



**House  
Legislative  
Analysis  
Section**

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**EXTEND PLANE PARTS EXEMPTION**

**House Bill 5506 as introduced  
First Analysis (5-21-96)**

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

***THE APPARENT PROBLEM:***

A use tax exemption for aircraft parts and materials was enacted in 1992 with the stated purpose of making the state more hospitable to the aircraft repair industry. The argument was made that Michigan repair facilities had 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, generally speaking, belonging to commercial airlines. The 1992 act specified that the exemption applied to aircraft obtaining a certain kind of certificate from the federal government for domestic passenger and cargo carriers. The act was amended in 1995 to rewrite the description of the eligible aircraft on the grounds that federal certification policies had changed. The 1992 legislation contained a sunset date of December 31, 1996, and directed the Department of Treasury to issue a report on the effects of the exemption by July 1, 1996. Legislation has been introduced to remove the sunset.

maximum certificated takeoff weight of at least 12,500 pounds, designed to have a maximum passenger seating configuration of more than 30 seats, and used solely in the transport of passengers.

The term "domestic air carrier" is 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.

***FISCAL IMPLICATIONS:***

The House Fiscal Agency cites a report in the Executive Budget Tax Expenditure Appendix for fiscal year 1996-97 that suggests the use tax exemption is reducing revenue by \$10 million per year. One-third of the gross revenue loss is to the school aid fund and two-thirds to the general fund, according to the HFA. (Fiscal Note dated 5-10-96)

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

The bill would amend the Use Tax Act to remove the December 31, 1996, expiration date on an exemption for certain aircraft parts and materials, thus extending the exemption indefinitely.

***ARGUMENTS:***

***For:***

The bill would extend indefinitely a use tax exemption for aircraft parts and materials that is aimed at encouraging aircraft repair operations in Michigan. The exemption was first enacted in 1992. One of the arguments in its favor was that surrounding states competing for these airline repair operations did not have the same tax and so Michigan was at a competitive disadvantage. The 1992 act required the Department of Treasury to report on the effects of the exemption by July 1, 1996. That report is in progress, and the bill is being advanced in anticipation of that report. Delay could mean the issue would not be in a position to be addressed by both house of the legislature because of the press of other business later in the year.

MCL 205.94k

***BACKGROUND INFORMATION:***

The exemption applies to parts and materials for the following:

- An aircraft purchased after December 31, 1992 for use solely in the transport of air cargo and with a maximum certificated takeoff weight of at least 12,500 pounds.
- An aircraft purchased after June 30, 1994 used solely in the regularly scheduled transport of passengers.
- An aircraft, other than one described immediately above, purchased after December 31, 1994, with a

***POSITIONS:***

There are no positions at present.

■ 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.

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