



## **Wrong Time for Special Interest Tax Breaks: SB 1231 Would Subsidize Private Jets and Boutique Beer Despite Sinking Economy**

The Pennsylvania Senate is considering a bill to exempt the sale or lease of private and corporate aircraft from sales tax. SB 1231 would allow individuals and corporations who lease or purchase small planes and jets to avoid paying sales tax and would exempt from taxation retail purchases of aircraft parts, and the installation of those parts. The Department of Revenue estimates the first year cost of the exemption at \$9.8 million.

The bill also includes a provision that would make permanent an “Emergency Tax Credit” of \$200,000 for small breweries—those producing less than 1.5 million barrels of beer per year—for the purchase of equipment. The credit was first enacted in 1974 and is set to expire at the end of 2008. The cost of this credit is estimated at \$1.1 million per year and may benefit 10 brewers.<sup>1</sup>

The tax credits are proposed despite declining Pennsylvania state tax revenue and the most uncertain economy since the 1930s. State general fund revenue has fallen \$281 million behind projections for the 2008-09 fiscal year, the national economy may already be in a recession, and the ongoing crisis in the nation’s financial markets suggests that the economy will worsen, further increasing the demand for state services.

Lawmakers should question the wisdom of enacting special interest tax credits that benefit the few and the wealthy, while most Pennsylvanians are paying higher food, energy and health care costs and worried about the value of their homes and the security of their jobs.

### **The bill creates an unfair tax preference for jet owners**

If enacted the bill would provide tax breaks for the owners of corporate and private jets that are not available to car and truck owners. Individuals pay 6%<sup>2</sup> sales tax on the sale or lease of a car or truck, and pay sales tax on both the purchase and installation of parts for their motor vehicles.

According to the Aircraft Owners and Pilots Association, the average cost of private aircraft is \$150,000 sales tax would add \$9,000 to the purchase<sup>3</sup>. \$150,000 is three times the median household income in Pennsylvania. There is little public benefit in offering a subsidy for the purchase of this luxury good.

### **The tax break will have little impact on the economy**

Across the country industry groups are promoting an aircraft sales tax exemption, which currently exists in only a handful of states. But private aircraft repair is a tiny industry in Pennsylvania. Data from the Pennsylvania Department of Labor and Industry data indicate that 561 people were employed in the private aircraft repair industry that is the subject of this legislation. Seventy percent of the aircraft repair positions in the state, 1,254, are with the Federal Government or with the airlines, and will not be affected by the bill.<sup>4</sup>

Far more people, 35,919, were employed as auto mechanics during this same period. Automobile repair and parts are subject to sales tax.

### **The sales tax exemption results in little *net* job creation**

In recent years, two neighboring states, West Virginia and New York, have enacted tax breaks for aircraft sales. Proponents of SB 1231 argue that a sales tax preference will provide an incentive for small aircraft fleets to move from current locations in these states to Pennsylvania. These types of economic development policies create no new jobs, but shift jobs from one state to another at taxpayers' expense.

Massachusetts was the first state to enact a sales tax exemption for aircraft in order to attract existing facilities to Massachusetts. In 2008, Massachusetts Governor Deval Patrick proposed eliminating the exemption as part of a plan to close a looming budget gap.

The Streamlined Sales Tax Initiative developed for state use in 2005 tried to move states toward a more uniform sales tax treatment of this type of tangible personal property, including property that is purchased for interstate commerce, such as airplanes. Specific sales tax exemptions such as the proposed aircraft exemption move in the opposite direction, distorting markets and providing little net benefit for states as employment shifts rather than grows.

### **The proposed exemption is too broad**

Nationally only four of the 45 states with a sales tax exempt all aircraft from that tax. Delaware, Ohio, New Jersey and West Virginia impose the sales tax on leased aircraft. All neighboring states except New York tax aircraft non-commercial repair parts and labor. The New York exemption will expire in 2009.<sup>5</sup>

### **The sale and lease exemption creates a windfall for jet owners and is more expensive for the commonwealth**

This sales tax exemption is not even limited to aircraft purchased in the commonwealth. Pennsylvania companies or resident who purchase aircraft anywhere in the world would receive the exemption and can avoid paying Pennsylvania use tax.

Pennsylvania use tax law requires that when Pennsylvania companies or residents buy goods outside of the state, for use in the state, they pay the equivalent of the state 6% sales tax. If they paid more in the state of purchase they owe nothing, if the purchase state has a lower sales tax or no sales tax, the Pennsylvania resident pays the difference. This special tax treatment is unwarranted for a luxury good.

Under current law, a Pennsylvanian who purchases a car in Delaware, which has no sales tax, pays a 6% use tax on the purchase, while his boss who purchases a plane in Delaware would pay no tax at all.

### **Making the “Emergency Brewery Tax Credit” permanent would reduce the tax of the brewers and subsidize equipment purchases.**

No other industry is aided by such a provision, which is available to all Pennsylvania brewers, regardless of their financial circumstances. The market for small breweries has rebounded considerably since the credit was first enacted in 1974, making the credit unnecessary in the current market.

## Conclusion

The types of tax breaks authorized by SB 1231 are ill-conceived and costly in good times. In bad times, they drain revenue from the treasury that is necessary for the government to pay its bills. Creating more permanent holes in the tax base for preferred industries, and subsidizing the purchase of a luxury, is bad tax policy.

## Endnotes

1. Commonwealth of Pennsylvania, *2008-09 Governor's Executive Budget*, p. D59.
2. Residents of Philadelphia and Pittsburgh pay 7%.
3. Commonwealth of Pennsylvania Senate Transportation Committee Hearing on the Financial Impact of the Aviation Industry in Pennsylvania. October 3, 2007 page 44. Available at <http://www.senatormadigan.com/transportation/2007/100307/transcript-100307.pdf>
4. The most recent data available from the Department of Labor and Industry is for 2004.
5. *Sources*. Federation of Tax Administrators, *2004 Survey of Service Taxation*, responses 146, 154, and 161. National Business Aviation Association, *Flight Development Essentials*, Comptroller of Maryland, *Annotated Code of Maryland*. State of New York, *Annual Report on New York State Tax Expenditures*. State of West Virginia, *Tax Expenditure Study: Expenditures for Commercial Sales and Services Tax and Use Tax*, January 2007.