Consumers Could Benefit from Better Information about Airline-Imposed Fees and Refundability of Government-Imposed Taxes and Fees

What GAO Found

Airlines have imposed a variety of fees on a range of optional services, such as checked and carry-on bags; meals; blankets; early boarding; and seat selection. According to airline officials, the fees are based on a combination of factors, including the cost of providing the service, competition, and consumer demand. The fees have supplemented airline revenues, providing at least $3 billion in 2009—a small but growing amount of total revenues. However, information about the fees is not fully disclosed through all ticket distribution channels used by consumers, making it difficult for them to compare the total cost of flights offered by different carriers. The Department of Transportation (DOT) does not currently require disclosure of airline-imposed optional fees, apart from those for checked bags, but recently issued a Notice of Proposed Rulemaking (NPRM) considering different forms of disclosure of such fees. Meanwhile, a system is being tested to fully disclose all of the fees to consumers searching for fares, but airlines are not likely to disclose them unless compelled to do so.

Airlines’ increasing reliance on fees reduces the proportion of their total revenue that is taxed to fund FAA. The Internal Revenue Service (IRS) has determined that many of these fees, including checked baggage fees, are not related to the “transportation of a person”—the basis for imposing the 7.5 percent excise tax. According to GAO’s calculations, the checked baggage fee (the largest and only measurable untaxed fee) if taxed in fiscal year 2009 would have accounted for about 2 percent of total Trust Fund revenues but is likely to grow in future years given recent trends. Since DOT guidance requires airlines to report separately only revenues from baggage fees and reservation change and cancellation fees, GAO was unable to estimate potential collections from other untaxed fees.

Since airlines first imposed checked baggage fees, the number of checked bags per passenger has declined, contributing to a decline in the rate of mishandled bags. Despite the introduction of fees, airlines have not substantially changed their baggage service or compensation methods. Checked baggage fees have also led to greater amounts of carry-on baggage, resulting in greater competition for limited overhead storage space.

According to IRS, aviation excise taxes on unused nonrefundable tickets are not refundable, but if an airline refunds the ticket, a proportionate amount of tax may be refunded. In contrast, consumers with unused nonrefundable tickets with expired or lost value are entitled to a full refund of the September 11th Security Fee, but few consumers request a refund because airlines are not required to inform consumers of this. According to the Department of Homeland Security (DHS), applicable statutes and regulations authorize the refund of its customs and immigration inspection fees if services aren’t rendered, but DHS has not issued any policy or guidance that makes this clear. The Department of Agriculture’s (USDA) statutes and regulations are unclear as to whether its fee is refundable on unused nonrefundable tickets.