

# UPDATE: AIR TRANSPORTATION TAXES AND FEES

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MIT Global Airline Industry Program  
Industry Advisory Board/Airline Industry Consortium Joint Meeting  
October 29, 2009



Flight	Time	Status	Destination
10:40	ON TIME		CHICAGO, IL
10:45	ON TIME		CHICAGO, IL
11:00	ON TIME		KNOXVILLE, TN
11:00	ON TIME		SAN ANTONIO, TX
11:15	ON TIME		CHIHUAHUA
11:15	ON TIME		MEMPHIS, TN
11:20	ON TIME		FORT WALTON BEACH, FL
			DEL RIO, TX
			TORREON, MEXICO
			HOT SPRING, AR



# 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

**Chicago Tribune | Business**  
**Airlines want more fees for the holidays**  
Carriers tack on more charges, just in time for holiday travel  
By Julie Johnsson  
Tribune reporter  
September 26, 2009

## British government doubles air passenger taxes

Charles Miranda | June 15, 2009

Article from: [Herald Sun](#)

**THE WALL STREET JOURNAL**  
WSJ.com

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

## UPDATE: US Airports Seek Legislation To Raise Passenger Fees

**THE WALL STREET JOURNAL**  
WSJ.com

AUGUST 7, 2009, 12:45 P.M. ET

## Top US House Lawmaker Pushes For Study On Airline Fees

**3 airlines ask Ireland to ax its passenger tax**  
Carriers say passenger numbers have fallen 15 percent since introduction  
**The Associated Press**  
updated 11:58 a.m. ET, Wed., Oct. 14, 2009

# WAR OF WORDS

- **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*, 7<sup>th</sup> 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

Tax/Fee	Symbol	Rate	Recipient
Federal ticket tax	FTT	7.5%	Airport and Airway Trust Fund
Federal segment tax	FST	\$3.60 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, 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:**

