



MULTISTATE TAX COMMISSION

# **Review of MTC Model Sales/Receipts Sourcing & Special Industry Regulations**

## **Status Report to the Uniformity Committee**

**APRIL 29, 2025**

**--Sourcing of Airline Receipts--**

## BACKGROUND

- The Model Receipts Sourcing Work Group has been examining the Section 18 special industry rule that addresses the sourcing of airline receipts—Reg.18 (e).
- As part of this examination, MTC staff has conducted research of the airlines industry and the work group chair and staff have had a series of conversations with states and industry.

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## POSSIBLE REASONS TO UPDATE THE AIRLINES RULE

- The Rule was adopted by the Commission in 1983. Since then, the air travel industry has changed in significant ways.
- Airlines now receive various substantial streams of revenue that are not expressly addressed by the Rule nor by guidance issued by the states.
- These gaps may create uncertainty both for taxpayers and for revenue agency staff charged with administering the tax laws.
- Unclear rules can allow for multiple interpretations, undermining uniformity and the level playing field as taxpayers choose the interpretation that works best for them.

## SALES FACTOR IN THE AIRLINES RULE:

$$\left( \frac{\text{weighted in-state departures}}{\text{weighted total departures}} \times \text{transportation revenue} \right) + \text{non-flight revenues directly attributable to this state}$$

transportation revenue + miscellaneous sales of merchandise, etc. (except “passive income” items)

**The Rule states that “[p]assive income items such as interest, rental income, dividends, etc., will not be included in the denominator nor will the proceeds or net gains or losses from the sale of aircraft be included.”**

**“Transportation revenue” is defined as “revenue earned by transporting passengers, freight and mail as well as revenue earned from liquor sales, pet crate rentals, etc.”**

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## **WORK GROUP MEMBERS AND MTC STAFF HAVE IDENTIFIED THE FOLLOWING AREAS WHERE THE RULE EITHER DOES NOT SUPPLY CLEAR GUIDANCE OR THE LANGUAGE WOULD BENEFIT FROM UPDATING:**

- Codesharing, Interline, and Capacity Purchase Arrangements
- Sales of Miles/Points
- Receipts beyond “liquor sales, pet crate rentals, etc.”
- Multimodal Transportation involving both aircraft and other means of transportation or transportation sold with other services
- Lack of language defining Airline
- Ambiguous or archaic language



**NEXT STEPS (IF ANY)?**