

# MINNESOTA • REVENUE

## SALES AND USE TAX Commuter Aircraft Exemption

March 9, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 706 (Hancock) / S.F. 519 (Carlson) – *Revised to include only Part 135 Aircraft*

	<b>Fund Impact</b>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
		(000's)		
General Fund	(\$1,000)	(\$1,100)	(\$1,100)	(\$1,100)
Natural Resources and Arts Funds	<u>(\$50)</u>	<u>(\$50)</u>	<u>(\$50)</u>	<u>(\$50)</u>
<b>Total – All Funds</b>	(\$1,050)	(\$1,150)	(\$1,150)	(\$1,150)

Effective for sales and purchases made after June 30, 2011.

### EXPLANATION OF THE BILL

**Current Law:** Commercial aircraft are subject to the airflight property tax and are exempted from the sales and use tax. Non-commercial aircraft are subject to the registration tax and the sales and use tax for planes that are hangared in Minnesota. This includes purchases from a private party, a business that does not normally sell aircraft, or from an out-of-state dealer. Depending on certain conditions, commercial commuter airlines (which may include fractional ownership jets) may be: 1) subject to the airflight property tax and exempt from the sales tax, or 2) subject to the aircraft registration tax and the sales and use tax.

**Proposed Law:** The sale or purchase of aircraft, as defined under Federal Aviation Regulations, Part 135, that have a maximum certified takeoff weight of 6,000 pounds or more would be exempted from the sales and use tax. The exemption would apply to aircraft operations that meet the rules and standards for commuter and on-demand operations. Also, the bill would exempt repair and maintenance parts for these aircraft from the sales and use tax.

### REVENUE ANALYSIS DETAIL

#### *Aircraft Purchases*

- For the current fiscal year, information from the Federal Aviation Administration (FAA) lists approximately 80 aircraft registered in Minnesota under Part 135 of the Code of Federal Regulations with a gross take-off weight (GTOW) of 6,000 pounds or more. Additional information was received from Minnesota Department of Transportation – Aeronautics regarding the aircraft in this classification.

**REVENUE ANALYSIS DETAIL (Cont.)**

- It is estimated that new and used aircraft (registered as Part 135 aircraft and with a GTOW of over 6,000 pounds) with a total current value of approximately \$15 million will be purchased annually.
- Global Insight, Inc. forecasts an average annual growth rate of 2.9% for the period 2011-2015 for aircraft purchases.

*Aircraft Parts Purchases*

- Based on information on the average overhaul costs for each aircraft in the Part 135 classification (from Aircraft Bluebook Price Digest), it is estimated that the annual value of the parts purchased for the aircraft over 6,000 pounds was \$300,000 in fiscal year 2011.
- It is expected parts will have an average annual growth rate of 2.9% for the forecast period.
- Fiscal year 2012 is adjusted for 11 months of collections.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)