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FISCAL IMPACT REPORT

ORIGINAL DATE 01/28/14
LAST UPDATED 02/04/14 **HB** 14/aHTRC

SPONSOR White & Cisneros

SHORT TITLE Aircraft Parts & Maintenance Gross Receipts **SB** _____

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
\$0.0	(\$290.0)	(\$310.0)	(\$320.0)	(\$340.0)	Recurring	General Fund
\$0.0	(\$200.0)	(\$210.0)	(\$220.0)	(\$230.0)	Recurring	Local Governments
\$0.0	(\$490.0)	(\$520.0)	(\$540.0)	(\$570.0)	Recurring	Total

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB 26

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment includes a reporting requirement for taxpayers allowed the deduction, requiring the taxpayer to report the deduction separately. TRD is required to compile an annual report on the deductions and report to the Revenue Stabilization and Tax Policy Committee every five years, starting in 2019.

Synopsis of Original Bill

House Bill 14 provides a gross receipts tax deduction from selling aircraft parts or maintenance services for aircraft or aircraft parts.

The bill provides any deduction of receipts represented by a trade-in of tangible personal

property of the same type being sold must be taken before calculating the deduction created in HB 14.

The effective date of this bill is July 1, 2014. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) reports it does not have data at a sufficiently detailed level to directly identify existing taxpayers that would qualify for the proposed deduction. However, the FAA publishes a listing of certified repair stations, which can be cross referenced with TRD data. These taxpayers accounted for about \$5.2 million in taxable gross receipts, and paid about \$360 thousand in gross receipts tax in FY13. This represents growth of about 6 percent over FY12. Many of the FAA certified repair stations are already receiving a deduction under this section as manufacturers or affiliates.

The revenue impact includes the assumption that FAA certified repair stations represent 80 percent of the relevant market, and that the gross receipts tax foregone will grow at a rate consistent with consensus revenue estimate gross receipts tax growth rates.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

DUPLICATION

Duplicates SB 26.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

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| <ol style="list-style-type: none">1. Adequacy: Revenue should be adequate to fund needed government services. |
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2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

PvM/svb:ds