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# Model Receipts Sourcing Regulation Work Group



MULTISTATE TAX COMMISSION

## --Sourcing of Airline Receipts-- Reg. IV.18.(e)

November 7, 2025 meeting

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# DESCRIPTION OF PROJECT

- At its August 2, 2022 meeting, the Uniformity Committee agreed to undertake a project and form a work group to review **the MTC's** model receipts sourcing regulations, including the MTC's special industry regulations and its market-based sourcing ("Section 17") regulations.
- The goal of this project is to identify updates, corrections or conforming changes, to consider issues that may not be sufficiently addressed by existing model regulations, and to make recommendations to the Uniformity Committee for its action.

# SALES FACTOR IN THE CURRENT AIRLINES REGULATION

## USING A DEPARTURES METHOD TO SOURCE TRANSPORTATION REVENUE

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

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

**“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.”**

**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.”**



# THE DRAFT REVISION RETAINS THE DEPARTURES METHOD FOR SOURCING AIRLINE TRANSPORTATION REVENUE

$$\frac{\text{Weighted in-state departures}}{\text{Weighted total departures}} \times \text{transportation revenue}$$

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## **THE DRAFT UPDATES THE DEFINITION OF TRANSPORTATION REVENUE TO EXPRESSLY INCLUDE RECEIPTS FROM:**

- Selling tickets for travel on unrelated airlines under codeshare, interline, and capacity purchase arrangements.
- Selling “points” or “miles” to credit card banks or others
- Selling or renting property or services to be used or consumed by passengers during flights, such as the sale of food or liquor, the sale of onflight services such as entertainment and Wi-Fi, and the rental of pet crates
- Baggage fees

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## THE DRAFT REVISION CLARIFIES THE DENOMINATOR OF THE SALES FACTOR

The current language states that the denominator consists of “transportation revenue . . . and miscellaneous sales of merchandise, etc.” and excludes “[p]assive income items such as interest, rental income, dividends, etc.” and proceeds from the sale of aircraft.

### Draft language:

The denominator of the receipts factor is the total amount of receipts of the taxpayer under [general sourcing law] during the income year except for receipts from the sale of aircraft.

## THE DRAFT REVISION CLARIFIES THE NUMERATOR OF THE SALES FACTOR

The current description of the numerator differs from the description of the denominator. The numerator uses the term “**non-flight revenues**” and the denominator uses the term “**miscellaneous sales of merchandise, etc.**”

Draft language:

The numerator of the receipts factor is the total amount of receipts of the taxpayer in this state during the income year. The total receipts of the taxpayer in this state is:

- (I) the taxpayer’s transportation receipts in this state during the income year; and
- (II) any other receipts attributable to this state during the income year under [general sourcing law] except for receipts from the sale of aircraft.

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## **ADDITIONAL NON-SUBSTANTIVE LANGUAGE CLEAN-UP**

### Example

The current language uses the terms “cost” and “value” of aircraft in a confusing and circular manner.

The draft replaces the term “cost of aircraft by type,” which currently is defined as “the average original cost *or* value of aircraft . . .”, with the term “value of aircraft by type”. *See* Reg. § IV.(e).2(i)(C).

”There is no substantive change because the current language elsewhere defines “value” to mean “original cost” which in turn means federal tax basis plus the value of capital improvements.

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## THE DRAFT REVISION INCLUDES DRAFTER'S NOTES TO PROVIDE BACKGROUND AND TO IDENTIFY ISSUES THAT STATES MAY WANT TO ADDRESS

Examples of drafter's notes:

- p.3. It is the Internal Revenue Code that governs *when* income of an airline must be recognized, not Reg. IV.18 (e). Rather, Reg. IV.18 (e) addresses *where* receipts are sourced.
- p.6. Invites states to consider adopting guidance to address situations where a transportation company transports a passenger or property in part by an aircraft and in part by another means of transportation.

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## **THE REGULATION'S CURRENT EXAMPLES ARE CLARIFIED AND NEW EXAMPLES ARE ADDED**

- Current examples are cleaned up, including adding a bit more math to make the equations more intuitive.
- Three new examples are added:
  - Ex. 3. Addresses the sourcing of receipts that are not transportation receipts and also interest income
  - Ex. 4. Addresses receipts from the sale of plane tickets pursuant to a codesharing agreement
  - Ex. 5. Addresses receipts from the sale of airline “miles.”

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# THE DRAFT REVISION DEFINES “AIRLINE” AND PROVIDES THAT CERTAIN OTHER TAXPAYERS ARE COVERED BY THE REGULATION

## 1. Definition of Airline (§ IV.18.(e).2(i)(A)):

“Airline” means 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.

## 2. Taxpayers other than airlines that would be covered by the regulation:

With respect to the sourcing of ‘points’ or ‘miles’, other taxpayers that are *related to* an airline. Related parties are defined by Reg. IV.17(a)(3)(H).

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# HOW DOES THIS DRAFT DIFFER FROM THE PRIOR DRAFT?

Four changes



## **OCT. 31, 2025 DRAFT**

- A sentence has been added to §IV.18.(e)(1): “Revenue’ or ‘receipts’ are considered received when they are recognized by the Internal Revenue Code.”
- This addition does not change the regulation’s substance.
- This principle is contained in the MTC’s section 17 general apportionment rules and is incorporated by reference in the Airline regulation.

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## **OCT. 31, 2025 DRAFT**

- The language of the Drafter’s Note in (iv)(B) has been revised. This Note addresses an airline’s “receipts” when it sells a ticket for a flight on an aircraft operated by another airline.
- The Note cites the definition of “receipts” contained in Section 17 which in turn references federal income tax law principles, and provides an example.

## **OCT. 31, 2025 DRAFT**

- Revises the definition of “passenger transportation receipts” in §(2)(i)(L). The revised language treats all receipts received from the sale of miles as transportation revenue.
- Deletes the accompanying Drafter’s Note (since the text speaks for itself).
- Simplifies Example 5, which addressing receipts from the sale of miles, to reflect the revised §(2)(i)(L).

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**Other Topics to be  
considered by the  
work group?**

