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UPDATE: AIR TRANSPORTATION TAXES AND FEES

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MIT Global Airline Industry Program
Industry Advisory Board/Airline Industry Consortium Joint Meeting
November 4, 2010

INTRODUCTION

- **Context and current issues**
- **U.S. domestic ticket taxes and fees: 2009 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
- **Focus: Ancillary fees**

CONTEXT AND CURRENT ISSUES

- **FAA reauthorization debate**
  - FAA operating under umpteenth* continuing resolution
  - Airports calling for increased PFC cap to $7.50 and CPI indexing

    "Construction costs have eroded about half of the $4.50 PFC that was put on in 2000." – Charles Barclay, President, AAAE, May 13, 2009
  - Airlines calling for no new taxes and fees

    "One message is loud and clear: People want less government, less taxes." – Jim May, CEO, ATA, October 25, 2010
- **Current issues**
  - Ancillary fees
  - Impact of inflation on unit taxes
  - Sustainability of Airport and Airway Trust Fund

* umpteen = 16

MEDIA COVERAGE

Mail Online

Heathrow airport and thousands of jobs 'face air tax threat'

By Tom Mcghie
Last updated at 10:01 PM on 2nd October 2010

The New York Times

ITINERARIES

Added Fees Make It Hard to Compare Old Air Fares With New

By SUSAN STELLIN
Published: August 9, 2010

THE ASSOCIATED PRESS September 23, 2010, 3:52PM ET

Travel group gains support for airline fee rule

NEW YORK

abc NEWS

Time to Tax Those Checked Bag Fees?

Fare Compare's Rick Seaney Argues Against More Airline Taxes

Column By RICK SEANEY
FareCompare.com CEO

The New York Times

PRACTICAL TRAVELER

Airline Fees Test Travelers' Limits

By SUSAN STELLIN
Published: August 3, 2010

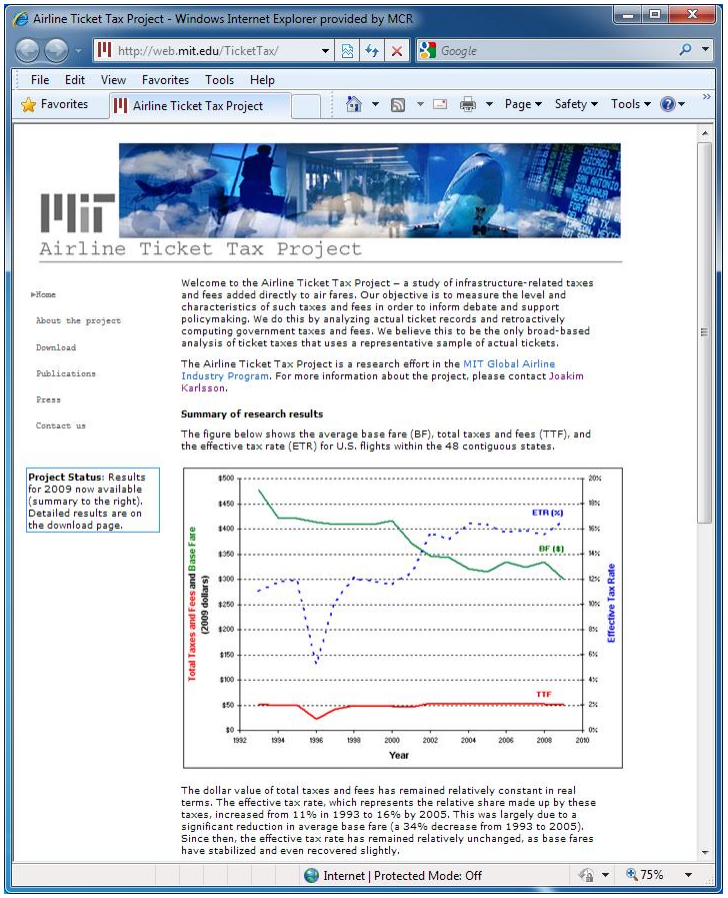
CNN Travel

Visitors from 36 nations to pay U.S. tourism promotion fee

September 08, 2010 | From Marnie Hunter, CNN

MIT AIRLINE TICKET TAX PROJECT

- **web.mit.edu/TicketTax (or google “ticket taxes”)**
- **Research results**
- **Covers U.S. and EU**
- **Published articles**
- **Press coverage**



DOMESTIC AIRLINE TICKET TAXES AND FEES

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

Tax/Fee	Symbol	Rate	Recipient
Federal ticket tax	FTT	7.5%	Airport and Airway Trust Fund
Federal segment tax	FST	$3.70 per segment	
Passenger facility charge	PFC	$3 or $4.50 per enpl.	Collecting airport
Federal security service fee	FSSF	$2.50 per enpl.	TSA

Notes:

