

Aviation Tax Consultation: Transport & Environment Response

Statement

Transport & Environment (T&E) is Europe's leading clean transport think tank and campaigning group. It was created as a member organisation over 30 years ago and now has staff in 6 countries, with 63 member organisations across 24 countries. It has had a UK office since 2019. T&E coordinates the [International Coalition for Sustainable Aviation](#), which has observer status at the International Civil Aviation Organisation (ICAO); and is also an active member of the Jet Zero Council's SAF Delivery Group.

Aviation is historically undertaxed: it does not 'pay its way', and is subsidised by higher taxes on other sectors. [One estimate suggests that the tax breaks airlines receive amounts to \(pre pandemic\) £7bn per year](#). This is unfair, and T&E would welcome a consultation on aviation taxes in general. This consultation, despite its title, has an inappropriately narrow focus. T&E would like the Government to introduce a range of other tax options on the industry - including applying VAT to plane tickets, and taxing kerosene.

VAT is not currently applied to airline tickets. This is in stark contrast to the rest of the world. [VAT is applied to domestic tickets in 23 EU countries](#), as well as other countries, including Australia, Canada and the USA. VAT has an established principle: essential goods and services are taxed at a lower or zero rate, whilst luxury goods are taxed at a higher VAT rate. This can be demonstrated using food: food purchased in a supermarket does not attract VAT, whereas food served in a restaurant attracts the normal rate of 20%. Plane travel is never essential.

Furthermore, the UK does not apply fuel duty to the fuel used. [Jet fuel for domestic use is taxed in \(amongst others\) Canada, the USA, Australia, Japan, Thailand and Vietnam](#). The UK has always been able to apply fuel duty to domestic flights, but has chosen not to do so. This is becoming increasingly hard to justify when compared to the UK's net zero ambitions.

Air Passenger Duty (APD) is the only explicit tax that the aviation sector pays. Reforming international APD as an explicit environmental tax, whilst not taxing any other part of the sector is unfair on those industries that are paying their way. This graph (below), [produced by the Energy Systems Catapult](#), clearly shows that the effective carbon price that aviation pays is the lowest of all the UK sectors. Questions need to be asked as to why the Government continues to support this - especially now that it has committed to being net zero.

Effective carbon prices and emissions in the UK by sector



Source: [Energy Systems Catapult](#)

Airlines are required to take part in the UK Emissions Trading Scheme (UK ETS). However, there are some obvious flaws in the scheme’s design which allows airlines to not pay for all the greenhouse gases they produce. In complete ignorance of the polluter pays principle, airlines receive a substantial amount of UK ETS carbon allowances for free. Furthermore, long-haul flights - where the majority of greenhouse gas emissions occur - are not included in the UK ETS. This needs to change for the UK ETS to ever be seen as net zero compliant - a stated aim of the Government.

For these reasons above, until there is substantial change in the sector, APD should never be recognised as an environmental tax, even if it is reformed along environmental goals. Since APD is the only tax applied to the whole of the aviation industry, it should therefore be seen as the industry’s contribution to fulfilling its social obligations.

The consultation document does not define “connectivity”, but does implicitly suggest that it involves more people travelling round the UK, and that a decrease in domestic APD will achieve that. However, this does not stand up to scrutiny:

- Northern Ireland has already cut APD, to zero, on long-haul routes, with no demonstrable effect on passenger numbers.
- The logic of this consultation is that a decrease in APD should result in an increase in passengers. Logically therefore, the reversal of this should also be true as well. However,

APD has been increased a number of times since it was first introduced, but passenger numbers have risen with each increase.

- Eurocontrol, the pan-European aviation organisation that manages and coordinates a number of critical air space functions, released [a think paper in October 2020](#) which found little evidence that reductions in tax levels increased demand. Instead, it found that economic growth is the most important factor that influences demand. This last point is critical, as it means that the premise of the first half of this consultation - that reducing APD will increase domestic passenger numbers - is simply incorrect.
- Finally, the UK already operates public service obligation (PSO) flights, where APD is already exempt. However, the absence of APD has not, in itself, been sufficient to make the route viable, and further additional financial support has been needed with Government paying airlines to operate these run on unprofitable routes.

Reducing the price of domestic flights to encourage them would be the exact opposite of recent international trends. France has banned some domestic flights when suitable rail connections exist, explicitly for environmental reasons. The [Spanish government is actively considering this](#).

T&E supports the government's objectives of ensuring that aviation tax supports connectivity within environmental boundaries. But aviation should also make a fair contribution to public finances. Lowering domestic APD will achieve none of these things. Crucially, lowering a tax on the most polluting form of transport will send the wrong signal out internationally in the year of COP26. T&E's overall view is that domestic APD should not be cut, whilst international APD should be reformed along environmental lines. Furthermore, serious consideration should be given to introducing new taxes to the sector, bringing it in line with other polluting sectors.

