

12billion.org airline fuel tax brief:



Ending Corporate Welfare for American Airlines in North Carolina

North Carolina lawmakers have successfully let several of the state's corporate welfare programs expire. This legislative session lawmakers have the opportunity to end corporate welfare for American Airlines while remaining competitive among hub airport states.

Airline Tax Carve-Outs Cost Taxpayers an Estimated \$37 Million Annually

Airlines get an estimated \$37 million in tax breaks on jet fuel in North Carolina each year. There are **two** distinct tax breaks:

- A cap on the amount of jet fuel sales taxes paid by airlines, estimated to cost taxpayers \$10 million in 2014.¹ The only beneficiary of this handout is American Airlines. This cap expires January 1, 2016. Lawmakers will decide this year whether to continue the American Airlines tax break.²
- Additionally, North Carolina is one of only six states that only tax airlines on the fuel used within the state. This tax break is worth an estimated \$27 million to airlines each year.³

North Carolina lawmakers created the special handout for U.S. Airways in 2005. Since 2006, the special handout from North Carolina taxpayers to U.S. Airways — now American Airlines — has amounted to over \$58 million.

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The special treatment of American Airlines means that North Carolina is giving the airline an unfair advantage over its competitors – a lower effective tax rate than any other airline in the state.

Fact Checking American Airlines

American Airlines has said that if lawmakers let its special handout expire, North Carolina will be the fifth most expensive state to buy fuel.⁴ That is inaccurate. Factoring in the tax break for out of state fuel use lowers the effective jet fuel rate for airlines significantly. This additional estimated \$27 million tax break from which all airlines currently benefit will keep North Carolina competitive even if the American Airlines handout expires.

North Carolina is one of only six states that only tax airlines on the fuel used within the state. That means airlines only pay taxes on the fuel used from takeoff until they leave North Carolina state boundaries. This tax exemption is in addition to the estimated \$10 million tax break that only American Airlines gets from the sales tax cap on jet fuel.

Only the special handout for American Airlines is set to expire on January 1, 2016.

Airlines pay lower fuel taxes in North Carolina than in other airport hub states

North Carolina lawmakers can take a step towards ending corporate welfare for American Airlines by letting the sales tax cap on jet fuel expire – a handout that only

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benefits American Airlines – while remaining highly competitive among airport hub states.

In fact, if the American Airlines handout expires, Charlotte airport would not even change positions on this list.

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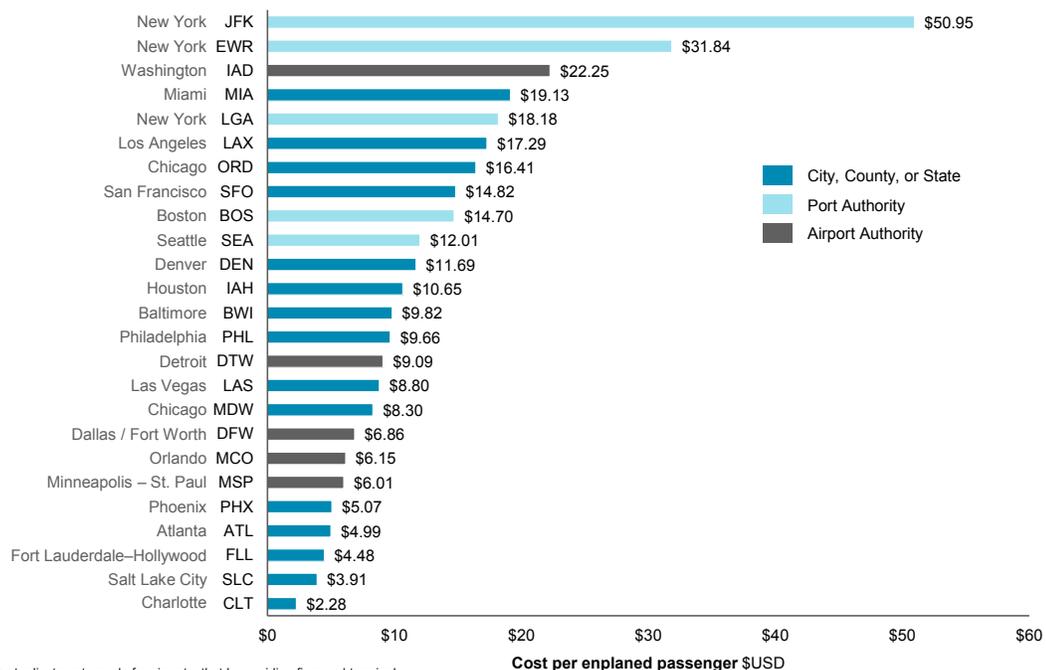
Effective Jet Fuel Tax Rates at Top 25 Airports⁵



Study finds Charlotte Airport cheapest among top 25 U.S. airports

Even without a special handout, American Airlines is getting one of the best deals in the country when it flies through Charlotte. The Charlotte Airport Governance Study, commissioned by the City of Charlotte in 2013, found that Charlotte Douglas International Airport had the lowest cost per enplaned passenger (CPE) of all top 25 U.S. airports.⁶ CPE is the industry standard for comparing airline costs at different airports and evaluating airport competitiveness in attracting airlines.

Cost per enplaned passenger at the top 25 airports (66% of US passengers) Five airports with lowest CPEs are city or county departments



Note: Cost adjustments made for airports that have airline financed terminals.
Adjusted airports: ATL = \$2, ORD = \$3, LAX = \$6, JFK = \$25, EWR = \$6

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Next Steps

North Carolina lawmakers have successfully ended several of the state’s corporate welfare programs that only benefit politically-connected companies. This year lawmakers can continue the progress made by letting American Airlines’ special handout expire.

“By limiting tax breaks to special industries, our state government keeps the tax burden artificially inflated, and it allows politicians to pick which businesses benefit.”

Donald Bryson, North Carolina State Director, Americans for Prosperity ⁷

While many North Carolina taxpayers are still struggling to make ends meet, American Airlines reported record profits in 2014.⁸ The North American airline industry overall anticipates record profit of \$13.2 billion in 2015. At the same time, airfare has increased faster than the cost of inflation even as fuel prices drop,⁹ and travelers have grown to accept the airlines' creative new fees, which are expected to bring in \$28.5 billion in 2014.¹⁰

Endnotes

- 1 http://www.dor.state.nc.us/publications/nc_tax_expenditure_report_13.pdf. Page 103.
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- 6 <http://charmack.org/city/charlotte/Documents/Airport%20governance%20study/20130501%20CLT%20Airport%20Governance%20OW%20vf.pdf>
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- 10 <http://www.latimes.com/business/la-fi-airlines-warned-not-to-be-greedy-with-passenger-fees-20141107-story.html>



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