WHITE PAPER

GETTING TAXES RIGHT

PROPOSALS FOR IMPROVING HOW AIRLINES MANAGE SALES AND TRANSPORT TAXES

atpco

CONTENTS

About this white paper

ATPCO is publishing this white paper to share our vision for how innovating our own processes and driving needed change in tax standards and processing can improve these tasks for everyone. This paper is supported by research provided by AFKL IT Solutions. A high-level study, this proposal aims to identify gaps and areas of complexity. Recommendations will need further detailed and technical analysis.

Taxes amount to about **10% of airline sales revenue.** That comes to about 58 billion dollars collected and remitted for taxes around the world in 2019.

INTRODUCTION

WHY BOTHER?

It should be simple. Taxes are the same for everyone, and airlines and agents are simply keeping track of them for the authorities they are owed to. And yet disparate data sources, multiple calculations of the same information, and misaligned interpretations still lead to miscollected amounts, penalties, and angst for thousands of people every day.

Supporting a business case to fix these problems is difficult because taxes cross several domains and are not part of airline commercial strategies. Nevertheless, neglecting the process leads to financial risk, whether from undercollecting from the passenger or from adjustments and fines because of errors or noncompliance.

It doesn't have to be this way. Industry standards can build an end-to-end vision of tax processing from managing the tax rules to collection from the passenger, through interline billing and remittance to authorities. Relying on industry-standard solutions centralizes the costs and reduces individual airline investment, allowing for better innovation and tools.

This white paper describes the current tax processes and analyzes their current gaps and areas of complexity in order to present a vision of tax processes in the future.

A standard centralized service for automating tax processes (through active collaboration between IATA and ATPCO) and embracing the opportunities for simplification that NDC and ONE Order provide will streamline processes; ensure the tax amounts for collection, remittance, and settlement align; and reduce costs for everyone in the industry.

SECTION 1

THE SITUATION

THE SITUATION

MANAGING TAX RULES

Converting decrees from governments and airports into data that can power the automated calculation of taxes for every air journey, both when it is sold and after it occurs, is no easy task.

Here's how it works today: airlines work with IATA to update tax information from the authorities, and they work with ATPCO to keep track of any instances where how they collect the taxes differ from those rules. The databases fuel an ATPCO file that describes how the rules should apply to a journey, and many industry companies use that file to run their calculations to make sure they are collecting and remitting taxes correctly, even when they are in codeshare or interline agreements.

But here's the problem. Not everyone uses that same file, and airlines and their partners calculate and re-calculate those taxes many times over—and sometimes come up with different results. Then when situations get complicated with ancillary options, reissues, refunds, involuntary changes, and other hiccups, some data is missing that prevents automation and causes even more differing results. Let's take a deeper look.

The role of authorities

Authorities such as governments or airports collect taxes applied to transportation of passengers by air. These authorities publish legal texts in various ways to describe the applicable tax rules and amounts, and when errors or noncompliance occur, airlines face the financial risk of tax adjustments and fines.

The airlines and IATA may sometimes discuss issues or challenge authorities on the tax rules and amounts, or they may request changes or clarifications on the legal verbiage. Airlines also engage in advocacy with authorities to encourage clarity and fuller coverage of tax rules for special situations, because unfortunately, the published tax rules may be unclear or too complex to allow enough standardization to power a database.

Different databases

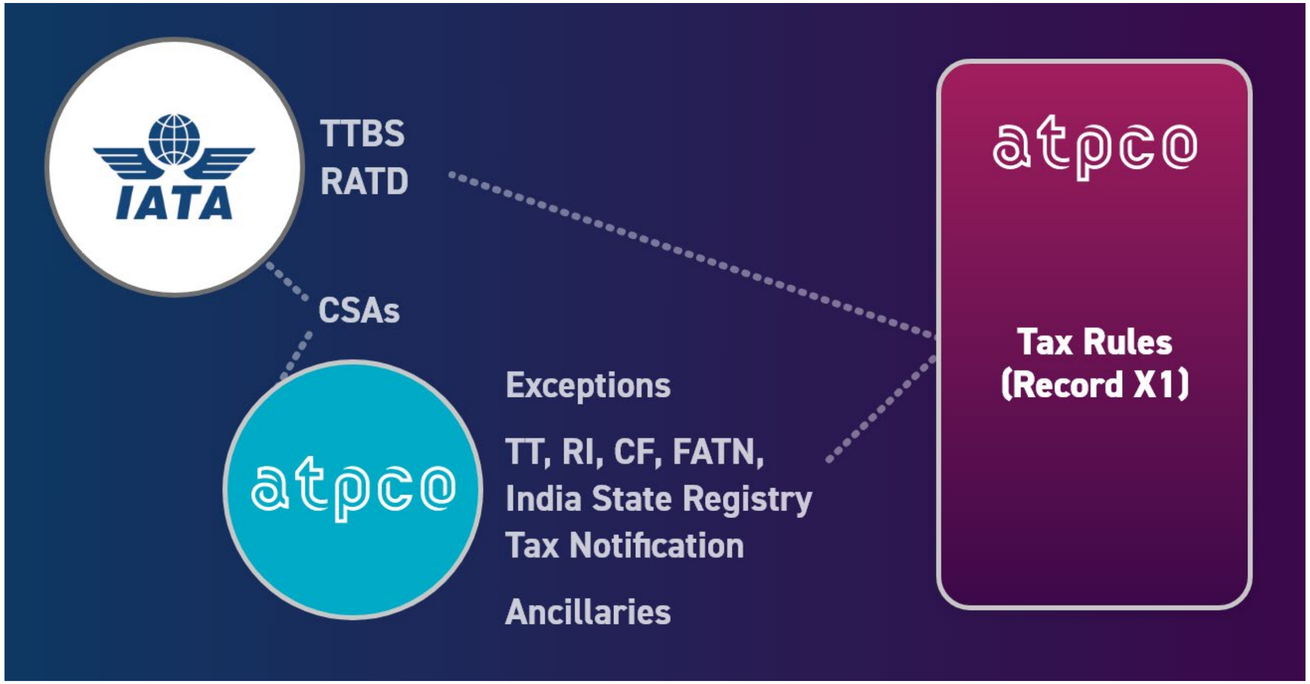
One of the key difficulties in managing which tax rules to apply in any situation is how tax data is stored and updated in disparate locations and on varying schedules. Currently, the rules for how taxes should apply are held in three different databases, making it really difficult for airlines to have a full understanding of applicable taxes.

