

**Presentation to the Uniformity Committee  
February 3, 2026**



MULTISTATE TAX COMMISSION

**Proposed Revisions to the  
MTC Special Industry Regulation on Airlines  
Reg. IV.18.(e)**

**Submitted by the Receipts Sourcing Regulation Work Group**

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## **BRIEF HISTORY**

- On November 7, 2025, the Receipts Sourcing Regulation Work Group concluded its review of the MTC Airlines regulation and approved a motion to recommend certain revisions of the regulation to the Uniformity Committee.
- MTC staff prepared and circulated a Briefing Book which provided background and also identified issues that had been identified with respect to the regulation.
- At the Uniformity Committee's fall meeting in New Orleans, the Work Group chair and MTC staff presented proposed revisions to the Committee.

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## **REASONS TO UPDATE THE AIRLINES REGULATION**

- **The current Regulation 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.**
- **Some language in the regulation is unclear or would benefit from updating.**

# 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 PROPOSED 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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# WHAT ARE THE PROPOSED CHANGES TO THE REGULATION?



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## **THE PROPOSED REVISION 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 food and selling onflight services such as entertainment and Wi-Fi
- Baggage fees

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## THE PROPOSED 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.

### Proposed 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 including aircraft parts.

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

The current description of the numerator uses different terms than the description of the denominator for no apparent reason. The numerator uses the term “**non-flight revenues**” and the denominator uses the term “**miscellaneous sales of merchandise, etc.**”

Proposed 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 including aircraft parts.

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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 PROPOSED 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 PROPOSED REVISION INCLUDES VARIOUS DRAFTER'S NOTES TO PROVIDE BACKGROUND AND TO IDENTIFY ISSUES THAT STATES MAY WANT TO ADDRESS**

Examples of drafter's notes (con't):

- p.6. Notes that 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.

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

- Current examples are cleaned up, including showing 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.”