

AIRPORT AND AIRWAY TAX MEASURES

HEARING
BEFORE THE
SUBCOMMITTEE ON
TAXATION AND DEBT MANAGEMENT
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
FIRST SESSION
ON
S. 1047 AND S. 1272

—
JULY 27, 1981
—

Printed for the use of the Committee on Finance



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON: 1981

84-873 O

HG 97-45

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AIRPORT AND AIRWAY TAX MEASURES

MONDAY, JULY 27, 1981

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1318, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr. (acting chairman) presiding.

Present: Senator Harry F. Byrd, Jr.

[The press release announcing this hearing, the bills S. 1047; S. 1272, and Joint Committee on Taxation print description of the above bills and the opening statement of Senator Dole follow:]

P R E S S R E L E A S E

FOR IMMEDIATE RELEASE
July 10, 1981

COMMITTEE ON FINANCE
UNITED STATES SENATE
Subcommittee on Taxation
and Debt Management
2227 Dirksen Senate Office Bldg.

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SETS HEARING ON AIRPORT AND AIRWAY TAX MEASURES

Senator Packwood, Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on July 27, 1981, on S. 1047 and S. 1272.

The hearing will begin at 9:30 a.m. in Room 1318 of the Dirksen Senate Office Building.

S. 1047 (introduced by Senator Packwood by request) and S. 1272 (introduced by Senator Cannon) would modify certain existing airport and airway user taxes and establish certain other airport and airway user taxes, including the passenger ticket tax, general aviation gasoline tax and jet fuel tax, international departure tax and property transportation tax.

Requests to testify.--Witnesses who desire to testify at the hearing must submit a written request to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510, to be received no later than the close of business Tuesday, July 21, 1981. Witnesses will be notified as soon as practicable thereafter whether it has been possible to schedule them to present oral testimony. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. In such a case, a witness should notify the Committee of his inability to appear as soon as possible.

Consolidated testimony.--Senator Packwood urges all witnesses who have a common position or who have the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. Senator Packwood urges that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.--Senator Packwood stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify should comply with the following rules:

- (1) All witnesses must submit written statements of their testimony.

-2-

- (2) The written statement must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered not later than noon on Friday, July 24, 1981.
- (3) All witnesses must include with their written statements a summary of the principal points included in the statement.
- (4) Witnesses should not read their written statements to the Subcommittee, but ought instead to confine their oral presentations to a summary of the points included in the statement.
- (5) Not more than five minutes will be allowed for the oral summary.

Written statements.--Witnesses who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Thursday, August 6, 1981. On the first page of your written statement please indicate the date and subject of the hearing.

97TH CONGRESS
1ST SESSION

S. 1047

To provide for the modification of airport and airway user taxes, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 29 (legislative day, APRIL 27), 1981

Mr. PACKWOOD (by request) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide for the modification of airport and airway user taxes, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Airport and Airway Rev-
4 enue Act of 1981".

5 SEC. 2. AMENDMENT OF 1954 CODE.

6 Except as otherwise expressly provided, whenever in
7 this Act an amendment or repeal is expressed in terms of an
8 amendment to, or repeal of, a section or other provision, the

1 reference shall be considered to be made to a section or other
2 provision of the Internal Revenue Code of 1954.

3 **SEC. 3. TAX ON FUEL USED IN NONCOMMERCIAL AVIATION.**

4 Subsection (c) of section 4041 (relating to tax on fuel
5 used in noncommercial aviation) is amended as follows:

6 (1) paragraph (1) of such subsection 4041(c) is
7 amended by striking "of 7 cents a gallon" and insert-
8 ing in lieu thereof "(at the rate specified in paragraph
9 (3))";

10 (2) paragraph (3) of such subsection 4041(c) is
11 amended to read as follows:

12 "(3) **RATE OF TAX.**—

13 "(A) **OTHER THAN GASOLINE.**—The rate of
14 tax imposed by paragraph (1) is:

15 "(i) 20 cents a gallon for the period
16 from July 1, 1981, to September 30, 1982;

17 "(ii) 35 cents a gallon for the period
18 from October 1, 1982, to September 30,
19 1983;

20 "(iii) 50 cents a gallon for the period
21 from October 1, 1983, to September 30,
22 1984;

23 "(iv) 58 cents a gallon for the period
24 from October 1, 1984, to September 30,
25 1985; and

1 “(v) 65 cents a gallon beginning Octo-
2 ber 1, 1985.

3 “(B) GASOLINE.—The rate of tax imposed
4 by paragraph (2) is:

5 “(i) 8 cents a gallon for the period from
6 July 1, 1981, to September 30, 1982;

7 “(ii) 14 cents a gallon for the period
8 from October 1, 1982, to September 30,
9 1983;

10 “(iii) 20 cents a gallon for the period
11 from October 1, 1983, to September 30,
12 1984;

13 “(iv) 26 cents a gallon for the period
14 from October 1, 1984, to September 30,
15 1985; and

16 “(v) 32 cents a gallon beginning Octo-
17 ber 1, 1985.”; and

18 (3) paragraph (5) of such subsection 4041(c) is re-
19 pealed.

20 **SEC. 4. TAX ON TRANSPORTATION OF PERSONS BY AIR.**

21 (a) Section 4261(a) (relating in general to the tax on
22 transportation by air) and section 4261(b) (relating to seats,
23 berths, et cetera.) are each amended by striking out “8 per-
24 cent” and inserting in lieu thereof “six and one-half per-
25 cent.”—

1 (b) Section 4261(e) (relating to reduction, et cetera of
2 rates) is repealed.

3 (c) EFFECTIVE DATE.—The amendments made by this
4 section shall apply with respect to transportation beginning
5 after June 30, 1981.

6 **SEC. 5. TAX ON TRANSPORTATION OF PROPERTY BY AIR.**

7 (a) Subsection (d) of section 4271 (relating to termina-
8 tion of tax on transportation of property) is repealed.

9 (b) The amendment made by this section shall apply
10 with respect to transportation beginning after June 30, 1981.

11 **SEC. 6. AIRPORT AND AIRWAY TRUST FUND.**

12 (a) Subsection (b) of section 208 of the Airport and
13 Airway Revenue Act of 1970, as amended, is amended by:

14 (1) inserting “and after June 30, 1981,” after
15 “October 1, 1980” each place it appears; and

16 (2) inserting at the end thereof: “Amounts re-
17 ceived after June 30, 1981 shall be appropriated to the
18 Trust Fund only to the extent that the liability for
19 such taxes was incurred after such date.”

20 (b) Paragraph (f)(1) of such section 208 is amended by
21 striking out “and before October 1, 1980;”.

22 (c) Paragraph (f)(2) of such section 208 is amended by
23 inserting “and after June 30, 1981” after “October 1,
24 1980,” and by deleting the period and adding at the end

1 thereof "and ending before October 1, 1980, or for periods
2 beginning after June 30, 1981."

3 (d) Paragraph (f)(3) of such section 208 is amended by
4 inserting "and after June 30, 1981" after "October 1, 1980"
5 each place it appears.

6 (e) Subparagraph (f)(1)(A) of such section 208 is amend-
7 ed by inserting the following before the semicolon at the end
8 thereof: "or incurred under the Airport and Airway Improve-
9 ment Act of 1981".

10 (f) Subparagraph (f)(1)(B) of such section 208 is amend-
11 ed by deleting "; or" and inserting in lieu thereof ", or for
12 other safety and regulatory activities undertaken by the Fed-
13 eral Aviation Administration pursuant to the Federal Avi-
14 ation Act of 1958, as amended; or".

1 reference shall be considered to be made to a section or other
2 provision of the Internal Revenue Code of 1954.

3 **TAX ON FUEL USED IN NONCOMMERCIAL AVIATION**

4 **SEC. 3.** Subsection (c) of section 4041 (relating to tax
5 on fuel used in noncommercial aviation) is amended—

6 (1) in paragraph (1) by striking “of 7 cents a
7 gallon” and substituting “of 8½ cents a gallon”;

8 (2) in paragraph (3) by striking “3 cents a
9 gallon.” and substituting “4½ cents a gallon.”; and

10 (3) in paragraph (5) by striking “October 1,
11 1980,” and substituting “October 1, 1985.”.

12 **TAX ON TRANSPORTATION OF PERSONS BY AIR**

13 **SEC. 4.** (a) Section 4261(a) (relating in general to tax on
14 transportation by air) and section 4261(b) (relating to seats,
15 berths, etc.) are each amended by striking out “8 percent”
16 and substituting “3 percent”.

17 (b) Section 4261(c) (relating to tax on use of internation-
18 al travel facilities) is amended by striking “a tax of \$3” and
19 substituting “a tax of \$1”.

20 (c) Section 4261(e) (relating to reduction, etc., of rates)
21 is repealed.

22 **TAX ON TRANSPORTATION OF PROPERTY BY AIR**

23 **SEC. 5.** (a) Section 4271(a) (relating to tax on transpor-
24 tation of property by air) is amended by striking “5 percent”
25 and substituting “2 percent”.

1 (b) Section 4271(d) is amended by striking "September
2 30, 1980," and substituting "September 30, 1985,".

3 TAX ON USE OF CIVIL AIRCRAFT IN COMMERCIAL
4 AVIATION

5 SEC. 6. (a) Sections 4491(a), 4491(c), and 4493(a)(1)
6 are each amended by striking "use" each place it appears
7 and substituting "taxable use".

8 (b) Section 4492(c)(2) is amended to read as follows:

9 "(2) TAXABLE USE.—The term 'taxable use'
10 means any use in the navigable airspace of the United
11 States in a business of transporting persons or property
12 for compensation or hire by air. Such term does not in-
13 clude any use in a business described in the preceding
14 sentence which is properly allocable to any transporta-
15 tion exempt from the taxes imposed by sections 4261
16 and 4271 by reason of section 4281 or 4282."

17 (c) Section 4491(e) is amended by striking "October 1,
18 1980," and substituting "October 1, 1985,".

19 AIRPORT AND AIRWAY TRUST FUND

20 SEC. 7. Section 208(b) of the Airport and Airway Reve-
21 nue Act of 1970 (49 U.S.C. 1742(b)) is amended by—

22 (1) striking "October 1, 1980," each time it ap-
23 pears therein and substituting "October 1, 1985,"; and

24 (2) adding at the end thereof the following new
25 sentence: "Notwithstanding any other provision of this

1 subsection, no amount received after September 30,
2 1980, shall be appropriated to the Trust Fund if liabili-
3 ty for such taxes was incurred after September 30,
4 1980, and before the effective date of the Airport and
5 Airway Revenue Amendments of 1981.”.

6 (b) Section 208(f) of the Airport and Airway Revenue
7 Act of 1970 (49 U.S.C. 1742(f)) is amended by striking “Oc-
8 tober 1, 1980” and substituting “October 1, 1985”.

9 (c) Section 208(f)(1)(A) of the Airport and Airway Reve-
10 nue Act of 1970 (49 U.S.C. 1742(f)(1)(A)) is amended to read
11 as follows:

12 “(A) incurred under title I of the Airport and
13 Airway Development Act of 1970, title I of the Air-
14 port and Airway Development Act Amendments of
15 1976, title I of the Aviation Safety and Noise Abate-
16 ment Act of 1979, or the Airport and Airway System
17 Development Act of 1981.”.

18 (d) Section 208(f) of the Airport and Airway Revenue
19 Act of 1970 (49 U.S.C. 1742(f)) is amended by adding at the
20 end thereof the following new paragraph:

21 “(4) Notwithstanding the provisions of paragraphs
22 (2) and (3) of this subsection, the Secretary shall not
23 transfer into the general fund any amounts described in
24 such paragraphs which were received after September
25 30, 1980, if the liability for such taxes was incurred

5

1 after September 30, 1980, and before the effective date
2 of the Airport and Airway Revenue Amendments of
3 1981." -

4

EFFECTIVE DATE

5 SEC. 8. The amendments made by this Act shall enter
6 into effect fifteen days after the date of enactment of this Act.

○

**DESCRIPTION OF BILLS
(S. 1047 AND S. 1272)
RELATING TO
AVIATION EXCISE TAXES
SCHEDULED FOR A HEARING
BEFORE THE
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT
OF THE
COMMITTEE ON FINANCE
ON JULY 27, 1981**

**BY THE STAFF OF THE
JOINT COMMITTEE ON TAXATION**

INTRODUCTION

This pamphlet was prepared by the staff of the Joint Committee on Taxation for the hearing scheduled by the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance on July 27, 1981, on legislative proposals (S. 1047 and S. 1272) concerning aviation excise taxes and the Airport and Airway Trust Fund.

The Administration aviation excise tax proposal is contained in S. 1047 (introduced by Senator Packwood by request), which provides for reestablishment of and increases in certain aviation excise taxes and for transfer of the revenues to the trust fund. S. 1272 (introduced by Senators Cannon and Kassebaum) also provides for certain aviation excise taxes and for transfer of the revenues to the trust fund. The Senate Committee on Commerce, Science, and Transportation has reported a trust fund authorization bill (S. 508; S. Rept. No. 97-97), which does not contain tax or trust fund amendments under the jurisdiction of the Finance Committee.

The first part of the pamphlet is a discussion of present law and authorization. This is followed by a summary of current Senate legislative proposals relating to the trust fund taxes in S. 1047 and S. 1272, including projected revenue effects of the bills. The third part discusses proposed trust fund authorization levels by program for fiscal years 1981-1985, under S. 508 and the Administration proposal.

I. PRESENT LAW AND BACKGROUND

A. Aviation Excise Taxes

1. Overview

The Airport and Airway Revenue Act of 1970 (Title II of the Airport and Airway Development Act of 1970) imposed or amended most of the aviation excise taxes included in the law since that time. The Act also established the Airport and Airway Trust Fund ("Trust Fund") for deposit of these excise taxes. On October 1, 1980, many of the taxes expired or were reduced. Deposit of the aviation tax revenues in the Trust Fund was also terminated on that date.

2. Present law

Since October 1, 1980, a 5-percent excise tax has been imposed on domestic air transportation of persons (Code sec. 4261(e)).¹ Revenues from this tax presently go into the general fund. There is also a 4-cents-per-gallon manufacturers excise tax on gasoline used in noncommercial aviation (Code sec. 4081 generally), the revenues of which presently go into the Highway Trust Fund.

Excise taxes on aircraft tires and tubes are also imposed at the same rates applicable to other nonhighway tires (5 cents per pound) and tubes (10 cents per pound) under present law (Code sec. 4071). The revenues from the taxes on aircraft tires and tubes presently go into the Highway Trust Fund.

Table 1 shows the present law schedule of aviation excise taxes and the present tax rates.

TABLE 1.—SCHEDULE OF AVIATION EXCISE TAXES UNDER PRESENT LAW

Tax (and Code section)	Present rate
Air passenger ticket tax (secs. 4261 (a), (b), (d), and (e))	5 percent.
Fuels tax for noncommercial (general) aviation (sec. 4041(c))	4 cents/gallon.
Aircraft tires tax (sec. 4071)	5 cents/lb.
Aircraft tubes tax (sec. 4071)	10 cents/lb.

¹ Air transportation between the United States and a foreign station which is not more than 225 miles from the nearest point in the continental United States, as well as between two such foreign stations, generally is subject to the 5-percent tax where payment for the travel is made in the United States. This tax does not apply to transportation between the United States and other foreign stations where payment is made outside the United States, nor does it apply to the U.S. portions of certain uninterrupted international air transportation. Also, the air passenger tax does not apply to the portion of flights to or from Alaska and Hawaii which are not made over the United States. (Code sec. 4262.)

3. Prior law

Taxes on air transportation of persons and property

For the period July 1, 1970 through September 30, 1980, the excise tax on air passenger transportation within the United States was imposed at a rate of 8 percent of the amount of the airfare.

There also was a \$3 per passenger departure tax (a new tax added by the 1970 Act) for international air transportation that began in the United States and for flights to or from Alaska and Hawaii. This tax terminated on October 1, 1980.

In the case of air transportation of property, the 1970 Act imposed a tax of 5 percent of the air freight waybill charge; this tax terminated on October 1, 1980. In determining taxable transportation, the same rules generally applied as for transportation of persons, except that the air freight tax applied only to amounts paid for transportation of property by air which began and ended in the United States.

These taxes were collected as part of the fare by the air carrier, for subsequent deposit by the Treasury into the Airport and Airway Trust Fund. Exemptions from these taxes were provided for transportation by small aircraft on nonestablished lines (Code sec. 4281) and for private air transportation services provided within a group of affiliated corporations (Code sec. 4282). Aircraft not subject to these passenger or freight taxes were subject to the fuels tax, mentioned below.

Other aviation excise taxes

In addition to the taxes on air passenger and air freight fares, there was a 7-cents-per-gallon tax on aviation fuels (gasoline and other fuels, including jet fuels) used by noncommercial (general) aviation, an aircraft use tax,² and a tax on aircraft tires and tubes. The fuels tax was an increase from the pre-1970 net tax of two cents per gallon on gasoline for aviation use. The tax on aviation gasoline returned to four cents per gallon on October 1, 1980, while the 7-cents-per-gallon tax on nongasoline fuels (e.g., kerosene—jet fuels) expired on that date. The aircraft use tax was new under the 1970 Act; the tax expired on October 1, 1980. The tax on aircraft tires and tubes was merely a transfer of revenues from the excise taxes on such tires and tubes from the Highway Trust Fund.

There was (and continues to be for gasoline) a general exemption (via a refund or credit) from the aviation fuels tax for fuel sold for use or used on a farm for farming purposes. Also, the tax on aviation fuels and the tax on aircraft use did not apply to aircraft owned by a tax-exempt aircraft museum operated exclusively for the procurement, care, and exhibition of World War II aircraft.³

Table 2 shows the aviation excise taxes and tax rates as they existed before October 1, 1980 (generally for the period July 1, 1970 through September 30, 1980).

² The annual aircraft use tax consisted of two parts: (1) a \$25 annual per plane registration tax, plus (2) a weight tax of 3½ cents per pound for turbine-powered (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of "maximum certificated takeoff weight." For the period July 1, 1980–September 30, 1980, the use tax was at one-fourth the annual rates.

³ In addition, there was a general exemption from the fuels tax for fuel sold for use or used by a State or local government, by a nonprofit educational organization, and for fuels exported.

TABLE 2.—SCHEDULE OF AIRPORT AND AIRWAY TRUST
FUND EXCISE TAXES BEFORE OCTOBER 1, 1980

Tax (and Code section)	Prior law rate
Air passenger ticket tax (sec. 4261 (a), (b) and (d)).....	8 percent.
Air freight waybill tax (sec. 4271).....	5 percent.
International departure tax (sec. 4261(c)).....	\$3.
Fuels tax for noncommercial (general) aviation (sec. 4041(c)) ¹	7 cents/gal.
Aircraft use tax (sec. 4491) ¹	(²).
Aircraft tires tax (sec. 4071).....	5 cents/lb.
Aircraft tubes tax (sec. 4071).....	10 cents/lb.

¹The tax did not apply to aircraft owned by a tax-exempt aircraft museum operated exclusively for the procurement, care, and exhibition of World War II aircraft (defined in sec. 4041(h)).

²An annual tax of two parts: (1) a \$25 annual per plane registration tax, plus (2) a weight tax of 3 1/2 cents per pound for turbine-powered (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of "maximum certificated takeoff weight." However, for the period July 1, 1980-Sept. 30, 1980, the use tax was one-fourth the applicable annual rates.

B. Airport and Airway Trust Fund

1. Background

The Airport and Airway Trust Fund was established as of July 1, 1970 (Title II of the Airport and Airway Development Act of 1970; Public Law 91-258). Revenues from the aviation-related excise taxes, and interest earned on the Trust Fund balance, were deposited into the Trust Fund for the period July 1, 1970-September 30, 1980.

1970 Act and 1971 amendment

The 1970 Act provided that new and increased aviation user taxes were to be deposited into the trust fund and, with interest earned on the deposits, were to be available to meet specified airport and airway obligations of the United States incurred under Title I of the 1970 Act, as it was in effect on the date of enactment. As a result, subsequent expansion of Title I trust fund budget authority was to require corresponding amendments to the Title II trust fund language.

Titles I and II of the 1970 Act authorized trust fund expenditures through fiscal year 1975 for the maintenance and operation of air navigation facilities, qualified airport planning and construction purposes, airway facilities and equipment, research and development, safety, and related departmental administrative expenses. A 1971 amendment (Public Law 92-174) to Title I, however, removed the authority for spending trust fund monies for maintenance and operation of the airway system. This amendment also limited the authority for meeting administrative costs from the trust fund only to such administrative expenses related to the remaining authorized purposes.

1973 amendment

A 1973 amendment (Public Law 93-44) to Title I of the 1970 Act increased the authorization levels for airport grants for fiscal years 1974 and 1975, increased the Federal share for certain airport grants and safety and security equipment costs, and amended the definition of airport development to specifically include airport security equipment required under DOT regulations.

1976 amendment

The Airport and Airway Development Act Amendments of 1976 (Public Law 94-353) further amended Title I of the 1970 Act to include several additional expenditure categories to be authorized from the trust fund. The new expenditure categories were: snow removal equipment; noise suppressing equipment; construction of physical barriers and landscaping for the purpose of reducing the effect of aircraft noise in areas adjacent to public airports; acquisition of land or property interests for airport noise control purposes; airport terminal development (the public, nonrevenue-producing areas, including baggage facilities and passenger moving equipment); and specified

amounts for maintenance of airway facilities. Thus, the 1971 prohibition against authorizing airway maintenance costs from the Trust Fund was partially removed in the 1976 amendment.

In addition, the 1976 Act provided authorization levels for airport grants and other existing trust fund expenditure programs through fiscal year 1980, and increased the Federal share for certain airport grants for fiscal years 1977 and 1978.

1979 amendment

The Aviation Safety and Noise Abatement Act of 1979 (Public Law 96-193) further amended title I of the 1970 Act to authorize trust fund appropriations for airport noise compatibility planning and airport noise compatibility grants. \$15 million was authorized for the planning grants for the fiscal year 1980, and \$25 million was authorized for fiscal year 1980 for the program grants. The Federal share of such program grants was 80 percent.

The 1979 Act also increased the ADAP authorization amounts for fiscal year 1980 from \$525 million to \$569 million for air carrier airports and from \$85 million to \$98 million for general aviation airports. In addition, the Act amended the trust fund language (sec. 208(f)(1)(A) of the Airport and Airway Revenue Act of 1970; 49 U.S.C. 1742(f)(1)(A)) to include language to authorize obligations incurred under Title I of the 1970 Act, under the 1976 Act amendments or under the 1979 Act amendments; that is, "as such Acts were in effect on the date of enactment of the Aviation Safety and Noise Abatement Act of 1979."

2. Summary of prior law trust fund authorization purposes

The following outline presents a summary listing of the Airport and Airway Trust Fund expenditure programs authorized under prior law.

1. *Airport planning*.—Grants to planning agencies for airport system planning and public agencies for airport master planning; also, airport noise compatibility planning grants for air carrier airports eligible for terminal development costs.

2. Airport Development Aid Program (ADAP).—

(a) *Airport construction*.—Construction, improvement or repair of a public airport (includes removal of airport hazards and construction of physical barriers and landscaping to diminish noise).

(b) *Airport terminal facilities*.—Nonrevenue-producing public-use areas which are directly related to movement of passengers and baggage at certificated air carrier airports having required safety and security equipment (includes baggage facilities and passenger-moving equipment); not including costs of construction of public parking facility for passenger automobiles or costs of construction, alteration, or repair of a hangar or any airport building unless used to house facilities or activities directly related to safety of persons at the airport. These facilities include multimodal terminal development and bond retirement for certain airports.

(c) *Land acquisition*.—Includes land or property interests for airport noise control purposes.

(d) *Airport-related equipment.*—Airport security equipment required by DOT regulations, snow removal equipment, noise suppressing equipment, navigation aids, and safety equipment required for airport certification.

(e) *Airport noise compatibility programs.*—Includes soundproofing of public buildings; local governmental units are eligible for project grants as well as airports.

3. *Facilities and Equipment Program (F&E).*—Costs of acquiring, establishing, and improving air navigation facilities.

4. *Research, Engineering, Development, and Demonstration Program (R&D).*—Projects in connection with FAA research and development activities.

5. *Operations and Maintenance Programs (O&M).*—Flight check and maintenance of air navigation facilities; services provided under international agreements relating to the joint financing of air navigation services assessed against the U.S. Government.

6. *Other costs.*—Certain airline costs of international passenger security screening facilities.

3. Trust fund balance

As of the end of fiscal year 1980 (September 30, 1980), the Airport and Airway Trust Fund had a cash balance of \$5,142 million, of which \$3,686 million was the uncommitted balance. The uncommitted trust fund balance is estimated to be \$2.8 billion at the end of fiscal year 1981.

II. DESCRIPTION OF TAX BILLS (S. 1047 AND S. 1272)

Two bills (S. 1047 and S. 1272) relating to Airport and Airway Trust Fund excise taxes presently are before the Committee on Finance. A summary of the tax provisions of the two bills, and also present and prior law, is presented in table 3. The following is a brief description of the two bills.

A. Explanation of Provisions

1. S. 1047—Senator Packwood (Administration Proposal)

Aviation excise taxes

Under this bill, the air passenger ticket tax would be increased to 6.5 percent, a rate midway between the present law 5-percent and the prior law 8-percent rates. The tax on air freight waybills would be restored to the prior law level of 5 percent. The international departure tax would be set at the previous tax of \$3 per person. The fuels taxes for noncommercial aviation would be increased over a five-year period, and the aircraft use tax would not be reinstated. The present law tax on aircraft tires and tubes would continue in effect.

In addition to the existing 4-cents-per-gallon manufacturers excise tax on gasoline, the Airport and Airway Trust Fund tax on gasoline used in noncommercial aviation would become 8 cents per gallon (i.e., a total of 12 cents) in fiscal year 1982 and increase to 32 cents per gallon (i.e., a total of 36 cents) in fiscal year 1986 and later years. During the phase-in period, the tax would be increased by an additional 6 cents per gallon on the first day in each of fiscal years 1983, 1984, 1985, and 1986.

The tax on jet or turbine fuels (i.e., other than gasoline) would be 20 cents per gallon for fiscal year 1982 and would increase by 15 cents per gallon on the first days of fiscal years 1983 and 1984. The increases on the first days of fiscal years 1985 and 1986 would be 8 cents and 7 cents per gallon respectively, to bring the tax to 65 cents per gallon in fiscal year 1986 and later years.

Airport and Airway Trust Fund

The Administration proposal would transfer the revenues from the aviation-related excise taxes (mentioned above) to the Airport and Airway Trust Fund (as of July 1, 1981, under the bill as introduced), and would not have any termination date for such transfers to the Trust Fund.

The Administration proposal also would amend the Trust Fund language to include expenditure purposes as amended by their authorization provisions (their Trust Fund authorization proposal— included in title I of H.R. 2930—would be for fiscal years 1981–1986), or for “other safety and regulatory activities undertaken by the Federal Aviation Administration pursuant to the Federal Aviation Act of 1958, as amended.”

Effective Date

As introduced, the tax provisions of S. 1047 would have been effective for transportation beginning after June 30, 1981. The provisions relating to the Trust Fund transfers would have been effective on July 1, 1981.

2. S. 1272—Senators Cannon and Kassebaum

The tax rates proposed in this bill were set by the sponsors in view of the authorization levels in S. 508, as reported by the Senate Committee on Commerce, Science, and Transportation,¹ which would authorize the use of less than half the amount of trust fund receipts requested by the Administration for payment of operations and maintenance costs of the airway system and FAA administrative costs.

Aviation excise taxes

S. 1272 would reduce the air passenger ticket tax to 3 percent. The air freight waybill tax would be set at 2 percent. International departures would be taxed at \$1 per person. The tax on fuels (gasoline and nongasoline fuels) used in general aviation would be increased from the prior law rate of 7 cents to 8½ cents per gallon, including the 4-cents-per-gallon manufacturers excise tax on gasoline. The aircraft use tax of prior law would be reimposed for commercial aircraft only (i.e., those used in a "business of transporting persons or property for compensation or hire by air"), except it would not apply to aircraft exempted from the air transportation taxes under Code section 4281 (small aircraft on nonestablished lines) or Code section 4282 (transportation by air for other members of an affiliated group). There would be no change in the current tax on tires and tubes used on aircraft (i.e., they would be taxed at the general tax rates for nonhighway use of 5 cents per pound for tires and 10 cents per pound for tubes).

The trust fund taxes proposed for aviation fuels, air freight transportation, and aircraft use would expire on October 1, 1985.

Airport and Airway Trust Fund

The bill would transfer the revenues from the aviation-related excise taxes (mentioned above) to the Airport and Airway Trust Fund (as of 15 days after the date of enactment), and would terminate such transfers to the Trust Fund after September 30, 1985.

The bill also would amend the Trust Fund language to include expenditure purposes as amended by the authorization provisions in S. 508. (The Trust Fund authorizations in S. 508 would be for fiscal years 1981–1985).

Effective Date

The provisions of S. 1272 would be effective 15 days after the date of enactment.

¹ Airport and Airway System Development Act of 1981, S. Rept. No. 97–97, May 15, 1981.

TABLE 3.—COMPARISON OF AVIATION EXCISE TAX RATES: PRESENT AND PRIOR LAW AND ALTERNATIVE SENATE PROPOSALS

Tax	Present rate	Pre-Oct. 1, 1980 rate	Cannon-Kassebaum (S. 1272)	Packwood (S. 1047) (Administration)
Air passenger ticket tax.....	5 percent.....	8 percent.....	3 percent.....	6.5 percent.
Air freight waybill tax.....	.....	5 percent.....	2 percent.....	5 percent.
International departure tax.....	.....	\$3 per person..	\$1 per person..	\$3 per person.
Fuels tax for noncommercial aviation:				
Gasoline.....	4 cents/gal.....	7 cents/gal.....	8½ cents/gal.....	12-36 cents/gal. ³
nongasoline (jet fuel, etc.).....	.....	7 cents/gal.....	8½ cents/gal.....	20-65 cents/gal. ³
Aircraft use tax.....	.....	(¹).....	(²).....	.....
Aircraft tires and tubes tax.....	(⁴).....	(⁴).....	(⁴).....	(⁴).

¹ From July 1, 1980, through Sept. 30, 1980, the use tax on civil aircraft was an annual tax of 2 parts: (1) a \$6.25 tax per plane, plus (2) a weight tax of ¼ cents per pound for turbine-powered (jet) aircraft and ½ cent per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of maximum certificated take-off weight.

Before July 1, 1980, the use tax on civil aircraft was an annual tax of two parts: (1) a \$25 tax per plane, plus (2) a weight tax of 3½ cents per pound for turbine-powered (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of maximum certificated takeoff weight.

² The use tax on aircraft would apply, at the pre-July 1, 1980 rates, to commercial aircraft only (i.e., those used in a "business of transporting persons or property for compensation or hire by air"), except that it would not apply to aircraft exempted from the air transportation taxes under Code section 4281 (small aircraft on nonestablished lines) or under Code section 4282 (transportation by air for other members of an affiliated group).

³ The tax on noncommercial aviation fuels would be as follows (per gallon):

Period	Gasoline* (cents)	Nongasoline (jet fuel) (cents)
7/1/81-9/30/82.....	12	20
10/1/82-9/30/83.....	18	35
10/1/83-9/30/84.....	24	50
10/1/84-9/30/85.....	30	58
10/1/85 and later years.....	36	65

*Includes the present 4-cents-a-gallon manufacturer's tax.

⁴ Taxed at the general rates for nonhighway tires (5 cents per pound) and tubes (10 cents per pound).

