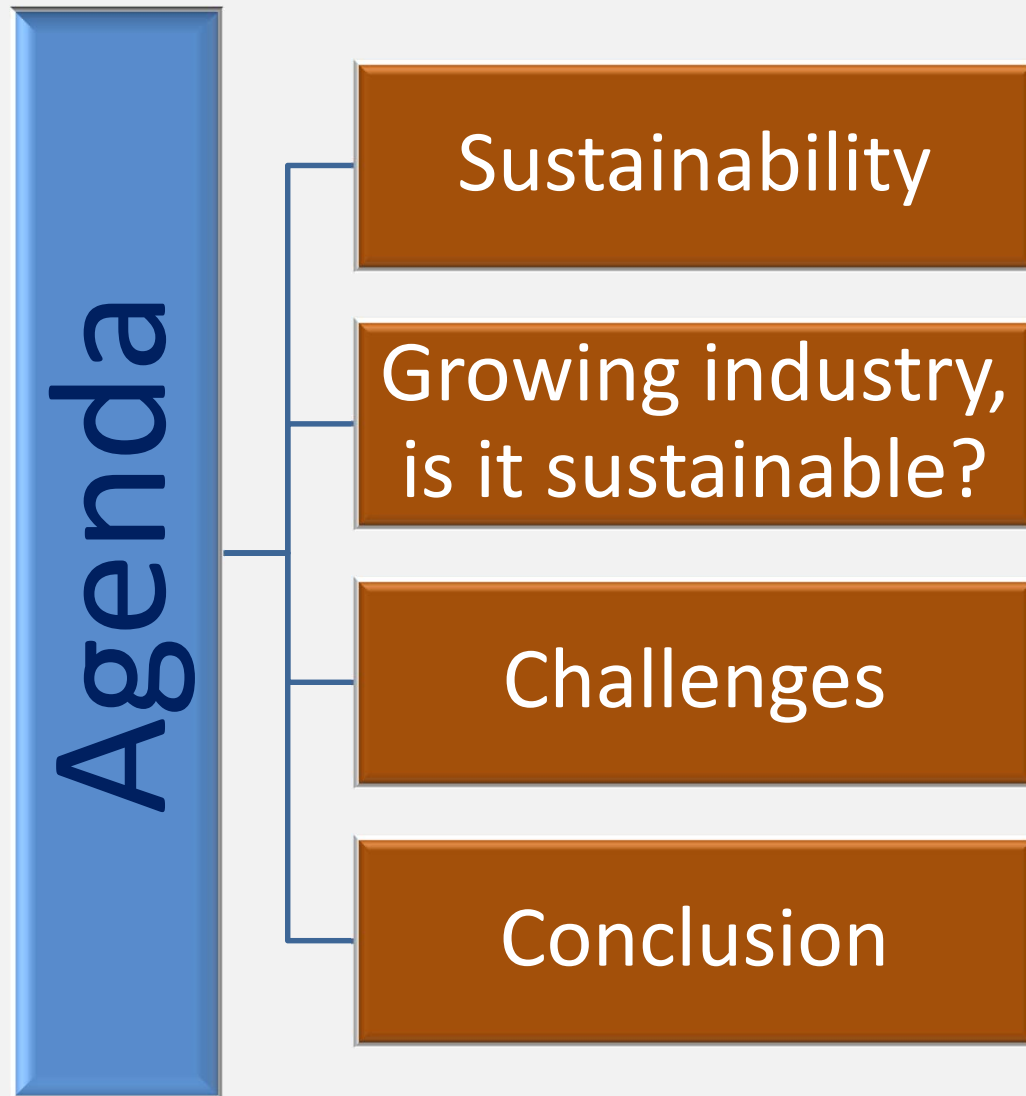


ICAO-ATRS Air Transport Symposium

The Impact of Taxes
on
Air Transport Sustainability
Montreal, CANADA
May 7-8, 2014

