



# Oklahoma Incentive Evaluation Commission

## Draft 2025 Incentive Evaluations Key Findings and Recommendations

**November 13, 2025**

**Randall Bauer, Director**

---

PFM Group Consulting LLC.

---

1735 Market Street  
42<sup>nd</sup> Floor  
Philadelphia, PA 19103

---

(215) 567-6100



## Today's Agenda

- October 1, 2025 draft evaluations key findings and recommendations.
- Next steps.



# Introduction

- The following are the 11 incentives under review in 2025:
  - Home Office Insurance Premium Tax Credit
  - Quality Jobs Program
  - 21st Century Quality Jobs Program
  - Small Employer Quality Jobs Program
  - Aerospace Employee and Employee Tax Credits
  - Cybersecurity Employee Tax Credit
  - Investment / New Jobs Tax Credits
  - Excise Tax Exemption on Aircraft Sales
  - Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemptions
  - Aircraft Maintenance Facilities Sales Tax Exemption on Aircraft Parts
  - Aircraft Repairs and Modifications Sales Tax Exemption



## Home Office Tax Incentive

In 1987, Oklahoma established the Home Office Tax Credit to increase the concentration of insurance company home and regional offices in Oklahoma. The program offers tax credits against the insurance premium tax base on insurance domicile and number of employees.

### Recommendation: Reconfigure.

- **Key Findings:**
  - **Use of the credit has decreased over the past decade, from \$22.6 million in tax year 2015 to \$16.0 million in tax year 2024.** Use of the credit was greatest in 2018 at \$25.7 million and has since declined, driven in part by two large firms, State Farm and Hartford Insurance Group, no longer qualifying for the credit.
  - **From tax year 2020 to tax year 2024, there were 6 instances of an insurer claiming the credit while reporting fewer employees than the year prior.**
  - **Two similar state tax incentive programs, in Colorado and Nevada, have recently been repealed.** In Colorado, the repeal was part of a package of spending cuts necessary to balance the state budget after federal tax changes in the 2025 reconciliation bill. Lack of effectiveness in achieving the stated program goals were also noted. In Nevada, they noted an issue raised in prior Oklahoma evaluations of this incentive: the program design is misaligned with outcomes, as the benefit is tied to premiums collected as opposed to jobs or payroll created.



## Home Office Tax Credit (continued)

- **Key Findings (continued):**
  - **As an alternative, the State could reduce the premium tax rate to 1.96 percent while remaining revenue neutral.** This would position Oklahoma's tax rate as the 30<sup>th</sup> highest among states with an insurance premium tax, down from 10<sup>th</sup> highest. This approach also aligns with the tax principle of applying the lowest possible rate to the largest possible base.
- **Recommendations:**
  - **Reconfigure the program to base the credit amount on payroll as opposed to premiums.** While premiums have risen nationwide, corporations have been able to claim increasing benefits without necessarily demonstrating a consistent increased contribution to the State economy through jobs or payroll.
  - **Revise the program statute to base benefit tiers on payroll amount as opposed to number of jobs.** By tying the benefit tier to the payroll, the State can ensure that they are not only encouraging new jobs to be created, but they are encouraging well-paying jobs. Claimants who open, for example, an insurance claims call center may be able to record significant new employment, but it is likely not employment of the caliber the State is seeking to incent.
  - **Eliminate the credit and lower the insurance premium tax by a revenue neutral amount.** As previously noted, the State's insurance premium tax is higher than average among the states, and lowering the tax would provide broad-based benefit to insurance companies.



## Quality Jobs Program

Oklahoma's Quality Jobs Program, created in 1993, offers qualifying companies quarterly cash rebates equal to up to 5 percent of newly created taxable payroll for up to 10 years. Originally targeted at manufacturing firms, the program has been expanded to include a range of industries. In recent years, it has mostly been used by manufacturing and oil and gas companies. To qualify for the rebates, a company must operate in an eligible industry and meet requirements related to the amount of payroll associated with new jobs created, health insurance coverage, and wages.