B. Estimated Revenue Effects of Aviation Excise Taxes

Table 4 presents estimated revenue projections for the aviation-related excise taxes for fiscal years 1982-1986 for the current law taxes, the Administration proposal (S. 1047), and under S. 1272.

TABLE 4.—PROJECTED AVIATION EXCISE TAX REVENUES UNDER PRESENT LAW AND PROPOSALS (S. 1047 AND S. 1272), FISCAL YEARS 1982-86

[In millions of dollars]

Item	1982	1983	1984	1985	1986
Present law:					
Ticket tax (5 percent).....	1, 233	1, 434	1, 637	1, 832	2, 041
Noncommercial aviation gasoline tax (4 cents)—Highway Trust Fund....	12	14	14	6	6
Tires and tubes tax—Highway Trust Fund.....	1	1	1	(¹)	(¹)
Total receipts, present law.....	1, 246	1, 449	1, 652	1, 838	2, 047
Administration proposal (S. 1047):					
Ticket tax (6.5 percent).....	1, 402	1, 863	2, 131	2, 380	2, 654
Waybill tax (5 percent).....	98	126	141	159	179
International departure tax (\$3).....	68	82	87	92	98
Fuels taxes ¹	140	257	392	501	615
Tires and tubes tax.....	1	1	1	1	1
Proposed law total (trust fund effect).....	1, 709	2, 330	2, 752	3, 133	3, 547
General fund and highway fund receipts.....	167				
Change from present law (unified budget effect).....	630	881	1, 100	1, 295	1, 500
S. 1272:					
Ticket tax (3 percent).....	740	860	982	1, 099	1, 225
Waybill tax (2 percent).....	39	50	56	64	72
International departure tax (\$1).....	23	27	29	31	33
Fuels taxes (8 ^N cents/gal.).....	67	71	77	84	91
Aircraft use tax.....	34	36	38	40	42
Tires and tubes tax.....	1	1	1	1	1
Total trust fund.....	904	1, 045	1, 183	1, 319	1, 464
General fund and highway fund receipts.....	167				
Change from present law (unified budget effect).....	-175	-404	-469	-519	-583

¹ Proposed per gallon tax rates for noncommercial aviation gasoline are: Beginning Oct. 1, 1981, 12 cents; Oct. 1, 1982, 13 cents; Oct. 1, 1983, 24 cents; Oct. 1, 1984, 30 cents; Oct. 1, 1985, 36 cents. Proposed per gallon tax rates for noncommercial jet fuel are: Beginning July 1, 1981, 20 cents; Oct. 1, 1982, 35 cents; Oct. 1, 1983, 50 cents; Oct. 1, 1984, 58 cents; Oct. 1, 1985, 65 cents.

² Less than \$500,000.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

III. TRUST FUND AUTHORIZATIONS

In S. 508, the Senate Commerce Committee authorized \$9.5 billion for expenditures from the Airport and Airway Trust Fund for fiscal years 1981-1985. For the same period, the Administration requested trust fund authorizations that amount to \$13.8 billion. The major difference between the two programs is the amount of FAA operations and maintenance (O&M) expenditure from the trust fund and the inclusion of FAA administrative costs as permissible trust fund expenditures; the difference averages about \$1.1 billion a year in fiscal years 1982-1985. (See table 5.)

A. Trust Fund Program Levels

1. Airport development and planning (ADAP)

Both programs would remove large and medium hub airports from the Federal-aid program.

S. 508 would remove from the ADAP program after fiscal year 1981 40 commercial service airports, each of which enplaned more than 0.5 percent of the total number of passengers enplaned in calendar year 1979. After fiscal year 1982, the cut-off would apply to 29 additional airports, each of which enplaned more than 0.25 percent of the 1979 passenger total. In addition, any airport that enplanes more than 0.25 percent of the passenger total in each of 2 consecutive calendar years after 1979 also would become ineligible for the ADAP program. Furthermore, any airport otherwise eligible for the program could elect out of the program, but the election would require 60 days notice in advance of the fiscal year in which it would apply for the first time and would be permanent.

The Administration proposal after fiscal year 1981 would remove from ADAP eligibility 21 commercial service airports each of which enplaned more than 1.4 percent of the total number of passengers enplaned at all commercial service airports in calendar year 1979. After fiscal year 1982, the threshold for defederalization would drop to 0.5 percent of the passengers, and an additional 20 airports would become ineligible for the ADAP program.

Both S. 508 and the Administration proposal would remove the restriction against airport head taxes (or passenger facility charges) imposed by State and local governments for the airports to be made ineligible for ADAP funds. Thus, such airports would be expected to finance their ADAP costs for their own revenue sources, including aircraft landing fees and other charges.

2. Airway facilities and equipment (F&E)

This activity generally includes air navigational facilities which directly affect aviation safety. In S. 508, the Commerce Committee authorizes expenditures from the trust fund of \$400 million in fiscal year 1981, \$450 million in 1982, and which rise to \$750 million in 1985.

The committee also revises a provision in present law under which unspent appropriations (within the authorized limit) terminate at the end of a fiscal year. As a result unspent authorizations in any fiscal year would be added to the authorizations in subsequent fiscal years until spent. Over the fiscal year period 1981-1985, S. 508 would authorize a total of \$2.75 billion in expenditures; the Administration recommended \$2.05 billion for the same period.

3. Research, engineering and development (R,E & D)

Annual authorizations in this function are devoted to research engineering, development and demonstrations. Unspent appropriations would remain available in subsequent fiscal years until spent. Under S. 508, the authorization for fiscal year 1982 is 20 percent higher than for fiscal year 1981, but below the level recommended by the Administration. For fiscal years 1981-1985, S. 508 authorizes \$500 million, the Administration recommended \$585 million, with the recommended level in 1985 more than 25 percent greater than in S. 508.

4. Airway operations and maintenance (O & M); FAA administrative costs

The Commerce Committee bill would provide trust fund authorizations for operations and maintenance (O & M) expenditures of \$4.0 billion for the fiscal years 1981-1985. This amount is twice the level contained in S. 508 as initially introduced. The remainder of FAA's operations and maintenance and administrative costs would come out of the general fund revenues.

The Administration recommended that the trust fund revenues be used to pay nearly the entire FAA operations and maintenance budget, which would amount to \$8.9 billion for fiscal years 1981-1985. The Commerce Committee believes that the general taxpayer should pay part of the costs of the airway system in exchange for the benefits that are provided.

5. Other programs

Under the Administration proposal, \$250,000 per year would be authorized from the trust fund for training of State and local government employees in trust fund programs. There is no similar provision in S. 508.

B. Trust Fund Expenditure Purposes

Under S. 508, as reported, the following additional expenditures purposes would be authorized from the Airport and Airway Trust *Airport development.*—

Fund.

(1) *Public-use airports.*—Modifies the definition of eligible air ports to include (in addition to public airports) privately-owned reliever airports used or to be used for public purposes.

(2) *Airport-related equipment.*—Aviation-related weather reporting equipment (previously allowed under the Facilities and Equipment program, if it was a navigational aid).

Also, S. 508 would remove certain larger air carrier airports from the ADAP grant program.

TABLE 5.—AIRPORT AND AIRWAY TRUST FUND AUTHORIZATIONS IN S. 508 (AS REPORTED) AND PROPOSED BY THE ADMINISTRATION, ¹ FISCAL YEARS 1981-1985 ²

[Fiscal years; millions of dollars]

Trust Fund Program	1981		1982		1983		1984		1985	
	Admin- istration	S. 508	Admin- istration	S. 508	Admin- istration	S. 508	Admin- istration	S. 508	Admin- istration	S. 508
Airport development and planning (ADAP).....	450	450	450	450	450	450	450	450	450	450
Airway facilities and equipment (F. & E.).....	350	400	325	450	425	550	455	600	490	750
Research, engineering and development (R.E. & D.).....	85	90	105	95	120	100	135	105	140	110
Airway operations and maintenance (O. & M.), FAA administrative costs ³	525	700	1,950	750	2,050	800	2,150	850	2,250	900
Training of State-local government employees.....	(⁴)	-----	(⁴)	-----	(⁴)	-----	(⁴)	-----	(⁴)	-----
Total, trust fund authorizations.....	1,410	1,640	2,830	1,745	3,045	1,900	3,190	2,005	2,330	2,210

¹ The Administration proposal was introduced in H.R. 2930 (by request).

² The Administration proposal would provide trust fund authorizations for fiscal year 1986: ADAP, \$450 million; F. & E., \$525 million; R.E. & D., \$140 million; O. & M., \$2,350 million; and \$250,000 for training.

³ Both proposals would continue the prior authorization for costs of services provided under international agreements rebating to the joint financing of air navigation services assessed against the U.S. Government.

⁴ Under S. 508, the authorization from the trust fund is for maintenance expenses (and not operations costs), and are limited to costs incurred in the field and exclude the costs of engineering support and planning, direction, and evaluation activities.

⁵ \$250,000 per year; not in S. 508.

NOTE.—See accompanying text for description of differences between Administration proposal and S. 508, as reported.

SENATOR DOLE
STATEMENT BEFORE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
HEARING ON AIRPORT AND AIRWAY TAX MEASURES

MR. CHAIRMAN:

TODAY WE HAVE AN OPPORTUNITY TO HEAR THE VIEWS OF THE ADMINISTRATION AND THE PUBLIC ON THE ISSUE OF AIRPORT AND AIRWAY USER TAXES.

AVIATION IN THE UNITED STATES HAS GROWN DRAMATICALLY SINCE WORLD WAR II. THIS GROWTH OCCURRED BOTH IN THE COMMERCIAL SECTOR AND THE GENERAL AVIATION SECTOR. IN 1950, THERE WAS A TOTAL OF 150 CERTIFIED COMMERCIAL AIRLINE CARRIERS IN SERVICE. BY 1968, THIS NUMBER HAD RISEN TO 2,317 AND BY 1979 TO 2,466. IN GENERAL AVIATION, THE INCREASE IN THE NUMBER OF AIRCRAFT HAS BEEN EVEN MORE DRAMATIC, STARTING AT 88,549 IN 1951, INCREASING TO 130,806 BY 1969 AND RISING TO 198,778 BY 1978. USE OF THE DOMESTIC AIRWAYS SYSTEM AND OF AIRPORTS HAS HAD A CONCOMITANT INCREASE.

PRIOR TO THE ESTABLISHMENT, IN 1970, OF THE AIRPORT AND AIRWAYS DEVELOPMENT PROGRAM, THE FEDERAL GOVERNMENT, THROUGH THE FEDERAL AVIATION ADMINISTRATION, TOOK ONLY A SMALL ROLE IN THE DEVELOPMENT OF IMPROVED AIRPORT FACILITIES NEEDED TO DEAL WITH THE RAPIDLY RISING TRAFFIC LEVELS, AND THE FUNDS FOR AIRPORT IMPROVEMENT PROJECTS WERE MADE AVAILABLE FROM THE GENERAL FUNDS. WHILE THERE HAVE BEEN QUESTIONS RAISED OVER THE YEARS REGARDING SPECIFIC ASPECTS OF ITS ADMINISTRATION, THERE IS GENERAL AGREEMENT IN THE AVIATION COMMUNITY THAT THE AIRPORT AND AIRWAYS PROGRAM HAS BEEN

BENEFICIAL. IN ADDITION, SINCE ITS ESTABLISHMENT THE AIRPORT AND AIRWAYS TRUST FUND HAS BEEN FINANCIALLY SOUND, EXPENDITURES HAVE NEVER EXCEEDED RECEIPTS.

PRIOR TO OCTOBER 1, 1980, THE AIRPORT AND AIRWAYS TRUST FUND COLLECTION HAD BEEN ACCOMPLISHED THROUGH SEVERAL MECHANISMS. PRIMARY AMONG THESE WAS THE 8 PERCENT TAX IMPOSED ON EACH DOMESTIC AIRLINE PASSENGER TICKET. OTHER TAXES CONTRIBUTING TO THE TRUST FUND WERE: (1) A 5 PERCENT TAX ON AIR TRANSPORTATION OF PROPERTY; (2) A 7-CENTS-PER-GALLON TAX ON NONGASOLINE FUELS USED IN NON-COMMERCIAL AVIATION; (3) A 3 CENTS-PER-GALLON TAX ON GASOLINE USED IN NONCOMMERCIAL AVIATION; (4) A \$3-PER-PASSENGER INTERNATIONAL DEPARTURE TAX; AND (5) AN AIRCRAFT USE TAX. ON OCTOBER 1, 1980, THE 8 PERCENT PASSENGER TICKET TAX WAS REDUCED TO 5 PERCENT AND THE OTHER AVIATION USER TAXES EXPIRED.

THE SENATE BILLS BEFORE THIS SUBCOMMITTEE TODAY, MODIFY THE PASSENGER TICKET TAX AND ESTABLISH CERTAIN OF THE OTHER EXPIRED TAXES. WE ARE HOPEFUL THAT TESTIMONY PRESENTED TODAY WILL FOCUS ON THESE ISSUES AND THE ISSUE OF THE PROPER SHARE OF THE TOTAL COSTS OF THE AIRPORT AND AIRWAYS SYSTEM THAT GENERAL AVIATION AND OTHER USERS OF THE SYSTEM SHOULD PAY.

AS WE PROCEED WITH THE DELIBERATIONS OF THESE SENATE BILLS, WE MUST NOT LOSE SIGHT OF THE POTENTIAL IMPACT THAT THE AVIATION USER TAXES MAY HAVE ON THE MARKET FOR AIRCRAFT AND AVIATION RELATED PRODUCTS. IN ADDITION, THE ACTION WE TAKE WITH RESPECT TO AVIATION USER TAXES MUST BE BALANCED WITH THE GOAL OF THIS

CONGRESS AND THE ADMINISTRATION TO REVITALIZE OUR NATION'S ECONOMY. WE MUST ALSO RECOGNIZE THAT USERS ARE NOT THE ONLY BENEFICIARIES OF THE AIR TRANSPORT SYSTEM. THE ECONOMIC BENEFITS OF A SAFE, UP-TO-DATE AIRWAY SYSTEM FLOW TO ALL CITIZENS.

MR. CHAIRMAN, I APPLAUD YOUR EFFORTS IN THIS IMPORTANT AREA AND THE INFLUENCE YOU HAVE HAD IN THE AREA OF AVIATION USER TAXES.

THIS HEARING SHOULD PROVIDE US WITH USEFUL INFORMATION ON THE ISSUE OF AVIATION USER TAXES WHICH SHOULD BE OF GREAT BENEFIT TO THE COMMITTEE IN ITS DELIBERATIONS ON THIS IMPORTANT, BUT DIFFICULT, SUBJECT.

Senator BYRD. The hearing will come to order.

The hearing this morning will be on two pieces of legislation dealing with airport and airway tax measures, S. 1047, introduced by request, by the Senator from Oregon, Senator Packwood, and S. 1272, introduced by Senator Cannon and Senator Kassebaum.

Senator Packwood has been detained and will not be able to be here for the opening of this hearing.

Is Senator Kassebaum here?

[No response.]

Senator BYRD. If not, Congressman Glickman. Congressman Glickman is here.

Welcome, Congressman.

Mr. GLICKMAN. Thank you, Senator.

Senator BYRD. You may proceed as you wish.

**STATEMENT OF HON. DANIEL R. GLICKMAN, A U.S.
REPRESENTATIVE FROM KANSAS**

Mr. GLICKMAN. Senator, I appreciate the opportunity of being here. I ask unanimous consent that my entire statement appear in the record and I'll not read it in its entirety.

Senator BYRD. Correct. It will be inserted in the record, without objection; so ordered.

Mr. GLICKMAN. Thank you.

Mr. Chairman, I will try to take as little of your time as I can. I come here in two capacities. I chair the Transportation, Aviation, Materials Subcommittee of the House Science and Technology Committee which has jurisdiction over part of the FAA's budget, but primarily the R. & D. part of that budget.

I also represent the city of Wichita, Kans., which produces roughly 60 percent of all airplanes made in the world. So, I have a dual interest in authorizing expenditures from the Airport and Airways Trust Fund and any measures that will improve safety and operations of the airways system of this country.

The portion of my subcommittee's jurisdiction, the R. & D. program has very small dollar content, but I feel its true importance is much greater, because today's million dollar R. & D. projects have a way of becoming tomorrow's billion dollar capital expenses. So, we look at the FAA's proposals very carefully each year.

I come here today to urge you to reject the administration's proposal for greatly increased taxes on noncommercial aviation fuel. Those increases are simply not needed to fulfill the promise of the trust fund.

In passing ADAP 10 years ago, it was the clear intent of Congress that the funds generated by taxes and user fees would be used to enhance the safety of U.S. air transportation.

Since then, the taxes have been most successful in generating the needed revenues. But, unfortunately, they have not been used promptly to achieve their important end. Instead, a good part of those revenues have been allowed to lie idle in the trust fund, thereby helping the Office of Management and Budget in the prior administration, as well as in this administration, to improve its overall budget picture.

What that amounts to is nothing more than a budget shell game. It is a ripoff of the American flying public which has paid their money in good faith.

Currently, there is an unexpended surplus of some \$5 billion in the trust fund. So no one can argue that new taxes are needed to bolster the fund. There must be some other reasons.

To my mind, there are only two possible explanations for advocating the kind of increases that appear in the administration's bill.

The first is, they wish to continue the past practice using trust fund surpluses to help offset general fund deficits. This, as I have indicated, puts Government in a profitmaking business at the expense of the flying public.

It is totally inappropriate.

The other possible reason is they want the trust fund to assume an even greater portion of the FAA's operational cost, perhaps all of them.

The argument in favor of this change would be that the users of air transportation should bear its full costs. They should pay not only for the direct costs, but also for the Federal overhead in operating the airways system.

But this line of reasoning overlooks the very substantial benefit that the public at large derives from having efficient and above all, safe air commerce.

Even people who never fly benefit in countless ways because others are able to do so safely.

One obvious way is that they avoid having airplanes falling on them.

This being the case, I feel the general taxpayer must share in the cost of operating the system. It would be unfair to ask the direct users to shoulder the entire cost.

The point I want to make is a simple one. It makes no sense whatsoever to increase taxes drastically when the trust fund is overflowing with over \$5 billion in assets and in light of the fact that both past and present administrations have refused to spend these funds on safety or productivity improvements and when it would be improper to increase greatly the amounts spent on operations of the airway system.

For these reasons, I am opposed to the administration's bill. Instead, I would favor a more moderate approach. One that would permit a drawdown of the surplus and, at the same time, provide for the substantial capital investment that will be needed over the next decade.

Incidentally, I might add that these have not been fully reflected in the administration's request for authorization from the trust fund.

For example, they have not yet, although I expect the new FAA Administrator will do so, even begun to recognize the full research and development costs that will accompany replacement of the en route ATC computer system. Somewhere near \$3 billion will be needed to implement that project.

So, I wouldn't be too hasty in sizing the taxes rigidly to the administration's request for authorizations. Leave some flexibility.

Finally, Mr. Chairman, one quick point about general aviation. This industry is in the midst of a recession. High interest rates, escalating costs, and high fuel prices have all combined to weaken the sales of general aviation aircraft, particularly the higher volume, small variety.

For example, in 1979, the industry sold a total of 17,000 units. Last year it was 12,000. Projections for this year are only 10,000.

So an increase in general aviation fuel taxes might just further aggravate this downward trend. Since the revenue is not needed right now, again, with a \$5 billion surplus in the trust fund, such an increase can only be viewed by the industry and all those who fly, as something punitive.

Mr. Chairman, I thank you for the opportunity of being here. I realize that this is not an easy subject. But, I felt I would like to share my perspective with the committee.

Senator BYRD. Thank you, Congressman.

You oppose S. 1047. Now what is your position on S. 1272?

Mr. GLICKMAN. I still think that the revenues sought are too great and not enough flexibility is left for the FAA. There is still too much open talk about using these funds for operational expenses.

So, I don't support that bill in its current form, but it is a better—it is moving in the right direction. But I still think we have to deal with this significant problem of what to do with \$5 billion that is in a trust fund that hasn't been used yet.

Senator BYRD. Well, you made the point that general taxation should be used, general fund money should be used. Of course, with highways, the highways are financed out of user fees or taxes on gasoline. But you would put this in a different category, would you?

Mr. GLICKMAN. No; I don't object to user fees. User fees help build the highways, but they don't pay for the highway patrols. They don't pay for the people who are actually involved let's say in the safety operations. That is done out of the general fund.

I think you need to have some aviation tax to pay for what I call capital improvements. However, I would hate to see a break made where we start paying the general operating expenses from the user fees.

There is a tremendous amount of work yet to be done in America to make our airways even safer. It is going to cost billions and billions of dollars. I think that is where our user fees ought to be directed toward.

Senator BYRD. Now S. 1272, introduced by Senator Cannon and Senator Kassebaum would reduce air passenger ticket tax to 3 percent. How does that impress you?

Mr. GLICKMAN. Well, as I said, it is a step in the right direction. It treats the fees, both the ticket tax and the avgas fees, better. It still does not totally resolve the issue though of what pays for what.

My feeling is that air safety should be our highest priority. Tax funds should be directed not toward operational expenses, but toward capital improvement.

We are going to be in the process of rebuilding the air traffic computers in America. That is going to cost nearly \$3 billion. That

project needs to get on. The safety of the American flying public is jeopardized or will be jeopardized if it is not.

If we start using this money for operational purposes, it is going to take longer and longer and longer.

Senator BYRD. Very good. Thank you, Congressman.

Mr. GLICKMAN. Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Daniel R. Glickman, a U.S. Congressman from Kansas, follows:]

PREPARED STATEMENT BY CHAIRMAN DAN GLICKMAN, SUBCOMMITTEE ON
TRANSPORTATION, AVIATION, AND MATERIALS

Mr. Chairman, I appreciate the opportunity to be here today. As you know, the subcommittee that I chair shares responsibility, in the House, with the Public Works Aviation Subcommittee, for authorizing expenditures from the Airport and Airway Trust Fund. So we are very interested in any proposals that relate to the source of funds for those authorizations.

Our portion of the jurisdiction includes FAA's R. & D. program. This program has a relatively small dollar content. But I feel its true importance is much greater, because today's million dollar R. & D. projects have a way of becoming tomorrow's billion dollar capital expenses. So we look at the FAA's proposals very carefully each year.

Furthermore, the topic you have under discussion is of particular importance to my state of Kansas, both because of the reliance of Kansans, who must travel considerable distances, on air transportation and because of the importance of the aviation industry to my own Congressional district.

I come here today to urge you to reject the Administrations' proposal for greatly increased taxes on non-commercial aviation fuel. Those increases are simply not needed to fulfill the promise of the Trust Fund.

In passing the Airport and Airways Development Act ten years ago, it was the clear intent of Congress that the funds generated by taxes and user fees would be used to enhance the safety of U.S. Air Transportation. Since then, the taxes have been most successful in generating the needed revenues, but—unfortunately—they have not been used promptly to achieve their very important end. Instead, a good part of those revenues have been allowed to lie idle in the Trust Fund thereby helping OMB to improve the overall budget picture. What that amounts to is nothing more than a budget shell game. It is a rip off of the American flying public which has paid their money in good faith.

Currently there is an unexpended surplus of some \$5 billion in the Trust Fund. So no one can argue that new taxes are needed to bolster the fund. There must be some other reasons.

To my mind there are only two possible explanations for advocating the kinds of increases that appear in the Administration's bill. The first is that they wish to continue the past practice using Trust Fund surpluses to help offset General Fund deficits. This, as I've indicated, puts government in a profit making business, at the expense of the flying public. And it is totally inappropriate.

The other possible reason is that they want the Trust Fund to assume an even greater portion of the FAA's operational costs—perhaps all of them. The argument in favor of this change would be that the user's of air transportation should bear its full cost. They should pay, not only for their direct costs, but also for the Federal overhead in operating the airway system.

But this line of reasoning overlooks the very substantial benefit that the public at large derives from having efficient and, above all, safe air commerce. Even people who never fly benefit in countless ways because others are able to do so safely. One obvious way is that they avoid having airplanes falling on them.

This being the case, I feel the general taxpayer must share in the cost of operating the system. It would be unfair to ask the direct users to shoulder the entire cost.

The point I make in all of this is a simple one. It makes no sense whatever to increase taxes drastically when the Trust Fund is overflowing, when both past and present Administrations have refused to spend these funds on safety or productivity improvements and when it would be improper to increase greatly the amounts spent on operation of the airway system.

For these reasons, I am opposed to the Administration's bill. Instead I would favor a more moderate approach—one that would permit a draw down of the surplus and, at the same time, provide for the substantial capital investment that will be needed over the next decade.

Incidentally, I might add that these have not been fully reflected in the Administration's request for authorizations from the Trust Fund. For example, they have not even begun to recognize the full R&D costs that will accompany replacement of the en-route computer system.

And there are others. So I wouldn't be too hasty in sizing the taxes rigidly to the Administration's request for authorizations. Leave some flexibility.

Finally, Mr. Chairman, let me say a few words specifically about general aviation.

This industry is in the midst of a recession. High interest rates, escalating costs and high fuel prices have all combined to weaken the sales of G/A aircraft, particularly the higher volume small variety. For example, in 1979 the industry sold a total of 17,000 units, last year it was 12,000 and projections for this year are only 10,000.

So any major increase in G/A fuel taxes might just further aggravate this downward trend. And since the revenue is not needed, in the first place, such an increase could only be viewed by the industry and all those who fly as something punitive.

Mr. Chairman, thank you for the opportunity to present my views.

Senator BYRD. Senator Kassebaum.

[No response.]

Senator BYRD. If not, we will go to a panel consisting of—
Senator KASSEBAUM. I am here.

Senator BYRD. I am sorry. I didn't see you. I am sorry. Welcome.

Senator KASSEBAUM. I was sitting in the back of the room.

Senator BYRD. Well, you shouldn't be sitting in the back; you should be sitting up front.

Senator KASSEBAUM. Thank you, Senator Byrd.

Senator BYRD. Glad to have you.

STATEMENT OF HON. NANCY LANDON KASSEBAUM, U.S. SENATOR, STATE OF KANSAS

Senator KASSEBAUM. It is a pleasure to be here before you and be able to testify on behalf of Senate bill 1272, which Senator Cannon and I have introduced. He regrets that he is unable to testify today. He is an original cosponsor, and of course, has lent a great deal of effort in support to aviation legislation, particularly what we address in S. 1272, as well as the ADAP legislation.

This is a bill which would set aviation fees for the next 5 years. Given the burdens which the Finance Committee has had over the last couple of months and the responsibility of guiding President Reagan's tax proposals through the Senate, I certainly am appreciative of the time you give us this morning to hear this, because I do feel that it is an important piece of legislation.

As perhaps you know, Mr. Chairman, on May 15, the Commerce Committee reported Senate bill 508 which would provide for the authorizations of expenditures from the aviation trust fund from the year 1981 through 1985.

Because the aviation trust fund is fed by aviation taxes, the relationship between the two pieces of legislation is very important and obvious.

I think you share our belief that we are going to improve our aviation development program. One of the prime goals must be to rationalize our expenditure program with our tax program. For too long expenditures have lagged behind taxes and revenues and we have allowed this enormous aviation trust fund to accumulate.

This is bad policy. For too long, the trust fund surplus has been a captive of OMB, under both Republican and Democratic administrations, used not for its dedicated purpose, the improvement of our

airport and airway system, but rather as a positive balance to the overall Federal budget deficit.

As a member of the Budget Committee, I am very cognizant of the arguments that we have had regarding the aviation trust fund.

But, it is a deceptive budget tactic when the funds cannot be spent to offset deficits in other areas. It is unfair because it taxes users for one purpose and then dedicates their money to another.

It is irrational because it leaves airport and airway projects that need and deserve Federal assistance, with limited access to the fund established for that purpose.

Also, Mr. Chairman, this is unwise politically. I am sure that you have been confronted with the impossible task of trying to explain to users who have paid this tax, why, if there is a surplus in the trust fund, they cannot get a project funded.

Unfortunately, the administration's proposal on aviation taxes, Senate bill 1047, would continue past practices.

By setting high levels of taxes and insisting on a relatively low level of expenditures, it is projected that the trust fund balance at the end of the 5-year period covered by the administration's package would more than double, making it nearly \$9 billion.

So, by the end of the taxing period, we would end up with a worse situation than we have now, an even bigger surplus in the trust fund, with users and airport operators feeling betrayed because the money collected from them and for them is not being spent.

The authorization bill which the Commerce Committee has reported incorporates the philosophy of airport and airways funding that we have consistently supported in the Senate for 2 years.

This philosophy is straightforward. Since Congress have never successfully been able to keep income and outlays in this area in reasonable balance, we have devised an expenditure program that will allow for a lowering of taxes on users through the use of the existing surplus in the trust fund.

And, at the same time, we move the funding source for airport development projects at the largest airports in the country to the local level.

Under Senate bill 508, the 69 largest airports in the country would, by the end of fiscal year 1983, become ineligible for Federal assistance for airport development.

The revenues which they lost as a result can be made up through increases in existing fees and charges at those airports or through the imposition of a passenger facility charge which would be permitted under our legislation.

Mr. Chairman, because I think you have consistently supported this approach, as we have addressed it before on the Senate floor, you know that this philosophy is based on the fact that the larger airports can generate sufficient revenue to meet their airport development needs.

In turn, we can concentrate limited Federal funds on those airports that are least able to raise revenues on their own and on the development of the airways system, in-flight air traffic control systems, navigational aids and landing systems.

Safety factors are not overlooked.

Now, Mr. Chairman, I know that you will hear testimony from the administration today insisting that it is their commitment to a new air traffic control computer system which motivates them to recommend aviation tax levels which will result in an \$8.8 billion surplus at the end of the taxing period.

However, Mr. Chairman, while we all agree that a new air traffic control system is needed and we must move in the direction of a computerized system, several significant questions yet remain. The technical specifications, cost, purchasing time tables are all yet to be decided.

One thing does not seem to be agreed upon, that purchases will not begin until 1986. We believe it is unwise to tax users now for costs which are yet unknown.

Our taxing program will fund current, concretely identified needs. When we have identified the needs and costs of a new air traffic control system, if adjustments need to be made in the tax levels to raise additional revenue, we will, of course, do that.

I have never detected any unwillingness on the part of any member of our committee or of any of the other committees in Congress, to fund needed safety improvements in our air system.

When we know what these needs are, we will raise the necessary funds.

In Senate bill 508, we propose to fund 100 percent of the Federal share of the capital costs of airport and airways systems through the user financed trust fund.

This means that money collected from users under S. 1272 and that which has already been collected and sits in the trust fund now, will be used to pay the Federal share of airport and airway development systems and needed changes in the navigational air traffic control and landing systems.

Furthermore, we have departed from past practices and endorsed a significant increase in the level of user contributions to the Federal Aviation Administration's operation and maintenance; that is, salaries and other day-to-day expenses.

The bill as reported will fund \$4 billion of FAA operations and maintenance over the 5 years of the program.

This is a doubling of the authorization which was in the bill as introduced and represents the Committee's agreement with the administration's philosophy of increasing user financing of our transportation system.

We share the administration's intention of having those who benefit from FAA operations, contribute to its funding. But that clearly includes the general public which benefits immensely from the safe and efficient airway systems that we have in this country.

The economic benefits resulting from an up-to-date and safe airport airway and airport system flow to all citizens.

Americans who have never ridden in airplanes may nevertheless reap a significant benefit from the air system.

For example—one I am sure you are very familiar with—the Norfolk, Va., Port and Industrial Authority, in cooperation with the Air Transportation Association, has conducted a study that indicates that the Norfolk International Authority or airport, contributes over \$111 million annually to the southeast Virginia area it serves.

Therefore, we believe that it is appropriate to allocate costs of operating our air system to all the beneficiaries of the system, including the general public.

