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Tax Incentive Evaluation: Georgia's Jet Fuel Exemption

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Executive Summary

In November 2018, the Georgia General Assembly ratified an executive order from then-Governor Nathan Deal to suspend the collection of the state's 4-percent sales and use tax on jet fuel—and extended that suspension indefinitely. The purpose of this report is to evaluate Georgia's exemption for purchases of jet fuel, in accordance with the provisions of O.C.G.A. § 28-5-41.1 (2021 Senate Bill 6), in terms of its fiscal and economic impacts as well as its public benefits.

This report was prepared under a contract with the Georgia Department of Audits and Accounts (DOAA). The report begins with background on Georgia's jet fuel exemption, followed by a discussion of other state programs, a review of the literature, an IMPLAN analysis of the economic and fiscal impacts of the exemption, estimates of the tax expenditure and administrative costs, and an analysis of the public benefits of the program in terms of its presumed goal of improving the business environment of Georgia. Information used in this report was obtained from the Bureau of Transportation Statistics (BTS), Energy Information Administration (EIA), and Federal Aviation Administration (FAA).

The annual cost to the state for the jet fuel exemption is estimated at $64.8 million for fiscal year (FY) 2024. Based on the academic literature—as well as Georgia's experience when this exemption was repealed—jet fuel consumption in the state by the commercial aviation sector would not be impacted by a repeal *in the short run*. We use the IMPLAN input-output model to estimate the economic activity associated with the amount of the jet fuel exemption in Georgia, but note that it does not impact our estimates of economic impact because the underlying economic activity would take place without the exemption in the representative year, as shown in the first row of Tables ES1 and ES2.

As a result of this jet fuel sales tax exemption, the state's general fund expenditures are implicitly reduced by the amount of the tax expenditure. In the absence of this exemption, an alternative use of the funds is modeled assuming an increase in state spending by that amount, allocated across the various spending categories based on recent state budgets. Tables ES1 and ES2 show the estimated amount of state and local revenue, respectively, from this alternative use of funds, which are the opportunity costs of the exemption. The net fiscal cost to the state, accounting for the tax expenditure and opportunity costs, is estimated at $74.5 million for FY 2025. Table ES2 shows the net local revenue effects on the same basis. Note these tables show the high-end estimated cost to the state of the jet fuel exemption.

Table ES1. Jet Fuel Exemption State Fiscal Effects, FY 2025–29

($ millions)	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Revenue gains from economic impact	$0.00	$0.00	$0.00	$0.00	$0.00
Less:					
Tax expenditure cost	($69.90)	($72.50)	($75.60)	($78.70)	($82.10)
Alternative use revenue gains	($4.61)	($4.78)	($4.99)	($5.19)	($5.42)
Net Fiscal Effects	**($74.51)**	**($77.28)**	**($80.59)**	**($83.89)**	**($87.52)**

Table ES2. Jet Fuel Exemption Local Fiscal Effects, FY 2025–29

($ millions)	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Revenue gains from economic impact	$0.00	$0.00	$0.00	$0.00	$0.00
Less:					
Alternative use revenue gains	($1.84)	($1.91)	($1.99)	($2.08)	($2.17)
Net Fiscal Effects	**($1.84)**	**($1.91)**	**($1.99)**	**($2.08)**	**($2.17)**

Georgia's sales tax exemption for jet fuel provides several public benefits for state residents. As discussed in the literature, the decrease in operational expenses for airlines stemming from the exemption results in lower airfares for flights out of Hartsfield-Jackson Atlanta International Airport (ATL) and other airports in the state. Tax exemptions create a positive business climate and, to some extent, play a role in making Georgia a major transportation hub, which can be a significant factor in a business's choice of location. Other major airport hubs in the southern United States—such as Charlotte Douglas International Airport and Dallas Fort Worth International Airport—also do not impose taxes on commercial jet fuel, and thus Georgia's exemption makes ATL more competitive with these other hubs. The presence of such a hub in the state has major benefits for the state economy, as it supports a large number of jobs, promotes tourism, improves connectivity and access to global supply chains, and attracts many other types of businesses that create additional jobs. While this exemption is not a primary factor driving ATL to be a major hub, airlines do consider such tax incentives in their location and operational decisions over the long run.

If the exemption was repealed, it seems likely that the commercial aviation sector would increase prices to Georgia consumers, which is supported by the empirical literature. Impacted consumers could be individual airline passengers as well as firms using air freight services. Such price increases would result in less money for individuals and firms to spend on other goods and services in the Georgia economy. That said, the impact is too speculative to estimate because we cannot know how much of the new, higher costs due to tax payments would be passed on to the consumer versus absorbed by the aviation sector. As there are substitutes for air travel and air freight, the commercial aviation sector may have to absorb some of the higher costs to stay competitive.

Georgia has a robust commercial aviation sector, and Atlanta is a crucial hub for domestic air travel nationally. As such, it is an important piece of Georgia's transportation and logistical infrastructure. The higher prices resulting from a jet fuel tax would have a limited impact on commercial aviation activity in the short run. However, in the long run, the share of routes and freight that flow through Georgia could diminish because of higher costs, which would negatively impact the state economy.

The size of Georgia's commercial aviation and transportation sectors, along with potentially competing sectors in nearby states, suggests maintaining the exemption as is. The size and scope of the airline industry in the state combined with the limited modification options of a state sales tax also make improvements to return on investment challenging. In addition, due to federal law, a 1-percent portion of the state sales tax would be required to go to aviation-related spending, thus limiting the amount available to the state general fund.

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Introduction

In November 2018, the Georgia General Assembly ratified an executive order from then-Governor Nathan Deal to suspend the collection of the state's 4-percent sales and use tax on jet fuel—and extended that suspension indefinitely. The purpose of this report is to evaluate Georgia's exemption for purchases of jet fuel, in accordance with the provisions of O.C.G.A. § 28-5-41.1 (2021 Senate Bill 6), in terms of its fiscal and economic impacts as well as its public benefits.

This report was prepared under a contract with the Georgia Department of Audits and Accounts (DOAA) and relied on their assistance in obtaining estimates of the program's administrative costs. The report begins with background on Georgia's jet fuel exemption, followed by a discussion of other state programs, a review of the literature, an IMPLAN analysis of the economic and fiscal impacts of the exemption, estimates of the tax expenditure and administrative costs, and an analysis of the public benefits of the program in terms of its presumed goal of improving the business environment of Georgia.

