

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 16
Ways and Means

(Delegate Adams)

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 an aircraft that has (1) a maximum gross takeoff weight of less than 12,500 pounds or (2) has a maximum gross takeoff weight of 12,500 pounds or more and is primarily used in interstate or foreign commerce. The bill requires the Comptroller to report to the General Assembly by December 31 of each year on (1) the amount of sales and use tax revenue lost from the exemption and (2) any change to the number of aviation technicians employed in the State as a result of the exemption. **The bill takes effect July 1, 2020, and terminates June 30, 2025.**

Fiscal Summary

State Effect: General fund revenues decrease in FY 2021 through 2025. 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 increase by \$81,300 in FY 2021.

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 as the State sales and use tax rate for materials and parts will be comparable to the sales and use tax rates in surrounding states.

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.

Maryland regulations (COMAR 03.06.01.26) specify 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.

Major air carriers are exempt from paying the sales and use tax on materials and parts used to repair their aircraft.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia. **Exhibit 2** shows the sales and use tax rate for aircraft materials and parts in surrounding states.

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

Delaware	0.0%
District of Columbia	6.0%; 10.0% for liquor sold for on-the-premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; and 8.0% for specified soft drinks
Maryland	6.0% 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for eligible food items; 2.5% for specified essential personal hygiene items; and both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 45 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region and an additional 1.7% is imposed in localities in the Historic Triangle.

Exhibit 2
Sales and Use Tax Rates in Maryland and Surrounding States for Aircraft Parts

Delaware	0.384%
Maryland	6.0%
New York	Exempt
Ohio	Exempt
Pennsylvania	Exempt
Virginia	Exempt
West Virginia	Partial Exemption

Source: Aircraft Owners and Pilots Association

The Maryland airport system consists of 34 public use airports in addition to the Baltimore/Washington International Thurgood Marshall Airport. These public use airports include Martin State Airport, Salisbury-Ocean City Wicomico Regional Airport, and 32 general aviation airports. The Maryland Aviation Administration indicates that these airports are responsible for over 12,500 direct and indirect jobs with \$583.0 million in wages and salaries, and \$1.1 billion in total economic activity, including \$867.0 million from aircraft handling fees and aircraft services.

Salisbury Regional Airport

Salisbury-Ocean City Wicomico Regional Airport (Salisbury Regional Airport) spans 1,081 acres and is the second largest airport in Maryland. The airport provides a variety of services for residents of the Delmarva Peninsula, with direct flights to Charlotte and Philadelphia. The airport supports American Airlines and Piedmont/American Eagle scheduled service, FEDEX cargo service, Maryland State Police helicopter operations, and a wide range of general and business aviation services. Salisbury Regional Airport supports 1,300 direct and indirect jobs in the area and generates approximately \$84 million in revenue annually.

State Revenues: General fund revenues decrease in fiscal 2021 through 2025. 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 Aircraft Owners and Pilots Association identified and surveyed 20 aircraft repair and maintenance facilities in Maryland in 2019 to determine their sales and use tax collections and remittances for aircraft materials and parts over calendar 2015, 2016, and 2017. Of the 10 facilities that responded to the survey, it was determined that each facility remitted approximately \$9,000 annually in sales and uses taxes for aircraft materials and parts. If it is assumed the remaining 10 facilities had similar collections as the survey respondents, it is likely that general fund revenues could decrease by between \$200,000 and \$250,000 annually beginning in fiscal 2021, as a result of the exemption. However, to the extent that the exemption proposed by the bill increases repairs being made in Maryland, general fund revenues will decrease accordingly.

State Expenditures: The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2021 to notify the approximately 130,000 sales and use tax account holders of the sales tax change. The Comptroller's Office indicates that it can handle the reporting requirements with existing resources.

Additional Information

Prior Introductions: Similar bills were introduced in 2019, 2018, 2017, and 2016. SB 2 of 2019 received a favorable with amendments report from the Senate Budget and Taxation Committee and passed the Senate. The bill received a hearing in the House Ways and Means Committee, but no further action was taken. HB 65 of 2019 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 212 of 2018 received a favorable report from the Senate Budget and Taxation Committee and passed the Senate. The bill received a hearing in the House Ways and Means Committee, but no further action was taken. The cross file, HB 318, also received a hearing in the House Ways and Means Committee, but no further action was taken. SB 159 of 2017 received a favorable with amendments report from the Senate Budget and Taxation Committee and passed the Senate. The bill received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, HB 67, received an unfavorable report from the House Ways and Means Committee. HB 313 of 2016 received a hearing in the House Ways and Means Committee, and its cross file, SB 14, received a hearing in the Senate Budget and Taxation Committee. No further action was taken on either bill.

Designated Cross File: SB 121 (Senator Eckardt) - Budget and Taxation.

Information Source(s): Comptroller's Office; Maryland Department of Transportation; Aircraft Owners and Pilots Association; Department of Legislative Services

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