State of Oklahoma
Incentive Evaluation Commission
Aircraft Facilities Sales Tax Exemption on Aircraft Parts Evaluation

December 2, 2025

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Incentive Overview

The State of Oklahoma exempts sales of aircraft and aircraft parts from the state sales and use tax, provided the sales occur at a qualified aircraft maintenance facility.

Recommendation: Retain with modifications.

Key Findings

- **According to the Oklahoma Tax Commission (OTC), there have been no submitted applications for refunds in the last seven years.** Because there is no data associated with exemption use, the fiscal impact to the State cannot be determined. Additionally, the economic impact of the incentive cannot be determined.
- **Among all states, Oklahoma's civil aviation maintenance industry employment is fifth highest.** Oklahoma employs over 14,500 individuals across the maintenance, repair, and overhaul (MRO) and parts manufacturing and distributing sectors, with only Texas, Florida, California and Georgia employing more people in this sector.
- **Growth in Oklahoma's civil aviation maintenance industry since 2023 ranks fifth nationwide.** Tennessee, North Carolina, Texas and Illinois industry growth exceeded 13 percent, with Oklahoma's industry employment growing at a rate of 5.6 percent in the same period.
- **Growth in civil aviation maintenance industry economic activity in Oklahoma has outpaced the national average.** Between 2019 and 2025, Oklahoma's civil aviation maintenance industry economic activity has growth by a compound annual growth rate of 5.8 percent, exceeding the national average of 3.1 percent, and falling behind only Tennessee, North Carolina, Texas and Washington.
- **South Carolina, Ohio, New York and Washington are some of the states that offer similar tax exemptions on aircraft repairs and parts.**

Recommendations

- **Identify an achievable policy goal for the Sales Tax Exemption on Aircraft Parts.** 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.
- **Consider integrating the exemption into 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.

Introduction & Project Background

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.

The sales tax exemption on aircraft and aircraft parts sold at a qualified maintenance facility has not been previously evaluated by PFM. During its' January 23, 2025, meeting the Oklahoma Incentive Evaluation Commission voted unanimously to include this exemption for the 2025 evaluation schedule.[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] Oklahoma Incentive Evaluation Commission, "Regular Meeting Minutes" (2025). Accessed electronically at https://oklahoma.gov/content/dam/ok/en/omes/documents/iec-minutes-2025-01-23.pdf

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 and Evaluation Approach

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 (where applicable) and as noted previously, the provisions of HB 2182 require that criteria specific to each incentive be identified and used for the evaluation.

The purpose of the Aircraft Facilities Sales Tax Exemption on Aircraft Parts is not articulated in the enabling legislation, though it is reasonable to assume that the intent is to encourage investment in aircraft maintenance and manufacturing activities in Oklahoma. The Commission has adopted the following criteria to assist in a determination of program effectiveness:

- Changes to industry measures (e.g., size sector GDP, employment compared to other
- sectors)
- Comparisons of changes in sector versus states with/without similar exemptions
- Changes in Oklahoma industry employment
- Changes in Oklahoma industry capital investment
- State return on investment

To conduct its 2025 review of the Aircraft Facilities Sales Tax Exemptions, the PFM team undertook several project tasks, including (but not limited to) the following:

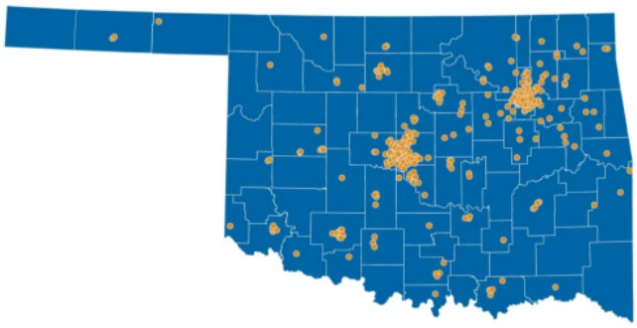
- Reviewed and analyzed Tax Commission and other relevant data and information.
- Conducted subject matter expert and internal stakeholder interviews.
- Met with leadership from the State, Oklahoma City, and Tulsa Chambers of Commerce and interested industry representatives.
- Benchmarked Oklahoma to other states.

