State of Oklahoma

Incentive Evaluation Commission

Aircraft Maintenance Facility Sales Tax Exemptions

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Contents

Key Findings and Recommendations

Overview

The State of Oklahoma offers several aircraft maintenance facility-related sales tax exemptions intended to stimulate development within the industry. However, these exemptions are not in use – as a result, no State economic or fiscal impact can be attributed to the incentives. While the exemptions are not currently incenting industry development, there is also no corresponding fiscal impact on Oklahoma state revenues or budget.

Recommendation: The project team recommends reconfiguring the State's aircraft maintenance facility incentives.

Given that the Legislature assumed that the incentives might have a positive effect on the State economy, there is no reason to repeal them at this time. As the State has some useful attributes that make it attractive to the industry, it is logical to attempt to reconfigure its approach. Should that lead to growth in the industry in the State, the Commission would have a better opportunity to conduct a cost benefit analysis of the incentives.

Key Findings

- **The State's aircraft maintenance-related sales tax exemptions are not currently in use.** According to interviews conducted with Oklahoma Tax Commission (OTC) subject matter experts, these incentives have not been claimed in at least the last five fiscal years.

- **The program has had no fiscal or economic impact.** Because no taxpayers have used these sales tax exemptions, the State has not foregone any revenue. There also has been no economic impact as a result of the incentives.

- **Oklahoma offers a robust package of incentives to aerospace companies.** These programs include the Quality Jobs, Small Employer Quality Jobs, and the 21st Century Quality Jobs programs; Engineer Workforce Tax Credit; Business Expansion Incentive Program; Investment/New Jobs Tax Credit; Training for Industry Program; Talent Acquisition Team; and New Markets Tax Credit.

- **The aviation/aerospace industry has become a strong, integral component of the Oklahoma economy.** A recent study of the estimated economic benefits of aviation and aerospace in Oklahoma 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.[1]

- **Oklahoma plays an important role in the national aviation maintenance industry.** Among all states, Oklahoma ranks seventh in aviation maintenance industry employment and accounts for 4.3 percent of industry employment nationally. Among states immediately neighboring Oklahoma, only Texas has a larger share (more than 24,000 jobs, or 11.5 percent of the U.S. total).

- **Oklahoma ranks 12th among states for economic activity associated with aviation maintenance.** The industry contributed $1.6 billion in economic activity to the State economy – equal to 3.2 percent of the U.S. total. Among states, California and Arizona generate the most economic activity, followed by Washington, Texas, Connecticut and Georgia. These six states account for 47 percent of the nation's economic activity.

[1] Oklahoma Aeronautics Commission – Oklahoma Aviation and Aerospace Economic Impact Study Fact Sheet. Accessed electronically at https://oac.ok.gov/sites/g/files/gmc221/f/Fact%20Sheet%20%28Oklahoma%20Aviation%20%26%20Aerospace%20Economic%20Impact%29_0.pdf

- **Oklahoma's aerospace manufacturing industry attractiveness ranked 30th among states in 2019 (declining from 20th in 2018).** The drop is due primarily to the state's industry rating, which declined from 17th to 29th during the year. While the state fared relatively well in tax policy (10th), cost (11th) and infrastructure (13th) in 2019, its economy and labor attractiveness rankings were lower (35th and 45th, respectively).

- **Only four other states (Arizona, Mississippi, Ohio and Washington) were identified as having similar tax exemptions, and in several instances, Oklahoma's incentives are more complex.** For example, Oklahoma's exemption for sales of computers, data processing equipment and the like is only available to new or expanding facilities that spend at least $2 million on related equipment and has both investment and job creation requirements. Washington provides a similar exemption but does not have thresholds for minimum spend, investment or job creation. As another example, Oklahoma's exemptions for sales of aircraft and aircraft parts as well as machinery, tools, supplies, equipment and related tangible personal property and services are available only to facilities with 2,000 employees in the prior year. Ohio provides a similar exemption for sales of materials, parts, equipment or engines used for repair or maintenance, but it does not impose investment or job creation restrictions.

Recommended Changes

- **Consider the policy goals of the exemptions and modify them accordingly.** Other state incentives can be used as a starting point of discussion regarding possible changes. Loosening certain provisions and/or eligibility requirements may increase program appeal. For example, if the goal of the incentives is to recruit new businesses to the State, eliminating the (potentially limiting) minimum spend, investment and/or job creation requirements that accompany its computer and data processing equipment exemption may generate the desired activity.

