

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL MEMORANDUM**

HB 467 – SB 752

March 11, 2015

SUMMARY OF ORIGINAL BILL: Exempts from state and local sales and use tax: (1) the sale, use, storage, or consumption of parts, components, accessories, materials, equipment, and supplies that are sold to or sold, used, or installed by an authorized large aircraft service facility; (2) all repair and refurbishment service labor performed with respect to large aircraft mainframes, large aircraft engine equipment and large aircraft accessories, where the repair services on the mainframes, equipment, and accessories are initiated, contracted, performed, or completed in or by an authorized large aircraft service facility within Tennessee; and (3) all sales and purchases of large aircraft and related equipment, and their use, storage, or consumption within this state following the sale and purchase, where the large aircraft and related equipment have or are intended to have a situs outside of this state following the sale and purchase, and where the large aircraft and related equipment are in and remain within this state following the sale and purchase solely for purposes of repair and refurbishment services by an authorized large aircraft service facility, and are in fact removed from this state within fifteen (15) days from the completion of the repair and refurbishment services.

Establishes that the exemption under (1) above does not apply to fuel and other petroleum products or to shop equipment and tools.

Defines an “authorized large aircraft service facility” as a repair station located within Tennessee that is engaged in repair and refurbishment services of large aircraft mainframes, large aircraft engine equipment, and large aircraft accessories under a valid air agency certificate issued by the Federal Aviation Administration in accordance with 14 CFR Part 145 of the federal aviation regulations, with an authorized class rating of Air Frame Class IV, and organization designation authority, or such other similar or successor certificate, rating, and authority as the federal aviation administration may provide for from time to time.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

(CORRECTED)

Forgone State Revenue – \$269,900

Forgone Local Revenue – \$110,100

HB 467 – SB 752 (CORRECTED)

SUMMARY OF AMENDMENT (003518): Expands the proposed state and local sales and use tax exemption to include the sale, use, storage, or consumption of software and systems, and adds authorized large aircraft affiliates to the list of entities under the proposed exemption. Establishes that the proposed exemption will include, but not be limited to: the sale by such entities of, and the corresponding use and consumption of, guaranty, warranty, or service contracts for or in connection with the performance of repair and refurbishment services; and the replacement, installation, sale, use, storage, or consumption of parts, components, software, systems, accessories, materials, equipment, and supplies pursuant to the terms of any such guaranty, warranty, or service contracts.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On March 2, 2015, a fiscal memo was issued estimating a fiscal impact as follows:

Unchanged from the original fiscal note.

The estimated fiscal impact of the original fiscal note did not accurately reflect the impact of the proposed legislation. This fiscal memo is being corrected to reflect the corrected fiscal note and account for additional information provided by the Department of Revenue.

(CORRECTED)

Forgone State Revenue – \$337,300

Forgone Local Revenue – \$137,700

Assumptions for the bill as amended:

- By enacting any type tax exemption prior the tax-exempted activity occurring in the state, the result is a potential forgone revenue opportunity. In that case, the tax-exempted activity could not be taxed should it subsequently occur in the state. The degree to which any future tax revenue is forgone depends on the whether the tax-exempted activity would have occurred in the state had it remained taxable.
- According to the Department of Economic & Community Development (ECD), there are currently 77 repair stations in the United States that meet the criteria to qualify as authorized large aircraft service facilities, as established by the proposed legislation. However, none of such facilities are currently located in Tennessee.
- Based on information provided by the Department of Revenue, a typical large aircraft service facility will have an estimated \$5,000,000 in sales transactions for equipment, parts, materials, accessories, etc. (including software and systems), that will be exempt from the state and local sales tax under this bill as amended. The single article state sales taxes will not apply to any such sales.
- If a large aircraft service facility were to start up in or relocate to Tennessee in the future, any impact on the state or local revenue is cautiously considered forgone revenue for this analysis.

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring amount of forgone state revenue is estimated to be \$337,340 $[(\$5,000,000 \times 7.0\%) - (\$5,000,000 \times 7.0\% \times 3.617\%)]$.
- The total recurring amount of forgone local revenue is estimated to be \$137,660 $[(\$5,000,000 \times 2.5\%) + (\$5,000,000 \times 7.0\% \times 3.617\%)]$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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