$PFC = f(\text{airports in itinerary})$

$FSSF = \$2.50 \times \min(\text{number of segments}, 2)$

$FST = \$3.60 \times \text{number of segments}$

$FTT = 0.075 \times BF$

$BF = \text{Total} - (FTT + PFC + FSSF + FST)$

# RESULTS: CURRENT DOLLARS

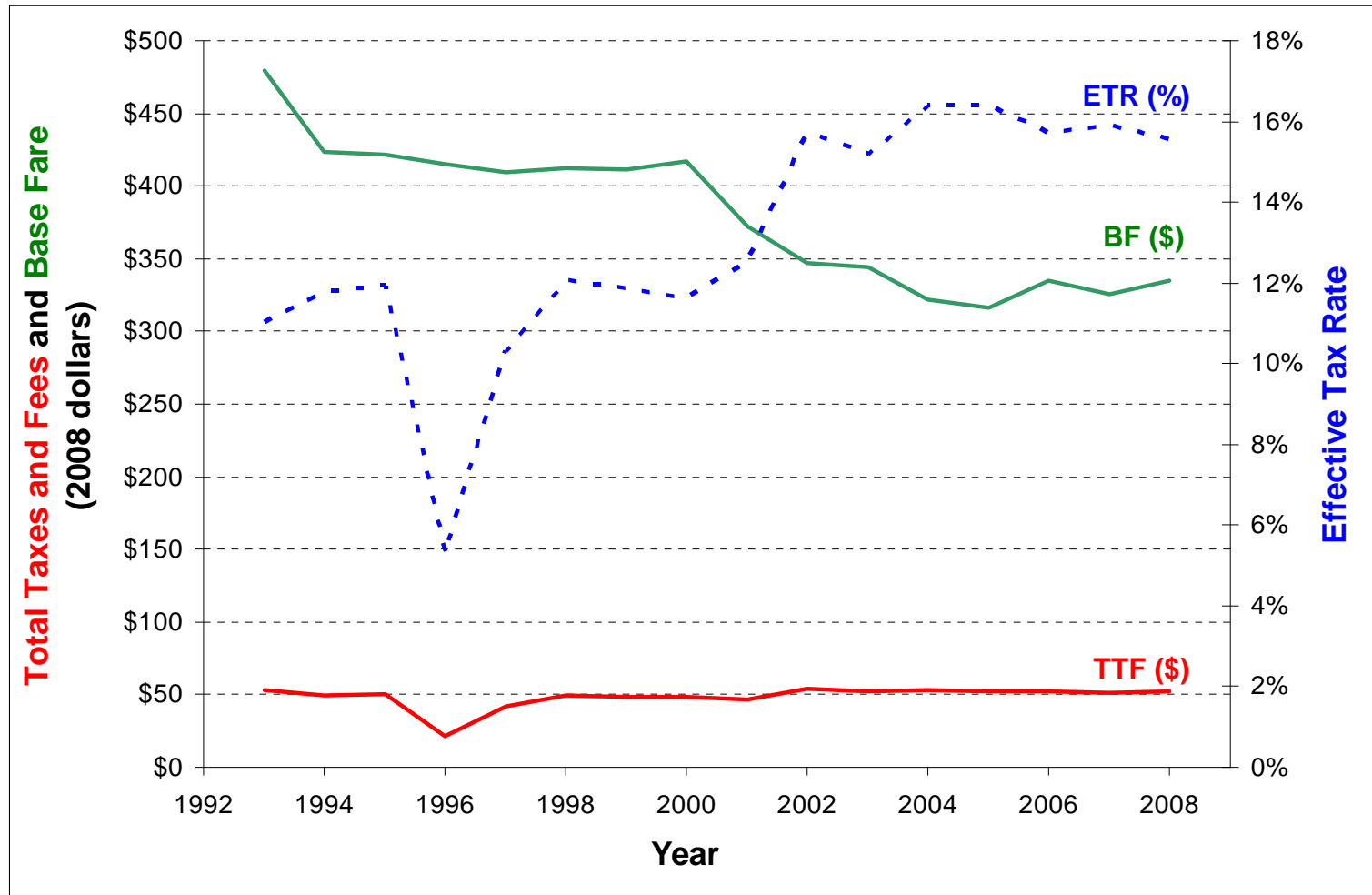
Year	Base Fare	Federal Ticket Tax	Flight Segment Tax	PFC	Federal Security Fee	Total Taxes and Fees	Total Fare	ETR	Seg.
1993	\$321.52	\$32.15	\$0.00	\$3.31	\$0.00	\$35.46	\$356.98	11.0%	2.83
1994	\$291.75	\$29.17	\$0.00	\$5.07	\$0.00	\$34.25	\$326.00	11.7%	2.81
1995	\$298.59	\$29.86	\$0.00	\$5.71	\$0.00	\$35.57	\$334.16	11.9%	2.78
1996	\$302.18	\$10.31	\$0.00	\$5.58	\$0.00	\$15.89	\$318.07	5.3%	2.76
1997	\$305.52	\$24.60	\$0.70	\$6.22	\$0.00	\$31.52	\$337.04	10.3%	2.77
1998	\$312.16	\$27.31	\$3.48	\$6.87	\$0.00	\$37.66	\$349.82	12.1%	2.77
1999	\$318.06	\$25.04	\$5.70	\$6.92	\$0.00	\$37.66	\$355.72	11.8%	2.76
2000	\$333.67	\$25.03	\$6.86	\$6.85	\$0.00	\$38.74	\$372.41	11.6%	2.74
2001	\$306.23	\$22.97	\$7.59	\$7.80	\$0.00	\$38.37	\$344.59	12.5%	2.76
2002	\$289.79	\$21.73	\$8.35	\$9.19	\$6.30	\$45.58	\$335.37	15.7%	2.78
2003	\$294.13	\$22.06	\$8.32	\$9.74	\$4.48	\$44.60	\$338.73	15.2%	2.77
2004	\$282.08	\$21.16	\$8.46	\$9.93	\$6.70	\$46.25	\$328.33	16.4%	2.73
2005	\$287.12	\$21.53	\$8.64	\$10.20	\$6.64	\$47.01	\$334.13	16.4%	2.70
2006	\$313.63	\$23.52	\$8.82	\$10.41	\$6.57	\$49.33	\$362.96	15.7%	2.67
2007	\$313.62	\$23.52	\$9.07	\$10.70	\$6.55	\$49.85	\$363.47	15.9%	2.67
2008	\$334.80	\$25.11	\$9.37	\$10.94	\$6.58	\$52.00	\$386.80	15.5%	2.68



