

Air Ticket Taxes and Fees

(March 27, 2016 by Dafang Wu; [PDF Version](#))

This article discusses taxes and fees imposed on air travel in the United States, the operations of the Airport and Airway Trust Fund, and aviation security fees.

Airline tickets sold in the United States include three categories of taxes and fees: (a) aviation excise taxes, pursuant to [26 U.S.C. 4261](#), amended by the [Tax Payer Relief Act of 1997](#), (b) the Passenger Facility Charge pursuant to [49 U.S.C 40117](#), and (c) the September 11th Security Fee, pursuant to [49 U.S.C. 44940](#), amended by [Public Law 113–294](#).

- Aviation excise tax revenues are deposited into the Airport and Airway Trust Fund (AATF).
- Passenger Facility Fee revenues are remitted to each collecting airport. The Passenger Facility Charge is discussed in detail in a [prior article](#) and is not included in the discussion below.
- The Transportation Security Administration (TSA) collects the September 11th Security Fees to pay for a portion of aviation security expenses.

The U.S. airport industry is keenly interested in the status of the AATF because the AATF distributes more than \$3 billion of grant money to fund critical aviation infrastructure in the form of Airport Improvement Program (AIP) grants. If the AATF does not have an adequate balance, causing AIP appropriation to drop below \$3.2 billion, both the entitlement grants and discretionary grants would be negatively affected.

Aviation Excise Tax

The Federal Aviation Administration (FAA) has a [dedicated page](#) for the AATF and prepares a [summary of aviation excise tax](#) annually, last updated in February 2015. The National Business Aviation Association prepared [a document in January 2016](#) introducing the most recent tax rates.

Aviation excise taxes are imposed on “taxable transportation” defined in [26 U.S.C. 4262](#) as transportation that (a) begins or ends in the United States or in the 225-mile zone, and b) that is between two points in the United States if the trip is not a part of uninterrupted international air transportation.

Total excise tax revenues increased from \$10.6 billion in the Federal Fiscal Year (FFY) ending September 30, 2010 to \$14.3 billion in FFY 2015, primarily due to a higher level of air traffic. Those revenues include:

1. Transportation of Person by Air, which generated \$9.8 billion of tax revenues and further includes:
 - a. Domestic passenger ticket tax: 7.5% of ticket price
 - b. Domestic flight segment fee: \$4.00 per segment in 2016
 - c. Frequent flyer tax: 7.5% of the value of the miles
2. Use of International Air Facilities, which generated \$3.3 billion in FFY 2015 and further includes:
 - a. International arrival and departure tax: \$17.80 in 2016, because those passengers are not subject to domestic passenger ticket tax
 - b. Tax for travel to Alaska and Hawaii: \$8.90 in 2016, because a majority of the miles are over international water and are not subject to domestic passenger ticket tax
3. Transportation of Properties, which generated \$497 million in FFY 2015. Those tax revenues are collected on 6.25% of shipping expenses.
4. Fuel-related taxes, which generated \$627 million in FFY 2015.

Airport and Airway Trust Fund

The U.S. Treasury provides [monthly reports](#) about the operations of the AATF. The FAA prepared an [AATF Fact Sheet](#) in May 2015, discussing the AATF operations in FFY 2014. The AATF was established in 1970 under the Airport and Airway Development and Revenue Act of 1970 and the Airport and Airway Revenue Act. The AATF receives aviation excise tax revenues and pays for:

1. FAA accounts
 - a. FAA Operations
 - b. Facilities and Equipment
 - c. Research, Engineering, and Development
 - d. Grants-in-Aid for Airports, also known as Airport Improvement Program grants
2. Department of Transportation account for Essential Air Service Program

AIP is the most important aviation funding program that distributes more than \$3 billion of grant money to U.S. airports for critical infrastructure. Related information can be found at the [FAA webpage](#). The FAA Central Region has created a [webpage for the sponsor guide](#), and included an excellent [overview of the AIP](#).

Funding the AIP was the original purpose of the AATF, but Congress has since used the AATF to fund a majority of the FAA operating expenses. The AATF FFY 2010 ending balance dropped to \$9.4 billion, with \$8.5 billion obliged for prior commitments such as multi-year letter-of-intent grants. In 2011, the U.S. Government Accountability Office (GAO) was concerned about the health of the AATF, and issued [a report](#) that the declining balance in the AATF may endanger the ability to meet future demand. The increase in U.S. air traffic since 2011 has increased the amount of aviation excise tax revenues and partially alleviated that concern.

Unfortunately, Congress continued to raid the AATF to fund FAA operating expenses, so the portion to be paid from the General Fund can be dramatically reduced. In FFY 2015, the FAA estimated that its total operating expenses would be \$9.9 billion, with \$8.5 billion funded by the AATF and the remaining amount funded by the General Fund. This \$8.5 billion is dramatically higher than historical levels of \$4.0 billion in FFY 2010 to \$6.5 billion in FFY 2014. As a result, the FAA projected that the AATF balance would drop to \$12 billion in FFY 2015 and FFY 2016, even at the current higher level of tax revenues.

Table 1 presents the operations of the AATF, according to the FAA's FFY 2016 budget estimate and reflecting actual tax revenues collected in FFY 2015.

