

**GENERAL ASSEMBLY OF NORTH CAROLINA**



**Session 2009**

**Legislative Fiscal Note**

**BILL NUMBER:** Senate Bill 1057 (First Edition)

**SHORT TITLE:** Sales Tax Incentives for Certain Plane Parts.

**SPONSOR(S):** Senator Dorsett

<b>FISCAL IMPACT (\$ In Millions)</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>
<b>REVENUES:</b>					
<b>General Fund</b>					
<b>Impact</b>	\$ (1.92)	\$ (1.96)	\$ (2.00)	\$ (2.04)	\$ (2.08)
<b>Local Impact</b>	\$ (0.81)	\$ (0.82)	\$ (0.84)	\$ (0.86)	\$ (0.88)
<b>EXPENDITURES:</b>					
<b>POSITIONS</b>					
<b>(cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b>					
NC Department of Revenue					
<b>EFFECTIVE DATE:</b> July 1, 2009					

**BILL SUMMARY:** This legislation expands eligibility for the sales and use tax exemption under G.S. 105-164.13(45). The existing statute allows interstate passenger air carriers to purchase “aircraft lubricants, aircraft repair parts, and aircraft accessories” as well as “aircraft simulators for flight crew training” for use at their hubs as tax exempt items. HB 869 removes the language allowing the exemption to only apply to interstate air passengers, which in turn makes all purchasers of the aforementioned aircraft parts eligible for a sales and use tax exemption.

**ASSUMPTIONS AND METHODOLOGY:** HB 869 would reduce General Fund availability by \$1.92 million during the 2009-10 fiscal year. The first change, exempting all aircraft lubricants, repair parts, and accessory sales represents roughly \$1.8 million in tax collections. The second change, expanding the sales and use tax exemption to all purchases of aircraft simulators, represents a \$128,000 reduction in General Fund availability.

During the 2004 Session, Fiscal Research estimated that exempting aircraft parts, accessories and lubricants for all planes weighing 12,500 pounds or more would cost the state \$6.0 million annually. The legislation enacted a 12,500 pound weight requirement restricting the sales and use tax exemption to 80% of the aircraft expenses in the state. Expanding the exemption to the remaining 20% of sales reduces General Fund availability by \$1.5 million in (2004 dollars) (\$6.0 million in forgone tax revenue divided by 79.8% (those currently exempted) equals \$7.5 million in potential tax collections \* 20.2% (additional exemption) equals \$ 1.5 million in additional forgone revenue). Marking this figure by an annual inflation rate of roughly 3.6% for five years, the sales and use tax exemption equals \$1.8 million during the 2009-2010 fiscal year. The reduction in local sales and use tax revenue equals roughly 42% of the General Fund reduction (4.75%--the State sales and use tax rate divided by 2%--the local sales and use tax rate). Exempting aircraft simulators will decrease local sales and use tax revenue by \$750,000 during the 2009-10 fiscal year.

The second legislative change modifies G.S. 105-164.13 (45), expanding the sales and use tax exemption that initially applied to the sales of aircraft simulators for flight crew training occurring at an air courier's hub, to all purchases not limited by where the purchases take place. In 1998 and 1999, during the enactment and modification of the Bill Lee Act, Fiscal Research assumed that roughly \$10 million dollars in aircraft simulator sales occurred in the state annually. The 1998-99 legislation enacted a 12,500 pound weight requirement restricting the sales and use tax exemption to 80%, or \$8 million, of the aircraft sales in the state.

Similar to the exemption of aircraft parts, Fiscal Research estimates that 79.8% of total flight simulator sales are covered by the existing tax exemption in G.S. 105-164.13 (45). Expanding this exemption to all purchasers would reduce General Fund availability by an additional \$95,000 (in 1999 dollars) (\$8.0 million in exempt sales divided by 79.8% (those currently exempted) equals \$ 10 million in total sales \* 20.2% (additional exemption) equals \$2 million in currently taxed sales). Multiplying the \$2 million in simulator sales by 4.75%, the 2009-10 State sales and use tax rate, and indexing the figure for an average annual inflation rate of 2.73%, equals \$128,000 in 2009 dollars. The reduction in local sales and use tax revenue equals roughly 42% of the General Fund reduction (4.75%--the State sales and use tax rate divided by 2%--the local sales and use tax rate). Exempting aircraft simulators will decrease local sales and use tax revenue by \$53,800 during the 2009-10 fiscal year.

#### **SOURCES OF DATA:**

Conversations with pilots and military personnel, and their review of aircraft documents, suggested that the 12,500-pound weight limit effectively excluded most general aviation aircraft from the exemption. According to the Federal Aviation Administration's (FAA) Administrator's March 2004 Fact Book, approximately 79.8% of all licensed aircraft in the state are non-general aviation. Data from November 2008 Fact Book on Aviation Forecasts and FAA facility workloads suggest that the 79.8% non-general aviation ratio still holds true.

Federal Aviation Administration (FAA) Administrator's November 2008 Fact Book. Available at: [http://www.faa.gov/about/office\\_org/headquarters\\_offices/aba/admin\\_factbook/media/November\\_2008\\_Fact\\_Book.pdf](http://www.faa.gov/about/office_org/headquarters_offices/aba/admin_factbook/media/November_2008_Fact_Book.pdf)

House Bill 1631. 2004 Session.

Session Law 1999-360.

**TECHNICAL CONSIDERATIONS:** None

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