TTBS: Rules for collection (pricing)

IATA manages a standard industry tax database, TTBS (Ticket Tax Box Service) that is the airline industry reference for passenger tax rules and amounts.

When authorities publish a legal text creating, changing, or suspending a given tax, an airline reports the change to IATA, who then updates the rules in TTBS. The airline taking responsibility for the update of taxes in a given country is called the "flag carrier." If IATA is not notified, the change isn't made in TTBS and the airline industry will not apply the correct rules and amounts when calculating the tax amount.

WHERE IS TAX DATA STORED AND ACCESSED?



ATPCO: Other rules and exceptions

TTBS holds the standard industry rules and amounts, but its coverage is not complete. These are some of the exceptions that IATA does not manage; instead, ATPCO codes them in their system:

- CSA: Carrier-Specific Amounts are published when a carrier wishes to apply an amount different from the standard tax. For example, Australian airport taxes cannot be declared as standard by a given airline because they are negotiated by each airline individually and fall under the anti-competition laws in Australia. Each airline therefore publishes the taxes they will apply as CSA. These are validated by TTBS but published and managed by ATPCO.
- TE: Tax Exceptions are published by any airline wishing to apply an exception to a tax amount. For example, this could be an exemption for a given type of ticket, such as staff tickets, or the application of a different level of PMR (person with reduced mobility). These tax exceptions can be public (available to all GDSs) or private (for a specific subscriber at airline request).
- TT: Terminal Notifications can be published by any airline. They concern information on the usage of terminals in certain airports where taxation is different depending on the terminal.
- RI: Russian Terminal Use Charge notifications are for Russian airlines wanting to collect or exempt the Russian Rates in RUB for domestic and international departures and arrivals at Russian airports.
- CF: Change Fee Notifications to publish taxes applied by a specific airline on change fees.
- FATN: Flight Application Tax Notification accommodates the new Customs, Immigrations & Quarantine (CIQ) Charge (HZ) in the Northern Mariana Islands (MP). It is sent to systems with flight-specific information reported by carriers.
- India State Registry Tax Notification. In June 2017, IATA-TTBS published the new Tax Code K3 as an Interim Goods and Services Tax sponsored by Air India. Since then, all Indian domestic and international carriers selling tickets for commercial air transportation within India and/or international travel originating in India are required to report to ATPCO the states/union territories in which they are registered in India.

ATPCO also collects tax data on ancillary, or optional, services from individual airlines. This data is also published in Record X1.

RATD: Rules for interline billing

A third tax database holds the standard industry tax rules for interline billing. This database is called Enhanced RATD (Revenue Accounting Tax Database) and is a monthly snapshot of the content of the TTBS and the CSA/TE/TT/RI data taken on the 25th of the month and applicable to interline billing of taxes during the next month. The Enhanced RATD is managed commercially by IATA but is powered by ATPCO.

Frequency is a problem here. The tax rules in Enhanced RATD are updated only once a month, but the industry uses the continuously updated TTBS to calculate and collect the taxes from the passenger when the ticket is priced and issued. All through the month, the tax amount collected on the ticket, the tax amount that can be billed by the operating airline of the flight, and the tax amount remitted by the operating airline to the authorities can be different.

Costs and access for airlines

The airline industry can consume all these sources of data it in a single file, the ATPCO Tax Rules (Record X1). This file enables the electronic update of tax reference databases in many industry systems at GDSs, airlines, and system providers so they can make calculations throughout their pricing, interline, and audit processes. The costs, however, add up: each database and file type carries an associated subscription fee.

In short, airlines must work with several tools and two organizations to access and update specific tax rules. Each database and tool incurs its own costs for access, and the difference in how frequently updates are published for pricing versus interline tax rules results in different amounts when airlines or systems calculate tax amounts at different points in the process.

> Tax rule data is managed in multiple places by multiple organizations on different schedules, and needed data isn't centrally represented.

Gaps in data complicate calculations

While the industry is in a good position by having standard reference databases for pricing and interline settlement, important data is missing from this process: rules for how taxes apply for refunded tickets, exchanged or reissued tickets, time limits for transit/transfer, the definition of how to determine the final destination, and details about exemptions.