Industry Background

The Aerospace & Defense Industry in Oklahoma

Oklahoma has a robust economic history in aerospace and defense (A&D), and today the industry plays a critical role in Oklahoma's economy. The sector is the state's second largest, and it generates an estimated $44 billion annually in economic impact. Oklahoma is a major hub for the maintenance, repair, and overhaul (MRO) of aircraft, and according to estimates, nearly 90 percent of the more than 1,100 companies that comprise the state's A&D industry are in the MRO business.[2] The American Airlines Maintenance and Engineering Center in Tulsa is the largest single-site commercial aircraft MRO facility in the world and employs more than 5,500 people; the Oklahoma City Air Logistics Complex at Tinker Air Force Base is the largest air depot maintenance facility for the U.S. Department of Defense and employs approximately 26,000 people.[3]

Figure 1: Oklahoma's Aerospace Clusters



Source: Oklahoma Department of Commerce

National and State Industry Employment Trends

As shown in the following table, the Aeronautical Repair Station Association (ARSA) estimates that the civil aviation maintenance industry currently employs more than 339,000 mechanics and other technicians across the U.S.[4] With nearly 266,000 workers, the MRO sector – inclusive of FAA repair stations and air carriers – accounts for approximately 80 percent of employees nationally; parts manufacturing and distribution comprises the other 20 percent. Ten states comprise a total of more than 193,000 workers, including roughly 150,000 at MROs. Oklahoma ranks fifth among states nationally, with an estimated 14,534 jobs (72 percent attributable to MROs). Among neighboring states, only Texas has more industry employees.

Table 1: State Civil Aviation Maintenance Industry Employment by Category, 2025

State	MRO – FAA Repair Station	MRO – Air Carrier	Parts Manuf. & Distrib.	Total	% of Total, All States	Rank
Texas	22,411	9,209	6,094	**37,714**	11.1%	1
Florida	19,192	8,548	8,266	**36,005**	10.6%	2
California	17,342	5,244	8,429	**31,016**	9.2%	3
Georgia	8,795	2,785	6,216	**17,796**	5.3%	4
Oklahoma	**10,041**	**470**	**4,023**	**14,534**	4.3%	**5**
Tennessee	7,288	4,125	1,143	**12,556**	3.7%	6
North Carolina	7,151	3,514	1,728	**12,392**	3.7%	7
Ohio	4,356	3,617	2,703	**10,676**	3.2%	8
Illinois	5,795	2,991	1,729	**10,515**	3.1%	9
Washington	5,466	1,153	3,690	**10,309**	3.0%	10
Total	**107,837**	**41,656**	**44,021**	**193,513**	**57.1%**	
Total, All States	**188,466**	**76,850**	**73,134**	**338,779**	**100.0%**	

Source: Aeronautical Repair Station Association, U.S. Employment and Economic Impact – 2025

[2] Oklahoma Department of Commerce, "Oklahoma: A World Hub for Aerospace." Accessed electronically at https://www.okcommerce.gov/wp-content/uploads/Oklahoma-Aerospace-Brief.pdf
[3] Oklahoma Department of Commerce, "Oklahoma: A World Hub for Aerospace." Accessed electronically at https://www.okcommerce.gov/wp-content/uploads/Oklahoma-Aerospace-Brief.pdf
[4] ARSA, "U.S. Civil Aviation MRO Employment and Economic Impact," (2025). Accessed electronically at https://arsa.org/wp-content/uploads/2025/03/ARSA-OW-2025FleetAndMROMarketReport-StateByState-03162025.pdf

Nationally, industry employment has increased in recent years. As shown in the following table, there were roughly 288,000 jobs across all states in 2019, and that total increased by nearly 30,000 jobs in 2023. Between 2023 and 2025 national industry employment increased by over 20,000 jobs to approximately 338,779 – a compound annual growth rate (CAGR) of 3.3 percent. Between the years 2019 and 2025, Oklahoma's industry employment overperformed the national trend, increasing from 12,505 jobs in 2019 to 14,534 in 2025 (a CAGR of 5.6 percent).

Oklahoma's performance ranks in the middle among other top states for MRO industry employment levels. Across these top states for industry employment, between 2023 and 2025, Tennessee and North Carolina led employment growth, while Texas and Illinois also posted strong gains. In contrast, Florida's growth was minimal and several other large states (California, Georgia, Ohio and Washington) saw declines. The following table is organized by employment in 2025, from highest to lowest.

