

SUBJECT: Allocation formula for taxing interstate business aircraft

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 9 ayes — Oliveira, McCall, Bonnen, Craddick, Y. Davis, Heflin, Hilbert,
Keffer, T. King

0 nays

2 absent — Ramsay, Sadler

WITNESSES: For — Jim Popp

Against — None

BACKGROUND: In *Tex-Air Helicopters, Inc. v. Appraisal Review Board of Galveston County, Texas*, 970 S.W.2d 530, the Texas Supreme Court in 1998 ruled that business aircraft used for interstate travel may not be taxed by county appraisal districts for the full fair-market value of the aircraft because part of the value of the aircraft results from its use outside the state. Taxes must be allocated based on the portion of the value of an aircraft resulting from its use in the state.

DIGEST: CSHB 2574 would establish an allocation formula for appraising the taxable value of business aircraft continually used outside the state. The county appraisal office would have to allocate to the state of Texas the portion of the fair-market value of the plane that reflects its use in Texas. The portion of fair-market value for Texas would equal the entire fair-market value of the plane multiplied by the percentage of all departures made by the plane that were made in Texas during the year before the tax year.

The bill would not apply to commercial aircraft operated by a certified air carrier as an instrument of air commerce, as defined in Property Code, sec. 21.05.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house.

SUPPORTERS SAY: County appraisal districts need a standard allocation formula for determining the taxable value of business aircraft used for interstate travel. The lack of a standard formula leads to confusion and uncertainty over the taxable value of such aircraft. Appraisal districts and private businesses support the formula established in the bill.

An allocation formula based on departures would be the best option for appraising business aircraft. It would be consistent with the formula used to determine the taxable value of commercial aircraft, and it would be easy for pilots to document.

As an example, if a plane made 50 total departures in a year and 20 of those departures were from Texas, the appraisal office would allocate 40 percent of the fair-market value of the plane to Texas for taxing purposes.

OPPONENTS SAY: No apparent opposition.

NOTES: The committee substitute excluded commercial aircraft from the bill's provisions.