State of Oklahoma
Incentive Evaluation Commission
Aircraft Repairs and Modifications Sales Tax Exemption
Draft Evaluation

September 30, 2025

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

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Key Findings and Recommendations

Incentive Overview

Beginning July 1, 2005, sales of aircraft engine repairs, modification, and replacement parts, sales of aircraft frame repairs and modification, aircraft interior modification and paint, and sales of services employed in the repair, modification, and replacement of parts of aircraft engines, aircraft frame and interior repair and modification, and paint are exempt from the Oklahoma sales and use tax.

Recommendation: Retain with Modifications.

Key Findings

- **The five-year fiscal impact of the exemption is estimated at $14 million.** Per-year totals average between $2.4 and $3.2 million in foregone revenue between 2015 and 2023.
- **The number and value of exemptions are not tracked.** While the Oklahoma Tax Commission's (OTC) Tax Expenditure Report provides an annual expenditure estimate for the exemption, the value is based on an estimate from 1995 adjusted for 2024 dollars from the Center for Economic and Management Research at the University of Oklahoma (OU) and the Office of Business and Economic Research at Oklahoma State University (OSU). When adjusted for inflation since 2015, these expenditure estimates have grown by a CAGR of 3.0 percent, or from roughly $2.5 million to $3.2 million.
- **The aviation and aerospace industry is vital to Oklahoma's economy.** According to the Oklahoma Department of Aerospace and Aeronautics (ODAA), the aviation and aerospace industry generates a total of $43.7 billion of economic activity statewide.
- **Economic impact was derived from the revenue estimate.** Assuming the exemption is reinvested fully into Oklahoma firms, 181 total jobs are supported over the five-year period and an estimated $13.3 million in labor income was generated for Oklahoma residents.
- **Several states offer similar tax exemptions on aircraft repairs and parts.** While many states across the United States offer some sort of sales tax exemption related to the purchase of aircraft maintenance or manufacturing parts, fewer states have separate exemptions for sales occurring at a qualified aircraft maintenance facility in addition to sales of aircraft engine repairs and interior modification parts and sales of services employed in the replacement of parts.
- **There is no substantial administrative burden in the management of the aircraft repairs and modification sales tax exemption.**

Recommendations

- **Consider tracking the number of exemptions claimed and amount reinvested into Oklahoma.** The Oklahoma Tax Commission may consider capturing data around number of value of total exemptions claimed to allow for further analysis of fiscal and economic impacts.
- **Consider integrating the exemption into the maintenance or manufacturing sales tax exemption.** Currently Oklahoma offers both a sales tax exemption for sales made at a qualified aircraft maintenance facility as well as an exemption for purchases of materials that will be integrated into the construction or expansion of a qualified aircraft maintenance facility. While the exemptions are targeting two distinct purchases, there is overlap and redundancy with the overall intent and growth in the aircraft maintenance industry in Oklahoma may be better achieved with a more uniform aircraft maintenance facility exemption.
- **Identify specific policy goals for which the Aircraft Repairs and Modifications Sales Tax Exemption can achieve.** While the aircraft and aerospace MRO industry is vital to Oklahoma, the current exemption does not directly point to a specific policy goal and thus is not aligned with incentive best practices.

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.

This evaluation of the Aircraft Repairs and Modifications Sales Tax exemption administered by the Oklahoma Department of Commerce ("the Department") and the Oklahoma Tax Commission (OTC) is one of 11 evaluations being conducted by the Commission in 2025 and fits within the aircraft and aerospace industry related incentives. The aircraft repairs and modifications sales tax exemption has not been previously evaluated.

Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this program.

Incentive Background

Per 68 O.S. § 1357.28, "Beginning July 1, 2005, sales of aircraft engine repairs, modification, and replacement parts, sales of aircraft frame repairs and modification, aircraft interior modification, and paint, and sales of services employed in the repair, modification, and replacement of parts of aircraft engines, aircraft frame and interior repair and modification, and paint" are exempt from the Oklahoma sales tax, which is currently 4.5%.[1]

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.

