additional transactions occurred during this period that are not reflected in the figures reported. Overall, aircraft excise tax collections increased by a CAGR of 9.7 percent.

Table 8: Collected and Foregone Aircraft Excise Tax Revenue, FY2019-2024

Fiscal Year	Total Purchases	Tax Collected	Foregone Tax Revenue
2019	$157,525,515	$4,632,903	*Data Not Available*
2020	*$22,357,258*	$3,075,053	*$726,611*
2021	*$26,317,016*	$4,207,080	*$855,303*
2022	*$17,355,492*	$4,979,653	*$564,053*
2023	*$66,090,712*	$8,548,783	*$2,147,948*
2024	*Data Not Available*	$8,076,816	*Data Not Available*
Total		**$33,520,288**	
CAGR		**9.7%**	

Source: Oklahoma Tax Commission

[7] And such operations may not include those chartered by the aircraft owner as an individual or as a business entity in which the aircraft owner owns a majority interest to fall within the definition of commercial airline for purposes of the aircraft excise tax exemption in 68 O.S. §6003. The legislation also modified the exemption for “aircraft purchased or used by commercial airlines” by clarifying that in order to qualify for the exemption, aircraft cannot operate under Part 91 of Title 14 of the Code of Federal Regulations for more than fifty percent of its annual operations.

Table 9: Oklahoma Aircraft Sales, FY2019-2024[8]

Fiscal Year	Total Units	Exempt Units	Exempt Units as % of Total
2019	205	14	6.8%
2020	*Data Not Available*	*Data Not Available*	*Data Not Available*
2021	*Data Not Available*	*Data Not Available*	*Data Not Available*
2022	*Data Not Available*	*Data Not Available*	*Data Not Available*
2023	*Data Not Available*	*Data Not Available*	*Data Not Available*
2024	*Data Not Available*	*Data Not Available*	*Data Not Available*
Total			
CAGR			

Source: Oklahoma Tax Commission

Incentive Administration

Exemptions from an excise tax are a much different type of incentive than income tax credits typically utilized as state business incentives. While those claiming an income tax credit generally do so on their tax return (and provide any specific schedules necessary to justify the claim of the credit), excise taxes are generally collected by the seller, and they are required to gather and submit any supporting information to justify an exemption from tax from the purchaser.

Service Oklahoma requires that every person licensed as a dealer in aircraft report, within 30 days, the transfer of legal ownership. To register an aircraft, taxpayers must fill out Service Oklahoma Form 13-34, Oklahoma Application for Registration of Aircraft and Report of Excise Tax (used for aircraft purchased on or after November 1, 2017). This form requires current owners to provide a significant amount of information, including:

- The name and address of the purchaser;
- A description of the aircraft, including the name of the manufacturer, the FAA registration number of the aircraft, the type and year manufactured, the serial number, the date of the transfer and the amount of the sale price.

It does not, however, require the dealer to explain whether the sale was taxable or exempt, and if exempt, for what reason. Moreover, Service Oklahoma's ability to routinely extract information from dealer filings is limited, though it does receive aircraft registration data from the FAA on a monthly basis.

Business Incentives Best Practices

The PFM Project Team has established a list of best practices that can apply broadly to incentive program designs.[9] These are based on decades of experience evaluating programs professionally as well as reviewing the associated academic literature and evaluations of programs by State agencies or departments. A program can then be judged to either fully adopt, partly adopt, or not adopt a given practice.

[8] Data regarding total aircraft units sold and exempt units sold was not available during the evaluation timeline due to the transition of administration from the Oklahoma Tax Commission to Service Oklahoma. Per Service Oklahoma, it is possible the data will be available in February 2026.

[9] Details on the best practices and their establishment can be found in the Appendices.

In the case of the Aircraft Excise Tax Exemption, best practices are generally adopted and maintained. The exemption is targeted for specific aircraft purchases and transactions, and there is a specific list of aircraft sold that are exempt from the excise tax. The aerospace industry is critical to Oklahoma's economy and this incentive aims to spur the continued growth of aircraft related transactions within the State.

