NON-RESIDENT AIRCRAFT SALES & AIRCRAFT PARTS EXEMPTIONS

EVALUATION SUMMARY | JANUARY 2022 | 2022-TE12

EXPENDITURE	Non-Resident Aircraft Sales Exemption	Aircraft Parts Exemption
TAX TYPE	Sales and use	
YEAR ENACTED	2008	1991
REPEAL/EXPIRATION DATE	None	None
REVENUE IMPACT	Could not determine	
NUMBER OF TAXPAYERS	Could not determine	

KEY CONCLUSION: The exemptions appear to provide some support to the State's aircraft manufacturing and maintenance industries by keeping Colorado competitive with other states with similar exemptions. However, they do not appear to have driven industry growth.

WHAT DO THESE TAX EXPENDITURES DO?

NON-RESIDENT AIRCRAFT SALES EXEMPTION (FLY-AWAY EXEMPTION) [SECTION 39-26-711.5, C.R.S.]—Provides non-residents with a sales and use tax exemption for the purchase of an aircraft that will be removed from the state within the latter of either 120 days or 30 days after the completion of maintenance or refurbishments associated with the sale.

AIRCRAFT PARTS EXEMPTION [SECTION 39-26-711(1)(b) AND (2)(b), C.R.S.]—Provides a sales and use tax exemption for the purchase, storage, or use of components and parts that are permanently affixed to an aircraft.

WHAT IS THE PURPOSE OF THESE TAX EXPENDITURES?

Statute and the enacting legislation for the exemptions do not explicitly state their purpose; therefore, we could not definitively determine the General Assembly's original intent.

Based on their operation and legislative history, for the purposes of our evaluation we considered the following potential purposes:

FLY-AWAY EXEMPTION—To increase aircraft sales and support aircraft manufacturing and maintenance businesses in the state.

AIRCRAFT PARTS EXEMPTION—To support the State's aircraft maintenance industry by encouraging aircraft owners and operators to have aircraft maintenance performed in the state.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to consider:

- Establishing a statutory purpose and performance measures for the exemptions.
- Reviewing the effectiveness of the Fly-away and Aircraft Parts Exemptions.

NON-RESIDENT AIRCRAFT SALES & AIRCRAFT PARTS EXEMPTIONS

EVALUATION RESULTS

WHAT ARE THESE TAX EXPENDITURES?

This evaluation covers the following two sales and use tax exemptions, which provide preferential tax treatment for purchasers of aircraft and aircraft components in the state:

NON-RESIDENT AIRCRAFT SALES AND USE TAX EXEMPTION (Fly-away Exemption)—Section 39-26-711.5, C.R.S., provides a sales and use tax exemption to non-residents who purchase an aircraft in the state and predominately use it outside of the state. To be eligible for the exemption, the purchaser must not be a resident of Colorado, and must remove the aircraft from the state within the latter of either 120 days after the purchase or 30 days from the completion of maintenance or refurbishment of the aircraft associated with the purchase. Additionally, the aircraft cannot be in the state for more than 73 days in any of the three calendar years following the initial removal of the aircraft from the state.

The Fly-away Exemption was created in 2008 by House Bill 08-1261, and has had only one major amendment since then. Specifically, in 2016, House Bill 16-1119 expanded the exemption's eligibility requirements to allow aircraft purchasers to leave the aircraft in the state longer than 120 days after the sale if the aircraft is undergoing maintenance or refurbishment associated with the sale, by allowing the aircraft to remain in the state up to 30 days after this work is complete.

To claim the exemption, the purchaser has to provide the vendor with an affidavit affirming they are a non-resident and that they will remit tax if they fail to comply with statutory requirements regarding removal of the aircraft within the specified time or maximum allowable use of the aircraft in the state. The vendor then applies the Fly-away Exemption by not charging sales or use tax at the time of sale. Vendors are required to report the value of exempt sales to the Department of Revenue (Department) on their Colorado Retail Sales Tax Return (Form DR 0100). If a purchaser is charged tax by a vendor at the time of sale, they can file a Claim for Refund (Form DR 0137B) with the Department to apply for a refund of the sales taxes they paid.

