



MULTISTATE TAX COMMISSION

**Review of the MTC Special Industry Rule  
on the Sourcing of Airline Receipts (Reg.IV.18(e))**

**Briefing Book prepared by the MTC staff**

Submitted to the Uniformity Committee  
Spokane, Washington  
April 29, 2025  
(updated 11/5/2025<sup>1</sup>)

**Introduction**

In 2022, the Uniformity Committee decided to undertake a project and form a work group to review the MTC’s model receipts (sales) sourcing regulations, including the MTC’s Section 18 special industry rules. The goal of this project is to identify and provide information to the states on issues that may not be sufficiently addressed by these regulations or that may require updates, corrections, or conforming changes following the Commission’s adoption in 2017 of regulations using market-based sourcing for services and intangibles.

At the request of an Oregon state attorney, the work group has commenced examining the special industry rule which addresses the sourcing of airline receipts, Reg. IV.18.(e) (the “Rule” or the “Airlines Rule”), and has reviewed preliminary drafts of possible revisions to the Rule. The Airlines Rule was adopted by the Commission in 1983 and has never been revised.

As part of this examination, MTC staff has conducted research of the airlines industry, and the work group chair along with staff have had a series of conversations with states and industry.

The purpose of this Briefing Book is to provide members of the Uniformity Committee with relevant background and research relating both to the Rule and to the sourcing of airline receipts and to describe possible issues that have been identified with respect to the Rule.

The work group has addressed the Airline Rule during a half dozen meetings. Additional meetings have not been scheduled, pending further direction from the Uniformity Committee.

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<sup>1</sup> Text on pp. 3-4 below was updated to reflect application of federal income tax principles to receipts from the sale of plane tickets under codeshare and similar arrangements.

## **Relevant contents of the Airlines Rule**

The Airlines Rule provides that when an airline has income from sources both within and without “this state,” the amount of business income from sources within this state will be determined pursuant to the MTC Compact Art. IV (UDITPA as revised) except as modified by the Rule. As will be discussed below, the Rule, which is captioned “Special Rules: Airlines,” does not define airline.

With respect to the “sales factor” (now referred to as the “receipts factor” in the recommended general model regulations), the Rule generally utilizes a *departures approach* to source “transportation revenue” of airlines. Specifically, the Rule provides for calculating the sales factor as follows:

- The **numerator** of the sales factor includes two components:
  - Total transportation revenue multiplied by a ratio equal to in-state departures of aircraft (weighted as to the cost and value of aircraft by type) over total departures (similarly weighted), plus
  - “Non-flight revenues directly attributable to this state.”
- The **denominator** of the factor consists of “transportation revenue derived from transactions and activities in the regular course of the trade or business of the taxpayer and miscellaneous sales of merchandise, etc.”

The Rule further 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.” *See* Reg. IV.18.(e)(2)(iv).

“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.” *See* Reg. IV.18.(e)(2)(i)(J).

Here is a graphic of this computation of the sales factor :

$$\frac{\left( \frac{\text{weighted in-state departures}}{\text{weighted total departures}} \times \text{transportation revenue} \right) + \text{non-flight revenues directly attributable to this state}}{\text{transportation revenue} + \text{miscellaneous sales of merchandise, etc. (except "passive income" items)}}$$

In addition to the definition of transportation revenue, the Rule contains various other definitions. For example, it defines departures to mean “all takeoffs, whether they be regularly scheduled or charter flights, that occur during revenue service.” It also defines “cost of airline by type,” “value,” “original cost,” “average value,” and “aircraft ready for flight.” In addition, the

Rule contains an addendum that illustrates how the Rule applies to various specific fact situations. A copy of the Rule is contained in Appendix A of this Briefing Book.

### **Sections of the Airlines Rule for possible update**

During the more than four decades since the Rule was adopted by the Commission, the air travel industry has changed in significant ways. As a consequence, 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, and may trigger disputes between taxpayers and revenue agencies.

