

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 14 (Senator Reilly)
 Budget and Taxation

Sales and Use Tax - Aircraft Parts and Equipment - Exemption

This bill exempts from the State sales and use tax the sale of materials, parts, or equipment used to repair, maintain, or upgrade aircraft or the avionics systems of aircraft if installed on the aircraft.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by a potentially significant amount beginning in FY 2017. The amount of the decrease depends on the cost of exempt materials and parts used to repair or maintain aircraft and the amount sold each year. General fund expenditures for administrative costs in the Comptroller’s Office increase by \$81,300 in FY 2017.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	-	-	-	-	-
GF Expenditure	\$81,300	\$0	\$0	\$0	\$0
Net Effect	(\$81,300)	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses involved in the repair and maintenance of aircraft may benefit due to more competitive pricing.

Analysis

Current Law: Sales of machinery, equipment, and other tangible personal property used directly and predominantly in a production activity are exempt from the sales and use tax.

COMAR regulation 03.06.01.26 specifies that the sale or a sale for use of an aircraft, motor vehicle, railroad rolling stock; or vessel that is used principally in interstate or foreign commerce and a sale or a sale for use of a replacement part or other tangible personal property to be used physically in, on, or by it; are exempt from the sales and use tax. Under the exemption, a vendor may overcome the presumption of taxability by requiring the buyer to sign a specified form.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.5 billion in fiscal 2016 and \$4.7 billion in fiscal 2017, according to the December 2015 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; plus 0.5% or 1% in certain municipalities

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

Ohio enacted a sales and use tax exemption for certain aircraft maintenance and repair transactions in 2008. The definition of aircraft includes those aircraft that are either of more than 6,000 pounds maximum certified takeoff weight or used exclusively in general aviation. General aviation includes all civilian flying, except scheduled passenger airlines.

State Fiscal Effect: General fund revenues may decrease by a potentially significant amount beginning in fiscal 2017. The amount of the decrease depends on the cost of exempt materials and parts used to repair or maintain aircraft and the amount sold each year, neither of which can be reliably estimated.

The 2012 Economic Census lists 12 businesses in Maryland involved in aerospace product and parts manufacturing. The amount of annual sales of these businesses is withheld due to confidentiality requirements of the U.S. Census Bureau.

As a point of reference, for each \$1.0 million of aircraft materials, parts, and equipment that are exempt under the bill, general fund revenues will decrease by \$60,000.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2017 to notify the approximately 130,000 sales and use tax account holders of the sales tax change. The Comptroller's Office also notes that it may need additional personnel to verify compliance with the new exemption.

Additional Information

Prior Introductions: None.

Cross File: HB 313 (Delegate Saab, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office, Department of Legislative Services

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min/jrb

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