The gaps in this data often results from authorities' legal documents not clearly defining the rules that apply in these situations, and documenting these rules will require advocacy from IATA and airlines to encourage authorities to provide the information. Further, some tax rules are extremely complex or cannot be automated in the airline industry, and again, advocacy is necessary to persuade authorities to simplify these rules.

Aside from legalities is the structure of some of the available data. Some fees, tagged YQ or YR, are managed as taxes by pricing systems, but these fees are in fact part of the fare. Having a fare element in the tax process can interfere with the management of taxes and create complexity.

Ancillary services available for a fee, such as meals and lounge access, are tracked with EMD (Electronic miscellaneous documents) and some of them are taxable. While taxes on ancillaries, or any product-based item, can be filed by the airline with ATPCO and are published in Record X1, there is no central industry tax database for this information. Finally, the interline billing industry standard (RAM) does not describe the process for interline billing of taxes on ancillaries.

CALCULATING THE TAXES

One of the drawbacks of the current tax process is how often the tax amount is calculated, and recalculated, between the time of pricing a journey to interline settlement. Not only is it extra effort and time, but the different calculations don't always match.

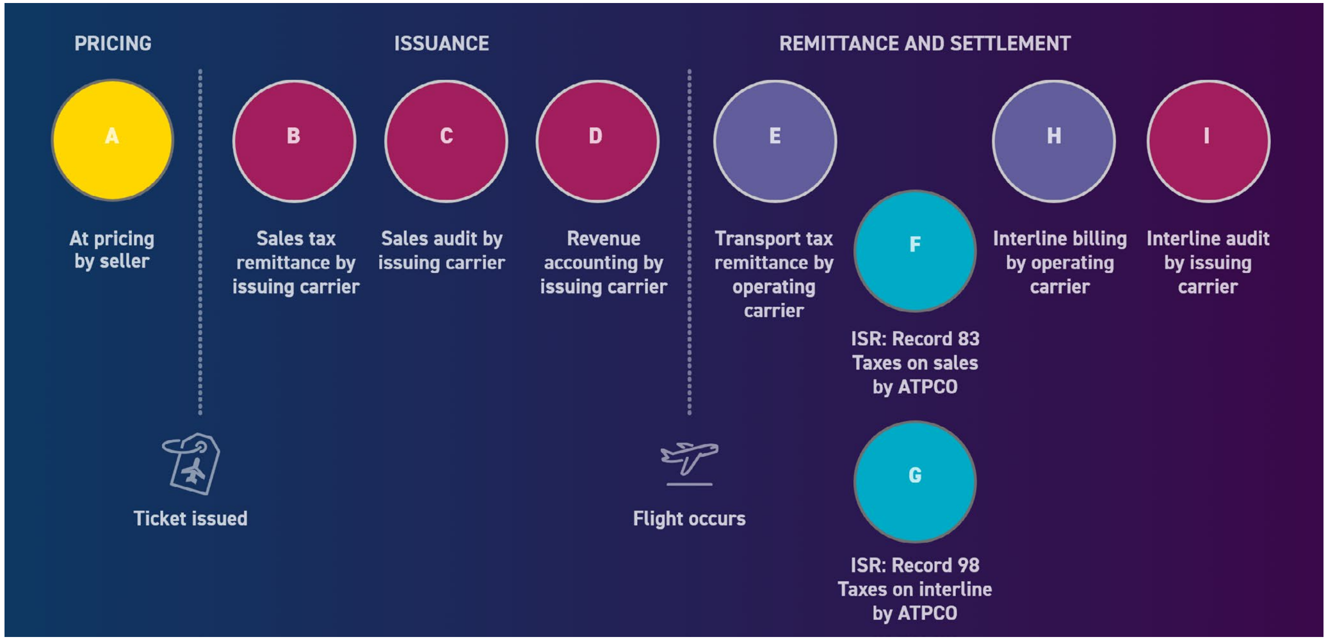
At pricing

When a passenger buys a ticket, the selling agent (or web application) uses a GDS (global distribution system) or airline CTS (central ticketing system) to price the ticket fare and determine which tax amounts apply to the journey.

All the data necessary to calculate the applicable tax amounts is present. The tax amounts are calculated per flight, or coupon, and the total tax amount to be collected from the passenger is the sum of those detailed tax amounts.

The selling agent performs this calculation (A in the diagram below) and uses the standard industry tax rules stored in TTBS and ATPCO (CSA/TE/TT/RI) and distributed in the TTBS and ATPCO bulletins or via Record X1 files. The seller conforms to the industry standards written in IATA resolutions and recommended practices, which is a good thing, but those standards do not cover all situations.

WHEN ARE TAXES CALCULATED?



Sometimes it is unclear which rules to apply for reissues or refunds. This makes automation difficult and opens the door to disputes among airlines and agents. In other cases, taxes are not calculated at all because there is no collection from the passenger and therefore no pricing of the ticket, for example, for an involuntary reroute or planned schedule change. When the passenger purchases an ancillary, such as an upgrade, the increase in taxes is not always calculated and referenced on the ancillary.

Better standards here will allow better automation, but the difficulties really begin when the ticket is issued.