[1] 68 O.S. § 1357 [28]

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 as 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 employment in aircraft industry within the state – comparison to the period prior to the credit 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 Aircraft Repairs and Modifications Sales Tax Exemption, the project team conducted the following activities:

- Submitted an information request to the OTC;
- Reviewed and analyzed OTC-provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from OTC and the Oklahoma Department of Aerospace and Aeronautics;
- Benchmarked Oklahoma's incentive relative to peer state programs;
- Conducted an economic impact analysis of the incentive.

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.[2]

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.[3] 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 1: Total Annual Statewide Economic Impacts of Aviation and Aerospace

	Payroll (billions)	Spending (billions)	Economic Activity (billions)
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 & Aeronautics – Oklahoma Aviation and Aerospace Economic Impact Study
Note: Numbers may not add due to rounding

Aerospace Manufacturing Employment by State
Employment growth within Oklahoma's aerospace and parts manufacturing industry is increasing. Between 2014 and 2024, this industry's employment grew by a compound annual growth rate (CAGR) of 6.6 percent – significantly higher than in neighboring states.

[2] 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
[3] 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

Table 1: 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
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
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

Aircraft Registrations

Aircraft Registrations by State

Based on researched 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.[4] For the researched period, Oklahoma aircraft registrations ranked fifth among the states.

Table 3: Recent Aircraft Registrations by State

State	Count	Rank
Texas	298	1
Florida	272	2
California	260	3
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, there are currently 6,194 Oklahoma registered aircraft, down from 6,541 in 2020. As shown in the following table, Oklahoma leads its neighboring states in aircraft registrations with the second highest aircraft registrations per capita of all neighboring states, only behind Kansas.

[4] 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.

Table 4: Aircraft Registrations, Oklahoma and Surrounding States

State	Aircraft Registrations	Aircraft Registrations per 100,000 Residents, 2020	Aircraft Registrations per 100,000 Residents, 2024
Kansas	5,464	179	184
Oklahoma	**6,194**	**165**	**151**
New Mexico	3,030	147	142
Colorado	7,356	117	123
Arkansas	3,477	110	113
Texas	28,769	91	92
Missouri	5,728	83	92

