

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3017-02
Bill No.: Perfected HCS for HB 1333
Subject: Aircraft and Airports; Civil Procedure; Taxation
Type: Original
Date: February 26, 2020

Bill Summary: This proposal modifies provision relating to aviation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
General Revenue*	(Unknown)	(Unknown)	(Unknown)	Could Exceed (\$8,847,000)
Total Estimated Net Effect on General Revenue	(Unknown)	(Unknown)	(Unknown)	Could Exceed (\$8,847,000)

*Oversight notes the FY 2025 amounts represent a continuation of an existing sales tax exemption for aviation jet fuel (over \$1.5 million per common carrier) that is currently set to expire December 31, 2023 (§144.805).

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Blind Pension Fund (0621)	\$0	\$0 to (\$400)	\$0 to (\$400)	\$0 to (\$400)
Conservation Commission Funds (0609)*	\$0	\$0	\$0	Could exceed (\$161,131)
Parks, Soil, & Water Funds (0613 & 0614)*	\$0	\$0	\$0	Could exceed (\$128,905)
Aviation Trust Fund (0952)*	\$0	\$0	\$0	\$4,979,858
School District Trust (0688)*	\$0	\$0	\$0	Could exceed (\$1,289,047)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 to (\$400)	\$0 to (\$400)	Less than \$3,000,775

*Oversight notes the bulk of the FY 2025 amounts represent a continuation of an existing sales tax exemption for aviation jet fuel (over \$1.5 million per common carrier) that is currently set to expire December 31, 2023 (\$144.805).

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Total Estimated Net Effect on FTE	0	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Local Government*	\$0	\$0 to (\$70,000)	\$0 to (\$70,000)	Could exceed (\$11,870,000)

*Oversight notes the bulk of the FY 2025 amount represents a continuation of an existing sales tax exemption for aviation jet fuel (over \$1.5 million per common carrier) that is currently set to expire December 31, 2023 (§144.805).

FISCAL ANALYSIS

ASSUMPTION

§§305.800, 305.802, 305.804, 305.806, 305.808 & 305.810 - Abandoned Aircraft

Officials from the **Department of Transportation (MoDOT)** assume the proposal will have no fiscal impact on their organization.

Oversight notes that MoDOT has stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for that agency.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, several Recorders of Deeds were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

Oversight assumes the procedures governing the removal and disposal of abandoned aircraft would not be invoked often enough to materially impact the budget of any affected political subdivision.

§137.115 - Property Tax Assessment for Historic Motor Vehicles and Aircraft (House Amendment 2 as amended)

In response to a similar proposal from 2019 (HB 1205), officials at the **Office of Administration Division of Budget and Planning (B&P)** assumed this proposal makes multiple technical corrections to Sections 137.115. This proposal also changes the allowed hours of flying for historical aircraft. This could increase the number of aircraft that are eligible for a reduced property tax rate. Based on information provided by the State Tax Commission, this could decrease revenues to the Blind Pension Trust Fund by \$0 to \$500. This could also decrease local revenues by \$0 to \$90,000.

This proposal will decrease Total State Revenue by up to \$500 and will impact the calculation under Article X, Section 18(e).

In response to a similar proposal from 2019 (HB 1205), officials at the **State Tax Commission** estimated the fiscal impact to local jurisdictions (school districts, cities, counties etc) to be a loss of zero to \$35,000. The change in §137.115 regarding non commercial aircraft, twenty five years old, from fifty (current law) to one hundred hours per year could have a fiscal impact on local taxing jurisdictions.

ASSUMPTION (continued)

The agency does not have exact data of how many of the 905 aircraft in Missouri are within this criteria and threshold, however in 2016 HB 2784 (which did not become law) changed the number of hours to two hundred and fifty, the agency calculated the fiscal impact of that change to be up to \$90,000 to local taxing jurisdictions.

Oversight will utilize the estimate (\$35,000) provided by the State Tax Commission and assume this will double (\$70,000) as the current proposal doubles the number of hours per year to 200. Oversight has adjusted the Blind Pension Fund impact to approximately \$400 (levy of \$0.03 of an average of approximately $\$7.00 \times \$70,000 = \$300$).

In response to a similar proposal from 2019 (HB 1205), officials at the **Department of Economic Development, Public Service Commission** and the **Department of Revenue** each assume there is no fiscal impact from this proposal.

Oversight notes that the agencies mentioned above have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

§143.441 - Air Freight Forwarder as a Corporation (House Amendment 3)

Officials at the **Department of Revenue (DOR)** assume this section adds freight forwarders to the definition of corporations. DOR assumes an unknown impact on Total State Revenue and General Revenue.