### Recommendation: Retain, with modifications.

#### ■ Key Findings:

- **Rebates generated by program participants have declined in recent years, from a peak of \$85 million in 2014 to \$38 million in 2022.** Reported jobs declined along with the number of companies participating in the program, though it's important to note COVID-19 and the associated recession was in this period.
- **The timeliness of rebate submissions is a factor when evaluating utilization and overall program performance.** As noted in the 2021 and 2017 evaluations, firms that participate may (and sometimes do) delay submission of documentation, creating a lag in payments and reporting.
- **From 2019 to 2024, professional services generated the largest share of rebates (37 percent).** The next-most rebated industry, manufacturing, received 16 percent over this period.
- **Participants are concentrated in Oklahoma and Tulsa counties.** From 2019 to 2024, these counties accounted for \$163 and \$143 million in rebates, respectively, combining for about 82 percent of the total.
- **From 2019 to 2024, economic and fiscal impact analysis found the program to be of net fiscal benefit to the State, generating \$276 million in revenues.** Based on the IMPLAN input-output economic impact model's estimate of state taxes generated, Quality Jobs returns a little over \$2 for every \$1 invested.



## Quality Jobs Program (continued)

### ■ Recommendations:

- **Require establishments to pay the average county wage regardless of the statewide threshold wage.**  
Currently, establishments must match the lesser of the county average or a state threshold wage equal to \$37,785 as of 2022. Eliminating the statewide threshold wage would ensure the program is encouraging the creation of jobs that at least maintain average wage levels in each county.
- **Require participants to file rebate claims within one year of a qualifying quarter.** Currently, companies have two years to submit a claim after their most recent submittal before potential dismissal from the program. This lag time between when a rebate is generated and claimed makes forecasting the costs of the program difficult. Controlling the timing of incentive payments is a key aspect of incentive design to manage budget impacts. Furthermore, if a company waits two years to claim a rebate, it calls into question how important the rebate is in supporting the incented activity, as the relative value of the rebate (based on the time value of money) declines the later it is claimed and received. Shortening the lag time to a maximum one year would still provide participants sufficient time to handle the administrative burden of filing claims while protecting the State from paying up to eight quarters of claims at once if a participant waits two years to file a claim.
- **Regularly review eligible industries to ensure the list reflects the State's economic development goals.**  
Since the program was created, industry eligibility has expanded several times, most often to include oil and gas related firms. As time passes, the State should consider whether these and other industries are still the correct targets for the program, based on economic development goals.
- **Review policy goals and national best practices to determine additional components of a “quality” job.**  
Wage and benefits have long been the target for programs in this area, but new types of benefits are becoming candidates for inclusion. For example, New York's Excelsior program now includes credits for childcare expenditure as part of compensation. The Commerce Department should consider whether or not there are benefits that align with policy goals or State-wide priorities that could be easily incorporated into the Quality Jobs program.



## 21<sup>st</sup> Century Quality Jobs Program

Oklahoma's 21st Century Quality Jobs program was created in 2009 under the 21st Century Quality Jobs Incentive Act. Its legislative intent is to "provide appropriate incentives to attract growth industries and sectors to Oklahoma in the twenty-first century through a policy of rewarding businesses with a highly skilled, knowledge-based workforce". The program offers quarterly payments of up to 10 percent of newly created payroll for a period of 10 years. To receive quarterly payments, companies must meet certain requirements related to new jobs and payroll as well as wages.

### Recommendation: Retain, with modifications.

#### ■ Key Findings:

- **Program use increased significantly from 2011 to 2022, with rebates increasing from about \$0.3 million to \$9.2 million.** Rebates peaked in 2019 at \$14.6 million. Growth in program usage was driven almost entirely by one company.
- **Rebate submissions can lag the actual job creation.** In prior evaluations, as much as two years' worth of data was impacted by the delay in filing. Data in this report is complete as of July 2025 but is subject to change following additional filings.
- **From 2011 to 2022, participants' median wages were significantly higher than the statewide average (as required by statute) and were often close to 300 percent of the statewide average.** Participants are required to meet the lesser of 300 percent of the county average where the job is located or the state index wage calculated by the Department of Commerce. The state index wage was \$112,100 for 2023, the most recent year evaluated.
- **Nearly all rebates from 2011 to 2022 were generated by firms in the aerospace, defense, and professional services sectors.** Aerospace accounted for 94.5 percent of total rebates, while professional services accounted for 4.9 percent.





