

12billion.org Jet Fuel Tax Brief:



Proposals to Limit Airline Tax Breaks, Loopholes Gaining Traction in Growing Number of State Legislatures

Last week, legislators in hub airport states of Illinois, Georgia and North Carolina all advanced proposals to end valuable handouts, loopholes and tax breaks worth over \$93 million per year to United, Delta and American Airlines.

- On Wednesday, March 18, a majority of the North Carolina Senate signed onto an economic incentive bill that would let American Airlines' handout expire at the end of the year. The break is a cap on the amount of sales tax on jet fuel American pays, expected to be worth \$15.5 million next year.
- On Thursday, March 19, the Illinois House Revenue and Finance Committee voted in favor of a bill to close a tax loophole that United Airlines and American Airlines use to avoid paying millions in local sales taxes.
- On Friday, March 20, the Georgia Senate passed a transportation funding package that would end Delta Air Lines' tax break. The bill, which passed the House earlier in March, would eliminate the state's estimated \$25 million sales tax break on jet fuel for airlines.

In 2013, airlines received an estimated total of over \$1 billion in tax breaks from state and local governments on their jet fuel purchases.

This brief summarizes where some of those valuable tax loopholes, exemptions, rebates, and caps have recently come under critical public and legislative review. States include Illinois, Georgia, North Carolina, Florida, Michigan, Washington and Oregon.



In play: On March 19, the House Revenue and Finance Committee voted 8 to 5 in favor of House Bill 3110, which closes a sales tax loophole on jet fuel. United Airlines and American Airlines have exploited this loophole to pay a lower sales tax for jet fuel used at O’Hare than is charged in the City of Chicago and Cook County.

Estimated Value: \$52.7 million per year for United and American Airlines combined

\$52.7 million

Bills to Watch: House Bill 3110, Senate Bill 1280

Background: United and American Airlines have purchasing offices in suburbs that are distant from O’Hare and avoid paying Chicago sales taxes on jet fuel used at O’Hare. The State of California enacted legislation in 2005 to prevent airlines from using a similar practice in that state. Similar to California’s law, Illinois House Bill 3110 would apply sales tax on jet fuel at the point of delivery to the aircraft.

“It’s our responsibility to ensure that the elderly and people with disabilities have access to public transportation,” said Representative Lou Lang, who sponsored the legislation. “We shouldn’t let corporate tax loopholes hurt transit riders.”

The legislation protects funding for public transit services for the elderly and people with disabilities. The airlines’ controversial fuel purchasing practices cost the Regional Transportation Authority (RTA) an estimated \$18.5 million in revenue in 2013. At the Illinois House hearing, seniors who rely on paratransit services spoke about the need to protect transit funding and about the unfairness of airlines’ avoiding taxes that support public transit. The bill is supported by the Illinois Alliance for Retired Americans and Access Living, a disability rights organization.

The Regional Transportation Authority has sued United Airlines and American Airlines for their jet fuel purchasing practices. As of March 20, 2015, the cases were still pending.

The state legislative action follows recent maneuvers by the City of Chicago to close the same loophole. As part of his 2015 budget, Chicago Mayor Rahm Emanuel proposed that the city generate up to \$17 million by collecting a portion of the tax revenue lost to the loophole the airlines exploit. While a positive step, only Springfield lawmakers can fully close the loophole.

A competing bill to exempt airlines entirely from sales tax, Senate Bill 1280, was referred to a Senate subcommittee and had not been called for a hearing as of March 20, 2015. That bill would cost the state an estimated \$126 million per year.

“If you’re going to look for major reforms and finding savings, I suggest you look at the tax code where there’s a bunch of corporate giveaways and corporate loopholes,” said Chicago Mayor Rahm Emanuel, as quoted in the *Chicago Sun Times*.

Georgia



In play: A transportation funding package, now passed by both chambers, eliminates the state’s estimated \$25 million sales tax break on jet fuel for airlines. The bill passed the State Senate on March 20 and was passed by the House earlier in March.

Value: \$25 million per year

Bills to Watch: House Bill 170, House Bill 175

Background: A sales tax exemption originally passed in 2005 to help then-struggling Delta Air Lines was later made permanent. But amidst a state transportation-funding crisis, Delta has come under fire for calling on everyone else to pay higher gas taxes to fund transportation. Ending the sales tax break would provide additional state funds for airports and be used to draw down millions of dollars in additional federal airport improvement grants.

**\$25
million**

If Georgia's smaller airports are going to develop to be competitive in their own right, they will likely need the additional state revenue proposed. In 2012, the federal government doubled the amount that state and local governments are required to provide in matching funds to receive millions of dollars in federal airport grants, from 5 to 10 percent.

“With fuel prices down and airlines profits up, the tax break isn’t necessary. Roads need more help than the friendly skies.”
Savannah Morning News
Editorial March 21, 2015

Delta also came under fire when, in 2011, the airline gave Georgia Governor Nathan Deal and five state lawmakers free upgrades to platinum or gold frequent flyer status.