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

Incentive Usage and Administration

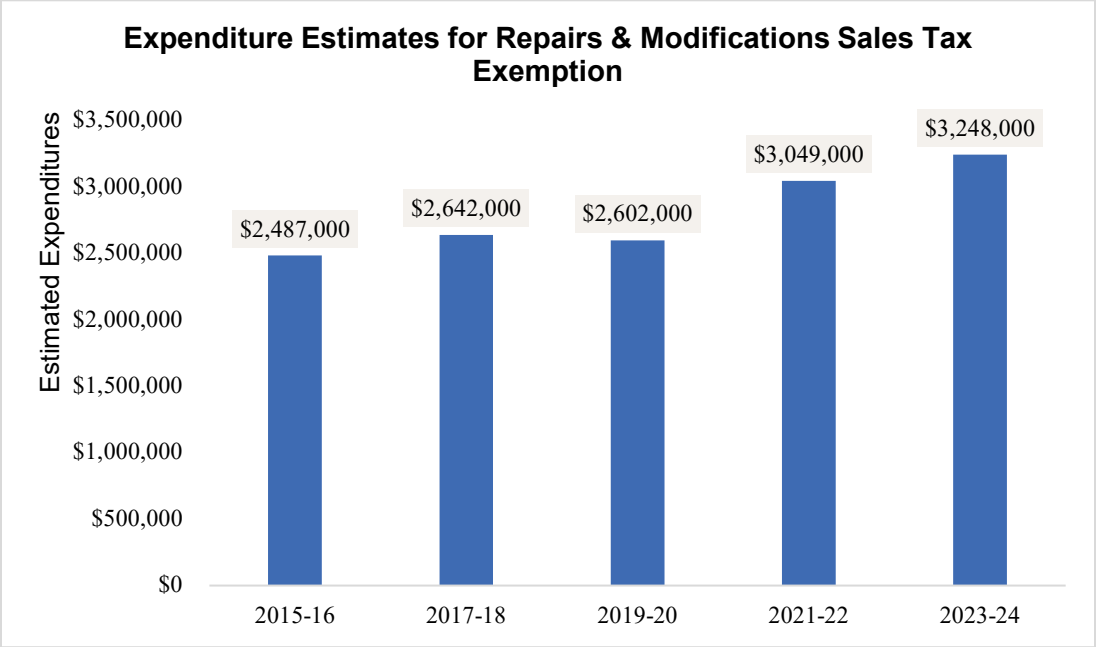
Incentive Characteristics

Beginning July 1, 2005, sales of certain aircraft repairs and modification parts became exempt from the Oklahoma state sales tax. Specifically, “sales of aircraft engine repairs, modification, and replacement parts, sales of aircraft frame repairs and modification, aircraft interior modification, and paint, and sales of services employed in the repair, modification, and replacement of parts of aircraft engines, aircraft frame and interior repair and modification, and paint” are exempt from sales tax.[5]

Historic Use of the Exemption

The following table summarizes the annual expenditure estimate of the aircraft repairs and modifications sales tax exemption, provided by the Oklahoma Tax Commission’s (OTC) Tax Expenditure Report.[6]

Figure 1



Source: Tax Expenditure Report, Oklahoma Tax Commission

The estimated expenditure amount associated with the aircraft repairs and modifications exemption is derived from an original 1995 estimate that has been adjusted annually for inflation, rather than recalculated based on actual reported activity. As such, the reported slight dip in expenditures during the 2019-2020 period is based on negative growth in inflation during the Covid timeframe. The projected steady growth since then is based on the growth in inflation during that period.

The project team sought to estimate the total purchases amount for aircraft repairs and modification parts that would qualify for the sales tax exemption. The project team produced the following estimated total purchases by dividing the expenditure estimates provided by the OTCs Tax Expenditure Report with the state’s 4.5

[5] 68 O.S. § 1357 [28]

[6] In 1995, the Tax Commission contracted with the Center for Economic and Management Research at the University of Oklahoma (OU) and the Office of Business and Economic Research at Oklahoma State University (OSU) to provide revenue estimates for sales tax expenditures, including the repairs and modifications sales tax exemption. The original estimates provided by the OU/OSU Group have been adjusted for the 2024 fiscal year.

percent sales tax. Total purchase amounts have grown by a CAGR of 3.0 percent since 2015, which aligns with the growth in expenditure estimates.

Table 5: Estimated Expenditures and Total Purchases

Year	Expenditure Estimates	Total Purchases Estimates
2015-16	$2,487,000	$55,266,666.67
2017-18	$2,642,000	$58,711,111.11
2019-20	$2,602,000	$57,822,222.22
2021-22	$3,049,000	$67,755,555.56
2023-24	$3,248,000	$72,177,777.78
CAGR	**3.0%**	**3.0%**

Incentive Administration

The exemption on aircraft repairs and modification parts is exempt from sales tax at the point of sale when a purchaser of exempt materials provides the seller with the Oklahoma Sales Tax Exemption Certificate, with 68 O.S. § 1357 [28] referenced as the exemption being claimed[7]. Unlike some exemptions, the OTC relies on a certificate process to verify the transactions are eligible, whereby the seller keeps the exemption certificate on file and produces it for OTC if requested or audited.

Business Incentives Best Practices

The PFM Project Team has developed a list of best practices that can apply broadly to incentive program designs.[8] 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.

Some aspects of the aircraft repairs and modifications sales tax exemption align with best practices. The exemption is targeted at particular transactions occurring within the aircraft industry, specifically related to aircraft repairs and other MRO activity. The MRO industry is vital for Oklahoma's economy, and this incentive is targeted towards that industry with an attempt to spur further growth. However, there is no cap on foregone revenue, no sunset on program duration, and there is little reporting on actual use of the exemption.

