OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
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September 29, 2005

Re: Our File Number LR-05-128; Sales tax on the sale of aircraft engines

Dear

This is in response to your inquiry in which you ask if any sales tax needs to be collected in the three fact situation you outline in your letter. I have copied your fact situations into this letter and each is followed by our response.

A. "We purchase major engine manufacturer's engines, unassembled in a box. We build that engine, sometimes as is and sometimes with modification for specific purposes, then sell those engines, sometimes to dealers to resell and sometimes to individual pilots or companies for their privately held aircraft."

Our Response: The sale of an aircraft engine is exempt from sales tax without regard to whether the engine is built "as is" or whether it is modified for a specific purpose. It is also exempt whether it is sold to a dealer, an individual pilot or to a company for its privately held aircraft.

B. "We will take in special purpose engines and modify for high performance aerobatics aircraft or start from scratch and build engines for those aircraft."

Our Response: The sale of an aircraft engine is exempt without regard as to whether it is a sale of a special purpose engine that has been modified for high performance aerobatics aircraft or whether it had been built from "scratch" for those aircraft.

C. "Client will come into shop and need an engine overhauled. If they can afford the down time of the aircraft we overhaul and return **their** engine and bill separately for parts, labor and sublet. In the same case if the aircraft is needed immediately we will take an already rebuilt engine off our shelf and sell it to them at a dollar price with a deposit left for their core. If the core tests good, we refund the core deposit. If the core is bad we scrap it and keep their core deposit as part of the engine sale."

Our Response: Whether the client rebuilds an engine and charges for parts and labor, or whether the client sells a rebuilt engine after accepting a core deposit, the sale of the parts, or the sale of the rebuilt engine, and the core deposit are all exempt from sales tax.

Your caution: In all of the above cases my shops ***do not*** actually install the parts or engine on the aircraft.

Our Response: The sale of the aircraft engines, according to the scenarios above are all exempt from sales tax even though the seller does not actually install the parts or the engine on the aircraft.

Your closing remarks: "Now, since you have answered all these easy questions, how does this bill effect our obligation to collect tax for sales with point of delivery out of state."

Our Response: The responses given above relate to sales tax on sales that are "sourced" to an Oklahoma location. For sales made in other states, your clients need to contact those states to determine whether those states believe that your clients have sufficient physical connection with those states to be required to collect those states' sales and use taxes. Oklahoma Tax Commission Rules on sourcing and interstate commerce are enclosed.

This response applies only to the circumstances set out in your request of July 15, 2005. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

If I can be of further assistance, please feel free to contact me.

Sincerely,
OKLAHOMA TAX COMMISSION

Michael G. Pillow
Tax Policy Analyst