History and Overview of Georgia's Jet Fuel Sales Tax Exemption

In 2005, the Georgia General Assembly passed House Bill (HB) 341, which provided a partial sales and use tax exemption for jet fuel purchased by a qualified airline. This exemption was only applicable to state and local taxes exceeding $15 million per fiscal year beginning July 1, 2005, and was set to expire after two years. In 2007, HB 193 amended the code relating to the existing sales and use tax exemption for jet fuel, exempting the first 1.8 percent of the 4 percent state sales tax rate on jet fuel sold to commercial airlines at a qualifying airport. A "qualifying airport" was defined as Georgia airports with greater than 750,000 takeoffs and landings in a calendar year, and thus applied only to Hartsfield-Jackson International Airport (ATL). This partial exemption was to apply to transactions made during fiscal years (FY) 2008 and 2009 but was extended an additional two years through the end of FY 2011.

In 2011, HB 322 amended the sales and use tax exemption for jet fuel purchased at qualifying airports. For FY 2012, this bill fully exempted qualifying sales of jet fuel from the state's sales tax until the aggregate state sales and use tax liability of the taxpayer during such a period with respect to jet fuel exceeded $20 million (computed as if the exemption were not in effect). The exemption expired at the end of FY 2012, but in 2012, HB 386 provided a partial sales and use preference which exempted 1 percent of the 4 percent state sales tax rate on jet fuel sold to qualifying airlines at qualifying airports.

In 2014, the Federal Aviation Administration (FAA) amended its airport revenue usage policy to mandate that tax revenue from aviation fuel sales must be used for airport-related purposes. In 2015, the Georgia General Assembly passed the Transportation Funding Act (HB 170), which repealed the partial sales and use tax exemption that had been in effect since 2012 and stipulated that by the end of FY 2017, all proceeds from taxes on jet fuel were to be used for airport- or aviation-related purposes. After the enactment of HB 170, all non-exempt sales of jet fuel were subject to the full 4 percent state sales tax rate, and such sales were required to be reported separately by county.

In July 2018, then-Governor Nathan Deal issued an executive order that suspended the collection of state sales and use tax on jet fuel, and in November of the same year, he convened a special session of the General Assembly to ratify the executive order. On November 17, 2018, the

Assembly ratified the order with HB 5EX, fully exempting jet fuel from the state sales and use tax from December 2018 through June 2019—but also continuing the Governor's suspension *indefinitely*. The bill provided points of justification for this decision, which are as follows:

1. The annual economic impact of Georgia amounts to over $62 billion per year.
2. Direct flights out of Hartsfield-Jackson Atlanta International Airport alone have supported nearly $11 billion in foreign investment and 42,000 jobs across the state.
3. Georgia's sales and use tax levy on jet fuel amounts to the fourth highest tax burden on jet fuel among states with major airport hubs, placing Georgia at a competitive disadvantage compared with major airport hubs in Florida, New York, North Carolina, and Texas, among others.
4. The distribution of the proceeds of sales and use tax on jet fuel could jeopardize Georgia's legal standing and compliance with federal aviation programs.

Based on the language above, we presume the purpose of this exemption is to increase economic competitiveness and ensure compliance with federal aviation regulations.

Due to the concurrent suspension of collection and exemption of sales and use tax on jet fuel, there was some confusion about how jet fuel would be treated after June 2019. In November 2019, the Georgia Department of Revenue (DOR) issued a letter ruling to clarify the situation, stating that the collection of state sales and use taxes on the sale or use of jet fuel was suspended indefinitely and would remain so until the General Assembly passes a law that ends the suspension. This effectively exempts jet fuel from the state's sales and use tax for the foreseeable future.

Absent the suspension, sales of jet fuel would be subject to the 4 percent state sales tax rate—with one percentage point of the four dedicated to aviation purposes, per federal regulations.[1] The exception would be fuel for international flights departing from ATL due to the area's designation as a free trade zone. Without the suspension, jet fuel suppliers would collect the sales tax on jet fuel from the airlines purchasing it and would remit the tax to DOR.

Per FAA regulations, suppliers are required to report tax collections on sales of jet fuel separately. However, under the suspension, neither fuel suppliers nor consumers are required to report jet fuel consumption or collect any sales tax on relevant purchases. The primary beneficiaries of the exemption are major airlines that buy fuel and fly domestic flights in Georgia. The suspension of sales tax collections on jet fuel provides significant savings for jet fuel consumers, especially those purchasing large amounts of fuel in Georgia.

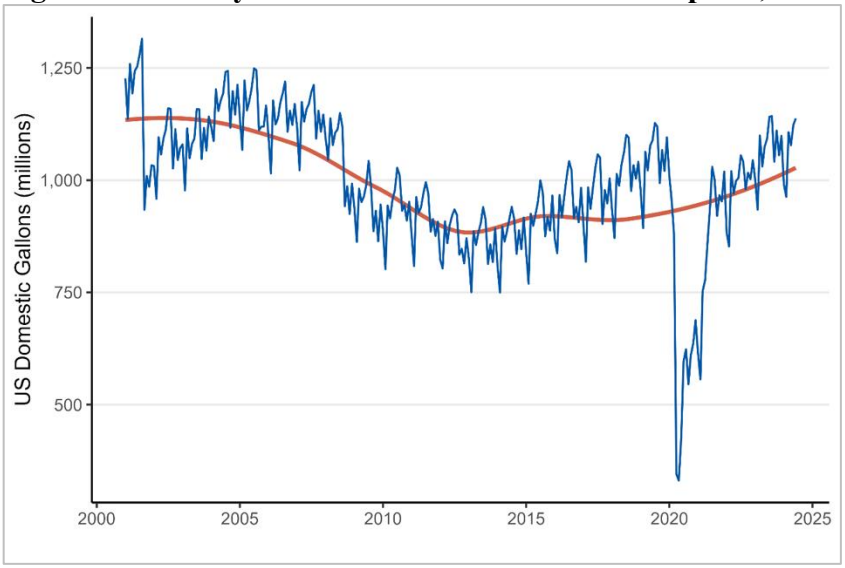
Tax Provision-related Activity

The cost to the state (and savings to the beneficiaries of the jet fuel tax exemption) depends directly on the price and amount of jet fuel consumed. Absent the exemption, consumers of jet fuel would pay 4 percent of the price in state sales tax. Thus, the amount of the tax expenditure fluctuates with both the price and consumption of jet fuel. The Bureau of Transportation Statistics (BTS) publishes monthly data on airline fuel cost and consumption, broken down by

[1] Federal law generally prohibits the expenditure of proceeds from taxes on aviation fuel (except for taxes in effect prior to December 30, 1987) for uses other than airport purposes or state aviation programs. Georgia's state sales tax rate was increased from 3 to 4 percent in April 1989, and therefore, if sales tax were collected on jet fuel, 1 percent of the state's 4 percent rate would be required by federal law to be used for airport or aviation purposes. The other 3 percent would be grandfathered in, as that rate was in effect prior to 1987 and could be allocated to the general fund.

domestic and international flights.[2] Figure 1 shows total U.S. jet fuel consumption for domestic flights, at monthly intervals, since 2000.

