

State of Oklahoma

Incentive Evaluation Commission

Expedited Draft Evaluation: Aircraft Maintenance or Manufacturing Facilities Sales Tax Exemption

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Key Findings and Recommendations



Incentive Overview

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.

The statute defines a “qualified aircraft maintenance or manufacturing facility” as “a new or expanding facility primarily engaged in aircraft repair, building or rebuilding whether or not on a factory basis, whose total cost of construction exceeds the sum of Five Million Dollars (\$5,000,000.00) and which employs at least two hundred fifty (250) new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, upon completion of the facility.” Additionally, to qualify for this exemption, the cost of items purchased by the facility must equal or exceed \$2,000,000.¹

Expedited Review

Per 62 OK Stat § 7004, the Commission may conduct an expedited evaluation for any incentive that has been evaluated at least two times from calendar years 2016 through 2023 and has not had a material change to the program since its prior evaluation. The aircraft maintenance or manufacturing facilities sales tax exemption has been evaluated in 2019 and 2023 and has had no material changes since then. PFM and the Incentive Evaluation Commission agreed to conduct an expedited evaluation of the exemption for the 2025 review.

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.

Recommendations

- **Consolidate statutory references.** Per the previous evaluation, the sales tax exemptions are identified as 1357(16) – Sales of computers, data processing equipment, related peripherals, and telephone; and 1357(17) – Sales of tangible personal property consumed or incorporated in the construction or expansion of a qualified aircraft maintenance or manufacturing facilities. In addition, other sections of Title 68 pertain to the administration of the exemptions. However, there are references to other sections of Title 68 which do not relate to these specific aircraft exemptions. Furthermore, there are multiple versions of Title 68 which have outdated and inconsistent statutory references. Consolidation of the existing paragraphs into one section of Title 68 would allow for a more effective and efficient administration of the incentive.

¹ 68 O.S. § 1357 [16, 17]



Economic and Fiscal Impact



Economic and Fiscal Impact

The State's Aircraft Facilities Sales Tax exemptions have generated no economic or fiscal impact. No exemptions have been issued, so the State has incurred no cost. There have also been no jobs created as a result of the incentives, so no additional economic activity can be attributed to them.



Appendices

Appendix A: Incentive Statute

68 O.S. § 1357 [16], [17]

16. Sales of computers, data processing equipment, related peripherals, and telephone, telegraph or telecommunications service and equipment for use in a qualified aircraft maintenance or manufacturing facility. For purposes of this paragraph, "qualified aircraft maintenance or manufacturing facility" means a new or expanding facility primarily engaged in aircraft repair, building or rebuilding, whether or not on a factory basis, whose total cost of construction exceeds the sum of Five Million Dollars (\$5,000,000.00) and which employs at least two hundred fifty new full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission, upon completion of the facility. In order to qualify for the exemption provided for by this paragraph, the cost of the items purchased by the qualified aircraft maintenance or manufacturing facility shall equal or exceed the sum of Two Million Dollars (\$2,000,000.00);

17. Sales of tangible personal property consumed or incorporated in the construction or expansion of a qualified aircraft maintenance or manufacturing facility as defined in paragraph 16 of this section. For purposes of this paragraph, sales made to a contractor or subcontractor that has previously entered into a contractual relationship with a qualified aircraft maintenance or manufacturing facility for construction or expansion of such a facility shall be considered sales made to a qualified aircraft maintenance or manufacturing facility;

68 O.S. § 1357.5 – Administration of Exemption for Sales to Qualified Aircraft Maintenance or Manufacturing Facility

A. In order to administer the exemption for sales to a qualified aircraft maintenance or manufacturing facility as provided by paragraph 12 of Section 1357 of this title, there shall be made a sales tax refund for state and local sales taxes paid by a qualified purchaser for tangible personal property purchased to be consumed or incorporated in the construction or expansion of a qualified aircraft maintenance or manufacturing facility, as defined in paragraph 11 of Section 1357 of this title, in the state from the account created by this section.

B. The Oklahoma Tax Commission shall transfer each month from sales tax collected the amount which the Commission estimates to be necessary to make the sales tax refund provided by this section to an account designated as the Commission determines.

C. Any refund shall be paid from the account prescribed by this section at the time the claim for refund is approved by the Oklahoma Tax Commission. The amount of the refund shall not exceed the total state and local sales taxes paid together with accrued interest upon such total. The amount of interest paid to a qualified aircraft maintenance or manufacturing facility upon the principal amount of any refund made to such facility for purposes of administering the exemption provided by paragraph 12 of Section 1357 of this title, shall be determined according to the provisions of this subsection. For any month during which the Oklahoma Tax Commission transfers a sum to the account prescribed by subsection B of this section, the Commission shall determine an interest rate by determining the rate of interest paid for a three-month Treasury Bill of the United States government as of the first working day of the month in which the transfer is made. The interest rate so determined shall accrue upon the amount transferred to the account. In each subsequent month, the Commission shall determine the interest rate paid for a three-month Treasury Bill of the United States government as of the first working day of the month and such interest rate shall accrue upon any amount transferred during the month and upon the amounts previously transferred to the account together with interest previously accrued upon such amounts.

D. For purposes of this section, state and local sales taxes paid by a contractor or subcontractor for tangible personal property purchased by that contractor or subcontractor to be consumed or incorporated in the construction or expansion of a qualified aircraft maintenance or manufacturing facility pursuant to a contract with a qualified facility shall, upon proper showing, be refunded to the qualified facility.

E. The qualified purchaser shall file, within thirty-six (36) months of the date of purchase, with the Oklahoma Tax Commission the following documentation for any refund claimed:

1. Invoices indicating the amount of state and local sales tax billed;
2. Affidavit of each vendor that state and local sales tax billed has not been audited, rebated, or refunded to the qualified purchaser but rather the sales tax charged has been collected by the vendor and remitted to the Oklahoma Tax Commission; and



3. All additional documentation required to be submitted pursuant to rules promulgated by the Oklahoma Tax Commission.

F. In the event that state and local sales tax was paid by a contractor or subcontractor, the qualified purchaser shall file with the Oklahoma Tax Commission all documentation required in subsection E of this section but in lieu of the affidavit of each vendor the qualified facility shall file, for any refund claimed, an affidavit from the contractor or subcontractor stating that the sales tax refund of the qualified purchaser is based on state and local sales tax paid by the contractor or subcontractor on tangible personal property purchased to be consumed or incorporated in the construction or expansion of a qualified aircraft maintenance facility and that the amount of state and local sales tax claimed was paid to the vendor and no credit, refund, or rebate has been claimed by the contractor or subcontractor.

G. Only sales of tangible personal property made after the effective date of this act, shall be eligible for the refund established by this section.

H. The qualified purchaser shall file, within sixty (60) months of the date of the first purchase, with the Oklahoma Tax Commission a certification issued by the Oklahoma Employment Security Commission in order to qualify for the refund authorized by this section.