When the ticket is issued

Once the passenger pays, the ticket is issued—and two key pieces of data are lost.

The ticket lists tax amounts by tax code, which means that a ticket with more than one flight or coupon reports only a summed amount for each tax. But other processes later, such as interline billing, need to know each tax on each coupon, not the sum, to properly allocate funds and transport taxes.

The ticket also omits information used during pricing that can affect which taxes apply to a journey, such as exemptions based on date of birth, nationality, or resident status. This information is important when later processes recalculate tax amounts and is also necessary to justify tax amounts when authorities conduct tax audits.

Now the issuing carrier might calculate the tax amount for three reasons:

1. Sales tax remittance
   The issuing carrier must remit the sales tax to the authorities. They can simply use the tax amount collected on the ticket, or they can recalculate it (B in diagram), possibly arriving at a different amount. Why? Tax rule data may be incomplete, unclear, or misinterpreted. The calculator tool may be different, coded incorrectly, or erroneous. Missing data could have affected which taxes apply. Any of these situations can result in a discrepancy between the remitted amount and the amount expected by authorities, who then require justification or adjustments to correct the amount, or even redress and fines.
2. Sales audit
   The issuing carrier may audit the ticket taxes (C in diagram). Again, this calculation might arrive at a different amount because the carrier used a different calculator tool, may not have all the necessary data, or the rules and standards maybe insufficient. If there is a difference between the collected tax amount and the amount calculated during the sales audit, the issuing airline will issue an ADM to the selling agent to reclaim this difference.
3. Revenue accounting
   The issuing airline may recalculate the applicable taxes in their revenue accounting or their accounting system (D in diagram). During this process, the issuing carrier may also split the collected taxes and the applicable taxes at flight/coupon level, retracing what was done at pricing to calculate the tax amounts for the ticket. Again, they may arrive at different amounts for the same reasons: misinterpreted or incomplete tax rules, errors from the calculator tool they are using, or missing data that prevents recalculation.

Sales and transport tax amounts are calculated many times for different reasons, but the same problems exist for all: lost ticket data, misinterpretation of rules, varied calculator tools, databases updated at different frequencies, and missing justification data.

After the flight

After the passenger flies, the operating carrier will process the flight and calculate the taxes for two reasons.

1. Transport tax remittance
   The operating carrier must remit the transport tax to the authorities but they may not be able to use the tax amounts collected on the ticket because this tax amount must be per flight/coupon, and it may require actual flight conditions such as cabin or class, itinerary, and the date or place of issuance. When the operating carrier calculates the tax (E in diagram), the same risks of interpretation, tool inaccuracy, and errors are present. Furthermore, if tax rules were updated after the passenger bought their ticket, some authorities require compliance with those new rules. All these factors may contribute to errors of underpayment or overpayment of taxes to the authorities, resulting in possible redress and fines.

2. Tax Interline billing
   When the airline issuing the ticket and the one operating the flight (and therefore paying the transport taxes) are not the same, the operating airline will bill the issuing airline for the appropriate transport taxes. IATA's RAM (Revenue Accounting Manual) mandates that interline billing of taxes must be based on the rules in RATD, so another calculation occurs (H in diagram). The same problems that bedevil transport tax calculations raise their heads here, causing differences between the amount billed by the operating carrier to the issuing carrier and the amount remitted by the operating carrier to the authorities, particularly because of the different schedules at which the two tax rules databases are updated (RATD is monthly, while TTBS is daily).

The operating carrier sends their interline billing invoice to the issuing carrier, via IATA SIS or directly. The issuing (billed) carrier then needs to calculate the taxes one last time (I in diagram) to check the amount billed. Again, they may use a different calculator tool and find a different calculated tax amount because of different interpretations of the tax rules in RATD, errors, or a lack of necessary data. This may lead to time-consuming disputes over the billed amounts (rejection and correspondence).

A STICKY SITUATION

The complicated business of airline pricing is complicated even in the little things, like the relatively stable data for collecting and paying taxes.

- The tax rules used to calculate tax amounts are referenced in several industry standard databases (TTBS, RATD, and ATPCO) managed by multiple organizations.
- More and more stakeholders are using the ATPCO Tax Rules (Record X1) file as a single source for updating the tax rules in their systems in an automated way. But the file is only as good as its underlying data, which could be more complete.
- There is no standard industry tax calculator, resulting in discrepancies between all the many different tax calculations throughout the life of a ticket/coupon.