While the exemption likely spurs some business activity within the state, it does not leverage large amounts of private capital in the way other industry-targeted incentives would require. The aircraft and aerospace industries are large sectors of Oklahoma's economy, and it is difficult to assess whether the excise tax exemption has a large impact on the continued industry growth.

Aircraft excise tax collections go towards funding the Aeronautics Commission Revolving Fund, a large fund used to make investments and improvements in the aerospace/aircraft industry throughout Oklahoma. There is less stringent accountability and data gathering measures in place related to the aircraft excise tax exemption and the forgone tax revenue related to this exemption. As such, it is difficult to determine how much of an impact the excise tax exemption is having on the revolving fund or projects funded by the Aeronautics Commission.

The following diagram below provides the project team's assessment of the Aircraft Excise Tax Exemption's alignment with incentive program best practices.

Best Practice	Aircraft Excise Tax Exemption
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

Economic and Fiscal Impact

Economic Impacts

Oklahoma's aircraft sales excise tax exemption supports the state's aviation industry by excluding certain locally manufactured and purchased aircraft from taxation. The exemption also contributes to sustaining the availability of aircraft used in agricultural spraying and those operated by commercial carriers at both commercial and general aviation airports. By facilitating access to these aircraft, among others, the policy enhances transportation and broader economic and business activity across the state.

Despite these objectives, there is no systematic reporting on the economic activity associated with exempt aircraft sales. Key outcomes—such as job creation, job retention, or the functional use of the aircraft—are not measured. Moreover, some exemptions may apply to transactions between related entities or family members, which are unlikely to produce significant employment or economic impacts. In the absence of comprehensive data, the economic impacts of the aircraft sales excise tax exemption cannot be reliably assessed.

Fiscal Impacts

As stated previously, recent data on total aircraft units sold and total exempt units sold was not available during the evaluation timeline due to the transition of data collection processes between the Oklahoma Tax Commission and Service Oklahoma. Per Service Oklahoma, updated data may be available in February 2026. There is limited data for the 2020-2024 period which suggests a total impact of $4,293,916 in foregone excise tax revenue, but it is possible this is an understatement of the total given the incomplete data file.

Incentive Benchmarking

Comparison to Peer States

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.[10] 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.

In the case of this incentive, each state neighboring Oklahoma offers various aircraft exemptions and tax policy preferences, as do many states with a historically strong aerospace industry presence (measured by industry employment and economic impact) including Florida, Georgia, North Carolina, Ohio, New York, Utah, and Virginia. Among the most common exemptions and preferences are the following:

- **Casual Sale ("Yard Sale Rule"):** Applies to the sale of aircraft by individuals or companies not regularly engaged in the aircraft sale business. Among the 15 comparison states, Oklahoma and six others do not have a casual sale exemption. Four states do, and four others have a limited version of the exemption.

- **Fly Away Exemption:** Gives transient aircraft owners and operators a certain number of days to remove the aircraft from the state before becoming subject to sales and excise tax laws. Oklahoma is among four states with limited fly away exemptions (in Oklahoma, the exemption is for sales prices of $2.5 million). Seven states fully exempt these sales, and the remaining four offer no such exemption.

- **Trade-In Allowance:** A partial exemption which results in the exclusion of a portion of the purchase price of the aircraft for the value of a trade-in. Including Oklahoma, five states do not offer a trade-in allowance; the remaining 10 do, however.

While there are no two perfect comparisons, many states offer various tax exemptions and incentives related to aircraft purchases. A full summary of these states and their programs are provided in Appendix B.