- Rates shown effective January 1, 2010
- 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)
  - 295,750,802 records from 1993Q1 through 2009Q4
  - Data represents one-way directional records, but results are presented as round-trip equivalent values
  - Covers domestic travel in Continental U.S.
- **DB1A only reports total fare – individual taxes have to be computed retroactively:**

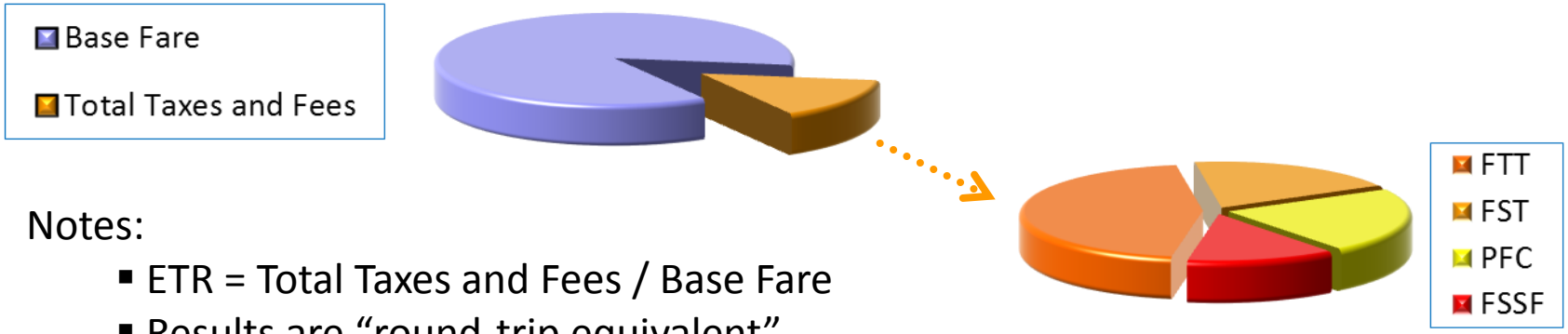
  PFC = *f*(airports in itinerary)
  FSSF = $2.50 x *min*(number of segments, 2)
  FST = $3.70 x number of segments
  FTT = 0.075 x BF
  BF = Total – (FTT + PFC + FSSF + FST)

RESULTS: INFLATION-ADJUSTED 2009 DOLLARS

Year	Base Fare	Federal Ticket Tax	Flight Segment Tax	PFC	Federal Security Fee	Total Taxes and Fees	Total Fare	ETR	Seg.
1993	$477.35	$47.74	$0.00	$4.91	$0.00	$52.65	$530.00	11.0%	2.83
1994	$422.34	$42.23	$0.00	$7.34	$0.00	$49.58	$471.92	11.7%	2.81
1995	$420.33	$42.03	$0.00	$8.04	$0.00	$50.08	$470.41	11.9%	2.78
1996	$413.19	$14.10	$0.00	$7.63	$0.00	$21.73	$434.92	5.3%	2.76
1997	$408.38	$32.88	$0.94	$8.32	$0.00	$42.14	$450.52	10.3%	2.77
1998	$410.86	$35.94	$4.58	$9.04	$0.00	$49.56	$460.42	12.1%	2.77
1999	$409.58	$32.25	$7.33	$8.91	$0.00	$48.50	$458.08	11.8%	2.76
2000	$415.70	$31.18	$8.55	$8.53	$0.00	$48.26	$463.96	11.6%	2.74
2001	$370.96	$27.82	$9.20	$9.45	$0.00	$46.48	$417.43	12.5%	2.76
2002	$345.59	$25.92	$9.95	$10.96	$7.51	$54.35	$399.94	15.7%	2.78
2003	$342.95	$25.72	$9.70	$11.36	$5.22	$52.00	$394.95	15.2%	2.77
2004	$320.37	$24.03	$9.61	$11.28	$7.61	$52.52	$372.89	16.4%	2.73
2005	$315.40	$23.66	$9.49	$11.20	$7.29	$51.64	$367.05	16.4%	2.70
2006	$333.76	$25.03	$9.39	$11.08	$6.99	$52.49	$386.25	15.7%	2.67
2007	$324.50	$24.34	$9.38	$11.08	$6.78	$51.58	$376.08	15.9%	2.67
2008	$333.61	$25.02	$9.34	$10.90	$6.56	$51.82	$385.42	15.5%	2.68
2009	$299.30	$22.45	$9.75	$11.25	$6.64	$50.09	$349.40	16.7%	2.71

