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Corporate Welfare Directory

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Oklahoma's Aerospace Industry Engineer Workforce Tax Credits

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The Aerospace Industry Engineer Workforce Tax Credits were established in 2008 and are scheduled to sunset in 2026.[1]

Introduction

Aerospace is a major industry in Oklahoma. In 2008, the legislature established three aerospace industry incentives to address a perceived lack of qualified engineers in the state. The subsidies allow employers to offer engineers higher starting wages.[2] While the number of aerospace engineers in Oklahoma has increased, it is unclear that the tax incentives were necessary to accomplish this goal.[3] The aerospace industry is not a struggling one. In 2016, aerospace companies in Oklahoma generated over $24 billion in sales and $19 billion in exports.[4] Without these incentives, aerospace companies would likely have plenty of funds to offer competitive salaries.

The aviation industry in Oklahoma goes back to 1911, with Clyde Cessna working out of Enid, Oklahoma, testing his aircraft designs at the Great Salt Plains. After World War I, aviation manufacturing took off in the state, with the opening of several aircraft manufacturing companies such as the Spartan Aircraft Company. Tinker Airforce Base was first established in 1942 as the Midwest Air Depot. During World War II, the state entered its greatest period of aircraft production. The Douglas Aircraft plant at Tinker Airforce Base alone turned out nearly 9,000 military aircraft. Beyond complete aircraft, Oklahoma companies have developed assemblies for space vehicles, including the Saturn C-5 rocket booster that carried astronauts to the moon.[5] The aerospace industry has a long history in Oklahoma and is very secure.

Current Law

There are three separate Aerospace Industry Engineer Workforce Tax Credits. Of these, two go to aerospace companies and one is for employees. Current law provides:

A tax credit for up to 10 percent of a newly hired engineer's salary for up to five years if they received their degree in Oklahoma. If the engineer did not receive their degree in Oklahoma, employers can still receive a tax credit equal to 5 percent of the newly hired engineer's salary.

A tax credit for engineering firms for tuition reimbursements made to newly-graduated engineers of up to 50 percent of the average annual amount they paid for tuition in pursuit of their engineering degree.

A tax credit for aerospace engineers of up to $5,000 annually for up to five years.[6]

1889 Evaluation

In *Policymaker's Guide to Evaluating Corporate Welfare,* 1889 Institute lays out a five-question test to help determine if certain subsidies or incentives are corporate welfare.[7] It argues that if the answer to the first question is "yes" and the other answers are "no," the policy is question is extremely likely to be corporate welfare.

Question 1: Is this a direct grant of funds or reduction in taxes to a private entity without an expectation of direct consideration (performance of services or provision of goods) to the government making the grant?

Yes. As mentioned above, the Aerospace Industry Engineer Workforce Tax Credits provide a reduction in taxes for both aerospace engineering companies and aerospace engineers. Private companies get a tax break for hiring aerospace engineers, which they would do anyway. The amount varies depending on where the engineer was educated (which also provides a potentially problematic incentive to prioritize engineers educated in Oklahoma over out-of-state engineers who might be a better fit for some jobs).

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Question 2: Does a grant of funds or tax consideration apply to every similarly situated business?

No. These subsidies are specific to the aerospace industry while excluding similarly situated businesses such as other engineering firms. Civil engineering firms do not receive similar treatment. Likewise, these benefits only apply to hiring aerospace engineers, and not the hiring of other necessary workers, a good sign a policy is corporate welfare.

Question 3: Does an apparent tax advantage put businesses on an equal footing?

No. The Aerospace Industry Engineer Workforce Tax Credits provides tax credits exclusively to the aerospace sector giving it a distinct advantage over similarly situated industries.

Question 4: Is the purpose of this policy to avoid tax pyramiding?

No. Tax pyramiding occurs when a product is taxed at multiple production stages, leading to the final consumer paying taxes on taxes when purchasing the final product. This raises the price of the final product and distorts the market. This is clearly not the case for this set of subsidies, which are, if anything, designed to make aerospace industry outputs in Oklahoma relatively inexpensive in the market by offsetting costs at taxpayer expense. To the extent that income taxes result in pyramiding, the aerospace industry is no more disadvantaged than any other.