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

Appendices

Appendix A: Incentive Statute (68 O.S. § 6003)

The following aircraft shall be exempt from provisions of Section 6001 et seq. of this title:

1. Aircraft manufactured under an Federal Aviation Administration-approved certificate and which are owned and in the physical possession of the manufacturer of the aircraft. The aircraft shall have an aircraft exemption license as provided for in Section 254 of Title 3 of the Oklahoma Statutes;

2. Aircraft owned by dealers and in the dealer's inventory, not including aircraft that are used personally or for business. In order for this exemption to apply, the dealer shall be licensed in accordance with Section 254.1 of Title 3 of the Oklahoma Statutes;

3. Aircraft of the federal government, any agency thereof, any territory or possession, any state government, agency, or political subdivision thereof;

4. Aircraft transferred from one corporation or limited liability company to another corporation or limited liability company pursuant to reorganization of the corporation or limited liability company. For the purpose of this section the term reorganization means a statutory merger, consolidation, or acquisition;

5. Aircraft purchased or used by commercial airlines as defined by paragraph 2 of Section 6001 of this title, provided any such aircraft does not operate under Part 91 of Title 14 of the Code of Federal Regulations, 14 C.F.R., Part 91, for more than fifty percent (50%) of its annual operations. If the operations of such aircraft are not at least fifty percent (50%) Part 135 charter operations annually, the excise tax levied pursuant to the provisions of Section 6002 of this title shall be due and payable. An aircraft owner shall provide a report to Service Oklahoma on an annual basis detailing the operations of the aircraft and any supporting flight, maintenance or charter log books required by Service Oklahoma. For the purpose of satisfying this requirement, such operations may not include those chartered by the aircraft owner as an individual or as a business entity in which the aircraft owner owns a majority interest;

6. Aircraft transferred in connection with the dissolution or liquidation of a corporation or limited liability company and only if included in a payment in kind to the shareholders or members;

7. Aircraft transferred to a corporation for the purpose of organizing such corporation. However, the former owners of the aircraft must have control of the corporation in proportion to their interest in the aircraft prior to the transfer;

8. Aircraft transferred to a partnership or limited liability company when the organization of the partnership or limited liability company is by the former owners of the aircraft. However, the former owners of the aircraft must have control of the partnership in proportion to their interest in the aircraft prior to the transfer;

9. Aircraft transferred from a partnership or limited liability company to the members of the partnership or limited liability company and if made in payment in kind in the dissolution of the partnership;

10. Aircraft transferred or conveyed to a partner of a partnership or shareholder or member of a limited liability company or other person who after such sale owns a joint interest in the aircraft and on which the sales or use tax levied pursuant to the provisions of this title or the excise tax levied pursuant to the provisions of Section 6002 of this title have previously been paid on the aircraft;

11. Aircraft on which a tax levied pursuant to the provisions of the laws of another state, equal to or in excess of the excise tax levied by Section 6002 of this title, has been paid by the person using the aircraft in this state. Aircraft on which a tax levied pursuant to the laws of another state, in an amount less than the excise tax levied by Section 6002 of this title, has been paid by the person using the aircraft in this state shall be subject to the levy of the excise tax at a rate equal to the difference between the rate of tax levied by Section 6002 of this title and the rate of tax levied by the other state;

12. Aircraft when legal ownership of such aircraft is obtained by the applicant for a certificate of title by inheritance;

13. Aircraft when legal ownership of such aircraft is obtained by the lienholder or mortgagee under or by foreclosure of a lien or mortgage in the manner provided for by law;

14. Aircraft which is transferred between husband and wife or parent and child where no valuable consideration is given;

15. Aircraft which is purchased by a resident of this state and used exclusively in this state for agricultural spraying purposes; provided, if such aircraft is sold, leased or used outside this state or for a purpose other than agricultural spraying at any time within three (3) years from the date of purchase, the excise tax levied pursuant to the provisions of Section 6002 of this title shall be due and payable. For purposes of this subsection, “agricultural spraying” means the aerial application of any substance sold and used for soil enrichment or soil corrective purposes or for promoting the growth and productivity of plants and animals;

16. Aircraft which have a selling price in excess of Two Million Five Hundred Thousand Dollars ($2,500,000.00) and which are transferred to a purchaser who is not a resident of this state for immediate transfer out of state;

17. Aircraft which is transferred without consideration between an individual and an express trust which that individual or the spouse, child or parent of that individual has a right to revoke; and

18. Rotary-wing aircraft purchased to be used exclusively for the purpose of training U.S. military personnel or other training authorized by the U.S. Government. The exemption provided by this paragraph shall cease to be effective on January 1, 2018.

