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AIR TRAFFIC CONTROL (ATC) REFORM: TAX POLICY AND BACKGROUND WAYS & MEANS COMMITTEE BRIEF

A majority of the annual Federal Aviation Administration (FAA) budget is funded from taxes collected and deposited into the Airport and Airway Trust Fund (AATF). The AATF derives its revenues from aviation-related excise taxes on passengers, cargo and fuel.¹ The aviation industry, including commercial, cargo and general aviation (GA), pay 17 different taxes and fees to the federal government. Within those 17 different taxes and fees, 10 are dedicated to the AATF, of which 7 are collected from airlines and cargo operators. The following rates that apply to airlines and their customers are effective January 1, 2017.

- **Domestic Passenger Ticket Tax** – A 7.5% excise tax on the amount paid for domestic air transportation is imposed on passengers.²
- **Domestic Flight Segment Tax** – A \$4.10 tax for each segment of a domestic itinerary, paid by the ticket purchaser. (Indexed to inflation)³
- **Frequent Flyer Tax** – Airlines sell bulk “frequent flyer” miles to both individuals and to credit card companies, hotels, etc. that they then award to their customers. The amount received for the miles by the airline is subject to a 7.5% tax, paid by the purchaser.⁴
- **International Departure Tax** – A tax of \$18 paid by the passenger for international flights departing the U.S. (Indexed to inflation)⁵
- **International Arrival Tax** – A tax of \$18 paid by the passenger for international flights arriving in the U.S. (Indexed to inflation)⁶
- **Cargo Waybill Tax** – The amount paid to ship cargo domestically by air is taxed at 6.25%.⁷
- **Commercial Jet Fuel Tax** – Fuel used for domestic flights is taxed at 4.3 cents per gallon.⁸

WHAT DO AVIATION TAXES LOOK LIKE UNDER ATC REFORM?

- **Commercial aviation:** Airline users would pay the same amount as they pay today. However, all or most of the existing AATF taxes charged to commercial passengers and operators would be phased-out as new non-governmental user fees are phased-in. In addition, a commercial aviation tax mechanism would be modified or established to fund commercial aviation’s contribution to the remaining FAA safety responsibilities.
- **General aviation:** General aviation would continue to pay how they do today and would be statutorily prohibited from being charged user fees.
- **General Fund:** The FAA would continue to receive a General Fund contribution of similar amount as what has been provided over the last decade.

¹ https://www.faa.gov/about/budget/aatf/media/AATF_Fact_Sheet.pdf

² Internal Revenue Code (IRC) section 4261(a).

³ IRC section 4261(b).

⁴ IRC section 4261(e)(3).

⁵ IRC section 4261(c).

⁶ IRC section 4261(c).

⁷ IRC section 4271.

⁸ IRC sections 4041(c)(3) and 4081(a)(2)(C)(i). Fractional ownership programs pay 14.1 cents per gallon under IRC section 4043.

WHAT DOES ATC RELATED TAX REFORM MEAN FOR CONGRESS AND THE TRAVELING PUBLIC?

- Congressional tax committees maintain jurisdiction and reduce taxes on the traveling public. The table below outlines the conceptual framework for how the system looks today versus a system with ATC Reform in place.

<p align="center">CURRENT Passengers Pay for ATC</p>	<p align="center">PROPOSED Airlines Pay for ATC</p>
<p align="center">COMMERCIAL AVIATION Tax Committees Have Jurisdiction</p> <p align="center">Domestic Passenger Ticket Tax Domestic Flight Segment Tax Frequent Flyer Tax International Departure Tax International Arrival Tax Cargo Waybill Tax Commercial Jet Fuel Tax Fractional-Ownership Fuel Tax</p>	<p align="center">COMMERCIAL AVIATION USER FEES ATC Corporation: Commercial User Fees</p> <hr/> <p align="center">COMMERCIAL AVIATION TAXES Tax Committees Maintain Jurisdiction & Reduce Taxes on Traveling Public</p> <p align="center">Domestic Flight Segment Tax International Passenger Tax</p>
<p align="center">GENERAL AVIATION – PISTON ENGINE (No User Fees) Tax Committees Have Jurisdiction</p> <p align="center">Noncommercial AvGas Fuel Tax</p>	<p align="center">GENERAL AVIATION– PISTON ENGINE (No User Fees) Tax Committees Maintain Jurisdiction User Fees Statutorily Prohibited</p> <p align="center">Noncommercial AvGas Fuel Tax</p>
<p align="center">BUSINESS JETS (No User Fees) Tax Committees Have Jurisdiction</p> <p align="center">Noncommercial Jet Fuel Tax</p>	<p align="center">BUSINESS JETS (No User Fees) Tax Committees Maintain Jurisdiction User Fees Statutorily Prohibited</p> <p align="center">Noncommercial Jet Fuel Tax</p>
<p align="center">MILITARY AIRCRAFT No User Fees / No Taxes</p>	<p align="center">MILITARY AIRCRAFT No User Fees / No Taxes</p>
<p align="center">GENERAL FUND Appropriations Committee Sets Amount</p>	<p align="center">GENERAL FUND Appropriations Committee Sets Amount</p>