It is also important to emphasize that when a regulation is unclear and arguably allows for multiple interpretations, it invites taxpayers to choose the particular interpretation that works best for them. This in turn undermines uniformity and the level playing field.

During the course of the work group's review of the Rule, work group members and MTC staff have identified the following areas where the Rule either does not supply clear guidance or arguably would benefit from updating. It should be noted, however, that the work group has not taken any final vote on whether to recommend changes to the Rule.

#### **A. Codesharing, Interline, and Capacity Purchase Arrangements**

There are various circumstances when one air carrier sells tickets to passengers for travel on an aircraft operated by another carrier. These sales are made pursuant to a number of different arrangements common in the industry. Each of these arrangements is governed by a contract between the airline which sells the tickets and the airline which operates the aircraft providing the transportation:

- i. Codeshare arrangements – allow one airline to sell seats under its own airline code and flight number on flights which are operated by another airline, often involving international travel. These arrangements typically exist between alliance partners.
- ii. Interline arrangements – allow airlines to offer itineraries involving different flight segments flown by different carriers and may involve carriers that otherwise compete. Interline arrangements do not involve shared flight codes.
- iii. Capacity purchase arrangements – allow an airline to sell tickets for all of the seats on an airplane operated by another airline. Typically, the airline selling the tickets does more than make ticket sales, such as providing marketing services. These arrangements are usually between a major airline and a regional airline.

The Rule does not expressly address these industry arrangements. If the receipts received by the airline selling tickets are considered “transportation revenue,” they must be sourced by the

airline using the departures approach described in the Rule. If they are not “transportation revenue,” they would be sourced under Article IV’s general sourcing rules.

Only one reported decision has addressed how receipts under codeshare and capacity purchase arrangements are sourced under the Rule: *Oregon Dep’t of Revenue v. Alaska Airlines, Inc.*, 25 OTR 91 (T.C. 2022).

In that case, the Oregon Department of Revenue argued that the receipts retained by Alaska Airlines from selling tickets for travel on other airlines constituted transportation revenue and therefore must be sourced using the departures approach. Alaska Airlines disagreed, arguing that transportation revenue only included revenue from tickets on flights that it operated. The Tax Court sided with the airline, finding that amounts retained by Alaska Airlines were “not for ‘transporting passengers’” and therefore were “not ‘transportation sales.’”<sup>2</sup> Rather, they were “catchall (‘nonflight’ or ‘miscellaneous’) items that must be sourced pursuant to the standard UDITPA rules.”<sup>3</sup>

If receipts under codeshare, interline, and capacity purchase arrangements are not in fact transportation revenue under the Rule, then neither the Rule nor the MTC’s general market sourcing regulations adopted in 2017 specifically address how the selling airline’s receipts are sourced.

It is our understanding that some airlines that sell tickets under codeshare and interline arrangements currently treat the receipts they retain (*i.e.*, the receipts they do not share with the operating airline) as transportation revenue. Others do not, perhaps sourcing these receipts to where the headquarters of the operating airline is located. How selling airlines source receipts under capacity purchase agreements also varies, depending on the state involved. In some states, airlines may treat the receipts as transportation revenue; in other states, they may source the receipts according to Article IV’s general sourcing principles.

Because the Rule does not directly address codeshare, interline and capacity sharing arrangements, it also does not directly address which receipts of the selling airline under these arrangements must be included in the numerator and denominator of its receipts factor: is it the entire selling price of plane tickets or only that portion of the price that the airline retains (after sharing the remainder with the operating airline)?<sup>4</sup>

The MTC’s model General Allocation and Apportionment Regulations addresses this topic generally. These regulations provide that receipts are the amounts realized upon the performance of services in a transaction which produces apportionable income in which the

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<sup>2</sup> The Tax Court stated in part: “Nothing in the plain meaning suggests to the court that acts such as advertising, promoting or selling tickets, or otherwise facilitating *another person’s* movement of passengers or freight, constitute ‘transporting’ [*italics added*].”

<sup>3</sup> During the audit period, Oregon generally sourced receipts from the sale of services based on UDITPA’s original methodology--predominant cost of performance.