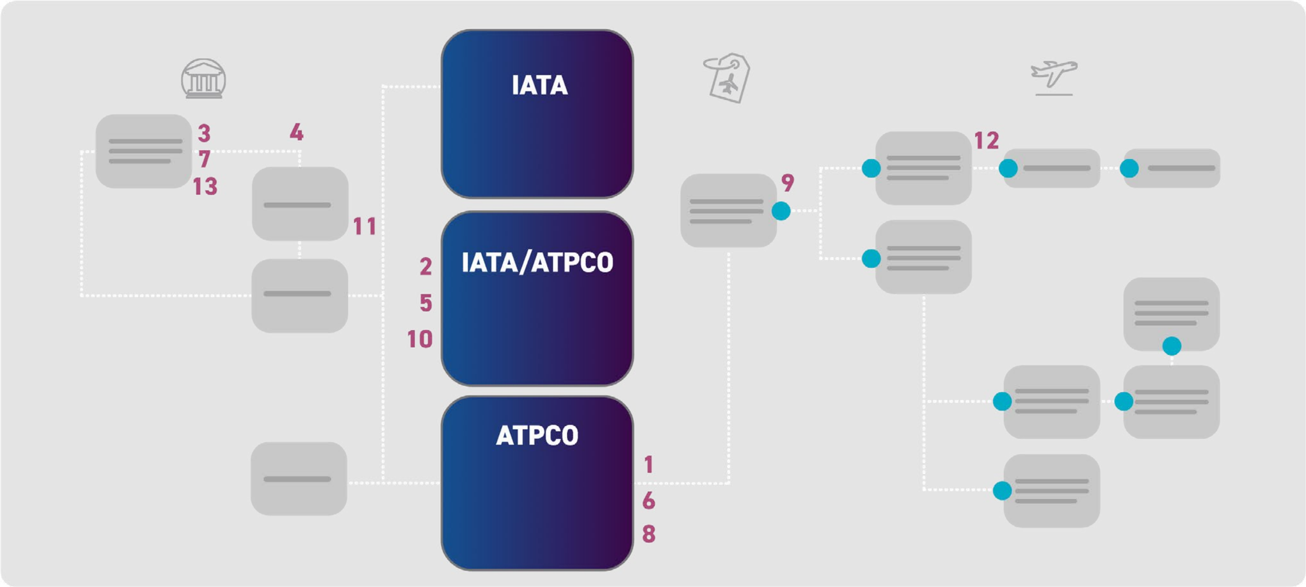
SECTION 2

THE SOLUTION

THE SOLUTION

When the collected tax amount isn't the same as the amount remitted to the authorities or the amount billed to involved interline carriers, airlines face financial risk. The process for managing taxes can be simplified and standardized to improve automation and diminish that financial risk.

The good news is that the industry has a few strengths upon which to build a better process. Reference databases contain the standard industry tax rules, and there's a single source for receiving that standard data. These ideas build upon this foundation to improve the tax process for all, in the near term and in the more distant future.



13 PROPOSALS FOR IMPROVING THIS PROCESS

1. Recommended, then mandated use of Record X1
2. A single industry standard tax rule database for all tax processes
3. Clear guidelines for authorities, such as advocating for TFCs to be transport-based only and for TFCs to be interlineable
4. Full coverage of rules and exceptions in the tax rule database
5. Clear industry standards for tax processing
6. An industry-standard tax calculator
7. Certification of tax rules by authorities
8. Tax calculator certification by authorities
9. Enhanced ticketing data
10. An industry-standard tax rule database for ancillaries
11. Clear separation of fare rules and tax rules (YQ/YR)
12. Impact of NDC and ONE Order
13. Focus on reissues, refunds, and upgrades

THE PROPOSED PROCESS

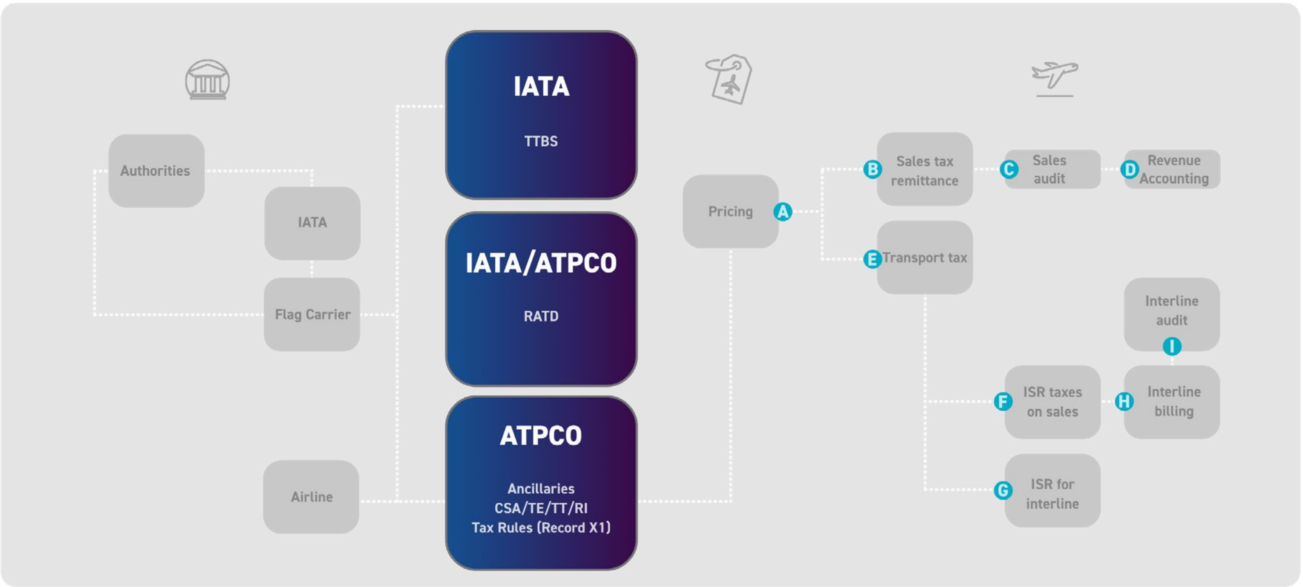
The proposed process relies on strengthening and consolidating existing structures, as well as clarifying and extending the coverage of standards, rules, and guidelines provided by authorities. Implementing even some of these changes could halve the number of necessary tax calculations, vastly simplifying the process and reducing settlement disputes and rejections.