## 21<sup>st</sup> Century Quality Jobs Program (continued)

- **Key Findings (continued):**

- **Program use is more concentrated than the Quality Jobs program, with 97.9 percent of rebates from 2011 through 2022 generated in Oklahoma County.** Another 1.8 percent was generated in Tulsa County.
- **Oklahoma's program is relatively unique compared to peers.** Only South Carolina approaches OK's wage requirement (250 percent of state average).

- **Recommendations:**

- **Require participants to file rebate claims within one year of a qualifying quarter.**
- **Regularly review eligible industries to ensure the list reflects the State's economic development goals.**
- **Consider providing an option for firms who fail to meet program requirements to continue receiving the Quality Jobs program benefits, if qualified.** Conversations with Department of Commerce staff suggest firms that may qualify for the 21st Century Quality Jobs program but are unsure if they will be able to meet the wage and payroll requirements, are hesitant to apply to the program. Currently, if a firm fails to meet program requirements within three years of starting the program and is removed from the program, it would be ineligible to apply for Quality Jobs benefits for the same activity, even if qualified.



## Small Employer Quality Jobs Program

Oklahoma's Small Employer Quality Jobs program was created in 1997 under the Small Employer Quality Jobs Incentive Act. The program provides qualifying companies with 500 or fewer employees quarterly rebate payments of up to five percent of the newly created payroll, for up to seven years. To qualify for payments, participants must meet requirements related to job creation and wages.

### **Recommendation: Retain, with modifications.**

#### ■ **Key Findings:**

- **Program utilization has been uneven over the 13 years studied for evaluation** – starting at 13 firms, 541 jobs, and \$938,000 in rebates in 2011; to lows of 4, 72, and \$172,000 in 2014; and then back up to 8 firms, 266 jobs, and \$686,000 in 2023.
- **Actual utilization data lags by as much as two years based on the 2025, 2021, and 2017 evaluations.** Firms can submit rebate filings outside of the period where the jobs were created, but still within the contract period with the Department of Commerce and still receive the benefit.
- **The median wage of reported jobs was about equal to or exceeded the statewide average wage each year from 2011 to 2023.** Participants are required to pay 110 percent of the average wage of county small employers.
- **Participating industries are more diverse compared to the 2021 evaluation.** Manufacturing firms accounted for 57 percent of total rebates (down from 89 percent), while professional services, aerospace and defense, and bioscience firms each accounted for at least 13 percent.
- **Use of the program is dispersed across multiple counties.** From 2011 to 2023, nine counties received at least five percent of the total amount of rebates generated.



## Small Employer Quality Jobs Program (continued)

- **Key Findings (continued):**

- **Compared to other states with similar programs, Oklahoma allows firms with a larger number of employees to qualify as a small employer.** In three states with similar programs, maximum employees were set at either 99 or 49 compared to 500 in OK.

- **Recommendations:**

- **Require participants to file rebate claims within one year of a qualifying quarter.**
- **Regularly review eligible industries to ensure the list reflects the State's economic development goals.**



## Aerospace Engineer Employee and Employer Tax Credits

Effective January 1, 2009, Oklahoma established the Aerospace Employee and Employer Tax Credits designed to 'address the critical shortage of engineering and technical talent' in the State's aerospace industry. Qualified employers can receive an income tax credit for compensation paid to a qualified employee, based on the employee's education, while qualified employees can receive income tax credits of up to \$5,000 for five years.