AIRCRAFT PARTS EXEMPTION—Section 39-26-711(1)(b) and (2)(b), C.R.S., provides a sales and use tax exemption for the sale, storage, or consumption of aircraft components and parts that are permanently affixed to an aircraft. According to Department guidance, eligible items include, but are not limited to, fuselage parts, parts for the engine, seats, and paint for the aircraft. The exemption was created in 1991 by House Bill 91-1046, and took effect July 1, 1992. The exemption has remained substantively unchanged since then. Since sales of equipment and parts to aircraft maintenance businesses that sell these items to final consumers were already exempt under the broader Wholesales Exemption [Section 39-26-102(19)(a), C.R.S.] at the time the exemption was created, it appears that the Aircraft Parts Exemption was intended to apply to sales to final consumers.

Vendors apply the Aircraft Parts Exemption by not charging sales or use tax at the time of sale. Vendors are required to report the value of exempt sales to the Department on their applicable Colorado Retail Sales Tax Return (Form DR 0100) or Retailer's Use Tax Return (Form DR 0173). If the purchaser is charged tax by a vendor at the time of sale, they can file a Claim for Refund (Form DR 0137B) with the Department to apply for a refund of the sales taxes they paid.

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURES?

Statute does not state the intended beneficiaries of either exemption. However, based on the operation of the exemptions, their legislative history, and conversations with stakeholders, we inferred that the intended direct beneficiaries of the Fly-away Exemption are non-residents who purchase new or used aircraft in the state, typically for non-commercial purposes, such as recreational aviation and private transportation. According to stakeholders, most aircraft sales in the state are for used aircraft, though we could not identify a source of data to quantify the types of aircraft sold. For the Aircraft Parts Exemption, we inferred that the beneficiaries are commercial and non-commercial aviation operators who purchase aircraft parts to install on their aircraft. Additionally, based on legislative testimony at the time the exemptions were established, it appears that the General Assembly also intended for both exemptions to benefit aircraft manufacturing and maintenance businesses in the state. According to Bureau of Labor Statistics (BLS) Data, in Calendar Year 2020, there were six aircraft manufacturing facilities and 166 aircraft maintenance facilities in the state, with the aircraft maintenance industry employing roughly 2,500 employees, which is less than 1 percent of the state's total workforce. Bureau of Labor Statistics employment data is not available for the aircraft manufacturing industry.

WHAT IS THE PURPOSE OF THESE TAX EXPENDITURES?

Statute and the enacting legislation for the exemptions do not state their purpose; therefore, we could not definitively determine the General Assembly's original intent for either exemption. Based on the operation of the exemptions and their legislative history, we considered the following potential purposes:

FLY-AWAY EXEMPTION —To increase aircraft sales and support aircraft manufacturing and maintenance businesses in the state.

During legislative hearings for the Fly-away Exemption, the bill sponsor stated that the exemption was intended to support the aircraft manufacturing industry and increase the sale of used aircraft in the state. Additionally, when the Fly-away Exemption was amended in 2016, the bill sponsor indicated that the change was intended to support the state's aircraft maintenance industry by making it easier for non-residents to have work completed on aircraft they purchase in the state, which could support growth in the industry and increase employment and wages.

AIRCRAFT PARTS EXEMPTION—To support the state's aircraft maintenance industry by encouraging aircraft owners and operators to have aircraft maintenance performed in the state.

The Aircraft Parts Exemption was created in 1991 as a part of a large incentive package to attract United Airlines to build a maintenance facility at the soon-to-be constructed Denver International Airport. Ultimately, United Airlines built its maintenance facility in another state. However, legislators were also concerned more broadly with the tax burden that aircraft owners faced when having maintenance performed on their aircraft, which often requires the purchase of parts, and stated that the exemption was intended to serve as an economic incentive to support employment and wage growth in the aircraft maintenance industry.

