

SALES AND USE TAX EXEMPTIONS FOR CERTAIN AVIATION EQUIPMENT

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House Bills 6549 and 6550 as introduced

Sponsor: Rep. Bronna Kahle

Committee: Tax Policy

Complete to 12-4-18

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bills 6549 and 6550 would respectively amend the General Sales Tax Act and the Use Tax Act in the following ways:

- The existing sales and use tax exemptions would be expanded so that they would apply to parts or materials affixed or to be affixed to all aircraft. (These exemptions do not apply to shop equipment and fuel.)
- The provisions dealing with exemptions for the sale of aircraft to domestic air carriers and the use of aircraft by domestic carriers would be rewritten to reflect the other amendments.

House Bill 6549 would amend the General Sales Tax Act (MCL 205.54x). House Bill 6550 would amend the Use Tax Act (MCL 206.94k). The bills would take effect 90 days after enactment.

Currently, the exemptions for parts and materials differ, depending on whether or not the aircraft involved is a *domestic air carrier*. That distinction would be removed, since the exemptions would now apply to parts or materials affixed or to be affixed to all aircraft.

(The term *domestic air carrier* is limited to entities engaged primarily in the commercial transport for hire of air cargo, passengers, or a combination of air cargo and passengers as a business activity.)

Current parts and materials exemptions for other than domestic carriers

Currently, the use and sales tax exemptions on *parts and equipment* apply to aircraft that are not domestic air carriers only if both of the following conditions are met:

- The aircraft leaves the state within 15 days after final billing or approval of return to service, completion of the maintenance record, or completion of test flight and ground test (whichever is earliest).
- The aircraft was not based or registered in this state before the service, and the aircraft will not be based or registered in this state after the service

House Bill 6549 and House Bill 6550 would **remove** these conditions and instead simply specify that the sales and use taxes do not apply to the sale of parts or materials, excluding shop equipment or fuel, affixed or to be affixed to any aircraft. (The bills define *aircraft* as “an aerial vehicle that is used in aviation, other than an unmanned aerial vehicle.”)

Current sales tax exemption for domestic carriers

Under current law, **sales tax** exemptions already apply to the sale to a domestic air carrier of one or more of the following:

- An aircraft for use solely in the transport of air cargo, passengers, or a combination of air cargo and passengers, with a certificated takeoff weight of at least 6,000 pounds.
- Parts and materials, excluding shop equipment or fuel, affixed or to be affixed to an aircraft for use solely in the transport of air cargo, passengers, or a combination of air cargo and passengers that has a maximum certificated takeoff weight of at least 6,000 pounds.

House Bill 6549 would eliminate this language and rewrite the exemption as follows:

The tax levied under this act [General Sales Tax Act] does not apply to the sale of an aircraft to a domestic air carrier if the aircraft has a maximum certificated takeoff weight of at least 6,000 pounds and is for use solely in the transport of air cargo, passengers, or a combination of air cargo and passengers.

Current use tax exemption for domestic air carriers

Under current law, **use tax** exemptions already apply to parts and materials (other than shop equipment and fuel) affixed or to be affixed to an aircraft owned or used by a domestic air carrier that is any of the following:

- An aircraft for use solely in the transport of air cargo or a combination of air cargo and passengers, with a certificated takeoff weight of at least 6,000 pounds.
- An aircraft that is used solely in the regularly scheduled transport of passengers.
- An aircraft owned or used by a domestic air carrier solely for the transport of passengers (other than regularly scheduled flights) if the aircraft has a maximum certificated takeoff weight of at least 6,000 pounds and is designed to have a maximum passenger seating configuration of more than 30 seats.

House Bill 6550 would eliminate this language and create the following exemption:

The tax levied under this act [Use Tax Act] does not apply to the use of an aircraft by a domestic air carrier if the aircraft has a maximum certificated takeoff weight of at least 6,000 pounds and is used solely in the transport or air cargo, passengers, or a combination of air cargo and passengers.

BACKGROUND INFORMATION:

House Bills 6549 and 6550 are reintroduced versions of House Bills 4350 and 4351. House Bills 4350 and 4351 were passed by both chambers and enrolled, but were vetoed by the Governor on October 16, 2018.

FISCAL IMPACT:

According to the Department of Treasury, the bills would collectively reduce sales and use tax revenue by approximately \$4.0 million on an annual basis. The reductions would have small impacts on the School Aid Fund, constitutional revenue sharing, and the general fund.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.