Below are answers to the specific questions posed by the consultation:

Question 1

Do you agree with the government's initial policy position that the effective rate of domestic APD should be reduced? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?

No, T&E does not agree with the initial policy position that the effective rate of domestic APD should be reduced. There is a contradiction in the Government's approach, which was not addressed in the consultation document, that air transport is both the most carbon intensive form of transport, and is also the least taxed. The Government has committed to making the UK net zero by 2050 - it should be implementing policies that encourage individuals to use forms of transport that cause less emissions, not more. Reducing domestic APD would send the wrong signals - and will ultimately undermine the UK's credibility as a climate leader: especially important in the run up to COP26.

Instead of lowering APD on all domestic flights, the Government should exempt any and all domestic flights from any tax provided they are undertaken by a zero-emission aircraft. The Government has funnelled taxpayer money into zero-emission flight research and development, but will shortly need to move these planes from the 'development' phase, into the 'commercialisation' phase. Introducing this tax exemption would provide the airline industry with a clear signal of the direction of travel for aviation and an incentive for zero emission aircraft.

Question 2

What evidence can you provide about the impact of an effective reduction in the domestic rate of APD on Union and regional connectivity?

As mentioned in the summary, there is no evidence that reducing domestic APD will cause an increase in passengers. In fact, the evidence would suggest that any changes in APD will have NO impact on passenger numbers. Since being introduced, the APD rate has been changed a number of times, with no demonstrable effect on passenger numbers following those changes. Eurocontrol found little evidence that changes in tax levels increased demand. Instead, it found that economic growth is the most important factor that influences demand. This suggests that the premise of the first half of this consultation - that reducing APD will increase domestic passenger numbers - is simply incorrect.

Question 3

How would a reduction in the effective rate of domestic APD affect airlines? Will the benefits be passed onto consumers in ticket prices or retained by airlines?

No comment

Question 4

Which domestic air routes, if any, are likely to be introduced/restart following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?

As mentioned in the consultation, support is already provided for those air routes deemed essential to connectivity, and crucially APD is already not levied on these routes. Since, in theory, these routes are already the routes deemed 'essential', then any other routes are not essential. Any new routes introduced will also fall into the non essential category, and questions should be raised as to why the Government should want new routes that can only be supported via a tax break?

When looking at domestic flights, the most popular route is London to Edinburgh - a route that can easily be done by train in 4-5 hours, which is comparable to flying times once travel to and from the airport, pre arrival waiting, and flight times are taken into account.

We do not have data on whether any domestic air routes would restart or increase their number of services as a result of the proposed tax cut. [One previous study by PwC](#), on behalf of Airlines UK, found that completely abolishing APD would only increase demand for flights by 10%.

Furthermore, it estimated that 70% of this increase would come from increased use of existing

routes. Since the consultation's proposal is to only reduce domestic APD, this study would suggest that the Treasury would be losing part of a revenue stream for no discernible effect.

Question 5

Which existing domestic air routes, if any, would benefit from an increased number of services following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?

See above

Question 6

By how much would you estimate that the number of passengers currently flying domestically increase?

See above

Question 7

What could the environmental impact of reducing the effective domestic rate of APD be? How could any negative impacts be mitigated?

Whilst reducing APD would have no effect on the number of flights or passengers it would undermine important messages about the need for the public to reduce their carbon emissions. It would also signal to the international community that the UK is not prepared to “walk the walk” when it comes to climate decisions, which will clearly impact the UK's position as an international climate leader: particularly in the run up and during the forthcoming COP 26.

Question 8

What could the impact of reducing the effective domestic rate of APD be on other modes of transport (e.g. road/rail)?

Economic theory would suggest that, all things being equal, reducing the price of air transport will make it more appealing compared to other types of transport. However, for the reasons stated above changes in APD have had little correlation with demand.

Since the Government has recently reformed the rail system and now has the ability to set fares, it should look at reducing the cost of rail compared to air fares, for both environmental and connectivity reasons. One specific suggestion is to reevaluate the public service obligation, or subsidy, that exists on London-Newquay flights, and consider if connectivity would not be better served by introducing more direct, and subsidised rail services.

Question 9

If the effective rate of domestic APD is reduced, would you favour the introduction of a return leg exemption or a new domestic rate? What would you see as the comparative risks and benefits of these options?

T&E does not believe that domestic APD should be reduced.

Question 10

Is there an alternative approach to reducing the effective rate of APD on domestic flights, that you think would be more appropriate than either of the options identified?

An alternative approach to reducing domestic APD is to simply tax the fuel used on domestic flights. The UK has always been able to tax fuel used for domestic routes, but has never taken the opportunity to do so. With the UK's commitment to emitting net zero greenhouse gases by 2050, and recent commitment to include all emissions from aviation then this decision should be seriously reconsidered. Additionally, and as described above, VAT could be applied to domestic plane tickets: something that is the norm internationally.