<sup>4</sup> In the case of both codeshare and interline arrangements, the fare is allocated between the airlines via an industry clearinghouse, typically within a month of the ticket sale.

income or loss is recognized under the Internal Revenue Code. *See* Reg. IV.2.(a)(5),(6). Therefore, in the case where a passenger purchases a ticket from one airline to fly on an aircraft operated by another airline, if the selling airline receives a commission for selling the ticket and the Internal revenue Code treats only the commission and not the entire ticket price as income to that airline, then the airline’s “receipts” with respect to the sale are limited to the amount of the commission. *See, e.g., The Seven-Up Company v. Commissioner of Internal Revenue*, 14 T.C. 965 (1950); IRS Chief Counsel Advice No.202138001 (9/24/2021).

It is our understanding that airlines that sell tickets under codeshare and similar arrangements typically treat as revenue for sourcing purposes only that portion of the ticket price they retain, *i.e.*, the commission.

## **B. Sale of Miles/Points**

The Airlines Rule does not indicate how airlines must source receipts from the sale of “miles” or “points,” which has become a substantial revenue source for airlines.

Most significantly, airlines sell miles/points in large quantities to various financial institutions that offer co-branded airline credit cards. The financial institutions in turn award these miles/points to cardholders based in part on the amount of card usage. Cardholders may redeem the miles/points for air travel or for various other services or products, such as hotel stays, but they are primarily redeemed for air travel.

A representative of the airlines industry has described how airlines treat the receipts received from credit card issuers for federal and state tax purposes in the following way:

- A portion of receipts is treated as consideration received for the use of intangible property (*e.g.*, airline logos on credit cards) and is treated as marketing revenue; the remainder is treated as consideration received for the sale of miles or points. The breakdown between the two components is apparently negotiated between each airline and card issuers.
- Income related to marketing is recognized in the year in which the sales transaction occurs. The related receipts are sourced according to market-based sourcing principles; they are not treated as transportation receipts. Receipts may be sourced based on the percentage of cardholders in each state.
- The remaining income, *i.e.*, the income related to the sale of miles or points, may be deferred by the airline for up to a year pursuant to §451 of the Internal Revenue Code.<sup>5</sup> If miles are redeemed before this one-year deadline to recognize income, then the related receipts are treated as transportation revenue if the miles have been redeemed for air travel. If miles are redeemed for some other service or product, then the receipts are treated in accordance with the applicable sourcing rule. If the miles

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<sup>5</sup> For book purposes, income is deferred until the miles are redeemed (subject to some limitations—such as breakage rules).

have not been redeemed by the time the income is required to be recognized, the related receipts are treated as transportation revenue.<sup>6</sup>

Airlines of course also award miles/points to passengers enrolled in loyalty programs in connection with flights. In those instances, the ticket price paid by the passenger is allocated between the current travel and the points.

For book purposes, the income associated with these points is recognized when the points are redeemed (except for anticipated breakage). For federal tax purposes, income relating to these points may be deferred for up to a year. If the points are redeemed during the first year, the receipts are treated as transportation revenue if they are used for air travel and are treated as non-transportation revenue if redeemed for other purposes. If the points have not been redeemed by the time that the income is recognized, the related receipts are treated as transportation revenue.

### **C. Other receipts**

The Airlines Rule states that revenue earned from “liquor sales, pet crate rentals, etc.,” common transactions at the time the Rule was adopted, is transportation revenue. Since the Rule has never been updated, it does not expressly address other transactions that have become common in recent years—such as charges to transport passengers’ luggage or charges for various in-flight services such as entertainment and Wi-Fi.

### **D. Multimodal Transportation involving both aircraft and other means of transportation or transportation sold with other services**

The Rule does not address situations where a passenger or property is transported by a transportation company in part by an aircraft and in part by another means of transportation. For example, customers may hire a delivery company to deliver a package across the country. The company may typically transport packages in part by aircraft and in part by truck.

