



STATE BOARD OF EQUALIZATION

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September 30, 1980

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No. 80/144

TO COUNTY ASSESSORS:

APPLICATION OF BUSINESS INVENTORY EXEMPTION
TO AIRCRAFT INVENTORIES

As indicated in assessors' letter 30/119 we stated that with the passage of Assembly Bill 1994, as of fiscal year 1980-81, aircraft in dealers' inventories were eligible for exemption as business inventory.

We have since received various inquiries regarding application of the exemption for dealers who may also be operating charter or pilot training schools.

Basically, the guidelines for exemption of aircraft are the same as for other properties, e.g., they must be either held for sale or lease as of the lien date.

Where a dealer is using an aircraft for pilot training or charter, Property Tax Rule 133(b)(3) would exclude that aircraft from exemption. Additionally, Rule 133(b)(5) and (6) would exclude from the exemption any aircraft held for lease that were used or were intended to be used for pilot training or charter.

Following are some suggestions for verifying whether or not an aircraft is being used for purposes other than sale:

- (1) A dealer who operates an air taxi service must file CAB Form 298 with the Civil Aeronautics Board every two years listing the aircraft by tail number which are used in the air taxi service. A review of the operator's filing of this report would indicate any aircraft committed to air taxi service. This in turn would be an indication the aircraft is not held for sale.
- (2) Review of the flight log — If the aircraft is being used in charter or other commercial service, the operator must maintain a flight log of each commercial flight.
- (3) Review of engine hours — A new aircraft will typically have about 30 hours of flight time from the factory to the dealer, plus approximately four hours of required engine operation per month. So, allowing for a few hours of flight demonstration to prospective

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customers, an aircraft that has been in a dealer's hands for three months would typically have 45 to 55 hours of total engine time. Conversely, aircraft being operated in student training or charter service will usually be operated in excess of 50 hours per month.

- (4) Turnover -- The typical time period a dealer requires to sell an aircraft is three months. So, if a dealer has an aircraft for a year or more, it is likely he is using it for purposes not directly associated with the sale of that aircraft.

There will be occasions when a combination dealer/air taxi operator has used an aircraft in his air taxi operations but on the lien date he is legitimately offering it for sale. In this instance, the aircraft would qualify. However, we would suggest that, on audit, the auditor determine whether the operator resumed air taxi activity with the aircraft after the lien date.

Please direct any questions concerning the above to Mike Shannon or Charlie Knudsen of this division.

Sincerely,



Verne Walton, Chief
Assessment Standards Division

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