Table 2: State Civil Aviation Maintenance Industry Employment Totals, 2019, 2023, & 2025

State	2019	2023	2025	CAGR, 2019-2025	CAGR, 2023-2025
Texas	24,019	28,864	37,714	7.8%	14.3%
Florida	21,614	35,577	36,005	8.9%	0.6%
California	33,196	33,853	31,016	-1.1%	-4.3%
Georgia	22,040	23,338	17,796	-3.5%	-12.7%
Oklahoma	**12,505**	**13,043**	**14,534**	**2.5%**	**5.6%**
Tennessee	5,227	7,674	12,556	15.7%	27.9%
North Carolina	5,491	8,577	12,392	14.5%	20.2%
Ohio	10,748	13,935	10,676	-0.1%	-12.5%
Illinois	6,582	8,140	10,515	8.1%	13.7%
Washington	18,518	13,719	10,309	-9.3%	-13.3%
Total, All States	**288,295**	**317,381**	**338,779**	**2.7%**	**3.3%**

Source: Aeronautical Repair Station Association, U.S. Employment and Economic Impact Reports – 2019, 2023, & 2025

National and State Industry Economic Activity Trends

According to ARSA, the civil aviation maintenance industry generates an estimated $68.6 billion in economic activity each year in the U.S. MROs comprise approximately $43.7 billion, more than two-thirds of the total. The 10 states in the following table account for nearly 58 percent of the industry economic activity. Oklahoma ranks 5th nationally, up from 7th nationally in 2023, with an estimated $3.1 billion in activity. This is up from $2.8 billion in 2023 (equal to 4.5 percent of the U.S. total). Among neighboring states, only Texas generates more economic activity.

Table 3: Civil Aviation Maintenance Industry Economic Activity, 2025 ($ in Millions)

State	MRO	Parts Manuf. & Distrib.	Total	% of Total, All States	Rank
Florida	$4,563	$2,819	$7,381	10.8%	1
Texas	$5,201	$2,078	$7,279	10.6%	2
California	$3,715	$2,875	$6,589	9.6%	3
Georgia	$1,905	$2,120	$4,024	5.9%	4

State	MRO	Parts Manuf. & Distrib.	Total	% of Total, All States	Rank
Oklahoma	**$1,729**	**$1,372**	**$3,101**	**4.5%**	**5**
Washington	$1,089	$1,258	$2,347	3.4%	6
North Carolina	$1,754	$589	$2,343	3.4%	7
Tennessee	$1,877	$390	$2,267	3.3%	8
Ohio	$1,311	$922	$2,233	3.3%	9
Illinois	$1,445	$590	$2,035	3.0%	10
Total	$24,589	$15,013	$39,599	57.7%	
Total, All States	$43,692	$24,940	$68,632	**100.0%**	

Source: Aeronautical Repair Station Association, U.S. Employment and Economic Impact – 2025

As shown in the following table, economic activity across all U.S. states was estimated to be more than $50 billion in 2019, increasing to more than $64 billion by 2023 before reaching $68.6 billion. Growth in economic activity nationally is equal to a CAGR of 5.3 percent between 2019 and 2025. Oklahoma's economic growth outpaced the national average between 2023 and 2025, ranking behind only North Carolina, Tennessee, and Florida, while several major states saw slower growth or declines.

Table 4: State Civil Aviation Maintenance Industry Economic Activity, 2019, 2023 & 2025 ($ in Millions)

State	2019	2023	2025	CAGR, 2019-2025	CAGR, 2023-2025
Florida	$2,763	$7,237	$7,381	17.8%	1.0%
Texas	$3,774	$5,795	$7,279	11.6%	12.1%
California	$5,238	$7,027	$6,589	3.9%	-3.2%
Georgia	$2,927	$4,886	$4,024	5.4%	-9.2%
Oklahoma	**$1,588**	**$2,771**	**$3,101**	**11.8%**	**5.8%**
Washington	$4,401	$2,883	$2,347	-9.9%	-9.8%
North Carolina	$736	$1,689	$2,343	21.3%	17.8%
Tennessee	$759	$1,466	$2,267	20.0%	24.4%
Ohio	$2,043	$2,804	$2,233	1.5%	-10.8%
Illinois	$1,126	$1,626	$2,035	10.4%	11.9%
Total, All States	**$50,407**	**$64,560**	**$68,632**	**5.3%**	**3.1%**

Source: Aeronautical Repair Station Association, U.S. Employment and Economic Impact Reports – 2019, 2023, & 2025

Incentive Usage & Administration

Oklahoma Sales and Use Tax

In Oklahoma, sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services (including construction). A retail sale is a sale to the final consumer or end user of taxable property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital product, or service when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 4.5 percent; the maximum local sales and use tax rate is 7.0 percent, and the average combined state and local sales tax rate is 8.98 percent.[5]

Incentive Characteristics

Oklahoma has provided the following sales tax exemption for aircraft parts sold at a qualified aircraft maintenance facility:

- Sales of aircraft and aircraft parts provided such sales occur at a qualified aircraft maintenance facility. As used in this paragraph, "qualified aircraft maintenance facility" means a facility operated by an air common carrier including one or more component overhaul support buildings or structures in an area owned, leased, or controlled by the air common carrier, at which there were employed at least two thousand (2,000) full-time-equivalent employees in the preceding year as certified by the Oklahoma Employment Security Commission and which is primarily related to the fabrication, repair, alteration, modification, refurbishing, maintenance, building, or rebuilding of commercial aircraft or aircraft parts used in air common carriage. For purposes of this paragraph, "air common carrier" shall also include members of an affiliated group as defined by Section 1504 of the Internal Revenue Code, 26 U.S.C., Section 1504. Beginning July 1, 2012, sales of machinery, tools, supplies, equipment, and related tangible personal property and services used or consumed in the repair, remodeling, or maintenance of aircraft, aircraft engines or aircraft component parts which occur at a qualified aircraft maintenance facility.[6]

Historic Use of the Incentive

The Oklahoma Tax Commission (OTC) confirmed the agency does not have any current data on submitted applications for refunds or around the use of these exemptions in the last seven fiscal years.

The Department of Commerce's aerospace marketing materials identify many programs as being commonly used by the sector, including the Quality Jobs, Small Employer Quality Jobs, and 21st Century Quality Jobs Programs; Investments/New Jobs Tax Credit Package; Business Expansion Incentive Program; Engineer Workforce Tax Credit for Aerospace; Training for Industry Program; Five-Year Ad Valorem Exemption; and New Market Tax Credits. However, the Department of Commerce does not advertise the aircraft facilities or aircraft parts sales tax exemptions in its marketing materials for the industry.[7] Depending on the business and/or project, these programs may afford businesses with a larger financial benefit than the sales tax exemptions provided under this program (potentially with fewer requirements or parameters around eligibility).

[5] Oklahoma Tax Commission, "Sales Tax vs. Use Tax." Accessed electronically at https://oklahoma.gov/content/dam/ok/en/tax/documents/resources/publications/infographics/SalesTaxUseTax.pdf
[6] 68 O.S. § 1357 [20]
[7] Oklahoma Department of Commerce, "Oklahoma: A World Hub for Aerospace." Accessed electronically at https://www.okcommerce.gov/wp-content/uploads/Oklahoma-Aerospace-Brief.pdf

Incentive Administration

This exemption is available only on sales made at a qualified aircraft maintenance facility in Oklahoma. While this exemption is for aircraft maintenance parts purchased at a qualified facility, it is different than the maintenance and manufacturing facilities sales tax exemption, which exempts sales tax on purchases made towards the expansion and construction of aircraft maintenance facilities. However, the process for being certified as a qualified maintenance or manufacturing facility with the Oklahoma Tax Commission is still relevant here, as these facilities are directly involved in this exemption. This process is outlined below.

1. **Application for Exemption Certification:** When the new or expanded facility has been completed and the requisite new employees have been hired, the taxpayer applies for a Certificate of Exemption with the OTC.[8] The applicant must provide additional information with its submission, Including specifications of the new or expanded facility; a complete description of the maintenance repair or manufacturing that will take place within the facility; and other information requested by the OTC.

   The OTC reviews the application for completeness and compliance with the requirements of the exemption and also forwards it to the Oklahoma Employment Security Commission (OESC) to establish the facility's baseline employment levels. Upon completion of the OTC and OESC reviews of the application, the OTC makes its determination and notifies the applicant of the approval or denial of the certification requested. If the application is approved, the OTC establishes an interest-bearing account to track sales taxes paid on sales as shown by the invoices submitted.

   If the request for certification is denied, the applicant has 60 days after the mailing of the denial to file with the OTC a protest under oath that sets out a statement of denial as determined by the OTC; a statement of the applicant's disagreement with the denial, and supporting documentation relied on by the taxpayer in support of certification. If an applicant fails to file a written protest within 60 days, the denial – without further action from the OTC – becomes final, and no appeal is possible.

   Applicants filing a protest are scheduled for a hearing *en banc* before the OTC for a date, time, and place provided by the OTC via mail at least 10 days prior to the hearing. The burden of proving that the denial of certification was erroneous is on the applicant. The applicant can present testimony, evidence, and argument in support of the requested certification. The OTC issues an order in each case that is directly appealable to the Supreme Court of the State of Oklahoma. The appeal must be perfected within 30 days of the mailing of the order by filing a Petition in Error with the Clerk of the Supreme Court and by filing a designation of the record with the Secretary of the OTC at the same time the Petition in Error is filed.

2. **Refund Requests:** For each qualified purchase the eligible facility wishes to exempt, it submits to the OTC an invoice indicating the amount of state and local taxes billed to the facility; an affidavit of the vendor of the tangible personal property that state and local sales tax on the invoice has not been credited, rebated, or refunded to the facility; and all additional documentation required by the OTC. For sales of tangible personal property, in cases where the state and local sales tax was paid by a contractor or subcontractor, the facility must file an affidavit from the contractor or subcontractor.