The following diagram assesses the performance of Aircraft Repairs and Modifications Sales Tax Exemption performs on incentive program best practices.

[7] The OTC directs applicants to use the Streamlined Sales Tax Governing Board's Form F0003 (Streamlined Sales and Use Tax Agreement Certification of Exemption), a multi-state form that can be used for multiple sales and use tax exemptions. Oklahoma has been a Full Member State since 2005.
[8] Details on the best practices and their establishment can be found in the Appendices.

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 and Fiscal Impacts

The project team used the input-output IMPLAN software to determine economic impact.[9] Based on the Oklahoma Tax Expenditure report, the five-year direct fiscal impact of the credit is estimated at $14 million, with total economic impact over the same period at $22 million. As an exemption that does not require detailed filing or registration, the State has limited data on the associated economic activity and employment. Normally this would prevent an economic impact analysis, however the PFM project team submits an alternate methodology. PFM assumes that the entire exemption amount – the only known value in this case – is fully reinvested into the firm using the exemption.

Taking this assumption for the purpose of modeling an impact, the project team created Industry Output events for each year of program data available. The NAICS code for aircraft maintenance is 488190, which falls under the broader category of "Other Support Activities for Air Transportation". This classification includes establishments primarily engaged in providing services like aircraft maintenance, repair, inspection, and testing, but specifically excludes factory conversions, overhauls, or rebuilds. Converted to IMPLAN code 402 (“Scenic and sightseeing transportation and support activities for transportation”), the foregone revenue from the exemption was entered as the input.

Table 6: IMPLAN Outputs

Year	Impact	Employment	Labor Income	Value Added	Output	State Tax	Foregone Revenue
2015	Direct	22	$1,860,733	$1,836,110	$2,487,000	$51,628	$2,487,000
	Indirect	2	$114,716	$169,281	$324,827	$7,003	
	Induced	4	$205,962	$470,785	$772,267	$24,763	
2017	Direct	24	$1,987,971	$1,972,215	$2,642,000	$53,886	$2,642,000
	Indirect	2	$120,363	$177,215	$352,234	$6,618	
	Induced	5	$232,498	$523,080	$885,808	$26,205	
2019	Direct	26	$2,173,075	$2,120,434	$2,602,000	$62,433	$2,602,000
	Indirect	2	$93,560	$136,833	$271,861	$5,746	
	Induced	5	$249,163	$554,635	$935,916	$31,500	
2021	Direct	27	$2,117,942	$2,096,465	$3,049,000	$52,479	$3,049,000
	Indirect	3	$192,519	$279,106	$564,198	$11,996	
	Induced	5	$252,190	$533,788	$920,714	$33,931	
2023	Direct	38	$2,769,716	$2,361,761	$3,248,000	$81,870	$3,248,000
	Indirect	5	$322,157	$477,847	$935,810	$21,505	
	Induced	12	$661,667	$1,281,993	$2,228,719	$72,982	
TOTAL		**181**	**$13,354,231**	**$14,991,546**	**$22,220,354**	**$544,543**	**$14,028,000**

Assuming this fully reinvested value, 181 total jobs are supported over the five-year period. While over the five-year period $544,543 in state tax revenue was estimated to have been generated by the exemption, there was an estimated $14,028,000 in foregone tax revenue, for an overall net impact of -$13,483,455 in state tax revenue. Based on this pattern of activity, the program would not break even under its current design.

[9] Additional information related to IMPLAN is provided in Appendix D.