We believe that Senate bill 508, in combination with Senate bill 1272 represents a rational approach to the future funding of our airport and airway development.

Senate bill 1272 would set the following tax levels. The ticket tax would be 3 percent. The way bill tax, 2 percent. The international departure fee would be \$1.00. General aviation fuel taxes would be set at 8.5 cents per gallon.

The bill would also continue taxes on tires, tubes and registration of large commercial aircraft.

This combination of taxes, along with use of existing surplus in the trust fund would be sufficient to fund the authorization in Senate bill 508, and result in an approximate \$1 billion surplus at the end of 1985, when the expenditure program and taxes would expire.

I am particularly concerned about the level of taxes to be set for general aviation users. As you know, perhaps, Mr. Chairman, general aviation is of great interest and concern to us in Kansas. We consider ourselves somewhat the home of general aviation.

I know the administration will be arguing that general aviation users do not pay their fair share of the cost of operating the airport and airways system.

There are significant differences of opinion as to how the cost of airport and airway systems should be assessed.

I urge you to carefully evaluate testimony of the general aviation user groups which have carefully studied the administration's assessment of the cost attributable to them.

I believe they make a good case that the FAA has significantly overestimated the costs attributable to general aviation and underestimated the benefits which flow from a healthy general aviation industry.

Thirty years ago, more than half of the Nation's manufacturing plants were located in cities with populations over 100,000.

Since 1975, over 1,000 new plants have been located in small communities, often far from the Nation's principal manufacturing, distribution, and communications centers.

Commercial air service to these smaller communities is often limited or nonexistent.

However, general aviation makes it possible for a business to locate facilities in these more remote areas. Corporations have seen that they can use general aviation as a tool to disperse industry, creating jobs in all parts of the country.

Furthermore, the business aircraft is not the corporate president's flying limousine. Certainly executives use these aircraft, but many companies are as likely to reserve a plane to send a service team on an emergency repair job as for the company president to go to a conference.

The flexibility and mobility is essential to modern business. Corporations look at business aircraft as another piece of capital equipment, another tool, if you will, to make their business more profitable.

Take this tool away and we hurt business. If we tax jet fuel at 65 cents per gallon, as OMB proposes, we will take it away.

With regard to the ticket tax, the commercial aviation industry is facing severe problems. Soaring fuel costs continue to push fares up, making the ticket tax one of the few ways we can provide some relief, or at least less pressure on the upward spiral in ticket prices.

In closing, Mr. Chairman, I would like to make one final point. There has been a lot of talk in the last few months about the overburdened American taxpayer and certainly that is indeed true.

We have heard a great deal about the need to provide businesses with tax incentives to increase productivity as a way of helping to check the tremendous problem of inflation we have in this country.

It seems to me that the administration's position on aviation taxes is a clear inconsistency in its otherwise commendable approach to tax policy.

Here we have a program which can be funded adequately with a reduction in taxes. I believe the Finance Committee is in an excellent position to correct this inconsistency and provide us with a reasonably balanced, rational tax program for aviation.

Thank you, Mr. Chairman.

Senator BYRD. Thank you, Senator Kassebaum.

As I understand it, you oppose S. 1047.

Senator KASSEBAUM. Yes, I do.

Senator BYRD. Then, you are one of the sponsors and authors of S. 1272 which you support.

Senator KASSEBAUM. I believe for all the reasons that I stated, that it does offer a reasonable and equitable way to increase user fees and yet, use the trust fund in a beneficial manner. I think the figures and combinations that we have worked out are, as I say, fair and equitable in S. 1272.

Senator BYRD. The surplus in the trust fund, this particular trust fund, for aviation, is \$5 billion, is it, at the present time?

Senator KASSEBAUM. At the present time, it is that or a bit over. I know in the last session it was distressing to us that we were not able to pass and use the ADAP legislation which would have enabled us to better utilize the trust fund.

That money was collected. It is there to be used.

Senator BYRD. It can only be used for the purpose for which it was put in the trust fund.

Senator KASSEBAUM. That's right.

Senator BYRD. Is that not correct?

Senator KASSEBAUM. Yes, for airport development and the airway system development. With the new ADAP legislation and with the funding that is proposed in S. 1272, we would provide for a greater share of that to go to O. & M., in the FAA.

This, I think, is appropriate, and it strikes a good balance.

Senator BYRD. I think it is unfortunate, really, that we went to the unified budget concept that was done under President Johnson. Being the shrewd politician he was, he thought it desirable to use the surplus in the trust funds to offset the part of the deficit in the general cost of operation of Government.

But, I think the two should be kept separate. Those funds which are in the trust fund can only be used for the earmarked purposes

for which they were placed there. I think it should not be mixed up with the general operation of Government.

Senator KASSEBAUM. Well, I feel very strongly that way, Mr. Chairman. I think we have seen where it has gotten us into trouble in the past. We have the opportunity here to correct, I think, a position that has, as I say, been taken by past administrations of both parties.

Senator BYRD. You make an important point, I think, with regard to general aviation. It is important to industrial development.

Before coming to the Senate, I was chairman of the Virginia Commission on Economic Development. Adequate airport facilities, I have found to be very important to industry in deciding whether or not to come to a particular location.

As you indicated in your earlier comments, having airport facilities available at smaller communities, makes it possible for those communities to get plants which they probably would not get otherwise.

So, I am like you. I think general aviation is extremely important to the economy of our Nation.

Senator KASSEBAUM. As I say, too, Mr. Chairman, I commend you for holding this hearing. It is a busy time, but we really cannot move forward with the ADAP legislation until we have the financing package to go with it.

Senator BYRD. Thank you. Thank you, Senator.

Senator KASSEBAUM. Thank you.

Senator BYRD. The Chair will call on a panel now consisting of Mr. David A. Glickman, Deputy Assistant Secretary of Tax Policy, Department of Treasury; Mr. Donald A. Derman, Assistant Secretary for Budget and Programs, Office of the Secretary of Transportation; and Mr. J. Lynn Helms, Administrator, Federal Aviation Administration.

Welcome, gentlemen. You may proceed as you wish, consistent with the time restraints.

STATEMENT OF DAVID G. GLICKMAN, DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF TREASURY

Mr. GLICKMAN. Thank you, Mr. Chairman.

I am pleased to appear here today to discuss with you the administration's air user tax proposal.

These proposals are an integral part of the President's overall program for economic recovery. One of the objectives of the program is to shift the cost of Federal Government services that are clearly allocable to certain users to such users. Currently, a large portion of the costs incurred by the Federal Government in operating the Nation's airway system is being paid through the general revenues. The purpose of the administration's proposal is to shift this burden from the general taxpayer to the commercial and general aviation sectors that directly benefit from these services. At a time when both Congress and the administration are concerned with providing tax relief for the general taxpayer, these proposals deserve serious consideration.

Now before discussing the administration's proposal, I would like to briefly review the prior law relating to the aviation tax, as well as the current situation.

Prior to 1970, the tax imposed on aviation users consisted of a 5-percent passenger ticket tax, a 4 cents per gallon gasoline tax on both general and commercial aviation, and a tax of 5 percent per pound on aircraft tires and 10 percent per pound on tubes.

In 1970, Congress adopted major changes in the system of aviation user taxes. These changes were prompted by the dramatic past and projected growth in the use of airports and airway systems of the United States. To meet this growth in demand for more air transportation to move passengers and goods more rapidly, it was expected that the Federal Government's expenditures for the 1970-79 decade for expansion and development of an advanced air transportation system, with high safety standards, would double.

To meet these costs the administration proposed a system of new and increased user taxes to pay for an increased portion of the total Government expenditures for air transportation systems. Without such new and increased user taxes, the general taxpayer would have been required to finance most of the cost of the system through general fund appropriations. The Congress agreed that the users of the Federal aviation system should properly pay for a greater share of the costs, and that the goal should be for the civilian portion of the system eventually to become self-sustaining. To meet this goal, Congress enacted the Airport and Airway Revenue Act of 1970.

Under the 1970 act, the 5-percent passenger ticket tax was increased to 8 percent. A new \$3 head tax on passenger tickets for international flights, and a new 5-percent waybill tax on air freight were added to the code. In addition, the 1970 act provided a substantial increase in the fuel on general aviation by increasing the gasoline tax from 4 to 7 cents per gallon and adding a 7-cent-per-gallon tax on aviation jet fuel. These increases were intended to insure that general aviation paid a larger share of aviation system costs than in prior years. The 1970 act also provided a new aircraft use tax of \$25, plus 2 cents per pound on nonturbine aircraft and 3.5 cents per pound on turbine aircraft.

Finally, the act provided for the establishment of the airport and airway trust fund, similar to the highway trust fund. All revenues from the new system of airway user taxes were to be deposited in the fund and used to make expenditures from the fund for the anticipated expansion, improvement, and maintenance of the air transportation system.

Thus, the 1970 act laid the groundwork for what was expected eventually to become a self-sustaining system of air user tax.

Now, unfortunately, as a result of concern about the administration of the airport grant system during the first year after the 1970 act, legislation was enacted in 1971 to prevent the trust fund from being used to pay the costs of operating and maintaining the airway system, as opposed to capital costs. In legislation, enacted in 1976, some changes were made to permit the use of the trust fund moneys to pay certain costs associated with equipment and its maintenance, but most costs of airway operation cannot, to this date, be paid out of the trust fund.

The result of the 1971 amendment was twofold. With the exclusion of a major cost element, the trust fund accumulated a large surplus. The figures indicated the end of fiscal year 1980, the uncommitted trust fund balance stood at \$3.8 billion. At the same time, much of the civilian portion of the airway cost has had to be financed by the general taxpayer public rather than from the trust fund as originally intended. Thus, during the period from 1976 to 1980, a total of \$8.8 billion has been spent from the general revenue for airway system costs.

The administration has proposed to reinstate, with certain modifications, the system of air user taxes established under the 1970 act, and to put the system back to a full-user charge system as originally intended in 1970.

Under the administration's proposal, the 5-percent passenger tax would be increased to 6.5 percent. The \$3 per head international departure tax and the 5-percent waybill tax would be reinstated. In addition, the proposal provides for a fuel tax of 12 cents per gallon on gasoline used for general aviation and 20 cents per gallon for other fuel used in general aviation. These latter taxes would be subject to scheduled increases through 1985.

By contrast, S. 1272, another bill which has already been discussed before this committee, would provide for only a 3-percent passenger ticket tax, a \$1 a head international departure tax, a 2-percent waybill tax and an 8.5-percent per gallon tax on fuel used by the general aviation. The important point is that these proposed tax levels would not allow for the full recovery of the costs incurred for users of the airway system and would require the general taxpayer to pay a large share of the system's costs.

Mr. Chairman, it is in our judgment, both sound tax policy and sound fiscal policy to require the civilian portion of the airport and airway system to be operated on a user-tax basis. This was the original goal of the system in 1970. It is the goal of the current proposals of this administration. These proposals are an important part of the President's overall tax and budget program for the economic recovery of the country. We urge that this subcommittee give them serious consideration.

Senator BYRD. Thank you.

Let me ask this question before going to the next witness. If you are going to have a huge surplus and you do now have a very large surplus in the trust fund, why do you need to go to the taxes you recommend which are a very substantial increase over what S. 1272 recommends?

Mr. GLICKMAN. Mr. Chairman, we can get into that now, but I think that Mr. Helms' statement may answer some of your questions.

Senator BYRD. Very well.

Mr. GLICKMAN. It would fit together better if we waited until that point.

Senator BYRD. Fine. Why don't we do it that way.

Mr. HELMS. We do request, Mr. Chairman, we be allowed to complete this statement and then we will treat any questions relating to any aspect.

Senator BYRD. Very good.

STATEMENT OF J. LYNN HELMS, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION, ACCOMPANIED BY DONALD A. DERMAN, ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS, OFFICE OF THE SECRETARY OF TRANSPORTATION, AND HARVEY B. SAFEER, FAA OFFICE OF AVIATION POLICY AND PLANS

Mr. HELMS. I also welcome the opportunity to appear before you today to discuss the administration's position regarding the aviation user-tax program needed to finance our Nation's airport and airway system.

Our aviation user-tax proposal is but one more integral part of the President's total program for economic recovery. It sets forth a balanced and equitable package of taxes that would provide the revenue needed for development of the national aviation system. It will also provide necessary relief to the general taxpayer by requiring aviation system users to pay for the services they use.

Distributing tax burdens on an equitable basis is a fundamental and desirable aspect of our national taxing system. However, the tax structure now in place to finance the needs of our airport and airways system fails to totally meet that primary objective. In fact, current user-tax revenues now recover only 36.5 percent of FAA costs, leaving a substantial share of FAA costs to be borne by the general taxpayer.

The administration proposal seeks to correct that inequity. Otherwise, the general taxpayer will continue to bear a disproportionate share of the cost of operating and maintaining the Nation's airways and airports.

As was noted by Mr. Glickman, the original Airport and Airway Development Act of 1970 authorized significant funding of operations and maintenance—that is, O. & M.—costs from the trust fund, thus, placing much of the responsibility for financing the FAA's costs on the users of the system. In fact, it seems clear that the intent at that time was to seek funding by the general taxpayer, as a supplemental measure, if the revenues from the users were not sufficient to meet all the needs of the system.

As was noted also, Congress amended the act in 1971, to eliminate the provisions allowing for substantial O. & M. funding from the trust fund, after controversy arose over the failure to spend the amounts authorized by Congress for capital programs. Five years later, however, in 1976, Congress determined that the increasing burden on the general taxpayer and the sufficiency of funds in the trust fund called for the partial reinstatement of O. & M. funding.

This administration is proposing that expenses incurred in maintaining a safe and effective aviation system for non-Government users, be covered by the trust fund. The revenue schedules we propose will accomplish this. Capital needs and operating and maintenance expenses will be fully met by revenues derived from users and, as necessary to cover the Government's activity, from general revenues.

Given the history of this issue, let me assure you that I am dedicated to a strong FAA capital equipment program. I would also add that the failure in the past to consistently apply this O. & M.

approach has been the largest contributing factor to the growing trust fund surplus.

Our proposal to increase trust fund financing of O. & M. is not a proposal to increase program levels. In fact, I am firmly committed to holding down unnecessary expenditures and costs by the FAA. But, the significant point is that necessary FAA operating costs will be incurred whether they are funded from the trust fund or from the general fund. Moreover, O. & M. contributes directly to systems safety since the navigational aid or facility must be operated and maintained if it is to do any good. The source of funding is not an issue when safety of passengers and integrity of the system is at stake.

The administration is committed to the principle that each class of system users should pay its share of the costs incurred by the FAA in equipping, operating, and maintaining the airport and airway system. Currently, aviation taxes collected from system users amount to 42 percent, in the aggregate, of the costs allocable to civil aviation incurred by the FAA. The users of commercial air service are paying amounts equivalent to about 60 percent of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 5 to 15 percent.

It is proper to have revenue from user taxes eventually cover the correct and proper percentage of the FAA's costs allocable to civil aviation. The remainder of the FAA's costs which are attributable to military and other Government use of the system would be financed from the general fund.

We plan to attain our goal through appropriate tax revenues, incrementally increased over the next 5 years from general aviation. Concurrently, we seek recovery from all other users of an increasing portion of their fair share of the FAA's costs. We are proposing a dual tax structure for noncommercial aviation gasoline and jet fuel with the tax levels starting at 12 cents and 20 cents per gallon, respectively and gradually reaching 36 cents a gallon for aviation gasoline and 65 cents a gallon for jet fuel, for fiscal year 1986.

We estimate that the revenue from these tax levels will cover about 60 percent of the FAA costs allocable to general aviation by 1986. General aviation users would still be paying a smaller share of the FAA costs attributable to them than would the users of commercial air service. However, not only would the difference be decreased, it would also result in more equitable treatment of all system users.

Other elements of our user tax proposal include a 6.5-percent ticket tax, a \$3 passenger international departure tax, a 5-percent cargo waybill tax, and a tube and tire tax.

It is an established fact that general aviation places significant demands on the system. The growth rate of general aviation continues to exceed substantially the growth rates of all other system users. For example, the fiscal year 1981 cost of equipping and operating our network of flight service stations, which is just one element of the services provided to general aviation users will be over \$250 million yet, the total amount of revenues collected from general aviation, including the commuters, will be approximately \$43 million.

Additionally, general aviation planes are becoming increasingly sophisticated and are making continually greater use of the facilities purchased with trust fund revenues. In particular, they are increasing usage of instrument facilities and flight plan services. As general aviation increases its utilization of our system, its contribution to the financing of this system should be increased. We require tax changes to accomplish that end. We must eliminate Government subsidy of small segments of the population that are not in clear need of such subsidies if we are to achieve necessary reductions in general tax rates. Our collective responsibility is to all the taxpayers, not just the users of aviation facilities.

The revenues generated by our proposed user taxes, in addition to the uncommitted balance in the trust fund will, be sufficient to meet the FAA's capital program needs, as well as its O & M costs. The trust fund balance estimated over the next 5 years will be available for necessary improvements and modernization of the air traffic control system. On the other hand, the user taxes proposed in S. 1272 would simply not generate adequate revenues to support the program needs identified in either the administration's proposed authorization legislation or in S. 508, the legislation reported by the Senate Commerce Committee.

In closing, I want to reiterate what I believe to be the two critical elements of the administration's aviation user tax proposals. First, we have to assure that adequate revenues are available to shape our system to meet future traffic demands. I am absolutely committed to an upgrading and modernization of our air traffic control system. Air safety and our national economy, together with future commerce and employment, are highly dependent upon it.

Second, we have to seek greater equity in our aviation user taxes and relieve the unnecessary burdens that have been imposed on the general taxpayer.

The administration's tax proposal is directed to both of these vital objectives. Simply put, the users and beneficiaries of a service should bear the major burdens of providing that service.

Mr. Chairman, that completes my prepared statement. My associations and I will be pleased to respond to questions you and members of the subcommittee may have.

Senator BYRD. Do the other witnesses wish to make a statement?

Mr. HELMS. No, sir. There is no other prepared statement.

Mr. Derman, who is the Assistant Secretary for Budget and Programs, in the Office of the Secretary of Transportation, and Mr. Safer from the FAA Office of Aviation Policy and Plans are here to help me provide details that the committee may seek.

Senator BYRD. Very good. Thank you. Thank you, Mr. Helms.

I might say, not only do you have a vitally important assignment as Federal Aviation Administrator, but you are following some mighty good men that come to mind, because I am having lunch today with General Quasada. It has nothing to do with this hearing.

And, also, General McKee is a native of Virginia, from Smith County, in southwest Virginia, whom I have known for so many years.

Both of them I think were outstanding Administrators, just as you are.

Mr. HELMS. I concur with that, Mr. Chairman. In fact, in an attempt to help myself understand the past decisions and why the FAA is where it is, I have met with all of the past FAA Administrators to try to learn that background.

Senator BYRD. I think that was a very wise thing to do.

Let me ask you a couple of questions here. Mr. Helms, you say that the users and general taxation should pay, each pay its own fair share. You were speaking probably in that regard of general aviation and commercial aviation. But I assume that applies also between the user fee and what comes from general taxation.

Now, what percent do you feel should be paid of the total cost, should be paid by user tax and what should come from the general fund, percentage-wise?

Mr. HELMS. I have to answer it two ways, Mr. Chairman, because, first, if we attempted to levy on the users the prorated fair share in 1 year, the tax burden would be far too great for them. It is for that reason we spread it over 5 years.

In general, however, our allocation is 15 percent for general public good including the military, and the remaining 85 percent of the cost should be allocated to the users. This is all users. We can break that down in further detail if the chairman would like.

Senator BYRD. Then 15 percent should come from general fund in your judgment, and 85 percent from user tax?

Mr. HELMS. Yes, sir, that's correct.

Senator BYRD. At the present time, it is 36-64? Is that it? The 36 from user tax and 64 from general fund; is that correct?

Mr. HELMS. Yes, sir; that's correct.

Senator BYRD. Well, the fund now has a very substantial surplus of something around \$5 billion, is it?

Mr. HELMS. I heard that testimony earlier today. Our data shows that at the end of fiscal year 1980, the trust fund had a \$3.8 billion surplus.

Senator BYRD. Does the Assistant Secretary for Budget and Programs have the current figure?

Mr. DERMAN. Mr. Chairman, I believe the key term is "uncommitted," and the uncommitted balance is \$3.8 billion. I think there is a lag between cash collected and cash paid out. That is how the \$5 billion number is arrived at. But I have to go back and look at the specific detailed breakdown.

Senator BYRD. Now it has been estimated that by the end of fiscal year 1985, there will be an \$8.9 billion surplus in the trust fund.

Do you have any problems with that figure?

Mr. HELMS. Well, if I take the tax revenues we proposed and the levels of expenditure as proposed in S. 508, not the administration's bill, I can see how they arrived at those numbers.

Under the administration's combined tax revenue and expenditure proposals, however, there would not be that amount. There would be \$2.3 billion at the end of 1986.

So, it depends on which tax revenue bill and which expenditure bill, Mr. Chairman, that one is considering.

Senator BYRD. Which one are you basing your figures on?

Mr. HELMS. Ours are based on the administration's user tax bill, S. 1047, which has been submitted.

Senator BYRD. You contend that the Air Transport Association's figures of \$8.9 billion would be based on S. 1272?

Mr. HELMS. The \$8.8 billion we think was based on the administration's tax proposal and on the Senate expenditure proposal.

I have no way of knowing how the ATA arrived at their data. However, late last week, our staff spoke with their's and there is some indication that they took one revenue bill and another expenditure bill. But I think the ATA should properly review their data rather than me trying to interpret it.

We can see no way, however, if we combined the two Senate bills for revenue and expenditures or the two administration bills, to arrive at that value.

The administration's proposed revenue and expenditures bills, taken together, would result in a \$2.3 billion surplus, or I should say uncommitted balance. There is no surplus, because it is all committed toward airways modernization at the end of fiscal year 1986.

Senator BYRD. But I think it is appropriate to say a surplus, isn't it, because you have \$3.8 billion surplus as a minimum right now.

Mr. HELMS. It depends on the meaning of the word "surplus," Mr. Chairman. For example, as was noted by Senator Kassebaum, we have plans for airways modernization that would use that.

I think that it may aid the committee's deliberations if I identified those things in which there is agreement among all parties.

First, all parties agree there must be an airways modernization program.

Second, all parties agree that this is going to be a very expensive program, somewhere in the neighborhood of \$10 to \$16 billion. As I have gotten into it, I think I have found ways to reduce that cost, but in that general area.

Third, all parties agree that a major portion of that is the computer modernization program, estimated variously at from \$2.5 to \$3 billion.

Those expenses start to accrue at about 1986.

Under one portion of the study I now have underway, I can see ways of pulling that forward a year. But for purposes of discussion, I would note that in 1986 those expenditures start in large fashion.

To give the chairman a view of this, the first year's procurement under the production award would be about \$650 million. The second year would be over \$800 million and the third year dropping back to about \$580 million. Therefore, in a period of 3 years, the computer program alone would consume approximately \$2 billion.

If you have a \$2.3 billion uncommitted balance, fully recognizing that in the next 36 months you will be expending those amounts, that is the distinction I establish between a surplus and an uncommitted balance.

Senator BYRD. Well, you mentioned the computer replacement system. In the earlier testimony before a House Committee, I think you asserted that you are still evaluating the type of computer replacement system the Administration will need.

Mr. HELMS. That's correct, sir.

Senator BYRD. You estimate that the surplus in the trust fund at the end of 1985, under your calculations would be \$2 billion to \$3 billion; is that right?

Mr. HELMS. Yes, sir, about \$2.3 billion at the end of 1986.

Senator BYRD. That is about what the the computer system will cost?

Mr. HELMS. I should highlight, Mr. Chairman, that is only the computer system. The total airways modernization program will take about \$10 billion.

Therefore, the accrual of an uncommitted surplus at that time, to cover one of the major elements, is not out of line at all.

Our concern is, if we do not fund it, that we not run the trust fund down through 1985. For example, under the proposal as has been presented under S. 508 and S. 1272, in 1985, we would be down to a very low trust fund balance, and, in fact, it would go negative in 1986. That would then require the aviation users to assume an inordinate tax burden all in 1 year. Therefore, it just seems to be good, sound management to accrue those funds, but with them dedicated to that capital program which is our intent.

Senator BYRD. Well, now, how do you arrive at the figure of 85 percent of the total cost should be paid by user tax, and 15 percent by the general fund.

How do you arrive at those figures?

Mr. HELMS. I am going to ask Mr. Safeer to answer that, Mr. Chairman, because in my 90 days or so, I am not sure I have absorbed all the details of the way the FAA has derived these numbers.

Senator BYRD. Very good.

Mr. SAFEER. Thank you, sir. The 15 percent that is allocated to General Fund is based upon the cost of providing air traffic control services and other services for military operations or U.S. Civil Government operations and for the operations of the Metropolitan Washington Airports. These are the only costs, then, that have been allocated to the General Fund.

The remaining 85 percent of the costs of providing airway and air traffic facilities and equipment and airports, safety and other programs is allocated to the general aviation user and to the commercial air carrier sector.

Senator BYRD. Now, let's get to the next part of the breakdown. What percent do you think should be paid by commercial aviation and what percent should be paid by general aviation?

Mr. SAFEER. It breaks down to roughly 58 percent to the air carriers and 27 percent to general aviation. Those two add up to the 85 percent.

Senator BYRD. That is 58 percent of the total should be paid by air carriers.

Mr. SAFEER. Yes, sir.

Senator BYRD. And 27 percent of the total.

Mr. SAFEER. Correct.

Senator BYRD. Mr. Helms, your testimony indicates that general aviation taxes must be considerably increased so that general aviation can begin to pay its way.

As you know, general aviation users dispute the administration's cost allocation study.

Does the administration believe that increasing taxes on general aviation to the extent advocated in 1047 will slow down the growth of general aviation because of the considerably higher fuel costs that will result?

Mr. HELMS. To the person paying the tax, Mr. Chairman, any tax is not a pleasant thing to contemplate. To the extent that taxes are inordinantly raised, yes, there has to be some negative impact on it.

Conversely, we are forced to examine the overall impact. For example, at the time that the ADAP bill was originally conceived in 1970, general aviation was having its worst period in a quarter century.

The recession in general aviation at that time was terrible. Yet, the Congress enacted a 7 cents a gallon tax. That 7 cents a gallon applied to the price of fuel, which was 39 cents, was 17.9 percent.

So the Congress recognized, even in that time period, with a downturn far worse than we now see, that a 17.9-percent fuel tax was acceptable.

If in 1980, we applied that 17.9 percent to the price of fuel, which was \$1.53, then the tax in 1980 would have been 27 cents, 27.4, precisely.

If, in 1982, the price of fuel goes to \$2.20, under the economic forecast, that same 17.9 percent would then be 39.3 cents per gallon.

So, first, the administration does not seek a direct prorata share of either the percent or the direct charges. Admittedly, one can say the price of fuel has gone up inordinately. So we should not apply that. Then let's cut it in half. Let's say that, and I will round it off to 18 percent, that we make it half of that, just nine percent. Those same figures would show a significant increase to 14 cents in the first year; the administration is proposing 12, and 27 cents in the last year.

One other item. If we take the 8.5 cent tax as proposed under the Senate bill and apply that across-the-board through the same time period, the tax rate in 1986 would be 3 percent, while the Congress, in 1970, recognized the need for a 17.9-percent tax.

Therefore, the record would indicate that the tax rate on fuel has had nothing to do with the recession in the general aviation industry. 1970 was the worst recession they have had. They recovered very strongly. My confidence in general aviation is that it will recover again.

One final item, Mr. Chairman. The general aviation industry is down primarily in the production of small, single-engine aircraft. Cabin class aircraft are continuing to rise. Turboprop aircraft are higher than they have ever been. The business jet business is stronger than it has ever been. The industry delivers one new business jet every working day.

So, collectively, general aviation production, yes, in the small end of the aircraft line is having a difficult time. All the rest is going great.

More importantly, as the fleet mix shifts to more and more turbine powered aircraft, there is a three and four-fold increase in the use of the instrument facilities of the FAA. Literally tens of thousands of flights are made by the small general aviation air-

craft without even filing a flight plan. But since the turbine aircraft, to operate efficiently, must go above 18,000 feet, the regulations require that they file an instrument flight plan.

Senator BYRD. Why do we have such a large uncommitted balance in the trust fund at the present time?

Mr. HELMS. Past and successive administrations have elected not to use the funds in a consistent manner between either O & M or capital.

Second, I think there must have been some hesitance with respect to the proper systems to be chosen. As I go through the FAA programs now, in depth, I find areas in which I am confident we are going to be able to improve it.

I have not had a chance to audit in detail, which systems were not picked up and which ones were. I can't account for the past decisions. I have learned in business that I can make no decision today that changes the past.

Senator BYRD. What was your business before coming here?

Mr. HELMS. Successively, I have run four major businesses or corporations, Mr. Chairman. So, I have a tendency to be a more pragmatic businessman and engineer.

Senator BYRD. Isn't that a very substantial uncommitted balance for the Government to have in that trust fund when there are certainly some considerable needs over the country?

Mr. HELMS. Yes, it is. The administration proposes a twofold approach, both to get that balance back in the proper range, and at the same time, draw it down in such a way that it is directed primarily towards fulfilling the requirements for modernization of the Nation's airways.

As I said earlier, there is general agreement among all parties that the program for modernization will cost somewhere around \$10 billion. There are some that say \$12 billion and \$14 billion, but the point is, the amount will be significantly higher than the uncommitted balance.

There is also general agreement that it will take through the end of the 1980's to complete the modernization program. The proposal which we have in mind and the one which the administration has underway now, would reduce the uncommitted balance to near zero at the end of 1989. But there must be a reserve starting in 1985 or 1986, because it is at that time that the large capital equipment outlays under the production programs will start to occur.

As Senator Kassebaum noted and also, Mr. Glickman, the FAA now has underway an R. & D. program.

As Mr. Glickman noted, correctly so, I testified that until I had more time to review the computer program, I just couldn't make a judgment. I am just not smart enough to make a judgment until I know what's going on. I hate to be a prisoner of somebody else's data.

Therefore, I asked the committee's concurrence to let me go through October of this year at which time, by November, I would hope to be able to give them a recommendation. The reason for taking this additional time is, I have found that within the FAA each of our programs had been viewed separately. A computer replacement program is underway. A new radar was underway. A

new data link was underway. But I could not find that these talked together, that they were integrated.

Until I can take a look at all of the systems and see how they fit together, I am hesitant to come before the Congress and recommend these types of capital expenditures.

I therefore requested of the Science and Technology Committee, that I be allowed until November, and I must say, I don't think the members of the committee were pleased by it, but at least they were willing to say, "I understand why you need that amount of time."

Senator BYRD. Well, I think that is a reasonable request. After all, you have only been Administrator since January.

Mr. HELMS. No, sir, since April 22.

Senator BYRD. Since April 22. You can't be expected to make a decision of the magnitude you will have to make in that short period of time.

I think your request is certainly a reasonable one.

Mr. HELMS. Oh, I have had no opposition by any of the committees, the Government Activities and Transportation Subcommittee, under Mr. Burton, the Science and Technology Committee, none of the rest of them have given me, if you will, a hard time or backed me against the wall. Each one of them has been quite willing to give me some time to absorb the magnitude of this task.

But I do think it is important that we identify those things which all parties are in agreement on, Mr. Chairman—the magnitude of the total modernization, the need for that to accommodate the future projected growth.

Senator BYRD. The magnitude is about \$12 billion, is it?

Mr. HELMS. I have had estimates as low as \$10 billion and as high as \$16 billion. So, I will say \$10 to \$12 billion by the end of this decade.