In response to a similar bill from 2020 (HCS for HB 2303), **Office of Administration Budget and Planning (B&P)** assumed Section 143.441 adds freight forwarders to the definition of corporations.

B&P assumed an unknown impact on Total State Revenue and General Revenue.

Oversight does not have any information to the contrary in regards to DOR's and B&P's assumptions; therefore, Oversight will reflect an "Unknown" loss to General Revenue on the fiscal note.

ASSUMPTION (continued)

§144.805 - Aviation Taxation (House Amendment 3)

In response to a similar bill from 2020 (HCS for HB 2303), office of **Administration Budget and Planning (B&P)** assumed Section 144.805 would extend the sunset date from 2023 to 2033 for the aviation jet fuel sales tax exemption. B&P notes that since this is only a sunset extension this provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from **Department of Revenue (DOR)** state the proposal would extend the sunset date on the aviation jet fuel tax in Section 144.805, RSMo. This tax was to sunset on December 31, 2023 and is extended to December 31, 2033. The extension of the sunset date will not fiscally impact the Department.

For informational purposes, DOR provided the amount collected each of the last four years.

FY 2015	\$4,823,355
FY 2016	\$4,663,184
FY 2017	\$3,889,020
FY 2018	\$6,543,872

Oversight notes this proposal would continue to exempt jet fuel from state sales and use tax and local sales tax after the first \$1.5 million in state sales and use tax is paid. Aviation jet fuel for federal grant recipients, airports that have been approved for federal grant funds or which are otherwise eligible to apply for federal grant funds, would be exempt from local sales and use tax, at the rates that were in effect December 30, 1987.

Oversight Estimation of Forgone Sale and Use Tax Collection

The average sales tax collection by DOR between FY 2015 and FY 2018 was \$4,979,858.

Per U.S. Energy Information Administration the average purchase of jet fuel in Missouri between FY 2015 and FY 2018 was \$ 294.9 Million.

ASSUMPTION (continued)

The average annual cost to the state is estimated as follows (on \$294.9 million of jet fuel sales):

Tax	Potential collection	Actual collection	Difference (forgone tax)
3% GR Sales Tax	\$8,847,000	\$0	(\$8,847,000)
Aviation Trust Fund	\$0	\$4,979,858	\$4,979,858
1% School District Trust	\$2,949,000	\$1,659,953	(\$1,289,047)
1 % Park, Soil, Water	\$294,900	\$165,995	(\$128,905)
125% Conservation	\$368,625	\$207,494	(\$161,131)
Total Tax	\$12,459,525	7,013,300	(\$5,446,225)

* Estimate does not include the loss generated by section 144.809 of this proposal.

Oversight used above calculation to estimate the annual Local Sale tax loss as follows:

Oversight notes roughly the average local rate of sales & use tax percentage in Saint Louis Lambert International Airport (Lambert) and Kansas City International Airport (KCI) is 4.4 %. Therefore, Oversight will show fiscal impact to local political subdivisions as \$11.8 M (294 M (Avg. Jet Fuel Purchase) x 4.4%).

Oversight notes DOR indicated they did not anticipate a reduction in funding from Section 144.807 RSMo., relative to what is currently collected, because the department is collecting \$0 revenue due to the exemption in current law. However, Oversight considers the extension of a sunset date as having an impact because the baseline of current law assumes the exemption would cease and the money would have been collected if not for this bill. Therefore, Oversight will show an unknown negative fiscal impact to General Revenue for the extension of the sales tax exemption authorized in Section 144.807, RSMo.

Oversight has estimated the loss to political subdivisions as shown above for exempting aviation jet fuel used or consumed at airports which are recipients of federal grant funds, or have applied for or been approved for federal grant funds, from local sales and use tax, at the rates that were in effect December 30, 1987. Oversight assumes this proposed legislation would extend an existing provision by removing or changing the expiration date.

ASSUMPTION (continued)

Oversight also assumes that removing or changing the expiration date would extend any fiscal impact associated with the existing provision. Therefore, Oversight will include an estimated impact in this fiscal note.

In response to a similar bill from 2020 (HCS for HB 2303), officials from **Department of Natural Resources (DNR)** assumed extending the sales tax exemption for aviation jet fuel could decrease the future amount of incoming revenues available in the Parks and Soils Sales Tax Funds for long term operation of Missouri's state parks and historic sites as well as assistance to agricultural landowners through volunteer programs.

The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, the sales tax exemption could result in an unknown loss to the Parks and Soils Sales Tax Funds.

In response to a similar bill from 2020 (HCS for HB 2303), officials from **Department of Conservation (MDC)** assumed the proposal would have an unknown fiscal impact but greater than \$100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any change in sales and use tax collected would affect revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax.