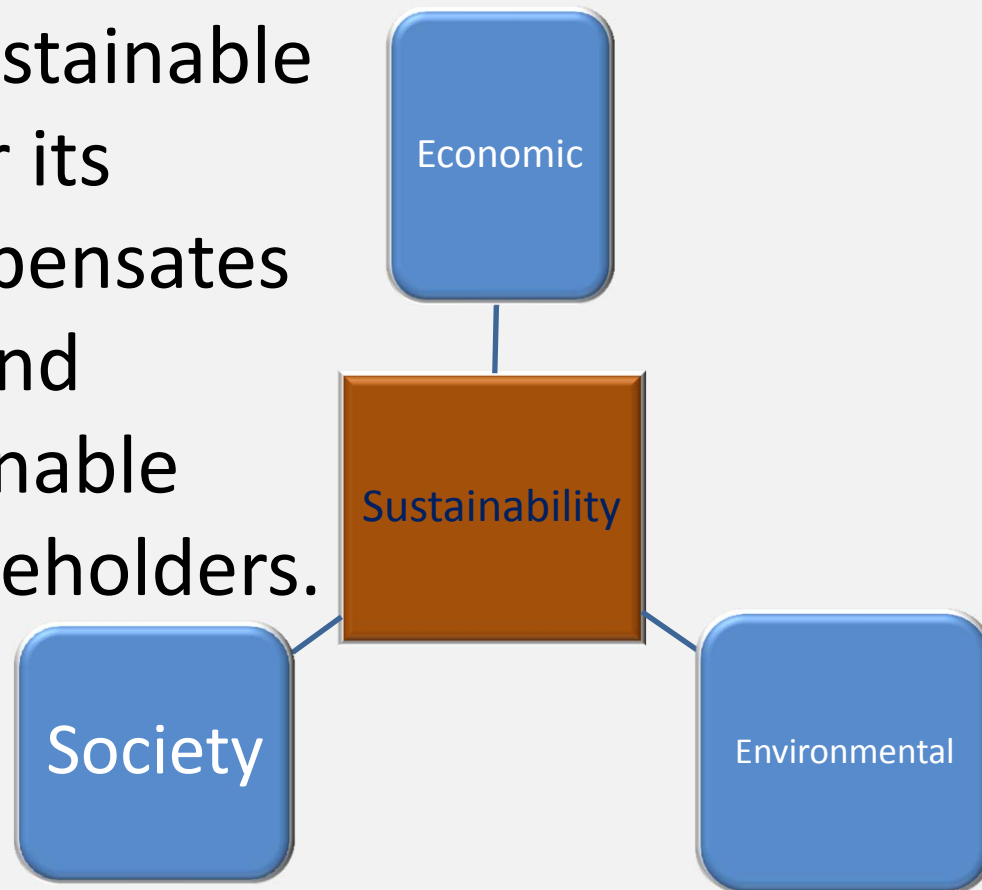
Dr. Bijan Vasigh, Professor
College of Business
Embry Riddle Aeronautical University
Daytona Beach, FL 32114
(386) 871-5458





Sustainability

- From an economic perspective, a sustainable business pays for its operations, compensates its social costs, and provides a reasonable return to its shareholders.



