

**55th CONFERENCE OF
DIRECTORS GENERAL OF CIVIL AVIATION
ASIA AND PACIFIC REGIONS**

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**AGENDA ITEM 6: ECONOMIC DEVELOPMENT OF
AIR TRANSPORT**

TAXATION ON INTERNATIONAL CIVIL AVIATION

Presented by the International Air Transport Association

SUMMARY

Taxation on international aviation should be limited to what has been resolved by the Council in ICAO's Policies on Taxation in the Field of International Air Transport (DOC 8632). The growing proliferation of taxes outside the scope of Doc 8632 and the diversion of revenues away from the aviation industry is harmful to the economic and social well-being of States that impose such taxes; to worldwide economic growth; and to the sustainable development of the aviation industry.

This working paper describes IATA's positions on taxation as displayed in the Appendix, IATA's position papers.

Action by the DG CAA Conference is in paragraph 3.

REFERENCES

ICAO's policy documents on taxation (8632) and charges for airport and air navigation services (9082).
ICAO's conclusions and recommendations on taxation (at ATRP13 and A/39).
IATA's position papers.

TAXATION ON INTERNATIONAL CIVIL AVIATION

1. INTRODUCTION

1.1 Air Transport is a cornerstone of the global economy. It ensures the mobility of businesses and people and contributes significantly to economic growth. The sector as a whole represents 3.5% of the world's GDP, supports over 62.7 million jobs and US\$ 2.7 trillion in global economic impact, as reported by the Air Transport Action Group (ATAG) in a 2016 *Aviation Benefits Beyond Borders*. A properly functioning air transport sector is a vital enabler of sustainable economic growth worldwide.

1.2 There is increasing concern with the growing proliferation of taxes beyond the scope of ICAO's policies levied on international air transport. Although the industry fully respects the right of autonomous States to impose taxes, excessive taxation on international air transport for the sole purpose of generating State revenues has a severe negative impact on the global economy, the national economic welfare and endangers the sector's economic recovery. Moreover, such taxes are socially not sustainable as they usually affect lower income travelers in a disproportionate manner.

1.3 With on-going pressure on users and infrastructure providers to invest in modernizing infrastructure and avionics capability, more States withdraw from providing public funding for such means, yet unjustified taxation on aviation has not decreased but increased over the past decade.

2. IATA'S POSITION ON TAXES

2.1 ICAO defines a "tax" as "a levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis."

ICAO defines a "charge" as "a levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation."

2.2 It is widely accepted that imposition of general business, sales, and income or use taxes levied fairly and uniformly on the conduct of all businesses within a political jurisdiction should be considered the legitimate right of governments.

2.3 Taxes and charges on international air transport should only be levied in compliance with ICAO's Policies on Charges and Taxation in a justifiable, equitable and non-discriminatory manner. Any other form of excessive taxation should be opposed as it has a detrimental impact on airline and airport finances and on consumers. Such excessive and unjust taxation also constitutes a material obstacle to the development and expansion of international travel and trade and the regional economic growth as a result.

2.4 ICAO's Policies on the Field of International Air Transportation (Doc 8632) states, inter alia, that: "*each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate ... all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers*".

2.5 The ICAO Council repeatedly reaffirmed its opposition to taxation proliferation in the last edition of ICAO's Policies on Charges for Airports and Air Navigation Services (Doc 9082/9) "*In this regard the Council is concerned about the proliferation of charges on air traffic and notes that the imposition of charges in one jurisdiction can lead to the introduction of charges in another jurisdiction*".

2.6 The need to enforce ICAO policies with States as well as to assess the means by which to study and investigate the impact of increased taxation on air transport are topics discussed by ICAO, e.g. at the Air Transport Regulation Panel (ATRP/13, September 2015). IATA offered its assistance to the ICAO Secretariat in this respect and to actively participate in these efforts. In addition, IATA requested that ministries of transportation or CAAs communicate the negative social and economic impacts of unfair

taxation outside the scope of ICAO policies to their colleagues in ministries of finance and the tax administration. For reference, the conclusion on these issues was included in the Air Transport Regulations Panel (ATRP/13, September 2015) Report:

“Based on the discussion, the panel noted that:

a) ICAO has clear policies on taxation (Doc 8632). States are urged to apply and follow these policies in their regulatory practices, as requested by Assembly Resolution A38-14, Appendix D;

b) the Secretariat will continue to carry out advocacy activities, including engaging dialogue with taxation authorities, to enhance States’ awareness of ICAO’s policies on taxation and promote their application; and ATRP/13 2 d)-2 Report on Agenda Item 2 d)

c) the Secretariat will continue to cooperate with relevant industry stakeholders in developing analyses on the impact of taxes and other levies on air transport, making the outputs available to States and interested stakeholders.

2.7 IATA’s long-term cooperation with the ICAO Secretariat to ensure that taxation remains a matter of priority resulted in the submission of a working paper (WP/127) at ICAO’s 39th Assembly (A39), with the effect that the following language was included in the final A39 (October 2016) report:

“With respect to the concerns over the proliferation of taxation on international air transport highlighted in WP/127, there was general acknowledgment that such an imposition could have negative impacts on national economy which is not conducive to sustainable air transport development. There was wide support for the need for States to adhere to the ICAO policies on taxation in the air transport field contained in Doc 8632. A view was expressed that States have sovereignty over taxation policies. The Commission agreed that States should be encouraged to follow the ICAO policies on taxation.”