Oversight notes that DOR's assumption does not include forgone sales and use tax effect on each department's funds; therefore, Oversight will note the loss of revenue calculated above to MDC's and DNR's organizations as calculated within the Oversight assumption for purpose of this fiscal note.

Bill as a Whole

Officials from the **Department of Public Safety - Missouri Highway Patrol** and **Department of Transportation** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight notes that the agencies mentioned above have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
GENERAL REVENUE				
<u>Loss - §143.441 Air Freight Forwarders defined as Corporations</u>	(Unknown)	(Unknown)	(Unknown)	(Unknown)
<u>Loss - Jet Fuel Tax Sales Exemption (\$144.805)</u>	\$0	\$0	\$0	(\$8,847,000)
<u>Loss - Jet Fuel Storage Exemption (\$144.807)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	Could Exceed <u>(\$8,847,000)</u>
BLIND PENSION FUND				
<u>Revenue Reduction - loss of property tax revenue from expansion of hours for taxation of aircraft (\$137.115)</u>	<u>\$0</u>	<u>\$0 to (\$400)</u>	<u>\$0 to (\$400)</u>	<u>\$0 to (\$400)</u>
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	<u>\$0 to (\$400)</u>	<u>\$0 to (\$400)</u>	<u>\$0 to (\$400)</u>

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
CONSERVATION COMMISSION FUNDS (0609)				
<u>Loss - Jet Fuel Tax Sales Exemption</u> (\$144.805)	\$0	\$0	\$0	(\$161,131)
<u>Loss - Jet Fuel Storage Exemption</u> (\$144.807)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	Could exceed <u>(\$161,131)</u>
PARK, SOIL, WATER FUND (0613 & 0614)				
<u>Loss - Jet Fuel Tax Sales Exemption</u> (\$144.805)	\$0	\$0	\$0	(\$128,905)
<u>Loss - Jet Fuel Storage Exemption</u> (\$144.807)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARK, SOIL AND WATER FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	Could exceed <u>(\$128,905)</u>

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	<u>FY 2021</u> <u>(10 Mo.)</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>Fully</u> <u>Implemented</u> <u>(FY 2025)</u>
AVIATION TRUST FUND (0952)				
<u>Income -</u> Continuation of Direct Payments (\$144.805)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,979,858</u>
ESTIMATED NET EFFECT ON THE AVIATION TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,979,858</u>
SCHOOL DISTRICT TRUST FUND (0688)				
<u>Loss - Jet Fuel Tax</u> Sales Exemption (\$144.805)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$1,289,047)</u>
<u>Loss - Jet Fuel</u> Storage Exemption (\$144.807)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON DEPARTMENT HIGHER EDUCATION	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	Could exceed <u>(\$1,289,047)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Reduction - loss of property tax revenue from expansion of hours for taxation of aircraft (§137.115)</u>	\$0	\$0 to (\$70,000)	\$0 to (\$70,000)	\$0 to (\$70,000)
<u>Loss - Jet Fuel Tax Sales Exemption (§144.805)</u>	\$0	\$0	\$0	(\$11,800,000)
<u>Loss - Jet Fuel Storage Exemption (§144.807)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0 to (\$70,000)</u>	<u>\$0 to (\$70,000)</u>	<u>Could exceed (\$11,870,000)</u>

FISCAL IMPACT - Small Business

Small businesses that own either aircraft or airports could be impacted by this proposal.

Small businesses that buy aviation fuel would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies provision relating to aviation.

The bill increases the number of hours of operation per year a noncommercial aircraft at least 25 years old can fly from less than 50 hours to less than 200 hours in order to be assessed and valued at 5% of the aircraft's true value for property tax purposes.

"Qualified air freight forwarders", as defined in the bill, is added to the definition of "corporation" as a transportation corporation for the purposes of corporate income allocation.

Currently, if a common carrier has first paid applicable sales and use tax to the purchase, storage, or consumption of the fuel in an amount of \$1.5 million in the year, then an exemption is granted on subsequent sales of aviation jet fuel in the given year to common carriers engaged in the interstate air transportation of passengers and cargo. Additionally, all sales and use tax revenues from aviation jet fuel received less the amounts designated as defined in the bill, will be deposited to the credit of the Aviation Trust Fund provided that the trust fund not exceed \$10 million.

This bill extends, from December 31, 2023, to December 31, 2033, the expiration date of the provisions regarding the exemption and such funding to the Aviation Trust Fund (Section 144.805).


This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Transportation
Department of Revenue
Department of Natural Resources
Missouri Department of Conservation
Department of Public Safety - Missouri Highway Patrol
Office of Administration - Budget and Planning
State Tax Commission
Public Service Commission
Department of Economic Development



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