**Recommendation: retain, with modifications.**

- **Key Findings:**
  - **Between 2020 and 2022, the number of employer returns claiming the credit decreased by a compound annual growth rate (CAGR) of 5.3 percent.** Simultaneously, the amount used to reduce tax liability, representing foregone revenue to the State, decreased by 7.8 percent.
  - **Between 2009 and 2024, aerospace engineer employment increased by a CAGR of 8.6 percent in Oklahoma.** At the national level, aerospace engineer employment declined by a CAGR of 0.2 percent, suggesting that while a skills gap continues to exist, Oklahoma's efforts to recruit aerospace engineers have been successful relative to other states, perhaps due, in some degree, to the existence of the incentive programs.
  - **Despite the prevalence of the industry in Oklahoma's economy, employers continue to face a skills gap in recruiting aerospace engineers.** The number of degrees conferred in engineering fields at public institutions in Oklahoma decreased between 2018 and 2024, from 2,814 to 2,140. The decrease in degree conferral simultaneous to the increase in employment may indicate Oklahoma's relative success, due, in some degree, to the incentive, at attracting out-of-state talent.



## Aerospace Engineer Employee and Employer Tax Credits (continued)

- **Key Findings (continued):**
  - **Credit use and total amount claimed for the employee component of the tax credit have remained consistent in recent years, declining slightly in tax year 2022.**
  - **The estimated State tax revenue exceeds the cost to the State on an annual basis, as measured by the amount claimed.** The credit generates \$1.23 in tax revenue per \$1.00 in program spending. In order for fiscal returns to the state to exceed the cost of the program, at least 81 percent of the employment claiming the credit must be directly attributable to the credit program itself.
  - **The total economic activity associated with the tax credits substantially exceeds the cost to the State each year.** For each \$1 paid by the State between tax years 2020 and 2022, the economic output generated ranged from \$67 to \$76 annually. In 2022, the most recent year with data available, total economic activity associated with the 2,722 jobs for which claims were made reached \$1.5 billion. Indirect and induced activity supported an additional 1,262 jobs, with total employment reaching 3,984 jobs.
  - **The incentive's Accreditation Board for Engineering and Technology (ABET) accreditation requirement continues to cause confusion for employees claiming the credit.** Ineligible claims accounted for 5.7 percent of all claims from 2020 to 2022. Many claimants learned that they did not qualify for the credits after their tax forms claimant the credit were approved.



## Aerospace Engineer Employee and Employer Tax Credits (continued)

- **Recommendations:**
  - **Increase the amount of the credit by an amount that accounts for some or all of the reduction in value because of inflation since the credit's introduction.** Since the credit's introduction in 2009, inflation has reduced the value of the credit by 50.6 percent. Due to these factors, the \$5,000 amount may no longer be sufficient to attract talent that would otherwise not locate in the State.
  - **Provide a list of frequently asked questions with the tax form in order to limit the number of ineligible claimants.** Despite clear language on the tax form itself, the by-right nature of the program and lack of clarity in identifying eligible programs contributes to a high volume of ineligible employees claiming credits.



## Cybersecurity Employee Tax Credit

In 2020, Oklahoma created a tax credit for cybersecurity personnel to seek to expand its cybersecurity skilled workforce. The credit is \$2,200 for seven years for those with a qualified bachelor's degree or higher and \$1,800 for those with an associate's degree, a credential, or certificate from an approved accredited program.

**Recommendation: Retain.**

- **Key Findings:**

- **While the growth in cybersecurity employment in Oklahoma outpaces the nation as a whole, a skills gap prevails in the industry.** The Oklahoma Board of State Regents for Higher Education has noted a need for more graduates in technology fields, and a study by Deloitte and the manufacturing industry identified a nationwide skills gap of roughly 2.0 million jobs between 2015 and 2025. Specific sectors in Oklahoma, like aerospace and defense, may require more cybersecurity and software personnel due to the highly technical nature of the work.
- **The number of returns for the cybersecurity employee tax credit has been growing since the credit's inception in 2020.** Total claimants has growth from 46 to 939 between tax years 2020 and 2023. Simultaneously, the amount claimed has grown from \$95,995 to \$2.2 million. Growth in credit claimants exceeds growth in industry employment overall. Some of this is attributable to repeat users, as the credit is available for seven years.
- **Cybersecurity and software industry employment has been increasing in recent years. Between 2020 (the year the credit became available) and 2024, Oklahoma's 9.3 percent compound annual growth rate (CAGR) significantly exceeded the 6.8 percent national growth rate.** Prior to the availability of the credit, the industry employment CAGR in Oklahoma was slightly lower, at 8.4 percent.