AVERAGE 2009 TICKET TAXES AND FEES

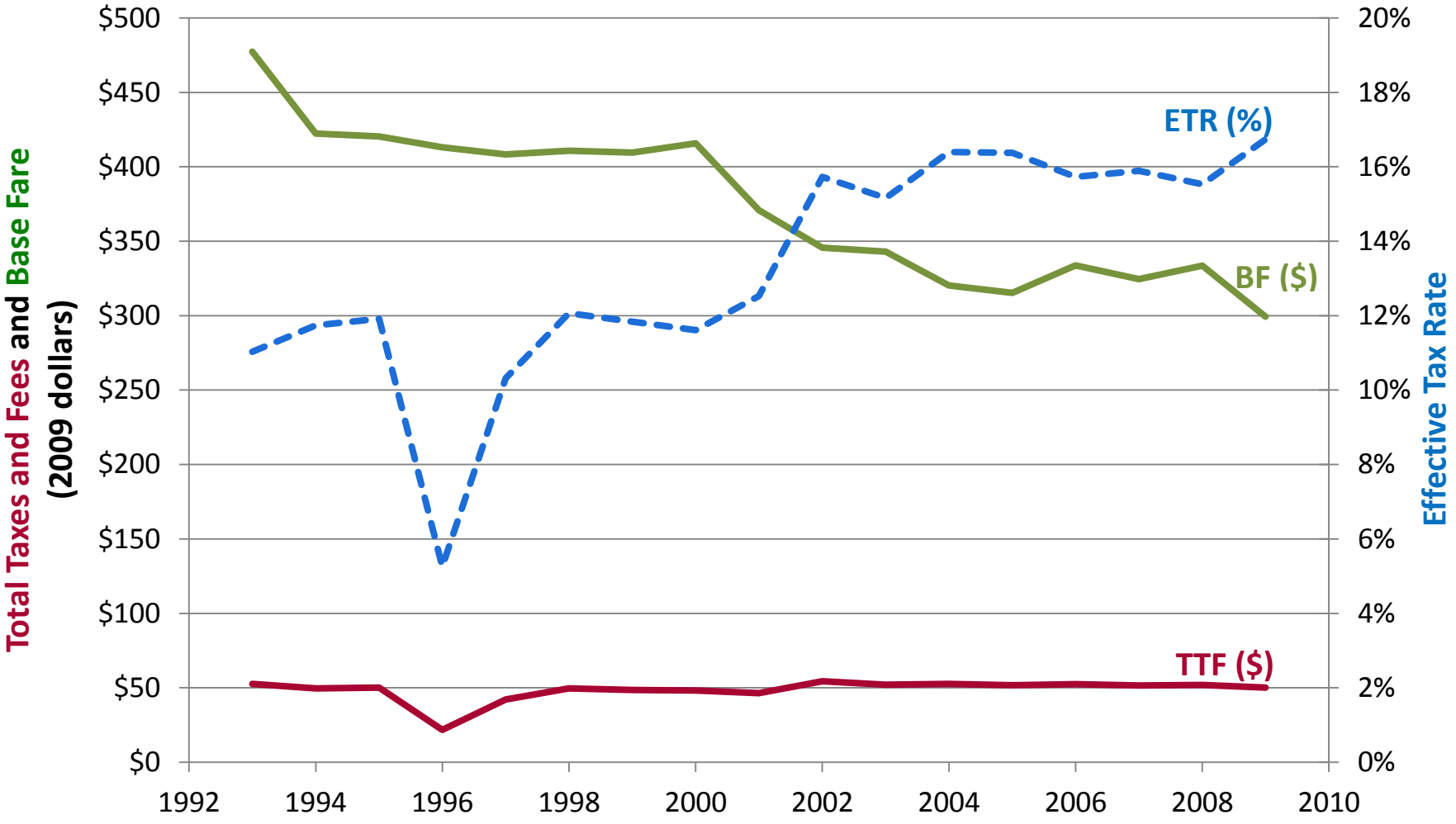
Base Fare	Federal Ticket Tax	Flight Segment Tax	PFC	Federal Security Fee	Total Taxes and Fees	ETR
$299.30	$22.45	$9.75	$11.25	$6.64	$50.09	15.5%



