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No. 80/144

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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