## Cybersecurity Employee Tax Credit (continued)

- **Key Findings (continued):**
  - **The total economic activity associated with employees claiming the credit exceeds the program cost, as measured by the annual amount claimed.** Between tax years 2020 and 2023, employment claiming the credit was associated with between \$78 and \$101 in economic output for every \$1 in credit claimed. However, not all of the employees claiming the credit represent roles that would not have been created or sustained but for the incentive program.
  - **The total State tax revenue associated with employees claiming the credit exceeds the program cost to the State, as measured by amounts claimed.** Between tax years 2020 and 2023, every \$1.00 of credit claimed was associated with between \$2.73 and \$3.29 in State tax revenues. Applying a breakeven analysis to understand the level of program activity that would be required for the state to ‘break even’ on the cost indicates that at least 30.4 percent of claimants must be attributed to the incentive program for the program to generate a positive return on investment.
  - **An alternate state approach is to incent cybersecurity businesses rather than employees.** Maryland offers seed funding and income tax credits to attract early-stage cybersecurity companies, while Virginia attracts cybersecurity entrepreneurs through a business accelerator program.
  - **Cybersecurity is a high-demand industry with strong market momentum and high paying jobs, indicating that tax credits for individual employees are likely not the deciding factor for talent attraction and retention.**
  - **Key stakeholders noted confusion among claimants regarding accredited programs and credit eligibility.** Despite information provided, many claimants still struggle with interpreting eligibility language.





## Cybersecurity Employee Tax Credit (continued)

- **Recommendations:**
  - **To enhance program compliance, provide a list of frequently asked questions with the tax form on the Oklahoma Tax Commission website in order to avoid confusion around eligibility from applicants.**



## Investment – New Jobs Tax Credit

In 1988, Oklahoma established the Investment New Jobs Tax Credits in order to incentive capital investment and job creation. Manufacturing, aircraft maintenance, and web search portal facilities may qualify for a tax credit equal to one percent of the cost of investments made in depreciable property greater than \$50,000, or \$500 per new employee. The credit may be claimed annually for up to five years.

The credit amount doubles for investments in depreciable property greater than \$40 million.

Credits earned for investment in depreciable property may be carried forward indefinitely, while credits earned for job creation may be carried forward for 15 years beyond the initial five-year period.

### Recommendation: Reconfigure.

- **Key Findings:**
  - **Use of the credit to offset tax liability has decreased over time, while the amount of unused credit carried forward has continued to increase, increasing the carried forward liability to the State.**
  - **Nearly all of the credits were claimed for capital investment.** Less than one percent of credits claimed were related to job creation.
  - **It is unlikely that the credit is significantly influencing business investment and hiring decisions.** In tax years 2022 and 2023, the amount of credit used of the amount claimed averaged only 13 percent. It is difficult to expect the credit to have a significant influence on business decision making with such a low percentage of use of earned credits.
  - **Unused credits for capital investment may be carried forward indefinitely, creating a growing liability.**



## Investment – New Jobs Tax Credit (continued)

- **Key Findings (continued):**
  - **In contrast to comparable programs in other states as well as many other incentives offered by Oklahoma, the Investment-New Jobs tax credit is by-right and does not require advance notice or an application and approval process to receive benefits.**
  - **Since the 2021 evaluation, the value of the new jobs tax credit has continued to decline.** While the capital investment tax credit has kept pace with inflation because it is applied as a percentage of the total investment, the fixed value of \$500 for new jobs has not kept pace with growth in average annual pay.
  - **The minimum salary requirement for the new jobs component of the tax credit has not been updated since the credit's inception.** The minimum salary requirement of \$7,000 is equal to just 9.9 percent of average annual pay for manufacturing jobs in Oklahoma in 2024.