Figure 1. Monthly U.S. Domestic Jet Fuel Consumption, 2000–25



Source: Bureau of Transportation Statistics

The month-to-month fluctuations in jet fuel consumption follow a consistent seasonal pattern while the underlying trend is relatively stable. While flight operations have increased over the past decades, so has fuel efficiency, resulting in relatively consistent consumption. The COVID-19 pandemic had a large and pronounced negative effect on jet fuel consumption, but jet fuel gallons for domestic flights appear to have returned to pre-pandemic levels. The U.S. Energy Information Administration (EIA) regularly publishes data on jet fuel prices, and Figure 2 illustrates the average monthly cost per gallon in the United States since 2000.

Figure 2. Average Monthly U.S. Jet Fuel Price, 2000–25

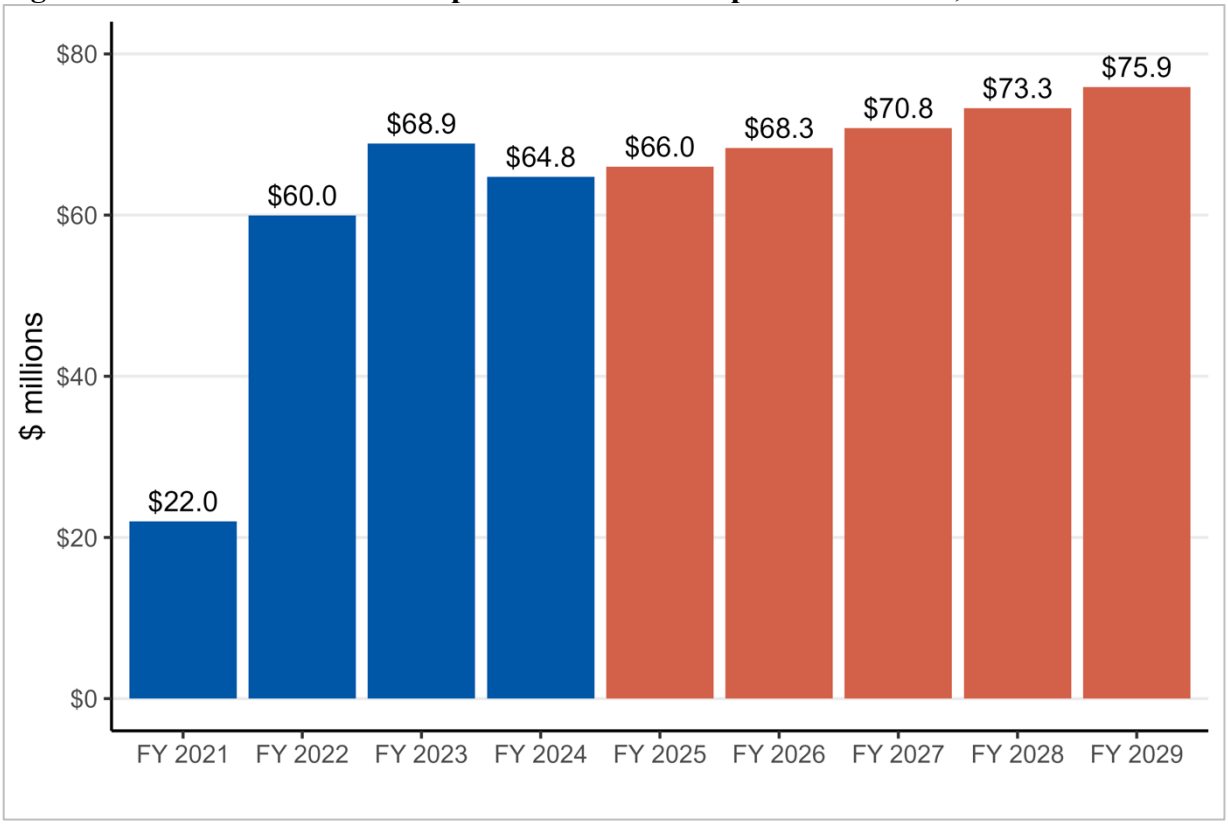
[2] www.transtats.bts.gov/fuel.asp

Source: Energy Information Administration

Figure 2 clearly demonstrates the volatile nature of jet fuel prices. While prices tend to follow a seasonal pattern, no consistent underlying trend is apparent because jet fuel prices are highly susceptible to economic shocks and changing market conditions. This susceptibility to external forces causes jet fuel prices to fluctuate frequently—by large amounts and in unpredictable ways. The high degree of volatility in prices means the cost to the state and savings to beneficiaries are also variable and difficult to predict.

Figure 3 shows the estimated tax expenditure cost of the jet fuel exemption. FY 2021–24 represents estimated historical costs, and FY 2025–29 represents the Fiscal Research Center's projections. These costs are understood in terms of foregone state sales tax revenue, meaning the state sales tax base, absent this exemption, would apply to these sales of jet fuel and would be expected to generate tax revenue in the amounts shown. The projected costs represent the mid-point of high- and low-case scenarios. Table 1 below provides more detail about the estimated tax expenditure costs.

Figure 3. Estimated State Tax Expenditures for Exemption of Jet Fuel, FY 2025–29



Note: FY 2021–24 are actual values; FY 2025–29 are estimates.

Table 1. Jet Fuel Consumption, Price, and Tax Expenditure Estimates, FY 2024–29

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Consumption *(millions of gallons)*						
Low Case	610	618	625	633	640	648
High Case	610	627	634	642	650	656
Price per Gallon						
Low Case	$2.65	$2.53	$2.57	$2.61	$2.65	$2.69
High Case	$2.65	$2.78	$2.86	$2.94	$3.03	$3.12
Jet Fuel Tax Expenditures *($ millions)*						
Low Case	($64.8)	($62.4)	($64.2)	($66.0)	($67.8)	($69.7)
High Case	($64.8)	($69.9)	($72.5)	($75.6)	($78.7)	($82.1)

Fuel consumption data for the United States was obtained from BTS. While jet fuel was taxable, DOR reported on state sales tax collections from the sales of jet fuel. These data, along with fuel price data, allowed for a calculation of implied gallons in Georgia; however, after the suspension of collections took effect, only county collections where a local tax applies are available.

The ratio of passengers and miles on domestic flights departing from Georgia compared to total domestic flights in the United States was found to be similar to the ratio of Georgia to U.S. fuel consumption over the same time. Therefore, we used this ratio in more recent years to share national jet fuel consumption down to Georgia. EIA provides up-to-date jet fuel price data as well as short- and long-term forecasts. These data were used to calculate the average jet fuel price in FY 2024 and to create a high and low forecast of jet fuel prices. The estimated Georgia consumption of jet fuel and projected prices were multiplied to estimate the total spending on jet fuel in Georgia for each of the next five fiscal years. These figures were multiplied by the state sales tax rate to produce estimated tax expenditures.