- A single industry-standard tax rule database for all tax processes. This database would be commercialized by IATA and powered by ATPCO, merging ATPCO and IATA tax rule databases and removing the need for RATD for interline taxes.
- A single industry source for automated update of tax rules. When everyone bases their calculation on the same data, there will be fewer disputes among sellers and airlines.
- An industry-standard tax calculator, removing the need for several audit calculations.
- Clear industry standards for tax calculation and processing for reissues, involuntary reroutes, planned schedule changes, upgrades, and other complex situations.
- Clarified industry standards for interlining, with default rules in case of missing data, to reduce interline disputes.

Some of these efforts are already in progress.

- Clear guidelines from IATA for authorities on which to base advocacy, to better drive passenger tax administration by authorities, including remittance.
- Full coverage of rules and exceptions in the standard database, with tags to power automation and reduce costs (IATA and Tax Governance Working Group).
- Enhanced ticket data that includes all the data needed for calculation and justification to authorities.

BEFORE



AFTER

NDC and ONE Order

As the industry continues to evolve fare pricing, infrastructure for handling taxes must keep pace, and could even be improved. These new methods of distribution and initiatives may help ameliorate some of the present suboptimal conditions, though other obstacles may arise.

With these new methods and clear industry standards that include specific passenger tax requirements,

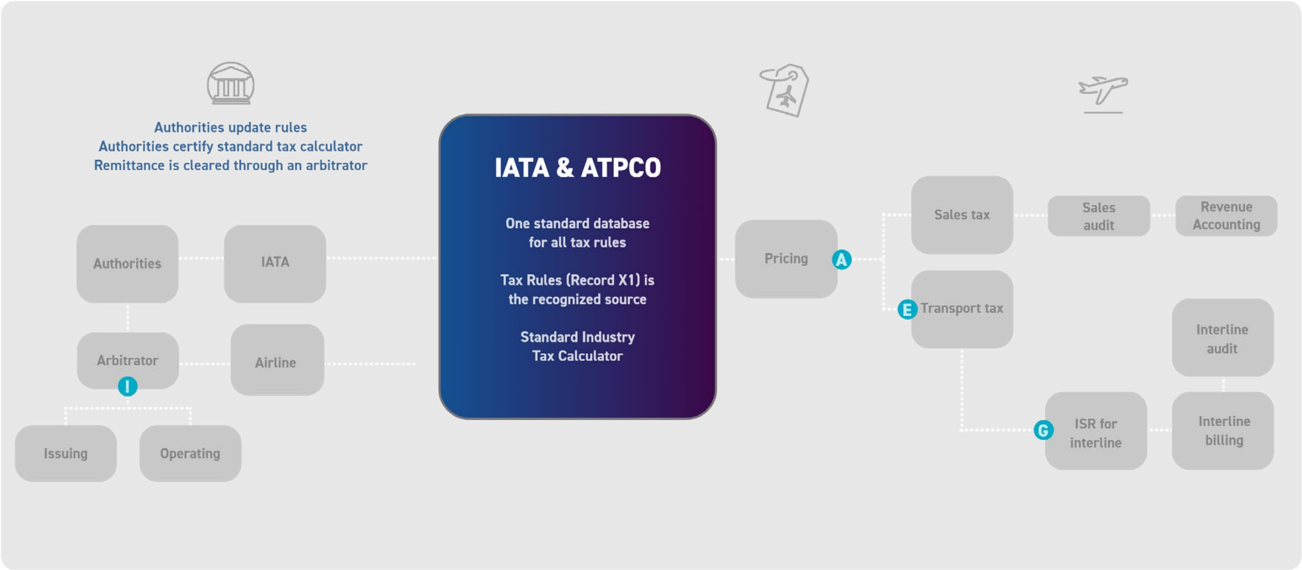
- A vision of the detailed journey (full itinerary) promotes correct tax calculation.
- Clear after-sales tax processes (exchange/reissue, refund, involuntary rerouting, planned schedule change, upgrade/downgrade) create data that is aligned with tax remittance and includes requirements for interline billing.
- Coherence with requirements regarding remittance to authorities, including any changes to flight conditions, reduces risk of incorrect remittance.
- When all data required for tax processing and tax remittance justification is available (including passenger data, detailed tax amounts per flight and full itinerary), financial risk is reduced (tax remittance).

If the tax amount to be billed for interline is agreed at time of order and guaranteed by a standard/certified tax calculator, no tax recalculation is needed for interline billing and there are no interline disputes.

One step further

Shorter and mid-term solutions can be further improved by attention to longer-term actions that would improve the tax process significantly, though they will require broader efforts.

- Tap authorities to certify and update tax rules.
- Have authorities certify the tax calculator, removing the risk of discrepancies that result from calculation errors.
- Clear tax remittance through an arbitrator to reduce the risk of tax adjustment and fines.
- Designate an industry-standard tax rule database for ancillaries.
- Separate fare rules and tax rules by removing the tax-based YQ/YR fare element, removing confusion and simplifying processing.



