

MEMORANDUM

TO: All House Members

FROM: Representatives Peter J. Daley and Richard A. Geist

DATE: February 23, 2011

SUBJECT: Elimination of fixed-wing aviation Sales and Use Tax (SUT)

In the near future, we intend to reintroduce legislation based on an idea originally espoused last session by former member John Siptroth in House Bill 785.

In October 2009, Pennsylvania provided a SUT exemption on helicopter sales, parts, maintenance and repair. Last July, as a direct result of this change, Sikorsky Aircraft announced that it was moving all commercial helicopter production to Pennsylvania, creating an estimated **400 jobs**.

Sadly, we didn't extend this exemption to fixed winged aircraft and over the last three years, and we've paid dearly for it. In that time period, we've had the opportunity to land some major aviation manufacturers like Embraer, Eclipse and Honda Jet, the latter of which is entering the aviation market for the first time in the history of the company. These three corporations decided to locate in other states due to our current fixed wing tax policy; in the case of Honda Jet, they located in New York.

Like H.B. 785, the legislation we're about to introduce will eliminate SUT on fixed wing aircraft parts, maintenance and repairs. And it will go one step further by eliminating the tax on aircraft sales as well. This is an important addition to the bill in terms of our ability to attract large companies, many of which own 2-3 aircraft originally purchased in a state that provides an exemption from sales tax. When they investigate landing their business in Pennsylvania and learn that they'll be subject to a 6% sales tax on their fleet, they do a touch and go.

This is a textbook example of Pennsylvania's uncompetitive marketplace; most of our neighboring states have done away with this form of taxation and are reaping the benefits. The tax itself costs far more in terms of lost revenue than it generates, estimated at only \$5 million.

Last May, AeroStragey, LLC reported that Pennsylvania lags behind most states with respect to aviation aircraft maintenance jobs and the economic stimulus they bring. We employ only 2,900 people in this sector, creating about \$605 million of economic impact. In contrast, Ohio employs 8,300 people and New York, 9,400; individually, both states clear over \$1.2 BILLION in terms of total economic impact. While Pennsylvania is home to about 9,000 aircraft, we have **not one** major paint/overhaul shop or turbine engine service center in the state, clear evidence that there is no demand for these kinds of services. Why? When aircraft owners require maintenance, they fly their aircraft out of Pennsylvania to service centers that don't charge sales tax. Even small single engine aircraft owners fly out of state for service.

The good news is that Pennsylvania is fertile ground for investment and development. The Aviation Council of Pennsylvania reports that the aviation and aerospace industry has the potential to become one of the top five business clusters in the Commonwealth, creating jobs that, on average, pay a family sustaining \$50,000 per year. We have an abundance of underutilized public use airports, 133 to be exact – the infrastructure is already in place.

By revising tax policy on fixed wing aircraft, Pennsylvania will begin to attract a wide array of aerospace firms, many of which find our geographic location desirable.

To learn more, call either office to request a report issued by the University Of Pennsylvania Fels Institute Of Government entitled: *“Eliminating the Aviation Sales Tax: Implications for Pennsylvania.”*

Previous cosponsors included: **Beyer, Brennan, Carroll, D. Costa, Dally, Fairchild, Grucela, Hess, Kotik, Mann, Moul, Murt, Mustio, Readshaw, Reichley, Scavello, Thomas, Walko, Everett and Mirabito.**

If interested in sponsoring this important piece of legislation, please contact Jamie Macon at 783-9333 or jmacon@pahouse.net. Thank you.