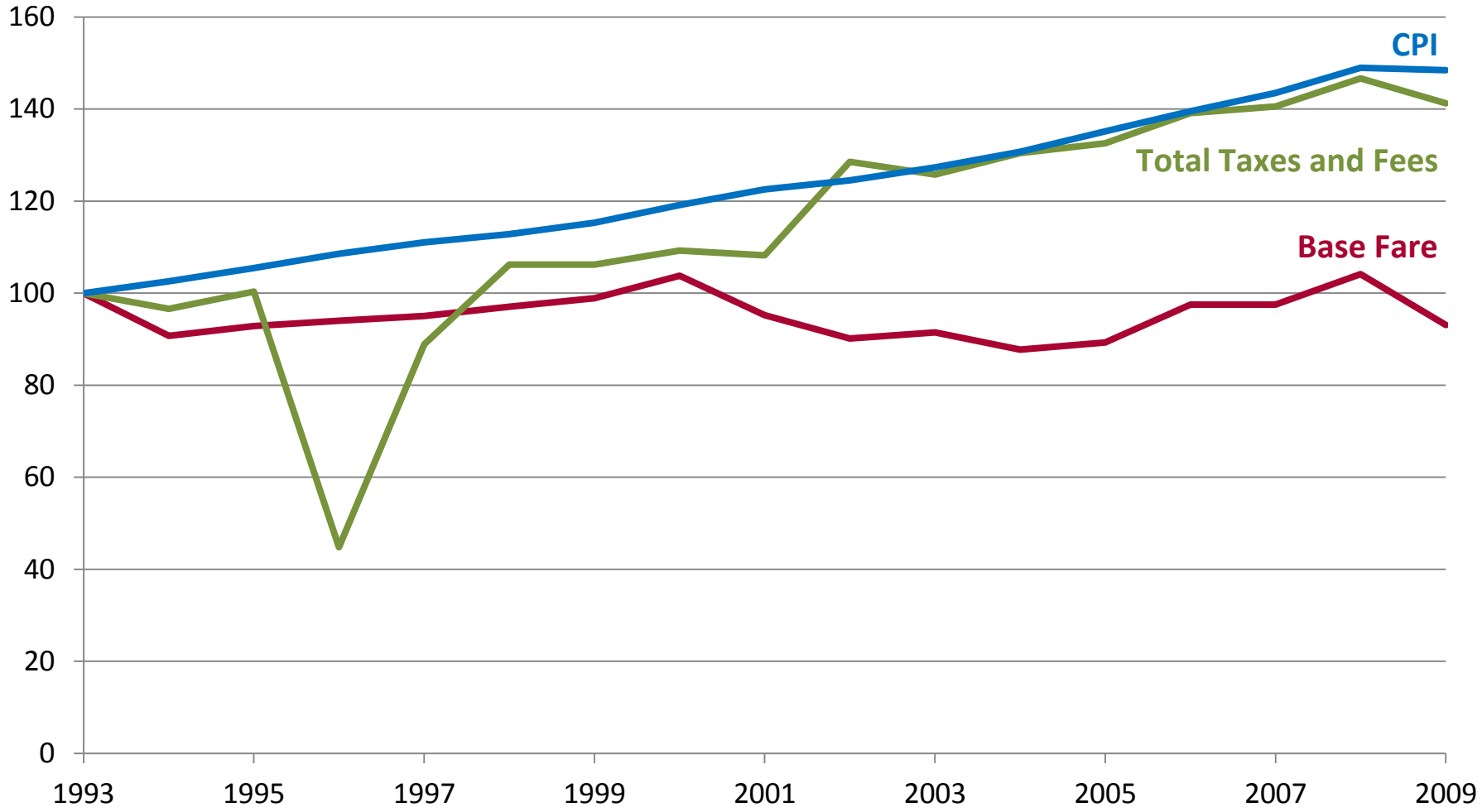
Notes:

- ETR = Total Taxes and Fees / Base Fare
- Results are “round-trip equivalent”
- Average number of segments in each direction: 1.35

