



Testimony on the Aviation Sales Tax Exemption
House Ways & Means Committee
Chris Carrigan, Vice President
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For the record my name is Chris Carrigan, and I'm the VP of Business Development with the statewide Vermont Chamber of Commerce, which represents 1,500 members from Bennington to Newport. I also manage the Vermont Chamber's Manufacturing Division and the Vermont Chamber's Aerospace & Aviation Association.

Chair Ancel and esteemed members of this committee,

Thank you for taking a look at the aviation sales tax exemption, which is included in H.205.

I understand your focus is on the numbers, such as how many companies use the tax exemption, will use it and what the value of the tax exemption is. Unfortunately, I cannot provide that data, as the State is much better equipped to do that. Instead, today I'm going to put forth some history, context and strategy for this tax exemption; essentially the "why" and importance of this tax exemption to economic development.

Economic Growth Strategy

The aviation tax exemption is an important part of an overall strategy, which, in coordination with our partners and investments being made at both the state and federal level, is to transform Vermont into a supply chain hub for global aerospace manufacturing and general aviation and create an aerospace and aviation corridor that links Vermont with Québec.

To begin, Vermont is home to a thriving \$2 billion aerospace manufacturing and aviation industry.

According to the Economic Impact of Civil Aviation by State study done by the Federal Aviation Administration (FAA) in January 2015, the economic impact of civil aviation alone for the state of Vermont includes:

- **\$1.1 billion** in economic output
- **\$316 million** in earnings
- **11,081** jobs

Civil aviation, furthermore, represents **2.3%** of Vermont's gross domestic product (GDP) (see attachments).

Civil aviation includes:

- **Scheduled air transport**, including all passenger and cargo flights operating on regularly scheduled routes; and
- **General aviation**, including all other civil flights, private or commercial.

Additionally, aerospace manufacturing is an important part of Vermont's overall manufacturing economy, which supports 32,000 jobs (11% of all employment), accounts for \$2.8 billion or 9% of the state's gross domestic product (GDP) and \$2.57 billion in exports or nearly two thirds (2/3) of all exports.

For aerospace manufacturing, Vermont is home to industry leaders, such as GE Aviation in Rutland, UTC Aerospace Systems in Vergennes, and an established, world-class supplier base of over 250 small and medium-sized manufacturing enterprises (SMEs) with manufacturing capabilities in the areas of:

- Aircraft maintenance, repair & overhaul (MRO);
- Aircraft structures and sub-assemblies;
- Aircraft airframes and engines;
- Aerospace design & engineering;
- Avionics and electronics;
- Fixtures and gauges;
- Fuel management;
- Landing gears;
- Precision machining; and
- Turbomachinery.

World class aircraft Original Equipment Manufacturers (OEMs) from Airbus Americas, Bell Helicopter and BAE Systems to Boeing, Bombardier, and Lockheed Martin all depend on Vermont's aerospace manufacturers to design, build and deliver the finest quality products with innovation, speed to market and competitive advantage. The Boeing Company, for example, has 23 suppliers and vendors based right here in Vermont representing an \$88.1 million spend and supporting 2,800 jobs for Vermonters.

Supply Chain: From Contacts to Contracts

Recognizing aerospace and aviation as a thriving industry and economic opportunity for the State, and, responding to the need of our members for access to contacts, new business opportunities and contracts, the Vermont Chamber developed a supply chain matchmaking program and has a proven track record of bringing large out-of-state buyers and government

contractors, suppliers and partners together in a meaningful way with 17 supply chain events over the last ten years. Manufactured in Vermont, the Vermont Chamber's Annual Supply Chain Trade Show in 2016, for example, featured:

- **90** exhibitors
- **17** large, out-of-state buyers, including Airbus Americas, Raytheon, Rolls-Royce NA, and Lockheed Martin
- **457** B2B supply chain meetings representing 114 hours of meeting time

Tapping Québec Aerospace

Our work also extends across the border to a \$28 billion Canadian aerospace industry. A vital contributor to this market is the \$13.8 billion Québec aerospace cluster in and around Montreal.

Québec aerospace is the 3rd world capital of aerospace manufacturing after Seattle, Washington and Toulouse, France where commercial aircraft are built from the ground up at these three locations.