ARE THE TAX EXPENDITURES MEETING THEIR PURPOSES AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We could not definitively determine whether the Fly-away Exemption or the Aircraft Parts Exemption are meeting their purposes because no purposes are provided in statute or their enacting legislation. However, we found that the exemptions may be meeting the potential purposes that we considered for our evaluation to some extent because they support the state's aircraft maintenance industry. Specifically, other states provide similar exemptions and stakeholders indicated that it is common for aircraft owners and sales brokers to arrange for aircraft sales and maintenance to occur in states with sales tax exemptions. On the other hand, we found that the exemptions do not appear to have caused industry employment or wage growth above national industry trends.

Statute does not provide quantifiable performance measures for the exemptions. Therefore, we created and applied the following performance measures to determine if the expenditures are meeting the potential purposes we used for our evaluation.

PERFORMANCE MEASURE #1: *To what extent has the Fly-away Exemption increased aircraft sales in the state?*

RESULTS: We could not quantify the number of exempt aircraft sold in the state because the Department does not track the sale of aircraft and vendors are not required to report the number of exempt sales when they file their sales tax returns. However, we found that the Fly-away Exemption could encourage aircraft sales in the state to some extent. According to stakeholders, individuals purchasing aircraft and aircraft sales brokers are aware of the tax treatment of aircraft sales in states, and since aircraft are easily moveable, often look for jurisdictions that offer the most favorable tax treatment in which to make the sale. For this reason, stakeholders indicated that the exemption allows Colorado to be competitive with other states and potentially supports the sale of mostly used aircraft in the state, since they likely represent the majority of exempt sales. However, since the State's sales tax rate, at 2.9 percent, is the lowest sales tax of the 45 states that have a sales tax, the exemption may not have a strong impact on aircraft sales in Colorado compared to other states.

PERFORMANCE MEASURE #2: *To what extent have the Fly-away Exemption and the Component Parts Exemption increased the number of aircraft maintenance and manufacturing jobs and businesses in the state?*

RESULTS: We found that the exemptions may provide some support to the state's aircraft maintenance industry by keeping Colorado's sales taxes competitive with other states, though they do not appear to have driven industry growth.

As discussed, stakeholders indicated that the Fly-away Exemption supports aircraft sales in the state. Stakeholders also reported that most purchases of used aircraft require testing or maintenance before the completion of the sale and that it is common for purchasers to have additional refurbishing conducted after the sale. Therefore, to the extent that the Fly-away Exemption encourages additional aircraft sales in the state, it may also support the aircraft maintenance industry. Further, the Aircraft Parts Exemption may encourage both resident and non-resident aircraft owners to have maintenance and refurbishment work performed in the state since their associated purchases of parts are exempt from sales tax. Similar to the Fly-away Exemption, most other states have an exemption for aircraft parts and equipment, and so the Aircraft Parts Exemption may deter aircraft owners from having work performed in another state to avoid sales tax.

Though they could support aircraft sales in the state to some extent, it does not appear that either exemption has caused a substantial amount of industry growth in the state. Specifically, although we found that since 1992, when the Aircraft Parts Exemption took effect, the state's aircraft maintenance industry has grown substantially, the growth is consistent with population growth in the state and national industry trends and it does not appear that the exemptions are the primary cause. According to BLS data, from Calendar Year 1992 to 2020, the number of aircraft maintenance businesses in Colorado increased from 81 to 166 (105 percent). Similarly, the number of aircraft maintenance industry jobs increased from 1,285 to 2,497 (94 percent). However, during this time, the state's population also increased by about 66 percent, which indicates that much, but not all, of the growth in the state's aircraft maintenance industry may be associated with population growth, since it is likely that the number of aircraft operated in the state and demand for associated maintenance increased as the population increased. Additionally, the number of aircraft maintenance businesses and jobs have also increased nationally since 1992 and so it is possible that other trends, such as a national increase in air travel and shipping, rather than the exemptions have been responsible for the growth in the state's aircraft maintenance sector. For example, based on Federal Aviation Administration data, national air travel has increased 57 percent from 2002 to 2019, and air cargo shipments have increased 109 percent. Further, Denver International Airport, which opened in 1995, has grown into the fifth busiest airport in the country as of 2019. Similarly, according to the Division of Aeronautics' 2020 *Colorado Aviation Economic Impact Study,* passenger travel at the state's five busiest commercial airports has increased by 99 percent from 2002 to 2019 and shipping has increased 41 percent. This increased demand may have also increased aircraft maintenance jobs in the state.