Remember that, although the jet fuel tax expenditure amounts are based on Georgia's 4-percent sales tax rate, the state would be limited in how it could use the additional revenues in the case of a repeal: 1 percent of the state's 4 percent rate would be required by federal law to be used for airport or aviation purposes.

Federal and Other States Taxes on Jet Fuel

For non-commercial operations, there is a federal excise tax on jet fuel of 19.4 cents per gallon. Commercial airline operators, the predominant consumers of jet fuel, pay a reduced federal excise tax of 4.4 cents per gallon, and certain exemptions, such as military and international flights, also apply. There is no federal sales tax and Georgia does not impose an excise tax on jet fuel. Thus, the exemption does not interact with federal taxes.

States vary in how aviation fuel is taxed, with some states including jet fuel in their sales tax base, others assessing a separate excise tax, and some states imposing both. Furthermore, states exempt, refund, or cap taxes on certain subsets of jet fuel purchases, and the differential treatment varies. According to EIA aviation fuel tax data, 35 states and the District of Columbia impose an excise tax on jet fuel.[3] The same data indicates that 11 states include jet fuel in their sales tax base. However, these data only apply to general aviation, and differential treatment of

[3] www.eia.gov/petroleum/marketing/monthly/xls/aviationtaxes.xlsx

commercial jet fuel is common. Table 2 below summarizes the tax treatment of commercial jet fuel in Georgia's neighboring states, and Table 3 expands the geographic scope to look nationwide at the tax treatment in states with comparable major airports.

Table 2. Tax Treatment of Jet Fuel in Southeastern States

State	Jet Fuel Taxes	Notes
Georgia	No sales tax on any jet fuel	No separate excise tax on jet fuel
Alabama[4]	Excise tax of $0.035/gallon	Certain exemptions for exporters, international cargo flights, air carriers with hub in state
Florida[5]	Excise tax of $0.0427/gallon	No exemptions for commercial carriers
North Carolina[6]	Non-commercial jet fuel subject to state sales tax	Commercial aircraft exempt from state sales tax on jet fuel
South Carolina[7]	Non-commercial jet fuel subject to state sales tax	"Transportation companies" exempt from sales tax on jet fuel
Tennessee[8]	Jet fuel subject to reduced sales tax rate and $0.01 excise tax	Refund of jet fuel taxes beyond $1 million for commercial air carriers with hub in the state

Source: state statutes and departments of revenue

Table 3. Tax Treatment of Jet Fuel in States with Major Airports

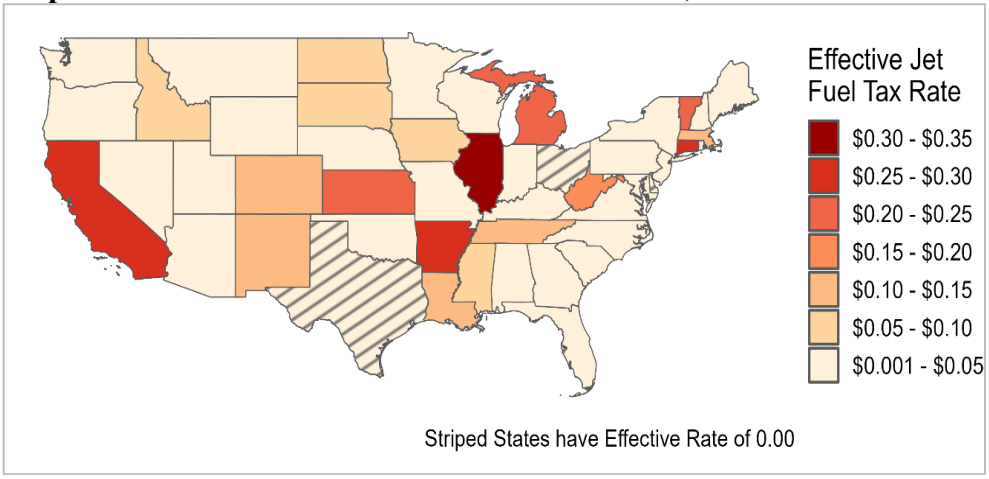
State	Jet Fuel Tax Treatment	Notes
Texas (DFW)[9]	No tax on commercial jet fuel	
Colorado (DEN)[10]	Subject to state sales tax and separate jet fuel excise tax	Commercial air carriers exempt from the state's $0.04 excise tax on jet fuel but must pay sales tax rate of 2.9%
California (LAX)[11]	Subject to state sales tax and separate jet fuel excise tax	Commercial air carriers exempt from the state's $0.02 excise tax on jet fuel but must pay sales tax rate of 7.25%
Illinois (ORD)[12]	Subject to state sales tax rate	Commercial air carriers may claim a tax credit on sustainable aviation fuel but must pay 6.25% sales tax rate on regular jet fuel
New York (JFK)[13]	Commercial airlines exempt from taxation on jet fuel	

Source: state statutes and departments of revenue

[4] www.revenue.alabama.gov/tax-types/terminal-excise-tax/
[5] www.leg.state.fl.us/statutes/
[6] www.ncdor.gov/taxes-forms/sales-and-use-tax/aviation-gasoline-and-jet-fuel
[7] dor.sc.gov/tax/aviation
[8] www.tn.gov/revenue
[9] comptroller.texas.gov/taxes/fuels
[10] leg.colorado.gov/sites/default/files/te14_aviation_fuel_exemptions.pdf
[11] www.cdtfa.ca.gov/taxes-and-fees/aircraft-jet-fuel-faq.htm
[12] tax.illinois.gov/research/taxinformation/sales/aviation-fuel
[13] www.nysenate.gov/legislation/laws/TAX/1115

According to an analysis from an airline stakeholder, in the most recent year (2018) when Georgia taxed sales of jet fuel, the effective tax rate was approximately 9 cents per gallon. At the time, this was the 4th highest of states with a major airport hub, behind Illinois, California, and Michigan. In 2019, after the taxation of jet fuel sales ended, the industry group Airlines for America produced a ranking of all 50 states based on the combined effective commercial jet fuel tax rate—with 1 being the highest rate and 50 the lowest. Georgia tied at 38 with an effective rate of 1 cent per gallon. New York, North Carolina, and Texas (states with major airports) ranked lower on this list. The combined effective rates comprise excise taxes, sales taxes (state and local), environmental fees, and inspection fees. Where relevant, the calculations assume 50 million gallons of jet fuel purchased at an average of $3 per gallon. Map 1 visualizes the combined effective tax rate on commercial jet fuel by state.

