

Context

In these times of austerity, deficit budgets of European governments are missing out on almost €40bn a year due to a lack of basic taxes on aviation. This briefing explains a new study¹ that looks at revenue that EU Member States could receive if fuel tax and VAT were imposed on aviation, as on road transport.

Aviation: Fuel Tax Exempt

Every EU citizen has to pay on average a tax of 48c per litre of fuel whenever they fill up their cars. Airlines, on the other hand, don't pay a single penny's fuel tax when they fill up. This leaves a €20-32bn gap in public finances. Unfortunately, an EU law² and various bilateral agreements between the EU and other countries exempt international flights from this basic tax. The Chicago Convention (the international treaty on civil aviation) excludes states from taxing fuel that arrives on board an international aircraft to prevent double taxation. With international aviation in its infancy after WWII, most countries extended this exemption to all aviation fuel and enshrined it in dozens of bilateral aviation treaties between countries. These agreements should be reversed. There is no reason why today's car drivers, small businesses and truckers should have to pay fuel tax while large commercial airlines can operate without having to make such a basic contribution to government coffers.

No VAT Either

Value-added tax (VAT) is a basic consumption tax that is imposed on all sectors of the EU economy (with the specific exception of financial transactions and necessities such as medicines). In most states it generates up to 40% of government income. Unfortunately, there is another EU law which again exempts the aviation industry from VAT, resulting in a revenue shortfall of €7.1bn across the EU.³ This exemption stems from the time when Member States were establishing VAT systems and aviation was seen as a new industry needing support. Air transport is hardly an infant industry still in need of government handouts. We must amend this law to match the times as there is no reason why all of society should be required to subsidise those who choose to travel by air anymore than Starbucks or Amazon shouldn't be required to pay their fair share of corporate taxes.

A Flying Tax Haven

While international aviation continues to enjoy these substantial taxbreaks, it is now clear that air travel presents a significant and growing threat to mankind through its impact on the climate. Aviation already accounts for 5% of global warming and emissions are set to grow at 4-5% a year globally. This strong growth will continue for many decades.⁴

Thus, this lack of basic taxation amounts to a government subsidy for the most carbon intensive transport mode to continue to pollute while unfairly providing airlines with a competitive advantage vis-à-vis other modes of transport. These taxbreaks also help fund the aviation industry's campaign against the inclusion of aviation in the Emissions Trading System (ETS), a system designed to have aviation account for its climate pollution (which is currently under severe attacks from inside and outside the EU bloc). In addition, over €3bn a

¹ http://cedelft.eu/publicatie/estimated_revenues_of_vat_and_fuel_tax_on_aviation/1401

² Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity

³ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax

⁴ Outlook for Air Transport to the Year 2025: http://www.icao.int/sustainability/Documents/C313_Outlook_En.pdf

year in taxpayer-funded state aid is handed to the industry to expand secondary airports or reduce operating costs for low-cost airlines under the guise of funding for less privilege areas.⁵

The lack of fuel tax and VAT income means that in total EU governments (and therefore its citizens) are missing some €39.1bn a year in tax revenues –this works out to almost €80 for every man, woman and child across the EU. More importantly, the shortfall must be made up in other taxes. Other than VAT, the greatest source of government revenues in the EU is labour taxes. Rather than raising labour taxes to fund the aviation subsidies, lowering them could create 11,000 jobs for every €1bn in lower labour taxes.⁶ Subsidising the aviation industry this way in a time of economic crisis and austerity with youth unemployment rates soaring to unprecedented levels is obscene and senseless. Moreover, many of the carriers benefiting are based in foreign countries so we are subsidising travellers and companies outside the EU!

⁵ <http://www.transportenvironment.org/press/commission-defends-%E2%82%AC3bn-annual-subsidies-low-cost-airlines>

⁶ <http://www.transportenvironment.org/sites/default/files/media/2011%2004%2013%20fuel%20tax%20report%20final%20merged.pdf>