

Fiscal Note

BILL # HB 2646

TITLE: aircraft taxation; fair market value

SPONSOR: Grantham

STATUS: As Introduced

PREPARED BY: Jordan Johnston

Description

HB 2646 would limit the assessment of the aircraft license tax for general aviation aircraft to not exceed the annual percentage change in the U.S. Consumer Price Index (CPI). The bill would also benchmark the license tax in FY 2022 to the fair market value of the aircraft in 2019. The Arizona Department of Transportation (ADOT) would be required to apply a credit in FY 2023 to any aircraft in FY 2022 that was assessed and paid an aircraft license tax that exceeds the benchmark to make up the difference.

Estimated Impact

By resetting the baseline for aircraft values at 2019 levels adjusted for inflation, we estimate ongoing revenue collections would be reduced by \$(1.9) million in FY 2023 compared to current law. The General Fund share of this revenue loss would be \$(950,000) and the State Aviation Fund share would be \$(665,000). The remaining impact would affect local governments.

We also estimate one-time revenues would be reduced by up to \$(1.9) million in FY 2023 from credits for FY 2022 license tax collections.

The one-time impacts may represent foregone revenues as opposed to an actual reduction in collections. Our estimates are based on a substantial increase in aircraft value in the last year. We are uncertain as to whether the recent increase in value will be reflected in the FY 2022 license tax collections, which are due in February of each year.

We have not yet received a fiscal impact estimate from ADOT.

Analysis

The aircraft license tax is an annual tax imposed on selected aircraft based and registered in the state. ADOT currently assesses an annual tax rate of 0.5% of the average fair market value of any registered aircraft in the state, with a minimum tax of \$20. Monies received from the tax are allocated as follows: 50% to the state General Fund, 35% to the State Aviation Fund, 9.5% to counties, and 5.5% to incorporated cities and towns. In FY 2021, the state collected \$8.7 million from the tax.

Some aircraft are exempt from paying the license tax. These exemptions include: 1) regularly scheduled aircraft operated by an airline company for hire, 2) nonresident-owned aircraft not used for intrastate commercial activities and not based in Arizona for more than 90 days per year, and 3) aircraft operated exclusively in the public service by the U.S. government, the state, a political subdivision, or the Civil Air Patrol. Other aircraft, such as nonresident aircrafts in Arizona for more than 90 days but less than 210 days per year and salvaged aircrafts, receive reduced fees.

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ADOT currently determines the average fair market value for general aviation aircraft. The bill would modify the assessment of the aircraft license tax by limiting the yearly change to the annual percentage change in the U.S. CPI. It would also benchmark the FY 2022 license tax rate to the 2019 fair market value. We understand the bill to set the FY 2022 value at the 2019 fair market value adjusted for 3 years of inflation.

The bill could reduce license tax revenues on an ongoing basis in 2 ways: 1) by permanently re-setting the baseline for aircraft values at 2019 levels, and 2) limiting the annual change. We estimate that re-setting the baseline will result in reduced revenues of about \$(1.9) million on an ongoing basis. This is based on 2 estimates. The first is a General Aviation Manufacturers Association estimate that general aviation airplane prices remained roughly flat from 2019 to 2020. The second estimate is an International Aircraft Dealers Association report that used aircraft values have increased by 30% in 2021. Combined, we assume that airplane prices have increased by 30% from 2019 through 2021 as compared to total U.S. CPI inflation of 7.74%. The estimated foregone revenue collection of approximately \$(1.9) million would be allocated as follows: \$(950,000) to the General Fund, \$(665,000) to the State Aviation Fund, \$(180,500) to counties, and \$(104,500) to cities and towns.

The bill would have a one-time impact in FY 2023 as a result of credits issued by ADOT for any aircraft that was charged above the 2019 fair market value in FY 2022 but paid the tax prior to the effective date of this act. The aircraft registration must be renewed each year on or before the last day of February. Therefore, with the exception of new aircraft purchased and registered after February 2022, any eligible aircraft registration would receive the one-time credit. Based on our estimate of the ongoing impact, we estimate this additional one-time impact would be up to \$(1.9) million.

2/16/22