The projections which we now have, for example, show that commercial air carriers will grow from about 2,400 jet airplanes now in service, to 3,100 by the end of the decade.

But private business jets will grow from about 2,500 now to over 6,000. So we will start to see a threefold increase in the number of business jets using the instrument facilities of the country. The turboprops which are turbine powered, will go up even more rapidly to 7,500.

So today we foresee a fourfold increase in that time period in the amount of general aviation use of the Nation's instrument facilities.

That is the reason why the administration's proposal spread this out over 5 years and said, "Let's don't try to have them absorb it all at once. Let's pick it up over a period of time."

Senator BYRD. You mentioned a moment ago that the expenditures will be somewhere between \$10 and \$12 billion between now and the end of the decade.

Mr. HELMS. For the airway modernization only. The total, of course, for the overall budget would be larger. But the airways modernization program will be between \$10 and \$12 billion, yes, sir.

Senator BYRD. Now if the Congress took S. 1272 in place of S. 1047, how would that work out figurewise?

Mr. HELMS. If we take the two bills and put them together, S. 508 and S. 1272, we would end up at the end of 1986 with a deficit of about \$400 million which means that would have to come out of the general revenue fund. There would be no uncommitted balance.

At that very time, we would be facing the major portion of the dollars required for the capital program—that is the actual purchase of the production line equipment, since it will take us 2 to 4 years to do the engineering and research and make sure they are reliable, make sure they are demonstrated, make sure they work.

We would then need drastic increases in the tax rate at that time upon the aviation user to pay for the system improvements.

In summary, the trust fund would be drawn down to essentially zero. In fact, it would be in a negative position in 1986.

Senator BYRD. You say you put the two bills together. I don't understand that term by putting the two bills together. My question was, if you took the Kassebaum-Cannon bill in place of the administration bill.

Mr. HELMS. Yes, sir, but we have two bills from Senators Kassebaum and Cannon. One has to do with authorizations.

Senator BYRD. Oh, I see. You were talking about putting those two bills together.

Mr. HELMS. Yes, sir.

Senator BYRD. Not these two bills together.

Mr. HELMS. Yes, sir.

Senator BYRD. Well, that clarifies it.

Now the administration advocates considerably increasing the tax on jet fuel, for general aviation aircraft because the administration argues they utilize the air traffic system to a greater extent.

Since general aviation aircraft using jet fuel also consume more fuel than general aviation aircraft using aviation gasoline, why does the administration insist on splitting the taxes on the two types of fuel used by general aviation?

Mr. HELMS. Well, first, the committee's position of noting that since the turbine aircraft use more fuel, they are paying a higher total amount of taxes is correct. That is in fact the case.

However, when we take a look at their usage of the system, we find that their usage is significantly higher. For example, the average turbine-powered aircraft will operate in the Nation's airspace approximately 500 hours a year. The average piston engine airplane will operate in the Nation's airspace in the neighborhood of 200 to 250 hours a year.

Second, the average piston engine aircraft will not even use the instrument facilities. Most of them do not. Some of them do and there is an increasing usage by the cabin-class aircraft.

However, the turbine aircraft use them practically every flight. So the percentage of turbine-powered aircraft that use the instrument facilities is far higher than the percentage of piston engine or gasoline-powered aircraft. That is the reason for the distinction between jet fuel and gasoline in our tax proposal.

Senator BYRD. Let me ask you this. If you take S. 508 and S. 1272, there will be a surplus at the end of 1985, of more than \$1 billion. Why could you not at that point, seek an increase in the tax if it becomes necessary rather than going to the S. 1047 today?

Mr. HELMS. First, we can do that. There is no question about it. The country is capable of doing it. But I would suspect that the very, very large tax increase that would be required in one single year would have a near traumatic impact on the aviation industry.

Businessmen never like an increase in taxes. But they would rather know what it is going to be than to not know it. As we have heard, past testimony has shown that about 76 percent of all general aviation flying was business. Only 24 percent was personal. Our data has shown that that is shifting more to business. This aviation fuel tax is deductible. Therefore, it is not the impact on them that one might think.

We are not talking about a major impact on the individual. The individual usually owns a smaller aircraft. It is one that burns between 8 and 11 gallons an hour. The change we are talking about to his tax bill is about \$100 a year.

So, when we talk about waiting until then as opposed to phasing it in, a businessman would rather set out on his capital acquisition program, on his long-range finance program, his long-range program of knowing what the impact is going to be on him, by saying, "I must now accommodate an increase in the tax rate over future years," rather than not know.

For that reason, even though it is not a desirable thing, at least he knows and he can make his plans accordingly.

Senator BYRD. Well, of course, this is not guaranteed that there wouldn't be subsequent raises.

Mr. HELMS. No, sir, I couldn't guarantee anything. But let me give you an example of some of the impacts we are talking about.

The chairman referred to the ATA summary, and in addition, the National Business Aircraft Association made a summary. Under their program the costs attributable to general aviation amounted to \$369 million. In general, there was not a strong disparity between FAA and them.

Recoverable under their formula was \$92 million, but current recovery at 4 cents a gallon is only \$19 million. Right now, under S. 508 as submitted, the 8.5 cents proposal would not even cover their formulation of recoverable costs which is significantly below ours.

It would take in excess of 10 cents a gallon merely to recover what they are saying. It clearly shows that the tax proposal which has been presented, other than by the administration, would require a significant additional payment by the general taxpayer.

Senator BYRD. Well, I want to say that I am much impressed with you and the way you are going about your new responsibilities.

Let me ask you one final question. Can you tell us about the problem you are having with the air controllers and how that is going to come out?

Mr. HELMS. Every man is a prisoner of his own experience, Mr. Chairman. My experience has been that negotiations terminate in only one of two ways, a contract is signed or one of the two parties due to a legal or other reasons, is no longer in a position to negotiate.

Neither of those two events has occurred in the present situation. It has been my firm policy to never comment on the status of

negotiations until one of those two events occurs. Obviously, we are disappointed at what appears to be the reaction. But I wouldn't want to comment further until such time as we know the details. I am just not prepared to go much further than that right now.

Senator BYRD. I think that is reasonable.

Thank you, gentlemen.

[The prepared statements of Hon. David G. Glickman and J. Lynn Helms follow:]

STATEMENT OF HON. DAVID G. GLICKMAN, DEPUTY ASSISTANT SECRETARY (TAX POLICY) DEBT MANAGEMENT OF THE SENATE COMMITTEE ON FINANCE, JULY 27, 1981

Mr. Chairman and Members of the subcommittee. I am pleased to appear today to discuss with you the Administration's air user tax proposals. These proposals are an integral part of the President's overall program for economic recovery. One of the objectives of the program is to shift the costs of Federal government services that are clearly allocable to certain users to such users. Currently, a large portion of the costs incurred by the Federal government in operating the nation's airways system is being paid for through general revenues. The purpose of the Administration proposals is to shift this burden from the general taxpayer to the commercial and general aviation sectors that directly benefit from these services. At a time when both Congress and the Administration are concerned with providing tax relief for the general taxpayer, these proposals deserve serious consideration.

Before discussing the Administration proposals, I shall briefly review the prior law relating to aviation taxes, as well as the current situation.

BACKGROUND

Taxes prior to 1970.

Prior to 1970, the taxes imposed on aviation users consisted of a 5 percent passenger ticket tax, a 4 cents per gallon gasoline tax (with a 2 cents per gallon refund or credit) on both general and commercial aviation and a tax of five cents per pound on aircraft tires and 10 cents per pound on tubes.

The Airport and Airway Revenue Act of 1970

In 1970, Congress adopted major changes to the system of aviation user taxes. These changes were prompted by the dramatic past and projected growth in the use of the airport and airways system of the United States. To meet this growth in demand for more air transportation to move passengers and goods more rapidly, it was expected that the Federal government's expenditures for the 1970-79 decade for expansion and development of an advanced air transportation system, with high safety standards, would double.

To meet these costs, the Administration proposed a system of new and increased user taxes to pay for an increasing portion of the total Federal government expenditures for the air transportation system. Without such new and increased user taxes, the general taxpayer would have been required to finance most of the cost of the system through general fund appropriations. The Congress agreed that the users of the Federal aviation system should properly pay for a greater share of the cost and that the goal should be for the civilian portion of the system eventually to become self-sustaining. To meet this goal, Congress enacted the Airport and Airway Revenue Act of 1970 (the "1970 Act").

Under the 1970 Act, the 5 percent passenger ticket tax was increased to 8 percent, and a new \$3 "head" tax on passenger tickets for international flights and a new 5 percent "waybill" tax on air freight were added to the Code. In addition, the 1970 Act provided for a substantial increase in the fuel tax on general aviation by increasing the gasoline tax from four cents per gallon to 7 cents per gallon and adding a 7 cents per gallon tax on aviation jet fuel. These increases were intended to ensure that general aviation paid a larger share of aviation system costs than in prior years. The 1970 Act also provided for a new aircraft use tax of \$25 plus 2 cents per pound on nonturbine aircraft and 3.5 cents per pound on turbine aircraft.

Finally, the Act provided for the establishment of an Airport and Airway Trust Fund, similar to the Highway Trust Fund. All revenues from the new system of airway user taxes were to be deposited in the fund and used to make expenditures from the fund for the anticipated expansion, improvement and maintenance of the air transportation system.

Thus, the 1970 Act laid the groundwork for what was expected eventually to become a self-sustaining system of air user taxes.

The 1971 and 1976 legislation

Unfortunately, as a result of concern about the administration of the airport grant system during the first year after the 1970 Act, legislation was enacted in 1971 to prevent the Trust Fund from being used to pay the costs of operating and maintaining the airway system (as opposed to capital costs). In legislation enacted in 1976, some changes were made to permit the use of Trust Fund monies to pay certain costs associated with equipment and its maintenance, but most costs of airway operation cannot, to this date, be paid out of the Trust Fund.

The experience of 1976-81

The result of the 1971 amendment was twofold. With the exclusion of a major cost element, the Trust Fund accumulated a large surplus. At the end of the 1980 fiscal year, the uncommitted Trust Fund balance stood at \$3.8 billion. At the same time, much of the civilian portion of airway costs has had to be financed by taxpayers in general rather than from the Trust Fund as was originally intended. Thus, during the period from 1976 to 1980, a total of \$8.8 billion has been spent from general revenues for airway system costs.

In addition, the taxes imposed under the 1970 Act expired, after a 3 month extension, on October 1, 1980. On that date, the airway taxes reverted to the pre-1970 levels and no additional revenues have subsequently gone into the Trust Fund.

THE ADMINISTRATION PROPOSAL

The Administration has proposed to reinstate, with certain modifications, the system of air user taxes established under the 1970 Act and to put the system back to a full user charge system as was originally intended in 1970.

Under the Administration proposal, the 5 percent passenger ticket tax would be increased to 6.5 percent, and the \$3 per head international departure tax and the 5 percent waybill tax would be reinstated. In addition, the proposal provides for a fuel tax of 12 cents per gallon on gasoline used for general aviation and 20 cents per gallon on other fuel used in general aviation. These taxes would be subject to scheduled increases through 1985.

S. 1272

By contrast, S. 1272, another bill before this Committee, would provide for only a 3 percent passenger ticket tax, a \$1 per head international departure tax, a 2 percent waybill tax and an 8.5 cents a gallon tax on fuel used by general aviation. These proposed tax levels would not allow for the full recovery of costs incurred for users of the airway system and would require the general taxpayer to pay a large share of the system's costs.

CONCLUSION

Both sound tax policy and sound fiscal policy require that the civilian portion of the airport and airway system be operated on a user charge basis. This was the original goal of the system in 1970—and it is the goal of the current proposals of this Administration. These proposals are an important part of the President's overall tax and budget programs for the economic recovery of the country and we urge that his Subcommittee give them serious consideration.

STATEMENT OF HON. J. LYNN HELMS, FEDERAL AVIATION ADMINISTRATOR

Mr. Chairman and members of the subcommittee, I welcome the opportunity to appear before you today to discuss the Administration's position regarding the aviation user taxes needed to finance our Nation's airport and airway system. Our aviation user tax proposal is but one more integral part of the President's total program for economic recovery. It sets forth a balanced and equitable package of taxes that would provide the revenue needed for development of the national aviation system. It will also provide necessary relief to the general taxpayer by requiring aviation system users to pay for the services they use.

Distributing tax burdens on an equitable basis is a fundamental and desirable aspect of our national taxing system. However, the tax structure now in place to finance the needs of our airport and airway system fails to totally meet that primary objective. In fact, current user tax revenues now recover only 36.5 percent of FAA costs, leaving a substantial share of FAA's cost to be borne by the general

taxpayer. The Administration's proposal seeks to correct that inequity; otherwise, the general taxpayer will continue to bear a disproportionate share of the cost of operating and maintaining the nation's airways and airports.

The original Airport and Airway Development Act of 1980 authorized significant funding of operations and maintenance (O&M) costs from the Trust Fund, thus placing much of the responsibility for financing the FAA's costs on the users of the system. In fact, it is clear that the intent at that time was to seek funding by the general taxpayer as a supplemental measure if the revenues from the users were not sufficient to meet all the needs of the system. Congress amended the Act in 1971 to eliminate the provision allowing for substantial O&M funding from the Trust Fund after controversy arose over the failure to spend the amounts authorized by Congress for capital programs. Five years later, in 1976, Congress determined that the increasing burden on the general taxpayer and the sufficiency of funds in the Trust Fund called for the partial reinstatement of O&M funding. This Administration is proposing that expenses incurred in maintaining a safe and effective aviation system for non-government users be covered by the Trust Fund. The revenue schedules we propose will accomplish this. Capital needs and operating and maintenance expenses will be fully met by revenues derived from users and, as necessary to cover the government's activities, from general revenues. Given the history of this issue, let me assure you that I am dedicated to a strong FAA capital equipment program. I would also add that the failure in the past to consistently apply this O&M approach has been the largest contributing factor to the growing Trust Fund surplus.

Our proposal to increase Trust Fund financing of O&M is not a proposal to increase program levels. In fact, I am firmly committed to holding down unnecessary expenditures and costs by the FAA. But, the significant point is that necessary FAA operating costs will be incurred whether they are funded from the Trust Fund or from the General Fund. Moreover, O&M contributes directly to system safety since a navigational aid or facility must be operated and maintained if it is to do any good. The source of funding is not an issue when safety of passengers and integrity of the system is at stake.

The Administration is committed to the principle that each class of system users should pay its share of the costs incurred by the FAA in equipping, operating, and maintaining the airport and airway system. Currently, aviation taxes collected from system users amount to 42 percent, in the aggregate, of the costs allocable to civil aviation incurred by the FAA. The users of commercial air service are paying amounts equivalent to about 60 percent of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 5 to 15 percent.

It is proper to have revenue from user taxes eventually cover the correct and proper percentage of the FAA's costs allocable to civil aviation. The remainder of the FAA's costs, which are attributable to military and other government use of the system, would be financed from the general fund. We plan to attain our goal through appropriate tax revenues, incrementally increased over the next 5 years, from general aviation; concurrently we seek recovery from all other users of an increasing portion of their fair share of the FAA's costs. We are proposing a dual tax structure for noncommercial aviation gasoline and jet fuel with the tax level starting at 12 cents and 20 cents per gallon, respectively, and gradually reaching 36 cents per gallon for aviation gasoline and 65 cents per gallon for jet fuel for fiscal year 1986. We estimate that the revenue from these tax levels will cover about 60 percent of the FAA costs allocable to general aviation by 1986. General aviation users would still be paying a much smaller share of the FAA costs attributable to them than would the users of commercial air service. However, not only would the difference be decreased, it would also result in more equitable treatment of all system users. Other elements of our user tax proposal include a 6.5 percent ticket tax, a \$3 passenger international departure tax, a 5 percent cargo waybill tax, and a tube and tire tax.

It is an established fact that general aviation places significant demands on the system, and that the growth rate of general aviation continues to exceed substantially the growth rates of all other system users. For example, the fiscal year 1981 cost of equipping and operating our network of flight service stations, which is just one element of the services provided to general aviation users, will be over \$250 million, yet the total amount of revenues collected from general aviation, including the commuters, will be approximately \$43 million. Additionally, general aviation planes are becoming increasingly sophisticated and are making continually greater use of the facilities purchased with Trust Fund revenues. In particular, they are increasing usage of instrument facilities and flight plan services. As general aviation increases its utilization of our system, its contribution to the financing of the

system should be increased, and we strongly support tax changes to accomplish that end. We must eliminate government subsidy of small segments of the population that are not in clear need of such subsidies if we are to achieve necessary reductions in general tax rates. Our collective responsibility is to all of the taxpayers not just the users of aviation facilities.

The revenues generated by our proposed user taxes, in addition to the uncommitted balance in the Trust Fund, will be sufficient to meet the FAA's capital program needs as well as its O&M costs. The Trust Fund balance estimated over the next five years will be available for necessary improvements and modernization of the air traffic control system. On the other hand, the user taxes proposed in S. 1272 would simply not generate adequate revenues to support the program needs identified in either the Administration's proposed authorizing legislation or in S. 508, the legislation reported by the Senate Commerce Committee.

In closing, I want to reiterate what I believe to be the two critical elements of the Administration's aviation user tax proposals. First, we have to assure that adequate revenues are available to shape our system to meet future traffic demands. I am absolutely committed to an upgrading and modernization of our air traffic control system. Air safety and our national economy, together with future commerce and employment, are highly dependent on it. Second, we have to seek greater equity in our aviation user taxes and relieve the unnecessary burdens that have been imposed on the general taxpayers. The Administration's tax proposal is directed to both of these vital objectives. Simply put, the users and beneficiaries of a service should bear the major burden of providing that service.

Mr. Chairman, that completes my prepared statement. My associates and I will be pleased to respond to questions you and members of the Subcommittee may have.

Senator BYRD. Next we have a panel consisting of Mr. John H. Winant, president, National Business Aircraft Association, accompanied by Mr. Robert A. Cooke, assistant to the president for Government relations and Samuel Ewer Eastman, Economic Science Corp., Washington, D.C.; Mr. Edward W. Stimpson, president, General Aviation Manufacturers Association, accompanied by Mr. Allen E. Paulson, chairman and president, Gulf Stream American Corp., Washington, D.C.; Mr. W. L. Graves, vice president for Federal Legislative Affairs, Aircraft Owners and Pilots Association, Washington, D.C.

Welcome, gentlemen. You may proceed.

STATEMENT OF JOHN H. WINANT, PRESIDENT, NATIONAL BUSINESS AIRCRAFT ASSOCIATION, ACCOMPANIED BY ROBERT A. COOKE

Mr. WINANT. Thank you, Mr. Chairman.

I am John Winant, Sir, and being listed first, perhaps I will take the advantage and be the leadoff hitter.

Senator BYRD. Fine.

Mr. WINANT. I am going to distill, if I may, Mr. Chairman, a very extensive statement we have submitted for the record, and concentrate on those portions of it which I think are particularly germane to the testimony which has been given by prior witnesses.

Senator BYRD. Very good.

Mr. WINANT. The NBAA believes that the process of assessing a fair tax on noncommercial aircraft should take several elements into account.

First, we think that the Congress should determine the appropriate portion of aviation system cost to be assigned to the public benefit and paid from general revenues.

No administration, including the current administration, has been able to make such a determination on an even-handed manner which takes all transportation systems into account.

We, therefore, feel that the Congress is the only appropriate body which can make a determination on a reasonably lasting basis.

Mr. Samuel Eastman has recently conducted an independent analysis for NBAA of cost allocation and cost recovery in the aviation system. His work uses as its base reference point, the year 1978, the same period utilized by the FAA in its most recent study.

The Eastman work concludes that allowing for only a 26-percent general public benefit, general aviation pays between 58 and 72 percent of its fair share.

In both those cases, the figures are dramatically higher than the conclusions reached in the Government studies.

Government witnesses today have said that general aviation is paying currently between 5 and 15 percent of its fair share. Those are the lowest parameters ever contained in testimony by an administration, and I assume that they are predicated on the fact that most of the taxes levied on general aviation expired close to a year ago.

It is quite obvious that for fiscal 1981, the contribution by general aviation in terms of taxes, is necessarily very low.

I submit, Mr. Chairman, that it is not the fault of general aviation that for fiscal 1981, minimal amounts of taxes are being recovered.

The fault, if any, must be laid at the doorstep of the Congress in failing to continue taxes in effect last year when the subject came both before the House Ways and Means Committee and before this distinguished committee, as well.

There were other compelling reasons why Congress did not act, and therefore, minimal amounts are being furnished this year to the trust fund. I do not think it puts the matter in perspective, in fair perspective, for the administration to take as its base reference point, for general aviation contribution, that 1 year out of the past 11, when there have been nothing but residual taxes paid by general aviation.

Another point I would like to make, sir, further deals with equity. As I said, in the opening sentences of my remarks today, we hope that the matter of user taxes will be dealt with evenhandedly for all users of national transportation systems, not just for the users of the aviation system.

The administration has put forward a number of proposals dealing with institution of user charges for users of the inland waterways. They put forward an extensive set of proposals dealing with the institution of fees, brand new fees, on owners of boats and yachts which would require those owners to pay for part of the system provided by the Coast Guard.

The new administration has an extensive Amtrak proposal which aims at shifting the burden of Amtrak to the users of Amtrak services.

The same with the highway system.

What has happened to those other proposals, sir?

The administration has already withdrawn the Coast Guard proposal.

Is it evenhanded and is it fair for the administration to make a proposal, blandly and boldly, that users should pay for the full tab,

to quote one administration spokesman, of services provided for them and then levy taxes only on one such user?

If it is fair to withdraw proposals for users of yachts, then it might be fair to withdraw proposals related to users of aircraft.

Senator BYRD. You said only one. You forget the highways.

Mr. WINANT. Right, sir. In the highway system, someone had the temerity, prior to announcement of the various Government proposals, to suggest that the 4-cent fuel tax which has been in existence for many years, should be increased to 6 cents on motor gasolines.

That proposal was quickly shot down and never surfaced on the thesis that this was an administration whose aim was to decrease taxes, not to increase taxes.

Yet, we have the anomaly of the same administration coming forth and making proposals for what are in by anyone's measure, extremely large tax increases on the users of aviation, all aviation, not just general aviation.

Senator BYRD. Well, I think there is a difference though with the highway trust fund in that I don't believe general funds are not used for highway purposes. All of the highway funds come out of that trust fund.

Mr. WINANT. Well, I believe sir, also an anomaly there. My belief is that the taxes paid by highway users which are 4 cents fuel tax, go into the cost of construction of interstate highways and in some measure of U.S. highways and in a very modest form for the secondary system.

Senator BYRD. That is correct.

Mr. WINANT. The new administration has proposed that all support for the secondary system cease in fiscal 1983. There is no trust fund money, no highway trust fund money which is used for system maintenance. That is very important, because we have a highway system, particularly the interstate segment, which is in some respects badly in need of repair.

Those moneys do not come from the highway trust fund.

Senator BYRD. Well, that was because of the way the legislation was set up. That is not supposed to come from that.

Mr. WINANT. That's correct, sir.

Senator BYRD. The purpose of that tax was to build the highways.

Mr. WINANT. That's correct, sir.

Senator BYRD. The interstate highway system.

Mr. WINANT. Yes, sir.

Senator BYRD. That is what it is to be used for and it can't be used for anything else.

Mr. WINANT. Right, sir. We agree with that. Our position is that the aviation trust fund was established to meet the capital needs, the construction and equipment needs of the Nation's aviation system.

The current administration, like several of its predecessors are attempting to use the trust fund to pay for virtually all of the maintenance and operating costs of that system.

That is inconsistent, to me, sir.

Senator BYRD. Under the highway program, though, the States pick up the operating costs.

Mr. WINANT. That is true, sir. But the States pick it up through a series of taxes levied on users and in the aviation world— Senator BYRD. Levied on those who use the highways.

Mr. WINANT. That's correct, sir.

Senator BYRD. Not general funds.

Mr. WINANT. Right, sir. In the world of aviation there are many States, most States which levy taxes on aircraft owners and aircraft users in the form of registration tax, on an annual or some fixed periodic basis, and in the form of fuel taxes levied by the State on the aviation user to support the local and the State system.

So, there is an analogy there.

The final point I would like to make sir, deals with S. 1272 directly. The National Business Aircraft Association supports S. 1272 in all regards. We would like to make that a matter of record.

We do, however, suggest one change in S. 1272 and that deals with what is called the use tax which would, in terms of S. 1272 be applied only to the owners of commercial aircraft. The use tax takes the form of a similarity to a registration tax.

We do not feel that one segment of aviation should be levied a use tax. There is a great, gray area which exists in terms of IRS regulations between commercial aviation and noncommercial aviation.

We would submit that in the interest of equity, it would be a very productive act if the subcommittee were to eliminate the use tax on commercial aviation from S. 1272.

In the words of a Treasury Department witness who talked on the subject last year, and I will quote him.

If the use tax is to be repealed for general aviation or noncommercial aviation, we think that consideration should be given to repealing the use tax on all planes.

A complete exemption would simplify the air user taxes and would eliminate the problem under H.R. 6721, which is a bill before the previous Congress, that planes used partly in noncommercial and partly in commercial aviation, would be taxed exactly as those used entirely in commercial aviation.

An extension of the exemption to all planes would cost less than \$20 million in lost revenues.

We, NBAA, do strongly urge that the use tax on aircraft be allowed to rest in peace and not be resurrected to apply to commercial use.

Thank you very much, Mr. Chairman.

Senator BYRD. Thank you, sir.

Next witness.

STATEMENT OF EDWARD W. STIMPSON, PRESIDENT, GENERAL AIRCRAFT MANUFACTURERS ASSOCIATION, ACCOMPANIED BY ALLEN V. PAULSON, PRESIDENT, GULFSTREAM AMERICAN CORP.

Mr. STIMPSON. I am Edward W. Stimpson, president of the General Aviation Manufacturers. Our principal views will be given today by Mr. Allen V. Paulson, chairman and president of Gulfstream American Corp., a manufacturer of turbojet and turboprop aircraft.

First, I would just like to briefly review the status of our industry.

In 1979, we delivered 17,048 airplanes.

Last year, we did 11,877.

This year we will be somewhere around 10,000.

This represents a sales decrease of 41 percent in the last 2 years.

High interest rates, increasing energy costs, uncertainty about the final outcome of the President's tax bill on the Hill—and this is a major factor in investment in not only airplanes, but any capital equipment—have had an impact on our industry.

Now, Mr. Helms is pretty optimistic about our outlook and we are too. But, sales are down. It is not only the light, little airplanes. We are seeing other segments of the marketplace being affected severely at the present time.

Thus, we are concerned, for example, that fewer people entered aviation last year than any time in the past decade.

Employment in industry is down and export units are also on the decline.

Thus, we are concerned about the economic consequences of any proposed change in the tax structure. Our review impresses us that S. 1272 is a fair and equitable approach and Mr. Paulson will speak to this in detail.

Mr. PAULSON. Mr. Chairman, the General Aviation Manufacturers Association supports S. 1272 in its entirety, as introduced by Senators Cannon and Kassebaum.

As noted at the time of introduction, the overriding issues are to meet system safety needs and to bring the aviation trust fund into balance.

S. 1272, as introduced, will provide the additional financial resources to meet projected safety needs and permit the orderly reduction of huge surplus to the trust fund.

GAMA has long supported the concept of reasonable user charges, including fuel taxes at a fixed rate per gallon. However, we cannot see any logic in the administration's proposals to drastically escalate fuel tax levels with nearly \$4 billion in user taxes lying idle. Nor do we see any logic to differentiate between turbine and piston engine fuels.

Although S. 1272 will increase fuel taxes, the amount is consistent with the finding of the Senate Committee on Finance in their report No. 96-997, dated September 26, 1980. After hearings, the Committee on Finance concluded that a tax of 8.5 cents per gallon on fuel used in noncommercial aviation was appropriate, and that the 1.5 cents addition to the then 7 cents a gallon fuel tax would compensate for the elimination of the aircraft use tax on noncommercial aviation. Thus, S. 1272 is consistent with prior Senate Finance Committee conclusions.

We also support a single tax structure covering all aviation fuels. The distinction between turbine fuels and piston engine fuels proposed by the administration is unfair. The stated reason for the administration's position is that: "The planes using jet fuel generally place greater demands on the national airspace system than do planes using aviation gasoline." Turbine powered airplanes would pay more than gasoline powered airplanes on a single tax structure as they use more fuel. We believe the total fuel use, regardless of type of fuel, is the fairest overall measure of system use. Any airplane, turbine or piston, may use more or less services, depend-

ing on the circumstances of the individual flight. The same tax upon all fuel will accomplish the desired objective.

The 8.5-cents tax on fuel used in noncommercial aviation compares fairly with the proposed 3 percent tax on commercial transportation by air, and continues the concept of some parity between ticket taxes and fuel taxes that was developed in the 1970 legislation that created the Aviation Trust Fund. At that time, an 8-percent ticket tax was equivalent to a 7-cents-per-gallon fuel tax, but the parity became severely distorted in the late 1970's due to rising air fares. S. 1272 would reestablish a reasonable relationship between the taxes on commercial and noncommercial aviation.

Finally, we believe that the tax structure proposed in S. 1272, coupled with an orderly reduction in the trust fund surplus, not only will meet projected safety needs, but also will not further jeopardize the economic recovery of the industry. Our production is now suffering from high interest rates, high fuel costs and other economic problems. An unnecessarily high tax structure, as proposed by the administration, will compound our problems, while a reasonable tax, such as contained in S. 1272, will at least stabilize that portion of user costs meeting safety needs.

In summary, we would urge the committee to act favorably upon S. 1272. This is a reasonable approach to the spending levels of S. 508 and will allow current airport/airway development.

I would like to add that I think there is a lot here that hasn't been mentioned about the public interest in general aviation. I think we have done a lot for corporate development. The decentralization of industry has placed a great demand on our aircraft. That is why there has been a big increase in the turbine powered aircraft.

There are a lot of statistics that show that over 50 percent of our population now is in the Sun Belt, south of the Mason-Dixon line. They have gone to smaller towns which has necessitated general aviation growth.

But I do not think we should be taxed out of this business. I think we are a very important part of the public interest.

We also, I think, do a lot for national defense by the training of nearly a million pilots in America, which has a lot of value to the public interest.

Thank you for the privilege of appearing before you.

Senator BYRD. Thank you, Mr. Paulson.

Mr. Graves.

STATEMENT OF LARRY GRAVES, VICE PRESIDENT, AIRCRAFT OWNERS & PILOTS ASSOCIATION

Mr. GRAVES. Mr. Chairman, I am Larry Graves, representing the Aircraft Owners & Pilots Association. We think one of the ways the FAA could reduce the need for user taxes would be to fire the person who advised Mr. Helms that the Congress enacted the 1970 Airport and Airways Development Act as a means to finance the operations of the FAA. Nothing could be further than the truth.

The ADAP Act originally was enacted for capital improvements and to improve the Nation's airports and airways.

In the second year that the program was underway, the administration tried to take all the money. They took over \$1 billion out

for FAA administrative costs. The Congress reacted immediately to prohibit them from taking that approach. We believe that the Congress will continue to do that.

The Aircraft Owners and Pilots Association supports S. 1272. We think taxes should be raised to pay authorized expenditure levels only. We recognize we probably won't get all of the authorized expenditures, but that that is a reasonable basis upon which to base tax rates.

We don't think that speculation about the future, especially when it hasn't been accepted by the authorizing committee, should be exchanged for tax rates.

We think the tax moneys that are raised should be spent for capital expenditures only.

The Senate Finance Committee has already approved an 8.5-cent rate. Nothing has changed from last year when you took that action. We hope that you will do it again.

We are disappointed with the administration's feeling that there is no public benefit in the FAA budget. We think if there is no public benefit, perhaps the Government shouldn't be in the business of regulating aviation.