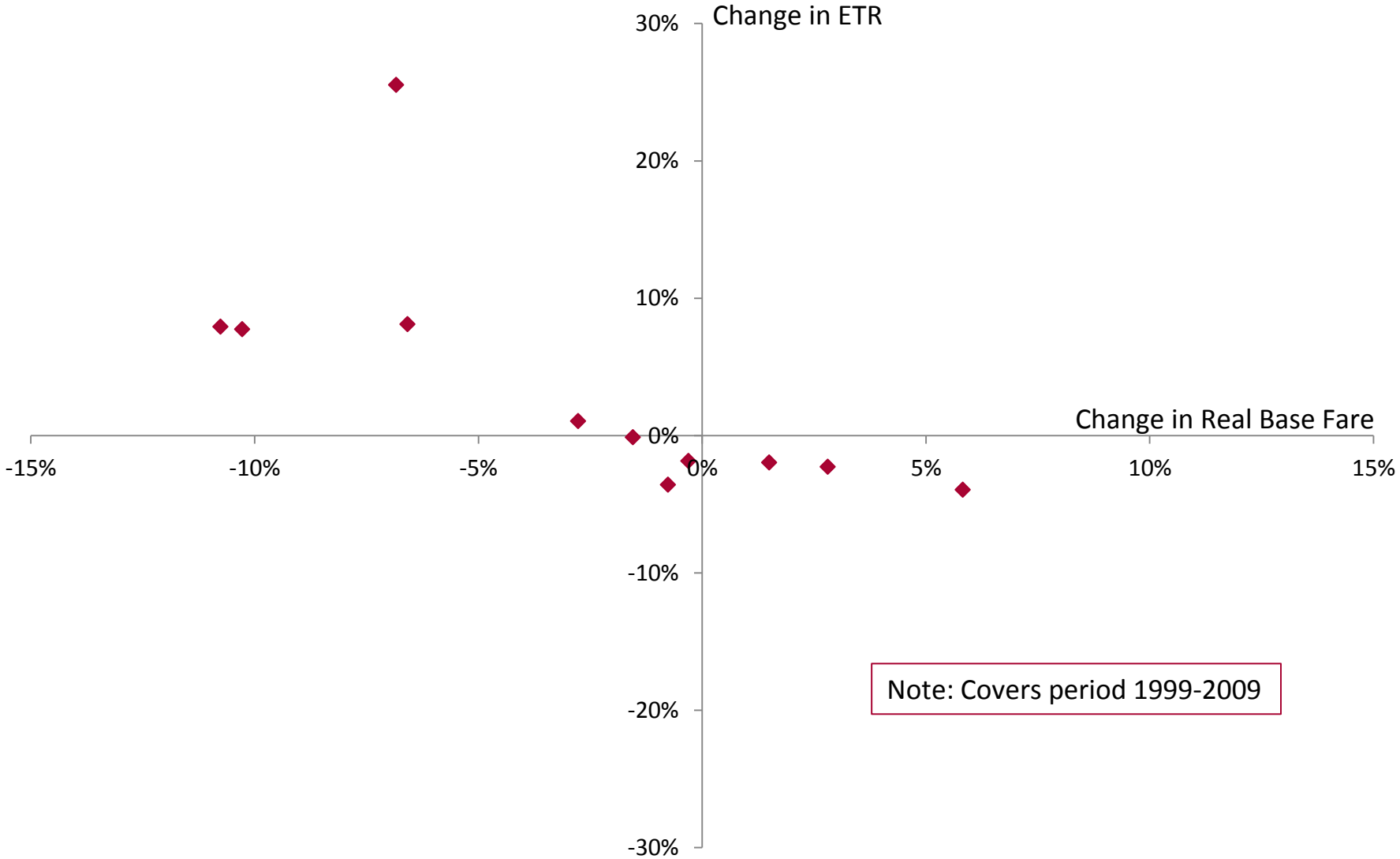
BASE FARE, TAXES, AND EFFECTIVE TAX RATE