Society

\$540 billion of GDP

Over 3 billion PAX

8.7 million jobs

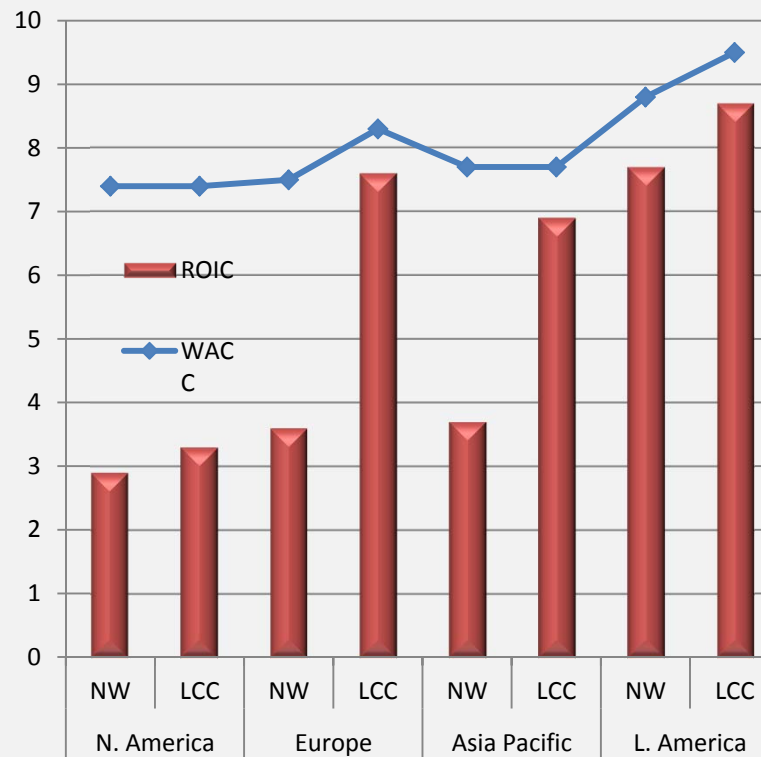
1,715 airlines 3,750
airports 23,000 aircraft



Economics

the airline industry persistently generating ROIC below its WACC

- Revenue = \$228.26
 - Air fare = \$181.91
 - Cargo & other = \$34.26
 - Ancillary = \$12.09
- Costs = \$225.70
- Net profit = \$2.56 per passenger, 2012

