

HOUSE TRANSPORTATION COMMITTEE

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Hearing: House Transportation
Room G-50
Irvis House Office Building, Harrisburg, Pa.

Topic: 1. How Pennsylvania's sales tax on aircraft sales and maintenance impacts Pennsylvania's aviation industry.
2. Aviation "two (2) lock" security legislation

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&
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Good morning Mr. Chairman and members of the House Transportation Committee. On behalf of the Pennsylvania Aviation Advisory Committee, I want to thank the House Transportation Committee for the opportunity to provide testimony regarding the very critical issue of how Pennsylvania's sales tax on aircraft sales and maintenance is impacting the Commonwealth's aviation industry, as well as the proposed "two lock" aviation security legislation.

There tends to be a lot of confusion and lack of understanding when it comes to a number of critical aviation issues and certainly that is the case as it relates to Pennsylvania's sales tax and its very detrimental impact on the Commonwealth's ability to participate to its maximum extent in the growing aviation industry.

Far too often you will hear that airport's and the aviation industry are a drain on the taxpayer and don't pay their fair share. As you know this could not be farther

from the truth as essentially aviation pays for aviation through a series of taxes and fees placed on only those using the system or service. However, it is all citizens who benefit greatly from Aviation. As you know, in the Commonwealth's most recent comprehensive report describing the economic impact of aviation in Pennsylvania, its public use airports create nearly 300,000 jobs, generate in excess of \$ 5.6 billion in payroll, and produce in excess of \$ 12.6 billion in economic activity. In addition to the significant economic benefits that aviation provides, Pennsylvania's airports add to the quality of life for its residents. Simply stated, Pennsylvania's citizens depend on aviation and need an efficient airport system.

However, with the current state aviation sales tax, Pennsylvania is at a competitive disadvantage with many other states and losing a significant amount of aviation related business and jobs. In a recent conversation with Mr. Bill Patterson, owner of North Coast Air, a Fixed Base Operator at Erie International Airport, as well as an Air Charter Service, he stated emphatically that many aircraft owners fly their aircraft to aviation service firms in States where there is no aviation sales tax thus placing Pennsylvania aviation jobs at risk. Other competing states are recognizing that loss of jobs and tax revenue far outweighs the benefit of collecting the sales tax on aviation business. To that end:

- **Four states (Alaska, Montana, New Hampshire and Oregon) do not have state sales/use tax.**
- **Two states (Massachusetts and Rhode Island) do not impose sales and use tax on aircraft.**
- **Two (2) states (Connecticut and Delaware) do not impose their sales and use tax on aircraft that weigh more than 6,000 pounds and do not impose their gross receipts tax on aircraft that weigh more than 12,500 pounds.**
- **A number of states such as Arizona, Florida, Kansas, Nebraska, Tennessee and Texas have enacted what are known as fly away exemptions (meaning that delivery can occur in the state, the State's sales tax will not apply if the aircraft is purchased by a non-resident of that state and is removed within a certain period of time.**

While all of the above states have not attempted to quantify the overall revenue benefit to their state, each has concluded that the exemption has generated increased aviation activity, more jobs created and more revenue for businesses in the state.

In looking at this important issue, we must also look at Pennsylvania's future aviation sector job growth opportunities. Noted aviation expert Mike Boyd has consistently stated that with the introduction of the Boeing 787 aircraft will come the single most important transformational change experienced by the aviation industry since the advent of the commercial jet passenger aircraft. The significance

of this is that the 787 will be the first aircraft in history to be made up of over 50% of composite (plastic parts). Due to the enormous cost savings thru fuel efficiency as well as a number of other economic efficiencies, Mr. Boyd predicts that this will be the wave of the future with all aircraft transitioning from make up of less metal and more composites. The reason I raise this issue as part of the sales tax discussion is because Mr. Boyd has also stated that with Pennsylvania's strong plastics industry capabilities, it can be well positioned for these new economic opportunities. Furthermore, he states that Pennsylvania, along with Ohio and Michigan are very strong global investment targets.

However, again with the sales tax issue, Pennsylvania will be at a competitive disadvantage in pursuing these opportunities. By comparison, the state of Colorado is seeking to end aircraft sales tax and Governor Bill Ritter has recently stated that "aviation is one of the fastest growing segments of our economy, but because of a 2.9 percent sales tax companies are building manufacturing facilities and creating jobs in other states that don't impose sales tax on aircraft".

In closing I fully recognize that any recommendation to provide exemption from Pennsylvania's sales and use tax for aircraft sales and maintenance activities will raise issues regarding the need to compensate for potential loss of this revenue to the Commonwealth. However, strong consideration should be given to additional tax revenue generation that may be realized through the collection of additional income and corporate taxes flowing to the state's coffers due to a sustaining and expanding aviation job base in Pennsylvania.

Regarding the proposed two lock legislation relating to aircraft, I find it very reasonable and fair. Anything the Commonwealth can do to promote and enhance aviation safety and security needs to be considered, and the Committee is to be commended for considering this legislation

My sincere thanks for the opportunity to provide testimony today and I stand ready to assist the Transportation Committee in any way possible on this important matter.