Map 1. Combined Commercial Jet Fuel Tax Rates, 2019



Source: Airlines for America

Literature Review: Economic Effects of Jet Fuel Taxes and Exemptions

Literature about aviation fuel taxes primarily focuses on the impact of such taxes on fuel consumption, carbon emissions, and employment. In recent years, significant discussion has appeared regarding aviation's contribution to emissions and the associated climate impacts. Reducing such impacts would be considered a public good. Concurrently, assessing employment impacts has also received significant attention, as airports are some of the largest employers in certain states, including Georgia, and have been shown to have large economic impacts (Sobieralski and Hubbard, 2020). An economic impact study on Hartsfield-Jackson International Airport published in 2019 found that ATL supports more than 63,000 jobs and is a catalyst for economic activity through business travel, tourism, and freight. The combined economic impact of direct, indirect, and induced effects was estimated to be $51.6 billion for the Atlanta Metropolitan Statistical Area (MSA) in 2017, with an additional $15.2 billion impact in the rest of the state. Aviation sector jobs supported by the airport reflect not only employees at passenger airlines, but also cargo airlines, operations, suppliers, terminal business, airport operations, and jobs associated with the construction of airport capital improvements. Between the end of the Great Recession and the COVID-19 pandemic, the aviation sector grew steadily in cargo and passenger transport.

Jet fuel is an important input for the aviation industry and represents a significant portion of operating expenses for commercial airlines. According to data from BTS, jet fuel accounted for approximately 20 percent of operating expenses for U.S. airlines in 2023. As shown earlier, jet fuel prices are volatile, and price fluctuations significantly impact the profitability of airlines. Thus, airlines and policymakers advocate for jet fuel tax breaks, which they consider pro-growth and a catalyst for employment and business activity (Sobieralski and Hubbard, 2020). However, there is some argument in favor of jet fuel taxes—citing the negative externalities associated with their emissions and climate impacts. The following introduces the relevant literature related to the impacts of jet fuel taxes on both employment and emissions. To the extent that the tax on jet fuel helps to reduce emissions, it supports a public good, cleaner air.

The aviation sector has a relatively low contribution to global greenhouse gas emissions: about 2.5 percent. Data from the U.S. Environmental Protection Agency suggests U.S. carriers' domestic flights account for about 2.3 of CO_2 emissions in the United States and total flights account for 3.5 percent. The air transport industry's efforts to reduce greenhouse gas emissions and to address climate change challenges has been widely discussed. One policy instrument to reduce emissions from the aviation industry would be to tax jet fuel, but multiple empirical studies find that such a policy would be unlikely to have significant effects because the demand for fuel tends to be inelastic (e.g., Fuki and Miyoshi, 2017; Chuang, 2020; Sobieralski and Hubbard, 2020). The inelastic demand for jet fuel indicates consumption is insensitive to price, and therefore taxes on jet fuel do not significantly reduce consumption. Furthermore, additional empirical evidence suggests that taxes on jet fuel tend to over-shift to consumers—with ticket prices increasing by more than the amount of the tax (White et al., 2019).

Sobieralski and Hubbard (2020) use a difference-in-difference design to analyze the impacts of jet fuel taxes empirically on air traffic, employment, and emissions. This study found a reduction in jet fuel taxes positively impacts airport departures with statistical significance. This finding aligns with economic theory, which assumes a reduction in taxes would incentivize an agent or business to increase the level of the activity being taxed. However, the same study did not find a statistically significant impact on employment, indicating insufficient evidence to suggest that reductions in jet fuel taxes would directly benefit employment in a locality.

Godbole and Delfgaauw (2024) analyze the supply-side impact of a reduction in the jet fuel tax rate in California, also using a difference-in-difference design. This research reemphasizes the inelastic demand for jet fuel and the incidence of jet fuel taxes falling largely on the consumer. The results suggest a one-percentage point decrease in California's jet fuel tax rate reduced airfares by $6 on average. The authors note that this finding is still consistent with the previous literature that finds taxes when in place are over shifted to consumers. The decrease in jet fuel taxes was not found to have a significant impact on the number of routes provided by the airlines.

The state of Colorado provides commercial air carriers with an exemption from the state's jet fuel excise tax of 4 cents per gallon. An evaluation of this exemption was conducted in 2022. Commercial aviation stakeholders told researchers that the elimination of this exemption might influence their fuel purchasing decisions. For example, they might purchase and store less fuel at the state's airports, if it was possible to purchase fuel at a lower after-tax cost in another state. However, the report finds that due to fuel requirements and efficiency considerations, they would be somewhat limited in their ability to change fuel purchasing decisions. In the case of repeal, the report also indicates that air carriers would be likely to pass increased fuel costs to customers

or absorb a portion of them in the short run. Finally, the report indicates that the state would be limited in how it could use additional revenue from repealing the exemption as aviation fuel taxes must go towards aviation or airport purposes.

But-for Analysis

A key component of this analysis is to determine whether associated economic activity is caused by Georgia's jet fuel tax exemption. Absent the exemption, it is possible that less jet fuel would be purchased in the state, which would cause the associated tax revenues and induced economic activity to be lower than projected. In 2024, jet fuel represented about 20 percent of all operating costs for U.S. passenger airlines (Airlines for America, 2024). Federal regulations require aircraft to carry certain amounts of fuel, and the FAA prohibits the dispatch of planes without at least enough fuel to arrive at the destination airport, plus an additional 45 minutes of cruising altitude fuel consumption (FAA, Section 121). Planes must carry additional fuel if poor weather conditions are anticipated during the trip. For short-haul flights (e.g., less than 1,500 miles), planes may need to refuel after each flight or every few flights. For long-haul flights, planes generally refuel before every flight.

Airlines could conceivably "tanker" fuel on short-haul flights, which is when airplanes load extra fuel to avoid purchasing it in places where it is more expensive. A briefing on aviation in the European Union notes that without international coordination on jet fuel taxes, a domestic or even European-wide tax would encourage airlines to tanker and avoid paying the tax (House of Commons, 2019). Tabernier et al. (2021) found that 21 percent of European-based flights in 2018 successfully tankered and saved up to €265 million. Tankering has become more common as flight operations and management software have become more sophisticated. These technologies consider fueling policy and an airline's negotiated fuel prices at destination airports to determine the amount of fuel needed at the departure airport to be cost effective.

Despite the incentives for airlines to avoid paying higher fuel prices, several factors would likely limit the ability to tanker effectively. For one, tankering comes at the cost of increased plane weight that reduces fuel efficiency, increased operational expenses, and increased carbon emissions, all of which may deter airlines from heavily engaging in the practice (Transport & Environment, 2022). Furthermore, the role of ATL as a major airline hub creates fueling efficiencies from economies of scale. Airlines receive bulk fuel pricing from participating in fuel consortia and faster turnaround times from the reliable supply chain infrastructure present at hub airports (Airlines for America, 2019).

According to a 2018 report by Airlines for America, airlines pay different prices in different regions for jet fuel. The Gulf Coast is the predominant producer of jet fuel in the United States, and as a result generally has the lowest prices. Higher prices in other regions of the country are primarily due to additional transportation costs. ATL, where most of Georgia's jet fuel consumption takes place, has two major pipelines supplying jet fuel, and it benefits from relative proximity to the source compared to other major airports in the United States. The existing infrastructure and location of ATL imply a relatively low jet fuel price in Georgia, which makes it less likely to be economically efficient to shift jet fuel consumption elsewhere in response to a 4-percent price increase.