To better account for these factors, we reviewed industry trends using BLS location quotients information for the aircraft maintenance industry in Colorado. Location quotients (LQ) measure the relative size of a particular industry or a characteristic of the industry in a state compared to the national average, as described below:

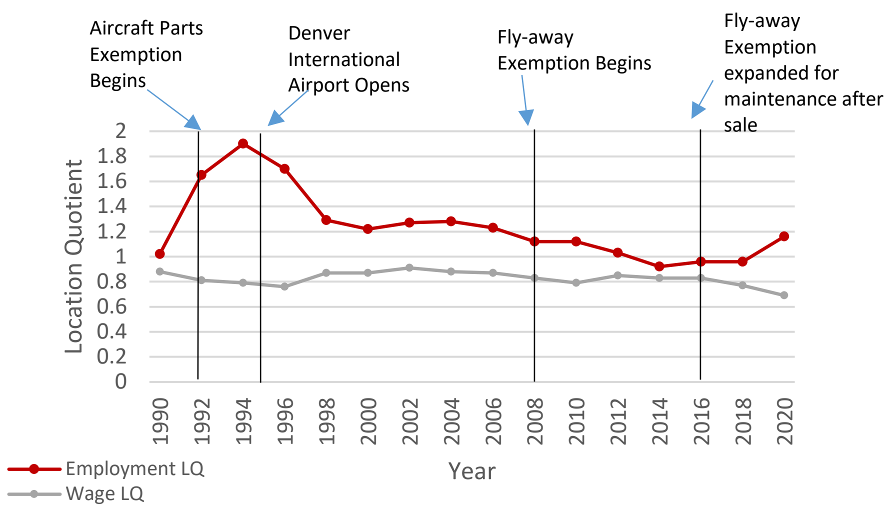
- Greater than 1—a characteristic of the industry or occupation (i.e., employment, number of establishments, wages, etc.) is comparatively more concentrated than the national average.

- Exactly 1—a characteristic of the industry or occupation is concentrated at the same rate as the national average.

- Less than 1—a characteristic of the industry or occupation is concentrated below the national average.

EXHIBIT 1 provides location quotients for aircraft maintenance industry employment and wages in Colorado from 1990 to 2020. As shown, employment concentration in the aircraft maintenance sector generally declined during the period after the exemptions were established and there does not appear to be a clear correlation between the exemptions and the overall trend in employment concentration. Additionally, the location quotient for the industry's average annual wage has remained consistently below the national average.

EXHIBIT 1. CHANGES IN AIRCRAFT MAINTENANCE INDUSTRY EMPLOYMENT CONCENTRATION AND WAGE LOCATION QUOTIENTS, CALENDAR YEARS 1990-2020



SOURCE: Office of the State Auditor analysis of Bureau of Labor Statistics location quotient data.

Although the concentration of aircraft manufacturing employment in the state was well above the national average in 1992 when the Aircraft Parts Exemption was created, this appears to have been associated with the construction of Denver International Airport, and employment declined substantially after the airport opened, making it difficult to assess the initial impact of the Aircraft Parts Exemption. Additionally, it appears that the Fly-away Exemption, established in 2008, had little impact on the overall employment concentration trend, with the state's location quotient steadily declining from 2004 through 2014. However, in recent years, following the 2016 amendment of the Fly-away Exemption, the state's employment location quotient has increased modestly and was slightly above the national average at 1.16 in Calendar Year 2020. It is unclear whether this employment increase is attributable to the exemption or will be sustained in future years. Additionally, since the creation of both exemptions, the wage location quotient for the aircraft maintenance industry has remained below the national average and it does not appear that the exemptions have had an impact on industry wages in the state relative to national trends. Further, the average annual wage for the industry in 2020 was $50,000, substantially below the state's $67,000 average annual wage for all private occupations.