This common scenario raises two questions. First, does the Airlines Rule apply to the company? Although the Rule does not define airline (see section E. below), the company presumably is an airline because it transports packages by air for a charge. Second, how are the company’s receipts sourced, given that the Airlines Rule and the Special Industry Trucking Rule (Reg. IV.18(g)) impose entirely different sourcing methodologies (departures vs. mileage), and the customer typically pays a single amount for the service. The Airlines Rule does not provide an answer (nor for that matter does the trucking rule).

Similar questions arise (with no answer) whenever a company that transports passengers or property by air also provides other services, such as freight forwarding services, for a combined charge.

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<sup>6</sup> Note that airlines may also sell miles or points to businesses other than credit card issuers. For example, car rental companies may purchase miles and then award the miles to their customers.

## **E. Lack of language defining airline**

The Airlines Rule is captioned “Special Rules: Airlines,” but the text of the Rule nowhere defines airline. Does the absence of a definition create uncertainty regarding the Rule’s application, particularly with respect to taxpayers that transport passengers or packages in part by air and in part by other means? We do not have a definitive answer, although neither work group members nor industry have indicated that this has been identified as a problem to date.

The growing use of drones raises another question: whether businesses that in the future use drones to deliver packages for a charge are or should be covered by the Rule. MTC staff has suggested one possible definition of airline: “a taxpayer that transports passengers, freight, or packages by air for a charge and that holds an air carrier certificate issued by the Federal Aviation Authority or a foreign air carrier permit issued by the U.S. Department of Transportation.” This definition would encompass companies that use drones to transport packages or freight.

## **F. Clarification of the Rule’s Language**

Some provisions of the rule could be clarified:

### **i. Treatment of the denominator of the receipts factor:**

The Rule states that the denominator of the receipts factor consists of two categories— “transportation revenue . . . and miscellaneous sales of merchandise, etc.” and excludes “[p]assive income items such as interest, rental income, dividends, etc.”

First, the inclusion of “miscellaneous sales of merchandise, etc., could be interpreted broadly to mean all other receipts or it could be interpreted narrowly to mean only sales of merchandise and no other sales of goods or services.

Second, the exclusion of “passive income items such as interest, rental income, dividends, etc.” could be interpreted to exclude only investment income or receipts not resulting from sales to customers, but it is not clear if this would also include, for example, rental of aircraft on a regular basis to others or the rental of other equipment or real property.

Third, both the description of the sales factor denominator and the definition of transportation revenue use the abbreviated term “etc.” which is inherently unclear and not best drafting practice.

### **ii. Treatment of the numerator of the receipts factor:**

The Rule’s description of the numerator differs from the description of the denominator. The numerator uses the term “non-flight revenues,” which appears broader than the denominator’s “miscellaneous sales of merchandise, etc.” This is

especially confusing given that the numerator is generally assumed to include the same types of receipts as the denominator.

In sum, the language used to describe the sales factor seems ripe for a refresh.

iii. Use of the terms “cost” and “value”

In determining the weighted-departure ratio, the Rule uses the terms “cost” and “value” of aircraft in a way that creates some confusion. For example, the Rule defines “cost of aircraft by type” to mean “the average original *cost or value* of aircraft by type which are ready for flight” and defines “original *cost*” to mean the initial federal tax basis plus the value of capital improvements to such property. . . .”

iv. Finally, some of the Examples in the Rule’s Addendum as presented are difficult to follow.

### **How states currently require airlines to source receipts**

A plurality of states that tax business income utilize the departures approach contained in the Airlines Rule to source the transportation revenue of airlines (or a similar approach). Additional states utilize the departures approach combined with other approaches. *See* Appendix B of this Briefing Book which describes the sourcing method used by each taxing state.

Some states use other approaches to source airline revenue. Fourteen states use a mileage approach. Five states have adopted no special industry rule addressing airlines; four of which use general market-based sourcing principles and one uses cost of performance. Some states use multiple factors.

