

Department of Legislative Services  
Maryland General Assembly  
2017 Session

FISCAL AND POLICY NOTE  
Third Reader - Revised

Senate Bill 159

(Senator Waugh, *et al.*)

Budget and Taxation

Ways and Means

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Sales and Use Tax - Aircraft Parts and Equipment - Exemption

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This bill exempts from the State sales and use tax the sale of materials, parts, or equipment used to repair, maintain, or upgrade aircraft or the avionics systems of aircraft if installed on the aircraft.

The bill requires the Comptroller to report to the General Assembly by December 31 of each year on (1) the amount of sales and use tax revenue lost from the exemption and (2) any change to the number of aviation technicians employed in the State as a result of the exemption.

The bill takes effect July 1, 2017, and terminates June 30, 2022.

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Fiscal Summary

**State Effect:** General fund revenues decrease by a potentially significant amount in FY 2018 through 2022. The amount of the decrease depends on the cost of exempt materials and parts used to repair or maintain aircraft and the amount sold each year. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2018.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful. Small businesses involved in the repair and maintenance of aircraft may benefit due to more competitive pricing.

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## Analysis

**Current Law:** Sales of machinery, equipment, and other tangible personal property used directly and predominantly in a production activity are exempt from the sales and use tax.

COMAR regulation 03.06.01.26 specifies that the sale or a sale for use of an aircraft, motor vehicle, railroad rolling stock, or vessel that is used principally in interstate or foreign commerce and a sale or a sale for use of a replacement part or other tangible personal property to be used physically in, on, or by it are exempt from the sales and use tax. Under the exemption, a vendor may overcome the presumption of taxability by requiring the buyer to sign a specified form.

**Background:** The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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### Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; plus 0.5% (in one municipality) or 1% (in 27 municipalities)

\*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

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Ohio enacted a sales and use tax exemption for certain aircraft maintenance and repair transactions in 2008. The definition of aircraft includes those aircraft that are either of more than 6,000 pounds maximum certified takeoff weight or used exclusively in general aviation. General aviation includes all civilian flying, except scheduled passenger airlines.

A study published by the Maryland Aviation Administration reports that the Maryland airport system consists of Baltimore/Washington International Thurgood Marshall Airport, Martin State Airport, and 35 general aviation airports. The study estimated that these airports are responsible for over 107,000 direct and indirect jobs, \$7.8 billion in business revenue, and approximately \$590 million in State and local tax revenues.

**State Fiscal Effect:** General fund revenues may decrease by a potentially significant amount in fiscal 2018 through 2022. The amount of the decrease depends on the cost of exempt materials and parts used to repair or maintain aircraft and the amount sold each year, neither of which can be reliably estimated. The 2012 Economic Census lists 12 businesses in Maryland involved in aerospace product and parts manufacturing. The amount of annual sales of these businesses is withheld by the U.S. Census Bureau due to confidentiality requirements.

As a point of reference, for each \$1.0 million of aircraft materials, parts, and equipment that are exempt under the bill, general fund revenues will decrease by \$60,000.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2018 to notify the approximately 130,000 sales and use tax account holders of the sales tax change. The Comptroller's Office also notes that it may need additional personnel to verify compliance with the new exemption, but can handle the reporting requirements with existing resources.

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### **Additional Information**

**Prior Introductions:** HB 313 of 2016 received a hearing in the House Ways and Means Committee, and its cross file, SB 14, received a hearing in the Senate Budget and Taxation Committee. No further action was taken on either bill.

**Cross File:** HB 67 (Delegate Saab) - Ways and Means.

**Information Source(s):** Comptroller's Office; Department of Legislative Services

**Fiscal Note History:** First Reader - January 27, 2017  
mm/jrb Third Reader - March 21, 2017  
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