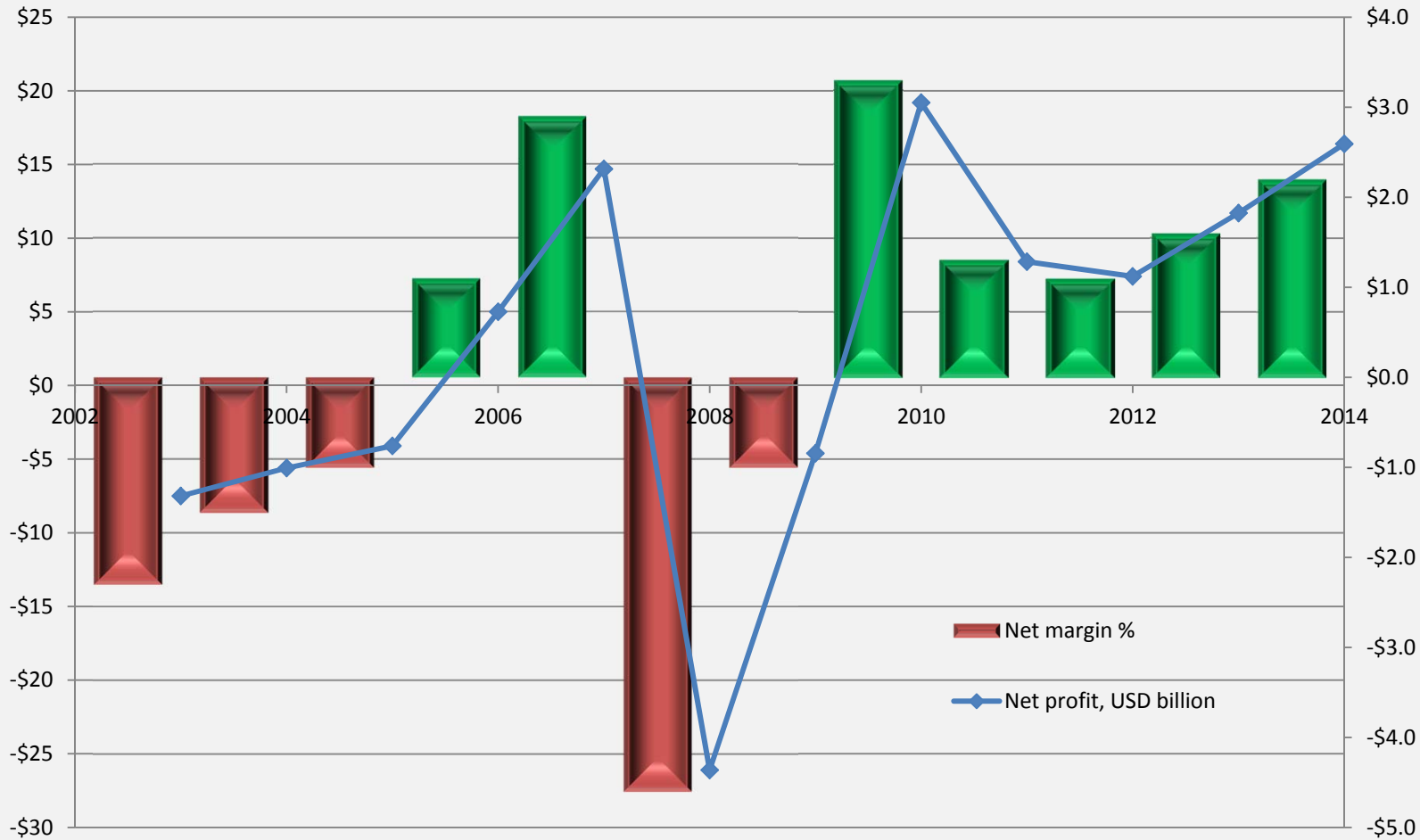


Airline Sustainability Still a Challenge

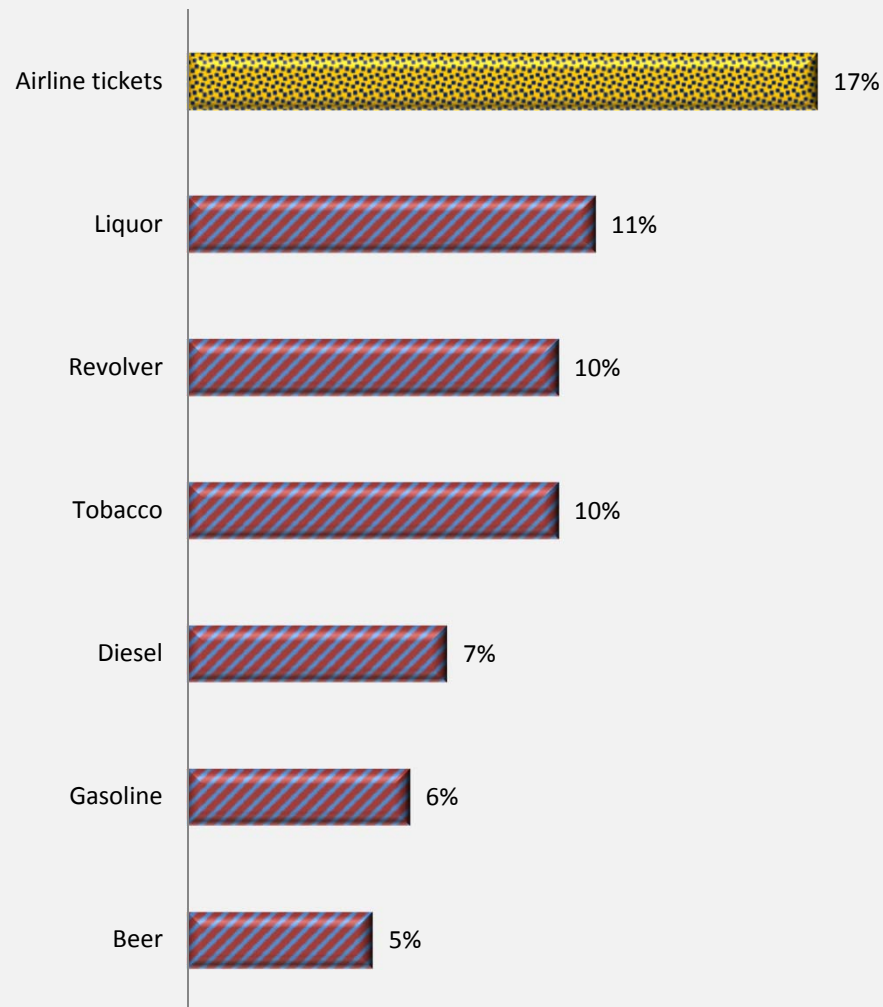
- Over the past 40 years virtually all industries have generated higher ROIC than the airline industry