Appendix B: Comparable Incentives, Select States

State	Casual Sale "Yard Sale Rule"	Fly Away Rule	Trade In Value	Credit for Tax Paid	Manufacturing - Parts	Manufacturing - Labor	Aircraft Registration Fee	Personal Property Tax
OK	No	Limited (to sale price over $2.5M)	No	Yes	Yes	Yes	Yes (tiered by weight and type)	No
Neighboring States								
AR	No	Yes	Yes	Yes	No (with one exception)	No	No	Yes (average mileage = 38)
TX	Yes	Yes	Yes	Yes	No	No	No	Yes (for business aircraft)
CO	No	Yes	Yes	No	Yes	Yes	No	No
NM	Yes	No	Yes	No	Yes	Yes	Yes (tiered by age)	No
KS	Limited	Yes	Yes	Yes	Yes	Yes	No	Yes (30% with exemptions)
MO	Limited	Yes	Yes	Yes	Yes	Yes	No	Yes ($5.06 per $100 of assessed value)
States with Strong Aerospace Industries								
FL	No	Limited	Yes	Yes	Yes (for aircraft more than 2,000 lbs. CTOW	Yes (for aircraft more than 2,000 lbs. CTOW	No	No
GA	Limited	Limited (aircraft must be manufactured in GA)	Yes	Yes	Limited (aircraft must be removed upon completion of work)	Yes (when separately stated on invoice)	No	Yes (40% of market value x mileage [average 25 miles])
MI	Limited	Yes	No	Yes	Conditional	Yes	Yes ($0.01 per pound)	No

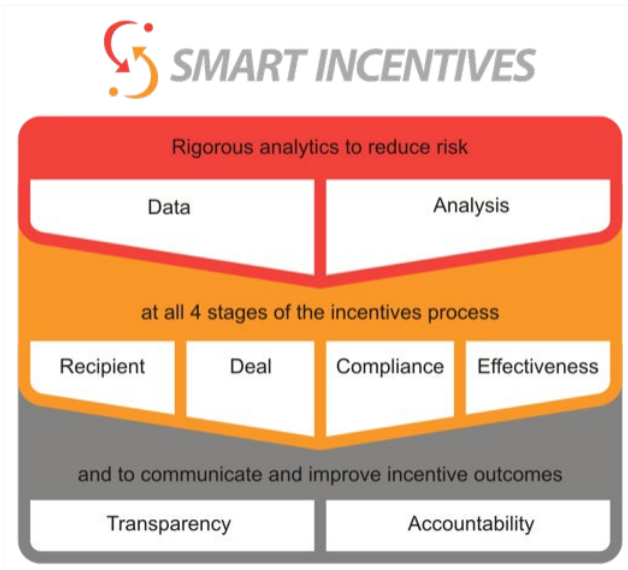
State	Casual Sale "Yard Sale Rule"	Fly Away Rule	Trade In Value	Credit for Tax Paid	Manufacturing - Parts	Manufacturing - Labor	Aircraft Registration Fee	Personal Property Tax
NC	Yes	No	No	Yes	No	Yes	No	Yes (range from $0.59 to $1.41 per $100 valuation)
OH	Yes	No	No	Yes	Yes	Yes	Yes ($15 per seat)	No
NY	No	No	Yes	Yes	Yes	Yes	No	No
UT	No	Limited (to out of state buyer and seller)	Yes	No	No	No	Yes (0.4% of aircraft value)	No
VA	No	Yes	No	Yes	No	Yes	Yes ($5)	Yes (based on county)

Source: Aircraft Owners and Pilots Association (AOPA) State Advocacy, Possible Exemptions to Sales Tax and Other Non-Sales Related Taxes

Appendix C: Business Incentives Best Practices

There has been extensive writing around what constitute business incentives best practices. From the project team's review of many sources,[11] 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 eligibility criteria and enables the state to reject applications that do not meet its standards.

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[11] 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

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.