It is important to note that we encountered a data limitation in the foregoing analysis. Specifically, to assess aircraft maintenance industry trends we used private sector data from the BLS for the category of "Other Support Activities for Air Transportation." Though this category includes aircraft maintenance, testing, and repair services, it also includes data for aircraft passenger screening security services provided by private-sector firms and cannot be further disaggregated to remove these jobs from the data. Since aircraft passenger screening security services performed by Transportation Security Administration employees, who are public sector employees, are not included in the same category, we considered the data used from the "Other Support Activities for Air Transportation" category to be reasonably representative of the aircraft maintenance industry. However, the additional jobs included in the data likely reduce the accuracy of the figures we present, as they relate to aircraft maintenance jobs, to some extent.

At the time the Aircraft Parts Exemption was established, the State, in coordination with the City and County of Denver, was attempting to provide an incentive package for United Airlines to establish a large maintenance facility at Denver International Airport. According to news accounts, the facility was expected to generate about 6,500 maintenance jobs in the state. Ultimately, the exemption and other incentives offered were not successful, and United Airlines chose Indiana, which offered the company a larger tax incentive package for the facility. Notably, the facility in Indiana only employed about 3,000 workers at its peak before permanently closing in 2003.

In addition to the impact of the exemptions on the aircraft maintenance industry, we also reviewed their potential impact on aircraft manufacturing in the state. We identified two Colorado businesses that manufacture new aircraft in the state that could potentially benefit from the exemptions. However, due to the small size of the state's aircraft manufacturing sector, the BLS did not release employment data for us to track employment over time for this industry. We attempted to contact the two businesses that we identified, but did not receive a response. Therefore, we could not determine the impact of the exemptions on the state's aircraft manufacturing businesses or aircraft sales. However, the exemptions do not appear to have attracted additional aircraft manufacturing businesses in the state. According to BLS data on the aircraft manufacturing industry sector, there were seven aircraft manufacturing businesses in the state in 2008 when the exemption was created, and as of 2020 there were six aircraft manufacturing businesses in the state. As noted, stakeholders mentioned that of the six businesses, there are likely only two manufacturers in the state that sell completed aircraft.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURES?

We lacked the information from the Department necessary to quantify the revenue impact to the State and the number of individuals who claimed the Fly-away and Aircraft Parts Exemptions. However, the exemptions may have a significant revenue impact to the State and provide a financial benefit to non-residents who purchase aircraft in the state and aircraft owners who purchase aircraft parts, since aircraft and their corresponding components are often high cost. As an example showing the potential impact of the Fly-away Exemption, we identified one aircraft manufacturer in the state that, based on its public financial report, had new aircraft sales totaling $422 million in 2020. If all of these sales occurred in-state and were to non-residents who qualified for the exemption, the revenue impact associated with the Fly-away exemption for just these sales, would have been $12.2 million.

However, this is probably an overestimation of the potential impact of these sales because it is not likely that all of the sales would have qualified for the exemption.

Additionally, the exemptions likely have a revenue impact to local governments that have their sales taxes collected by the State. Statute [Section 29-2-105(1)(d)(I), C.R.S.] mandates that local governments for which the State collects sales taxes apply most of the State's sales tax exemptions, including the Fly-away and Aircraft Parts Exemptions. As a result, the exemptions may reduce local tax revenues and provide a corresponding savings in the amount of local sales taxes paid for individuals or businesses who purchase components or aircraft as non-residents in those jurisdictions. Home rule cities established under Article XX, Section 6 of the Colorado Constitution that collect their own sales taxes have the authority to set their own tax policies independent from the State. Of the five most populated home rule cities—Aurora, Colorado Springs, Denver, Fort Collins, and Lakewood—Colorado Springs and Denver provide a similar aircraft parts exemption and Fort Collins exempts component parts purchased for use by interstate operators. Additionally, these five home rule cities all have an exemption similar to the Fly-away Exemption, to the extent that the delivery occurs outside of the city and the aircraft will be registered outside of the city.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURES HAVE ON BENEFICIARIES?

