

## Aircraft Sales and Use Tax Exemption

### Fact Sheet

The Colorado Aviation Business Association strongly supports legislation to expand a current Colorado sales and use tax exemption to apply to on-demand air carriers.

Currently, under Colorado law, aircraft used in interstate commerce by a commercial airline, and parts permanently affixed to aircraft, are exempt from sales and use tax. *See* C.R.S. § 39-26-711. This exemption applies to state, Regional Transportation District/Scientific and Cultural Facilities District, county and state-collected local taxes. *Id.*, *see also* Parts 1 and 2 of Article 39, C.R.S..

A commercial airline is defined as an airline carrying freight or passengers on regularly scheduled flights for a fee. *See* C.R.S. § 39-4-101(2). On-demand air carriers, including charter and air ambulance services operated under 41 C.F.R. Part 135, generally fall outside of the definition of a commercial airline by virtue of their “on-demand” flight operations as opposed to “regularly scheduled” flights. Therefore, purchasers of aircraft utilized in on-demand air carrier operations cannot avail themselves of the sales and use tax exemption under C.R.S. § 39-26-711.

Because of this, on-demand aviation businesses in Colorado have been prevented from growing their operations or updating their fleets. These businesses operate on very tight margins, and cannot afford the tax burden that accompanies new aircraft purchases. More importantly, most of these businesses lease their aircraft from other owners. But because of Colorado’s “fly-away” exemption – aircraft purchased in Colorado which leave the state within 120 days are not charged sales & use tax – aircraft owners seldom, if ever, purchase and place aircraft on leases to on-demand carriers in the state, instead placing them on leases in other states, or with scheduled commercial airlines, to avoid the tax burden.

**The Colorado Aviation Business Association supports HB18-1083 to apply the sales and use tax exemption under section 711 to commercial on-demand air carriers.**

HB-1083 applies the same sales and use tax exemption currently available to commercial airlines to the state’s on-demand carriers, and to owners who purchase an aircraft for lease to an on-demand carrier, *provided that the aircraft remain on that lease for a minimum of 2 years.*

The following anticipated benefits will help grow Colorado’s aviation industry and benefit the state as whole:

- Aircraft purchasers will place additional aircraft in on-demand service in Colorado, which will increase jobs related to their operation. Such jobs include pilots, maintenance and ground personnel, management, schedulers, administrative staff, and a host of related services.
- Providers of services ancillary to the purchase, placement and operation of charter aircraft will see more business opportunities within Colorado. These services include aircraft brokers and dealers, legal support, accounting, fuel sales and hangar services, among others.
- Colorado has a multitude of on-demand air carriers (approximately 40) which will have access to additional aircraft. Because charter companies often do not own their own aircraft, but instead lease them from owners, the expanded exemption will allow these air carriers an opportunity to update their fleets with newer aircraft featuring enhanced safety features.
- Colorado rural communities will benefit through additional service. Service providers critical to

rural communities, such as medial support, rely upon on-demand air carriers to access these communities with no airline service.

- Aviation in Colorado currently supports 265,700 jobs with an annual payroll of \$12.6 billion and an economic impact of \$32.2 billion as cited in the 2013 economic impact study provided by the Colorado Div. of Aeronautics. Many companies supporting these jobs will be more competitive and see increased growth through the proposed expanded exemption.
- A recent survey of several Colorado based on-demand air carriers, show that on average each aircraft creates 5.26 jobs to support its operation.
- A large cabin class aircraft requires a crew of 5 with average salaries of \$550,000 per aircraft.
- One on-demand air charter operator at Centennial Airport stated that with passage of the bill it would assist them in adding an additional 3 aircraft. Each of these aircraft will have an approximate annual operating budget of \$1,600,000 in variable expenses of which about 70% remains here in Colorado adding another \$3,360,000 in funds spent here. In total just these 3 aircraft would add an additional \$5,000,000 in economic impact.
- An on-demand aircraft operator based at Rocky Mountain Metropolitan Airport in Broomfield with aircraft and crews based at KBJC (Broomfield), KAPA (Centennial), KEGE (Eagle/Vail), KTEX (Telluride), and KASE (Aspen), stated that passage of the bill could help them in acquiring an addition 3-10 aircraft, adding as many as 50 new jobs at multiple locations in the state.
- The impact on tax revenue will be small in comparison to the overall economic benefit. Aircraft owners often utilize sophisticated tax planning to mitigate sales and use tax. Often, this results in owners simply basing aircraft in other states. Incentivizing owners to keep these valuable assets in Colorado and place them further down the stream of commerce through commercial service will create opportunities warranting this legislation.