World airline industry profit and profit margin



Federal Taxes Paid by Various Industries

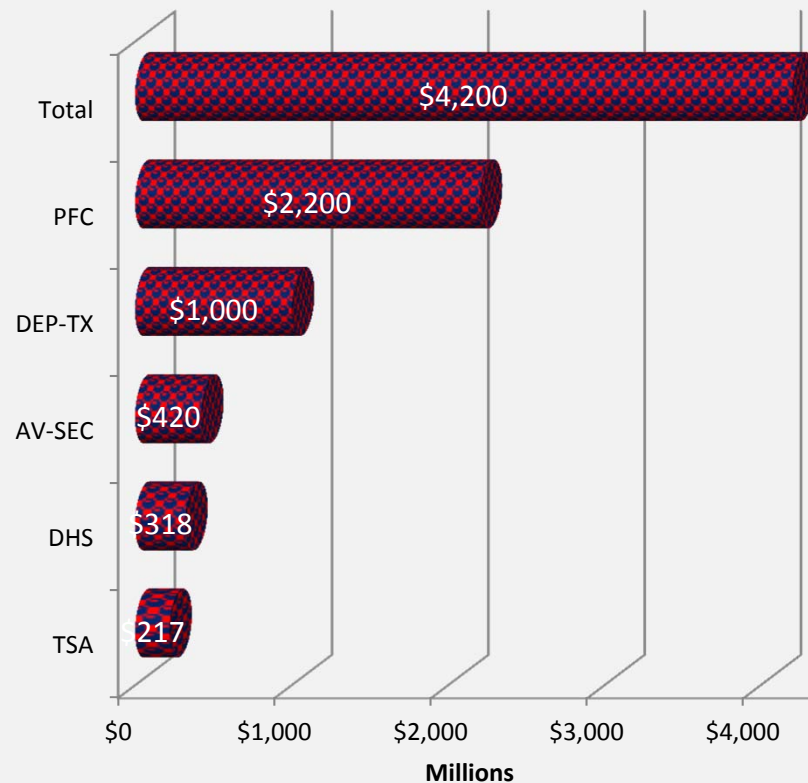


- Excessive taxes
- Inefficiency in supply change
- Cost rigidity



FY2015 Budget Proposal

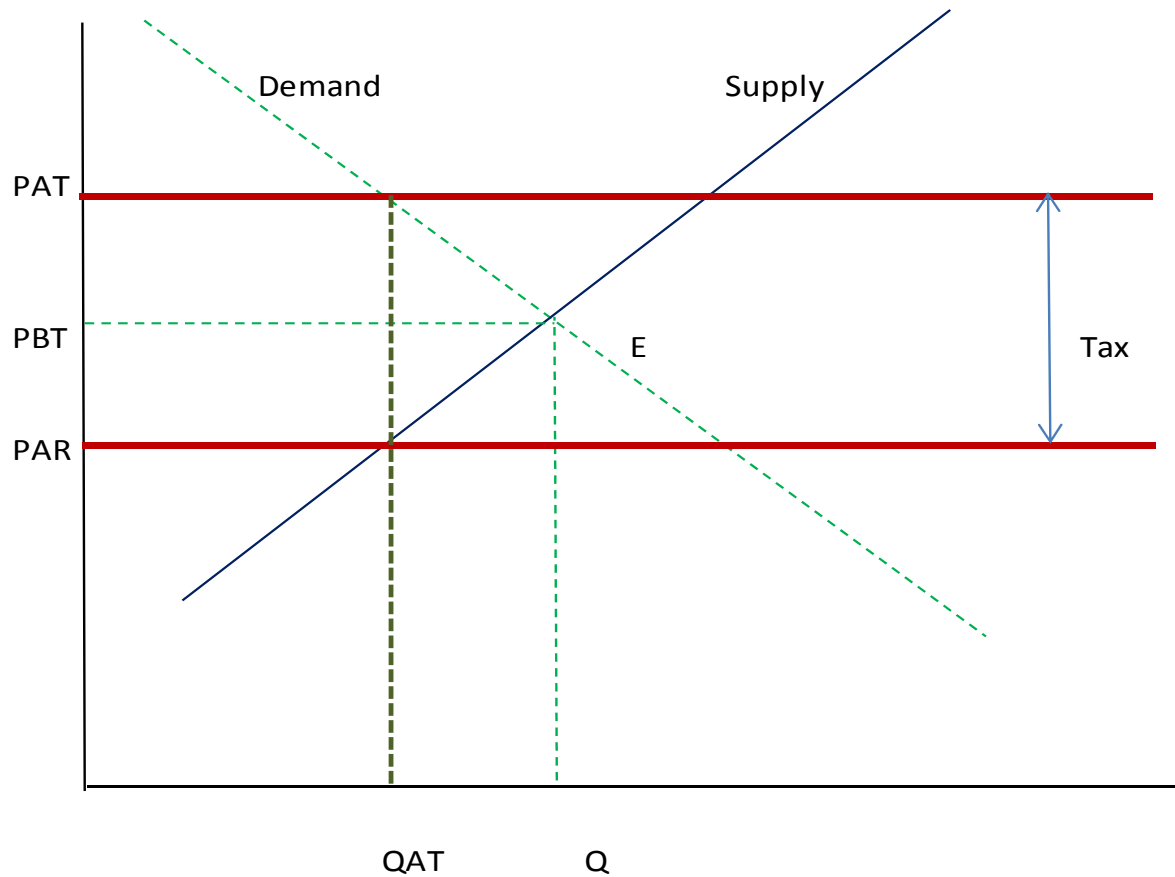
- Increase the TSA tax from \$5.60 per one-way trip (in July) to \$6
- Increase PFC from \$4.50 per flight segment to \$8,
- Increase DHS fee from \$5.50 to \$7.50
- Increase immigration fees from \$7 to \$9
- A new \$100 per flight DEP-TAX



Airlines for America (A4A) March 5, 2014



Impact of Tax on Consumer



On a Typical Short Haul Flight: With One Stop

| | |
|-----------------------------|---------------|
| Federal Ticket (Excise) Tax | 17.78 |
| Passenger Facility Charge | 4.50 |
| Federal Security Surcharge | 5.60 |
| Federal Flight Segment Tax | 4.00 |
| PFC Charge | 4.50 |
| Federal Flight Segment Tax | 4.00 |
| PFC | 4.50 |
| Federal Security Surcharge | 5.60 |
| Federal Flight Segment Tax | 4.00 |
| Passenger Facility Charge | 4.50 |
| Federal Flight Segment Tax | 4.00 |
| Total Taxes | 62.98 |
| Ticket price | 237.02 |
| Total Ticket (Fare + Taxes) | \$300.00 |
| Taxes as % of Fare | 26.60% |



Challenges

- **Excessive Taxes**
- **Volatility in Revenue**
 - Cyclical, Seasonal, and Random
- **Monopolistic suppliers (High Cost)**
 - Aircraft, Engine, Fuel, etc.



Conclusions

Tax
Incentives

Improve
Supply Chain

Improve
Operations



Thank You!

