



**Senate Fiscal Agency**  
P. O. Box 30036  
Lansing, Michigan 48909-7536

BILL



ANALYSIS

**Telephone: (517) 373-5383**  
**Fax: (517) 373-1986**

House Bill 4350 (Substitute H-1 as passed by the House)  
House Bill 4351 (Substitute H-1 as passed by the House)  
Sponsor: Representative Bronna Kahle  
House Committee: Tax Policy  
Senate Committee: Finance

Date Completed: 10-2-17

### **CONTENT**

**House Bills 4350 (H-1) and 4351 (H-1) would amend the Use Tax Act and the General Sales Tax Act, respectively, to exempt from taxation the sale of parts and materials, except shop equipment or fuel, affixed or to be affixed to an aircraft. The bills would delete current language exempting the sale of parts and materials affixed to an aircraft that is owned or used by a domestic air carrier or affixed to an aircraft that leaves the State and is not based or registered in Michigan.**

**House Bill 4350 (H-1) also would add a use tax exemption for the use of an aircraft by a domestic air carrier if the aircraft met certain criteria (as provided for the sale of an aircraft to a domestic air carrier under the General Sales Tax Act).**

The Use Tax Act exempts parts and materials, excluding shop equipment or fuel, affixed or to be affixed to an aircraft that is owned or used by a domestic air carrier and is 1) an aircraft for use solely in the transport of air cargo or cargo and passengers and that has a maximum certificated takeoff weight of at least 6,000 pounds; 2) an aircraft that is used solely in the regularly scheduled transport of passengers; or 3) an aircraft (other than one described in the previous provision) that 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 and is used solely in the transport of passengers. House Bill 4350 (H-1) would delete that exemption.

The sales tax currently does not apply to the sale to a domestic air carrier of parts and materials, excluding shop equipment or fuel, affixed or to be affixed to an aircraft that has a maximum certified take-off weight of at least 6,000 pounds for use solely in the transport of air cargo, passengers, or both. House Bill 4351 (H-1) would delete that exemption.

(Under both Acts, a "domestic air carrier" is a person engaged primarily in the commercial transport for hire of air cargo, passengers, or a combination of air cargo and passengers as a business activity.)

The tax levied under each Act does not apply to the sale of parts or materials, excluding shop equipment or fuel, affixed or to be affixed to an aircraft that meets both of the following conditions:

- The aircraft leaves the State within 15 days after issuance of the final billing or authorized approval for final return to service, completion of the maintenance record entry, and completion of the test flight and ground test for inspection.

- The aircraft was not based in Michigan or registered in the State before the parts or materials are affixed to it and the aircraft is not based in Michigan or registered in the State after the parts or materials are affixed to it.

The bills would delete those conditions.

In addition, House Bill 4350 (H-1) specifies that the use tax would not apply to the use of an aircraft by a domestic air carrier if the aircraft had a maximum certificated takeoff weight of at least 6,000 pounds and were used solely in the transport of air cargo, passengers, or a combination of air cargo and passengers. (The General Sales Tax Act currently exempts the sale to a domestic air carrier of an aircraft that meets these criteria.)

The bills also would define "aircraft" as an aerial vehicle that is used in aviation, other than an unmanned aerial vehicle.

Each bill would take effect 90 days after enactment.

MCL 205.94k (H.B. 4350)  
205.54x (H.B. 4351)

Legislative Analyst: Suzanne Lowe

### **FISCAL IMPACT**

The bills would reduce sales and use tax revenue by approximately \$4.0 million per year, based on estimates from the Michigan Department of Treasury. How the impact would be split between sales tax revenue and use tax revenue is unknown. Approximately 73.3% of sales tax revenue is directed to the School Aid Fund, while constitutional revenue sharing to local units receives 10%, and the remainder is directed to the General Fund. Use tax revenue is split with one-third directed to the School Aid Fund, and two-thirds directed to the General Fund.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.