As MTC staff noted in 1983 when the current Airlines Rule was being developed, the departures approach has a major advantage over the mileage approach: it avoids creating nowhere income. If every state taxed airline income and used the departures approach to source transportation revenue, then all income relating to that revenue would be subject to tax. In contrast, the mileage method arguably enables airlines to exclude flyover miles from the numerator of their receipts factor, substantially reducing in many cases the amount of income that is subject to tax.<sup>7</sup> For example, only a small portion of the income of an airline flying aircraft between an east coast airport and a west coast airport might be subject to tax by any state. *See, e.g., Northwest Airlines Inc. v. Illinois Dep’t of Revenue*, 692 N.E.2d 1264 (Ill. App.1st Dist. 1998); Ariz. Rev. Stat. §43-1139(B); Tenn. Code Ann. §67-4-2013(a)(5).

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<sup>7</sup> Flyover miles is the total distance an aircraft flies over a state where the aircraft has neither landed nor taken off.

••• **Reg. IV.18.(e). Special Rules: Airlines.** [Adopted July 14, 1983] The following special rules are established with respect to airlines:

**(1) In General.** Where an airline has income from sources both within and without this state, the amount of business income from sources within this state shall be determined pursuant to Article IV. of the Multistate Tax Compact except as modified by this regulation.

## **(2) Apportionment of Business Income.**

### **(i) General Definitions.**

The following definitions are applicable to the terms used in the apportionment factor descriptions.

A. "Value" of owned real and tangible personal property shall mean its original cost. (See Article IV.11. and Regulation IV.11(a).)

B. "Cost of aircraft by type" means the average original cost or value of aircraft by type which are ready for flight.

C. "Original cost" means the initial federal tax basis of the property plus the value of capital improvements to such property, except that, for this purpose, it shall be assumed that Safe Harbor Leases are not true leases and do not affect the original initial federal tax basis of the property. (See Regulation IV.11(a).)

D. "Average value" of the property means the amount determined by averaging the values at the beginning and ending of the income year, but the [insert here the appropriate title of the administrative agency] may require the averaging of monthly values during the income year if such averaging is necessary to reflect properly the average value of the airline's property. (See Article IV.12. and Regulation IV.12.)

E. The "value" of rented real and tangible personal property means the product of eight (8) times the net annual rental rate. (See Article IV.11. and Regulation IV.11(b).)

F. "Net annual rental rate" means the annual rental rate paid by the taxpayer.

G. "Property used during the income year" includes property which is available for use in the taxpayer's trade or business during the income year.

H. "Aircraft ready for flight" means aircraft owned or acquired through rental or lease (but not interchange) which are in the possession of the taxpayer and are available for service on the taxpayer routes.

I. "Revenue service" means the use of aircraft ready for flight for the production of revenue.

J. "Transportation revenue" means revenue earned by transporting passengers, freight and mail as well as revenue earned from liquor sales, pet crate rentals, etc.

K. "Departures" means, for purposes of these regulations, all takeoffs, whether they be regularly scheduled or charter flights, that occur during revenue service.

## **(ii) Property Factor**

**A. Property valuation.** Owned aircraft shall be valued at its original cost and rented aircraft shall be valued at eight (8) times the net annual rental rate in accordance with Article

IV.11. and Regulation IV.11. The use of the taxpayer's owned or rented aircraft in an interchange program with another air carrier will not constitute a rental of such aircraft by the airlines to the other participating airline. Such aircraft shall be accounted for in the property factor of the owner. Parts and other expendables, including parts for use in contract overhaul work, will be valued at cost.

**B. The denominator and numerator of the property factor.** The denominator of the property factor shall be the average value of all of the taxpayer's real and tangible personal property owned or rented and used during the income year. The numerator of the property factor shall be the average value of the taxpayer's real and tangible personal property owned or rented and used in this state during the income year.

In determining the numerator of the property factor, all property except aircraft ready for flight shall be included in the numerator of the property factor in accordance with Article IV.10.-.12, inclusive. Aircraft ready for flight shall be included in the numerator of the property factor in the ratio calculated as follows:

Departures of aircraft from locations in this state weighted as to the cost and value of aircraft by type compared to total departures similarly weighted.