Instead of altering fueling behavior, airlines may pass additional costs onto consumers. An evaluation of Colorado's jet fuel tax exemption notes that to absorb the increase in fuel tax,

airlines would shift costs in the form of higher ticket prices (Colorado General Assembly, 2022). Agrawal et al. (2019) validate these findings and empirically show how a $1 increase in fuel taxes results in a $1.14 increase in average fare prices. This is also the case when market prices for jet fuel fluctuate. After crude oil and jet fuel prices soared in 2022 due to COVID-19 supply shocks and Russia's invasion of Ukraine, carriers saw increased unit revenues even as fuel prices increased, indicating some cost pass-throughs (Bouwer et al., 2022). With strong demand for flights post-pandemic, consumers continued to pay the higher airfares (Chokshi and Krauss, 2022).

Conversely, Godbole and Delfgaauw (2024) find that after California lowered the jet-fuel tax rate in 2011, airlines began charging lower fares for flights with minimal impacts on the number of flights offered. They also find in their causal impact assessment that increased tankering is unlikely to affect their estimates because reorganizing large airline supply chains would take significant time and resources.

Due to the factors outlined above, we believe it is unlikely that the imposition of a tax on jet fuel would cause a considerable shift in consumption or significantly impact the associated economic activity in the state, especially in the short run. In summary, while the literature finds that fuel taxes are generally passed through to consumers in terms of higher prices, the demand for air travel is relatively inelastic at these levels. In addition, the evidence on additional departures due to reductions in the tax rate is also mixed in the empirical literature. Finally, Georgia's experience in 2018, before the current tax exemption was adopted, jet fuel consumption did not observably change, also supports this conclusion.

Economic Activity

Overview of How Economic Activity Is Measured

We measure economic activity with data on estimated spending on jet fuel for commercial aviation, using FY 2024 as the representative year. We calculate the net effect of the state-level exemption by assuming all the economic activity would occur without the exemption and then subtracting the estimated economic activity associated with an alternative use of the funds. Table 4 summarizes the estimated economic activity. The remainder of this section provides details.

Table 4. Net Economic Activity – Jet Fuel Purchased

($ millions)	**Employment**	**Labor Income**	**Value Added**	**Output**
Gross Activity for Period	357	$31.0	$60.3	$108.1
Less:				
"But-for" Reduction	357	$31.0	$60.3	$108.1
Activity Net of "But-for"	0	$0.0	$0.0	$0.0
Less:				
Alternative Use Impacts	1,560	$73.6	$88.9	$140.1
Net Economic Impact	**-1,560**	**($73.6)**	**($88.9)**	**($140.1)**

Source: IMPLAN and authors' calculations

IMPLAN Model

To estimate the economic impact of the jet fuel exemption in Georgia, the IMPLAN model is used. IMPLAN is a regional input-output model that is used to estimate how an initial change in spending or revenue for any industry category works its way through a regional economy. It also has data on the size of each industry in the economy in terms of revenue and employment at the state and county level. The model includes detailed data on industry size by revenue and employment at the state and county levels and applies sector-specific multipliers to estimate the effects of initial spending by firms on suppliers and labor. For this analysis, we use 2022 IMPLAN data, adjusted to reflect average annual revenues and wages in 2023 dollars. Below is an overview of key IMPLAN terms used in the report.

- *Output* is the value of production. This includes the value of all final goods and services, as well as all intermediate goods and services used to produce them. IMPLAN measures output as annual firm-level revenues or sales, assuming firms hold no inventory.
- Estimates of output changes resulting from all jet fuel-related economic activity, including purchases and transportation, are then used to estimate state and local sales tax revenue.
- *Labor income* includes total compensation—wages, benefits, and payroll taxes—for both employees and self-employed individuals. Wage-gain estimates are used to estimate incremental state income tax revenue.
- *Employment* includes full-time, part-time, and temporary jobs, including the self-employed. Job numbers do not represent full-time equivalents, so one individual may hold multiple jobs.
- Three changes (effects) comprise the *total impact* and can be calculated for relevant construction activity reviewed (output, employment, and labor income):
    - *Direct effects* are the changes that initiate the ripple effects through the economy. For this analysis, direct effects are increased firm output (revenue) directly attributable to the exemption.
    - *Indirect effects* are the economic activity supported by business-to-business purchases in the supply chain for aviation activity. For example, an airline purchases jet fuel from a supplier. Each of the supplying businesses subsequently spends a portion of the money they receive on their own production inputs, such as refining, transportation, or storage, which in turn prompts spending by the suppliers of these inputs. This spending continues but progressively diminishes in its in-state impacts due to "leakages," which occur when firms spend money on imports (including imports from other states), taxes, and profits.
    - *Induced effects* are economic activity that occurs from households spending labor income earned from direct and indirect activities. This activity results from household purchases of items such as food, healthcare, and entertainment. The labor income spent to generate these effects does not include taxes, savings, or compensation of nonresidents (commuters), as these leave the local economy (leakage).

Table 5 shows the economic impact associated with the representative year 2024 jet fuel spending. The benefit of the tax exemption is modeled as additional income to the air transportation sector. Direct spending by this sector, due to the additional income, supported 114 direct jobs with a total labor income of $15.5 million.[14] Airline sector spending supported an additional 244 indirect and induced jobs. It should be noted that these do not necessarily reflect full-time employment. In total, airline transportation spending associated with the exemption also supported $31.0 million in total labor income, $60.3 million in value added, and $108.1 million in total output.

Table 5. Gross Jet Fuel Spending Economic Impact, FY 2024

	Employment	Labor Income	Value Added	Output
Direct Effect	114	$15,492,192	$34,999,615	$64,800,000
Indirect Effect	123	$8,660,102	$12,207,086	$21,008,831
Induced Effect	121	$6,833,647	$13,115,780	$22,276,304
Total Effect	**357**	**$30,985,941**	**$60,322,480**	**$108,085,136**

Source: IMPLAN and authors' calculations

Alternate Use of Forgone Revenue/Tax Expenditure

The induced economic impacts estimated above do not account for forgone state revenues, i.e., the economic impacts of alternative uses of the funds currently expended through the tax exemption. SB 366 requires evaluations of tax incentives to include estimates of *net* economic and fiscal impacts, thus requiring consideration of the economic and revenue effects of alternative uses of the revenues that would be available for other purposes in the absence of the exemption.