September 11th Security Fee

After the September 11th terrorist attack, the TSA was formed to be in charge of the security screening process at U.S. airports. To offset the TSA operating expenses, which amounted to more than \$6.8 billion in FFY 2015, Congress imposed the September 11th Security Fee, originally set at \$2.50 per enplaned passenger. In addition, the TSA collects an Aviation Security Infrastructure Fee from carriers, equaling the security screening expenses in 2000 prior to the September 11th terrorist attack. Those two items added up to \$2.5 billion in FFY 2014, compared to total expenses of more than \$6 billion.

In 2014, Congress amended the September 11th Security Fee as follows:

- Before: \$2.50 per passenger enplanement, up to \$5.00 per one-way trip. Passenger enplanement means "a person boarding in the United States in scheduled or nonscheduled service on aircraft in intrastate, interstate, or foreign air transportation."

Table 1
Status of Airport and Airway Trust Funds
(Federal fiscal years; in millions)

	Code	Index	2010	2011	2012	2013A	2014A	2015E	2016B
Balance from Prior Year			\$ 8,780	\$ 9,428	\$ 10,326	\$ 11,623	\$ 13,203	\$ 14,187	\$ 12,226
Adjustments			<u>10</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Balance	01.99	[A]	\$ 8,790	\$ 9,428	\$ 10,326	\$ 11,622	\$ 13,203	\$ 14,187	\$ 12,226
Cash Income									
Transportation of Persons by Air			\$ 7,261	\$ 8,085	\$ 8,711	\$ 8,769	\$ 9,286	\$ 9,838	
Use of Int'l Air Facilities			2,324	2,508	2,729	2,911	3,198	3,311	
Transportation of Property			395	427	492	619	465	497	
Others/Refunds			<u>633</u>	<u>512</u>	<u>600</u>	<u>554</u>	<u>565</u>	<u>627</u>	
Excise Taxes	12.00		\$ 10,612	\$ 11,532	\$ 12,532	\$ 12,854	\$ 13,513	\$ 14,272	\$ 14,699
Proposed Air Traffic Fee	22.01							-	-
Other Income	12.xx		<u>292</u>	<u>266</u>	<u>275</u>	<u>345</u>	<u>325</u>	<u>(812)</u>	<u>300</u>
Subtotal		[B]	\$ 10,904	\$ 11,798	\$ 12,807	\$ 13,199	\$ 13,838	\$ 13,460	\$ 14,999
Cash Outgo									
Grants-in-Aid for Airports	45.01		\$ (3,283)	\$ (3,216)	\$ (3,144)	\$ (3,654)	\$ (3,259)	\$ (3,801)	\$ (3,580)
Facilities and Equipment	45.02		(2,697)	(2,818)	(2,968)	(2,849)	(2,807)	(2,713)	(2,879)
Research, Engr. and Dev.	45.03		(156)	(181)	(188)	(158)	(150)	(174)	(182)
FAA Activities	45.04		<u>(4,000)</u>	<u>(4,550)</u>	<u>(5,061)</u>	<u>(4,796)</u>	<u>(6,495)</u>	<u>(8,595)</u>	<u>(8,547)</u>
Subtotal FAA			\$(10,136)	\$(10,765)	\$(11,361)	\$(11,457)	\$(12,711)	\$(15,283)	\$(15,188)
Payments to Air Carriers	45.00		<u>(130)</u>	<u>(135)</u>	<u>(149)</u>	<u>(161)</u>	<u>(143)</u>	<u>(138)</u>	<u>(167)</u>
Subtotal		[C]	\$(10,266)	\$(10,900)	\$(11,510)	\$(11,618)	\$(12,854)	\$(15,421)	\$(15,355)
Fund Balance									
Un-invested Balance	87.00		\$ 2,383	\$ 1,685	\$ 1,198	\$ 1,395	\$ 1,428	\$ 1,223	\$ 1,095
Airport and Airway Trust Fund	87.01		<u>7,045</u>	<u>8,641</u>	<u>10,425</u>	<u>11,808</u>	<u>12,759</u>	<u>11,003</u>	<u>10,775</u>
Total Balance	87.99	[D]=[A]+[B]+[C]	\$ 9,428	\$ 10,326	\$ 11,623	\$ 13,203	\$ 14,187	\$ 12,226	\$ 11,870

Source: Actual/Estimate/Budget - FAA President's Budget Submission. Trust revenue details - U.S. Treasury.

- After: \$5.60 per one-way trip, up to \$11.20 per ticket. The TSA created a new term, “one-way trip,” that relies on the definition of “stopover,” which itself refers to a break in the itinerary of more than four hours for domestic travel or 12 hours for international travel.
 - Also, the Aviation Security Infrastructure Fee was appealed.

The revision of the September 11th Security Fee has a significant impact on the total collection amount. In the U.S., approximately 70 percent of all domestic travel is on nonstop flights, previously paying \$2.50 each. After the revision, those travels are subject to \$5.60 per one-way trip. As a result, the total collection amount increased from \$2.1 billion in FFY 2014 to \$3.5 billion in FFY 2015.

In addition, the revision has a disproportional negative effect on ultra-low-cost carriers (ULCCs) because those carriers fly point to point without connection. The revision increased the travel cost per ticket by \$3.10, which ULCCs need to either absorb or pass on to their customers that are price-sensitive. Comparatively, legacy carriers that rely on a hub-and-spoke system saw a much lesser impact.