## **(iii) The Payroll Factor**

The denominator of the payroll factor is the total compensation paid everywhere by the taxpayer during the income year. (See Article IV.13.-.14.) The numerator of the

payroll factor is the total amount paid in this state during the income year by the taxpayer for compensation. With respect to non-flight personnel, compensation paid to such employees shall be included in the numerator as provided in Article IV.13-.14. With respect to flight personnel (the air crew aboard an aircraft assisting in the operations of the aircraft or the welfare of passengers while in the air), compensation paid to such employees shall be included in the ratio of departures of aircraft from locations in this state, weighted as to the cost and value of aircraft by type compared to total departures similarly weighted, multiplied by the total flight personnel compensation.

#### **(iv) Sales (Transportation Revenue) Factor.**

The transportation revenue derived from transactions and activities in the regular course of the trade or business of the taxpayer and miscellaneous sales of merchandise, etc., are included in the denominator of the revenue factor. (See Article IV.1. and Regulation IV.1.) Passive 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. The numerator of the revenue factor is the total revenue of the taxpayer in this state during the income year. The total revenue of the taxpayer in this state during the income year is the result of the following calculation:

The ratio of departures of aircraft in this state weighted as to the cost and value of aircraft by type, as compared to total departures similarly weighted multiplied by the total transportation revenue. The product of this calculation is to be added to any non-flight revenues directly attributable to this state.

**(3) Records.** The taxpayer must maintain the records necessary to arrive at departures by type of aircraft as used in these regulations. Such records are to be subject to review by the respective state taxing authorities or their agents.

## EXAMPLES OF THE MANNER IN WHICH THE MULTISTATE TAX COMMISSION AIRLINE REGULATION WOULD APPLY TO SPECIFIC FACT SITUATIONS

*Example 1:* Assume the following facts for an airline for a tax year:

1. It has ten 747s ready for flight and in revenue service at an average cost per unit of \$40,000,000 for nine of the aircraft. It rents the tenth 747 from another airline for \$9,000,000 per year. At eight times rents, the latter is valued at \$72,000,000 for apportionment purposes. The total 747 valuation is, therefore, \$432,000,000 for property factor denominator purposes.
2. It has twenty 727s ready for flight in revenue service at an average cost per unit of \$20,000,000. The total 727 valuation is, therefore, \$400,000,000 for property factor denominator purposes.
3. It has nonflight tangible property (n.t.p.) valued at an original cost of \$200,000,000.
4. It has the following annual payroll:

Flight personnel	\$60,000,000
Nonflight personnel	<u>40,000,000</u>
Total	\$100,000,000

5. From its operations, it has total receipts of \$50,000,000, business net income of \$1,000,000, and no nonbusiness income.
6. It has the following within state X:
  - a. 10% of its 747 flight departures (.10 x \$432,000,000)      \$43,200,000
  - b. 20% of its 727 flight departures (.20 x \$400,000,000)      \$80,000,000
  - c. 5% of its n.t.p. (.05 x \$200,000,000)      \$10,000,000
  - d. 15% of its n.p. payroll (.15 x \$40,000,000)      \$6,000,000
7. State X has a corporate tax rate of 10%.

The airline's tax liability to state X would be determined as follows:

## Property Factor:

$$\frac{43,200,000 \text{ (747s)} + 80,000,000 \text{ (727s)} + 10,000,000 \text{ (n.t.p.)}}{432,000,000 + 400,000,000 + 200,000,000} = \frac{133,200,000}{1,032,000,000} = .1291$$

## Sales Factor:

$$\frac{43,200,000 \text{ (747s)} + 80,000,000 \text{ (727s)}}{432,000,000 + 400,000,000} = \frac{123,200,000}{832,000,000} = .1481$$

## Payroll Factor:

$$\frac{6,000,000 \text{ (n.p.)} + 8,880,000 \text{ (.148 x } 60,000,000 \text{) (flight)}}{100,000,000} = \frac{14,880,000}{100,000,000} = .1488$$