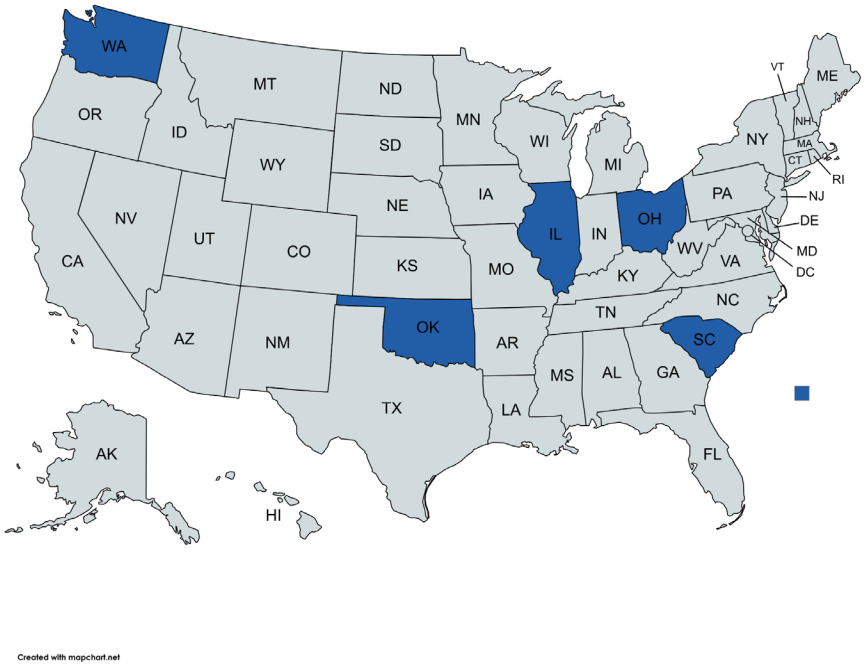
Incentive Benchmarking

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.

It should be noted that all states are unique and offer incentives specific to their state's industry and industry needs. Oklahoma is no exception, and while most states offer some sort of sales tax exemption related to the purchase of aircraft maintenance or manufacturing parts, fewer states have separate exemptions for sales occurring at a qualified aircraft maintenance facility in addition to sales of aircraft engine repairs and interior modification parts and sales of services employed in the replacement of parts. A more comprehensive summary of repairs and modifications related exemptions for all states in the United States can be found in **Appendix B**. For the purposes of this exemption specifically, states with more comparable sales tax exemptions for aircraft repair activities include Ohio, Illinois, South Carolina, and Washington.



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

State	Program	Description
Ohio[11]	Sales and Use Tax Exemption: Aircraft Parts and Repairs	▪ Effective August 2008, sales of materials, parts, equipment or engines used in the repair or maintenance of aircraft or avionics systems of such aircraft, as well as sales of repair, remodeling, replacement or maintenance services performed on an aircraft or aircraft's avionics, engine or component materials or parts are exempt from state sales and use taxes. ▪ Ohio originally required these activities to occur at a qualified Federal Aviation Administration certified repair station but removed this requirement in February of 2009.
Illinois[12]	Aircraft Repairs Parts Exemption	▪ Beginning January 1, 2010, materials, parts, equipment, components, and furnishings incorporated into or upon an aircraft as part of the modification, refurbishment, completion, replacement, repair, or maintenance of the aircraft are exempt from sales tax. ▪ Effective January 1, 2024, the exemption was expanded to include "the modification, replacement, repair, and maintenance of aircraft engines or power plants, and providing that the exemption applies without regard to whether or not those claiming the exemption (i) hold an Air Agency Certificate and are empowered to operate an approved repair station by the Federal Aviation Administration, (ii) have a Class IV Rating, and (iii) conduct operations in accordance with Part 145 of the Federal Aviation Regulations." ▪ The exemption does not include aircraft operated by a commercial air carrier providing scheduled passenger air service.
South Carolina[13]	Sales and Use Tax Exemption for Aircraft Repairs	▪ Effective January 2016, South Carolina exempts "parts and supplies used by persons engaged in the business of repairing or reconditioning aircraft" from state sales tax. ▪ This exemption does not extend to tools and other equipment not attached to or that do not become a part of the aircraft. ▪ Previously, the state only exempted parts and supplies used on aircraft owned by or leased to the federal government or commercial air carriers.
Washington[14]	Sales Tax Exemption for Personal Property Incorporated in Prototype for Aircraft Parts	▪ Since 1997, Washington has provided a sales tax exemption for personal property incorporated into prototype for aircraft parts, auxiliary equipment, and aircraft modification. ▪ Receiving entities must not have annual gross income and value of manufactured products exceed $20,000,000. ▪ Like Oklahoma, Washington has other exemptions related to computer hardware purchased and construction of new maintenance facilities.[15] ▪ The Washington exemptions are in the form of a remittance. Remittance of local sales and use tax is immediate; remittance of the state sales and use tax would not occur until after the facility has been operationally complete for four years, but not earlier than December 1, 2021.[16]