“Delta’s CEO Richard Anderson has called for all Georgians to pay more in taxes during a speech to the Atlanta Metro Chamber. Anderson stated during his speech, “We can’t get chicken about it. We have to step up.” As a good Corporate Citizen of Georgia, it is time for Delta to “not be chicken about it.” it is time for Delta Airlines to step up and help pay for the runway and airport repairs that are needed.” Georgia State Representative David Stover



North Carolina

In play: Legislators are debating whether to extend a controversial special tax refund that has only benefited American Airlines. It is currently scheduled to expire at the end of this year.

Estimated Value: \$10 - 15.5 million per year

**\$10-15.5
million**

Bills to Watch: House Bill 117 (N.C. Competes Act), Senate Bill 187 (Air Carrier Fuel Tax Exemption), Senate Bill 338 (Economic Development/Tax Modifications), Senate Bill 326 (Increase JDIG Program Funding)

Background: North Carolina's tax break is a cap on the amount of jet fuel sales taxes paid by airlines. 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.

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.

In years since, North Carolina lawmakers have let several of the state's corporate welfare programs expire.

While House Bill 117, which passed the House on March 5, would extend American Airlines' jet fuel tax break for four years, that proposal has stalled in the State Senate.

On March 18, Republican Senate leaders unveiled an alternative package, Senate Bills 338 and 326, which would let the American Airlines tax break expire at the end of the year. The bills are sponsored by 26 and 25 members of the 50-member Senate. A separate proposal, Senate Bill 187, would exempt all airlines from paying sales tax on jet fuel. That bill has four sponsors.

"I think it's a joke to think that they would leave this state, leave Charlotte, over \$12 million. But you and I can think of things that would help the public schools of Charlotte and the whole state with that \$12 million," North Carolina State Representative Paul Luebke

Washington



In play: The Washington State Department of Transportation (WSDOT) has identified limiting the airlines' exemption from the jet fuel excise tax as one possible solution to the state's airport infrastructure funding gap. The suggestion is one of many included in a report currently under review by Washington State legislators.

Estimated Value: Up to \$58 million per year

**\$58
million**

Bills to Watch: None yet

Background: Seattle-Tacoma International Airport has one of the largest capital needs of all major airports in the United States. The federal government is requiring greater state funding for airport projects, while airports including SeaTac are looking for increased infrastructure funding, even from passengers.

According to the WSDOT's Airport Investment Study, less than 10% of needed state airport funding will be available over the next 20 years if current funding levels continue. The study found thousands of potential jobs at risk if the funding gap goes unfixed.

The WSDOT study prompted the agency to prepare the document outlining possible solutions, which is currently under review.

Florida



In play: Legislators are debating whether to change a tax rebate structure that refunds most of the jet fuel taxes paid by qualifying airlines. A current proposal would end a current jet fuel tax refund that currently benefits certain airlines, but also lower the jet fuel tax rate from 6.9 cents per gallon to 5.4 cents per gallon for all airlines.

Estimated Value: \$24 million per year for Southwest, Spirit, AirTran, and JetBlue combined.

**\$24
million**

Bills to Watch: House Bill 595, Senate Bill 722

Background: Florida's jet fuel tax break for airlines was revived after the September 11, 2001 terrorist attacks, when the tourism industry was struggling.

Florida is a leader in investing in commercial airports, but right now, a lot of that investment comes at motorists' — not the airlines' — expense. Governor Rick Scott's Fiscal Year 2014-2015 budget proposal included \$325 million for aviation improvements. Commercial airlines, however, paid less than \$40 million in fuel taxes in 2014.

Oregon

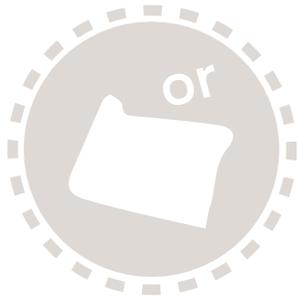
In play: A proposal to raise the jet fuel tax by 4 cents, from 1 cent to 5 cents per gallon, to generate revenue from airlines to support state airport funding.

Estimated Value: \$8.26 million per year

**\$8.26
million**

Bills to Watch: House Bill 2075

Background: Lack of funding for Oregon's state airport system has already led to one airport's closure in 2013. Advocates of increased state funding for education and human services also say the state airport system should be self-funded by higher fuel taxes, similar to user fees and gas taxes that fund a majority of highway and road projects.



Michigan



Failed in 2014: A bill to give Delta Air Lines a significant tax break ultimately failed to pass both chambers by the end of the session in December.

Estimated Value: \$3.2 million to over \$30 million per year

**\$3.2-30+
million**

Bills to watch: No new bills introduced yet in 2015

Background: While an ongoing debate over how to fund road maintenance and repairs has resulted in proposals to raise gas taxes for Michigan drivers, several bills to lower airline fuel taxes have passed back and forth between the state House and Senate.

Airlines currently get an estimated \$3.2 million handout from Michigan taxpayers as a rebate on their jet fuel taxes. In 2014, the House approved increasing the break to over an estimated \$5 million, and then the Senate passed an even bigger estimated \$30 million break. The bills were met with pushback from education advocates and local governments, who would have lost sales tax revenue if the bills had passed. Ultimately, no bills passed, and no tax breaks have been proposed in the new 2015 legislative session.



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Airline Tax Policy

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