We think they are there because they feel there is a public benefit, a role for the Government to play.

Both the House and Senate have already rejected the administration's expenditure program. For Administrator Helms to try to tie his tax program to his spending program is irresponsible, since there is no possible way that it can be enacted into law.

We would support removing the trust fund from the unified budget. That would simplify, I think, some of these tax debates the Senate Finance Committee and the Ways and Means Committee are having. But I just don't think it is a realistic hope. It is a political decision. That is why the aviation trust fund has been such a valuable resource to the Office of Management and Budget over the past few years.

We hope when it comes time for the Senate Finance Committee to take this up, you will approve S. 1272.

Senator BYRD. Thank you.

As I understand it, each of you support S. 1272.

Thank you gentlemen.

[The prepared statements of the preceding panel follow:]

STATEMENT OF NATIONAL BUSINESS AIRCRAFT ASSOCIATION

SUMMARY OF PRINCIPAL POINTS

1. The Administration's assumptions used to determine "fair share" are flawed, therefore their conclusions are wrong and their proposal for aviation user taxes grossly unfair.
2. The Airport and Airways trust fund should be brought in balance by permitting outlays to exceed revenues until the surplus is reduced in an orderly manner.
3. The aircraft use tax should be eliminated for commercial as well as non-commercial aircraft operators in order to simplify the tax structure.

RECOMMENDATION

NBAA endorses S1272, and urges its adoption with an amendment deleting the use tax for commercial aircraft.

Mr. Chairman and gentlemen, my name is John Winant and I am the President of the National Business Aircraft Association.

The National Business Aircraft Association (NBAA) represents business aviation in the United States. Business aviation comprises nearly 40 percent of all general aviation activity. In the United States, approximately 50,000 aircraft are dedicated to business pursuits, providing on-call air transportation to all of our nation's airports, and linking those many communities which enjoy little or no air carrier service with the rest of the nation. NBA's membership consists of over 2,400 companies which operate certificated aircraft of all sorts—turbojets, propeller driven small airplanes and helicopters, to satisfy the day-to-day transportation demands which active, productive corporations generate. Without our national business aircraft fleet, many of our nation's smaller communities would be out of the mainstream of American economic life, essentially cut off from the flow of management and enterprises essential to maintaining our highly productive national economy. NBAA represents the aviation related interests of persons and corporations using aircraft to further their business objectives.

What makes business aircraft worthwhile? This is usually the first question asked about aircraft in the role of a business tool. Many people suppose airline services should be sufficient, but this is like suggesting that bus service should be sufficient. Bus service is dandy if you happen to live near a bus route and only need to go where the bus route takes you. The same applies to airline service. It's a little faster en route and goes to places further away, but for flexibility and efficiency for the traveller in any mode, the private conveyance is essential, be it automobile or airplane.

Transportation user taxes and their general public implications are a mature reality in the national aviation system. But with the exception of the highway community the matter is in its infancy elsewhere in the transportation world, as we shall see.

The thesis that users of the national aviation system should pay toward its capital needs, operating costs and maintenance needs has existed for many, many years. Significant debate on the topic no longer continues, except that part which concerns the degree of payment.

Congress signaled shutdown of the debate of the 1970 Airways and Airports Development and Revenue Act, a major piece of legislation which had the support of the bulk of the aviation community, and which created a number of user taxes.

As early as 1968, when Congress initiated the discussions which resulted in the 1970 Act, the National Business Aircraft Association took the position that "all beneficiaries of the nation's airways system have an obligation to pay a share of its cost in proportion to the degree of benefit received . . ."

For more than a decade there has been general agreement in the aviation community that the directly identifiable users—the airline passengers, the shippers of goods by air, the owners and operators of general aviation aircraft—should all assume shares of bearing the costs of the system which is provided by the Federal government through authority granted by the legislative branch.

The debate in recent years has, then, not concerned who should pay, but has shifted to the question of how much should be paid by the various identified users, and how much should properly be paid by the general public, which can fairly be considered an indirect yet very substantial beneficiary of the aviation system.

Various government studies have attempted to define how fair shares of the system's costs should be allocated among users. There is great disparity among these studies, but one universal conclusion has been that general aviation, of which business aviation is a major segment, has paid for only a small percentage of its purported allocable share through the taxes levied on it by the 1970 Act.

Mr. Samuel Ewer Eastman has very recently conducted an independent analysis of the situation which has been published under the title "General Aviation and the Airport and Airway System—An Analysis of Cost Allocation and Recovery." Mr. Eastman's work, undertaken for NBAA, uses as its base reference point the year 1978, the same period utilized by the Federal Aviation Administration in its most recent study.

The Eastman work concludes that, allowing only for a 26-percent general public benefit, general aviation pays between 58.1 percent and 72.6 percent of its fair share. In both cases, these figures are dramatically higher than conclusions reached in the government studies.

The determination of how much of system costs should be assessed to the general public benefit is, of course, critical to the whole question and actually requires resolution before intelligent study can be given to the size of the taxes which are to be imposed on the direct users.

The FAA, as noted above, assumed there was a 26-percent general public benefit in 1978. An earlier study, conducted by the Department of Transportation, could find "no unique public benefit" in the aviation system. Congress, on the other hand,

has consistently assigned a public benefit level of more than 50 percent of total system costs. It has done so by design, in estimating how much revenue would be raised through the taxes it has set.

The taxes set by Congress in 1970, and reviewed by it in 1976 with no changes being made, consisted of the following:

Tax on transportation by air: (passenger ticket tax): 8 percent; non-commercial (general aviation) fuel tax: 7 cents per gallon; waybill tax: 5 percent; international passenger tax: \$3; and tax on use of civil aircraft: minimum \$25 annual fee, increasing above weight minima, by 3 cents per pound on turbine-powered aircraft, and 2.5 cents on nonturbine aircraft.

Because in 1980 the 96th Congress failed to extend the 1970 airport-airways act, most of the foregoing taxes either have expired or have reverted to lower levels. Those remaining in place in May, 1981 are: Tax on air transportation (passenger ticket tax): 5 percent; and non-commercial (general aviation) fuel tax on aviation gasoline: 4 cents per gallon.

All of the revenues generated by aviation user taxes from 1970 until last year have been credited to the Airport and Airway Trust Fund, and a portion of the monies so credited have been used over the years for airport development (ADAP) grants which require a relatively modest local contribution as a "matching" incentive; some funds have been used to purchase new airways facilities and equipment (F & E) and to provide for basic pertinent research; since 1976, some funds have been used to support FAA maintenance and operations, (M & O) in particular those related to keeping navigational facilities fine-tuned.

More than was actually used was available to use, but because of attitudes in the office of Management and Budget throughout the 1970's, authorization to use trust fund monies for most Congressionally intended purposes has been blunted. The fund now carries a surplus of almost \$4 billion. There has been no airport development program authorized for the current fiscal year, yet facilities and equipment monies are being withdrawn from the fund, as are maintenance and operations monies.

In the aviation community there has been growing strong dissatisfaction with the disparity between trust fund surpluses and unmet, urgent needs for airport and airway system improvements. Successive Administrations have seemed much more concerned with using trust fund revenues to pay for day-to-day costs of FAA than they have been with meeting system facility and airport capital investment needs.

Successive Administrations also have been intensely disposed toward increasing general aviation's user taxes. The Carter Administration urged establishment of a 6-percent excise tax on all new general aviation aircraft; a 6-percent excise on all new avionics equipment; and a 10-percent per gallon tax on general aviation fuels. The Congress saw precious little wisdom in those proposals.

A new Administration is now in place and is vigorously promoting a wide-range "Program for Economic Recovery" which in general terms aims at reductions in Federal spending levels and reductions in taxes.

Ironically for general aviation, the program would initiate increases in taxes which would rise in the magnitude of 900 percent over the next several years. Coupled to the tax proposals for aviation are several parallel programs which deal with the users of other national transportation systems, notably those systems which are operated by or funded by the Federal government.

To put these into context, let us examine the Administration's transportation policies by using the words of principal spokespersons. Let us examine the specifics of the program recommended by it for aviation. Finally, let us examine proposals which would affect users of other transportation systems and try to measure:

The soundness of the aviation proposals, and

Whether or not aviation fares equitably with respect to what is contemplated for the other systems.

On April 2, 1981, Darrell M. Trent, Deputy Secretary of Transportation, spoke at hearings of the House Aviation Subcommittee. In describing Administration proposals for airport and airway legislation, he noted: ". . . we have proposed tax relief for the general taxpayers by recommending that airport and airway system users pay for the FAA services they receive.

"These proposals are fully representative of the thrust of the President's program; they raise the issues that are at the heart of the national dialogue on Federal budgetary policy. In brief, it is our view that while the funding issues and other questions we are facing today must be considered on their own merits, they cannot be considered outside the context of the larger national debate on the Federal budget."

Later he commented in more detail: "One of the most critical items on the President's legislative agenda is the need to provide relief to the overburdened general taxpayer. One of the ways that the general tax burden has built up over the

years is that Federal programs have been structured to provide very significant financing out of the General Fund of the Treasury for the benefit of very particular segments of the population.

"We all know the consequences of this pattern. When people who benefit from particular government services do not pay for those services, the general taxpayer has to pick up the tab. This subsidy of particular groups is contrary to the President's efforts to relieve the general tax burden, and in this legislation, Mr. Chairman, we have the opportunity to take bold and necessary action on behalf of the general taxpayer by requiring aviation systems users to foot the bill for aviation services provided to them . . .

"I might add, Mr. Chairman, that the 'user pays' concept is one that the Administration is applying to other programs, and it is one of the fundamental principles applied by the President in developing his budget."

Judith Connor, Assistant Secretary of Transportation for Policy and International Affairs, has been another prominent spokesperson for the Administration's case. At the annual meeting of the Aviation and Space Writers Association, April 14, 1981, she summarized the President's economic program as being "Comprised of four basic thrusts: one, tax relief; two, spending cuts; three, regulatory reform; and four, responsible monetary policy."

On a more specific level, and in relation to the transportation budget, she enunciated the principle that "the general taxpayer should not have to pick up the tab for services provided to an identifiable class of users. We are applying this principle to all modes of transportation with a phase-in of user fees as necessary and appropriate."

I ask you to take particular note of that last sentence, for the manner in which the Administration intends to apply the precepts set forth in that it is of absolutely critical importance. Business aviation's case would perforce stand or falter in direct relationship to how even-handedly the Administration would apply the principle "to all modes of transportation."

A final set of quotations from Ms. Connor's recent statement is appropriate. The course of review of the FAA budget led the participants to adopt several criteria. These she identified as follows:

"First, the safety assurance of the system is essential.

"Second, the development of an en route system to meet future needs must proceed rapidly,

"Third, users of the system should ultimately be responsible for its costs, and

"Fourth, those parts of the system for which a need for Federal participation can no longer be justified, should be weaned from Federal funds and, simultaneously relieved from Federal interference and regulations."

Using the policy precepts expressed in the foregoing, the Administration has presented a series of proposals to the Congress, each of which deals with methods of cost recovery for the several national transportation systems.

That even-handedness exists as a common thread in these several proposals is, of course, an essential which we have every right to expect.

The beginning point for even-handedness should be predicated on recognition that there are three distinct elements which taken together account for what I conclude Mr. Trent and Ms. Connor refer to as "costs" or "the tab." These are:

Capital costs, or the equipment, concrete, channel, roadbed, track or other identifiable sets of tangibles which constitute the system; maintenance costs, or the expenses required to keep the elements of the system in sound and safe working order, and operating costs, or the expenses attendant to assisting, regulating or providing means by which the users may travel on or through the system.

An even-handed policy would provide, for example, that if the users of one national system are to be expected to pay for the full capital costs of that system, then reason would dictate that the users of all systems should pay for such costs.

If, for further example, one system's capital, maintenance and operating costs are to be paid in full, or in large part, by that system's users, then the same concept should reasonably apply to users of all other systems, and there should be no exceptions.

THE ADMINISTRATION'S AVIATION PROPOSAL

The Administration has sent legislative recommendations to Capitol Hill which would result in new aviation user tax levels:

Tax on Transportation by Air (passenger ticket tax): 6.5 percent.

Non-commercial (general aviation) Fuel Taxes:

[By fiscal year]

*Aviation gasoline**Jet fuel*

Fiscal year 1982, 12 cents per gallon	20 cents per gallon.
Fiscal year 1983, 18 cents per gallon	35 cents per gallon.
Fiscal year 1984, 24 cents per gallon	50 cents per gallon.
Fiscal year 1985, 30 cents per gallon	58 cents per gallon.
Fiscal year 1986, 36 cents per gallon	65 cents per gallon.

These tax proposals are coupled to trust funded airport development, facilities and equipment, and system research and development spending programs which are dramatically lower than those contained in either of the original House or Senate bills.

The Administration also supports "defederalization" of the airport development program. This would lead to removal of major airports (41 over two years) from the program. One result would be shrinkage in the size of the Federal aid program, but the Administration makes no case for concomitant lowering of taxes.

The recommended totals of monies to spend from the fund on airport and airways needs over the next five years would be about \$5.1 billion.

On the other hand the Administration would divert more than \$11 billion of trust fund revenues to pay for FAA operations and maintenance expenses over the five year period, which figures out to an annual increase of some 400 percent above existing funding.

Ms. Connor has stated it is the Administration's judgment "that 85 percent of the total costs of the FAA system can be allocated directly to commercial and general aviation users of the system and should be paid for by those users. The remaining 15 percent is allocated to defense and other government users. . ."

Please note that:

The Administration believes direct users should pay for 85 percent of all three elemental system costs: capital; facilities and equipment; and maintenance and operation.

The Administration places a public benefit value of only 15 percent on the national aviation system, dramatically lower than any previous finding contained in government studies or inherent in Congressional action.

Significant note also should be made that the proposal calls for differing tax levels on aviation gasoline and jet fuel, where there was a single level in effect from 1970 through 1980. Ms. Connor described the differences in proposed taxes as "a stroke of genius" while Mr. Trent has said "Planes using jet fuel tend to be equipped with more avionics, and generally make greater demands on the national airspace system. . ." Ms. Connor adds that the taxes "reflect the relative use of the en route system of the classes of general aviation users."

NBAA takes exception to the rationale on which the differing tax level concepts are predicated, as it does with other portions of the Administration proposals. The exceptions are spelled out below.

THE ADMINISTRATION'S INLAND WATERWAYS PROPOSAL

Contemplated here is discontinuance of a four cent per gallon tax on fuel used by commercial barges and substitution for it of a system of fees and charges to be set by the Secretary of the Army (its Corps of Engineers is largely responsible for the waterways system). The fee structure would aim at eventual recovery of capital, operating and maintenance costs assignable only to commercial waterway transportation. The fees would be reduced, insofar as capital costs are concerned, for any recreational use inherent in a waterways project and for any other multiple-purpose projects. In the case of costs involving projects on the Mississippi River and its tributaries (the principal artery of the waterways system) fees could be expected to cover only 25 percent of total project costs.

THE ADMINISTRATION'S BOAT AND YACHT PROPOSAL

The concept here is to recover from the users, in this case owners of boats and yachts, only a portion of operating costs assignable to the United States Coast Guard. There is no announced plan to recover any portion of capital or maintenance costs. The Administration feels that at least 50 percent of the Coast Guard's operating costs are to be debited to general public benefit. The Administration proposals would bring in an estimated \$100 million in fees in Fiscal 1982, which compares with a projected Coast Guard budget of \$2.191 billion. This proposal has been withdrawn.

THE ADMINISTRATION'S AMTRAK PROPOSAL

By raising fares and eliminating routes, the plan here is eventually to recover 50 percent of Amtrak costs excluding capital costs. Through Fiscal 1986 the Administration would spend 2.3 billion of general (public) dollars to meet capital needs of

the Amtrak system. The Senate, while agreeing to higher authorizations for fiscal year 1982, has directed Amtrak to recover 50 percent of its operating costs in fiscal year 1982.

THE ADMINISTRATION'S CONRAIL PROPOSAL

In this case the Administration seeks \$613 million in general (public) revenue aid during the forthcoming year, but is leaving the door open for possible sale of Conrail freight operations. Commuter lines and some other operations might be offered to local or regional public authorities.

THE ADMINISTRATION'S HIGHWAY PROPOSAL

While the Administration plans no increase in the existing 4-cent-per-gallon gasoline tax, it awaits completion in early 1982 of a Department of Transportation Highway Cost Allocation Study. Its long range plans, as presented to the Congress, call for further work on the interstate system, but less than previously planned completion; the primary system would continue to receive funding from the Highway Trust Fund, but the secondary system would lose such support starting in fiscal year 1984. It should be noted that an increase of 2 cents per gallon in the existing fuel tax was proposed at Cabinet level but was summarily rejected on grounds that the new Administration had come in on a platform of lowering, rather than increasing, taxes.

A review of the various Administration plans for transportation user taxes or fees and for shift of system costs to the direct users indicates that aviation is being dealt with unfairly.

Aviation users would be expected to pay for the overwhelming proportion of all costs—capital, operating and maintenance—while users of other systems would be expected to do far less, and in some cases next to nothing.

The national aviation system is considered by the Administration to justify only a 15-percent total public benefit allocation, far less than the only other benefit so defined, which is set at more than 50 percent of operating costs and 100 percent of the others. Congressional history on the subject of public benefit, buttressed by the immense latent defense value of the aviation system appears to dictate a much larger public share than has been determined by the Administration.

The only user taxes or fees which would be increased would be those for aviation—all of it, commercial and private—and those for commercial waterways transportation. In the case of general aviation the Administration proposal would result in increases of the magnitude of 900 per cent. This seems singularly odd where "supply side" economics dictate decreased taxes as a necessary incentive for economic recovery.

WHAT IS FAIR

The National Business Aircraft Association believes the process of assessing a fair tax on non-commercial aircraft (general aviation) operators must take several elements into account:

Congress should determine the appropriate portion of aviation system costs to be assigned to the "public benefit" and paid from general revenues. No Administration including the current one, has been able to make such a determination in an even-handed manner which takes all transportation systems into account. The Congress is the appropriate body to make the determination on a reasonably lasting basis.

Taxes should have a relationship to the expenses authorized by the Congress in the airport-airways bills now being enacted by the two houses. Taxes should be sufficient to support a determined share of authorized spending programs, but should not be used to build large unspent surpluses in the aviation trust fund.

A tax on fuel, stated in cents per gallon, is an acceptable means of fairly sharing system costs.

A single tax rate should apply to aviation gasoline and jet fuel. The argument advanced that jet powered aircraft operators should pay a higher rate is specious. The argument claims jet aircraft use more of the system and should be more heavily taxed. They would be more heavily taxed by a single rate, since they use more gallons of fuel and would pay a much higher share of system costs whether measured in hours or miles. A higher rate of tax would result in a double penalty.

The process of establishing a fair tax on non-commercial aircraft (general aviation) should begin at 8.5 cents per gallon, the amount set by the House Ways and Means Committee in 1980, and the amount proposed in S. 1272.

Taking all of the foregoing into account—the history of aviation taxes, the transportation policies of the new Administration, its specific programs, and the presence

of a large public benefit derived singularly from the aviation system, such a process is just and fair to all.

S. 1272 accomplishes just what we need in fairness to aviation system users. To quote the Honorable Howard Cannon: "The overriding issues for reauthorizing the airport and airway trust fund are to bring that fund into balance, meet the system safety needs, and to provide tax levels which account for the overtaxation these users have endured in the past. This bill (S. 1272) in combination with S. 508 meets those goals * * *." We cannot state the case more eloquently than he.

Our only concern with S. 1272 is that if adopted in its present form it will further differentiate, in a potentially troublesome way, between application of taxes on commercial and non-commercial aircraft owners.

Under previous and current proposals all users of our national airspace would pay either a tax of some cents per gallon for each gallon of fuel used in aircraft or, if the aircraft is employed in a commercial venture, a tax of some percent of the amounts paid for the transportation of persons by air. This has erroneously been dubbed the "passenger ticket tax". I am sure that this committee understands that the so-called "ticket tax" applies to a great many circumstances other than just the sale of airline tickets. Fortunately, the taxes on the transportation by air of persons and property are mutually exclusive from the fuel taxes, and the use of aircraft are subject to either but not both as to any one trip. Congress intended, and this committee affirmed, that the tax that will apply will depend on the purpose of the flight, that is if a flight is for the transportation of persons or property for hire, the transportation tax applies, but on other flights not for hire, the fuel tax applies.

Senate Bill 1272 and other similar earlier proposals, if adopted, will create problems as it attempts to further differentiate between commercial and non-commercial aircraft operators in the application of the use tax. Here, flight-by-flight application of the tax breaks down completely, since use taxes are assessed annually. How will the IRS determine if an aircraft owner should be taxed or not? Suppose an aircraft is routinely flown in private carriage but is used for one flight by a candidate for Federal elective office; will the owner then become liable for use tax in addition to the "ticket tax" on the charges which are mandated by FEC regulations?

Well, I'm afraid we already know what the answer will be and we don't like it. IRS will insist that the use tax will apply to the remainder of the taxable year on the basis of that one "commercial" operation. Last year, in a Joint Committee Print, dated September 5, 1980, the staff of the Joint Committee on Taxation described it for this committee as follows:

"* * * Thus, the aircraft use tax will apply to aircraft subject to the air passenger ticket or air freight waybill taxes. The Ways and Means Committee indicates that where an aircraft is used both for commercial transportation and for non-commercial purposes, the aircraft use tax will apply upon the first such commercial use during the taxable year.

The taxable year continues to be July 1-June 30 for purposes of the aircraft use tax, and the weight portion of the tax will continue to be imposed as of the month in which the aircraft is first used for commercial purposes. (The \$25 portion of the use tax is not prorated.) For example, if the aircraft is first used in November of the taxable year, the weight portion of the use tax is eight-twelfths of the annual rate."¹

That's just too complicated, and discriminatory against the individual or corporation who may only occasionally use its aircraft in some manner of commercial service. We agree with the Treasury Department witness last year, who said of the proposal to repeal the use tax on non-commercial aircraft:

"Since there are approximately 200,000 general aviation planes and less than 3,000 commercial planes, this change does relieve general aviation owners and the Internal Revenue Service of a considerable amount of paperwork. If the use tax is to be repealed for general aviation, however, we think that consideration should be given to repealing the use tax on all planes. A complete exemption would simplify the air user taxes and would eliminate the problem under H.R. 6721 that planes used partly in non-commercial and partly in commercial aviation would be taxed exactly as those used entirely in commercial aviation. An extension of the exemption to all planes would cost less than \$20 million."²

We strongly urge that the use tax on aircraft be allowed to rest in peace and not be resurrected to apply to commercial use.

¹ Joint Committee on Taxation, Joint Committee Print "Description of Proposals Relating to Airport and Airway Trust Fund Taxes and Budget Authorizations", September 5, 1980.

² Statement of Donald C. Lubick, Assistant Secretary for Tax Policy, U.S. Department of the Treasury before the Subcommittee on Taxation and Debt Management Generally, September 8, 1980.

PREPARED STATEMENT OF THE GENERAL AVIATION MANUFACTURERS ASSOCIATION

I am Edward W. Stimpson, President of the General Aviation Manufacturers Association. Presenting our views today will be Allen E. Paulson, Chairman and President of Gulfstream American, a manufacturer of turbojet and turboprop aircraft. Mr. Paulson is also a member of the Executive Committee of GAMA and Chairman of the Airport/Airways and Operations Committee.

First, I would like to review the status of the industry. In 1979, the general aviation industry delivered 17,048 aircraft. Last year 11,877 aircraft were delivered. At year's end we expect that deliveries will approximate 10,000 aircraft. This represents a decrease in our sales of 41 percent over the past two years.

High interest rates, increasing energy costs, uncertainty about the final outcome of the President's program for economic recovery including final tax legislation have had an impact upon our industry. Employment in many sectors of the industry has decreased. Many fixed base operators (FBOs)—aviation sales and service organizations—are currently facing difficult financial situations. Last year fewer people entered aviation as new pilots than at any time in recent history, and new students were down by 25 percent. Export units are also decreasing and currently show further weakening.

Thus, we are concerned about the economic consequences of any proposed change in the tax structure on general aviation. Our review of S. 1272 impresses us that the tax structure proposed represents a very fair balance of providing for adequate user revenues without further adversely affecting our industry and the general economy.

Mr. Paulson will now provide you with more specific reasons for our support of S. 1272.

STATEMENT OF ALLEN E. PAULSON, CHAIRMAN OF THE BOARD, GULFSTREAM AMERICAN CORP.

The General Aviation Manufacturers Association supports S. 1272, as introduced by Senators Cannon and Kassebaum. As noted at the time of introduction, the overriding issues are to meet system safety needs and to bring the aviation Trust Fund into balance. S. 1272, as introduced, will provide the additional financial resources to meet projected safety needs and permit the orderly reduction of the huge surplus in the Trust Fund.

GAMA has long supported the concept of reasonable user charges, including fuel taxes at a fixed rate per gallon. However, we cannot see any logic in the Administration's proposals to drastically escalate fuel tax levels with nearly \$4 billion in user taxes lying idle. Nor do we see any logic to differentiate between turbine and piston engine fuels.

Although S. 1272 will increase fuel taxes, the amount is consistent with the finding of the Senate Committee on Finance in their Report No. 96-997, dated September 26, 1980. After hearings, the Committee on Finance concluded that a tax of 8½ cents per gallon of fuel used in non-commercial aviation was appropriate, and that the 1½-cent addition to the then 7-cent-a-gallon fuel tax would compensate for the elimination of the aircraft use tax on non-commercial aviation. Thus, S. 1272 is consistent with prior Senate Finance Committee conclusions.

We also support a single tax structure covering all aviation fuels. The distinction between turbine fuels and piston engine fuels proposed by the Administration is unfair. The stated reason for the Administration's position is that "planes using jet fuel generally place greater demands on the national airspace system than do planes using aviation gasoline." Turbine powered airplanes will pay more than gasoline powered airplanes on a single tax structure as they use more fuel. We believe that total fuel use, regardless of the type of fuel, is the fairest overall measure of system use. Any airplane, turbine or piston, may use more or less services depending upon the circumstances of individual flights. The same tax upon all fuel will accomplish the desired objective.

The 8½-cent tax on fuels used in non-commercial aviation compares fairly with the proposed three percent tax on commercial transportation by air, and continues the concept of some parity between ticket taxes and fuel taxes that was developed in the 1970 legislation that created the aviation trust fund. At that time, an eight percent ticket tax was equivalent to a 7-cent-per-gallon fuel tax, but the parity became severely distorted in the late 1970's due to rising air fares. S. 1272 would re-establish a reasonable relationship between the taxes on commercial and non-commercial aviation.

Finally, we believe that the tax structure proposed in S. 1272, coupled with an orderly reduction in the Trust Fund surplus, not only will meet projected safety needs, but also will not further jeopardize the economic recovery of the industry.

Our production is now suffering from high interest rates, high fuel costs, and other economic problems. An unnecessarily high tax structure as proposed by the Administration will compound our problems, while a reasonable tax, such as contained in S. 1272, will at least stabilize that portion of user costs while meeting safety needs.

In summary, we would urge the Committee to act favorably upon S. 1272. This is a reasonable approach to the spending levels of S. 508 and will allow current airport/airway development to proceed.

Thank you for the privilege of appearing before you to present our views.

PREPARED STATEMENT OF W. LAWRENCE GRAVES, VICE PRESIDENT, AIRCRAFT OWNERS AND PILOTS ASSOCIATION

Mr. Chairman, the Aircraft Owners and Pilots Association is an association with more than a quarter of a million pilots in the country who use general aviation aircraft for business and personal purposes. All our members will be affected directly by the decisions this Committee makes on the taxes we must pay.

Last year, before this Committee, we supported what was then known as the "Packwood proposal" for a tax of 8½ cents per gallon on general aviation fuel. We thought the "Packwood proposal" was fair, reasonable and appropriate. We still support it.

This year a proposal of an 8½-cent fuel tax is embodied in S. 1272 which has been introduced by Senators Cannon and Kassebaum and co-sponsored by Senators Riegle, Exon, Goldwater, Inouye, and Baucus.

S. 1272 will fully fund the provisions of S. 508 reported by the Senate Commerce Committee. In addition, S. 1272 will leave a surplus approaching \$1.5 billion at the end of the five year authorization period even if—contrary to previous practice—the programs receive appropriations equal to 100 percent of their authorized levels. We think the current (the unexpended balance was \$5.2 as of April 30, 1981) \$3.7 billion surplus is unconscionable and would feel the same way about even a \$1.5 billion surplus.

Nevertheless, we support S. 1272. It offers rational tax levels and is tied relatively closely to the expenditure levels in S. 508. We urge the committee to be guided by anticipated trust fund expenditure levels rather than the pleas to provide a masquerade of the Federal deficit.

The history of the Aviation Trust Fund is pathetic to say the least and its future looks equally bleak. It was originally conceived with the idea of improving airports and airways throughout the nation. The legislative history of the acts makes clear that the primary objective was capital development and that the allowance for covering any operational costs was conditional upon first meeting the capital investment requirements and the existence of any surplus of money after that had been done. The Congress also recognized that no scheme of user taxes could be enacted unless there was a firm commitment to a capital investment program of the scale envisioned.

The Executive branch has used the Trust fund to offset federal deficits in the general fund and to pick up the tab for the FAA bureaucracy as much as possible. The executive has resisted firm commitments and the trust fund concept, and pleaded instead for "flexibility" in the use of the new user tax revenues. Having lost the legislative battle, the executive determined to win the issue by administrative and budgetary means. It has effectively done so.

Even S. 508, which we support as being far superior to the House version, authorizes nearly twice as much for FAA administrative costs as for airport improvement. We know from long, painful experience that appropriations for airport improvements will fall below authorizations while the FAA will take every penny authorized for its own costs.

We reject the Administration's proposal. It is excessive, unreasonable and not supported by a record of good faith performance. We believe the Congress should reject it also.

Senator BYRD. The next panel, Mr. Paul R. Ignatius, president and chief executive officer, Air Transportation Association of America, Washington, D.C.; Mr. John C. Emery, Jr., chairman, Emery Air Freight, Washington, D.C.; Mr. J. Dawson Ransome, chairman, Government Relations Committee, Commuter Aircraft Association and president of Ransome Airline Association, on behalf of the Commuter Airline Association of America, Washington, D.C.

Mr. LOUIS P. Haffer is not here, as I understand it.

The committee will take a 1-minute recess.

[A short recess was taken.]

Senator BYRD. The committee will come to order.

Proceed, Mr. Ignatius.

STATEMENT OF PAUL R. IGNATIUS, PRESIDENT, CHIEF EXECUTIVE OFFICER, AIR TRANSPORTATION ASSOCIATION OF AMERICA

Mr. IGNATIUS. My name is Paul R. Ignatius. It is a privilege to appear before the committee and I thank you for this opportunity. Mr. Chairman. I request that my full statement be made a part of the record.

Let me say at the outset that the airlines support the tax levels proposed for airline passengers and shippers in S. 1272. These levels are sufficient to fund the program authorized by the Senate Commerce Committee in S. 508.

The airlines oppose the tax levels for airline passengers and shippers contained in S. 1047, the administration's tax bill. These tax levels are unnecessarily high and will produce trust fund income far in excess of what is needed to fund the program authorized by the Senate Commerce Committee. As a result, the already excessively large trust fund surplus will grow to elephantine proportions.

It seems to me that it might be useful to devote the remainder of my time to an attempt to clear up one or two of the areas of apparent confusion that arose earlier in the hearing.

First there was the question of what the trust fund surplus would be at the end of the authorization period, in fiscal year 1985.