Average ratio:  $(.1291 + .1481 + .1488)/3 = .4260/3 = .1420$

Taxable Income in State X:  $.1420 \times \$1,000,000 = \$142,000$

Tax Liability to State X:  $.10 \times \$142,000 = \$14,200$

*Example 2:* Same facts except that paragraphs 6 and 7 are changed to read:

6. It has the following within state Y:

a. 6% of its 747 flight departures (.6 x \$432,000,000)	\$25,920,000
b. 31% of its 727 flight departures (.31 x \$400,000,000)	\$124,000,000
c. 3% of its n.t.p. (.03 x \$200,000,000)	\$6,000,000
d. 7% of its n.p. payroll (.07 x \$40,000,000)	\$2,800,000

7. State Y has a corporate tax rate of 6.5%.

The airline's tax liability to state Y would be determined as follows:

## Property Factor:

$$\frac{25,920,000 \text{ (747s)} + 124,000,000 \text{ (727s)} + 6,000,000 \text{ (n.t.p.)}}{432,000,000 + 400,000,000 + 200,000,000} = \frac{155,920,000}{1,032,000,000}$$

## Sales Factor:

$$\begin{array}{r} \frac{25,920,000 (747s) + 124,000,000 (727s)}{832,000,000} \\ = .1802 \end{array} \quad \begin{array}{r} = \frac{149,920,000}{400,000,000} \end{array}$$

## Payroll Factor:

$$\begin{array}{r} \frac{2,800,000(n.p.) + 10,812,000(.1802 \times 60,000,000)(flight)}{40,000,000 + 60,000,000} \\ = .1361 \end{array} \quad \begin{array}{r} = \frac{13,612,000}{100,000,000} \end{array}$$

Average ratio:  $(.1511 + .1802 + .1361)/3 = .4674/3 = .1558$

Taxable Income in State Y:  $.1558 \times \$1,000,000 = \$155,800$

Tax Liability to State Y:  $.65 \times \$155,800 = \$10,127$

Appendix B

**SOURCING OF AIRLINES REVENUE BY STATE**

**(nuances deleted; this document is for research purposes only  
and should not be relied upon as tax advice)**

<b>Mileage Approach (revenue miles<sup>8</sup> unless otherwise indicated)</b>	<b>Departures Approach<sup>9</sup> (or similar approach)</b>	<b>Two or More Factors (equally weighted unless indicated)</b>	<b>No Special Industry Rule</b>	<b>Other</b>
Arizona <sup>10</sup>	Alabama	California (Air time by model of aircraft-80% weight; arrivals and departures by model of aircraft-20%) <sup>11</sup>	Delaware (MBS—where the service is performed)	Alaska (ground time ratio)
Florida <sup>12</sup>	District of Columbia (total revenue units <sup>13</sup> received or discharged)	Colorado (miles-40% weight; arrivals and departures-60%)	Maine (MBS—where the service is received)	Louisiana (gross apportionable revenue)
Illinois <sup>14</sup>	Idaho	Connecticut (arrivals and departures; revenue tons <sup>15</sup> ; originating revenue)	Vermont (MBS—where the service is delivered)	
Iowa (mileage)	Indiana	Georgia (miles <sup>16</sup> -25% weight; tons handled <sup>17</sup> -25%; originating revenue <sup>18</sup> -50%)	Virginia (cost of performance)	
Kentucky	Kansas	Hawaii (revenue tons; originating revenue; operating hours)	West Virginia (MBS—where the service is delivered)	

<sup>8</sup> “Revenue mile” is defined in somewhat different ways as indicated in the footnotes attached to states in this column.

<sup>9</sup> Departures are weighted by cost and value of the aircraft unless otherwise noted.

<sup>10</sup> Expressly limited to flights beginning or ending in Arizona.

