

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Richard L. Anderson

3. **Committee** Passed House and Senate

4. **Title** Retail Sales and Use Tax; Aviation Parts,
Engines, and Supplies

2. **Bill Number** HB 1738

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would provide an exemption from the Retail Sales and Use Tax for parts, engines, and supplies used for maintaining, repairing, or reconditioning aircraft or any aircraft's avionics system, engine, or component parts. The bill would provide an exemption for both manned and unmanned systems. The proposed exemption would not cover tools or equipment. The bill would also clarify that the proposed exemption would not restrict the sales tax exemption available to scheduled common carriers under current law.

Under current law, there is an exemption from the Retail Sales and Use Tax for tangible personal property sold or leased to an airline operating in intrastate, interstate or foreign commerce as a common carrier providing scheduled air service on a continuing basis to one or more Virginia airports at least one day per week, for use or consumption by such airline directly in the rendition of its common carrier service.

The effective date of this bill is July 1, 2018 and the bill has a sunset date of July 1, 2022.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department considers implementation of this bill to be routine and does not require additional funding.

Revenue Impact

This bill would have a negative impact on state and local Retail Sales and Use Tax revenues beginning in FY 2019.

SUT distribution by fund

(\$ in millions)

	FY 2019 (11 mths)	FY 2020 and beyond (12 mths impact)
GF - Unrestricted	- 0.4	- 0.4
GF - Restricted	- 0.2	- 0.2
Transportation	- 0.1	- 0.2
Local Option	- 0.2	- 0.2
HMOF (GF transfer)	0.0	0.0
Regional Trans. Funds (0.7%)	- 0.1	- 0.1
Total Sales and Use Tax	- 1.0	- 1.1

The transactions covered by this exemption would include sales of parts, engines, and supplies used for maintaining, repairing, or reconditioning aircraft owned or used by unscheduled common carriers operating within Virginia. Although this exemption would exempt transactions by scheduled common carriers, those transactions are already exempted pursuant to *Va. Code* § 58.1-609.3(6) and thus their impact on state revenues is already assumed in the budget.

9. Specific agency or political subdivisions affected: Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally, the Retail Sales and Use Tax applies to purchases of repair and maintenance items of tangible personal property within the Commonwealth.

Under current law, there is a Retail Sales and Use Tax exemption enumerated in *Va. Code* § 58.1-609.3(6) that applies to tangible personal property sold or leased to an airline operating in intrastate, interstate or foreign commerce as a common carrier providing scheduled air service on a continuing basis to one or more Virginia airports at least one day per week, for use or consumption by such airline directly in the rendition of its common carrier service. "Scheduled air service" means any scheduled service provided by an air carrier or foreign air carrier operating pursuant to authority issued by the U.S. Department of Transportation and under Federal Aviation Regulations, Parts 121, 129 or 135.

The items of tangible personal property covered by the current exemption would generally include parts, repair equipment, and tools used by common carrier scheduled airlines to maintain their planes. Unscheduled common carriers and owners of private aircraft are not covered by the current exemption.

Proposal

This bill would provide an exemption from the Retail Sales and Use Tax for parts, engines, and supplies used for maintaining, repairing, or reconditioning aircraft or any aircraft's avionics system, engine, or component parts. The bill would provide an exemption for both manned and unmanned systems. The proposed exemption would not cover tools or equipment. The bill would also clarify that the proposed exemption would not restrict the sales tax exemption available to scheduled common carriers under current law.

Since most common carrier airlines already qualify for the current exemption enumerated in *Va. Code* § 58.1-609.3(6), the two identifiable groups of taxpayers who would be affected by this bill are unscheduled common carriers and owners of private planes. This bill would allow those two groups of aircraft owners to purchase parts, engines, and supplies used to maintain, repair, and recondition their aircraft and avionic systems exempt from the Retail Sales and Use Tax. The inclusion of unmanned systems within the bill means drones would be eligible for the exemption as well.

The effective date of this bill is July 1, 2018 and the bill has a sunset date of July 1, 2022.

cc : Secretary of Finance

Date: 2/22/2017 VB
HB1738FERS161