Question 11

What are your views on the way a return leg exemption could operate as set out in paragraph 2.8? What are the benefits and risks of this proposal? What amendments would you suggest, if any?

No comment

Question 12

Do airlines currently differentiate between single and return tickets in their booking systems and, if so, how?

No comment

Question 13

What evidence could airlines provide to HMRC to demonstrate that a passenger was travelling on a return ticket?

No comment

Question 14

If the return leg exemption were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?

No comment

Question 15

Are there any particular considerations around the application of a return leg exemption to business jets, in light of how business jets are operated?

Private/Business jets should be exempt from any reduction in APD: in fact due to the huge environmental impact of a private jet, tax levels on them should be drastically raised. [The average private jet emits the same in 4 hours of flight as an average European emits in a year](#), and because of this any Government that claims to be a climate leader should take active steps to curb their use, not decrease the taxes these jets pay.

Question 16

Do you agree with the government's initial position that a new domestic band would be the most appropriate approach to reducing the rate of APD on domestic flights?

T&E does agree that a domestic APD band should be introduced. It should be set at a level higher than the current APD rate.

Question 17

What are your views on the way a new domestic rate could operate as set out in paragraph 2.11? What are the benefits and risks of this proposal? What amendments would you suggest, if any?

All domestic flights should attract APD. T&E believes this rate should be at least the current APD rate.

Question 18

If a new domestic rate were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?

No comment

Question 19

Do you agree with the government's initial policy position that the number of APD distance bands should be increased? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?

T&E agrees that increasing the number of distance bands for international APD would improve APD's alignment with environmental objectives. However, it still leaves large discrepancies, especially as current bands are based on the distance between London and the destination country's capital city, and not the distance between the actual airports. For instance, the distance between London and Hawaii (11,656km) is double the distance between London and the USA's capital city, Washington, DC (5898km).

Because of this, T&E believes that a price-per-kilometre basis should be used to reform APD along environmental lines, and that the specific distance between the origin and destination airports should be used, on a price-per-kilometer basis. Crucially, international APD reforms should ensure that there is no overall reduction in tax take.

T&E questions why no information was provided as to what specific prices would be proposed per band. Without this crucial information, it is impossible to judge what the overall effects would be of a change in banding structure, nor to comment on if APD reform could achieve the Government's objectives. What is clear is that the proposed reduction of domestic APD would be harmful, and its damaging impacts may not be cancelled out by changes to the banding of APD on international flights.

Question 20

What could the impact on the environment of a change to the banding structure? How could any negative environmental impacts be mitigated?

Applying APD on a price-per-kilometre basis, or applying an escalating rate of APD to a larger number of distance bands should help to reinforce the message that the CO2 impact of a flight is closely related to distance flown.

Question 21

What evidence can you provide about the impact of an increase in the number of APD distance bands on international connectivity?

No comment

Question 22

Which of the policy options for increasing the number of international distance bands do you think is most appropriate? Please explain your answer.

There is insufficient information on pricing included in the consultation to comment.

Question 23

Is there an alternative banding structure that could better meet the government's objectives as outlined in paragraph 1.1?

Yes. The most effective structure to meet the government's objectives would be to end the use of bands, which will always cause some unfairness due to the arbitrary cut off points. As proposed above, APD should be levied on a price-per-kilometre basis, making APD directly proportional to distance flown and class of seat, thereby more accurately reflecting the actual emissions caused by an individual.

Question 24

If a new international distance band structure were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?

No comment.

Question 25

Do you agree with the government's assessment that APD should remain as the principal tax on the aviation sector? Would you propose any alternative tax measures which could further align the aviation tax framework with the government's environmental objectives?

No - aviation is undertaxed. It does not make sense for a sector to have just one tax, as different taxes can and should be used to achieve different aims: it is impossible for just one tax to achieve all the aims of a Government, including the aims originally set out for this consultation.

T&E therefore believes that a number of different taxes and financial measures should be introduced to the sector. Specifically:

The UK ETS should be reformed from 2024, and that:

- The free allowances given to airlines should be dramatically reduced, and withdrawn before 2030.
- The scope of the ETS should be increased to cover all flights, to all destinations (this includes both long-haul flights, and incorporating airlines that currently do not make the minimum number of flights to qualify for ETS inclusion)
- The auction reserve price should be ratcheted up over time, which will have the effect of airlines investigating and investing in low and zero carbon options.

Furthermore, consideration should be given to incorporating the non-CO2 warming effects that airlines cause into the UK ETS. These all fit in with the stated ambition of the British Government of having a net zero compliant ETS.

VAT should be added to plane tickets, since these are clearly not essential purchases. At the very least, VAT should be applied to business and premium tickets, since these are clearly luxury purchases.

In addition, the post Brexit UK-EU air services agreement allows both parties to introduce a kerosene tax. This should be actively investigated.