



Senate Fiscal Agency
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BILL



ANALYSIS

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House Bill 4356 (Substitute H-1 as reported without amendment)

Sponsor: Representative Kirk A. Profit

House Committee: Tax Policy

Senate Committee: Finance

Date Completed: 3-9-95

RATIONALE

Public Act 424 of 1994 amended the Use Tax Act to change the criteria under which certain aircraft were exempted from the use tax. Prior to the 1994 amendment, the Act exempted the storage, use, or consumption of any aircraft owned by a domestic air carrier operating under a certificate issued by the U.S. Department of Transportation under Section 401 of the Federal Aviation Act. Public Act 424 eliminated the language requiring the certificate, and instead inserted language specifically to define the type of large aircraft that was to be exempted. It has been pointed out that a similar situation exists for parts and materials. 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. To qualify for the exemption, the aircraft must be used primarily in the commercial transport of passengers or property, and be operated under a certificate issued by the U.S. Department of Transportation pursuant to Section 401 of Title IV of the Federal Aviation Act. Reportedly, the Federal government no longer issues these certificates. It has been suggested that the Act be amended to eliminate the language that requires a carrier to obtain a 401 certificate to qualify for the exemption, and instead adopt the specific criteria (that were adopted under Public Act 424 for certain aircraft) for parts and materials.

CONTENT

The bill would amend the Use Tax Act to change the current criteria under which certain aircraft parts and materials are exempted from the use tax.

The bill provides that the tax would not apply to parts and materials, excluding shop equipment or fuel, affixed to or to be affixed in Michigan to an

aircraft owned or used by a "domestic air carrier" that was any of the following:

- An aircraft purchased after 1992 for use solely in the transport of air cargo 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 was purchased after 1994, had a maximum certificated takeoff weight of at least 12,500 pounds, and was designed to have a maximum passenger seating configuration of more than 30 seats and used solely in the transport of passengers.

The bill provides that "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.

Under the Act, the current exemption provision will expire December 31, 1996. The bill also would not apply after that date.

MCL 205.94k

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The use tax exemption for aircraft parts and materials was enacted in 1992 in order to make Michigan more hospitable to the aircraft repair industry; it was argued 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 those kinds of aircraft that received a certain certificate from the U.S. government. Reportedly, due to changes at the Federal level, that certificate is no longer issued. The bill's specific new criteria would maintain the current exemption allowed for the parts and materials of those aircraft.

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would have no measurable revenue impact on State government or local governments.

Fiscal Analyst: J. Wortley

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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.