Eliminating the Fly-away and Aircraft Parts Exemptions would result in the State's 2.9 percent sales or use tax being applied to purchases that currently benefit from the exemptions. The purchases would also be subject to local taxes if made in a local government jurisdiction for which the State collects sales taxes. Depending on the cost of the aircraft or aircraft parts, the additional tax cost could be considerable for some of the current beneficiaries. For example, aircraft sales prices can range from tens of thousands to tens of millions of dollars, so eliminating the exemptions could increase the after-tax cost of aircraft and aircraft parts purchases. However, because many states offer similar exemptions, it is possible that some purchasers would avoid this cost by arranging for the sale to take place in a state that has an exemption. Because aircraft maintenance is common prior to and after sales, eliminating the exemption could reduce the amount of maintenance work performed in the state and have a potentially negative impact on the tate's aircraft maintenance industry if a significant number of aircraft sales move to other states.

Although eliminating the Fly-away Exemption could have an impact on some current beneficiaries, due to the relationship between sales and use taxes across states, some aircraft buyers would not see an increase in their overall tax burden if this exemption was eliminated. Specifically, because non-residents who qualify for the Fly-away Exemption are primarily using or registering their aircraft in another state, and they are likely liable for use tax in the other state, unless they locate the aircraft in a state that exempts all aircraft sales, or they are located in one of the five states that does not levy a sales or use tax. Additionally, states generally reduce taxpayers' use taxes equivalent to the amount of sales tax they have paid in another state. Therefore, depending on the state a non-resident relocates the aircraft to, eliminating the exemption may not reduce their overall tax liability on the purchase, but instead shift the taxes owed to each state. For example, currently, if a resident of Kansas purchases an aircraft in Colorado to be used primarily in Kansas, they would not owe sales tax to Colorado, but would be assessed Kansas's 6.5 percent use tax. If Colorado's Fly-away Exemption was not in place, they would owe the 2.9 percent Colorado sales tax, but in Kansas, would receive a credit for the amount paid to Colorado and would only owe Kansas use tax equivalent to 3.6 percent of the purchase price, resulting in a 6.5 percent combined tax rate on the purchase. Therefore, for this buyer, eliminating the Fly-away Exemption would not increase the total state sales and use taxes they owe.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

Of the 45 states that have a sales and use tax, 31 provide an exemption similar to the Fly-away Exemption for aircraft sold to non-residents. Of these states, four exempt all purchases of aircraft from sales and use tax, and 12 have a more limited exemption than Colorado. For example, these states only apply the exemption to aircraft that were manufactured in the state, or restrict the exemption based on aircraft size or value. Additionally, a majority of states that have an exemption require the aircraft to be removed from the state in 30 days or less from sale or the completion of repairs.

Of the 45 states that have a sales and use tax, 39 have a provision exempting aircraft parts sales from sales and use tax, though 20 limit the exemption to parts for commercial aircraft. Exhibit 2 provides neighboring states' tax expenditures related to nonresident aircraft purchases and aircraft component parts purchases.

EXHIBIT 2. NEIGHBORING STATES' FLY-AWAY AND AIRCRAFT PARTS EXEMPTIONS

State	Fly-away Exemption?	Aircraft Parts Exemption?
AZ	Yes, but no use in the state other than removal	Only for carriers of persons or property
KS	Yes	Yes
NE	Yes	Only for common and contract carriers of persons or property
NM	50% deduction from gross receipts or 100% for aircraft manufactured in the state	Yes
OK	Only for aircraft over $2.5 million	Yes
UT	No	Only for aircraft not registered in the state
WY	No	Only sales at Federal Aviation Administration certified facilities

SOURCE: Office of the State Auditor review of neighboring states' tax provisions and Bloomberg BNA data.

ARE THERE TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE IN THE STATE?

We identified two tax expenditures in the state that may also be intended to support the state's aircraft manufacturing and maintenance industries:

AIRCRAFT MANUFACTURER NEW EMPLOYEE CREDIT [SECTION 39-35-104(1), C.R.S.]—Provides eligible aircraft manufacturers in a designated Aviation Development Zone a non-refundable income tax credit equivalent to $1,200 for each net new employee they hire during the year. Eligible aircraft manufacturers include businesses that test, certify, or produce aircraft, as well as businesses that perform aircraft maintenance and repair, completion, or modification of aircraft. However, this credit expires January 1, 2023.