Québec aerospace is also home to 204 aerospace companies, a network of 190 small and medium-sized enterprises, a workforce of 41,750 and some of the largest global aerospace OEMs, including Bombardier, Bell Helicopter and Magellan Aerospace. Importantly, most of these Canadian companies source over 50% of their aerospace parts from the U.S.

The Opportunity: Vermont – Québec Aerospace Trade Corridor

With these two markets in mind, the Vermont Chamber recognized the opportunity to link Vermont's \$2 billion aerospace and aviation industry with Canada and tap Québec aerospace for enhanced, cross-border trade and supply chain integration for our Vermont aerospace manufacturers.

Over the past six years, and, in support of building the Vermont – Québec Aerospace Trade Corridor, the Vermont Chamber's record of work and investment in Québec includes \$671,103 and the facilitation of 1,394 B2B supply chain meetings for our members and Canadian partners (see handouts).

Aircraft Maintenance as a Global Market Opportunity for Vermont

A key market opportunity for Vermont's aerospace manufacturers regionally, in the U.S. and in Canadian aerospace is the aircraft maintenance, repair and overhaul (MRO) market, which, according to Visiongain, a market research firm, reached \$65.5 billion in 2016. MRO includes a range of services and hangar or workshop facilities to small repair companies for specific equipment, parts and components for both commercial and private aircraft.

Equipment and parts related to MRO include, for example, aerostructures, air conditioning, avionics and electronics, blades, cabin interiors, circulation, electrical power, engines (gas turbine), gear boxes, and landing gears.

Tax Exemption Vital for Competitive Advantage

The aviation tax exemption has proven vital to Vermont manufacturers and repair operations, which employ between 8 and 50 full-time, highly skilled employees and for which MRO for both commercial and private use constitutes between 50-98% of their business and gross revenues. Importantly, these Vermont companies and employers rely on the aviation sales tax exemption for aircraft and depreciable parts not only to tap the worldwide MRO market opportunity, but to stay competitive in a regional and global marketplace.

Their customers include, but are not limited to:

- Commercial carriers, such as American Airlines, Delta, ExpressJet, JetBlue & Lufthansa
- Commercial aviation MRO supplemental support to OEMs, such as Honeywell, Pratt & Whitney and UTC
- Flight academies and schools
- Freight forwarding and logistics, including FedEx and UPS
- Medical services, including flight ambulance and emergency transport
- Military, including supplemental airlift to the Vermont Air National Guard (VTANG)
- Private charters
- Private owners, operators and aviation enthusiasts

If the tax exemption is allowed to sunset, it would place Vermont at a competitive disadvantage with neighboring states that have such tax exemptions in place or no sales tax. MA and NY have an exemption and NH has no sales tax.

Of particular note, the existing tax code specifically recognizes the need for the sales tax exemption for Vermont to remain competitive with surrounding states:

Title 32 Chapter 233 § 9706 *Statutory purposes*

(p) The statutory purpose of the exemption for aircraft and depreciable parts for commercial and private use in subdivision 9741(29) of this title is to promote the growth of the aircraft maintenance industry in Vermont by lowering the cost of parts and equipment **relative to other states** with private airplane maintenance facilities.

If allowed to sunset, customers will not pay sales tax when they can go to a neighboring tax exempt state. Additional and unwanted consequences will include layoffs, salary reductions, other cost reductions and out-of-state relocation.

Attached, and, included for your reference, please find additional letters of support from Vermont employers and manufacturers in maintenance, repair and overhaul for aerospace and aviation.

Vermont Chamber of Commerce Position

The Vermont Chamber of Commerce supports:

- The language as presented in H.205 and making permanent the sales tax exemption for aircraft and parts, machinery, and equipment to be installed in any aircraft.

Conclusion

In closing, Vermont has a thriving aerospace manufacturing and aviation industry. As a state, we have an opportunity to further grow this industry and become a supply chain hub by tapping the global market for aircraft maintenance and Québec aerospace. The Vermont Chamber of Commerce advocates for a consistent tax policy conducive to the preservation and growth of the aerospace and general aviation industry and its manufacturers, many of whom provide Vermonters with employment and a high standard of living. Making the aviation sales tax exemption permanent for both commercial and private is vital and all important to the overall growth of this industry.

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