   The required materials can be filed monthly, quarterly, semi-annually, or annually, so long as they are filed no later than 36 months after the item is purchased. The facility must also file with the OTC – within 60 months of the date of the first purchase – the certification issued by the OESC. The OTC

[8] 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.

reviews the documentation submitted and determines – within 30 days – whether the refund claimed will be allowed, and subsequently notifies the entity of the approval or denial.

Each month, the OTC transfers the estimated amount of claims approved the previous month from the sales tax collected to an account designated by the OTC. For all approved claims, the entity receives a refund in the amount not to exceed the total amount of state and local sales taxes paid and previously approved by the OTC. The facility also receives accrued interest on the principal amount of the refund; interest accrues at the rate of a 3-month Treasury bill from the date the invoiced items are approved.

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.

In the case of the Sales Tax Exemption on Aircraft Parts, some best practices are adopted and maintained. The exemption is targeted for a particular type of transaction occurring at a qualified aircraft maintenance facility, a facility which must meet certain minimum qualifications in job creation and investment. The aerospace industry is vital for Oklahoma's economy, and this incentive is targeted towards that industry with an attempt to spur further growth. However, transparency and accountability measures with data collection are lacking, and it is difficult to determine the overall impact this exemption is having on the state's economic growth.

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

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

Economic & Fiscal Impact

Economic and Fiscal Impact

The sales tax exemption on aircraft parts supports Oklahoma's aerospace industry by exempting qualifying transactions at approved aircraft maintenance facilities. This incentive helps sustain the state's aircraft MRO sector, which in turn strengthens aerospace operations and related business activity across Oklahoma.

While business in general is supported, there is no reporting on economic activity associated with exemption and there is no data around incentive usage. The OTC noted the agency has not issued a refund or received a submitted application for a refund in the last seven years. As a result, there is insufficient information to assess economic or fiscal impacts of the sales tax exemption on aircraft parts.

Incentive Benchmarking

Benchmarking Introduction

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 incentive benchmarking typically begins with bordering states because proximity often leads states to compete for the same regional businesses or business/industry investments. In addition, neighboring states often (but not always) have similar economic, demographic, or political structures that lend themselves to comparison.

Tax Policy Benchmarking Comparison

This section provides a comparison of Oklahoma's aerospace tax preferences to those of neighboring states.

Oklahoma's maximum combined state and local sales tax rate of 11.5 percent is lower than Arkansas (12.63 percent) but higher than other neighboring states. New Mexico and Texas have the lowest combined rates at 9.4 and 8.3 percent, respectively. Oklahoma's corporate income tax rate of 4 percent is commensurate with Missouri but lower than other neighboring states, which span from 4.4 percent in Colorado to 6.5 percent in Kansas. Further, while Oklahoma and Kansas use a three-factor formula for the apportionment of corporate income, four states (Arkansas, Colorado, Missouri, and Texas) use a single factor formula.[11]

Table 5: Tax Rates and Treatment, Select States

	Sales Tax Rates	Corporate Income Tax Rate	Apportionment of Corporate Income
Oklahoma	4.5% plus 0-7% local taxes	4.0%	3 Factor
Arkansas	6.5% plus 0-6.125% local taxes	4.3%	Single Sales Factor
Colorado	2.9% plus 0-8.3% local taxes	4.4%	Single Sales Factor
Kansas	6.5% plus 0-4.25% local taxes	6.5%	3 Factor
Missouri	4.225% plus 0-5.875% local taxes	4.0%	Single Sales Factor
New Mexico	4.875% plus 0.125-4.5625% local taxes	5.9%	3 Factor
Texas	6.25%; local taxes cannot exceed 2%	**	Single Sales Factor