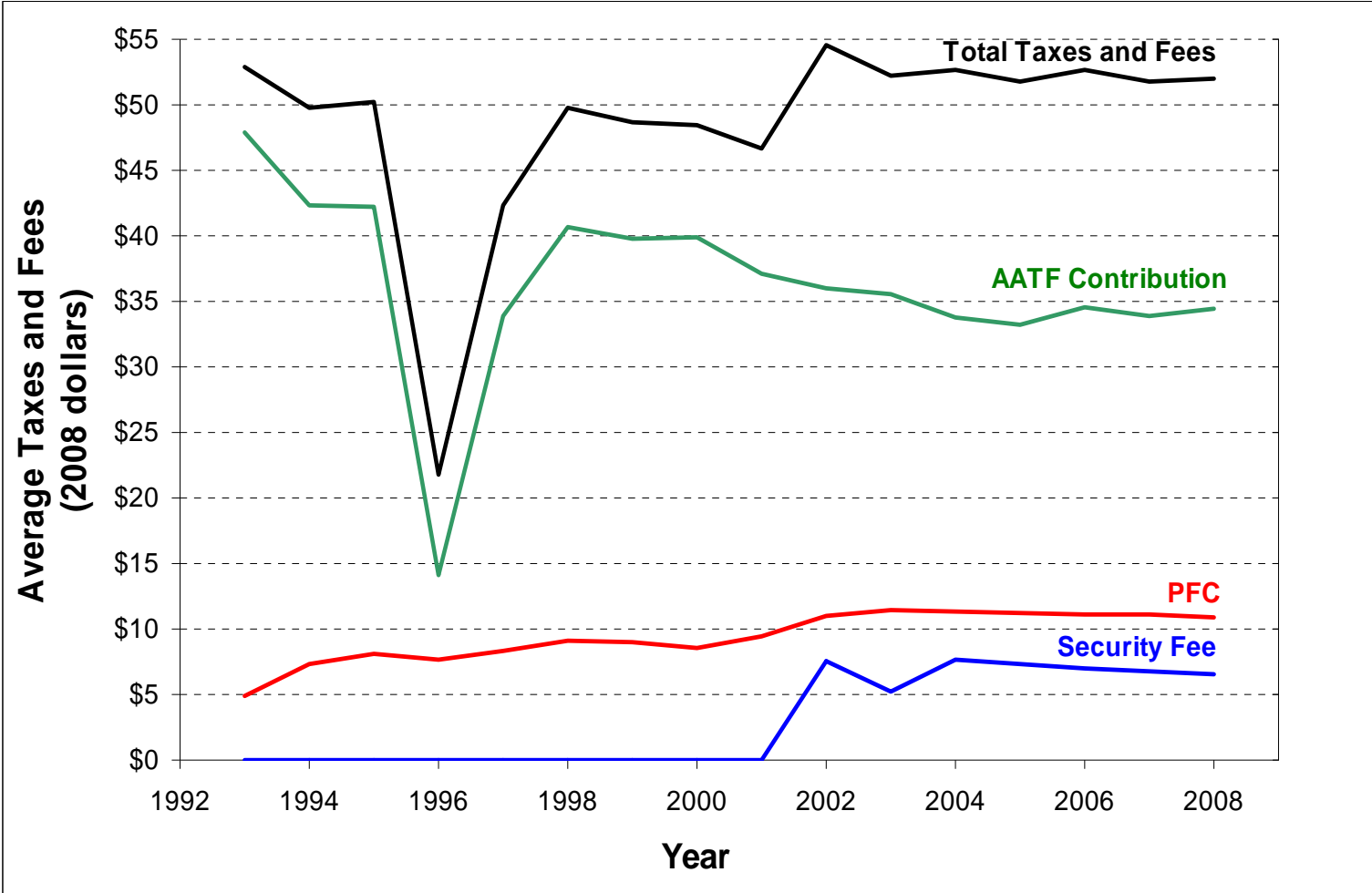
# RESULTS: 2008 DOLLARS

Year	Base Fare	Federal Ticket Tax	Flight Segment Tax	PFC	Federal Security Fee	Total Taxes and Fees	Total Fare	ETR	Seg.
1993	\$479.06	\$47.91	\$0.00	\$4.93	\$0.00	\$52.83	\$531.89	11.0%	2.83
1994	\$423.85	\$42.38	\$0.00	\$7.37	\$0.00	\$49.75	\$473.60	11.7%	2.81
1995	\$421.83	\$42.18	\$0.00	\$8.07	\$0.00	\$50.26	\$472.09	11.9%	2.78
1996	\$414.66	\$14.15	\$0.00	\$7.66	\$0.00	\$21.81	\$436.47	5.3%	2.76
1997	\$409.84	\$33.00	\$0.94	\$8.35	\$0.00	\$42.29	\$452.13	10.3%	2.77
1998	\$412.32	\$36.07	\$4.60	\$9.07	\$0.00	\$49.74	\$462.07	12.1%	2.77
1999	\$411.04	\$32.36	\$7.36	\$8.94	\$0.00	\$48.67	\$459.71	11.8%	2.76
