

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** May

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: Redefines
Spaceport Activities and Eliminates the
Sunset Date of the Exemption for Space
Flight Activities

2. **Bill Number** HB 2414

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would extend from June 30, 2001 to June 30, 2005, the sunset date of the retail sales and use tax exemption for the sale, lease, use, storage, consumption, or distribution of space facilities, space propulsion systems, satellites, space vehicles, space stations, and related items used to conduct "spaceport activities."

This bill would redefine "spaceport activities" as the definition is used in the first three clauses (i, ii, iii) of the exemption language by removing the reference to the Virginia Commercial Space Flight Authority.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Unknown. See Line 8.

7. **Budget amendment necessary:** No.

8. Fiscal implications:

The change in the definition of "spaceport activities" by this bill would broaden the current exemption by eliminating the restriction that space flight activities must be directed or sponsored at a facility owned, leased, or operated by or on behalf of the Virginia Commercial Space Flight Authority. The Department of Taxation understands that currently there are no orbital launches planned from the Wallops Island Flight Facility. Typically, about five suborbital launches of target missiles occur each year. Each launch may include up to six missiles. The approximate cost per missile is \$1 million. These launches may be performed by contractors who potentially could be liable for use tax on purchases of tangible personal property used to perform the launches.

Any revenue loss related to this bill would be dependent on the manner in which the launch contracts are written, the number of launches, the owner of the launch vehicles

and other possible variables. For this reason, the Department is unable to determine the revenue impact that would result from the change in the definition of spaceport activities.

There would be no revenue impact associated with the extension of the sunset date for this exemption. The official budget estimates assume the extension of sales and use tax exemptions.

9. Specific agency or political subdivisions affected:

Department of Taxation
The Virginia Commercial Space Flight Authority

10. Technical amendment necessary: No.

11. Other comments:

The exemption for space flight activities was enacted by the 1997 General Assembly. The exemption applies to the sale, lease, use, storage, consumption, or distribution of various types of tangible personal property used to conduct "spaceport activities." "Spaceport activities" is defined in Code of Virginia § 58.1-609.3(13) as "activities directed or sponsored at a facility owned, leased, or operated by or on behalf of the Virginia Commercial Space Flight Authority."

The following items are exempt when used to conduct spaceport activities:

- ◆ clause (i) exempts orbital or suborbital space facilities, space propulsion systems, space vehicles, satellites, space stations, and any components of the foregoing items;
- ◆ clause (ii) exempts tangible personal property placed on or used aboard space facilities, space propulsion systems, space vehicles, satellites or space stations;
- ◆ clause (iii) exempts space flight fuels; and
- ◆ clause (iv) exempts machinery and equipment used exclusively for spaceport activities and the sale of goods and services provided to operate and maintain launch facilities, launch equipment, payload processing facilities and payload processing equipment.

All four clauses of this exemption require that qualifying property be used "to conduct spaceport activities." For purposes of the first three clauses of this exemption, this bill would redefine "spaceport activities" as "any space flight of an orbital or suborbital space facility, space propulsion system, space vehicle, satellite, or space station that originates from the Commonwealth." This change in the definition would eliminate the requirement that launch and space flight activities occur under the direction or sponsorship of the Virginia Commercial Space Flight Authority at a facility owned,

leased, or operated by or on behalf of the Virginia Commercial Space Flight Authority. The definition of "spaceport activities" remains the same for the last clause of the exemption.

The change in the definition of "spaceport activities" would expand the exemption for the activities described in the first three clauses of the exemption if space flights originate in Virginia. Thus, the first three clauses in the exemption would apply to contractors and other persons selling or providing goods and services to the federal government and commercial entities for the purpose of conducting orbital and suborbital launches that originate in Virginia. Contractors and other persons would no longer be required to conduct space flight activities that are directed or sponsored at a facility owned, leased, or operated by or on behalf of the Virginia Commercial Space Flight Authority, in order to qualify for this exemption (under the first three clauses).

Wallops Island Flight Facility

The federal National Aeronautics and Space Administration (NASA) maintains a space launch facility on Virginia's Wallops Island. This facility is used for government launch and private commercial launch activities. In some instances, government contractors perform launches of space vehicles for the federal government. The vehicles themselves may be owned by the government or by a third party. In those instances where the contractor is responsible for launch services, the contractor is responsible for paying sales and use tax on all purchases of tangible personal property used to launch the space vehicle. Purchases of tangible personal property to provide related services would also be taxable to the contractor. Such services might include testing equipment, integrating the payload into the vehicle, operation of the spacecraft, and collecting data.

This bill would exempt such services if the launch originates in Virginia.

Other States

Certain other states have enacted broad sales and use tax exemptions for space flight activities. These states have a history of and the facilities for space flight activities. These states (and their spaceport facilities used or intended to be used for commercial space activities) include Alaska (Kodiak Island); California (Vandenberg Air Force Base); Florida (Cape Kennedy); and New Mexico (White Sands Missile Range).

Similar Legislation

SB 976 extends the sunset date for this exemption through June 30, 2011.

cc: Secretary of Finance

Date: 2/6/01/GRM

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