



Creating Competitive Incentives: An Economic Driver for Success

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States use various tools to attract and retain businesses. One such tool is offering tax incentives. Tax incentives can come in the form of credits, rebates, exemptions or reductions on a businesses or individual's overall tax burden. State and local governments use tax incentives as investments toward economic development. Tax incentives are used "to overcome a competitive weakness; to promote investment in deprived areas; to attract particular industries; and to change the image and perception of a location."¹

Broadly speaking, incentives fall into one of the following categories:

- Innovation and investment (i.e. Oklahoma's new Research and Development Rebate²)
- Job Creation (i.e. Oklahoma's Quality Jobs³)
- Industry specific development (i.e. Oklahoma's aerospace tax credits⁴)
- Site Development (i.e. Oklahoma's PREP fund⁵)

It's best practice for states to continually review incentives offered to companies; 33 have a formalized mandated process.⁶ Oklahoma's annual incentive review process is led by the Incentive Evaluation Commission (IEC) with support and assistance provided through a third-party contractor.⁷ Every incentive is reviewed at least once during a four-year period. The incentives are grouped by type or industry for review.⁸ Each incentive is evaluated based on the following statutory criteria:

1. An estimate of the **economic and fiscal impact of the incentive**. This estimate shall take into account the following considerations in addition to other relevant factors:
 - a. the extent to which the incentive changes business behavior,
 - b. the results of the incentive for the economy of Oklahoma as a whole. This consideration includes both positive direct and indirect impacts and any negative effects on other Oklahoma businesses, and
 - c. a comparison to the results of other incentives or other economic development strategies with similar goals;
2. An assessment of whether adequate protections are in place to ensure the **fiscal impact of the incentive does not increase substantially beyond the state's expectations** in future years;
3. An assessment of whether the incentive is being administered **effectively**;
4. An assessment of whether the incentive is **achieving its goals**;
5. Recommendations for how the state can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured, or repealed;
6. Recommendations for any changes to state policy, rules, or statutes that would allow the incentive to be more easily or conclusively evaluated in the future. These recommendations may include changes to collection, reporting, and sharing of data, and revisions or clarifications to the goal of the incentive.⁹

¹ Area Development, [Well-Designed Incentives: Not a Zero-Sum Game](#), 2015

² Oklahoma Department of Commerce, [Research and Development Rebate Program](#)

³ Oklahoma Department of Commerce, [Quality Jobs Incentive Program](#)

⁴ Oklahoma Department of Commerce, [Aerospace Industry Engineer Workforce Tax Credits](#)

⁵ Oklahoma Department of Commerce, [SITES Program](#)

⁶ Pew, [What Factors Influence the Effectiveness of Business Incentives](#), April 4, 2019

⁷ [62 O.S. § 7001 to 7005 \(OSCN 2025\)](#)

⁸ [62 O.S. § 7004 \(OSCN 2025\)](#), emphasis added

⁹ [62 O.S. § 7005\(C\) \(OSCN 2025\)](#)

Research shows best practices involve evaluating incentives for cost, target, design, and economic conditions.¹⁰ Oklahoma evaluates each incentive for the fiscal impact and its investment effects on the state budget,¹¹ as well as the economic effects of the incentive.¹² While the statutory criteria hits most of the marks on some best practices like the state's costs and economic impact, **they neglect to integrate incentives into a unified, data driven economic plan that evaluates competitive performance and determines whether each incentive meaningfully strengthens Oklahoma's overall incentive portfolio.**

Oklahoma does not target incentives, through particular types of businesses or industry, or to job creation. Without a wholistic approach to incentive creation, tax dollars are being spent on incentives that are not increasing Oklahoma's economic viability or competitiveness with other states. Indeed, the Incentive Evaluation Commission review process would benefit from being connected to the state's overall economic development goals.¹³

One of the greatest success stories Oklahoma has seen in industry development through tax incentives is through the aerospace industry, which has five targeted incentives. Since the inception of the incentives, the aerospace industry increased its economic standing in Oklahoma by contributing 1,007 new jobs and \$146.6 million in capital investments to the state.¹⁴ Since 2014, the industry has increased aerospace exports by 125%.¹⁵ The aerospace industry growth was not by accident it was by a strategic plan including incentives to develop the workforce needed and for various sales tax exemptions on parts and facilities.

One of the most frequent recommendations from annual incentive evaluations is better data collection to understand the state's return-on-investment. When a tax incentive is implemented without the involvement of the Department of Commerce, there is little data available on who is using it or if it accomplishes the stated goals. Typically, this occurs when an incentive is administered solely by the Oklahoma Tax Commission, since it is not the Tax Commission's duty to collect data on the incentives. This inhibits a true evaluation of the economic impact of a tax incentive and the state's investment. Other states that have similar review mechanisms vary when each incentive is reviewed and what the review criteria is. Virginia,¹⁶ Washington¹⁷ and Oregon¹⁸ have joint legislative committees handling the review, while Minnesota¹⁹ has its legislative fiscal office doing the reviews. The timeline ranges from three years to ten years. These joint committee settings ensure that legislators understand the reports and see the value in taking action on the recommendations. As stewards of public taxpayer funds, these states have stressed the involvement of their legislative bodies to ensure incentives are long-term viable investments for the state.

Oklahoma legislature has empowered a variety of bodies to review and ensure viability of incentives and public taxpayer funds, like Joint Committee on the Legislative Office of Fiscal Transparency, the Joint Committee for Legislative Evaluation and Development Committee, as well as the traditional appropriations and Joint Committee on Appropriations and Budget. Additionally, the Senate and House empowered its committees to review and evaluate the annual incentive reports and make recommendations as needed.

¹⁰ Pew

¹¹ [62 O.S. § 7005\(C\)\(2\) \(OSCN 2025\)](#)

¹² [62 O.S. § 7005\(C\)\(1\) \(OSCN 2025\)](#)

¹³ Oklahoma Incentive Evaluation Commission, [2025 Report](#), 2025

¹⁴ Oklahoma ACES, [Annual Report 2024](#), 2025

¹⁵ *Id.*

¹⁶ [Virginia Joint Legislative Audit and Review Commission](#)

¹⁷ [Washington State Joint Legislative Audit and Review Committee](#)

¹⁸ Oregon State Legislature, [Legislative Fiscal Office, Audit Committee](#)

¹⁹ Minnesota Legislature, [Office of the Legislative Auditor](#)

Recommendations

- Add evaluation criteria that ties Oklahoma's incentives with the state's economic goals and compares incentives to what is offered in other states.
- Add evaluation criteria that creates a broader viewpoint of all the incentives to be considered.
- Prioritize annual legislative review of the IEC report to ensure lawmakers have the information and data-driven insight needed to safeguard taxpayer dollars and prioritize incentives that deliver the highest return on investment for Oklahoma.

