

SENATE AND HOUSE INTERIM COMMITTEES ON REVENUE AND TAXATION

February 8, 2016

1:30 p.m.

Room 171, Little Rock, Arkansas

Meeting Minutes

The Senate and House Interim Committees on Revenue and Taxation met jointly on Monday, February 8, 2016, at 1:30 p.m., in Committee Room 171, Little Rock, Arkansas.

Committee members in attendance were Senators Jake Files, *Senate Chair*, Jonathan Dismang, Jimmy Hickey, Jr., Bruce Maloch, Jason Rapert, Representatives Joe Jett, *House Chair*, Charlie Collins, Andy Davis, Jim Dotson, Lanny Fite, Kenneth B. Ferguson, Vivian Flowers, Justin Gonzales, Monte Hodges, Lane Jean, Jack Ladyman, Tim Lemons, George McGill, Stephen Meeks, Micah S. Neal, Nelda Speaks, and Clarke Tucker.

Other members in attendance were Senator Jon Woods, Representatives David Branscum, Dan Douglas, Mary Hickerson, and Kelley Linck.

Representative Jett opened the meeting.

Adoption of Minutes [Exhibit B]

The minutes from the September 14, 2015 meeting were approved by acclamation.

Adoption of Interim Study Proposal Referred to Committee [Exhibit C]

Representative Neal moved to adopt interim study proposal 2015-151, by Senator Jon Woods, Representative McGill seconded the motion, and without objection, the motion carried.

Review of Current Aviation Tax Structure in Arkansas and Comparison with Other States

Mr. John Theis, Assistant Revenue Commissioner, Department of Finance and Administration (DFA), explained that general revenues collected from Arkansas private individuals and businesses regarding the purchase of aircrafts, aviation repair and service costs, and aviation fuel, are deposited into the Arkansas Department of Aeronautics Fund, for maintaining airports and associated facilities. Mr. Theis said all aviation sales are subject to sales tax unless a specific exemption applies. Local tax on the sale of an airplane is capped at the first \$2,500 of purchase price. Commercial jet aircrafts having a certified maximum take-off weight of 12,500 pounds or more are subject to sales tax exemption on all repair services and parts. Airplanes manufactured, substantially completed, or modified in Arkansas and sold outside the state are also exempted from sales tax. Arkansas levies a 6.5% sale tax, plus local sales tax, on aviation fuel. Revenues collected from aviation sales tax generate approximately \$10 million annually.

Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research, gave a brief overview of aviation sales and use tax rates of surrounding states. [Exhibit D]

Overview of Arkansas Aviation Trust Fund [Exhibits E1, E2, E3]

Mr. Jerry Chism, Director, Arkansas Department of Aeronautics, explained the responsibilities and budgeting operations of his agency. Mr. Chism said all 92 airports in the state rely on his agency's state and federal grants to fund improvement projects and maintenance. Mr. Chism said due to the reduction of fuel cost, his agency has seen a 45% decrease in income since 2014. Due to federal guidelines the FAA dropped 78 airports in the state from their funding program. These airports will now rely 100% on state grants for their improvement projects.

Impact of Current Tax Structure for General Aviation, Fixed-Base Operators and Maintenance Repair and Overhaul

Mr. Keith Rose, Chief Executive Officer, Rose Aircraft Services, Inc., said his company's aircraft refurbishing and maintenance service has been in operation at the Mena airport 52 years. Mr. Rose suggested lowering the aircraft maximum take-off weight from 12,500 pounds to 5,500 pounds will increase the state's aircraft market, exempting sales tax on maintenance, repair services and parts for all aircrafts carriers will increase the number of airframes in the state and become more competitive with neighboring states, and including raw material to the state's sales tax exemption.

Mr. Christian Sasfai, Vice President and Chief Operating Officer, TAC Air, pointed out his concerns with the state's aircraft fuel tax structure as compared to neighboring states. [Exhibit F]

Mr. Carl Finch, President, Air Resource Group, is concerned about keeping the state's aviation tax structure competitive with other states.

The meeting adjourned at 3:00 p.m.