[11] Ohio Department of Taxation, "ST 2008-04 - Sales and Use Tax: Aircraft Parts and Repair– Issued August 2008, Revised January 2009." Available at https://tax.ohio.gov/business/ohio-business-taxes/sales-and-use/information-releases/st-2008-04-revised-01-07-09

[12] Illinois Department of Revenue, “General Information Letter” (July 2023). Available at https://tax.illinois.gov/content/dam/soi/en/web/tax/research/legalinformation/letterrulings/st/documents/2023/st23-0021-gil.pdf
[13] South Carolina Department of Revenue, “Exemptions Authorized under the Sales and Use Tax Law” (April 2019). Available at https://dor.sc.gov/resources-site/lawandpolicy/Documents/SandU_9.pdf
[14] WA Rev. Code § 82.12.02566.
[15] To qualify for either of the two construction-related exemptions, the facility must report at least 100 average employment positions during a specified one-year period, with average annualized wages of $80,000. In 2023, HB 1318 allowed for an MRO at any county-owned airport to be eligible and removed a limitation that the airport be owned or located in King or Spokane Counties (counties with a population of more than 1.5 million).
[16] State of Washington, House Bill Report: HB 1318.” Accessed electronically at https://lawfilesext.leg.wa.gov/biennium/2023-24/Htm/Bill%20Reports/House/1318%20HBR%20FIN%2023.htm

Appendices

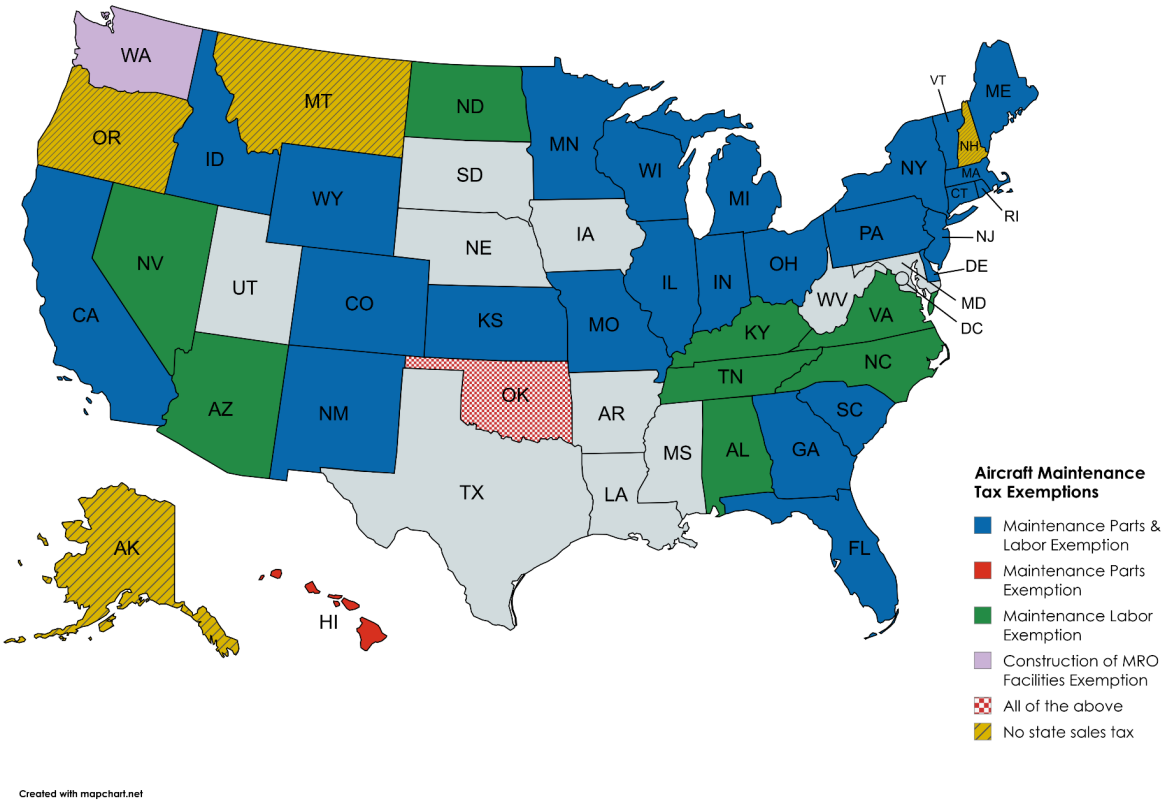
Appendix A: 68 O.S. § 1357 – Exemptions – General (Effective June 2, 2023)

