Alternative Minimum Tax on Airport Bonds

THE ISSUE

Airports play a vital role in the economy of the United States, providing for the efficient movement of people and goods to both domestic and international destinations. In order to ensure this critical flow of commerce is not encumbered by delays or outdated facilities, airports need to finance bonds to fund planned airside enhancements and landside capacity projects especially since 53% of all construction projects at airports are financed by bonds.

However, the sub-prime mortgage situation and resultant credit crisis in 2008 caused serious problems for airports and other municipal borrowers resulting in the cost of auction and variable rate debt to spike to levels never seen before. At the time, it was virtually impossible to finance new projects and many existing airport projects were threatened due to lack of ongoing financing.

The challenging market for airport bonds was made even more difficult by the fact that since 1986, the majority of bonds issued by airports are classified as private activity bonds (PABs), interest payments on which are subject to the Alternative Minimum Tax (AMT). This resulted in investors demanding an interest rate premium to compensate for the additional tax liability. This discrimination hampered airports' ability to implement essential capacity, safety, and security projects.

SUCCESS OF THE AMT EXEMPTION

In 2009 and 2010, PABs were exempted from the AMT. During that time, the airport industry sold an unprecedented $12.7 billion in PABs that were exempt from the AMT allowing construction to continue and jobs to be created at airports across the country. This provision ultimately led to the airport industry and local communities saving over $1.8 billion in financing costs. The success of this short-term exemption resulted in the Future of Aviation Advisory Committee (FAAC) recommending to the Secretary of Transportation that the department support an additional AMT exemption for PABs.

Airports Need Permanent Relief

In order to ensure that airports have *continued* access to the bond market, which allows communities to maintain this vital economic asset, Congress must make the AMT exemption on PABs permanent. We encourage Congress to provide the same permanent assistance to airports and the rest of the PAB issuers as it provided to the housing industry in July 2008 in H.R. 3221, the Housing and Economic Recovery Act of 2008. Effective August 2008, housing bonds are a special class of non-AMT bonds, where the interest is not subject to the AMT. Airports require similar permanent relief in order to ensure that the market for PABs remains robust.

ESTIMATED BUDGET COST

According to Joint Committee on Taxation, it is estimated that the elimination of the AMT on all PABs-- including those that fund airports, student loans, hospitals, and sea ports--would cost the federal government on average $49 million per year for fiscal years 2012-2017. The economic activity that would be created from issuing AMT exempt PABs for airports alone would be in the tens of billions for the same time period, while the savings for airports could reach the hundreds of millions.

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