



Background

The U.S. Senate Federal Aviation Administration (FAA) Reauthorization bill contains a provision (Section 806) that will place a significant financial burden on small businesses providing aircraft charter services. Currently, commercial air operations in aircraft weighing fewer than 6,000 pounds and that are not operated on an established line are exempt from the commercial federal excise tax (FET). Instead, these operators pay the noncommercial aviation fuel taxes. The provision in the Senate bill would eliminate that exemption and replace it with a far narrower exemption solely for those conducting sightseeing flights in small aircraft.

Issue

A very specific sector of the general aviation industry would be subject to significant financial, administrative and paperwork burdens as a result of this provision. The following are a few arguments explaining why Section 806 should be excluded from the FAA reauthorization bill.

Impacted Operators Are Small Businesses

The businesses that qualify for this exemption are, according to our best information, almost exclusively small businesses as defined by the Small Business Administration. Most of these small air charter operations have only one or two aircraft, typically single-engine, piston-powered airplanes and helicopters. They may conduct aerial surveying, photography, mail delivery, passenger transportation for personal or business reasons, and numerous other tasks to which small aircraft are perfectly suited.

Operations Are Not Tax Free

Flights in aircraft weighing fewer than 6,000 pounds that qualify for the small aircraft exemption are not exempt from paying taxes under the current law, they pay taxes under a simpler process – the noncommercial aviation fuel tax. Just as with automotive gas, these operators pay a tax that is built into the price of every gallon of fuel they buy. This is a simple system that has worked successfully for decades and virtually eliminates the possibility of taxes not being paid.

Burdens Of Changing Tax Systems Is High

The burdens imposed upon operators with these small aircraft are unreasonable. These small businesses typically have very simple accounting and banking systems. Section 806 would require significant education as operators would need to learn about the system for calculating, collecting and remitting commercial FET. Proper application of commercial FET is often complicated, even for those operators that have always been subject to its requirements. Compliance would involve completion and submission of quarterly tax filings, semi-monthly payments of the taxes collected, and the establishment of a system to evaluate on a flight-by-flight basis whether certain components of the FET apply. Further, these operators will still pay the per-gallon noncommercial tax every time they buy fuel and will have to wait until they file their taxes to claim a refund of that tax.

Termination of Exemption for Small Aircraft on Non-established Lines

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During these times of economic turmoil across the United States, aviation businesses continue to operate 30% below last year. Changes to existing tax law such as Section 806 would place an unnecessary financial burden on many small aviation businesses, ultimately leading to job loss in many states throughout the country. In fact, this type of dramatic shift in the burden of paying taxes may be significant enough for some operators that it would force their closure.

The states most affected by this provision are Alaska, Arizona, Nevada, Hawaii and Louisiana.