Alternatives could include other economic incentives, spending on other policy areas across state government, or a reduction in taxes—all of which could also result in direct, indirect, and induced economic effects. However, absent information as to how the General Assembly would otherwise choose to spend foregone revenue if not on the exemption, we estimate the impact of using the revenue to fund an equivalent increase in state government spending in proportion to existing expenditures. That is, we allocated the foregone revenue to industry sectors as direct effects based on the sector shares of spending in the state budget. The two largest categories of spending—education (57 percent) and healthcare (23 percent)—account for about 80 percent of the state budget. As federal law requires the most recent 1 percent addition to the Georgia sales tax be used for aviation purposes if applied to jet fuel, we model the alternative use with 75 percent of the $64.8 million going to the designated state government spending categories and 25 percent spent in the aviation sector.

As detailed in Table 6, if the state received the forgone revenue associated with the excluded jet fuel spending, it could be expected to generate approximately $132.0 million in gross output. This estimate includes $64.8 million in annual direct government outlays, the FY 2024 estimated tax expenditure for the exemption, plus the amounts shown for indirect and induced effects resulting from the initial, direct outlays.

[14] The empirical literature finds that when in place jet fuel taxes are over shifted to consumers as higher fares. While air fares may decrease if the tax rate decreases, there is no evidence that airlines are forgoing all the benefits of lower fuel costs due to the lower tax rate.

Table 6. Summary of Alternative Use Economic Impacts

	Employment	Labor Income	Value Added	Output
Direct Effect	898	$41,940,721	$43,473,619	$64,800,000
Indirect Effect	113	$7,010,579	$11,405,903	$21,555,218
Induced Effect	249	$14,021,894	$26,912,938	$45,709,804
Total Effect	**1,259**	**$62,973,194**	**$81,792,460**	**$132,065,022**

Fiscal Impact

A summary of the fiscal impacts of the jet fuel exemption is presented in Table 7 below. We then detail the estimates of the revenue effects of the exemptions' economic impacts and the opportunity cost of the tax expenditure—the revenues that could be expected from the alternate use of funds. The detailed estimates are projected forward to obtain the amounts below.

Table 7. Fiscal Impact Summary: High-cost Estimate

($ millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Tax Expenditure Cost						
State	($64.8)	($69.90)	($72.50)	($75.60)	($78.70)	($82.10)
Revenue Gains from Economic Impact						
State	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Local	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Alternative Use Reduction						
State	(4.28)	($4.61)	($4.78)	($4.99)	($5.19)	($5.42)
Local	(1.71)	($1.84)	($1.91)	($1.99)	($2.08)	($2.17)
Net Fiscal Effects						
State	($69.08)	($74.51)	($77.28)	($80.59)	($83.89)	($87.52)
Local	($1.71)	($1.84)	($1.91)	($1.99)	($2.08)	($2.17)
Total Net Fiscal Effects	($70.79)	($76.36)	($79.20)	($82.58)	($85.97)	($89.68)
State ROI	(0.062)	(0.062)	(0.062)	(0.062)	(0.062)	(0.062)

Note: The ROI value indicates for every dollar invested, 6.2 cents are lost.

Revenue Impacts

Forgone Revenue

We estimate foregone revenue associated with project expenditures of the representative year, outlined below in Table 8, estimating lost revenue from the jet fuel exemption based on expected fuel consumption growth as discussed earlier.

Table 8. Estimated High-end Tax Expenditure Costs

($ millions)	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Revenue Effect	($64.8)	($69.90)	($72.50)	($75.60)	($78.70)	($82.10)

Source: DOR, BTS, EIA data and authors' calculations

We next estimate the additional tax revenue associated with the alternative use scenario outlined in the economic activity section of this report.

Additional Tax Revenue

Below, Table 9 shows the estimates for state and local tax revenues attributable to economic activity associated with the base year of FY 2024. State income tax is estimated using employee compensation generated by IMPLAN. The labor income estimated in the air transpiration sector and related suppliers is comprised mostly of service workers and highly skilled labor. The average labor income is approximately $86,000 per job. Based on Georgia DOR tax data—specifically the net tax liability relative to adjusted gross income (AGI) for taxpayers with AGI of $45,000–$90,000 in tax year (TY) 2022—we assume an average effective tax rate under current law of 3.89 percent on labor income estimated for in-state residents.

IMPLAN incorporates estimates of sales and property taxes. However, the model relies on levels of economic activity rather than sales or property tax rates and tax bases. Thus, they are not our preferred estimates. Instead, to estimate sales tax revenues, we use the model's estimated incremental output for various retail sectors and adjust for the taxable portion of sector sales to arrive at estimates of taxable sales. For retail sectors, IMPLAN reports as output only the retail gross margin, not the total sales at retail, so these estimates are grossed up using average gross margin rates from IMPLAN for each retail sector to arrive at estimated sales to which the tax would be applied. The state sales tax is calculated using the state sales tax rate of 4 percent and the local sales tax is calculated using an average local sales tax rate of 3.39 percent, the population-weighted average as of July 2023, according to the Tax Foundation. The state and local sales tax estimates for the base year are also shown in Table 9.

To estimate the additional property tax due to the economic activity associated with the tax exemption, we calculate the ratio of the IMPLAN estimate of sales tax to our preferred estimate of sales tax above and apply this to the IMPLAN estimate of property tax revenue. This estimate assumes that economic activity generating IMPLAN's sales tax estimates is like that which generates the property tax—thus, this estimate should be treated cautiously.

Finally, about 79 percent of Georgia state tax collections come from personal income and state sales taxes. Georgia collects a host of other taxes that make up the remaining 21 percent, on average. Two taxes make up about one-half of the 21 percent: corporate income tax and title ad valorem tax (TAVT) on motor vehicles.

Table 9 shows the base-year estimated revenue from these other taxes, assuming a proportional effect, such that 21 percent of total tax revenues holds for the economic activity resulting from the jet fuel exemption. Recall that our but-for analysis concludes that, in the short term, the same amount of jet fuel would be purchased if the tax exemption was removed. Thus, the estimates in Table 9 have no fiscal impact on the state because the exemption is deemed to have no short-term economic impact.

Table 9. State and Local Tax Revenue from Jet Fuel, FY 2024 Base ($ *millions*)

Tax Type	State Revenue	Local Revenue
Personal Income Tax	$1.21	$0.0
Sales Tax	$0.30	$0.28
Property Tax	$0.0	$0.49
All Other State Taxes	$0.41	$0.0
Total	**$1.91**	**$0.77**

Source: IMPLAN and authors' calculations

State and Local Taxes Generated from Alternative Use of Funds

New annual tax revenues resulting from the alternative use case are estimated in a similar manner as that generated by projected expenditures. The alternate use case revenues are nonrecurring because they result from a one-time tax expenditure.