- **Explore the adoption of targeted tax preferences employed in other states, including Georgia, Indiana, Michigan, Missouri and North Carolina.** For example, in North Carolina, local sales taxes do not apply to aircraft, and there is a sales tax cap of $2,500 for aircraft and aircraft engines. Oklahoma does not exempt casual aircraft sales from taxation, and it provides only a limited fly away exemption relative to benchmark states. Oklahoma also does not allow taxpayers to reduce from gross proceeds the trade-in value of a sale in calculating taxes owed, and also levies excise tax upon the transfer of legal ownership. Additionally, while benchmark states do not impose aircraft registration fees or levy them at relatively low rates, Oklahoma's fees are significant.

Introduction

Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The State's package of aircraft maintenance facility sales tax exemptions is collectively one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Today, the aviation industry is an integral part of the Oklahoma economy: more than 120,000 people are employed by approximately 500 Oklahoma aerospace and defense industry companies. This constitutes approximately 6 percent of the state's economy.[2] Maintenance, repair and overhaul (MRO) is a key sector of the industry, where all fine-tuning, designing, inspecting and overhauling of aircrafts is performed. Oklahoma is home to the two largest MRO facilities in the world: the American Airlines Maintenance and Engineering Center, the largest commercial MRO, employs more than 6,000 people in Tulsa; 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.

Oklahoma provides several sales tax exemptions for new or expanding aircraft maintenance or manufacturing facilities as well as exemptions on sales or aircraft and aircraft parts and equipment used in the repair, remodel or maintenance of aircrafts at qualified aircraft maintenance facilities. However, these exemptions have not be used for at least the last five fiscal years.

Criteria for 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 credit, the specific goal included in legislation is not provided, but presumably is to increase industry activity within the state.

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

- Changes to industry measures – 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.

[2] Oklahoma Department of Commerce – Aerospace in Oklahoma. Accessed electronically at https://stateofsuccess.com/wp-content/uploads/sites/2/2018/04/Oklahoma-Aerospace-Brief.pdf

Industry Background

Background and History

The aviation industry in Oklahoma dates back more than a century. While growing steadily in the first few decades of the 20th century, it was not until World War II and the period following that the aviation industry began to grow nationwide. From that time until the present, owing to a combination of military and commercial activities, the aviation/aerospace industry has become a strong, integral component of the Oklahoma economy. In August 2017, the Oklahoma Aeronautics Commission 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 Aeronautics Commission – Oklahoma Aviation and Aerospace Economic Impact Study
Note: Numbers may not add due to rounding

Aviation Maintenance Industry

A key sector is maintenance, repair and overhaul (MRO), where all fine-tuning, designing, inspecting and overhauling of aircrafts is performed. MRO businesses are crucial to the airline industry, as they do most activities related to aircraft, from overhauling engines to replacing seats. According to the Oklahoma Department of Commerce, Oklahoma is home to the two largest MRO facilities in the world. The American Airlines Maintenance and Engineering Center, the largest commercial MRO, employs more than 6,000 people in Tulsa; 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.

The U.S. civil aviation maintenance industry employs more than 288,000 workers nationally. With over 219,000 workers in 2019, the MRO segment accounts for 76 percent of these employees. Parts manufacturing and distribution, with more than 69,000 workers, accounts for the remaining 24 percent of employment.

California, Texas, Georgia, Florida and Washington represent a combined 41 percent of total U.S. civil aviation maintenance employment with more than 119,000 workers; the top 10 states account for 59 percent of total U.S. employment. Among all states, Oklahoma ranks seventh in aviation maintenance industry employment and accounts for 4.3 percent of industry employment nationally. Among neighboring states, only Texas has a larger share (more than 24,000 jobs, or 11.5 percent of the U.S. total).