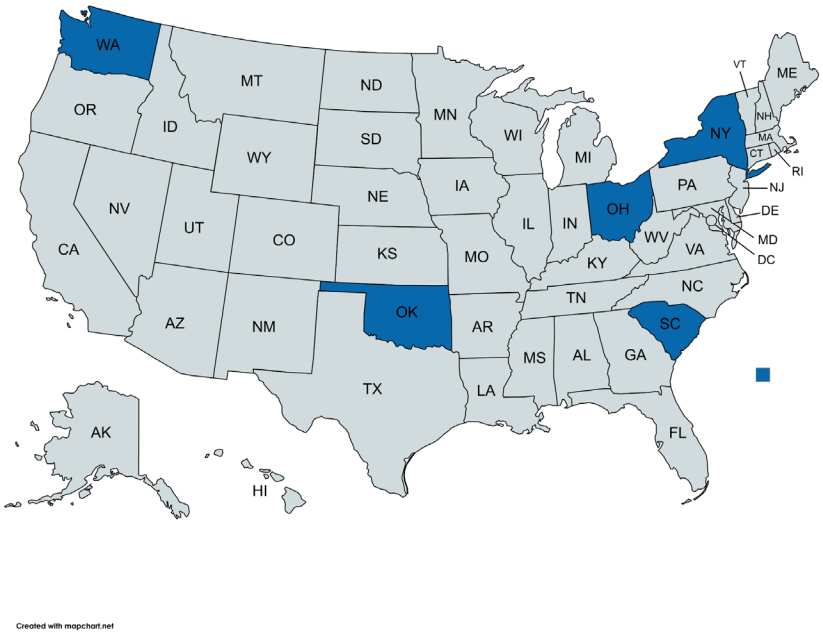
Source: Federation of Tax Administrators; the Tax Foundation
** 3 Factor and Single Sales Factor; taxpayer option or specified by state rules.*
*** Texas does not have a corporate income tax but does have a gross receipts tax with rates not strictly comparable to corporate income tax rates.*

[10] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs. An example of this is Oklahoma's Historic Rehabilitation Tax Credit, which matches the federal 20 percent tax credit with a 20 percent tax state credit for those projects that are eligible for the federal tax credit.
[11] Apportionment formulas are designed to allocate to a taxing state, for tax purposes, a share of a company's income that corresponds to its business activity in the state. The three-factor formula uses three fractions representing the ratios of a company's property, payroll, and sales within a taxing state to its total property, payroll, and sales. The three ratios are multiplied together to produce the percentage of the company's total taxable income to be allocated to the taxing state. The single-factor formula apportions income for tax purposes using only the ratio of a company's in-state sales to its total sales.

Incentive Program Benchmarking Comparison

Many states exempt the sales of certain aircraft from its sales and use tax. In the case of tax exemptions for aircraft repair and modification parts sold at maintenance and manufacturing facilities, however, state incentives are less prominent. In addition to Oklahoma, the states of New York, Ohio and South Carolina offer similar tax exemptions. Key elements of these incentives are summarized in the following, and additional detail regarding the comparable state programs is provided in **Appendix B.**

Figure 2: States with Comparable Incentive Programs



- **New York:** General aviation aircraft or equipment to be installed on such aircraft are exempt from state sales taxes. Per state statute, general aviation aircraft "means an aircraft that is used in civil aviation, that is not a commercial aircraft, military aircraft, unmanned aerial vehicle or drone.

  New York also provides a sales tax exemption for commercial aircraft engaged in intrastate, interstate or foreign commerce as well as machinery or equipment to be installed on such aircraft, and property used by or purchased for maintenance and repairs on such aircraft by commercial airlines.[12]

- **Ohio:** The State exempts 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 from sales tax.

[12] New York State Senate, "Consolidated Laws of New York, Chapter 60, Article 28, Part 3" (May 2025). Accessed electronically at https://www.nysenate.gov/legislation/laws/TAX/1115

Ohio originally required these activities to occur at a qualified Federal Aviation Administration certified repair state but removed this requirement in February 2009.[13]

- **South Carolina:** Parts and supplies used by persons engaged in the business of repairing or reconditioning aircraft are exempt from state sales taxes. The exemption "does not extend to tools and other equipment not attached to or that do not become a part of the aircraft."[14]

- **Washington:** The State has multiple sales tax exemptions related to aircraft manufacturing, including sales tax exemptions for FAA-registered facilities on the construction and expansion of said facilities, as well as a sales tax exemption for personal property used in the development of prototypes for aircraft parts, auxiliary equipment, and aircraft modifications.[15]

Each of the preceding examples is an instance of a state exemption targeting materials and tools used in the maintenance of aircraft. There are a few differences between Oklahoma's exemption on aircraft parts and the other states whose exemptions were reviewed.

- Per 68 O.S. § 1357 [20], Oklahoma requires the sales of aircraft and aircraft parts to occur at a qualified aircraft facility with at least 2,000 full-time equivalents in the proceeding year. South Carolina does not include the facility or FTE requirement but does require the tools or equipment purchased to be attached to or become part of the aircraft.

- New York exempts equipment and tools only for "general aviation aircrafts" which the state defines as aircraft "used in civil aviation, that is not a commercial or military aircraft, unmanned aerial vehicle or drone." Oklahoma's exemption specifically targets aircraft at a "qualified aircraft maintenance facility" which includes aircraft used by commercial aircraft carriers.

