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USE TAX: EXEMPT PLANE PARTS

House Bill 4356 (Substitute H-1) First Analysis (2-28-95)

Sponsor: Rep. Kirk A. Profit
Committee: Tax Policy

THE APPARENT PROBLEM:

Public Act 5 of 1992 amended the Use Tax Act to exempt parts and materials (other than shop equipment and fuel) that are affixed to, or are to be affixed in Michigan to, aircraft owned or used by a domestic passenger or property air carrier if the aircraft meet certain conditions. The aircraft must be used primarily in the commercial transport of passengers or property and be operating under a certain kind of certificate issued by the U.S. Department of Transportation (under section 401 of Title IV of the Federal Aviation Act). Tax specialists say the federal government no longer issues these certificates, and a new definition, which would apply to the same kind of aircraft, is needed in state law.

THE CONTENT OF THE BILL:

House Bill 4356 would amend the Use Tax Act to provide new criteria for the aircraft involved in the exemption for aircraft parts and materials. The aircraft would have to be owned or used by a domestic air carrier and be any of the following:

- An aircraft purchased after December 31, 1992 for use solely in the transport of air cargo and that had a maximum certificated takeoff weight of at least 12,500 pounds.
- An aircraft purchased after June 30, 1994 that was used solely in the regularly scheduled transport of passengers.
- An aircraft, other than one described immediately above, that had been purchased after December 31, 1994, had a maximum certificated takeoff weight of at least 12,500 pounds, was designed to have a maximum passenger seating configuration of more than 30 seats, and was used solely in the transport of passengers.

The bill would specify that the term "domestic air carrier" would be limited to entities engaged in the

commercial transport for hire of cargo or entities engaged in the commercial transport of passengers as a business activity.

(The exemption no longer applies after December 31, 1996. The bill would not affect that sunset date. The state treasurer is required to report to the legislature by July 1, 1996, on the effects of the exemption.)

MCL 205.94k

FISCAL IMPLICATIONS:

The bill has no fiscal implications, according to the House Fiscal Agency. (2-17-95)

ARGUMENTS:

For:

The use tax exemption for aircraft parts and materials was enacted in 1992 to make Michigan more hospitable to the aircraft repair industry. The argument was made that Michigan repair facilities were obliged to pay tax on parts brought into the state for use in repairing aircraft while similar repair operations in surrounding states had no such tax burden. The exemption was targeted to the repair of particular kinds of aircraft (those belonging to commercial airlines), those that received a certain kind of certificate from the U.S. government. Reportedly, due to changes at the federal level, that certificate is no longer issued, and so this bill aims at providing a new definition to target the same aircraft. The same kind of definition was used last year in order to provide another kind of tax exemption to commercial aircraft.

POSITIONS:

The Department of Treasury supports the substitute. (2-23-95)

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