INDEX 1993 = 100: CPI, TOTAL TAXES, BASE FARE

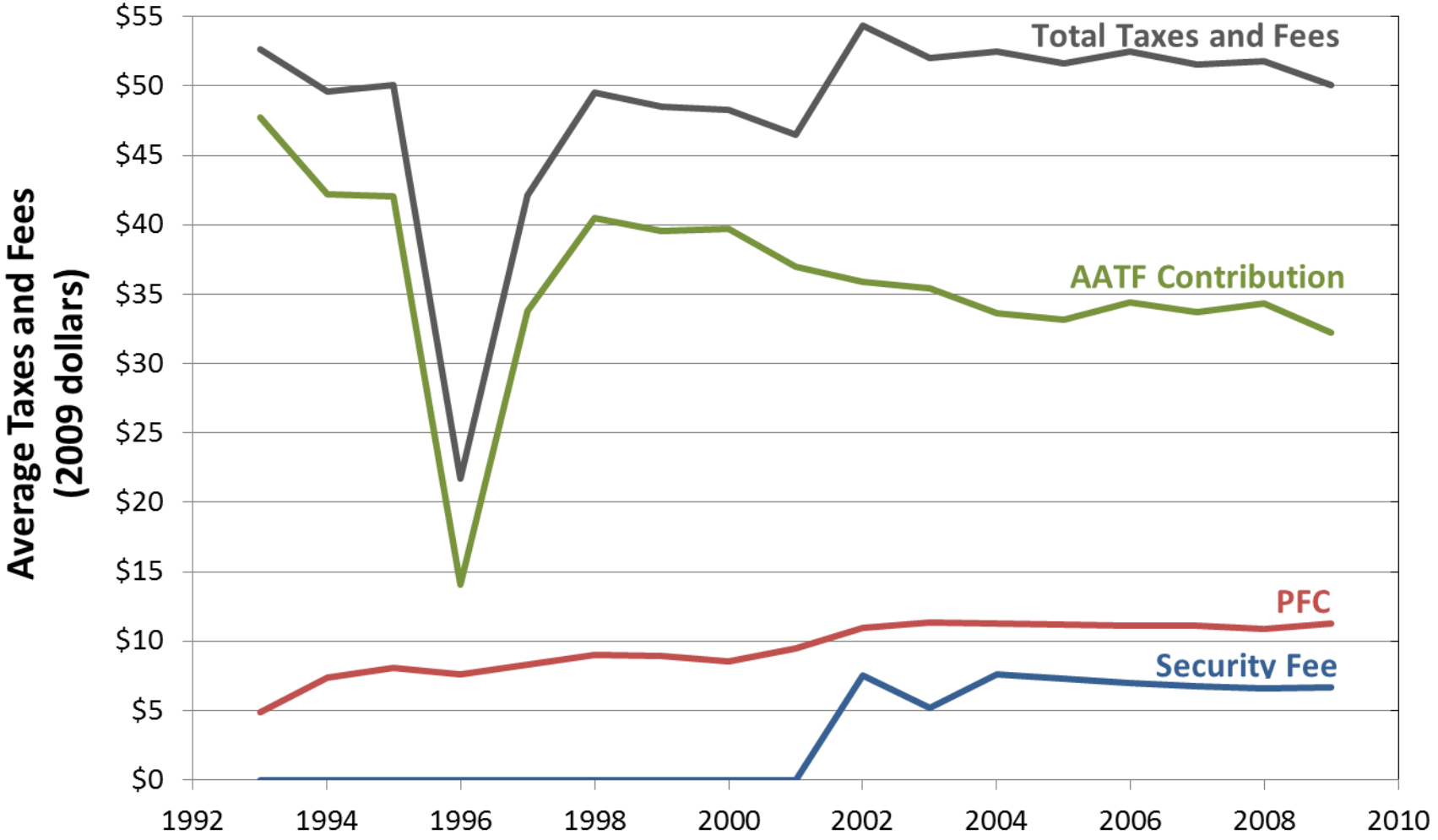


CORRELATION: CHANGE IN FARE VS. CHANGE IN ETR

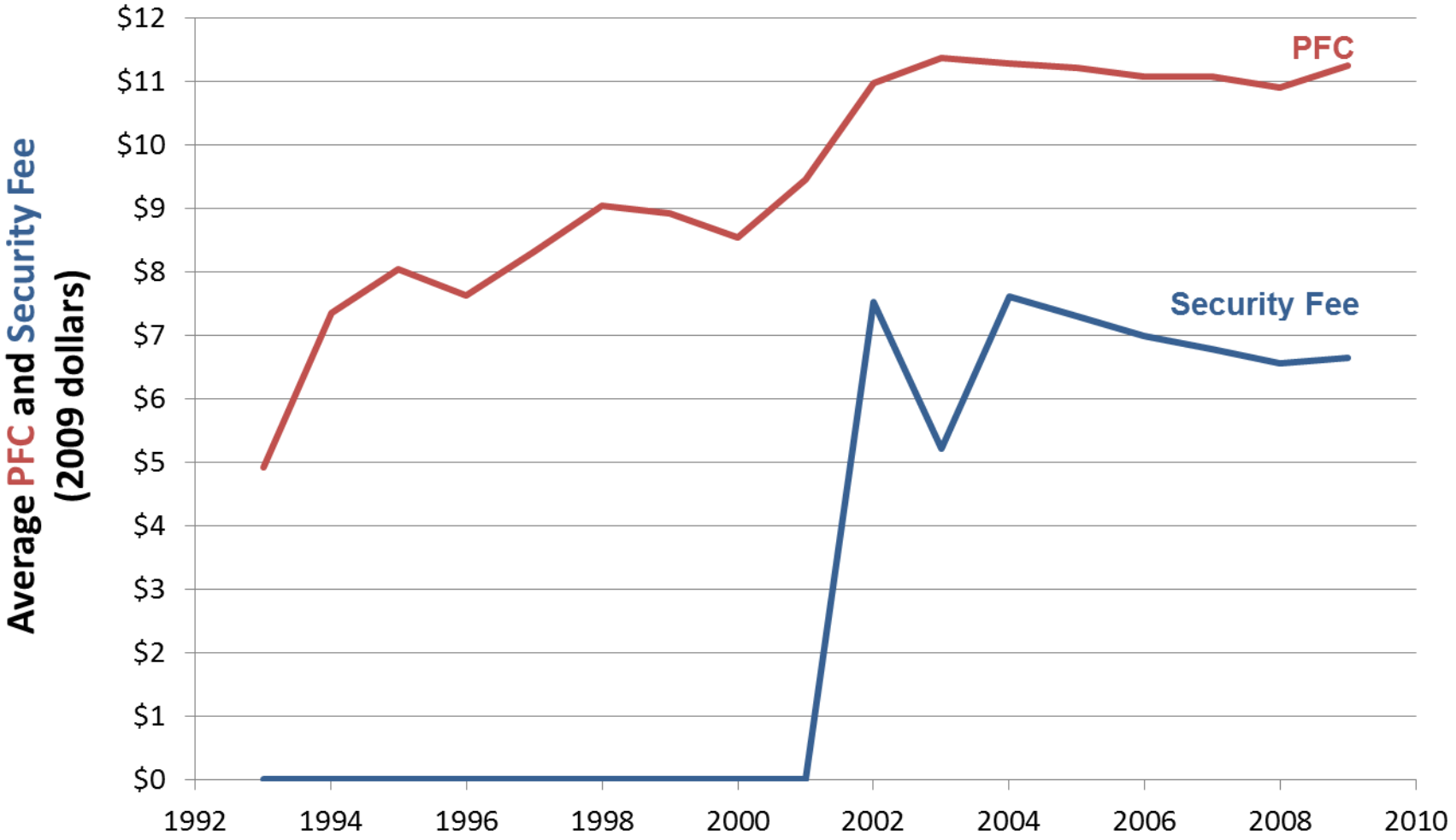


Note: Covers period 1999-2009

TRENDS IN TAXES AND FEES



AVERAGE PFC AND SECURITY FEE



SUMMARY OF OBSERVATIONS

- **Taxes have remained remarkably flat in real terms**
  - $52.65 in 1993 vs. $50.09 in 2009
  - However, security fee noticeably increased taxes in 2002
- **Effective tax rate increases as base fare declines**
- **Trends in individual taxes and fees**
  - AATF contribution per ticket down by 33% since 1993 (but domestic enplanements have grown by >40% since 1993)
  - $4.50 PFC cap is not keeping pace with inflation, but average PFC collection remains near all-time high
  - Security fee is not keeping pace with inflation

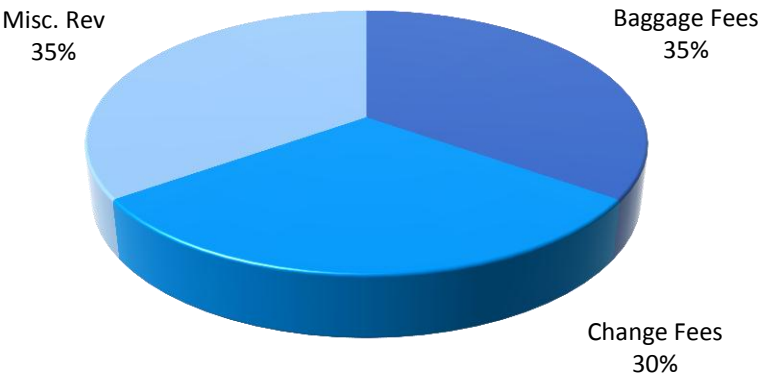
ANCILLARY FEES

- **Ancillary fees appear to have increased profitability, but:**
  - Consumers are frustrated: lack of transparency / price comparisons
  - Revenues from ancillary fees bypass Airport and Airway Trust Fund (in accordance with January 15 clarification from IRS)
  - Ancillary fees pose challenge to definition of base fare
  - Battle between airlines, GDSs, and travel agents regarding access to ancillary fees and services
- **GAO Report: *Consumers Could Benefit from Better Information about Airline-Imposed Fees* (July 2010)**
- **DOT NPRM *Enhancing Airline Passenger Protections***
  - Strengthens enforcement policies concerning price advertising
  - Requires notification of optional fees and of baggage fee increases

TRENDS IN ANCILLARY FEES

- **BTS collects data on ancillary fees through Form 41 filings**
  - Only baggage and change/cancellation fees are explicitly identified
  - Other ancillary fees may be co-mingled with other revenue