2000	\$417.19	\$31.29	\$8.58	\$8.56	\$0.00	\$48.43	\$465.62	11.6%	2.74
2001	\$372.28	\$27.92	\$9.23	\$9.49	\$0.00	\$46.64	\$418.92	12.5%	2.76
2002	\$346.82	\$26.01	\$9.99	\$11.00	\$7.54	\$54.55	\$401.37	15.7%	2.78
2003	\$344.17	\$25.81	\$9.74	\$11.40	\$5.24	\$52.19	\$396.36	15.2%	2.77
2004	\$321.51	\$24.11	\$9.64	\$11.32	\$7.64	\$52.71	\$374.22	16.4%	2.73
2005	\$316.53	\$23.74	\$9.53	\$11.24	\$7.32	\$51.83	\$368.36	16.4%	2.70
2006	\$334.95	\$25.12	\$9.42	\$11.12	\$7.02	\$52.68	\$387.63	15.7%	2.67
2007	\$325.66	\$24.42	\$9.42	\$11.12	\$6.80	\$51.76	\$377.42	15.9%	2.67
2008	\$334.80	\$25.11	\$9.37	\$10.94	\$6.58	\$52.00	\$386.80	15.5%	2.68

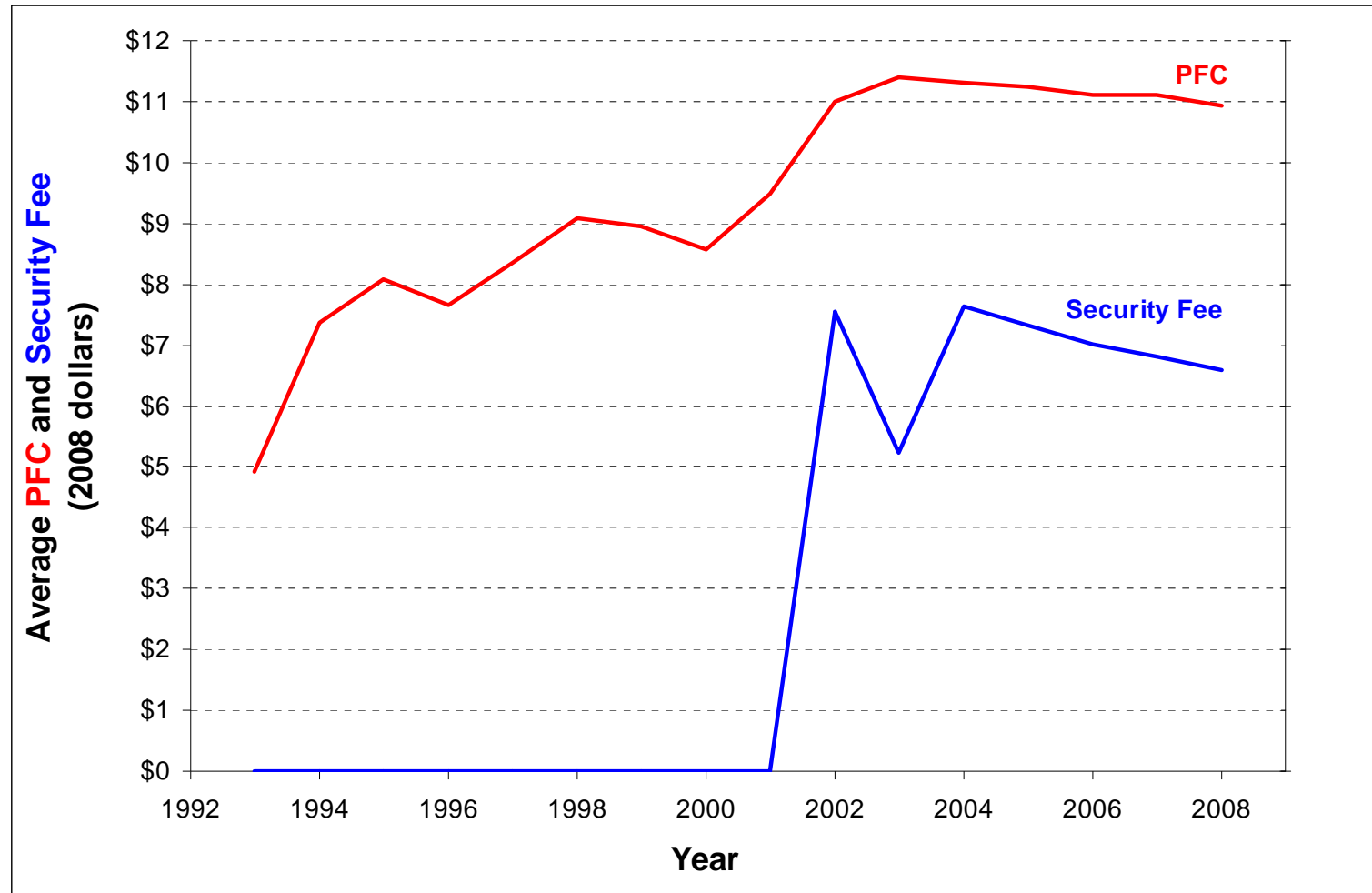
# BASE FARE, TAXES, AND EFFECTIVE TAX RATE



