

## AVIATION GAS TAX: REFUND FOR AIR CARGO

### House Bill 4672 (Substitute H-2) First Analysis (6-17-97)

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

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

Under the Aeronautics Code, there is a three cents per gallon privilege tax on all fuel sold or used in producing or generating power for propelling aircraft that use state airports. There is also a one-and-one-half cents per gallon refund to airline operators who show proof within six months after purchasing fuel that they are operating interstate on scheduled operations. Representatives of air cargo carriers who also fly interstate have requested equal treatment.

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

The bill would amend the Aeronautics Code of the State of Michigan to extend to air carriers operating interstate the refund on the aviation gas tax currently available to airline operators operating interstate. The term "air carriers" would refer to entities engaged in the commercial transport for hire of cargo.

MCL 259.203

#### **FISCAL IMPLICATIONS:**

The House Fiscal Agency's preliminary estimate of the annual revenue loss resulting from the bill is \$500,000. (6-16-97)

#### **ARGUMENTS:**

##### **For:**

The main argument for the bill is one of tax fairness and parity. Interstate passenger flights have been granted an aviation gas tax refund for many years. Shouldn't the refund also apply to interstate cargo operators? The justification for the refund, apparently, is this: the tax is on the privilege of using state airport facilities, and while flights that are exclusively intrastate use state airports exclusively, interstate operators use both in-state and out-of-state airports. Cargo operators say the interstate cargo industry has grown up since the refund was initially placed into law and the refund should be extended to them. The refund will also promote economic development by helping the state's air cargo

operators grow. These businesses, it should be noted, make significant contributions to airport funding through other fees and taxes.

##### **Against:**

A number of concerns have been raised, including concerns about the loss of revenue to the aeronautics fund, and the loss of federal matching funds that could also result. While the main proponents of the bill before the House Tax Policy Committee were Michigan-based air cargo operations, the bill could apply as well to the interstate operations of UPS, Federal Express, Airborne Express, and other major carriers. Further, the Department of Treasury administers the rebate at present by using flight numbers from scheduled passenger flights. It is not clear how the rebate for interstate air cargo flights (both scheduled and unscheduled) will be administered.

The current rebate is a longstanding one that has applied only to interstate scheduled passenger flights. Cargo operations, particularly those based in Michigan, are simply different kinds of operations, according to the treasury department. While they leave from Michigan for deliveries in other states, they return to their home base, and so they use in-state airports at both ends of a flight, unlike passenger flights, which do not return here.

##### **POSITIONS:**

Representatives of American International Airways, Inc., and of Murray Aviation testified in support of the bill. (6-11-97)

The Department of Treasury is opposed to the bill. (6-11-97)

Analyst: C. Couch

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