[3] Oklahoma Aeronautics Commission – Oklahoma Aviation and Aerospace Economic Impact Study Fact Sheet. Accessed electronically at https://oac.ok.gov/sites/g/files/gmc221/f/Fact%20Sheet%20%28Oklahoma%20Aviation%20%26%20Aerospace%20Economic%20Impact%29_0.pdf

Table 2: Top Ten States, Aviation Maintenance Industry Employment (2019)

Rank	State	MRO		Parts Manuf. And Distrib.	Total Employment	% of Total Employment
		FAA Repair Station	Air Carrier			
1	California	24,432	3,126	5,638	33,196	11.5%
2	Texas	16,547	3,459	4,013	24,019	8.3%
3	Georgia	18,576	1,991	1,473	22,040	7.6%
4	Florida	18,153	2,459	1,002	21,614	7.5%
5	Washington	8,642	629	9,247	18,518	6.4%
6	Arizona	5,924	770	10,169	16,863	5.8%
7	**Oklahoma**	**11,804**	**164**	**537**	**12,505**	**4.3%**
8	Connecticut	4,559	103	7,253	11,915	4.1%
9	Kansas	5,980	155	5,062	11,197	3.9%
10	Ohio	7,183	308	3,257	10,748	3.7%

Source: Aeronautical Repair Station Association – U.S. Employment and Economic Impact (2019)

Nationally, aviation industry employment has decreased over the past five fiscal years, declining to current levels from 311,614 in 2014 – a compound annual growth rate (CAGR) of -1.5 percent. Oklahoma's employment levels have declined, but to a lesser degree (-0.8 percent), and the State's rank is unchanged.

The U.S. civil aviation maintenance industry generates $50.4 billion in economic activity. MROs account for 51 percent of the economic activity. Parts manufacturing and distribution account for the remaining 49 percent.[4]

Among states, California and Arizona generate the most economic activity, followed by Washington, Texas, Connecticut and Georgia. These six states account for 47 percent of the nation's economic activity. Oklahoma ranks 12th, contributing a total of $1.6 billion in economic activity – equal to 3.2 percent of the U.S. total.

Table 3: Top 15 States, Aviation Maintenance Industry Economic Activity, 2019 (in Millions)

Rank	State	Maintenance, Repair and Overhaul	Parts Manufacturing and Distribution	Total Economic Activity	% of Total Economic Activity
1	California	$3,213	$2,025	$5,238	10.4%
2	Arizona	$781	$3,652	$4,433	8.8%
3	Washington	$1,081	$3,320	$4,401	8.7%
4	Texas	$2,333	$1,441	$3,774	7.5%
5	Connecticut	$544	$2,605	$3,149	6.2%
6	Georgia	$2,398	$529	$2,927	5.8%
7	Florida	$2,403	$360	$2,763	5.5%
8	Kansas	$715	$1,818	$2,533	5.0%
9	Ohio	$873	$1,170	$2,043	4.1%
10	Iowa	$321	$1,637	$1,958	3.9%
11	New York	$755	$1,011	$1,766	3.5%
12	**Oklahoma**	**$1,395**	**$193**	**$1,588**	**3.2%**
13	Michigan	$591	$933	$1,524	3.0%
14	Illinois	$595	$531	$1,126	2.2%
15	Virginia	$263	$861	$1,124	2.2%

[4] Aeronautical Repair Station Association – U.S. Employment and Economic Impact (2019). Accessed electronically at http://arsa.org/wp-content/uploads/2019/03/ARSA-MarketReport-StatebyState-2019.pdf

Source: Aeronautical Repair Station Association – U.S. Employment and Economic Impact (2019)

Nationally, economic activity generated by the sector has increased over the past five fiscal years, increasing to current levels from $44.4 billion in 2014 – a CAGR of 2.6 percent. Oklahoma's economic activity has increased more significantly (4.5 percent annually).

State Aerospace Industry Attractiveness Rankings

Each year, PricewaterhouseCoopers (PwC) ranks each state's aerospace manufacturing industry attractiveness based on its labor force, infrastructure, industry, economy, cost and tax policy.[5] Oklahoma ranked 20th among states in 2018 but fell to 30th in 2019. The drop in rank is due primarily to Oklahoma's industry rating, which declined from 17th in 2018 to 29th in 2019. Measures used in industry rankings include industry size, profit margin, maturity, growth, number of companies, number of suppliers and labor cost.

Further, while the state fared relatively well in tax policy (10th), cost (11th) and infrastructure (13th) in 2019, its economy and labor rankings were lower – 35th and 45th, respectively. The economy scores are based primarily on manufacturing output, manufacturing goods exports and real gross state product (GSP) growth, while labor scores are based largely on skilled and advanced education (i.e. the percent of people 25 years and over who have completed a bachelor's and advanced degree, respectively).