# TRENDS IN TAXES AND FEES



# AVERAGE PFC AND SECURITY FEE



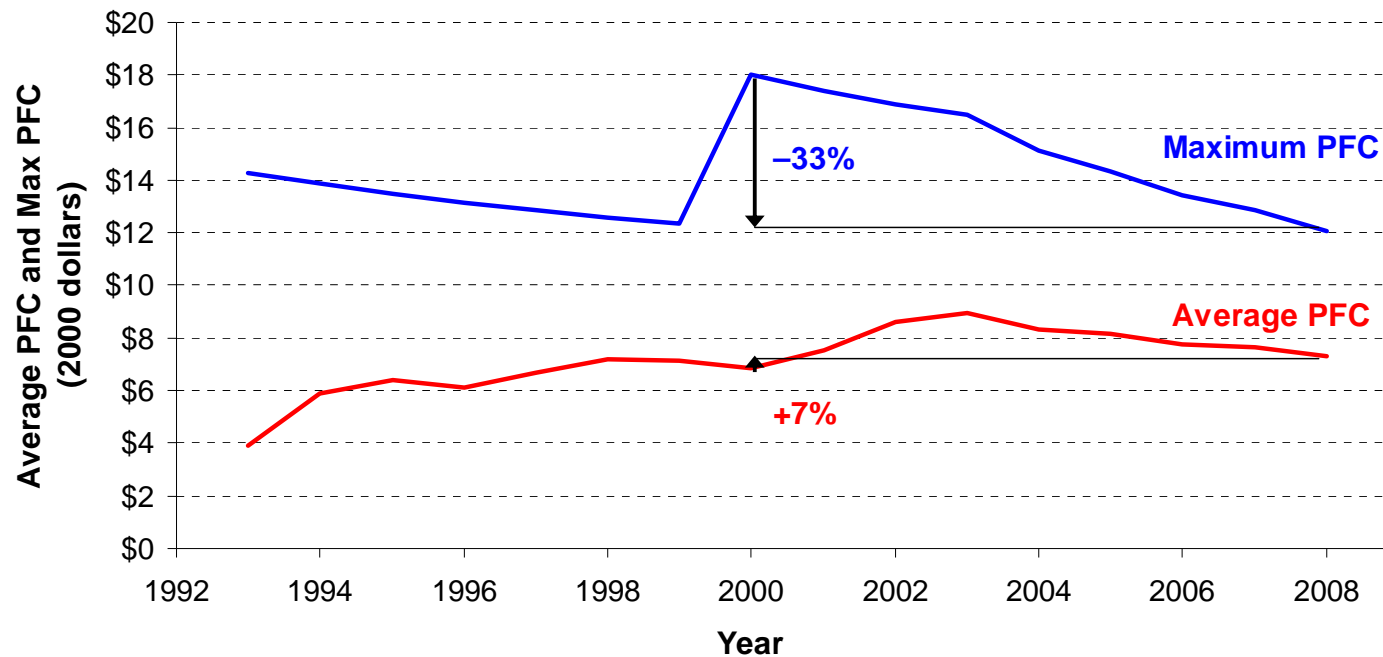
# SUMMARY OF OBSERVATIONS

- **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 Rittmalm-Glimne (used with permission)*