- Like New York, Ohio targets materials, parts, and equipment used in the repair or maintenance of aircraft or avionics systems of such aircraft. As used in this section of state code, "aircraft" means any "aircraft of more than six thousand pounds maximum certified takeoff weight or used exclusively in general aviation" – general aviation does not include commercial aircrafts.

As has been discussed, the MRO industry is an important part of Oklahoma's economy – yet the State's aircraft facilities sales tax exemption on aircraft parts is not being used and are therefore not effectively incenting industry activity. It is possible that modifications to Oklahoma's industry-related tax preferences may aid in generating additional business activity within the state.

Evidence from analyses in other states exists to support this hypothesis. A 2022 Texas study found that a disproportionate share of regional MRO activity currently occurs outside the state, especially in Kansas and Oklahoma. Its authors suggested that a more competitive sales tax policy could reverse this situation. According to the study, by removing the "anti-competitive, antiquated" MRO tax for general aviation, the Texas economy stands to gain 9,700 jobs, over $1.4 billion in direct spending, and $57.2 million in added tax revenue.[16]

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[13] 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

[14] SC Code § 12-36-2120 (52). Accessed electronically at https://law.justia.com/codes/south-carolina/title-12/chapter-36/section-12-36-2120/

[15] WA Rev. Code § 82.12.02566.

[16] Texas Senate Research Center, "Bill Analysis: SB 1022." Accessed electronically at https://capitol.texas.gov/tlodocs/88R/analysis/html/SB01022I.htm

A complete map of the United States can be found in **Appendix C**. This map shows the states with sales tax exemptions related to aircraft maintenance parts and labor activities as well as MRO facility construction and expansion. It should be noted that not all of these exemptions are the exact same but rather target similar activities and purchases within the aircraft MRO space.

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:

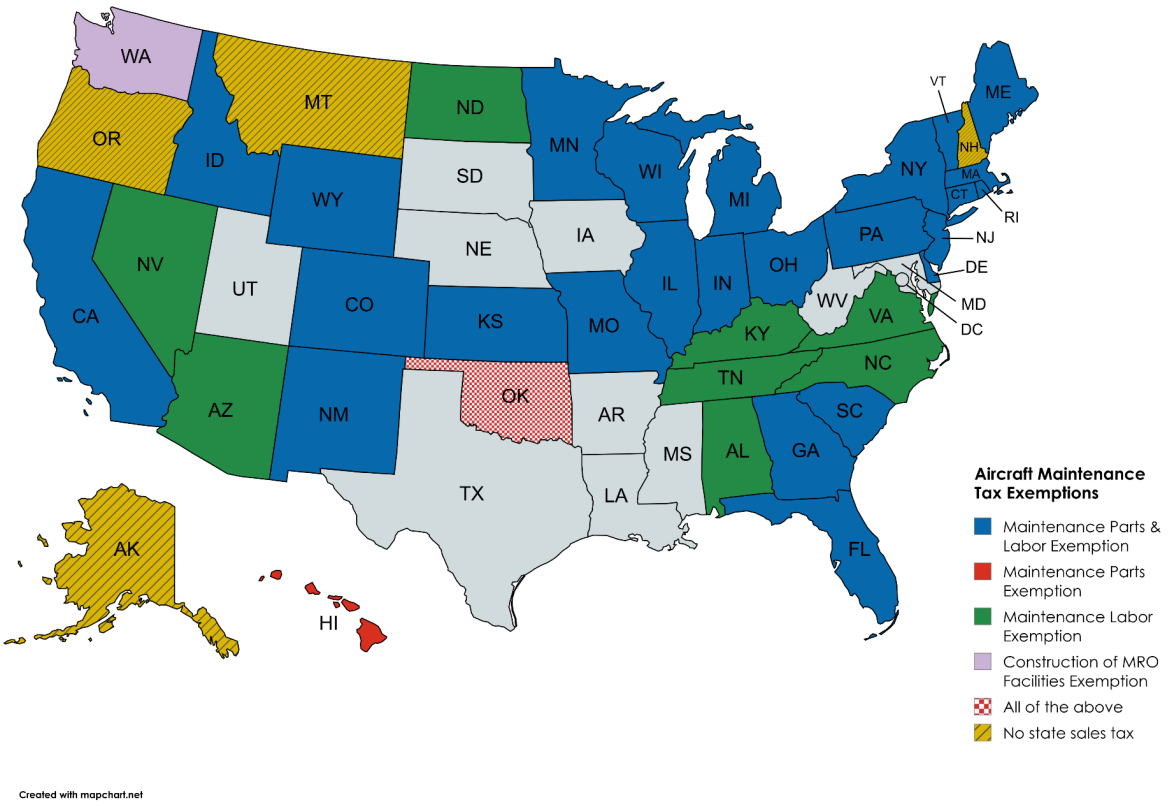
20. Sales of aircraft and aircraft parts provided such sales occur at a qualified aircraft maintenance facility. As used in this paragraph, “qualified aircraft maintenance facility” means a facility operated by an air common carrier, including one or more component overhaul support buildings or structures in an area owned, leased or controlled by the air common carrier, at which there were employed at least two thousand (2,000) full-time-equivalent employees in the preceding year as certified by the Oklahoma Employment Security Commission and which is primarily related to the fabrication, repair, alteration, modification, refurbishing, maintenance, building or rebuilding of commercial aircraft or aircraft parts used in air common carriage. For purposes of this paragraph, “air common carrier” shall also include members of an affiliated group as defined by Section 1504 of the Internal Revenue Code, 26 U.S.C., Section 1504. Beginning July 1, 2012, sales of machinery, tools, supplies, equipment and related tangible personal property and services used or consumed in the repair, remodeling or maintenance of aircraft, aircraft engines, or aircraft component parts which occur at a qualified aircraft maintenance facility;

