

Legislative Analysis



AVIATION EQUIPMENT EXEMPTIONS

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House Bill 4119 as introduced
Sponsor: Rep. Steve Frisbie

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4120 as introduced
Sponsor: Rep. Joey Andrews

Committee: Finance
Complete to 3-10-25

SUMMARY:

House Bills 4119 and 4120 would amend the General Sales Tax Act and the Use Tax Act, respectively, to modify the exemptions for the sale or purchase of certain aviation equipment.

Currently, the General Sales Tax Act exempts the sale to the following to a *domestic air carrier*:

- An aircraft that has a maximum certificated takeoff weight of at least 6,000 pounds for use solely in the transport of air cargo, passengers, or a combination of both.
- Parts and materials, excluding shop equipment or fuel, affixed or to be affixed to an aircraft that has a maximum certificated takeoff weight of at least 6,000 pounds for use solely in the transport of air cargo, passengers, or a combination of both.

Domestic air carrier means an entity engaged primarily in the commercial transport for hire of air cargo or passengers, or a combination of both, as a business activity.

The Use Tax Act exempts the purchase of parts and materials, excluding shop equipment or fuel, affixed to or to be affixed to an aircraft owned or used by a domestic air carrier that is any of the following:

- An aircraft that has a maximum certified takeoff weight of at least 6,000 pounds.
- An aircraft that is used solely in the regularly scheduled transport of passengers.
- An aircraft, other than one used solely for the regularly scheduled transport of passengers, that has a maximum certified takeoff weight of at least 6,000 pounds, is designed to have a maximum passenger seating configuration of more than 30 seats, and is used solely in the transport of passengers.

In addition, both acts exempt the sale of or purchase of parts or materials, excluding shop equipment or fuel, that are affixed or to be affixed to an aircraft that meets all of the following:

- It leaves Michigan within 15 days of the 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 as required under federal regulations,¹ whichever is earlier.
- It was not *based or registered in Michigan* before or after the parts or materials are affixed to the aircraft.

¹ 14 CFR 91.407: <https://www.ecfr.gov/current/title-14/chapter-I/subchapter-F/part-91/subpart-E/section-91.407>

Based in Michigan means hangared or stored in Michigan for at least 10 days in at least three nonconsecutive months during the immediately preceding 12-month period.

Finally, both acts exempt the sale or purchase of aircraft temporarily located in Michigan for the purpose of a sale and prepurchase evaluation, customization, improvement, maintenance, or repair if both of the following conditions are satisfied:

- The aircraft leaves Michigan within 15 days after the sale and the completion of any associated prepurchase evaluation, customization, improvement, maintenance, or repair, whichever is later.
- The aircraft was not based or registered in Michigan before or after the sale and any associated prepurchase evaluation, customization, improvement, maintenance, or repair.

The bills would modify these exemptions so that both acts would exempt the following:

- The sale to or purchase by a domestic air carrier of an ***aircraft*** that has a maximum certificated takeoff weight of at least 6,000 pounds and is for use solely in the transport of air cargo, passengers, or a combination of both.
- The sale or purchase of parts or materials, excluding shop equipment or fuel, affixed or to be affixed to an aircraft.
- The sale or purchase of an aircraft located in Michigan if both of the following apply:
 - The aircraft leaves Michigan within 15 days after the sale and the completion of any associated prepurchase evaluation, customization, improvement, maintenance, or repair, whichever is later.
 - The aircraft is not based or registered in Michigan after the sale and any associated prepurchase evaluation, customization, improvement, maintenance, or repair is completed.

Aircraft would mean an aerial vehicle, other than an unmanned aerial vehicle, that is used in aviation. (This definition would be added by the bills.)

The bills state the legislature's intent to annually appropriate sufficient funds from the general fund to the State School Aid Fund to fully compensate for any loss of school aid revenue resulting from their enactment. (This provision would not be binding on future legislatures.)

Each bill would take effect 90 days after being enacted into law.

Neither bill can take effect unless both are enacted.

House Bill 4119: MCL 205.54x

House Bill 4120: MCL 205.94k

BACKGROUND:

Similar legislation was passed by both chambers as House Bills 4350 and 4351 of the 2017-18 legislative session.² The bills were vetoed by Governor Rick Snyder, who stated that he did not believe they were appropriate at the time.

² <https://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-4350-B20992D9.pdf>

FISCAL IMPACT:

The bills' provisions expanding the exemption on parts and materials would reduce sales and use tax revenue by approximately \$4.0 to \$5.0 million per year. How the revenue loss estimate would be split between sales and use tax is not known. Approximately 73% of sales tax revenue is constitutionally earmarked to the School Aid Fund, 10% is constitutionally earmarked to revenue sharing, and the remainder is allocated to the general fund. With respect to use tax revenue, after accounting for the Local Community Stabilization Authority share for personal property tax reimbursements, approximately 57% is deposited in the general fund and approximately 43% is deposited in the School Aid Fund.

The provisions expanding the sales and use tax exemption to certain aircraft sales described above is expected to have little to no impact on revenue collections, according to the Department of Treasury, because it is assumed that most individuals are taking steps in executing a sale to avoid sales and use taxes in Michigan.

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