

## USE TAX: EXEMPT PLANE PARTS

Senate Bill 405 (Substitute H-1)  
First Analysis (1-30-92)

Sponsor: Sen. Don Koivisto  
Senate Committee: Finance  
House Committee: Taxation

### ***THE APPARENT PROBLEM:***

Parts and materials used in the repair and maintenance of aircraft are subject to Michigan's four percent use tax. This tax would be applied to parts and materials, for example, purchased in another state and brought to Michigan for installation on an airplane. While this kind of tax is not uncommon in other states, according to tax specialists, the neighboring states of Ohio, Indiana, Illinois, Minnesota, and Wisconsin do not tax airplane parts. This means Michigan is at a competitive disadvantage when airlines decide where to locate facilities for the repair and maintenance of aircraft. Representatives of Simmons Aircraft testified before the House Taxation Committee that the tax is a factor in planning for the retention and expansion of its maintenance facility in Marquette. Further, the company says Marquette is in the running for a regional engine overhaul facility. However, the fact that any parts brought in for use at aircraft maintenance and repair facilities are subject to the use tax is a major disincentive to the location of facilities in the state. The recommendation has been made that Michigan join its neighbors (and other states competing for regional aircraft repair shops) and exempt aircraft parts from the use tax.

### ***THE CONTENT OF THE BILL:***

The bill would amend the Use Tax Act to exempt parts and materials affixed to, or to be affixed in Michigan to, an aircraft owned or used by a domestic passenger or property (cargo) air carrier and used primarily in the commercial transport of passengers or property. (The aircraft would have to have been issued a certificate by the U.S. Department of Transportation under section 401 of Title IV of the Federal Aviation Act.) The exemption would not apply to shop equipment or fuel. The exemption would not apply after December 31, 1996. No later than July 1, 1996, the state treasurer would have to report to the House

Taxation Committee and Senate Finance Committee on the effects of the exemption. The report would have to include, among other things, an estimate of the revenue foregone and an analysis of the effect of the exemption on aircraft maintenance employment in the state.

MCL 205.4k

### ***HOUSE COMMITTEE ACTION:***

The House Taxation Committee adopted a substitute that added to the Senate-passed version a sunset date of December 31, 1996. It also requires a report on the effects of the exemption on tax revenue and aircraft maintenance employment.

### ***FISCAL IMPLICATIONS:***

According to House Taxation Committee staff, the Department of Treasury has estimated the revenue loss at between \$2 million and \$3 million. (1-29-92)

### ***ARGUMENTS:***

#### ***For:***

The bill would remove a major disincentive to locating aircraft repair facilities in the state. Currently, aircraft repair shops in Michigan must pay a four percent use tax on all parts brought into the state. Many aircraft parts, needless to say, are very expensive, and the use tax is a cost a company would not have to pay if it located in other states, including the states bordering Michigan. The passage of this bill will allow the state to retain jobs in the aircraft maintenance field and to compete more effectively for proposed new aircraft repair facilities. It should be noted that a similar exemption already exists for parts used in the repair of marine vessels engaged in interstate commerce. The bill contains a sunset date and a required study

by the treasury department, so that the legislature can see if the exemption has had the desired effect.

***Against:***

The sunset date could be seen as creating uncertainty in any competition for aircraft maintenance facilities.

***POSITIONS:***

The Department of Treasury supports the bill. (1-29-92)

Representatives from Simmons Airlines testified in support of the exemption. (1-29-92)

The executive director of the Economic Development Corporation of Marquette County testified in favor of the bill. (1-29-92)

Zantop International Airlines has indicated its support for the bill. (1-28-92)