If you took the S. 508 authorization program and applied against it the S. 1047 tax levels, the surplus in fiscal year 1985 would be \$8.9 billion, substantially more, than what it is today.

If, on the other hand, you took the S. 508 authorization levels and applied against them the S. 1272 tax levels, the surplus at the end of the authorization period would be about \$1 billion.

The final way of looking at the fiscal 1985 surplus would be in a sense unrealistic, because the administration spending levels were not adopted by the authorization committee. It heard testimony from various witnesses, and it elected to authorize the levels in S. 508.

But if you took the administration's spending levels and you applied against those spending levels the administration's tax proposals, that is to say, S. 1047, the surplus then would be \$2.5 billion.

I believe that clarifies the several end authorization period surpluses and I would like to now turn to an important question raised in what I felt was impressive testimony by Administrator Helms.

Should the taxes be higher today, the question would be, in order to provide a substantial surplus in 1985, in order to meet anticipated large spending programs.

Related to that, the derivative question, if you didn't have these tax levels higher today and had to raise them in fiscal year 1986, wouldn't that have an adverse effect on the users.

It is an important question on which I would like to comment. First, in general, I don't think you should overtax today for a need tomorrow, if in the process you are accumulating surplus that doesn't serve a useful purpose.

Second, based upon FAA projections and upon recent House testimony that Mr. Helms has given which was mentioned earlier, it is my understanding that the production buy of a large replacement computer system, if it is made, will be in the latter half of the 1980's, with the very large dollars, the production dollars, coming in the late 1980's.

Now it may well be, Mr. Chairman, that in looking at those dollars, at the end of this authorization period, that the tax levels would have to be raised, depending upon the incurrence of these new programs.

But I don't believe that if you, for example, at that time, were to propose that the tax on airline passengers and shippers should be raised from 3 percent to 6 percent, that would have a significant effect on either the airlines or their passengers or shippers.

Therefore, I believe we should fund today to meet the authorization program.

S. 508 can be adequately funded at the S. 1272 tax level. If at the end or near the end of the authorization period it appears as though those tax levels need to be changed, indeed increased, it would seem to me as far as the airlines are concerned, that could be done without any significant devastating effect.

Those represent points that I hope are useful to you as you review the record of the hearings. We support S. 1272. The airlines believe that they should pay their fair share. We have done that since the inception of the program in 1970. Government studies have indicated that airline passengers and shippers are paying their fair share and we expect to continue to do so.

Thank you very much.

Senator BYRD. Thank you, Mr. Ignatius.

Mr. Emery.

STATEMENT OF JOHN EMERY, CHAIRMAN, EMERY AIR FREIGHT CORP.

Mr. EMERY. Chairman Byrd, my name is John Emery. I am chairman and chief executive officer of little known, but highly regarded, Emery Air Freight.

I am here before you today to support S. 1272. We are willing to pay our fair share of the cost of developing an airport and airway system. I wanted to make that point very clear.

I think you are aware, Mr. Chairman, that basically people are day animals, but freight is a night animal. And because of that, I think there is a different consideration here to look at air cargo from a different perspective because of the congestion problems that create some of the need for these heavy investments for our airways.

I believe the tax burden should be imposed on different segments of the industry in proportion to the benefits they receive from the airport and airways program.

Perhaps, Mr. Chairman, an innovative idea might be to encourage more spreading of flights to off peak hours by offering an

incentive for nighttime air flights of various cargo and passenger flights and only tax those that are using the highly congested airways during the daytime when people want to travel.

I believe the airport and airways program principally benefit passenger transportation and cargo benefits are largely a byproduct of passenger benefits.

Today, Emery Air Freight is investing \$140 million in Dayton International Airport for the purpose of developing a new super hub. We consider that is our responsibility, not the Government's. We are pleased to be able to expand our business to the general good of the commercial business world.

If freight taxes are imposed, Chairman Byrd, the airport and airways program should assure that expenditures directly benefiting freight transportation are made under the program. In other words, something specific, if that is possible.

Finally, with most U.S. airlines, including members of the ATA, receiving less than 10 or 15 percent of their revenue from cargo, to encourage these airlines, the ATA members, to look at cargo as a new profit center to help their sometimes ailing bottom line, you might even think of not restoring any tax on air cargo.

By so doing, we will be able to keep the price of air cargo down by not having to pass along the additional tax and thereby, we think we can encourage the greater use of air cargo to the airlines' and our mutual profit.

Thank you, Mr. Chairman.

Senator BYRD. Thank you, Mr. Emery.

Mr. Ransome.

STATEMENT OF J. DAWSON RANSOME, PRESIDENT, RANSOME AIRLINE ASSOCIATION, ACCOMPANIED BY DWAYNE EKEDAHL, PRESIDENT, COMMUTER AIRLINE ASSOCIATION OF AMERICA,

Mr. RANSOME. Thank you, Mr. Chairman.

I would just like to state that the Commuter Airline Association of America supports S. 1272. I would like to turn it over to Mr. Ekedahl, president of our association, to summarize our position, and then I might have a few comments after that.

Senator BYRD. Very well.

Mr. EKEDAHL. Mr. Chairman, I am Dwayne Ekedahl. I'll summarize our statement.

No issue troubles our industry more than the delay in enactment of the Airport and Airway Development Legislation. At a time when our national aviation system faces increasing capacity constraints, we cannot afford to hold up this legislation any longer.

Equally troubling is the fact that failure by the administration and Congress and the aviation community to come together to enact this legislation during the past year has resulted in a diversion of more than \$100 million each month in passenger ticket taxes to the aviation trust fund, from the aviation trust fund, to the U.S. general revenue accounts where these moneys are not available for critical unmet safety and capacity needs of the aviation system.

The Commuter Airline Association favors the airline user tax as proposed under S. 1272, as Mr. Ransome has just stated. This bill

would establish domestic passenger ticket tax, 3 percent, and a cargo way bill tax of 2 percent, tax levels that are more than adequate to cover the 5-year, \$4.5 billion airport-airways capital improvement program contained in S. 508, as well as the \$4 billion FAA operations expense that are also covered in the bill.

The administration is seeking substantially higher tax levels than those contained in S. 1272. We encourage you not to adopt such levels. They cannot be supported on the basis of need or equity.

The administration proposal to impose a 6.5-percent passenger ticket tax and a 5-percent cargo way bill tax would result in an unconscionable \$9 billion trust fund surplus by 1986.

Further, with regard to equity and air carrier passengers and shippers already paying their share of allocated costs will continue to contribute nearly 90 percent of the income to the aviation trust fund under the provisions of S. 1272.

In a related matter, the Commuter Airline Association is adamantly opposed to passenger facility charge for head tax provisions that accompany S. 508.

Now while we recognize that such head taxes are not to be federally imposed, and therefore not the jurisdiction of this committee, their purpose would in effect be to meet a portion of the need now covered by the ticket tax.

We view head taxes as a very inefficient means of revenue generation for airport development. It will result in false economy for the air traveling public, particularly if we are faced with the possibility high ticket taxes, coupled with locally imposed, unregulated, and unlimited head taxes.

For commuter airlines the head tax issue raises many problems. They place a disproportionate burden on the short-haul traveler. They fail to recognize that substantially lower costs in providing terminal, ramp, and runway facilities to commuters over the heavy and larger jets utilized by the long-haul carrier.

Perhaps our biggest single concern with the head tax proposal is the administrative nightmare it would create for us. Commuters would be required to compute fares and remit head taxes not just to the airports they serve, but any airport in which they write a ticket.

For many small commuters the cost of such fare computation, paperwork, and reporting could possibly exceed the amount of the taxes collected.

So, for these and other reasons, we have raised in testimony before the Senate Aviation Subcommittee, the commuter airlines concerned in opposition about the enactment of any legislation that would permit head taxes, particularly if such taxes aren't accompanied by unreasonably high passenger ticket cargo way bill taxes as proposed by the administration.

Thank you for considering our views.

Senator BYRD. Thank you.

Mr. RANSOME. I would just like to once again reaffirm our concern in the area of head taxes. The average commuter just does not—is not equipped to administer head taxes. For that reasons, we just don't feel we possibly could.

I would also just like to simply state that we support the need for improved airways and ATC in this country. The commuters are more dependent today on the hub airport for access into our Nation's system and certainly we need great improvement in this area. We are very concerned about the \$5 billion unexpended and the \$3.8 billion uncommitted surplus that the users have paid for and simply have not gotten.

Thank you, Mr. Chairman.

Senator BYRD. Thank you, Mr. Ransome.

Am I correct in my thinking that commuter airlines have developed and expanded since the deregulation of the airlines?

Mr. RANSOME. Yes, sir. We have had very, very rapid expansion. I think deregulation has had a very strong impact on that. I think the cost of fuel has had about an equal impact on our expansion opportunities because of the jet aircraft that is moving out on a longer stage length now days to be economically viable.

The combination of the two offer a great opportunity for our industry.

Senator BYRD. I like that development. I think that it is very helpful to the various communities over the Nation. I have noticed it has been helpful in Virginia. I hope there will be continued expansion.

Mr. RANSOME. Yes, sir.

Senator BYRD. Mr. Ignatius, would you, for the record, capsule the basic differences between S. 1047 and S. 1272, just highlight the basic differences.

Mr. IGNATIUS. Yes, sir. I will furnish for the record, a detailed breakdown. But for the moment, the basic difference in those tax levels in terms of dollar magnitude would be a 3-percent domestic passenger tax for airline passengers under S. 1272, and a 6.5-percent tax for airline passengers and shippers under S. 1047.

[The following table was subsequently supplied to the committee:]

Insert # 1
 (Insert per line 13
 page 85 and line 16 page 86)

TRUST FUND INCOME COMPARISONS
 UNDER S.1047 AND S.1272 TAX LEVELS ^{1/}

(Millions of Dollars)

	<u>FY-82</u>	<u>FY-83</u>	<u>FY-84</u>	<u>FY-85</u>	<u>TOTAL</u>
<u>S.1047 TAX LEVELS</u>					
Ticket Tax (6½%)	1794.6	1996.8	2218.4	2455.0	8464.8
Waybill Tax (5%)	98.5	115.0	136.0	162.0	511.5
International Tax (\$3.00)	85.8	90.0	94.5	99.0	369.3
Fuel Tax ^{2/}	189.6	337.2	501.4	619.6	1647.8
Tires and Tubes	1.1	1.1	1.1	1.1	4.4
TOTAL	2169.6	2540.1	2951.4	3336.7	10997.8

	<u>FY-82</u>	<u>FY-83</u>	<u>FY-84</u>	<u>FY-85</u>	<u>TOTAL</u>
<u>S.1272 TAX LEVELS ^{3/}</u>					
Ticket Tax (3%)	828.3	921.6	1023.9	1133.1	3906.9
Waybill Tax (2%)	39.4	46.0	54.4	64.8	204.6
International Tax (\$1.00)	28.6	30.0	31.5	33.0	123.1
Fuel Tax (8½¢)	95.7	100.8	106.1	110.9	413.5
Tires and Tubes	1.1	1.1	1.1	1.1	4.4
TOTAL	993.1	1099.5	1217.0	1342.9	4652.5

DIFFERENCES BETWEEN S.1047
 AND S.1272 TAX LEVELS

Ticket Tax	966.3	1075.2	1194.5	1321.9	4557.9
Waybill Tax	59.1	69.0	81.6	97.2	306.9
International Tax	57.2	60.0	63.0	66.0	246.2
Fuel Tax	93.9	236.4	395.3	508.7	1234.3
Tires and Tubes	-	-	-	-	-
TOTAL	1176.5	1440.6	1734.4	1993.8	6345.3

^{1/} Income estimates are based upon FAA projections of 3/18/81, adjusted for tax structure changes.

^{2/} Fuel Tax rates are as follows:

	<u>AV. GAS</u>	<u>TURBINE</u>
FY-82	12¢	20¢
FY-83	18¢	35¢
FY-84	24¢	50¢
FY-85	30¢	58¢

^{3/} Aircraft registration fees, amounting to about \$15 million per year have been excluded.

The other significant difference would be in the tax on general aviation fuel. In S. 1272, the tax is 8.5 cents per gallon. In S. 1047 it rises to a substantially higher number.

Now in terms of dollars, if you took the 4 years beginning in fiscal year 1982, assuming these taxes won't be enacted to have effect until fiscal 1982, which begins October 1, 1981, just a few months from now.

If you take the amounts of income projected under S. 1272, in that 4-year period, it would be about \$4.7 billion.

If you took the amount projected under S. 1047 it would be about \$11 billion. The most significant aspects being the 6.5-percent passenger tax and the general aviation tax.

If you took the general aviation tax in S. 1272, at 8.5 cents a gallon, it begins at about \$95 million projected income beginning in fiscal 1982, rising to about \$110 million of income in fiscal year 1985. The ticket tax, at 3 percent, in S. 1272 would produce, we project, about \$830 million in 1980, rising to \$1,130 million in 1985.

The levels in S. 1047 would be higher, as I said, in those two categories particularly, and I will furnish those numbers for the record.

Senator BYRD. Do you support the administration's interest in replacing the air traffic computer system?

Mr. IGNATIUS. I believe that at a later point in time it probably will be necessary to replace the present computer system to provide additional capacity that is needed and to take advantage of development in computer technology.

We expect, in this country, to see a very large increase in airway system use in this decade, principally from the rapidly increasing general aviation usage.

The number of airplanes in the air carrier fleet is fairly stable. It is around 2,500, plus or minus 100 or so.

The rapid growth is in the general aviation field and, within that growth, the jets and turboprops as Administrator Helms earlier testified, represent the rapidly growing portion.

I suppose then, we are going to have to have additional computer capacity for both this rising need, as well as to provide a better computer capability in terms of the effectiveness of the system.

It is my understanding the computer replacement buy will occur in the latter half of this decade, although a decision to do it could well be made before 1985.

Senator BYRD. Mr. Ignatius, would the Air Transport Association support raising the airline ticket tax in fiscal 1986 or even fiscal 1985 if the Administration decided upon a computer replacement program which exceeded the funds available in the trust fund?

Mr. IGNATIUS. We have always taken the position that the first consideration in this legislation is to meet the operational and safety needs of the airport and airways system, and having determined what those needs were, then the tax program should be adequate to fund the agreed upon program level.

We support the taxes that are proposed for us in S. 1272, because they will meet the authorization program established in S. 508.

Now, if in 1985, the program requires dollars for computers and other purposes to meet safety needs beyond what can be funded at the 3-percent domestic tax, then I believe that the tax that airline

passengers and shippers pay, as well as the taxes that other users of the system pay, principally general aviation, should be increased.

Certainly there will be no difficulty from our standpoint. I or my successor, whomever he may be in 1985 or later, will not have any difficulty advocating higher taxes to meet operational and safety needs, if in fact they are required.

Senator BYRD. The FAA Administrator has testified that he feels and the administration feels that the user tax should pay 85 percent of the cost and the general fund should pay 15 percent of the cost because of military aircraft and so forth.

Do you feel that is about the appropriate level?

Mr. IGNATIUS. I think it is in the ball park, Mr. Chairman. There have been three studies of this. This greenbound book is the 1973 study that the Department of Transportation did at the request of the Congress.

At that time, they said that air carriers should pay 50 percent of the cost, general aviation should pay 30, and the military should pay 20.

Most recently, Mr. Helms and his assistant from the Budget Office said that the breakdown should be military 15, instead of 20, as it appeared then; air carriers, 58 percent, as opposed to 50 percent, in this study and general aviation, 27 percent, as opposed to 30 percent in this study.

So, they have gone up a little bit on the air carriers. They have gone down a little bit on the military and on the general aviation.

Senator BYRD. In general it is pretty close.

Mr. IGNATIUS. It is not too far different. It is not fundamentally different. The real question I think isn't what the allocable share is. There have been three studies and they have all come out reasonably the same.

The question is, to what extent are the users meeting their allocable shares. Airline passengers and shippers have been paying about 90 percent of the dollars going into the trust fund.

If you look at trust fund income, actually more than 90 cents out of every \$1 of trust fund income is coming from airline passengers and shippers and less than 10 cents out of each \$1 is coming from the general aviation community.

I think the Congress needs to look at this. There are about 200,000 general aviation airplanes today. There are about 2,500 air carrier airplanes.

Now, ours tend to be bigger, on the whole, and many of the general aviation aircraft are very small airplanes that are used primarily for recreational flying.

But if you look ahead—and this legislation is looking ahead for the next 5 years through fiscal 1985—in that period, the number of sophisticated jet and turboprop airplanes will grow according to Mr. Helms' testimony, to virtually four times the number that the commercial airlines operate.

So, under those circumstances, does it make sense, does common-sense prevail if one category of users contributes 90 cents out of each \$1 and another category of users contributes about 10 cents out of each \$1?

I think it is something that ought to be considered.

Senator BYRD. The figures you quoted for the business aircraft would increase to 6,000; is that the figure?

Mr. IGNATIUS. Mr. Helms said that during the decade he expected that there would be a total of 13,500 pure jet and turboprop business aircraft, if I heard him correctly this morning. He broke that down. I believe there were 6,000 of one and 7,500 of the other for a total of 13,500.

Senator BYRD. The total now is about 2,500?

Mr. IGNATIUS. He said there were somewhat more than 2,500, but I would like to check that, because I believe that figure is just pure jet.

[NOTE.—The information was checked and is correct.]

The total, if you include turboprops today, I believe is higher than that, Mr. Chairman.

They are very important. There has never been any question in our minds about that. General aviation is a very important aspect of the air transport system and is becoming increasingly so, particularly in the use of business aviation, to decentralized communities.

There is no argument on that. The question is: What is an allocable share and what is a fair share for each user? and there can be differences of opinion on it, but the important thing, I think, is that users pay their fair share and that some attempt be made to establish equity. It is always a difficult task to decide just what is the equitable thing to do.

Senator BYRD. Well, commercial aviation, the airlines, has the fuel costs stabilized and not just because of the fact that the price of gasoline is stabilized. Have fuel economy measures been introduced?

Mr. IGNATIUS. We have made a number of fuel economy measures where we are able, as a result of more efficient engines and more efficient use of our fleet, to fly many more passengers and many more hours with less fuel than we previously consumed.

The second point is that very recently, in the last month or two, we have seen a stabilization to some extent of the price of jet fuel as a manifestation of the current supply-demand situation for petroleum generally.

This was welcome relief, because our prices, Mr. Chairman, as I am sure you know, increased tenfold from about 10 cents a gallon, in 1973, before the Arab oil embargo, to more than \$1 today domestically and substantially more than that for international jet fuel.

It has been a really fundamental change in the economics of the commercial airline. But in the last month or so, we have seen some stability. I hope it will continue, but some of the forecasts I have seen suggests we are having a temporary respite.

Senator BYRD. Has speed been reduced as an economy measure?

Mr. IGNATIUS. Very modestly. We have reduced speed, for example, on the transcontinental trip to the effect that a cross-country trip may take 10, 12, or 15 minutes more, than it previously did, with a very significant saving in jet fuel. It is not unlike the consumption of fuel in driving an automobile. You consume more as your speed over the highway increases, just as you do as your speed through the airways increases.

Senator BYRD. Thank you very much, gentlemen.

[The prepared statements of the preceding panel follow:]

SUMMARY OF STATEMENT OF PAUL R. IGNATIUS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AIR TRANSPORT ASSOCIATION OF AMERICA

The Air Transport Association, which represents the scheduled airlines of the United States, is testifying regarding the appropriate airline passenger and shipper taxes to support the Airport and Airway Trust Fund programs for fiscal years 1981 through 1985.

In summary the airlines recommend that tax levels for airline passengers and shippers to support the program established in S. 508 (Airport and Airway System Development Act of 1981) should be as proposed in S. 1272, specifically: Domestic passenger tax of 3 percent; International facilities fee of \$1.00; and Domestic cargo tax of 2 percent.

These tax levels, together with appropriate levels for general aviation, will support the authorized program while retaining a more than adequate surplus in the Airport and Airway Trust Fund throughout the five year authorization period. Taxes higher than these recommended levels will unnecessarily burden airline passengers and shippers and produce an excessive Trust Fund surplus. The airlines believe that the user taxes on airline passengers and shippers should be no higher than is necessary to fund the program.

STATEMENT OF PAUL R. IGNATIUS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AIR TRANSPORT ASSOCIATION OF AMERICA

Mr. Chairman and Members of the Committee; on behalf of the scheduled airlines, I appreciate the opportunity to discuss the Airport and Airway Trust Fund and the taxes on airline passengers and shippers, matters of vital importance to the scheduled airlines. I am accompanied by John E. Ralph, Senior Vice President-Operations and Airports, and William M. Hawkins, Vice President-Finance and Taxation, of the Air Transport Association.

In May, the Committee on Commerce, Science and Transportation reported the Airport and Airway System Development Act of 1981 (S. 508) which authorizes the Airport and Airway Trust Fund expenditures for the fiscal years 1981 through 1985. The expenditure and authorization levels included in S. 508 are as follows: ADAP Grant in Aid—\$450 million per year from fiscal years 1981 thru 1985; Facilities and Equipment—\$400 million in 1981 increasing to \$750 million in 1985; Research and Development—\$90 million in fiscal year 1981 increasing \$5 million per year to \$110 million in 1985; and Operations and Maintenance—\$700 million in 1981 climbing to \$900 million in 1985.

ADAP grant in aid authorizations are substantially lower than levels in previous years because the 69 largest airports are "defederalized"; that is, they will no longer receive ADAP grants. However, they would be permitted under the legislation to collect a passenger facilities charge to replace the lost federal revenues, and the proceeds of the charge must be used for eligible capital improvements. Thus, if S. 508 is enacted, passengers enplaning at the defederalized airports may be expected to pay a fee to the airport to be used for capital improvements.

S. 508 proposes to fund 100 percent of the U.S. Government capital costs of the airport and airway system through the user financed Trust Fund. At the same time, the authorization legislation includes a significant increase in the level of user contributions to FAA's Operations and Maintenance expenses. The measure as reported will take \$4 billion of Trust Fund money for O&M during the five years of the program. The issue now before this Committee is what are the appropriate tax levels to fund the programs authorized under S. 508, taking into consideration the present balance in the Trust Fund.

Mr. Chairman, you said in a letter to your Finance Committee colleagues last September that the Finance Committee needed to act on a five-year revenue measure as a companion to the authorization legislation, one that would insure that the safety needs of the air transportation system were met and that would bring the Trust Fund into better balance at the end of five years. At that time you made recommendations to the Committee to reduce the ballooning surplus and provide needed tax relief for airline passengers and shippers, while still maintaining the solvency of the Trust Fund.

The position you supported last September, Mr. Chairman, and the objectives you sought are still worthy of pursuit. The exorbitant overpayment of taxes borne by airline passengers and shippers during the past 10 years must not be continued, and the program must be brought into better balance.

Two bills have been introduced dealing with these taxes. The first, S. 1272, introduced by the Chairman and ranking minority member of the Senate Aviation

Subcommittee, would establish the domestic passenger tax at 3 percent, the international departure tax at \$1, and the cargo tax at 2 percent. Additionally, it would establish a tax of 8½ cents per gallon for fuel used in non-commercial aviation. S. 1272 also imposes a registration and weight tax on the airlines that would amount to approximately \$15 million per year. While this amount is relatively small in comparison to the passenger and shipper taxes, it necessitates a burdensome administrative task for both the airlines and the IRS. Accordingly, we believe it should not be enacted and have eliminated it from our Trust Fund projections in Exhibit I.

As shown in Exhibit I, the balance in the Trust Fund at the end of fiscal year 1985 would be reduced from its present swollen level to a reasonable and prudent level of about \$1 billion. The airlines strongly support the passenger and shipper tax levels contained in S. 1272 as shown in Exhibit I.

Under S. 1272, air carrier passengers and shippers would be paying nearly 90 percent of the income in the Trust Fund. Additionally, during the fiscal year ending September 30, 1981, airline passengers will have paid approximately \$1.3 billion into the U.S. Treasury as a result of the 5 percent domestic passenger tax, while other users of the airport and airway system paid an insignificant amount. The airlines believe that, in fairness, these amounts should be transferred to the Airport and Airway Trust Fund. If the taxes collected during fiscal year 1981 were transferred to the Trust Fund, the surplus at the end of fiscal year 1985 would be nearly \$2.5 billion. The second bill, S. 1047, the Administration's proposal, sets the airline passenger ticket tax at 6.5 percent, international facilities tax at \$3, the cargo tax at 5 percent, and the taxes on general aviation jet fuel at 20 cents per gallon in fiscal year 1981, increasing to 58 cents per gallon in fiscal year 1985. Taxes on aviation gasoline would be set at 12 cents per gallon, increasing to 30 cents per gallon by fiscal year 1985. If these tax levels were enacted along with S. 508, the surplus in the Trust Fund at the end of fiscal year 1985 would be nearly \$8.9 billion as compared to the \$3.8 billion surplus at September 30, 1980.

Surpluses have accrued because expenditures and Trust Fund income, for the most part, have not been related to one another during the 10 year life of this program. The current surplus coupled with the authorizations contained in S. 508 warrant a significant reduction in the passenger tax from the present 5 percent to 3 percent. There is no justification for setting tax levels higher than necessary to fund the authorized programs. Such a proposal is inconsistent with current efforts to reduce taxes.

Of considerable concern to the airlines is the effective date of the new taxes. Airline tickets for taxable transportation are sold by more than 18,000 travel agents and approximately 5,000 airline ticketing locations in the U.S., as well as by airlines and agents worldwide. Additionally, computers are used to calculate fares and amounts payable for such transportation. In order to implement the changed tax levels, the airlines will need notice well in advance. Therefore, it is recommended that tax rates be effective 60 days after enactment, and, in the case of passenger taxes, apply only to tickets sold after the effective date.

In addition, the airlines have specific recommendations for technical improvements in the law regarding the application of the taxes. These improvements, if enacted, would reduce the administrative burdens placed upon the airlines and the more than 18,000 travel agents in calculating the amount of tax to be paid by passengers on travel to and from Hawaii and Alaska and on travel to Canada. They would also eliminate the requirement to allocate the taxes to flight segments on the ticket. The specific recommendations are appended to my statement.

In summary, Mr. Chairman, the airlines recommend that tax levels for airline passengers and shippers to support the program established in S. 508 should be as proposed in S. 1272, specifically: Domestic passenger tax of 3 percent; International facilities fee of \$1; and Domestic cargo tax of 2 percent.

These tax levels, together with appropriate levels for general aviation, will support the authorized program while retaining a more than adequate surplus in the Airport and Airway Trust Fund throughout the five year authorization period. Taxes higher than these recommended levels will unnecessarily burden airline passengers and shippers and produce an excessive Trust Fund surplus. The airlines believe that the user taxes on airline passengers and shippers should be no higher than is necessary to fund the program.

EXHIBIT I.

TRUST FUND PROJECTION, S. 1272 TAX LEVELS ¹

[In millions of dollars]

	Fiscal year—				
	1981	1982	1983	1984	1985
Trust fund income.....		993.1	1,099.5	1,217.0	1,342.9
Prior year's surplus.....	*3,803.0	2,674.0	2,337.0	1,946.0	1,554.2
Total.....	3,803.0	3,667.1	3,436.5	3,163.0	2,897.1
Less authorizations.....	1,640.0	1,745.0	1,900.0	2,005.0	2,210.0
Balance.....	2,163.0	1,922.0	1,536.5	1,1518.0	687.1
Plus interest ²	511.0	414.9	409.5	396.2	371.4
Surplus.....	2,674.0	2,337.0	1,946.0	1,554.2	1,058.5
Income: ⁴					
Ticket tax (3 percent).....		828.3	921.6	1,023.9	1,133.1
Waybill tax (2 percent).....		39.1	46.0	54.4	64.8
International tax (\$1).....	28.6	30.0	31.5	33.0	
Fuel tax (8½ cents).....		95.7	100.8	106.1	110.9
Ties and tubes.....		1.1	1.1	1.1	1.1
Total.....		993.1	1,099.5	1,217.0	1,342.9
Authorizations: ⁶					
ADAP.....	450.0	450.0	450.0	450.0	450.0
F&E.....	400.0	450.0	550.0	600.0	750.0
R&D.....	90.0	95.0	100.0	105.0	110.0
M&O.....	700.0	750.0	800.0	850.0	900.0
Total.....	1,640.0	1,745.0	1,900.0	2,005.0	2,210.0

¹ Aircraft registration fees, amounting to about \$15 million per year, have been excluded.² Fiscal year 1981 prior year's surplus obtained from FAA.³ Fiscal year 1981 interest obtained from fiscal year 1982 budget estimates. The remaining interest amounts are computed at 9 percent of unexpended balances.⁴ Income estimates are based on FAA projections of March 18, 1981, adjusted for tax structure changes.⁶ Authorizations are from S. 508 as reported by the Senate Commerce Committee.

PROBLEMS AND RECOMMENDED SOLUTIONS IN ASSESSMENT AND COLLECTION OF TAXES ON AIR TRANSPORTATION

I. APPLICATION OF THE TAX TO TRANSPORTATION BETWEEN THE CONTINENTAL U.S. AND HAWAII OR ALASKA AND BETWEEN ALASKA AND HAWAII

Under Section 4261 and Regulations 49.4261-3(c), a trip between points in the U.S. and Hawaii/Alaska must be divided into taxable and non-taxable portions. In the Regulation, two methods are provided as follows: (a) prorate based upon "mileage of the taxable portion" to total mileage or (b) basis of the applicable local fare for transportation. This regulation was issued as TD 6430 which reflected the law prior to the enactment of the Airport and Airways Revenue Act of 1970.

The airlines, with the encouragement of the CAB and the Congress, have published dozens of joint fares from a large number of cities in the United States, both large and small. Since airline transportation is sold through over 18,000 travel agent outlets and a large number of airline ticket offices, the calculations required by the present law and regulations are complex and time-consuming to administer and have become extremely burdensome.

Recommended solution.—A new provision be added to Section 4261 which would apply a standard tax rate to all travel between the continental U.S. and Alaska or Hawaii and between Alaska and Hawaii. The provision requiring the trip to be divided should not be re-enacted. Since a substantial portion of these trips are flown outside the continental United States, a lower rate of tax than that applied to mainland travel is recommended.

II. THE 225-MILE BORDER ZONE IN DEFINING TAXABLE TRANSPORTATION—SECTION 4262

Transportation sold in the United States and performed solely within the 225-mile zone in Canada or between U.S. points and Canadian points in the 225-mile zone is treated as domestic transportation subject to the 5 percent tax. This results in the collection of a U.S. airport and airway system "user charge" when no or limited service is performed. It has also invited retaliation, and the Canadian government is presently taxing transportation involving Canadian airports without regard to where the ticket is sold. Thus, a ticket sold in New York for round-trip transportation between New York and Montreal bears a 9 percent tax since, under U.S. law, a ticket purchased in the U.S. for transportation solely between these two airports is taxed at 5 percent as though both were located in the United States. The Canadian transportation tax also applies at the rate of 4 percent.

Recommended solution.—The concept of the 225-mile border zone should be eliminated by the repeal of Section 4262 and both Canada and Mexico should be treated as international air transportation, the same as all other countries in the world. Additionally, the Administration should commence negotiation with the Canadian government to reduce its taxes on U.S. citizens traveling into and out of Canada.

III. REQUIREMENT TO ALLOCATE TOTAL TAX PAID BY SEGMENT OF TRANSPORTATION—SECTION 7275 (A) (2)

When the Airport and Airways Revenue Act of 1970 was passed, Section 7275 was enacted to provide that the ticket should not reflect a breakdown between taxes and transportation charges if all of the transportation was taxable. Subsequently, a portion of this provision was deleted, but there still is a requirement in Section 7275(a)(2) that "if the ticket shows amount paid with respect to any segment of such transportation", it shall show the total of the amount paid for transportation and tax "with respect to such segments as well as with respect to the sum of the segments". Inasmuch as this requires that the fare construction ladder in the upper left-hand corner of the ticket reflect taxes on a segment-by-segment basis, it requires showing superfluous tax information of no meaning to the passenger, the airline, or the Treasury.