AIRCRAFT USED IN INTERSTATE COMMERCE EXEMPTION [SECTION 39-26-711(1)(a) AND (2)(a), C.R.S.]—Provides a sales and use tax exemption to commercial airlines for the purchase, storage, or use of aircraft used in interstate commerce.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURES?

The Department was unable to provide data necessary to quantify the exemptions' use and revenue impact. As discussed, although vendors are required to report the exemptions, they use a line for "other exemptions" on both forms (Forms DR 0100 or 0173) and the amounts listed on these lines are combined with several other tax expenditures and cannot be disaggregated for analysis. Additionally, the State does not require aircraft to be registered with the Department. Thus, the sales of aircraft are not tracked in a similar manner as motor vehicles that are required to be registered in the state. Therefore, we were unable to determine the total number of aircraft sold in any one year, which may have allowed us to better assess the potential impact of the Fly-away Exemption.

If the General Assembly determines that additional information on the revenue impact of these exemptions is needed, the Department would need to add separate reporting lines for the exemptions to Forms DR 0100 and 0173 and capture the data in GenTax, its tax processing and information system. However, according to the Department, this type of change would require additional resources to change the form and complete the necessary programming in GenTax (see the Tax Expenditures Overview Section of the Office of the State Auditor's *Tax Expenditures Compilation Report* for additional details on the limitations of Department data and the potential costs of addressing the limitations).

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER AMENDING STATUTE TO ESTABLISH A STATUTORY PURPOSE AND PERFORMANCE MEASURES FOR THE FLY-AWAY EXEMPTION AND THE AIRCRAFT PARTS EXEMPTION. As discussed, statute and the enacting legislation for the exemptions do not state their purposes or provide performance measures for evaluating their effectiveness. Therefore, in order to conduct our evaluation, we considered the following potential purposes:

- FLY-AWAY EXEMPTION—To increase aircraft sales and support aircraft manufacturing and maintenance businesses in the state.

- AIRCRAFT PARTS EXEMPTION—To support the state's aircraft maintenance industry by encouraging aircraft owners and operators to have aircraft maintenance performed in the state.

We identified these purposes based on the operation of the exemptions and their legislative history. We also developed two performance measures to assess the extent to which the exemptions are meeting their potential purposes. However, the General Assembly may want to clarify its intent for the exemptions by providing purpose statements and corresponding performance measure(s) in statute. This would eliminate potential uncertainty regarding the exemptions' purposes and allow our office to more definitively assess the extent to which the exemptions are accomplishing their intended goal(s).

THE GENERAL ASSEMBLY MAY WANT TO REVIEW THE EFFECTIVENESS OF THE FLY-AWAY EXEMPTION AND THE AIRCRAFT PARTS EXEMPTION. As discussed, we found that the exemptions might be meeting the potential purposes we used for our evaluation, to a limited extent. Specifically, we found that most states have similar exemptions and stakeholders reported that it is a common practice for aircraft and aircraft parts purchasers to arrange for sales to occur in states that have a sales tax exemption. Furthermore, it is common for aircraft to undergo maintenance and refurbishment at the time of sale. Therefore, the exemptions may support the state's aircraft maintenance industry by keeping the State's tax laws competitive with other states and encouraging maintenance work to occur in Colorado. However, we found that the exemptions do not appear to have caused growth in employment or wages in the industry. Additionally, because non-residents who purchase aircraft in Colorado and remove them from the state may still owe use tax in other states, the Fly-away Exemption may not be a significant factor for some taxpayers when deciding where to purchase aircraft. As discussed, the Aircraft Parts Exemption appears to have been intended, in part, to encourage United Airlines to establish a maintenance facility in Colorado at the time Denver International Airport was being constructed, but the company chose a different state for the facility. Although the legislative history for the exemption indicates that the General Assembly also expected the exemption to have more wide-ranging benefits, it is unclear whether it would have established the exemption absent the goal of attracting this facility to the state. Furthermore, while 39 states provide a sales and use tax exemption for sales of aircraft parts, 20 limit their exemption to commercial aircraft. Therefore, the General Assembly may want to review the effectiveness of the exemptions and consider whether they are having the intended impact and should continue or if changes are warranted.