

# Federal Excise Tax Allocation Memo

**From:** LIMITLESS SKY & SEA LLC **To:** Direct air carrier ("Operator") engaged for charter flights brokered by Limitless Sky **Subject:** Allocation of responsibility for collection and remittance of Federal Excise Tax under IRC §§ 4261, 4263 and 4271

## 1. Statutory framework

- **IRC § 4261(a):** 7.5% tax on the amount paid for taxable transportation of any person by air.
- **IRC § 4261(b):** per-segment fee on domestic segments (currently USD 5.00, adjusted annually).
- **IRC § 4261(c):** USD 21.10 international head tax (2025 rate).
- **IRC § 4271:** 6.25% tax on amounts paid for taxable transportation of property.
- **IRC § 4263:** when the tax is not collected at the time of payment, the person providing the initial segment of the taxable transportation is primarily liable.

## 2. Allocation between Broker and Operator

For every charter brokered by Limitless Sky aboard Operator's aircraft, the parties agree as follows (the cover sheet may override on a per-flight basis):

Item	Default allocation
Calculation of FET on the taxable amount	Broker
Disclosure of FET to charterer in the quotation	Broker
Collection of FET from charterer (Broker collects gross)	Broker
Quarterly remittance on IRS Form 720	<b>Operator</b> , unless the cover sheet says otherwise; in which case Broker remits
Recordkeeping (charter agreement, invoices, segment list)	Both parties retain copies
Audit support	Both parties cooperate

Where Operator remits, Broker transfers the collected FET to Operator within five business days of charterer payment clearance, against a tax invoice that separately identifies the FET amount.

## 3. Taxable base

The 7.5% rate is applied to the amount paid for air transportation. Bona fide separately invoiced amounts that are not for air transportation — for example arms-length ground transport, hotel, concierge — are not part of the taxable base, provided they are clearly and contemporaneously separated.

Broker's compensation may be included in the taxable base if Broker is acting as an indirect air carrier and the amount paid by the charterer is for air transportation. To reduce ambiguity, Broker invoices the gross amount as a single line item for air transportation and itemises the FET; Broker's margin is internal and is not separately invoiced to the charterer.

#### **4. Segment fee mechanics**

A segment is one takeoff and one landing. A New York–Dallas–Los Angeles trip is two segments. The segment fee applies per segment per passenger for domestic segments. International segments are not subject to the segment fee but are subject to the international head tax.

#### **5. Form 720 filing**

Whoever has the remittance obligation files Form 720 quarterly: 30 April, 31 July, 31 October, 31 January. Schedule A and Part I (IRS Nos. 26, 27, 28, 29) apply to the air transportation excise taxes. EFTPS is used for payment.

#### **6. Review**

This memo is reviewed annually and on any IRS guidance change. Disputes are resolved in good faith between the Compliance Officers of Broker and Operator.

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*This memo is operational guidance and does not constitute tax advice. The parties consult their own tax advisors on facts they consider material.*

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