## Investment – New Jobs Tax Credit (continued)

- **Recommendations:**
  - **Eliminate the job creation tax credit for manufacturing firms.** The job creation portion of the program has low and declining utilization, indicating that many firms may already be opting for the Quality Jobs Tax Credit. Further, the low wage requirement creates essentially no threshold for claimants, limiting the incenting ability of the program.
  - **Raise the wage threshold to at minimum meet the average annual wages for manufacturing employees in the State.** By creating a higher wage threshold, Oklahoma can both ensure the quality of jobs created and ensure a stronger return on investment due to increased consumer spending and greater income and sales tax revenues derived from newly created jobs.
  - **Require an application process for claimants instead of offering benefits by right and include requirements for awarded tax credits.** An application process will ensure that claimants meet eligibility criteria, help tie the use of the credit to the investment activity, and limit exposure to runaway costs associated with by-right entitlement.
  - **Limit the indefinite carryforward period for capital investment credits to seven years.** The lengthier carryforward period dilutes the value of credits and creates an ever-growing tax credit liability for the State. This could 'grandfather' in existing credits.
  - **Amend the program statute to require additional data collection.** The Oklahoma Tax Commission currently collects data from claimants through Form 506, however, this information is not stored in a way that makes it readily available for evaluation purposes.



# Aircraft Excise Tax Exemption

Oklahoma state statute provides for 17 types of aircraft sales to be exempt from the 3.25% state excise tax on the purchase price of aircraft sold in the state.

## 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 Exemption (continued)

- **Key Findings (continued):**

- **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.



## Aircraft Excise Tax Exemption (continued)

- **Recommendations (continued):**

- **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 Aircraft Excise Tax Exemption Draft Evaluation 5 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.



# Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemption

Since 1991, the State of Oklahoma has offered multiple sales tax exemptions for use by qualified aircraft maintenance or manufacturing facilities (aircraft facilities). The exemptions apply to sales of: (1) computers, data processing equipment, related peripherals and telephone, telegraph, or telecommunication services and equipment; and (2) tangible personal property consumed or incorporated in construction or expansion.

## **Recommendation: Retain, with modifications.**

### ■ **Key Findings:**

- **The State's aircraft maintenance facility-related sales tax exemptions are not currently in use.** According to Oklahoma Tax Commission (OTC) representatives, these incentives have not been used in at least the last five fiscal years. One company qualified for the tangible personal property sales tax exemption during the time period, but to date it has failed to substantiate its refund claim. Because these exemptions are not being used, the State is not currently at risk of untenable future fiscal impacts.
- **No economic or fiscal impact can be attributed to the sales tax exemptions.** Because no taxpayers have used these incentives, the State has not foregone any sales tax revenue. There has also been no economic impact as a result of the incentives.

### ■ **Recommendation:**

- Consolidate statutory references. The sales tax exemptions are outlined in Sections 1357(16) and 1357(17) of Title 68, covering sales of computers, data equipment, and materials used in qualified aircraft facility construction or expansion. Other Title 68 sections address administrative provisions, though some contain unrelated or outdated references. Consolidating these provisions into a single section would improve clarity and administrative efficiency.





# Aircraft Facilities Sales Tax Exemption on Aircraft Parts

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, 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.



## Aircraft Facilities Sales Tax Exemption on Aircraft Parts (continued)

- **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.



# Aircraft Repairs and Modifications Sales Tax Exemption

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.



## Aircraft Repairs and Modifications Sales Tax Exemption (continued)

### ■ 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.



## Next Steps

- PFM will prepare the draft report on changes to incentives resulting from Commission recommendations, on December 4.
- As with last year, there is a requirement that, by December 15, the Commission provide to the Legislature and Governor ‘a review of prior Commission recommendations, and changes to statute or incentive administration related to incentive evaluation recommendations . . .’
- This requires reviewing statutes and administrative processes, which PFM will do as we did last year.
- In past years, the Commission has also voted at the December meeting on whether to retain PFM to conduct the next year’s evaluations.



# Questions and Discussion