UPDATE: AIR TRANSPORTATION TAXES AND FEES

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MIT Global Airline Industry Program
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INTRODUCTION

- **Context**

- **U.S. domestic ticket taxes and fees: 2008 update**
  - Quantify portion of U.S. domestic tickets spent on taxes
  - Provide insights into the nature of these taxes to inform debate and support policymaking
U.S. DOMESTIC TAXES AND FEES

- **Issues**
  - Changes in tax and fee levels
  - Cross-subsidies

- **FAA reauthorization**
  - Airports calling for increased PFC cap ($4.50 to $7.50) and inflation indexing
  - H.R. 915: PFC cap increases to $7.00 and fuel tax increases from 21.8 to 35.9 ¢/gal for non-commercial jet fuel and from 19.3 to 24.1 ¢/gal for avgas
  - S. 1451: PFC cap can be removed at 6 airports, but “may not permit charge to be collected by an air carrier”
MEDIA COVERAGE

British government doubles air passenger taxes

Charles Miranda | June 15, 2009

Article from: Herald Sun

UPDATE: US Airports Seek Legislation To Raise Passenger Fees

The WALL STREET JOURNAL
WSJ.com

MAY 13, 2009, 3:25 P.M. ET

Top US House Lawmaker Pushes For Study On Airline Fees

3
Definition of “tax”

“A compulsory levy made by public authorities for which nothing is received directly in return”

James & Nobes, Economics of Taxation: Principles, Policy, and Practice, 7th ed

By definition, everything else is a “charge” or “user fee”, but..

...“user fee” has become a loaded term
### Focus: Airline Ticket Taxes and Fees

- **Account for two-thirds of trust fund receipts**

<table>
<thead>
<tr>
<th>Tax/Fee</th>
<th>Symbol</th>
<th>Rate</th>
<th>Recipient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal ticket tax</td>
<td>FTT</td>
<td>7.5%</td>
<td>Airport and Airway Trust Fund</td>
</tr>
<tr>
<td>Federal segment tax</td>
<td>FST</td>
<td>$3.60 per segment</td>
<td></td>
</tr>
<tr>
<td>Passenger facility charge</td>
<td>PFC</td>
<td>$3 or $4.50 per enpl.</td>
<td>Collecting airport</td>
</tr>
<tr>
<td>Federal security service fee</td>
<td>FSSF</td>
<td>$2.50 per enpl.</td>
<td>TSA</td>
</tr>
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</table>

**Notes:**
- Rates shown effective January 1, 2009
- Only includes domestic taxes and fees added directly to tickets
- PFC and FSSF collection limited to first 2 enplanements per one-way trip
- Rural airports exempt from some taxes
- Special rules exist for Alaska and Hawaii
- FSSF was temporarily suspended from June 1 to September 30, 2003
METHODOLOGY

- **Data**: USDOT Origin and Destination Survey (DB1A)
  - Includes all tickets ending with “0” (10% sample)
  - 275,556,721 records from 1993Q1 through 2008Q4
  - Data represents one-way directional records, but results are presented as round-trip equivalent values

- **DB1A only reports total fare – individual taxes have to be computed retroactively**:
  - \( \text{PFC} = f(\text{airports in itinerary}) \)
  - \( \text{FSSF} = 2.50 \times \min(\text{number of segments}, 2) \)
  - \( \text{FST} = 3.60 \times \text{number of segments} \)
  - \( \text{FTT} = 0.075 \times \text{BF} \)
  - \( \text{BF} = \text{Total} - (\text{FTT} + \text{PFC} + \text{FSSF} + \text{FST}) \)
## RESULTS: CURRENT DOLLARS

<table>
<thead>
<tr>
<th>Year</th>
<th>Base Fare</th>
<th>Federal Tax</th>
<th>Flight Segment Tax</th>
<th>PFC</th>
<th>Federal Security Fee</th>
<th>Total Taxes and Fees</th>
<th>Total Fare</th>
<th>ETR</th>
<th>Seg.</th>
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<tbody>
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<td>1997</td>
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<td>1998</td>
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BASE FARE, TAXES, AND EFFECTIVE TAX RATE

The chart illustrates the relationship between Total Taxes and Fees and Base Fare (2008 dollars) over the years from 1992 to 2008. The chart shows the Effective Tax Rate (%), Total Taxes and Fees (TTF $), and Base Fare (BF $) over time.

Key points:
- Total Taxes and Fees and Base Fare (2008 dollars) are represented on the y-axis.
- Year is represented on the x-axis from 1992 to 2008.
- The chart shows fluctuations in the Effective Tax Rate, Total Taxes and Fees, and Base Fare over the years.
TRENDS IN TAXES AND FEES

Average Taxes and Fees (2008 dollars)

Year


Total Taxes and Fees
AATF Contribution
PFC
Security Fee
SUMMARY OF OBSERVATIONS

- **Taxes have remained remarkably flat in real terms**
  - $52.83 in 1993 vs. $52.00 in 2008
  - However, security fee noticeably increased taxes in 2002

- **Effective tax rate increases as base fare declines**
  - Base fare declined: ETR 11.0% in 1993 vs. 16.4% in 2004
  - Base fare stabilized: ETR 16.4% in 2004 vs. 15.5% in 2008

- **Trends in individual taxes and fees**
  - AATF contribution per ticket down by 28% since 1993
  - PFCs and security fees not keeping pace with inflation

- **Note: Domestic enplanements have grown by 50%**
PERCEPTIONS ABOUT PFCs

“Construction costs have eroded about half of the $4.50 PFC that was put on in 2000.”

Charles Barclay, President, AAAE, May 13, 2009
PERCEPTIONS ABOUT TICKET TAXES

“Ticket taxes account for $60...of every $300 ticket.”
Aviation Today, October 24, 2009

Guide to deconstructing ticket tax examples:
- What’s the assumed base fare?
  BF = $300–$60 = $240 (vs. average = $335)
- Does the example assume a connection?
  Segments = 4 (vs. average = 2.68)
- Does the example assume maximum PFC?
  PFC = $4.50 (vs. average = $4.09/segment)

ETR = $60/ $240 = 25% (vs. average ETR = 15.5%)
PARTING THOUGHTS REDUX

- **Is there any rationale for an ad valorem tax?**
  - Apparently yes

- **Should unit taxes be inflation adjusted?**
  - Segment tax remains inflation adjusted
  - Airports are calling for inflation adjusted PFCs
  - No recent activity on increasing security fee

- **What will happen as revenues increasingly come from untaxed airline charges for baggage etc.?**
  - “We are concerned that these fees...are resulting in revenue being diverted from the Airport and Airway Trust Fund.”
    - Rep. James Oberstar, Chairman, House Transportation Committee
    - Letter to GAO, August 6, 2009
THANK YOU!

Photo by Linn Rittmaim-Glimne (used with permission)