

BILL # SB 1011

TITLE: airline tax deferral

SPONSOR: Bundgaard

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson, Tom Mikesell

	FISCAL YEAR		
	2002	2003	2004
REVENUES			
General Fund – Flight Property Tax	\$ -0-	\$(7,500,000)	\$ -0-
General Fund – Corporate Income Tax	\$(3,400,000) ^{1/}	\$(3,400,000) ^{1/}	\$ 6,800,000 ^{1/}
State Aviation Fund – Flight Property Tax	\$ -0-	\$(7,500,000)	\$15,000,000

^{1/} Represents Department of Revenue data adjusted for Urban Revenue Sharing. See caveats in the narrative.

FISCAL ANALYSIS

Description

This bill would defer flight property and corporate income tax payments for companies in the air transportation business. The deferral would be applied to income taxes payable for the period from January 1, 2001 to December 31, 2002 and flight property taxes payable in Tax Years 2002 and 2003. Taxes accrued during the deferral period would be due on February 1, 2004.

Estimated Impact

The bill would decrease flight property tax revenues to the General Fund by \$(7.5) million in FY 2003. Though these tax payments would be deferred to FY 2004, they will not be recouped as General Fund revenue. This is because beginning in FY 2004 all flight property tax collections will be deposited into the State Aviation Fund. While we can estimate the bill's impact on flight property tax collections, we cannot independently estimate its impact on corporate income tax collections because this information is confidential. The Department of Revenue (DOR), however, estimates Tax Year 2000 corporate income tax collections from air transport businesses at \$3.4 million. If the profitability of corporations paying the tax changes from its 2000 level, there will be a change in the amount of corporate income tax that could be deferred. Because we do not have access to the data necessary to provide that number, we have used DOR's information for this estimate.

Analysis

Deferral of Air Transportation Corporate Income Tax

The bill would allow air transportation companies to defer payment of their corporate income taxes on income earned during the period from January 1, 2001 to December 31, 2002. Under the deferral schedule taxes due during that period would not be payable until February 1, 2004. This provision would likely shift receipts normally deposited to the General Fund in FY 2001, FY 2002, and FY 2003 to FY 2004. DOR reports that in Tax Year 2000, corporate income tax collections from companies engaged in air transport were approximately \$4 million.

DOR indicates that this figure may overstate collections by an unknown amount since it may include income that is unrelated to air transport. Further, 15% of this amount would be transferred to cities through Urban Revenue Sharing and would result in a local government impact, lowering the General Fund's share to \$3.4 million. Recent media reports of a financial downturn in the travel industry fuel speculation that airline business profits may not be at the level they were in 2000. Declining profitability in the businesses paying the tax would in turn lead to lower corporate income tax collections. As such, the impact of deferring the taxes may be smaller than \$3.4 million.

As mentioned above, any negative impact in FY 2002 or FY 2003 would result in a higher payment in FY 2004, as deferred taxes would be paid in that fiscal year. Based on the DOR estimate, the FY 2004 gain would be \$6.8 million. As with the estimated cost, this number is based on DOR information and the actual gain depends entirely on the amounts deferred from the prior years.

Flight Property Tax Payment Deferral

This bill would defer flight property tax for tax years 2002 and 2003 to January 1, 2004. For budgetary purposes, this means that no flight property tax revenues would be collected until the second half of FY 2004. Based on information furnished by the Department of Revenue, the JLBC Staff currently projects flight property tax revenues of \$15 million in both FY 2003 and FY 2004. However, under this bill, airline companies would not pay the deferred amount from FY 2003 until FY 2004. This results in flight property tax collections of \$0 in FY 2003 and \$30 million in FY 2004.

Under current statute, tax levied on property owned by airline companies operating in Arizona is divided equally between the General Fund and the Aviation Fund. Beginning in FY 2004 (Laws 2001, Chapter 286), the distribution between the two funds will change so that the Aviation Fund receives all flight property tax collections and the General Fund none. This means that under this bill the General Fund and Aviation Fund would each forego \$(7.5) million in FY 2003. However, in FY 2004, the Aviation Fund would receive \$15 million, which represents all deferred flight property tax collections. The General Fund would not recoup the \$7.5 million in deferred FY 2003 revenue. This results from the fact that the \$7.5 million of foregone General Fund revenues in FY 2003 is shifted to the Aviation Fund in FY 2004 when the deferred amount is due.

Local Government Impact

Any reduction in corporate income tax revenues as a result of deferring payments to the future will have a negative impact on Urban Revenue Sharing fund distributions, which are distributed to incorporated cities two years after collection. Based on the information provided by DOR, the Urban Revenue Sharing fund distributions could fall by \$(600,000) per year in FY 2004 and FY 2005 and could increase by as much as \$1.2 million in FY 2006.