

Fiscal Note

BILL # HB 2189

TITLE: TPT; use tax; exemption; aviation

SPONSOR: Dunn

STATUS: As Introduced

PREPARED BY: Benjamin Newcomb

Description

Under current law, businesses may claim a Transaction Privilege Tax (TPT) or Use Tax exemption for the sale of aircraft, navigational and communication instruments, and other accessories [A.R.S. §§ 42-5061(B)(8), 42-5159(B)(8)], and another exemption for machinery, tools, and related supplies used in repairing, remodeling and maintaining aircraft [A.R.S. §§ 42-5061(B)(9), 42-5159(B)(9)]. These exemptions are only for sales related to commercial aviation. HB 2189 expands both exemptions to include general aviation. The bill would become effective on the first day of the month following the general effective date.

Estimated Impact

We anticipate that the expansion of the current aviation-related exemptions under the bill would result in a General Fund revenue reduction, beginning in FY 2025. Due to a lack of publicly available general aviation data, we are not able to determine the magnitude of the bill's impact, though we consider it likely that the revenue loss could be in the millions of dollars.

Analysis

All aviation activity outside of military and airline operations qualifies as general aviation. According to the Aircraft Owners and Pilots Association (AOPA), over 90% of all civil aircraft in the U.S. is classified as general aviation. Examples of general aviation include emergency medical evacuations, business flights, and unmanned flights (drones).

The Arizona Department of Revenue (DOR) reports the fiscal impact of the current exemptions in its *FY 2023 Tax Expenditure Report*. According to DOR, businesses deducted \$416 million for the sale of commercial aircraft, navigational, and communication instruments in FY 2023. At the state TPT rate of 5.0%, the dollar value of this exemption was \$20.8 million in FY 2023.

Deductions for the sale of machinery, tools, and supplies used in repairing commercial aircraft was \$19.5 million in FY 2023, which equates to about \$1.0 million in foregone state TPT revenue.

To estimate the fiscal impact of expanding the two commercial aviation TPT exemptions to also include general aviation, we would need data on the number of general aviation aircraft sales in Arizona as well as the sales price of such aircraft. However, to our knowledge, such data is not publicly available at the current time.

Our research of the aviation industry suggests that the price of aircraft used in general aviation varies widely. To provide some perspective, the Pilot Institute, an aviation training provider accredited by the International Accreditors for Continuing Education and Training (IACET), reports that the cost of a general aviation airplane tends to fall in the range of \$100,000 to \$1 million, while other general aviation aircraft, such as small private jets or single-engine turboprops,

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typically cost anywhere from \$1 million up to \$10 million. The cost of a large private jet can range from \$10 million to \$80 million, according to the Pilot Institute.

Due to the wide price range described above along with the lack of data on the number of aircraft sales in Arizona, we are not currently able to quantify the bill's fiscal impact.

Local Government Impact

State TPT revenues are shared with local governments and any reduction in these collections would result in decreased distributions to cities and counties.

2/28/24