<sup>11</sup> If records of actual revenue by model of aircraft are not maintained, the total revenue shall be divided into passenger and freight revenue and allocated to aircraft model based on the ratio of the revenue passenger ton-miles and revenue freight ton-miles of such model, respectively.

<sup>12</sup> A “revenue mile” is the transportation of one passenger or one net ton of freight the distance of one mile for a consideration.

<sup>13</sup> A “revenue unit” is one ton of freight or 10 passengers.

<sup>14</sup> A “revenue mile” is defined in relevant part as the transportation of one net ton of freight the distance of one mile for consideration and the transportation of one passenger the distance of one mile for consideration.

<sup>15</sup> “Revenue tons” is defined as the weight in tons of revenue passengers at 200 pounds per passenger and revenue cargo received or discharged.

<sup>16</sup> Expressly limited to flights originating or terminating in Georgia.

<sup>17</sup> Actual tons handled is multiplied by 60% in the case of passengers or cargo flown on each flight stage which originates in Georgia.

<sup>18</sup> Originating revenue in Georgia is determine by applying a miles ratio to revenue everywhere.

<b>Mileage Approach</b> (revenue miles <sup>19</sup> unless otherwise indicated)	<b>Departures Approach<sup>20</sup></b> (or similar approach)	<b>Two or More Factors</b> (equally weighted unless indicated)	<b>No Special Industry Rule</b>	<b>Other</b>
Michigan (miles)	Maryland (originating passengers and originating freight tons)	Minnesota (ton miles <sup>21</sup> multiplied by 85%; departures <sup>22</sup> multiplied by 15%)		
Mississippi <sup>23</sup>	Massachusetts	New York (arrivals and departures; revenue tons; originating revenue, the New York numerator in case multiplied by 60%)		
Missouri (mileage; airline may elect an alternative ratio based on investment in transportation facilities)	Montana	Tennessee (originating revenue; miles <sup>24</sup> )		
New Jersey <sup>25</sup>	Nebraska	Wisconsin (arrivals and departures; tons handled; originating revenue)		
North Carolina (ton miles)	New Hampshire (passengers and cargo enplaned in the state)			
Oklahoma (mileage)	New Mexico			
Pennsylvania <sup>26</sup>	North Dakota			
Texas (mileage)	Oregon			
Utah (ton miles)	Rhode Island (upon election of the taxpayer; otherwise where the benefit is received)			
	South Carolina (tons loaded and unloaded)			

<sup>19</sup> “Revenue mile” is defined in somewhat different ways as indicated in the footnotes attached to states in this column.

<sup>20</sup> Departures are weighted by cost and value of the aircraft unless otherwise noted.

<sup>21</sup> Each passenger is considered to weigh 200 pounds; Minnesota miles are limited to flights having a departure point or a destination in Minnesota.

<sup>22</sup> Determined on a fleet-type basis.

<sup>23</sup> The numerator of the ratio is computed by multiplying the number of revenue-producing passengers carried on flights landing or taking off within Mississippi by the number of miles flown over the state by the flights. The denominator is determined by multiplying the total number of revenue-producing passengers carried by the total number of miles flown by flights carrying revenue-producing passengers. Revenue from cargo traffic income may be sourced to Mississippi based on the ratio that Mississippi revenue ton miles, or other units of cargo transported, multiplied by Mississippi miles flown bears to the total of such elements of the factor. Alternatively, all business income of an airline may be apportioned to Mississippi in the ratio that Mississippi flight miles bear to total flight miles.

<sup>24</sup> Expressly limited to flights originating from or ending in Tennessee.

<sup>25</sup> The passenger revenue mile fraction is determined by multiplying the number of revenue-paying passengers aboard the aircraft by the distance traveled in New Jersey divided by the number of revenue-paying passengers aboard the aircraft multiplied by the distance traveled everywhere. The freight revenue mile fraction is determined by dividing the freight ton revenue miles in New Jersey by the freight revenue miles everywhere. A freight revenue ton mile is equal to one ton carried one mile.

<sup>26</sup> A revenue mile means average receipts derived from the transportation of persons or property one mile.