5 RECOMMENDATIONS FOR THE INDUSTRY

Here is a way forward:

1. Require calculations based on ATPCO Tax Rules (Record X1) data

The first step is easy and relatively cheap: Recommending and eventually mandating that industry organizations and tax calculators use ATPCO Tax Rules (Record X1) as their base data. This would involve bringing the discussion to relevant Industry groups and updating standards (ticketing standards as well as NDC, ONE Order, and RAM for interline) to recommend and then, after a delay, mandate the use of Record X1. This journey has already begun, for instance in RAM Chapter B17, but this proposal is to go one step further and is linked to the use of a certified or industry-standard tax calculator that must use the Record X1 file for updates.

2. Merge databases into a single source

The crux of the proposal is a single industry-standard tax rule database (ISTR) for all tax processes. The existing technical infrastructure to create an ISTR database, including ancillaries, is already available via ATPCO. However, access to the data, the update frequency, and the cost structure could be simplified. Here's how to achieve a unified, simpler source:

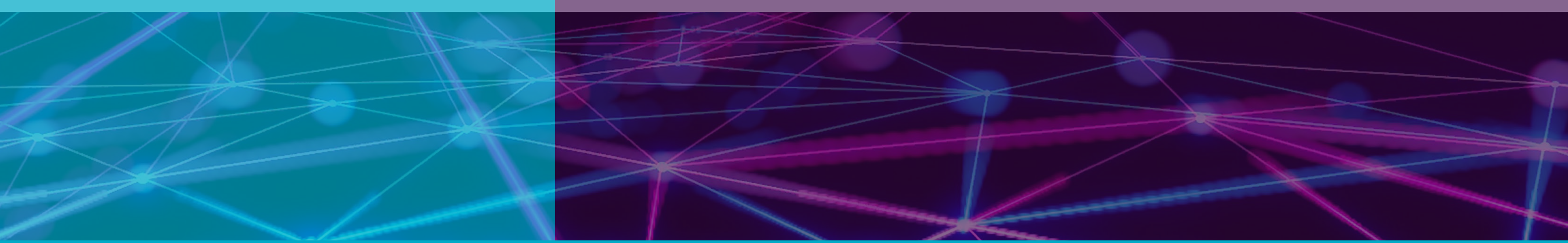
- Remove RATD. The RATD sub-group in the IATA Tax Governance Working Group is analyzing the feasibility of increasing the frequency at which the RATD is updated from monthly to daily. Once RATD is updated daily, it would no longer be needed because the single ISTR database would contain the interline data, and a Record X1 file could be generated for interline taxes only to be used in the same processes fed by RATD now.

  Once NDC and ONE Order can service interline journeys, the RATD becomes obsolete. Removing RATD gives systems the opportunity to have only one source for all tax rules and also paves the way for NDC and ONE Order interline by avoiding the use of different tax databases for interline tax rules, traditionally distributed tickets, and directly distributed tickets and orders.

- Create a unique tax database infrastructure that is commercialized by IATA and powered by ATPCO. The two organizations would define the legal/commercial setup, define their roles and responsibilities for updating the ISTR, and define how users can access the data. The ISTR would hold TTBS, RATD, CSA, exception, ancillary, and other data in one place, making maintenance simpler and reducing costs for airlines.

This is a wide-reaching proposal that affects many industry groups and requires collaboration to solve. To remove RATD requires the willingness of the airline community to change. IATA's Industry Financial Advisory Council (FinAC) or another group might send a mandate to IATA's Interline Billing and Settlement Operations Working Group (IBS OPS) to work with the IATA tax governance subgroup to solve the issue: reducing the discrepancy between collected and billed (interline) tax amounts and aligning tax rules for processing of interline tax billing with NDC and ONE Order standards.

Once the ISTR database is set up, all the data is stored in one place. The move to full coverage of rules and exceptions in that database will follow. Today, it seems that almost all the issues linked to the coding of tax rules are covered in Record X1. So moving the



indicators up one level and making them accessible to the users for update and review should be possible. What remains to determine is the rules to apply should the current information from the authorities be insufficient to populate the data (such as reissues and transit/transfer times). This again should be the responsibility of an industry working group.

3. Create clear guidelines for authorities and standards

Creating clearer guidelines for authorities will greatly help the effort to have clear and complete tax rules. IATA is currently working on this, as evidenced in its *Best Practices for Taxes, Fees & Charges on Air Tickets* document for governments, and the importance of this initiative should not be underestimated. Advocacy in general should, slowly but surely, ensure that tax rules are manageable for the airline industry and that updates in the ISTR database are made in a timely and reliable manner. These guidelines can be sent to authorities or used by IATA and airlines for advocacy.

These topics are particularly important for effective guidelines:

- The remittance of taxes that have been updated between the date of sale and the date of flight, with recommendations to relieve the financial risk from the airlines.
- Missing information, such as refundability conditions.
- Unmanageable exemptions where the lack of data results in airlines remitting the tax to authorities even if it was not collected.

The cost for this advocacy is low, only for the production and transmission of the guidelines to the authorities and the airline community.