Table 4: Oklahoma Aerospace Manufacturing Rankings, 2018 and 2019

	2018 Rank	2019 Rank
Tax Policy	10	10
Cost	11	11
Infrastructure	14	13
Industry	17	29
Economy	36	35
Labor	45	45
Overall Rank	**20**	**30**

Source: PWC Aerospace Manufacturing Attractiveness Rankings, 2018 & 2019

[5] It is notable that the term "aerospace" is typically defined as the branch of technology and industry pertaining to both aviation and space flight, and accordingly, the PWC analysis is not isolated to aircraft maintenance industry attractiveness.

Incentive Usage and Administration

Incentive Characteristics

Sales Related to New or Expanding Aircraft Maintenance or Manufacturing Facilities

Oklahoma provides the following sales tax exemptions for a new or expanding aircraft maintenance or manufacturing facility primarily engaged in aircraft repair, building or rebuilding, whether or not on a factory basis (68 O.S. § 1357v1[6]):

- Sales of computers, data processing equipment, related peripherals and telephone, telegraph or telecommunications service and equipment; the cost of the items purchased must equal or exceed $2.0 million.

- Sales of tangible personal property consumed or incorporated in the construction or expansion of the facility. Sales made to a contractor or subcontractor that has previously entered into a contractual relationship with the facility for construction or expansion are included.

To qualify for the preceding exemptions, the total cost of construction must exceed $5.0 million, and the facility must employ at least 250 new full-time equivalent employees (as certified by the Oklahoma Employment Security Commission) upon completion.

Sales Occurring at Aircraft Maintenance Facilities

Additionally, the following are exempt if occurring at a qualified aircraft maintenance facility:

- Sales of aircraft and aircraft parts.

- 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.

To qualify for these exemptions, the facility must be 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 2,000 full-time-equivalent employees in the preceding year (as certified by the Oklahoma Employment Security Commission). The facility must be primarily related to the fabrication, repair, alteration, modification, refurbishing, maintenance, building or rebuilding of commercial aircraft or aircraft parts used in air common carriage.

While not the subject of this evaluation, 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 also exempt from tax.

Historic Use of the Incentives

According to interviews conducted with OTC subject matter experts, the incentives that are the subject of this evaluation have not been claimed in at least the last five fiscal years.

[6] OS 68-1357v1 (SB 831, Laws 2015, c. 54, § 18) is effective until Nov. 1, 2020; OS 68-1357v2 (HB 1198, Laws 2017, c. 229, § 10) is effective Nov. 1, 2020.

Incentive Administration

Sales Related to New or Expanding Aircraft Maintenance or Manufacturing Facilities

The exemption is issued as a refund for state and local taxes paid by the facility to a vendor or, in the case of use tax, self-remitted to the State. Applicants file an Application/Intent to Qualify form with the OTC to establish an interest-bearing account. The application includes 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 exemption. A copy of the application is forwarded to the OESC for establishment of the entity's baseline employment.

The applicant is notified of any action taken by the OTC. If approved, the OTC sets up the interest-bearing account to track sales taxes paid on sales as shown by the invoices submitted.

For each qualifying purchase, the following must be supplied to the OTC. These documents can be filed monthly, quarterly, semi-annually or annually so long as it is filed no more than 36 months after purchase.

1. An invoice indicating the amount of state and local taxes billed to the aircraft maintenance or manufacturing facility
2. An Affidavit of the vendor of the tangible personal property that state and local sales tax reflected on the invoice has not been credited, rebated or refunded to the facility.
3. All additional documentation required to be submitted by the OTC.

For sales of tangible personal property related to construction or expansion, in cases where the state and local sales tax was paid by a contractor or subcontractor, the facility must also file invoices indicating the amount of state and local taxes billed; and affidavit from the contractor or subcontractor and additional documentation required by the OTC.

The OTC has 30 days to determine if the refund claimed will be allowed. For approved submissions, each month, the OTC must transfer from sales tax collected to an account designated by the OTC, the estimated amount of claims approved the previous month.

When the new or expanded facility is complete and the new employees have been hired, the taxpayer applies for certification. Each application for certification is reviewed by the OTC to verify the cost of construction was at least $5 million and forwarded to the OESC for certification to review employees hired. Upon certification by the OTC and OESC, the OTC notifies the applicant of the approval or denial of the certification requested.

Entities whose applications are approved receive a refund in the amount, which is to not exceed the total 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.

The exemption is not granted if the facility fails to file the documentation required by the OTC within 36 months of the date of purchase and the required certification issued by the OESC within 60 months of the date of first purchase.