Recommended solution.—Repeal Section 7275(a)(2).

IV. THE "6-HOUR RULE" FOR UNINTERRUPTED INTERNATIONAL AIR TRANSPORTATION

The term "uninterrupted international air transportation" describes a trip by air beginning in one country and ending in another country. This trip may require several intermediate stops including one or more flight connections on different airlines. For example, a trip from Denver to Hong Kong may require one flight from Denver to Honolulu with an intermediate stop in San Francisco, a second flight on a different airline from Honolulu to Tokyo, and a third flight from Tokyo to Hong Kong. Another example would be a journey which begins in London and ends in Kansas City with flights from London to New York, New York to Chicago and Chicago to Kansas City.

Under the proposed law the \$1 international departure charge would apply to the first example unless the interval between flights at San Francisco or Honolulu exceeded six hours, in which case the 3 percent passenger tax would also apply. In the second example the 3 percent tax would not apply regardless of the length of the interval or the number of stops.

These two examples point up the administrative problem of dealing with the interval between flights. The "6 hour" concept dates back to the early days of the passenger tax when the international departure point was limited to a few coastal cities, New York, Miami, Seattle, for example, and it was necessary to board the international flight at one of them.

Now international flights also originate at a great many interior cities, such as Chicago, Denver, Dallas and Kansas City. Therefore, today's passenger has a choice of cities from which to arrange his departure to a foreign destination. In addition, he will usually have a choice of airlines providing the service he desires as well as a choice of departure cities. This has resulted in a situation where the "6 hour" interval has little significance from the passenger viewpoint, but causes a significant administrative problem for the travel agent or airline selling the ticket. The passenger's itinerary must be analyzed to ascertain whether a stopover is scheduled. If one is scheduled, whether it is due to a change in flights or a transfer between airlines or both, if the stopover exceeds 6 hours the 3 percent tax must now be collected.

Recommended solution.—Eliminate the arbitrary "6 hour" interval from the present law. This will treat all international passengers the same whether they start

their journey from a point within or outside of the United States. A passenger who purchases transportation beginning in the United States and ending outside will pay only the \$1 international departure charge.

PREPARED STATEMENT OF JOHN C. EMERY, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, EMERY AIR FREIGHT CORP.

Emery Air Freight is—and long has been—the premier air freight forwarder in the nation. Its success, and the valuable service it provides to the shipping public, depend in substantial part on the airport and airways system maintained by the federal government. For that reason, Emery believes it should pay its fair share of the cost of the system. However, Emery also believes others, such as general aviation, must do the same.

Both of the bills before you would place an inordinate tax burden on air cargo transportation relative to the tax burden on passenger transportation. Senate Bill No. 1047 would re-impose a full 5 percent air freight tax while reducing the passenger tax from its previous level of 8 percent to 6.5 percent, and Senate Bill No. 1272 would impose a 2 percent tax on freight while reducing the passenger tax to 3 percent. These bills would require Emery and its customers to pay for new and improved facilities designed to meet passenger needs.

Reimposition of a 5 percent freight tax at a time when passenger ticket taxes are being reduced from prior levels would seem particular inequitable. Imposition of a 2 percent tax on air freight when passenger taxes would be reduced to 3 percent would fail to reflect the relative costs of benefits to passengers and cargo services from Airways and Airport Development Act (ADAP) airport and airways programs.

Expenditures under the ADAP airport and airways program primarily benefit passenger traffic and, I believe, any benefits to cargo traffic are a byproduct of expenditures made to accommodate passenger traffic. Passenger flights are scheduled for prime daylight hours, the time when most passengers want to fly. Cargo, however, is a night animal and its prime time is in the middle of the night when there are very few passenger flights operating. This prime time passenger demand places the principal strain on the airport and airways system during the day and early evening; and thus causes both capital expenditures which would not be required for freight transportation, and high operating costs for peak periods.

By contrast, the very nature of all-cargo aircraft movement requires nighttime operations so that parts and produce can be shipped at the end of the working day and arrive at the destination airport before sunrise. Thus, air cargo principally uses the airport and airways system when demand is at its lowest level and, therefore, should be priced on an added-cost basis in determining an appropriate tax.

Cargo waybill taxes contributed over \$239 million to the Aviation Trust Fund in fiscal year 1976-79, and the percentage of trust fund revenues contributed to waybill taxes increased steadily from fiscal 1977 to fiscal 1979. Nevertheless, airport and airway expenditures continue to be made to benefit passengers, not air cargo.

Because the airport and airways program itself focuses primarily on the needs of passengers, funding from the program has been designed to facilitate passenger transportation and separate cargo facilities have been self-supporting. For instance, Emery itself is developing a major cargo hub facility in Dayton, Ohio at a cost of approximately \$140 million during the next five years.

If air freight taxes are imposed, the airport and airways program should assure that expenditures directly benefiting freight transportation are made under the program.

We believe the tax levels in Senate Bill No. 1272, in conjunction with limited expenditures from the existing Aviation Trust Fund balance, are more than adequate to cover reasonably projected expenditures for airport and airways program. Money paid by aviation consumers has too long been tied up in the Aviation Trust Fund, and I believe it is time for a gradual drawing down of the trust fund balance for appropriate expenditures. If the trust fund balance is greatly reduced as a result of these expenditures, and additional expenditures are required to meet airport and airway requirements, tax levels might then be increased. Until that time, however, we urge that tax levels should be kept as low as possible.

For these reasons, Emery believes that the freight tax should in no event exceed the 2-percent level in Senate Bill No. 1272. If passenger ticket taxes are reduced to the level of 3 percent as proposed in Senate Bill No. 1272, the freight tax based on the historic ratio between passenger and freight taxes would be no higher than 1.9 percent.

PREPARED STATEMENT OF DUANE H. EKEDAHL, PRESIDENT, COMMUTER AIRLINE
ASSOCIATION OF AMERICA

I am Duane H. Ekedahl, President of the Commuter Airline Association of America. Joining me today are J. Dawson Ransome, Chairman of the CAAA Government Relations Committee and President of Ransome Airlines, and Alan R. Stephen, CAAA Vice President of Operations. We are pleased to have this opportunity to express the views of the nation's short haul passenger and cargo airlines regarding aviation user taxes.

No single issue troubles our industry more than the delay in enactment of airport and airways development legislation, S. 508, now pending before the Senate. At a time when our National Aviation System faces increasing capacity constraint and with it, delay and congestion that erodes the productivity and profitability of commuter airline service, we can little afford to hold this legislation up much longer. Equally troubling, the failure of the Administration, the Congress and the aviation community to come together to enact this legislation during this past year has resulted in the diversion of more than \$100 million each month in residual passenger ticket taxes from the Aviation Trust Fund to the U.S. general revenue accounts where these monies are not available for the critical, unmet safety and capacity needs of the aviation system.

The CAAA favors the airline user taxes proposed in S. 1272, introduced by the Chairman and ranking minority member of the Senate Aviation Subcommittee. This bill would establish a domestic passenger ticket tax of 3 percent and a cargo waybill tax of 2 percent, tax levels that are more than adequate to fund the five year, \$4.5 billion airport/airways capital improvement program contained in S. 508, as well as the \$4 billion of the FAA operations expenses that was also proposed in this bill.

The Administration is seeking substantially higher taxes than those contained in S. 1272. We urge you not to adopt these tax levels. They cannot be supported on the basis of need or equity. The Administration proposal to impose a 6½-percent passenger ticket tax and a 5-percent cargo waybill tax would not only fund the capital improvement program levels and FAA operations expenses contained in S. 508, but result in an unconscionable \$9 billion trust fund surplus by 1986. Further, with regard to equity, air carrier passengers and shippers already paying their share of allocated costs, will continue to contribute nearly 90 percent of the income to the aviation trust under the provisions of S. 1272.

The CAAA is adamantly opposed to the passenger facility charge or "head tax" provisions that accompany S. 508. While we recognize that such head taxes are not to be federally imposed, and therefore, are not the jurisdiction of this Committee, I do want to make clear that we view head taxes as an inefficient means of revenue generation for airport development and importantly, in truly false economy for the air travelling public who are faced with the possibility of high ticket taxes with locally imposed, unregulated head taxes.

The passenger facility charge contained in S. 508 would be permitted not only at the 69 airports that would be defederalized, but as well, at any airport that voluntarily defederalized. Since there is no longer a limitation that such head taxes could not exceed lost ADAP revenues, the decision to defederalize for many airports would quickly result from a simple question, "how can I receive the most money?" Thus, not only are passengers likely to bear a higher cost burden than they have previously under the ADAP program, but per the S. 508, they would also have to bear the cost of administering an extremely inefficient tax collection scheme.

For commuter airlines, the head tax issue raises far greater problems. Will head taxes prove to be an adequate mechanism for funding construction programs at defederalized airports? Will these taxes be equitable to short haul air travellers? Will head taxes recognize the substantially lower costs in providing terminal, ramp and runway facilities to commuters over the heavier and larger jets utilized by the long haul carriers?

Perhaps our single greatest concern with head taxes, as proposed by S. 508, is that commuter air carriers will be required to compute fares and remit head taxes not just to the airports they serve, but to any airport on which they write a ticket. For many small commuters, the cost of such fare computation, paper work and reporting could possibly exceed the amount of the head tax collected.

For these, and many other reasons that we have raised in testimony before the Senate Aviation Subcommittee, the CAAA and the commuter airline industry must oppose enactment of any legislation that permits head taxes, particularly if such taxes are accompanied by the unjustified and unreasonable passenger ticket and cargo waybill taxes proposed by the Administration.

Thank you for your interest in the views of the Commuter Airline Association. We would be pleased to answer any questions you may have.

Senator BYRD. The final panel, Mr. William H. Power, manager, legislation and industry affairs, National Air Transportation Association, Washington, D.C., and Mr. Robert A. Richardson, executive director, Helicopter Association International, Washington, D.C.

Welcome, gentlemen.

Mr. Power.

STATEMENT OF WILLIAM H. POWER, MANAGER, LEGISLATION AND INDUSTRY AFFAIRS, NATIONAL AIR TRANSPORTATION ASSOCIATION

Mr. POWER. Thank you, Mr. Chairman.

I am William H. Power, manager, legislation and industry affairs, National Air Transportation Association.

Before I begin today, I would like to congratulate this subcommittee on its initiative and foresight in scheduling these hearings to examine the aviation trust fund taxes and to thank you for the opportunity to present NATA's views.

This is the only organization representing the Nation's air taxi carriers and ground service support organizations, commonly known as fixed-base operations or FBO's.

NATA has historically advocated aviation tax levels adequate to support the U.S. air transportation system without creating a huge surplus in the aviation trust fund.

We feel the legislation before you today, S. 1272 will accomplish that goal in a reasonable manner which is equitable to all users.

The administration has proposed aviation taxes which will support the system cost and generate a tremendous trust fund surplus by 1986.

As you know, the rationale behind their proposal is to have enough money in the trust fund to purchase computer equipment to modernize the air traffic control system.

While we agree the ATC system needs upgrading, we feel it is unfair to require users to fund such a program until that system's requirements are defined.

As FAA Administrator Lynn Helms stated in testimony on the ATC system before the Aviation Subcommittee of the House Science and Technology Committee, it is difficult to define computer size, architecture and reliability until you have defined the systems that will lay demands on and establish requirements for the new computer system.

In short, the administration's proposal is asking the aviation community to fund the modernization of a computer system sight unseen, the cost of which has not yet been defined.

We vigorously object to issuing a blank check for such an expenditure.

In our view, the decision to establish taxes is to pay for this modernization should be deferred until the total cost of such a project is clearly identified.

While NATA supports S. 1272, we feel the civil aircraft user tax provision should either be modified to include private as well as commercial aircraft or eliminated all together.

Many fixed base operators utilize the same aircraft for both commercial and noncommercial purposes. The current language in S. 1272 will unfairly require those operators to pay the user tax

regardless of the proportion of time the aircraft is used in noncommercial aviation.

In addition, from both the Government's and the users' standpoint, the administration of the tax that generates as little revenue as the aircraft user tax is simply an unneeded and uneconomical burden.

We recommend total abolishment of the aircraft user tax provision.

In summary, the National Air Transportation Association believes that S. 1272, with the one minor change we have suggested, is a reasonable and equitable approach to aviation taxation.

Thank you.

Senator BYRD. Thank you, sir.

Mr. Richardson.

STATEMENT OF ROBERT A. RICHARDSON, EXECUTIVE DIRECTOR, HELICOPTER ASSOCIATION INTERNATIONAL

Mr. RICHARDSON. Mr. Chairman, thank you very much for this opportunity to appear before you today. I am Robert A. Richardson, executive director, Helicopter Association International.

We have submitted a written statement for the record. I would like to turn to the specifics of that statement in summary.

Senator BYRD. Yes; it will be published in full and you may summarize it.

Mr. RICHARDSON. Thank you, sir.

On the subject of user taxes, Mr. Chairman, this industry feels that the fuel tax should be no more than 5 cents per gallon until such time as the unallocated balance of the airport and airway trust fund reaches a level of approximately \$500 million.

At such time, an aviation fuel tax, commensurate with the need to sustain a logical level of funding for the trust fund, taking into consideration other sources of revenue, but not to exceed 7 cents per gallon, may be imposed.

There should be no differentiation in the tax per gallon as between jet fuel and aviation gasoline.

As a trade off, for the above reasonable fuel tax structure, this association would have no objection to the assessment of excise, air freight and way bill and vehicle registration way taxes at the levels in effect as of September 30, 1980.

The air passenger transportation tax should remain at 5 percent until such time as the unobligated balance in the trust fund reaches approximately \$500 million.

This tax should then be raised to the 8 percent level existing as of September 30, 1980.

Finally, for certain helicopter operations, fuel taxes should be exempted as provided in attachment A, to our written statement.

I would like to quote the specifics of that, if I may, because it is extremely important to this industry.

In attachment A,

Exemptions for certain uses. Under regulations proscribed by the Secretary, no tax shall be imposed under this section on any liquids sold for use or used in a helicopter for the purposes of (1), the planting, cultivation, cutting or transportation of or caring for trees, including logging operations, or (2), transporting individuals, equipment or supplies and the exploration for or the development or removal of natural resources, provided that both the origin and destination airports or heli-

ports of the helicopter flight involved are facilities which do not receive assistance under the Airport and Airway Development Act of 1970.

On the trust fund, the airport and airway user trust fund should be removed from the unified Federal budget so that withdrawals will not be considered as expenditures chargeable against the general revenues of the Treasury.

The trust fund should be used only to defray FAA costs as provided in the Airport and Airway Development Act of 1970, that is, funding aid for airport-heliport development, capital expenditures for airways and air traffic control facilities, F. & E., and research and development R. & D. and associated demonstration projects.

However, the FAA should be authorized and directed to transfer to NASA funds allocated to it from the trust fund in the field of research and development in cases where NASA may be equipped and staffed more efficiently to carry out specific tasks.

Additionally, airport-airway trust funds should be made available to provide investment incentives or user tax credits to encourage civil aviation users to acquire advanced airborne air traffic control equipment which will contribute to increased safety and efficiency in the National Air Transportation System.

The trust fund should not be used to defray maintenance and operations, M. & O. costs of the FAA. These should be defrayed entirely from the general revenues of the Treasury and recognition of the national benefits and military value of the airport and airway system as presented earlier in our written testimony.

Mr. Chairman, on behalf of this association, I appreciate this time afforded to express our views on these important questions of aviation user taxes. We will be most pleased to consult with you or your committee members or staff in more detail than our positions as expressed in the statement.

Senator BYRD. Thank you very much, Mr. Richardson and Mr. Power.

Mr. POWER. Thank you.

Mr. RICHARDSON. Thank you, Mr. Chairman.

Senator BYRD. The committee will stand in adjournment.

[The prepared statements of the preceding panel follow:]

Statement by
Robert A. Richardson, Executive Director
Helicopter Association International

Before the
Taxation and Debt Management Subcommittee
Finance Committee
United States Senate
July 27, 1981

The Helicopter Association International (HAI), formerly named the Helicopter Association of America, is an international independent organization of over 800 companies and individuals engaged in manufacturing and operating civil helicopters. This includes all of the U.S. manufacturers and most of the U.S. operators. HAI member services are for hire, public corporate/business and private transportation, and public service.

HAI members operate in the field of agriculture, airlines, air-taxi, construction, executive transport, law enforcement, energy exploration, rescue, logging and in many other civil applications.

The U.S. civil helicopter industry is the fastest growth element of civil aviation. During the past ten years this growth has averaged over 12% per year. In 1980 the industry employed over 75,000 people in manufacturing and operating. It manufactured over 1,000 helicopters and operated over 9,000 aircraft in the United States and Canada alone. Gross revenue in this country for 1980 was well over one billion dollars. By 1990 the U.S. fleet is projected to reach over 20,000 helicopters with annual industry revenue more than three billion 1980 dollars.

There are many examples of the contributions of our industry to the nation's commerce and welfare. These include two of particular importance today.

Energy Exploration

"A helicopter transportation system for energy exploration has rapidly

emerged off the Atlantic Coast, Alaska and in the Gulf of Mexico. In the Gulf alone over 8,000 people and associated equipment are moved to energy production sites daily by helicopter. No other transportation can provide this service safely or efficiently. One Gulf operator transports more people than the most active U.S. commuter airline and owns more aircraft than nearly any of the world's largest air carriers.

Public Service

Although about 1/6th of the civil fleet are permanently assigned to public service roles in government agencies, far more are pressed into service during emergencies. Most recently these helicopters provided invaluable rescue and relief services during Hurricanes David and Frederick and for the Swedish cruise ship evacuation. In the two hotel fires in Las Vegas, helicopters rescued over 300 victims, blew smoke away from and fresh air to other victims, and transported hundreds of firefighters and their equipment about the buildings.

It is difficult to accurately assess the dollar value of the many services provided by helicopters, but data provided by NASA can lead to a categorization under four broad headings: QUALITY OF LIFE, ECONOMICS, PUBLIC SAFETY, NATIONAL SECURITY. (See Figure 1.)

To provide for the needed legislative support for helicopter operations development in ADAP renewal, HAI conducted a campaign with the 96th Congress with the following results:

- HR 6721 reported out of the House Public Works and Transportation Committee defined reliever heliports and reserved at least \$10M for reliever heliport grants.
- HR 6571 markup by the Senate Finance Committee excluded certain helicopter operations in energy exploration and agriculture from the payment of the fuel tax.

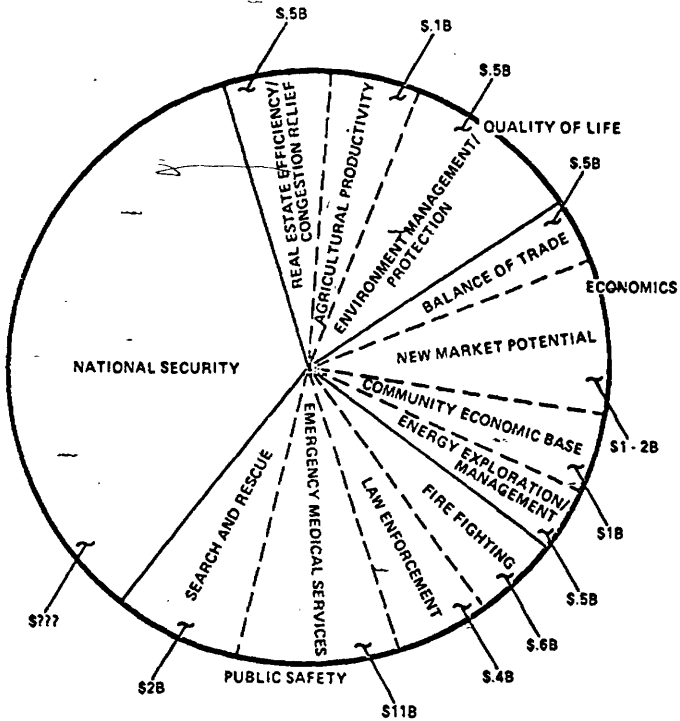


Figure 1. Estimated Annual Value of Services Provided in the United States by Helicopters

With this brief background on the importance of helicopters, I would now like to outline the position of this Association with respect to aviation user taxes and the Airport/Airway Trust Fund.

User Taxes - General

1. In any assessment of airport/airway user taxes to be levied directly on civil aviation, due consideration should be given to the general public benefits derived from having a reliable national air transportation system. Our air

transportation system should be recognized as a national asset, which must be preserved at all costs in the national interest. Punitive or burdensome direct user taxes on the civil aviation community could lead to serious degradation of this system.

2. It should be recognized that the FAA national airport/airway system serves the common civil/military air traffic mix as specifically provided for in the Federal Aviation Act of 1958. Civil user charges for this system should not be based solely on the ratio of any current civil/military traffic count, but also on the potential military value of the system in time of national emergency

3. Finally, direct user taxes against civil aviation should not be levied until first, the amount of expenditures chargeable to civil aviation is determined taking into consideration the principles expressed in points 1 and 2 above, and second, the amount of user taxes needed to meet this determination is then established accordingly.

User Taxes - Specific

1. The fuel tax should be no more than five cents per gallon until such time as the unallocated balance of the Airport and Airway Trust Fund reaches a level of approximately \$500,000,000. At such time, an aviation fuel tax commensurate with the need to sustain a logical level of funding for the Trust Fund taking into consideration other sources of revenue, but not to exceed seven cents per gallon, may be imposed. There should be no differentiation in the tax per gallon as between jet fuel and avgas.

2. As a tradeoff for the above reasonable fuel tax structure, this Association would have no objection to the assessment of excise, air freight waybill and vehicle registration/weight taxes at the levels in effect as of September 30, 1980.

3. The air passenger transportation tax should remain at 5% until such time as the unobligated balance in the Trust Fund reaches approximately \$500,000,000. This tax could then be raised to the 8% level existing as of September 30, 1980.

4. For certain helicopter operations, fuel taxes should be exempted as provided in Attachment "A" to this statement.

Trust Fund

1. The Airport and Airway User Trust Fund should be removed from the Unified Federal Budget so that withdrawals will not be considered as expenditures chargeable against the general revenues of the Treasury.

2. The Trust Fund should be used only to defray FAA costs as provided in the Airport and Airway Development Act of 1970, i. e. , funding aid for airport/heliport development (ADAP), capital expenditures for airways and air traffic control facilities (F&E), and research and development (R&D) and associated demonstration projects.

3. However, the FAA should be authorized and directed to transfer to NASA funds allocated to it from the Trust Fund in the field of R&D, in cases where NASA may be equipped and staffed more efficiently to carry out specific tasks.

4. Additionally, airport/airway trust funds should be made available to provide investment incentives (or user tax credits) to encourage civil aviation users to acquire advanced airborne air traffic control equipment which will contribute to increased safety and efficiency in the national air transportation system.

5. The Trust Fund should not be used to defray maintenance and operations (M&O) costs of the FAA. These should be defrayed entirely from the general revenues of the Treasury in recognition of the national benefits and military value of the airport/airways system as discussed previously.

Mr. Chairman, on behalf of this Association, I appreciate the time afforded to express our views of the important question of aviation user taxes. We will be most pleased to consult with you or your committee members, or staff, in more detail on our positions as expressed in this statement.

Attachment "A"

EXEMPTION. -- Section 4041 of the Internal Revenue Code of 1954 (relating to tax on special fuels) is amended by redesignating subsections (i) and (j) as subsections (j) and (k) and by inserting after subsection (h) the following new subsection:

"(i) **EXEMPTION FOR CERTAIN USES.** -- Under regulations prescribed by the Secretary, no tax shall be imposed under this section on any liquid sold for use or used in a helicopter for the purposes of --

"(1) the planting, cultivation, cutting or transportation of, or caring for, trees (including logging operations), or

"(2) transporting individuals, equipment, or supplies in the exploration for, or the development or removal of, natural resources;

provided that both the origin and destination airports/heliports of the helicopter flight involved are facilities which do not receive assistance under the Airport and Airway Development Act of 1970."

REFUND OF TAX. -- Subsection (d) of section 6427 (relating to fuels not used for taxable purposes) is amended --

(1) by inserting "or is used in a helicopter for a purpose described in section 4041 (i)," after "section 4041 (h) (2) (C)", and

(2) by inserting "or in Certain Helicopters" after "Museums" in the caption thereof.

PREPARED STATEMENT OF WILLIAM H. POWER, MANAGER OF LEGISLATIVE AND
INDUSTRY AFFAIRS, NATIONAL AIR TRANSPORTATION ASSOCIATION, INC.

I am William H. Power, Manager of Legislative and Industry Affairs with the National Air Transportation Association. Before I begin today, I would like to congratulate this Subcommittee on its initiative and foresight in scheduling these hearings to examine Aviation Trust Fund taxes, and thank you for the opportunity to present NATA's views.

As the only organization representing the nation's air taxi carriers and ground service and support organizations, commonly known as fixed base operations or FBOs, NATA has historically advocated aviation tax levels adequate to support the U.S. air transportation system without creating a huge surplus in the Aviation Trust Fund. We feel the legislation before you today, S. 1272 will accomplish that goal in a reasonable manner which is equitable to all users.

The Administration has proposed aviation taxes which will support the system costs and generate a tremendous Trust Fund surplus by 1986. As you know, the rationale behind their proposal is to have enough money in the Trust Fund to purchase computer equipment to modernize the air traffic control (ATC) system. While we agree the ATC system needs upgrading, we feel it is unfair to require users to fund such a program until that system's requirements are defined. As FAA Administrator Lynn Helms stated in testimony on the ATC system before the Aviation Subcommittee of the House Science and Technology Committee, "It is difficult to define computer size, architecture and reliability until you have defined the systems that will lay demands on, and establish requirements for, the new computer system."

In short, the Administration's proposal is asking the aviation community to fund the modernization of a computer system sight unseen—the cost of which has not yet been defined. We vigorously object to issuing a blank check for such an expenditure.

In our view, the decision to establish taxes to pay for this modernization should be deferred until the total cost of such a project is clearly identified.

While NATA supports S. 1272, we feel the civil aircraft user tax provision should either be modified to include private as well as commercial aircraft or eliminated altogether. Many fixed base operators utilize the same aircraft for both commercial and noncommercial purposes. The current language in S. 1272 will unfairly require those operators to pay the user tax regardless of the proportion of time the aircraft is used in noncommercial activities. In addition, from both the government's and the users' standpoints, the administration of tax that generates as little revenue as the aircraft user tax is simply an unneeded and uneconomical burden. We recommend total abolishment of the aircraft user tax provision.

In summary, the National Air Transportation Association believes S. 1272, with the one minor change we have suggested, is a reasonable and equitable approach to aviation taxation.

Thank you.

[Whereupon, at 11:48 a.m., the hearing adjourned, subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

JULY 27, 1981—AIRPORT AND AIRWAY TAX MEASURES, WRITTEN STATEMENT OF
THE HANNA MINING CO.

The Hanna Mining Company ("Hanna") wishes to offer its views on Senate bills 1047 and 1272 and submits this statement for consideration by the Subcommittee on Taxation and Debt Management and for the record.

Hanna is a natural resource company involved in iron ore, nickel and energy-related activities. It has operations in the United States and Canada in geographically diverse and often remote locations and depends heavily on Company-owned aircraft to transport employees to its various operations.

As a general aviation operator, Hanna is strongly opposed to the proposal for taxation of non-commercial aviation operators contained in S. 1047. We consider it unsound and unfair.

Recognizing the needs of air transportation facilities for funding, Hanna supports the aviation fuels tax proposal set forth in S. 1272.

The National Business Aircraft Association has submitted more detailed statements to the Subcommittee opposing S. 1047 and supporting S. 1272. We endorse the Association's positions on those two bills.

JOHN S. PYKE, JR.,
Vice President and Secretary.

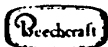
A STATEMENT BY THE JIM WALTER CORP.

The Jim Walter Corporation presents this statement for the official hearing record regarding the legislative proposals (S. 1272 and 1047) pending before this subcommittee which would increase the fuel tax for general aviation users. Whereas S. 1272 would increase fuel taxes we find it to be a reasonable, well balanced approach. From our company perspective, S. 1047, the Administration proposal, would have an unwarranted negative financial impact on business aviation interests. Furthermore, we view this proposed tax increase as an unfair and inequitable application of the Administration's "user pay" concept to the non-commercial aviation industry.

The Administration proposal would drastically increase taxes to a magnitude of 900 percent over the next several years. Furthermore, the proposal would actually lead to a surplus in the aviation trust fund of \$4 billion, which is unnecessary to support U.S. air transportation costs. The General Aviation Manufacturer's Association has testified that the increase provided in S. 1272 (to \$0.08½ per gallon) would provide the additional financial resources necessary to meet projected safety needs. Additionally, the \$0.08½ is consistent with conclusions of a 1980 Senate Finance Committee Report (Report No. 96-997) that such a tax is appropriate.

Furthermore, the tax increase provided for in S. 1272 is at a level that we find affordable and equitable. In application of the Administration's "user pay" concept, the aviation industry is, under S. 1047, we believe being dealt with unfairly with respect to other transportation industries. The Administration proposal calls for users to pay 85 percent of all capital, operating and maintenance costs of the aviation system, whereas the Administration has proposed to recover only 50 percent of Amtrak costs and 25 percent of the costs for using the nation's inland waterways. The Administration is assuming that general aviation has paid for only a small percentage of its purported allocable share through the taxes levied on it, and assumes a general public benefit of only 26 percent. On the other hand, Congress has consistently assigned a public benefit level of more than 50 percent of the total aviation system costs.

Overall, the Administration proposal is inconsistent with respect to the Administration's user pay concept and as a result, "business aviation" interests would be forced to pay an unfair burden of taxes. On the other hand, the tax increase in S. 1272 would be more equitable, affordable to our company operations, and adequate to provide U.S. air transportation without creating an unnecessarily huge surplus in the aviation trust fund.

**Beechcraft East-Teterboro**

111 Industrial Avenue, Teterboro, New Jersey 07608
201-288-3555

July 28, 1981

Mr. Robert E. Lighthizer, Chief Counsel
Committee on Finance, Room 2227
Dirksen Senate Office Building
Washington, D.C. 20510

Re: July 27, 1981: AIRPORT AND AIRWAY TAX MEASURES

Dear Mr. Lighthizer:

This is to advise you that Beechcraft East - Teterboro, a full service fixed-base operation doing business on the Teterboro, New Jersey airport commits itself to being strongly in favor and support of Bill S1272 dealing with Aviation User Taxes.

By the same token, we are strongly against passage of Bill S1047 which we feel will severely penalize both the business traveling public as well as place undue hardship on fixed-base operations cash flows.

Over the past year, we have experienced a severe and traumatic degradation of our business because of high interest rates and ever-escalating fuel prices. The Administration's proposal concerning Aviation User Taxes in the magnitude it is proposing we feel to be grossly unfair, unreasonable, unworkable, and an unsupportable hardship on both the general aviation flying public, whether recreational or business, as well as the Operators.

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Mr. Robert E. Lighthizer
July 27, 1981

In summary, we support 100% the position currently espoused by the
National Business Aircraft Association.

Yours sincerely,



J. Douglas Hinton
Vice President/General Manager

JDH/ma



CRUTCHER RESOURCES CORPORATION P. O. BOX 2127 • HOUSTON, TEXAS 77001 • 713-467-7070

July 27, 1981: AIRPORT AND AIRWAY TAX MEASURES BILL S.1047

Mr. Lighthizer:

We accept the principle that users of the national transportation systems should be assessed an equitable charge for the direct benefits received. However, we take strong exception to the current Administration's proposal to charge all of the costs of the airport and airways system to the users. We also object to the flawed analysis which has caused the members of the administration to erroneously assign punitive and burdensome taxes to the non-commercial segment of the industry.