Clear industry standards for taxes should be part of the applicable industry working group discussions about updates to standards and could be mandated by FinAC, for instance. Taxes are not managed based on the fare rules and standards but are processed based on authorities' requirements, and therefore need to have clear rules and standards of their own, including a discussion of YQ/YR being a fare element. These standards are a prerequisite for the smooth adoption of NDC, ONE Order, and the creation of an Industry tax calculator.

4. Create an industry-standard tax calculator certified by authorities

A keystone for the simpler overall tax processing is an industry-standard tax calculator. Because there should be no loss or gain on taxes, and because tax rules are the same for all, a standard tool to calculate these amounts would make sense.

INDUSTRY-STANDARD TAX CALCULATOR

A standard industry tax calculator would help standardize the calculation and interpretation of tax rules, and it would ensure identical calculation results throughout all the different processes that require it. It could greatly improve some of the biggest problems with the current tax process.

- Identical calculation results would mean fewer rejections and disputes.
- More accurate collection from the passenger leads to fewer adjustments and fines from authorities, and therefore less financial risk for airlines.
- Errors from the incorrect update of TTBS or the calculation itself would be identified faster because the whole airline community would be monitoring the tool, improving the accuracy of tax amounts.
- Multiple, costly tools would be consolidated, reducing costs, improving accuracy, and simplifying the tax process.
- All subprocesses would use the same tool, reducing discrepancies overall.
- A single calculation tool would make discussions with authorities about adjustments easier and increase leverage for advocacy.
- Increasing trust in the accuracy of tax amounts exchanged between selling and participating carriers will make NDC and ONE Order adoption more appealing.

ATPCO already has a tax calculator that could be the foundation for building this industry-standard tax calculator. This tax calculator performs these functions and stores the results in the ATPCO Industry Sales Record (ISR):

- Recalculate applicable tax amounts that should have been collected on the ticket and each flight coupon in the ISR file. These applicable tax amounts are calculated using the tax rules in TTBS plus the CSA/TA/TT/RI and are stored in Record 83 of the ISR (F in diagram).
- Calculate applicable tax amounts for interlineable taxes for each flight coupon in the ISR file. These applicable interlineable tax amounts are calculated using the tax rules in RATD plus the CSA/TA/TT/RI and are stored in Record 98 of the ISR (G in diagram).

The ATPCO Tax Calculator follows the tax rules in TTBS, RATD, and ATPCO databases, and so the same barriers to complete accuracy exist here: missing the data necessary to calculate exemptions (date of birth, nationality, etc.) and transport taxes (cabin), a lack of standards for reissues and refunds, and discrepancies that result from delayed or mismatched frequency of tax rule updates or changes that occur between date of sale and the date of flight.

One other issue would need to be solved: coverage. The ISR file does not contain 100 percent of sales worldwide. This can be alleviated if each airline sends all its sales directly to ATPCO based, for instance, on the content of the ET database.

Taking things a step further, certification of the calculator by authorities would doubtless relieve the financial risk for airlines. Deeper analysis would be needed to evaluate the cost and barriers for such an endeavor and to identify authorities that are willing to be pilots.

5. Prepare for NDC and ONE Order standards

Currently NDC and ONE Order standards do not include the complexity and issues presented by the tax rules. An ISTR database with Record X1 files will provide a reliable source of data for the tax rules, but there is much more to be solved.

A general industry move to NDC and ONE Order is also an opportunity to clarify and simplify standards, rather than simply amending what we currently have. For example, enhancing ticketing data has been pursued for many years but has met with mitigated success because the investments needed from system providers is high. As we turn to the future and expand new methods like NDC and ONE Order, we can update their standards to handle some of the obstacles that currently plague the tax process:

- Keep the detailed information available at all times throughout the tax process: tax amounts per flight/coupon, full itinerary and travel conditions (for transport taxes), and data for justifying remittance to authorities.
- Make data to justify remittance to authorities available in case of tax audits.
- For interline billing, propose that billed amounts, including taxes, be agreed between selling carrier and operating carrier at the time of sale. This should avoid interline disputes and align as much as possible the collected, billed, and remitted tax amounts.

Much the same as current tax processing, addressing standards and rules in NDC and ONE Order for change situations remains important for progress in tax processing to occur:

- Clear standards for refunds, exchanges, reissues, involuntary reroutings, and planned schedule changes.
- Mechanisms to handle any change (voluntary or involuntary) to the original journey that affects transport taxes, such as point of sale, itinerary, or cabin class.
- How to manage changes to the taxes on an interline flight for remittance and between the selling carrier and the participating carrier.
- How to recalculate taxes after upgrades or downgrades.

Merging databases, unifying the industry's source of data, and moving to a single standard tax calculator are the first steps to the ideal tax process. This standardization paves the way for complete coverage of standard tax rules so all tax situations can be automated, improving accuracy for all and reducing airlines' financial risk.

CONCLUSION

WORTH THE BOTHER

Nobody really wants to talk about taxes, but some industry investment in simplifying these processes promises to be spectacularly effective.

Centralizing databases and expanding tax rule coverage and standards to support further automation would reduce costs for everyone in the industry. The possibility of performing fewer calculations and of more accurate results would save time and protect against airlines' financial risk.

CONTACT US TO JOIN ONE OF THE TEAMS WORKING ON TAX STANDARDS.

AMERICAS

EUROPE, MIDDLE EAST, AFRICA

ASIA PACIFIC