Question 5: Is the policy compensating a company for public infrastructure the company provided?

No. While it is conceivable that some aerospace companies may be involved in the creation of public infrastructure, nothing in the requirements for any of these tax credits compensates for the private creation of public infrastructure.

Conclusion

The evaluation results are clear, the answer to question 1 is yes, and the answers for questions 2 through 5 are no. Therefore, the Aerospace Industry Engineer Workforce Tax Credits are corporate welfare and should be repealed immediately.

There is the mistaken belief that Oklahoma would miss out on the aerospace industry if it were not for corporate subsidies. Without these tax credits, there are still plenty of reasons for aerospace engineers to relocate to Oklahoma. The presence of Tinker Air Force Base draws many aerospace engineers to the state and predates the tax credits. Oklahoma is also home to both the largest military Maintenance, Repair, and Overhaul operation in the United States and the largest commercial one in the world.[8] There is no evidence to support the idea that without these tax advantages these facilities would disappear.

Additionally, aerospace engineers are well paid, with a median salary of $116,500 in 2019.[9] Since they do not need the extra funds for relocation, which should be handled by their employer anyway, or other costs of living expenses, the tax credits for aerospace engineers effectively redistribute income to the well-off.

The 1889 Institute and the Mackinac Center for Public Policy have outlined a solution to the problem of corporate welfare, including a model compact, in *Multilateral Disarmament: A State Compact to End Corporate Welfare*.[10] In essence, states sign onto a compact that bars them from attempting to lure businesses (via subsidy) from other states within the compact without being required to unilaterally refrain from competition via subsidy. The cessation of subsidies would only begin once a threshold number of states have joined the compact. Oklahoma should lead the way in becoming the first state to adopt a compact to end corporate welfare.

End Notes

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1 Okla. Admin. Code § 710:50-15-109

2 Oklahoma, Incentive Evaluation Commission, *Aerospace Engineering Incentives Final Report*, page 2 https://iec.ok.gov/sites/g/files/gmc216/f/Oklahoma%20Aerospace%20Engineering%20Incentives%20Final%20Evaluation_112816.pdf

3 Oklahoma, Incentive Evaluation Commission, *Aerospace Engineering Incentives Final Report*, page 9 https://iec.ok.gov/sites/g/files/gmc216/f/Oklahoma%20Aerospace%20Engineering%20Incentives%20Final%20Evaluation_112816.pdf

4 Jennifer Lepard, *Aerospace Industry in Oklahoma*, State Chamber of Oklahoma, 2016, https://www.okstatechamber.com/sites/www.okstatechamber.com/files/Aerospace%20Issue%20Brief%202016%20Final.pdf

5 "Aviation Manufacturing," Oklahoma Historical Society, https://www.okhistory.org/publications/enc/entry.php?entry=AV004

6 Okla. Admin. Code § 710:50-15-109

7 Byron Schlomach, Tyler Williamson, and Spencer Cadavero, *Policymaker's Guide to Evaluating Corporate Welfare*, 2020, https://1889institute.org/policymakers-guide-to-evaluating-corporate-welfare/

8 Oklahoma, Incentive Evaluation Commission, *Aerospace Engineering Incentives Final Report*, page 4 https://iec.ok.gov/sites/g/files/gmc216/f/Oklahoma%20Aerospace%20Engineering%20Incentives%20Final%20Evaluation_112816.pdf

9 "Occupational Outlook Handbook: Aerospace Engineers," U.S. Bureau of Labor Statistics, https://www.bls.gov/ooh/architecture-and-engineering/aerospace-engineers.htm

10 Byron Schlomach, Steven Slivinski, and James Hohman, *Multilateral Disarmament: A State Compact to End Corporate Welfare*, Mackinac Center for Public Policy and the 1889 Institute, 2019, https://img1.wsimg.com/blobby/go/8a89c4f1-3714-49e5-866b-3f6930172647/downloads/Compact%20Corp%20Welfare.pdf?ver=1553806216346