# HB 18-1083

Legislative Council Staff

*Nonpartisan Services for Colorado's Legislature*

# FISCAL NOTE

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| **Drafting Number:** | LLS 18-0171 | **Date:** | February 9, 2018 |
| **Prime Sponsors:** | Rep. Kraft-Tharp; Sias<br>Sen. Tate; Williams A. | **Bill Status:** | House Business |
| | | **Fiscal Analyst:** | Meredith Moon \| 303-866-2633<br>Meredith.Moon@state.co.us |

**Bill Topic:** ON-DEMAND AIR CARRIERS SALES & USE TAX EXEMPTION

**Summary of Fiscal Impact:**

- ☒ State Revenue
- ☒ State Expenditure (*minimal*)
- ☐ State Transfer
- ☐ TABOR Refund
- ☒ Local Government (*conditional*)
- ☐ Statutory Public Entity

This bill exempts the purchase of aircraft for use by on-demand air carriers from sales and use tax. This bill will result in an ongoing annual decrease in state revenue and an increase in workload. Local governments will have a conditional revenue decrease if they adopt the exemption.

**Appropriation Summary:** No appropriation is required.

**Fiscal Note Status:** This fiscal note represents the introduced bill.

**Table 1**
**State Fiscal Impacts Under HB 18-1083**

| | | FY 2018-19 | FY 2019-20 |
|---|---|---|---|
| **Revenue** | General Fund | ($87,000 - $217,500) | ($90,000 - $223,000) |
| **Expenditures** | | - | - |
| **Transfers** | | - | - |

## Summary of Legislation

Beginning July 1, 2018, this bill exempts aircraft purchases by or for use by on-demand air carriers in the state from sales and use tax. In the event an aircraft is purchased and then leased to an on-demand carrier, the lease must have a duration of at least twenty-four months to qualify for the exemption. It is at the discretion of municipalities and counties to exempt the aircraft described in this bill. Special districts or other limited purpose government entities are required to continue to levy the tax.

## Background

On-demand air carriers are those that do not maintain scheduled operations and that are limited to aircraft with 30 seats or less. Types of on-demand air carriers include private charter companies, transport of cargo, tours, and medical flights. There are approximately 40 on-demand air carriers in the state. Among these 40 carriers, there are an estimated 120 aircraft in service, ranging from large luxury jets to helicopters. The average year an aircraft in on-demand service was manufactured is 1991.

## Assumptions

This fiscal note assumes that three on-demand aircraft will be sold in Colorado in FY 2018-19, and in FY 2019-20. Sales are expected to average between $1 million and $2.5 million per sale in FY 2018-19 based on variation in the price of aircraft and sales volatility. In FY 2019-20, sales prices are increased by 2.5 percent, based on Legislative Council Staff's December forecast for the consumer price index (CPI). These assumptions reflect the number of on-demand aircraft in Colorado and the relative revenue impacts of sales and use tax exemptions for aircraft and aircraft parts under current law.

## State Revenue

This bill is expected to reduce General Fund revenue by between $87,000 and $217,500 in FY 2018-19, and between $90,000 and $223,000 in FY 2019-20, with similar reductions in future years. To the extent that sales differ from the assumptions used in this fiscal note, actual revenue impacts will be higher or lower. The number and sale price of on-demand carriers can vary widely in any given year based on the number and sales price of on-demand carriers.

## State Expenditures

This bill creates a minimal workload increase for the Department of Revenue to update its systems in FY 2018-19 and a potential future workload increase to process aircraft-related returns.

The Office of Research and Analysis in the Department of Revenue will require a one-time increase of about 40 hours to update the tax expenditure tracking system. This workload increase can be accomplished within existing appropriations.

## Local Government Impact

Counties and municipalities may adopt an ordinance to exempt aircraft described in this bill. In the case it is adopted, there will be revenue decrease to local governments.

## Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

## Departmental Difference

The Department of Revenue estimates an increase in expenditures of $10,010 and 0.2 FTE in FY 2018-19, and $9,069 and 0.2 FTE in FY 2019-20. This fiscal note does not include these costs because the department assumes a significantly higher number of sales of on-demand aircraft. The department assumes that an additional 120 aircraft will be purchased on an annual basis as a result of this bill. The review and audit of each exemption is expected to require about 4 hours to complete. This fiscal note estimates that 6 to 8 aircraft will be purchased annually, the review of which can be accomplished with existing resources. In the event more claims are filed than this fiscal note estimates, additional FTE can be requested through the annual budget process.

## State and Local Government Contacts

Counties
Municipalities
Special Districts
Regional Transportation District
Information Technology
Revenue
Transportation