

SUBJECT: Expanding the sales tax exemption for aircraft components and services

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 8 ayes — D. Bonnen, Bohac, Button, Darby, Murphy, Parker, Springer, Wray

3 nays — Y. Davis, Martinez Fischer, C. Turner

WITNESSES: For — Yasmina Platt, Aircraft Owners and Pilots Association; Chris Provencio, Textron Aviation; Robby Harless; (*Registered, but did not testify*): Jake Posey, Bell Helicopter; Janine Iannarelli, Par Avion Ltd.; Chris Shields, Texas Agricultural Aviation Association; Stephanie Simpson, Texas Association of Manufacturers; Mignon McGarry, United Technologies Corporation; Bob Delagrammaticas)

Against — None

BACKGROUND: Tax Code, sec. 151.328 exempts from the sales tax repair, remodeling, and maintenance services to aircraft and aircraft components, provided that the aircraft or components are operated or used by a commercial carrier, a flight school, or a person only for an agricultural purpose.

This section also exempts from the sales tax the machinery, tools, supplies, and equipment used in conjunction with aircraft repair and maintenance services, provided that the aircraft or components are operated or used by a commercial carrier or a flight school.

DIGEST: CSHB 1458 would expand the current exemptions on aircraft maintenance services, aircraft components, and related machinery, tools, and supplies to cover all such services and items, not just those provided to certain operators or owners.

This bill would take effect September 1, 2015, and would not affect tax liability accruing before that date.

**SUPPORTERS
SAY:**

CSHB 1458 would increase the state's competitiveness in the market for aircraft service and repair. Texas is one of only a minority of states that charge a sales tax on aircraft maintenance, which means that all Texas services are effectively marked up by 6.25 percent. Because airplanes are inherently mobile, this has a major impact on where owners choose to service their aircraft.

Two Texas facilities estimate that together they lost as much as \$3 million combined last year due to this phenomenon. This also costs local economies near aircraft maintenance facilities, where owners or operators stay and visit while the aircraft are worked on. Because this bill would increase ancillary business activity that would be taxed, it could result in increased sales tax revenue.

**OPPONENTS
SAY:**

CSHB 1458 would result in a significant loss of revenue at a time when the state needs to better fund its most basic obligations, such as health care and education.

Although the individual cost of this exemption might not seem very large in comparison to the state budget, the Legislature must consider the aggregate cost of all of the new exemptions and tax cuts. Major tax relief bills already could result in billions of dollars in lost future revenue, and the many individual tax exemptions likely to be added this year will only combine to make that cost unsustainable.

NOTES:

The Legislative Budget Board's fiscal note estimates that this bill would have a negative impact of \$10.3 million to general revenue through fiscal 2016-17.