



MULTISTATE INCOME/FRANCHISE TAX

## MTC adopts revisions to model airline apportionment regulation

### Tax Alert

### Overview

On July 30, 2026, the Multistate Tax Commission (“MTC”) revised [MTC Model Regulation IV.18.\(e\)](#), which addresses the apportionment of airline income. The revised regulation updates the rules for sourcing airline receipts and addresses revenue streams and business arrangements that were not expressly covered under the prior regulation. The revisions update a model regulation originally adopted in 1983.

The revised regulation is a model provision and does not, by itself, change the law of any state. States may adopt, modify, or decline to adopt the revised provisions. Nevertheless, the changes may be significant for airlines and related taxpayers because they provide a potential framework for states to address the sourcing of modern airline revenue streams. The revisions also introduce a formal definition of airline, expand the definition of transportation receipts, provide guidance regarding the sourcing of receipts from airline points and miles, and update the regulation’s examples to reflect contemporary airline operations.

### Updated definitions

For the first time, the regulation defines an airline as a taxpayer that transports passengers, freight, or packages by air for a charge and holds an air carrier certificate issued by the Federal Aviation Administration or a foreign air carrier permit issued by the U.S. Department of Transportation. The regulation also updates related definitions, including transportation receipts, passenger transportation receipts, freight transportation receipts, and departures.

The revised regulation defines transportation receipts as passenger transportation receipts and freight transportation receipts. Passenger transportation receipts include revenue from selling air transportation services to transport passengers and baggage, including but not limited to:

- Selling capacity on an aircraft to other airlines or entities;
- Selling tickets under codeshare, interline, or similar agreements;
- Baggage fees;
- Selling points or miles that may be redeemed for air travel;
- Selling food or liquor for consumption during air transportation;
- Selling in-flight services, including entertainment and Wi-Fi; and
- Renting pet crates.

Freight transportation receipts include revenue from transporting freight, packages, or mail, including but not limited to:

- Sale of aircraft capacity and freight transportation services under codeshare and similar arrangements with other airlines, and
- Sale or rental of property or services consumed or used during an aircraft flight.

## **Sourcing provisions**

Under the revised regulation, transportation receipts generally are sourced using a departure ratio. The departure ratio is based on departures in the state compared with departures everywhere, weighted by the value of aircraft by type.

The regulation also provides guidance for codeshare and similar arrangements. For example, when one airline sells a ticket for travel on an aircraft operated by another airline and recognizes only a commission for federal income tax purposes, the selling airline's receipts for purposes of the receipts factor generally are limited to the commission recognized as income.

The revised examples also address receipts received under airline partnership arrangements, including receipts from tickets sold by one airline for transportation provided by another airline and amounts remitted between airlines under those arrangements.

The revised regulation expressly addresses receipts from the sale of points or miles to credit card issuers and other parties. To the extent the points or miles may be redeemed for air travel, the receipts are treated as passenger transportation receipts and generally are sourced using the applicable weighted departure ratio.

The revised regulation also addresses taxpayers related to an airline that are not themselves airlines. Under the model rule, a related taxpayer generally must source receipts from selling points or miles that may be redeemed for air travel using the departure ratio applicable to the related airline.

## ***Receipts factor mechanics***

The revised regulation retains the existing receipts factor framework. Generally, the denominator includes the taxpayer's receipts, excluding receipts from the sale of aircraft and aircraft parts, while the numerator includes transportation receipts sourced to the state using the weighted departure ratio together with other receipts attributable to the state under the applicable apportionment provisions. Aircraft departures continue to be weighted based on the value of aircraft by type. The regulation explains that receipts from the sale of aircraft and aircraft parts generally are excluded because those transactions are not ordinarily part of an airline's regular business operations.

## ***Property and payroll factor provisions***

The revised regulation continues to use aircraft departures, weighted by aircraft value and type, in determining the state portion of aircraft included in the property factor. Similarly, compensation paid to flight personnel continues to be assigned using the weighted departure ratio, while compensation paid to non-flight personnel generally remains subject to the applicable general apportionment rules.

## Considerations for airlines and related taxpayers

The model regulation requires taxpayers to maintain records necessary to identify departures by aircraft type. Those records remain subject to review by applicable state taxing authorities or their agents.

The revised regulation does not have the force of law unless adopted by a state, and its practical effect ultimately will depend on whether and how individual states adopt the model provisions. Taxpayers should evaluate each state's existing statutes, regulations, and administrative guidance rather than assume the revised MTC model automatically applies in all jurisdictions.

## Get in touch

[Joe Garrett](#)

[Daniel Schwartz](#)

[Amy Langille](#)

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