When an application is denied, an entity can file a protest within 60 days after the mailing of the denial by the OTC. The entity will receive a hearing. The OTC issues an order in each case; the order is directly appealable to the Supreme Court when perfected within 30 days of the mailing of the order.

Sales Occurring at Aircraft Maintenance Facilities

To receive an exemption card to qualify, an entity must provide the following via a letter application:

1. Legal entity name;
2. DBA (if any);
3. FEIN for legal entity;
4. Physical location of the aircraft maintenance facility;
5. Mailing address of the legal entity;
6. Documentation of ownership; lease or control of the facility by the air common carrier;
7. Number of full time employees at facility for previous year;
8. Affidavit from a representative of the air common carrier describing the primary function of the facility.

Economic and Fiscal Impact

Economic and Fiscal Impact

The State's aircraft maintenance facility sales tax exemptions have generated no economic or fiscal impact. No exemptions have been issued, so the State has not incurred any cost. There have also been no jobs created as a result of participation in the incentives, so no additional economic activity can be attributed to them.

Incentive Benchmarking

Benchmarking

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.[7] 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.

As stated previously, Oklahoma's sales tax exemptions for aircraft maintenance facilities are not being used and are therefore not effectively incenting industry activity. While Oklahoma's MRO industry is an important part of its economy, modifications to its industry-related incentives may aid in increasing business activity within the state. Given that the focus of this evaluation is tax policy, it is reasonable to explore the tax policy approaches employed in top-ranking states for tax policy (according to the aforementioned PwC study). The top five states with the friendliest aviation industry tax preferences include Georgia, Indiana, Michigan, Missouri and North Carolina. An analysis of Oklahoma's comparable position follows; a summary of the aviation tax policies for these states is provided in **Appendix A.**

While Oklahoma's maximum combined state and local sales tax rate is commensurate with Missouri at 10.85 percent, the four other benchmark states have considerably lower maximum rates, ranging from 4.75 percent in North Carolina to 8 percent in Georgia.[8] Oklahoma's corporate income tax rate of 6 percent is equal to that of Michigan but lower than other states, which span from to 5.75 percent in Georgia and Indiana.[9] At 2.5 percent, North Carolina's corporate income tax rate is the lowest not only among benchmark states, but the lowest of any state. Further, while Oklahoma uses a three factor formula for the apportionment of corporate income, four states (Georgia, Indiana, Michigan and North Carolina) use a single factor formula, and Missouri uses a combined approach.[10]

While Oklahoma offers several tax preferences that benefit the industry (e.g., parts and labor exemptions), it trails benchmark states in several tax policy-related areas:

- **Casual Sale ("Yard Sale" Rule):** Only Oklahoma and Indiana do not offer a full or limited tax exemption for sales made by a person who is not regularly engaged in the business of making aircraft sales.

- **Fly Away Exemption:** Oklahoma's exemption for non-residents to purchase and deliver aircraft out of state only applies to sale prices over $2.5 million; Indiana, Michigan and Missouri each fully exempt these sales.

[7] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.
[8] In North Carolina, local sales taxes do not apply to aircraft, and there is a sales tax cap of $2,500 for aircraft and aircraft engines.
[9] Georgia's corporate income tax rate will revert to 6 percent on January 1, 2026. The State could see a drop to 5.5 percent in 2019, pending legislative approval.
[10] 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.

- **Trade-In Value:** Oklahoma does not allow taxpayers to reduce from gross proceeds the trade-in value of a sale in the calculation of tax liabilities; Georgia, Indiana and Missouri do.

- **Aircraft Registration Fees:** Oklahoma's aircraft registration fees are tiered (based on type and weight) and were increased by 50 percent during the 2017 legislative session. Current single-engine piston aircraft registration fees range from $30 to $2,250, based on weight; rotary-wing aircraft rates are double the single-engine rates; multi-engine piston aircraft, three times the rates; turbo-prop aircraft, six times the rates; and turbo-jet aircraft, 10 times the rates. Georgia, Missouri and North Carolina do not impose fees, and Indiana has a flat fee of $10. Based on these rates, registration of a 100,000 pound Airbus A319 would cost $0 in Georgia, Missouri and North Carolina; $10 in Indiana; $1,000 in Michigan and $2,775 in Oklahoma.