User tax levels should adequately take into account that the air transportation system and its components are designed to accommodate public transportation and military requirements.

Whatever specific forms user taxes may take, they should be predicated on certain equity principles:

1. For all aircraft, inclusive of the private, commercial and governmental sectors:
 - a. A graduated registration tax based on the certificated gross weight of the aircraft. This tax may be modified in accordance with the flight capabilities of the aircraft, as reflected in its capability to fully utilize the airways system.
 - b. A tax based upon a uniform measure of the aircraft's exposure to and use of the air transportation system which reflects the actual demands of the aircraft on the system. Fuel consumed, regardless of the weight of the aircraft, is the most accurate measure of such exposure and demand.
2. For commercial passengers and shippers, an excise tax, the total amount derived from which equates fairly to a tax on fuel consumed by the aircraft, is an appropriate measure of the benefit received from the utilization of aviation transportation.

The revenue structure mandated by the 1970 airport-airways act provides basic equity among the various taxes enacted. The taxes have produced funds in excess of those adequate to the purposes of the act. Further, the act reflected a Congressional determination that the public benefit derived from the air transportation system was equivalent to at least 50 percent of the system's costs. We support these conclusions and findings, and believe that they should be reflected similarly in reviews of aviation user taxes.


July 27, 1981: AIRPORT AND AIRWAY TAX MEASURES ... BILL S. 1047

If, in fact, the users are to be made responsible for the full cost of the airport and airways system and other expenses, then the users should have full authority over those expenditures. The administration does not propose to turn over to civil operators the administration and authority to direct the DOT, FAA, and airways system.

In no case should tax monies be expended without full consultation with the various principal users of the air transportation system.

In sum, we feel that Bill S.1047 places an unjust and unnecessary burden on private aviation.

Sincerely,



Raymond D. Ferguson
Director of Aviation
Crutcher Resources Corporation



BUCYRUS-ERIE COMPANY / SOUTH MILWAUKEE, WISCONSIN 53172 / 414-768-4000

August 5, 1981

Mr. Robert E. Lighthizer, Chief Counsel
Committee on Finance, Room 2227
Dirksen Sengate Office Building
Washington, D.C. 20510

RE: JULY 27, 1981 - AIRPORT & AIRWAY TAX MEASURES

Dear Sir:

As an active member of the non-commercial sector of Aviation (General Aviation) I wholeheartedly support the Administrators concept of user cost recovery for the services of the National Airspace System. However, my support carries with it certain conditions that, in my view, should be met to create an equitable user cost recovery tax program. The conditions are as follows:

First - The assignment of a portion of the Airway Systems costs that are to the "Public Benefit" should be in a fair and even-handed manner with respect to all forms of transportation systems. That is, if the Administration expects users of airway systems to pay for capital, maintenance costs, and operating costs of the system, as it will be expected to do, all other transportation systems, such as Conrail, Amtrak, and the inland waterways should be cost responsible in a like manner, allowing for a consistency in the user tax program. This would provide an equally supported reduction of burden on the general tax fund by all sectors of transportation.

Secondly - The tax program should be sufficient to support a determined share of the authorized spending programs, but should not be structured in a manner that would allow a build-up of large unspent surpluses in the aviation trust fund.

Further, a tax on fuel, stated in cents per gallon, is an acceptable means of fairly sharing system costs. Additionally, a single tax rate should apply to both aviation gasoline and jet fuel. The administration's proposal for a split tax rate would treat users of turbine aircraft unfairly. A higher tax rate per gallon of jet fuel compounded by the greater volume of fuel consumed by jet aircraft than its piston-powered counterpart would create a double tax penalty for turbine aircraft users.

In light of these points that I have made, I recommend to your committee to give serious consideration to the views and proposals of Senators Cannon and Kassebaum and other senators and representatives who are active and knowledgeable in aviation and transportation matters.

I also support and recommend the position presented by the National Business Aircraft Association in its active pursuit of passage of Senate Buill S1272.

Respectfully yours,

Glenn A. Christensen

Glenn A. Christensen
Chief Pilot

CC: NBAA

Gates Learjet

suite 401, chainin building, 815 connecticut avenue, n.w. washington, d.c. 20006 (202) 331-1810

William R. Edger
vice president
government relations

August 7, 1981

The Honorable Bob Packwood
Chairman, Subcommittee on Taxation
and Debt Management
Committee on Finance
Room 2227, Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

July 27, 1981: AIRPORT AND AIRWAY TAX MEASURES

Dear Mr. Chairman:

Gates Learjet Corporation supports S. 1272. It is considered a realistic approach to a fair share cost basis for the non-airline users of the nation's airways and airports.

The Administration's proposal to impose a 36¢ jet fuel tax in FY '81, increasing to 65¢ in FY '86, is inconsistent with the principles embraced in President Reagan's economic recovery program. It proposes to raise taxes on an industry experiencing declining sales. And it also appears to be a singular attempt to raid the Aviation Trust Fund without quid pro quo for the users.

Corporate turbine aircraft paying 8-1/2¢ per gallon tax as proposed in S. 1272 will be contributing substantially more revenue than the conventional piston engine aircraft using aviation gasoline, simply based on fuel consumption rates.

August 7, 1981
Page 2

It is not unlike 18-wheel tractor trailer rig operators paying 4¢ per gallon tax just as do the operators of motorcycles and automobiles using the nation's highways. The truck's consumption is many times as much gas as the other vehicles. Thus, the comparison between jet aircraft and reciprocating aircraft. Jets use more fuel -- and consequently pay more taxes.

A two-track taxation system for aviation fuel users as proposed by the Administration is both discriminatory and short-sighted. It would discriminate against technological progress, because the future of aviation is wedded to the turbine engine. The jet is more compatible with noise reduction efforts and offers much greater operational efficiencies. It is short-sighted because there then would be some justification for the airport and airway planners to treat jet fuel consumers in a preferred way -- following the American adage that you get what you pay for and what you pay for you deserve to get. A single-track tax base is both fair and equitable -- the history of ADAP has proved it.

The need to identify the public benefit share in the airway/airport system is absolutely essential. Studies have been conducted by both government and user agencies without resolution of this crucial consideration. It is time for Congress to declare that the economic and defense interests of the nation are manifestly linked to the air transportation

August 7, 1981
Page 3

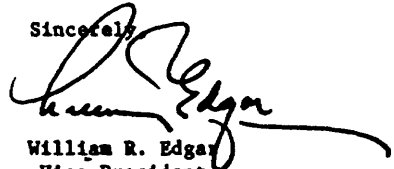
system and that 50 percent of all costs are assignable to general revenue support. The point, long ignored, is simple: If every NASP listed airport were closed down for a period, the national economy would suffer the greatest loss.

Even more important, perhaps, is the indisputable fact that the military depends upon the system to carry out its defense responsibilities. Public benefit is inextricably tied to the cost of the system and a fair approach is obviously to share it.

As you may know, Gates Learjet is generally supportive of the President's program for economic recovery. But, as we have previously stated, we take issue with S. 1047 as being unrealistic and inequitable. Therefore, we support S. 1272. We believe it is a reasonable and fair approach to cost sharing for the non-airline civil users of the nation's airways and airports.

Your acceptance of these views in our judgement will be in the best interest of our nation's air transportation system now and in the future.

Sincerely,



William R. Edgar
Vice President
Government Relations

STATEMENT BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
SENATE FINANCE COMMITTEE

Relating to
AIRPORT AND AIRWAY TAX MATTERS

by

TOM EVSLIN

Secretary
Vermont Agency of Transportation

July 27, 1981

As Secretary of the Vermont Agency of Transportation, I am responsible for the administration of an airports program throughout the state. The State of Vermont has ownership responsibilities for all except two of the publicly owned and operated airports in Vermont. This means that our Agency is responsible for management, maintenance and development of ten general aviation airports serving small communities. At two of these airports commuter air service is being provided under the Section 419 program of the Civil Aeronautics Board. The State funds a portion of the development on our major aircarrier airport located at Burlington. This is an indication of the heavy state involvement and commitment to airport development which we have in Vermont.

Enactment of taxation legislation to support S.508 is extremely important to the State of Vermont. Our principal interest is in the reestablishment of the federal airport development program which unfortunately lapsed in 1980. Because of this lapse, no projects will be undertaken during the present construction season. Monies paid by Vermont aviation users have stayed in Washington and not returned to fund the system improvements they were intended for. Expeditious action on the tax bill and S.508 will be of great benefit to Vermont since it will enable our Trust Fund based development program to resume.

I recognize that enactment of the new airport development program requires the Congress to address some relatively significant issues including defederalization of the large airports and the use of Trust Fund revenues for a greater proportion of Federal Aviation Administration operating activities.

The issue of airport defederalization does not have direct impact on Vermont as we have no airports which would be affected. Therefore, we will make no comment except to observe that some immediate funding mechanism is required to provide for ongoing and needed improvements at defederalized air-

ports. A reasonable approach in this regard would be to allow the imposition of an equitable passenger tax at the local level.

The issue of appropriation levels from the Aviation Trust Fund is of concern to us. The General Aviation authorization in S.508 is meager, as is the authorization for primary airports and primary hub airports when considering the nearly 4 billion dollar balance available in the Aviation Trust Fund. These already collected fees should be spent for the benefit of the users who paid them.

The information which we have indicates that user taxes as proposed by the Administration will result in an increasing surplus in the Aviation Trust Fund. We are informed that this increase is in effect being "saved up" for use in the future, presumably when a large scale revamping of the Air Traffic Control System is undertaken by Federal Aviation Administration.

It appears that the aviation users are being asked to contribute to a savings account of 3.5 billion to upwards of 7.0 billion dollars depending upon the level at which the user taxes are finally set. I consider it highly undesirable to build up the Aviation Trust Fund in order to provide for a future expenditure which is not clearly defined. What is being proposed is unfair to the airline passenger, the general aviation aircraft owner and all others who have contributed to the Aviation Trust Fund. Air users are being taxed without a definite use for their contributions. The needs for which the dollars currently on hand and unappropriated were raised have not yet been met.

Further, there is an obvious danger that the scope of the air traffic control system which is finally developed will have little or no relation to

actual need but will be determined by the amount of funds which are available. When the new system is designed and ready to be built, the user taxes needed to pay for it can be calculated and imposed.

There are several other issues addressed by S.508 which I wish to comment on. The Legislation proposes that a block grant program be available to states who wish to administer funds for the development of airports. I am very much in favor of this and urge that your committee recommend to the members of the Senate-House Conference Committee that they ensure that there is included in the final measure a provision for block grants to the states and full state administration of the program.

This provision allows states to determine their very different needs and allocate scarce resources to best and precisely meet them. State administration is a realistic and practical approach. Many State Departments of Transportation already have this capability and in other states there is a fully capable separate Department of Aeronautics. The decision for state involvement should rest with the state Governor and its governing body and not be subject to the evaluation and approval of any federal agency. It is completely unnecessary for the Secretary of Transportation to evaluate the capabilities of a state agency and approve the agency as an administrative body.

This concept not only will allow decisions to be made at the appropriate level of government but will also allow the federal government to achieve one of its primary aims: reduction of the federal work force.

The block grant approach to the distribution of federal aid is preferable to the provision of funds via federal categorical allocations. Block grants allow states to place available resources at the areas of greatest need and

not simply to concentrate them at points which are dictated by enplanement figures. For example, under the old ADAP program Vermont received only a tiny allocation for general aviation purposes even though general aviation plays a vital economic role in Vermont. It was necessary to save this allocation for several years, then beg for an augmentation with discretionary funds from FAA in order to do a meaningful project. The block grant approach will allow the undertaking of needed projects of an appropriate scale at the appropriate place. It is critical, however, that the block grants actually be left to the state to administer and not be encumbered by endless federal review.

If discretion is not left to the states in allocating their share of federally collected user fees, then there are two restrictions in the proposed legislation which should be relaxed. One is the restriction on funding terminal facilities at small airports.

Terminal development at general aviation and small air carrier airports is not an eligible cost item under the proposed legislation. Once an airport's minimum essential safety needs have been met, the terminal should be an eligible item for participation under the airport improvement program regardless of enplanement figures.

The second restriction I would like to see relaxed if we are not to have full state administration this year is the limitation imposed on federal participation in costs above estimate. This is a carry over from previous programs and constitutes an unfair partnership between the airport sponsor and the federal government. The FAA, constrained by legislation, has been unable to participate beyond 10 percent over the original grant amount. If the FAA is going to insist on participation in planning, it should also participate in overruns on jointly developed projects.

To sum up, Vermont would like to see ADAP legislation passed soon so

the user fees can be freed to serve those who paid them. We do not think the Trust Fund should be allowed to accumulate a balance to pay for an as yet unspecified air traffic control system. We feel that block grants and state administration in this, and many other areas, will result in better service even with fewer dollars available. We feel that the present prohibition of expenditures for terminal facilities of small airports is discriminatory and ought to be abolished.

We are ready to take responsibility for the administration of airport development in our State.

I appreciate the opportunity to be heard on these issues and express the view of a small state and an operating agency.

COOK, PURCELL, HANSEN & HENDERSON

CHARTERED

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ATTORNEYS AT LAW

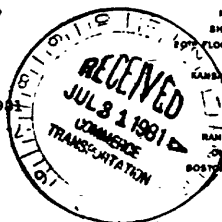
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July 28, 1981



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Honorable Bob Packwood
Room 145
Russell Senate Office Building
Washington, D. C. 20510

Dear Chairman Packwood:

On July 27, 1981, your Subcommittee on Taxation and Debt Management held a hearing on S.1047 and S.1272.

This letter is to advise you and the committee members that the Federal Express Corporation, Memphis, Tennessee, strongly supports S.1272, and it is requested that this letter be made an official part of the hearing record.

If the excise tax on air transportation is reinstated to fund the Airport and Airways Development Aid Program Trust Fund (the ADAP Program), the historic relationship between the rate of tax applicable to domestic passenger services, international passenger services, and air freight services should be maintained. Assuming that the tax established for domestic passenger services is set at 5 or 6 percent, the maximum air freight waybill tax should be set in the 1.5 to 2 percent range.

There is an historic disparity between the excise tax assessed upon air passenger and air freight services, because passenger transportation accounts for the vast bulk of total air transport revenues, and passenger services account for the preponderant majority of total air carrier operations. Passenger air transport operations are the primary users of the Nation's airports and airways, and the primary beneficiaries of federal expenditures to improve airport and airways facilities which are funded out of the Aviation Trust Fund. The relative demand placed upon the airport and airways system by passenger vs. freight operations is illustrated by the following:

1. During the fourth quarter of 1980, all-cargo service departures performed by the CAB-certificated all-cargo and combination carriers amounted to less than one percent of total departures performed by that group of carriers during that period (see Appendix A).
2. During the fourth quarter of 1980, all-cargo departures performed by all certificated carriers at the top 64 airports accounted for only 1.2 percent of all departures performed at those airports. The top 64 airports, in turn, accounted for 88 percent of all passengers

Honorable Bob Packwood
July 28, 1981
Page 2

enplaned and 75 percent of all departures performed during the fourth quarter of 1980 (see Appendix B).

3. Although the foregoing activity statistics do not include departures performed by any carriers which do not conduct operations pursuant to certificates of public convenience and necessity issued by the CAB, the inclusion of that data, if available, would add statistics applicable to hundreds of air taxi operators and a far smaller number of Section 418 all-cargo carriers, which would increase the indicated preponderance of passenger services over cargo operations.

Finally, the establishment of a lower rate of tax on the cost of air freight shipments produces a direct benefit to shippers, and an indirect benefit to the users of goods shipped by air, in the form of reduced transportation costs. Since transportation costs are ultimately borne by the consumer, and given the uncontrollable increases in air transportation costs due to energy prices and inflation, it is highly desirable to avoid any unnecessary increase in air freight taxes, unless such taxes are clearly required to meet a pressing public need.

In view of the surplus in the Aviation Trust Fund, and the relatively small contribution of any tax on air freight revenues compared to other sources, the establishment of the air freight waybill tax at a maximum rate of 2 percent, as recommended by Senator Kassebaum and Senator Cannon in S.1272, is reasonable and justifiable. The Administration's proposal for a 5 percent cargo tax, on the other hand, is neither appropriate nor justified.

Sincerely,



John L. Zorack

JLZ:ts
Enclosures

Appendix A

TOTAL DEPARTURES BY DOMESTIC CARRIERS
FOURTH QUARTER, 1980

<u>Carrier</u>	<u>Total Departures</u>	<u>Passenger Departures</u>	<u>Percent Total</u>	<u>All-Cargo Departures</u>	<u>Percent Total</u>
Air Calif.	-	-		-	
Airlift	61	-		61	
Air New England	8,294	8,294		-	
Alaska	5,407	5,407		-	
Aloha	8,773	8,773		-	
American	73,647	71,853		1,794	
Braniff	37,031	36,453		578	
Continental	26,041	26,041		-	
Delta	129,588	129,588		-	
Eastern	125,749	125,749		-	
Flying Tiger	4,286	-		4,286	
Frontier	43,976	43,976		-	
Hawaiian	9,123	9,123		-	
Hughes Airwest	32,594	32,594		-	
Northwest	39,003	39,003		-	
Ozark	30,693	30,693		-	
Pan Am	21,663	21,534		129	
Piedmont	41,200	41,200		-	
Republic	97,550	97,550		-	
Texas Intl.	23,445	23,445		-	
Trans World	54,079	54,079		-	
United	106,162	103,616		2,546	
US Air	69,862	69,862		-	
Western	30,679	30,679		-	
TOTAL	1,018,906	1,009,512	99.1%	9,394	0.9%

Appendix B

TOTAL DEPARTURES BY DOMESTIC CARRIERS
TOP 64 AIRPORTS -- FOURTH QUARTER, 1980

ORIGIN	TOTAL DEPARTURES	PASSENGER DEPARTURES	PERCENT TOTAL	ALL-CARGO DEPARTURES	PERCENT TOTAL
ATL	66057	65797	99.6	260	0.4
BOS	80735	80490	99.8	245	1.2
CHI	60704	58461	96.3	2243	3.7
CLE	10906	10725	98.3	181	1.7
DFW	38134	37389	98.0	745	2.0
DEN	36932	36743	99.5	189	0.5
DTT	19899	19638	98.8	261	1.2
IAH	18729	18602	99.4	127	0.6
MCI	11221	11279	100.0	2	
LAS	13344	13221	99.2	24	0.2
LAX	28542	27405	96.0	1137	4.0
MIA	16583	16390	99.4	93	0.6
MSP	17829	17795	99.7	60	0.3
JFK	15749	14267	91.2	1762	8.8
LGA	25304	25304	100.0		
FSY	10534	10534	100.0		
ELR	12164	12044	99.0	120	1.0
PHL	13704	13527	98.7	177	1.3
PHX	12930	12927	100.0	3	
PIT	22192	22192	100.0		
STL	24739	24739	100.0		
SFO	21144	20266	95.8	878	4.2
SEA	13819	13440	97.3	379	2.7
TPA	13593	13593	100.0		
MKS	26938	26938	100.0		
ABQ	4445	4445	100.0		
BAL	918	799	87.1	119	13.0
PHM	4627	4627	100.0		
RUF	7222	7222	100.0		
CLT	8173	8116	99.3	59	0.7
CUC	7191	7120	99.2	61	0.8
CMH	5221	5221	100.0		
IND	4871	4871	100.0		
ELP	3229	3229	100.0		
MDL	6524	6466	99.1	58	0.9
IND	7222	7222	100.0		
JAX	3685	3685	100.0		
SIV	5772	5772	100.0		
MEX	12952	12952	100.0		
PHX	9490	9489	100.0	1	
MKB	6780	6780	100.0		
OPF	4946	4946	100.0		
OKC	3497	3496	100.0	1	
OMH	4227	4226	100.0	1	
ONT	1451	1443	99.5	8	0.5
MCO	12505	12505	100.0		
PDX	6685	6548	98.1	137	2.0
PDU	4310	4310	100.0		
RHO	3523	3523	100.0		
ROC	4221	4221	100.0		
SXF	2549	2549	100.0		
SLC	8659	8659	100.0		
SAT	4745	4745	100.0		
SAH	5274	5274	100.0		
SLC	2186	2186	100.0	1	
DEC	3979	3976	99.9	3	0.1
TYF	3259	3250	98.2	99	1.6
TUS	4191	4191	100.0		
TUL	3644	3644	100.0		
FEI	5109	5109	100.0		
TOTAL	759967	750379	98.8	8908	1.2

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Federal Express Corporation
 Box 727
 Memphis, Tennessee 38184
 901 369-3600

FEDERAL EXPRESS HIGHLIGHTS

Federal Express is the only air express service in the world specializing in the transportation of small packages and documents.

Federal Express covers markets accounting for more than 90 percent of all air freight activity in the United States.

Federal Express operates a network of 154 stations providing door-to-door service to more than 240 major markets and 13,500 communities.

Federal Express completely controls a shipment from pick-up to delivery because it uses only company-owned or leased equipment.

In contrast to air freight forwarders, Federal Express owns and operates its own fleet of aircraft. It has put into service three of the four McDonnell Douglas DC-10s it has agreed to purchase from Continental Airlines. The fleet also is comprised of 23 Boeing 727s and 32 Falcon Fanjets. In the next three years, the company will be taking delivery on 15 additional 727s it has agreed to purchase from Eastern Air Lines. The company also operates more than 2,500 radio-equipped vans, which pick up and deliver shipments.

Federal Express carries more than 22 million domestic shipments annually--more than Emery Air Freight, world's largest freight forwarder, and more than the next four largest freight forwarders combined.

Federal Express has more than 290,000 customers, including a majority of the Fortune 500 companies.

The likelihood of a shipment being lost, stolen or damaged by Federal Express is 4,500 to 1.

Federal Express' claim rate is only 0.22 percent of revenue, compared with the airline industry average of 0.75 percent of revenue.

Federal Express became a publicly held company on April 12, 1978, when its first stock issue went on sale over the counter. The stock split 2-for-1 in September; and on December 28, 1978, was listed on the New York Stock Exchange.

052181



Weyerhaeuser Company

Tacoma, Washington 98477
(206) 924-2345

July 31, 1981

Mr. Robert E. Lighthizer, Chief Counsel
Committee on Finance
Room 2227
Dierksen Senate Office Bldg.
Washington D.C. 20510

RE: July 27, 1981. Airport and Airway Tax Measures; Committee Hearing on
Finance August 6, 1981

Dear Mr. Lighthizer:

I wish to go on record as being strongly opposed to Senate Bill No. S1047.

Senate Bill No. S1272 is a much more acceptable approach to user taxes and should develop enough revenue to support the system. S1272 is still a high tax, but I would certainly go along with the National Business Aircraft Association in supporting this measure over the severe and unreasonable S1047.

Sincerely,

Robert C. Chapman
Chief Pilot - Corporate Aircraft
Weyerhaeuser Company

RCCdkr10/814/e7


AMERICAN JET AVIATION

18218 EDISON AVENUE • CHESTERFIELD, MISSOURI 63017
800-326-4266 314-832-8100



July 28, 1981

Robert E. Lighthizer, Chief Counsel
Committee on Finance, Room 2227
Dirksen Senate Office Building
Washington, D.C. 20510

RE: July 27, 1981
Airport and Airway Tax Measures

Gentlemen:

The management and employees of American Jet Aviation would like to go on record as supporting bill S1272 and the position espoused by the National Business Aircraft Association.

We believe that taxation on transportation should be equitable among all forms of the nations transportation system. Bill S1047 in it's present form falls far short of this goal.

Sincerely,

AMERICAN JET AVIATION

Richard S. Ferland
Director of Flight Operations

RSF/sem



Dave Dwyer

BOX 5024 / 511 CENTRAL AVENUE / GREAT FALLS, MONTANA 59403
(406) 761-7510

TO: Robert E. Lighthizer
Committee on Finance, Room 2227
Dirksen Senate Office Building
Washington, D.C. 20510

DATE: August 5, 1981

RE: July 27, 1981: Airport and Airway Tax Measures

Dear Mr. Lighthizer:

In regard to your hearing concerning Airport and Airway Tax Measures, I request that it be made a matter of record that IFG Leasing Company is strongly opposed to bill S1047. The administration's proposal does not address itself fairly, nor equitably, to the problems at hand.

On the other hand, we strongly support bill S1272 which deals with the tax measures more fairly and, based on current information, still provides adequate funding.

In addition, we emphatically support the position espoused by the National Business Aircraft Association.

Very truly yours,

A handwritten signature in cursive script that reads "David J. Dwyer".

David J. Dwyer
Aviation Manager

DD/tmb

cc: Mr. Robert A. Cooke, NBAA
Mr. Bob Munzenrider

STATEMENT OF DELFORD M. SMITH
CHAIRMAN OF EVERGREEN HELICOPTERS, INC.
ON
AIRPORT AND AIRWAY USER TAX LEGISLATION
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
JULY 27, 1981

My name is Delford M. Smith. I am chairman of the board of Evergreen Helicopters, Inc. of McMinnville, Oregon, and a member of the board of directors of the Helicopter Association International.

I would like to take this opportunity to bring to your attention an issue of particular importance to Evergreen Helicopters and other companies engaged in tree farming and timber harvesting with helicopters.

Evergreen uses its helicopters in all phases of tree farming, including: seeding, fertilization, spraying for disease, insect control, fire control, timber thinning and timber harvesting. The use of helicopters supplements conventional logging methods, allowing the harvesting and thinning of timber in otherwise inaccessible mountainous terrain. Helicopter logging also permits harvesting of trees when conventional methods might harm the environment. It does not require extensive road building and it allows more forest land to be retained for cultivation. After harvesting, the land is restored to its natural condition.

In our tree harvesting operations, we use helicopters to move logs from roadless forest areas to cleared staging areas where they can be loaded onto trucks. We construct these staging areas and temporary helicopter pads ourselves. While logging, we remove from our helicopters the VHF radios used for federal aviation navigation communications and instead equip the helicopters and our logging crews with industrial-use, short-wave radios. We refuel the helicopters by transporting jet fuel in our own trucks to the temporary heliports. At no time during our helicopter logging operations do we use or rely upon any public or private airport or communications facility. In fact, the helicopters operate at a maximum altitude of only 500 feet and rarely venture more than a half mile from the logging site.

The Airport and Airway Revenue Act of 1970 imposed a seven-cent per gallon tax on fuel used by noncommercial aviation as a means of allocating to general aviation its share of the costs for using the federal airport and airway system. The legislative history indicates that Congress intended to impose this excise tax only on fuel used by those aircraft that actually use the system. To this end, Congress exempted from this tax aviation fuel used in farming. The farming exemption was intended to take care of the farmer who was not utilizing government facilities by exempting him from paying the tax on aviation fuel used solely in his farming operations.

But unfortunately, the farming exemption in the 1970 act relied on the Internal Revenue Service's definition of farming.

In 1970, there was no use of helicopters in tree farming - helicopters began being used in 1971. The IRS has refused to consider the cultivating and harvesting of timber as farming, even though trees are an agricultural crop fully as much as wheat, corn, oats, etc. The IRS applies the farming exemption to nurseries and Christmas tree farms, but not to timber harvesting.

Evergreen and other helicopter logging companies have repeatedly filed claims with the IRS seeking refund of the excise taxes paid on aviation fuel used solely in timber farming, but the IRS has refused the refunds. The matter has also been unsuccessfully pursued in the courts. It appears that legislative clarification is our only alternative.

We urge this subcommittee to correct this unfair situation by including in the Airport and Airway Revenue Act of 1981 a provision that would clearly exempt from the excise tax aviation fuel used in helicopter logging - an activity that makes no use of the federal airport and airway system. We have no problem with paying our fair share of user taxes when we use the federal system, which we do in many of our other helicopter operations, but we do not believe we should pay a user tax on fuel for helicopters that stay for months at a time in remote mountain areas far from any federal facilities.

I would also like to note that part of the savings through elimination of the fuel tax will inevitably be passed on to the federal government through higher bids for timber on

-4-

federal lands. Much of the timber we harvest is purchased by bid from the United States Forest Service of the Department of Agriculture.

We are including for your consideration suggested language amending the Internal Revenue Code that will eliminated the fuel tax problem of helicopter loggers (Attachment A).

Thank you for this opportunity to present our views.

Delford M. Smith

Delford M. Smith

Chairman

Evergreen Helicopters, Inc.

ATTACHMENT "A"

EXEMPTION. -- Section 4041 of the Internal Revenue Code of 1954 (relating to tax on special fuels) is amended by redesignating subsections (i) and (j) as subsections (j) and (k) and by inserting after subsection (h) the following new subsection:

"(i) EXEMPTION FOR CERTAIN USES. -- Under regulations prescribed by the Secretary, no tax shall be imposed under this section on any liquid sold for use or used in a helicopter for the purpose of the planting, cultivation, cutting or transportation of, or caring for, trees (including logging operations)."

REFUND OF TAX. -- Subsection (d) of section 6427 (relating to fuels not used for taxable purposes) is amended --

(1) by inserting "or is used in a helicopter for a purpose described in section 4041(i)," after "section 4041(h)(2)(C)," and

(2) by inserting "or in Certain Helicopters" after "Museums" in the caption thereof.

Air Freight Association



OF AMERICA, INC.

1730 Rhode Island Avenue, NW, Suite 607
Washington, DC 20036
(202) 293-1030

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

Testimony Of Louis P. Haffer
Executive Vice President
Air Freight Association Of America

July 27, 1981

The Air Freight Association of American is the trade association designed to promote the interests of the United States air cargo industry. Our members include most of the major U.S. air freight forwarders and direct air carriers specializing in cargo transportation. Over the years, AFA has been active in working with the Government to find solutions to various industry-wide problems. At this time, the proposed reinstatement of the ADAP program, and the way in which this program is funded, are major issues facing the air cargo industry. More specifically, we are concerned that the needs of the promoters of air freight may be overlooked in the various proposals to fund the ADAP program. Indeed, recent history indicates that practically all the attention in the aviation community has been devoted to the

passenger segment of the market place. This lack of interest in air cargo is unfortunate since American industry is becoming more and more dependent on cargo movements by air.

Historically, both the passenger and cargo segments of the air transportation market have been taxed to provide funds for the ADAP program. Until last October, these taxing levels were 8% on passenger tickets and 5% on freight waybills. With the expiration of the ADAP legislation, the freight tax was eliminated and the passenger tax dropped to 5%. In spite of these reductions, the Aviation Trust Fund continues to maintain an enormous unspent surplus.

Now, the Administration is proposing to reinstitute the ADAP program with taxing levels which are unacceptable to the air freight industry. These levels are a 6.5% tax on passenger tickets and a 5 % tax on freight. In short, while the Administration has proposed a reduction in the passenger tax from the old 8% level, it has proposed no corresponding decrease in the freight tax. This fact is specifically inequitable. since the same bill specifically provides for the use of ADAP funds on passenger terminal development but contains no corresponding provision for the upgrading of freight facilities at airports. Again, the air freight industry would be treated as a step-child.

With these facts in mind, AFA respectfully suggests that no tax is necessary on air freight waybills, but if such a tax is imposed, it should be proportional to the passenger levy. If the Administration's proposed 6.5 % passenger tax is adopted, the the freight tax should be no more than 3%. In addition, if such a tax is imposed on our industry, provision should be made in the ADAP program for the expenditure of funds on air cargo airport projects. Anything less would be unfair to the entire air freight industry.

Thank you very much for the opportunity to present the views of the Air Freight Industry.