Okla. Stat. tit. 68, § 1357

Appendix B: Benchmarking Comparison Detail

	Exemption	Eligible Entities	Requirements
New York	Aviation aircraft or equipment to be installed on such aircraft	Aircraft used in civil aviation (that is not a military aircraft, unmanned aerial vehicle or drone); commercial aircraft engaged in intrastate, interstate or foreign commerce, and property used by or purchased for maintenance and repairs on such aircraft by commercial airlines.	Exempt equipment must be installed on aircraft
Ohio	Sales of materials, parts, equipment or engines used in the repair or maintenance of aircraft or avionics systems of such aircraft.	All sales of repair, remodeling, replacement, or maintenance services in Ohio performed on aircraft or on an aircraft's avionics, engine, or component materials or parts.	Activities were originally required to occur at a qualified FAA certified repair station – requirement was removed in 2009.
South Carolina	Parts and supplies used by persons engaged in the business of repairing or reconditioning aircraft.	Aircraft owners who are either the US government or commercial air carriers, or businesses that purchase parts and supplies for aircraft repairing or reconditioning.	Exemption does not apply to tools or equipment not attached to or that do not become part of the aircraft.
Washington	Computer Hardware, Software, and Peripherals Sales Tax Exemption	Manufacturers of commercial airplanes and component parts; non-manufacturers engaged in the business of aerospace product development; certificated FAR repair stations making retail sales; and aerospace tooling manufacturers	No application required; Must have a completed Buyer's' Retail Sales Tax Exemption Certificate for vendor; Annual Tax Performance Report filed by May 31 of the following year. Buyer completion of Buyers Sales and Use Tax Preference Addendum when filing their tax return.
	Construction of New Facilities Used to Manufacture Commercial Airplanes, Fuselages or Wings Sales Tax Exemption	Manufacturers who construct new buildings and/or new parts of of buildings that will be used primarily to manufacture commercial airplanes; and port districts, political subdivisions, or municipal corporations when new facilities constructed are leased to these manufacturers	Average of 100 positions reported during specified 1-year period with average annualized wages of $80,000.

Appendix C: Aircraft MRO Exemptions by State



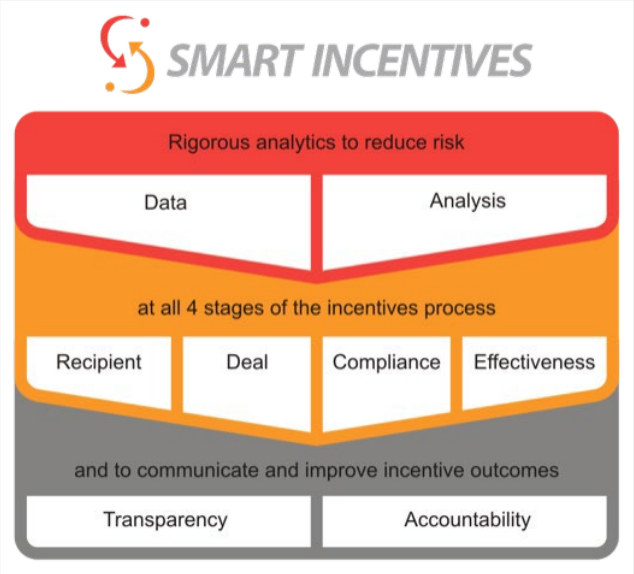
*Delaware does not have a state sales tax. However, there is an exemption from the state's gross receipts tax for aircraft maintenance activities on aircraft with a certified takeoff weight of 12,500 pounds or more.

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

Appendix D: 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,[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.

[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

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.