- **Taxation of Ownership Transfers:** Finally, Oklahoma is unique among benchmark states in that aircraft excise tax is levied upon the transfer of legal ownership.

Industry-Specific State Sales Tax Exemptions

Many states exempt the sales of certain aircraft (see the 2016 Incentive Evaluation Commission Report on Oklahoma Aircraft Excise Tax Incentives[11]). In the case of tax exemptions for aircraft maintenance and manufacturing facilities, however, state incentives are much less frequent. States offering these exemptions include Arizona, Mississippi, Ohio and Washington. A summary of each state's programs is provided in **Appendix B.**

Of Oklahoma's five industry exemptions, four are related to operating costs (e.g., sales of computers, aircraft parts, machinery, tools and supplies) and one is related to construction. Washington also offers both types of programs: one for operating costs and two for construction costs. The Arizona and Mississippi exemptions pertain only to construction; Ohio's program pertains only to operating costs.

Washington is the only state identified that also offers an exemption for sales of computers, data processing equipment, and related peripherals and telephone, telegraph or telecommunications and equipment. In a 2012 tax exemption study, Washington estimated that the cost of the exemption to the State would be $12.5 million in lost revenue by FY2015; the incentive is scheduled to sunset on July 1, 2024.[12] Oklahoma's program is more restrictive, as it is only available to new or expanding facilities that spend at least $2 million on related equipment and has both investment and job creation requirements (construction costs of at least $5 million and 250 new full-time employees, respectively).

Oklahoma's exemptions for sales of aircraft and aircraft parts; machinery, tools, supplies, equipment and related tangible personal property and services; and engine repairs, modification and replacement parts do not have investment or job creation requirements, though the former two are available only to facilities with 2,000 employees. Ohio's exemption for sales of materials, parts, equipment or engines used for repair or maintenance also do not have these requirements.

To qualify for Oklahoma's exemption for construction costs, the total cost of construction must be at least $5 million and the facility must employ at least 250 new full-time employees upon completion. Mississippi's construction exemption requires a larger minimum investment ($30 million) but a smaller job creation requirement (100 full-time jobs) and is more comprehensive, as it provides 10-year exemptions from income

[11] State of Oklahoma Incentive Evaluation Commission – Aircraft Excise Tax Exemptions Final Report (November 2016). Available at https://iec.ok.gov/sites/g/files/gmc216/f/Oklahoma%20Aircraft%20Excise%20Tax%20Exemptions%20Final%20Evaluation_112816.pdf
[12] Washington State Department of Revenue – 2012 Tax Exemption Study (January 2012). Accessed electronically at https://dor.wa.gov/sites/default/files/legacy/Docs/reports/2012/Exemption_study_2012/2012%20Exemption%20Study%20-%20Entire%20Report.pdf

and franchise taxes, as well as from sales and use taxes related to the start-up of the facility. Washington's two construction exemptions have no investment or job creation requirements.

Appendices

Appendix A: State Aviation Industry Tax Preferences

State	Tax Policy Rank	Sales Tax Rate	Casual Sale "Yard Sale Rule	Fly Away Rule	Trade in Value	Credit for Tax Paid	MX Parts Exemption	MX Labor Exemption	Aircraft Reg. Fee	Pers. Prop. Tax	Jet Fuel Tax	Aviation Gas Tax	Dedicated Aviation Fund	Unique State Taxes
OK	**10**	**4.5% plus 0-6.35% local taxes**		**Limited to sale price over $2.5m**		**√**	**√**	**√**	**Yes; tiered on type and weight**	**No**	**Excise ($0.0008)**	**Excise ($0.0008)**	**Yes**	**Aircraft excise tax is levied upon transfer of legal ownership**
GA	5	4.0% plus 1-4% local taxes	Limited	Limited; aircraft must be mfd. in GA	√	√	Limited; aircraft must be removed upon completion of work	Yes, when separately stated on invoice	None	Yes; 40% of market value times mileage (avg. 25 miles)	Sales (4.0%)	Excise ($0.01) plus sales (4.0%)	No	None
IN	2	7.0%		√	√	√	√	√	Yes; $10	No	Excise ($0.1)	Excise ($0.1)	No	Aircraft excise tax
MI	1	6.0%; rate will be increased to 7.0% by 2026	Limited	√		√	Conditional	√	Yes; $0.01/ lb.	No	Excise ($0.03) plus sales (6.0%)	Excise ($0.03) plus sales (6.0%)	Yes	None
MO	3	4.225% plus 0-6.625% local taxes	Limited	√	√	√	√	√	None	Yes; $5.06 per $100 of assessed value	Sales (4.225%)	Excise ($0.09)	Yes	None

