

ADMINISTRATIVE

RELEASE

Administrative Release No. 22
Subject: Apportionment of Income – Airlines

I. General

When an airline has income from sources within and without Maryland, income derived from or reasonably attributable to the trade or business carried on in this state shall be determined using a three-factor formula of sales, property and payroll. Airlines may not use the single sales factor apportionment found in Annotated Code of Maryland, Tax General Article 10-402, which was amended by 2018 House Bill 1794. Readily available statistics which provide the number of Departures, Originating Passengers and Air Miles shall be used in computing the Maryland apportionment factors.

The sales factor is based upon the ratio of the number of originating passengers in Maryland compared to originating passengers everywhere, plus the ratio of originating tons in Maryland compared to originating tons everywhere.

The property factor is determined by assigning spare parts, terminal and other situs property where located. The value of aircraft and other flight property is prorated by percentages applied to ratios of air miles and departures.

The payroll factor is determined similar to the property factor. Situs payroll (ticket agents, baggage, personnel, etc.) is assigned to the state where the employee performs the services. Flight payroll (flight crew) is prorated by percentages applied to ratios of air miles and departures to determine Maryland’s allocable portion.

If the Comptroller approves, the taxpayer may elect to use an apportionment formula developed by including the weighting of aircraft type. If the election is approved, it is the responsibility of the taxpayer to maintain the proper records to verify the amounts used.

II. Definitions

The following terms have the meanings indicated:

1. “Departures” means all takeoffs, whether scheduled or nonscheduled flights, that occur during revenue service.
2. “Flight equipment” means aircraft and their

integral components.

3. “Originating passengers” means passengers first received in air travel as reported on the Department of Transportation “Passenger Origin and Destination Survey Report.” Enplanements occurring on flight changes en route are not included in the definition.

4. “Originating Tons” means loaded short tons (2,000 pounds) of cargo at the beginning of a flight.

5. “Value” means the original cost of real or tangible personal property and, in the case of rented or leased property, value means eight (8) times the net annual rental or lease expense.

III. Sales Factor

1. The numerator of the sales factor is the sum of the passenger and freight revenue allocable to Maryland for the taxable year. Passenger revenue is computed by multiplying passenger revenue everywhere by the ratio of the number of originating passengers in Maryland compared to the number of originating passengers everywhere.

2. Freight revenue is computed by multiplying freight revenue everywhere by the ratio of originating tons in Maryland compared to originating tons everywhere:

$$\text{a. (All Passenger Revenue)} \quad \times \quad \frac{\text{(Maryland Originating Passengers)}}{\text{(All Originating Passengers)}}$$

PLUS

$$\text{b. (All Freight Revenue)} \quad \times \quad \frac{\text{(Maryland Departures)}}{\text{(All Departures)}}$$

3. The denominator of the sales factor is the sum of passenger revenue everywhere plus freight revenue everywhere.

IV. Property Factor

1. The numerator of the property factor is the sum of the average value of real and tangible personal property owned, rented, and used in Maryland during the taxable year plus the value of flight equipment allocable to the State. The allocation of the value of flight equipment

(VFE) is equal to the sum of the following calculations:

_____ apportionment factor.

a. 50% X $\frac{\text{(Maryland Air Miles)}}{\text{(All Air Miles)}}$ X (VFE Everywhere)

PLUS

b. 50% X $\frac{\text{(Maryland Departures)}}{\text{(All Departures)}}$ X (VFE Everywhere)

2. The denominator of the property factor is the sum of the average value of all real and tangible personal property owned and rented everywhere, including the value of all flight equipment everywhere.

V. Payroll Factor

1. The numerator of the payroll factor is the total amount paid as compensation for services performed in Maryland plus flight crew compensation allocable to Maryland. The allocation of flight crew compensation (FCC) allocable to Maryland is determined by using the following formula:

a. 50% X $\frac{\text{(Maryland Air Miles)}}{\text{(All Air Miles)}}$ X (FCC Everywhere)

PLUS

b. 50% X $\frac{\text{(Maryland Departures)}}{\text{(All Departures)}}$ X (FCC Everywhere)

2. The denominator of the payroll factor is the total payroll everywhere for the taxable year.

VI. Apportionment Factor

You arrive at the final factor by developing separate decimal factors for sales, property and payroll as previously described, and then obtaining the average of their sum:

Sales Factor	=	0.XXXXXXX	
Property Factor	=	0.XXXXXXX	
Payroll Factor	=	0.XXXXXXX	
Sum of All Factors	=	0.XXXXXXX	Divide by 3 to arrive at final

VII. Effective Date

This procedure is effective for all tax years beginning after December 31, 1988.

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