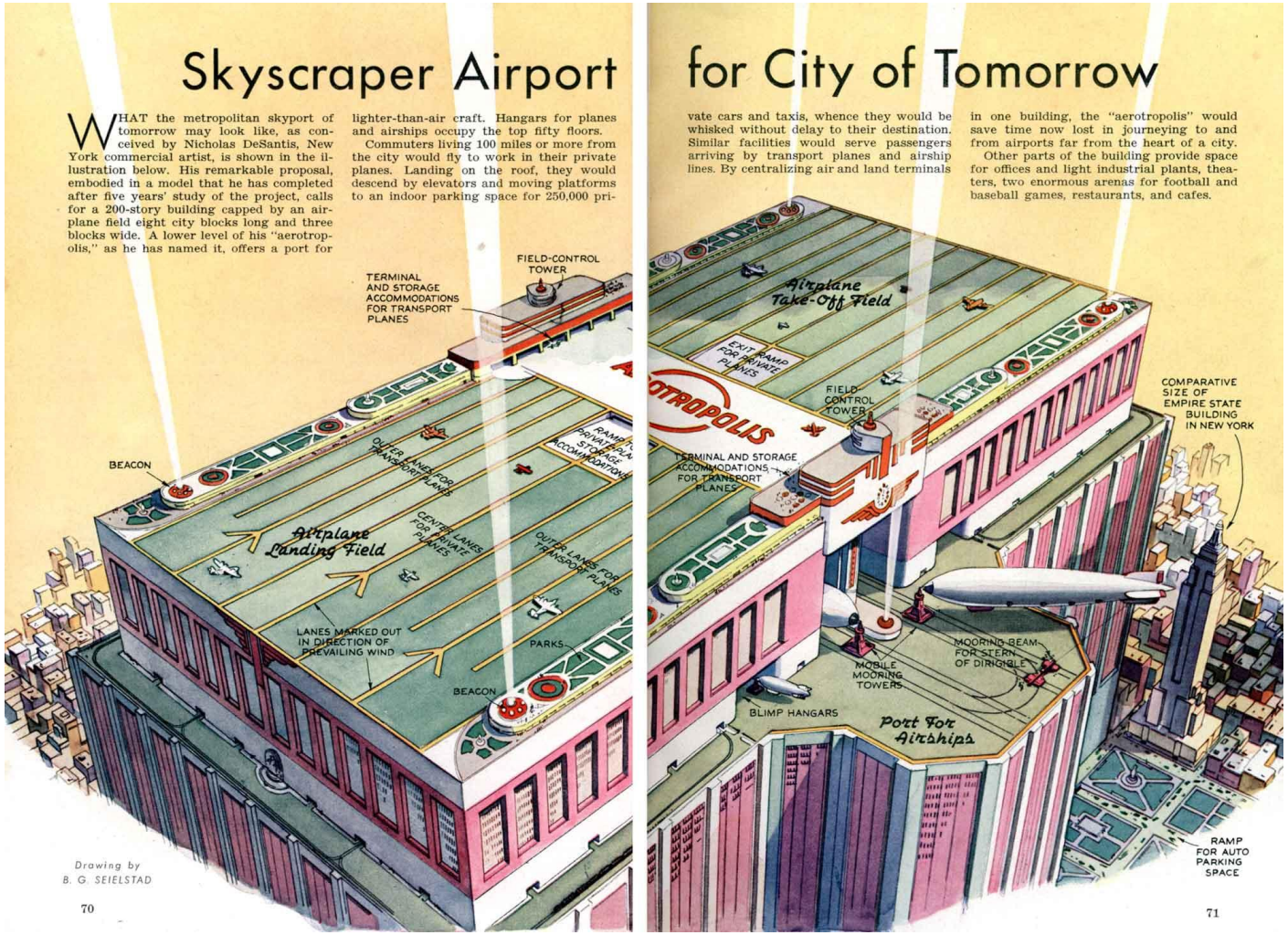
Year	Baggage Fees ($M)	Change Fees ($M)	Misc. Rev ($M)	Total Ancillary ($M)	Total Rev ($M)	Ancillary Share
2007	$464	$915	$2,170	$3,550	$174,696	2.0%
2008	$1,150	$1,669	$2,662	$5,480	$186,119	2.9%
2009	$2,729	$2,380	$2,726	$7,835	$155,051	5.1%



WHAT IF…

- **…100% of ancillary fees were considered base fare?**
  - ETR would change from 16.7% to 15.4%
- **…if (some) ancillary fees were taxed?**
  - Assume 50% of ancillary revenues taxed at 7.5%
  - Assume consumers carry full burden of tax, but ignore impact of tax increase on demand
  - Total fare would increase by 0.3%
  - Total taxes and fees collected would increase by 2%
  - Contributions from airline tickets to AATF would increase by 3%

THANK YOU!


Skyscraper Airport
for City of Tomorrow
WHAT the metropolitan skyport of tomorrow may look like, as conceived by Nicholas DeSantis, New York commercial artist, is shown in the illustration below. His remarkable proposal, embodied in a model that he has completed after five years' study of the project, calls for a 200-story building capped by an airplane field eight city blocks long and three blocks wide. A lower level of his "aerotropolis," as he has named it, offers a port for lighter-than-air craft. Hangars for planes and airships occupy the top fifty floors.
Commuters living 100 miles or more from the city would fly to work in their private planes. Landing on the roof, they would descend by elevators and moving platforms to an indoor parking space for 250,000 private cars and taxis, whence they would be whisked without delay to their destination. Similar facilities would serve passengers arriving by transport planes and airship lines. By centralizing air and land terminals in one building, the "aerotropolis" would save time now lost in journeying to and from airports far from the heart of a city.
Other parts of the building provide space for offices and light industrial plants, theaters, two enormous arenas for football and baseball games, restaurants, and cafes.
FIELD-CONTROL TOWER
TERMINAL AND STORAGE ACCOMMODATIONS FOR TRANSPORT PLANES
BEACON
OUTER LANES FOR TRANSPORT PLANES
CENTER LANES FOR PRIVATE PLANES
Airplane Landing Field
LANES MARKED OUT IN DIRECTION OF PREVAILING WIND
PARKS
BEACON
Drawing by B. G. SEIELSTAD
70
Airplane Take-Off Field
EXIT RAMP FOR PRIVATE PLANES
FIELD CONTROL TOWER
AEROTROPOLIS
TERMINAL AND STORAGE ACCOMMODATIONS FOR TRANSPORT PLANES
COMPARATIVE SIZE OF EMPIRE STATE BUILDING IN NEW YORK
MOORING BEAM FOR STERN OF DIRIGIBLE
MOBILE MOORING TOWERS
BLIMP HANGARS
Port For Airships
RAMP FOR AUTO PARKING SPACE
71