Table 10. State and Local Tax Revenues: Alternative Use of Funds ($ *millions*)

Tax Type	State Revenue	Local Revenue
Personal Income Tax	$2.70	$0.00
Sales Tax	$0.66	$0.63
Property Tax	$0.00	$1.08
All Other State Taxes	$0.91	$0.00
Total	**$4.28**	**$1.71**

Source: IMPLAN and authors' calculations

Administrative Costs

The Georgia DOR is responsible for administering the Jet fuel sales tax exemption claimed in businesses' sales tax returns. As with similar exemptions there are negligible administrative costs to administer the jet fuel exemption. Businesses report taxable and exempt sales separately on their ST-3 sales tax return. Exempt sales are reported as a category, unless otherwise required by law, so there is no additional administrative cost associated with any specific exemption that is included in the reported exempt sales.

Public and Ancillary Benefits

Georgia's sales tax exemption on jet fuel provides several public benefits for state residents. The associated reduction in operational costs for airlines results in lower airfares out of ATL and other airports in the state. Tax incentives create a positive business environment and factor into many businesses' location decisions. Other major airport hubs in the southern United States—such as Charlotte Douglas International Airport and Dallas Fort Worth International Airport—do not impose taxes on commercial jet fuel either, and Georgia's exemption therefore makes ATL more competitive with these hubs. The presence of such a hub in the state has major ancillary benefits for the state economy because it supports a large number of jobs, promotes tourism, improves connectivity and access to global supply chains, and attracts many other types of businesses that create additional jobs.

As discussed above, Georgia has a robust commercial aviation sector. Atlanta is a crucial hub of domestic air travel nationwide and is an important piece of Georgia's transportation and logistical infrastructure. The literature highlights the inelastic demand for jet fuel, and the higher short-run prices resulting from a jet fuel tax would have a limited impact on commercial aviation activity in the short run. However, in the long run, the share of routes and freight that flow through Georgia could diminish, due to firms shifting services to states with lower fuel costs. This would negatively impact the value of the state's investment in commercial aviation. This type of long-run response would result in a larger economic impact, but this is too speculative an impact to estimate with available data.

The size of Georgia's commercial aviation and transportation sectors, along with potentially competing sectors in nearby states, suggests maintaining the exemption as is. The size and scope of the airline industry in the state combined with the limited modification options of a state sales tax also make improvements to return on investment challenging. In addition, due to federal law, one percentage point of the state sales tax would be required to go to aviation-related spending, thus limiting the amount available to the state general fund. Comments received from interested parties on the jet fuel exemption echo the sentiments above (see appendix).

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Appendix: Summary of Comments from Interested Parties

Allegiant Air: Allegiant Air, a leisure-focused carrier, excels in providing nonstop service from smaller communities to top destinations, with significant success at Savannah/Hilton Head International Airport (SAV) in Georgia. Operating 11 routes and serving over 106,000 passengers in 2023, Allegiant also bases aircraft and employs crew at SAV. The airline plans to expand further, potentially adding nonstop service to Mexico through a joint venture with Viva Aerobus. Allegiant attributes its growth in Georgia to the state's business-friendly policies, particularly the suspension of the jet fuel sales tax, which began in FY 2018. The airline is a strong advocate for the continuation of this tax exemption policy, as this is important to maintaining Georgia's competitive edge in attracting tourism and travel.

National Air Carrier Association (NACA): NACA, representing ultra-low-cost carriers (ULCCs) like Allegiant Air, Frontier Airlines, Avelo Air, Breeze Airways, Spirit Airlines and Sun Country Airlines emphasizes the significant role that affordable air travel plays in Georgia's economy, contributing over $75 billion annually and supporting over 450,000 jobs. Despite facing high operating costs, ULCCs help keep airfares low, benefiting working families and small businesses, especially in a high-inflation environment. NACA contends that reinstituting Georgia's aviation fuel tax would make it one of the highest in the country, potentially impeding the growth of commercial aviation. It also points out that jet fuel taxes are unnecessary since airlines, travelers, and shippers pay various fees to support economically viable airports.

NACA urges Georgia Governor Brian Kemp and the General Assembly to continue the suspension of the aviation fuel tax to maintain affordable air travel, attract more ULCC services, and support the state's aviation and tourism industries.

Georgia Chamber of Commerce: The Georgia Chamber of Commerce highlights the critical role that aviation and related industries play in the state's economy, mainly through Hartsfield-Jackson International Airport and Delta Air Lines. The Chamber underscores that these industries support a vast supply chain involving over 1,200 Georgia-based businesses, contributing significantly to employment across the state. The Chamber believes the current jet fuel tax policy has been carefully designed to maintain Georgia's competitiveness in attracting and retaining commercial passenger aviation.

The Georgia Chamber of Commerce urges the General Assembly to consider the widespread economic impact of aviation on businesses statewide and to support policies that continue to make Georgia a desirable location for commercial aviation.

Delta Airlines: Delta Airlines emphasizes the importance of Georgia's jet fuel tax suspension, highlighting how it has made the state more competitive and supported the growth of air service and the economy. The letter details the history and legal context of the jet fuel tax policy, the significant economic contributions of Hartsfield-Jackson Atlanta International Airport, and Delta's investments in Georgia. Delta also underscores the ongoing recovery from the COVID-19 pandemic and the vital role of the tax suspension in this process.

Delta urges the continuation of the indefinite suspension of the jet fuel sales tax to support recovery from the pandemic and promote future growth at Georgia's commercial airports.

Metro Atlanta Chamber: The Metro Atlanta Chamber states that the suspension of Georgia's sales tax on jet fuel is essential for both federal compliance and maintaining the state's economic competitiveness, mainly through Hartsfield-Jackson Atlanta International Airport, the world's

busiest airport. This policy supports Georgia's aviation industry, which includes significant employers like Delta Air Lines, Lockheed Martin, Gulfstream, and more, by reducing operational costs and attracting new business investments. The availability of direct flights, especially international routes, is a critical factor for businesses considering Georgia as a base, contributing significantly to the state's economy. Recent additions to international flights, such as those to Copenhagen, Zurich, and Addis Ababa, underscore the importance of global connectivity for economic growth.

The Metro Atlanta Chamber advocates for the continued suspension of the jet fuel tax to preserve Georgia's competitive edge in attracting and maintaining direct flights for business investment and economic development.

Southwest Airlines: Southwest Airlines supports Georgia's jet fuel tax exemption, highlighting its critical role in supporting operations at Hartsfield-Jackson Atlanta and Savannah/Hilton Head International Airports. The exemption helps mitigate significant fuel costs, allowing Southwest to offer affordable fares, stimulate tourism, and invest in its workforce and fleet. By reducing operational expenses, the tax exemption enhances Georgia's attractiveness as a destination for airlines, boosting local economies and creating jobs. Southwest urges the state to continue supporting the jet fuel tax exemption to maintain a favorable business environment and promote economic growth in Georgia.

United Parcel Service (UPS): UPS emphasizes the importance of retaining the jet fuel tax exemption, noting its compliance with federal aviation regulations and its positive economic impact, particularly the 39-percent increase in cargo flow since 2018.