There are hereby specifically exempted from the tax levied by the Oklahoma Sales Tax Code:

28. Beginning July 1, 2005, sales of aircraft engine repairs, modification, and replacement parts, sales of aircraft frame repairs and modification, aircraft interior modification, and paint, and sales of services employed in the repair, modification, and replacement of parts of aircraft engines, aircraft frame and interior repair and modification, and paint;

Okla. Stat. tit. 68, § 1357

Appendix B: Aircraft MRO Exemptions by State



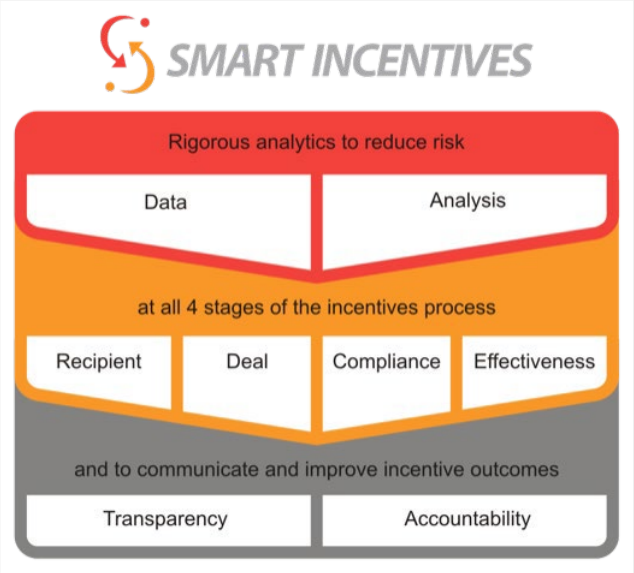
*Delaware does not have a state sales tax. However, there is an exemption from the state's gross receipts tax for aircraft maintenance activities on aircraft with a certified takeoff weight of 12,500 pounds or more.

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 constitutes business incentives best practices. From the project team's review of many sources,[17] it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with higher wages and benefits, significant job creation, or significant capital investment.

2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.

3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.

[17] Three resources in particular were relied upon putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness- of-business-incentives; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf

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.

Appendix D: IMPLAN Methodology

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

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

Multipliers

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

Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects which are displayed in the final report. These are the direct, indirect, and induced changes within the economy.

- **Direct** effects are determined by the Event as defined by the user (i.e., a $10 million order is a $10 million direct effect).
- The **indirect** effects are determined by the amount of the direct effect spent within the study region on supplies, services, labor, and taxes.
- Finally, the **induced** effect measures the money that is re-spent in the study area as a result of spending from the indirect effect.

Each of these steps recognizes an important leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.