State	Tax Policy Rank	Sales Tax Rate	Casual Sale "Yard Sale Rule	Fly Away Rule	Trade in Value	Credit for Tax Paid	MX Parts Exemption	MX Labor Exemption	Aircraft Reg. Fee	Pers. Prop. Tax	Jet Fuel Tax	Aviation Gas Tax	Dedicated Aviation Fund	Unique State Taxes
NC	4	4.75%; local sales taxes do not apply to aircraft; sales tax cap of $2,500 for aircraft and aircraft engines	√			√		√	None	Yes; range from $0.59 to $1.41/ $100 valuation	Sales (4.75%)	Sales (4.75%)	No	None

Source: Aircraft Owners and Pilots Association (AOPA) – State Advocacy Summaries

Appendix B: Comparable State Tax Exemptions

State	Exemption Details	Investment Requirements	Job Creation Requirements
OK	Sales of computers, data processing equipment, related peripherals and telephone, telegraph or telecommunications service and equipment. For new or expanding aircraft maintenance or manufacturing facilities primarily engaged in aircraft repair, building or rebuilding (whether or not on a factory basis)	$2m+ in items purchased; $5m+ in construction costs	Must employ at least 250 new FTEs upon completion
	Sales of tangible personal property consumed or incorporated in the construction or expansion of the facility. Sales made to a contractor or subcontractor that has previously entered into a contractual relationship with the facility for construction or expansion are included. For new or expanding aircraft maintenance or manufacturing facilities primarily engaged in aircraft repair, building or rebuilding (whether or not on a factory basis)	$5m+ in construction costs	Must employ at least 250 new FTEs upon completion
	Sales of aircraft and aircraft parts. Sale must occur at a qualified aircraft maintenance facility. The facility must be primarily related to the fabrication, repair, alteration, modification, refurbishing, maintenance, building or rebuilding of commercial aircraft or aircraft parts used in air common carriage	None	None
	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. Sale must occur at a qualified aircraft maintenance facility. The facility must be primarily related to the fabrication, repair, alteration, modification, refurbishing, maintenance, building or rebuilding of commercial aircraft or aircraft parts used in air common carriage. Must be operated by an air common carrier at which there were employed at least 2,000 FTEs in the preceding year	None	None
	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	None	None
AZ	Exemption from transaction privilege tax (Arizona version of a sales tax) on contracts for certain types of construction at a military reuse zone (MRZ). For aviation or aerospace companies, and airport authorities located within a MRZ. Construction work must be performed in the MRZ	None	None
MS	10-year exemption from income and franchise taxes, as well as a sales and use tax exemption for the start-up of the facility. For companies that manufacture or assemble components for the aerospace industry or provide research, development or training services for the sector	$30m+	Must create at least 100 full-time jobs

State	Exemption Details	Investment Requirements	Job Creation Requirements
OH	Exemption for sales of materials, parts, equipment or engines used in the repair or maintenance of aircraft or avionics systems of such aircraft as well as for sales of repair, modeling, replacement or maintenance services at a FAA-certified repair station in Ohio performed on an aircraft or on an aircraft's avionics, engine or component materials or parts	None	None
WA	Sales and use tax exemption for aerospace manufacturers for the purchase of computer hardware, software and peripherals. The exemption is available to manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes, non-manufacturers engaged in the business of aerospace product development, certificated FAR repair stations making retail sales and aerospace tooling manufacturers	None	None
	Retail sales and use tax exemption for the construction of new facilities used to manufacture commercial airplanes, fuselages or wings of commercial airplanes. The exemption is available to manufacturers who construct new buildings and/or new parts of buildings that will be used primarily to manufacture commercial airplanes, commercial airplane fuselages and commercial airplane wings. The exemption is also available to port districts, political subdivisions or municipal corporations when they construct new facilities to lease to these manufacturers	None	None
	Retail sales and use tax exemption for the construction of new facilities used for airplane repair and maintenance. Available to eligible maintenance repair operators engaged in the maintenance of airplanes or port district, political subdivision, or municipal corporation building and leasing these facilities to an eligible maintenance repair operator engaged in the maintenance of airplanes	None	None