2.8 Taxation beyond the scope of ICAO’s policies significantly lowers the ability for the industry to generate sufficient revenue for the execution of essential programs such as the Global Air Navigation Plan and its required Aviation System Block Upgrades. The revenue available to those in the aviation value chain (regulators, infrastructure providers, users) is substantially lowered as a result of the current taxation trends. Several studies such as Aviation Taxes and Charges by IATA, which compare the contribution across transport modes in some countries in terms of taxes and user charge payments, show aviation is carrying a greater burden. In the cases studied, aviation makes the highest net contribution of all modes when expressed in terms of passenger journeys. There is also strong evidence to suggest that in some States this trend is worsening, with aviation singled out as target.

2.9 Despite these high-level discussions and conclusions at ICAO, a significant proliferation of unjustified taxes that single out aviation has been witnessed by the industry. A few examples of issues raising concern related to the taxation of international air transport in the Asia-Pacific region are given below:

2.9.1 Some States have been looking to introduce taxes per passenger arriving to or departing from airports within their borders. While some of these initiatives have been aborted, some have been implemented with the most recent example is one State which has introduced a tourism tax on passengers departing on international flights as of January 2019.

2.9.2 Some States impose VAT/GST on international air transportation and/or on charges paid for a number of related services - in some cases even on a retroactive basis.

2.9.3 Some States impose taxes or duties without the right of reclaim on jet fuel used on international flights.

2.9.4 Some States initiated air passenger tax measures for so-called environmental purposes. While IATA supports efforts to mitigate the impact of air transport on the environment, we believe that environmental taxes/levies do not assist in reducing our sector's impact. We are concerned about such proposed taxes/levies' incompatibilities with ICAO requirements as it is unlikely that the State revenues raised would be used directly and solely for alleviating, preventing or mitigating demonstrated environmental damages caused by air transport. The Government revenues generated would in all likelihood be used to fund the general budget.

The imposition of an environmental tax would directly contradict standard and accepted taxation policies as published by ICAO, including provisions of the Chicago Convention (Article 15) and ICAO's policies on taxation (Doc 8632). The imposition of an environmental tax would directly contradict standard and accepted taxation policies as published by ICAO, including provisions of the Chicago Convention (Article 15) and ICAO's Policies on Taxation (Doc. 8632); and

Such forms of taxation are also contrary to ICAO's Council Resolution on Environmental Charges and Taxes, which states that environmental levies should have no fiscal aims, should be related to costs of mitigating the environmental impacts of aircraft, and should not discriminate against air transport compared to other modes of transport.

3. ACTION BY THE CONFERENCE

3.1 The Conference is invited to:

- a) note the information contained in this paper;
- b) recommend that States' ministries of civil aviation or transport, on an on-going basis, liaise with their counterparts (primarily ministries of finance) in charge of taxation on the details and reasons behind ICAO's policies on taxation in the field of international air transport (Doc 8632);
- c) recommend that States refrain from levying taxes on international air transport in order not to hamper economic growth and negatively impact the regional economy;
- d) note IATA's position papers presented in the Appendix to this paper.

— END —

[Appendix: IATA position papers on Value-Added Tax, Solidarity Tax, Tourism Tax and Environmental Tax]



Value Added Tax

International exemption must be maintained for international travel.

While VAT on domestic air transport is a political issue for debate within each State, international air transport and any services related thereto should not be subject to VAT.

SITUATION

International airlines are required to comply with all legal and commercial obligations of normal business enterprises within a country, including any VAT requirement. States, however, have since long recognised that international air transport is essentially different from other businesses for the following reasons:

- 1 International air transport is operated with great mobility in a multiplicity of jurisdictions in international air space.
- 2 International air transport differs materially from other businesses, engaged in manufacturing, merchandising and other activities involving substantial internal efforts within a country.
- 3 International airlines are generally prohibited from providing domestic transportation within countries other than their own.

IATA POSITION

IATA endorses, as a matter of policy, the ICAO resolutions on taxation of aircraft and the sale or use of international air transport¹. Therefore, where VAT is imposed, IATA urges all states, including their political subdivisions, to fully implement the ICAO resolutions by ensuring that international air transport is fully exempt and that international air transport enterprises have the right of reclaim of all VAT paid (zero-rated).

KEY REASONS WHY VAT SHOULD NOT BE IMPOSED ON INTERNATIONAL AIR TRANSPORT AND SHOULD ALWAYS BE 'ZERO-RATED'

- International air transport is a service provided to the end consumer outside any taxing jurisdiction. As such, any VAT paid on services and supplies purchased in a taxing country should be zero-rated and totally refundable. ICAO resolutions fully support that international air transport involves the use of aircraft and goods and services outside the boundaries of any tax authority.
- The policy of reciprocal exemption from taxes on aircraft and the elimination of taxes on the sale or use of international air transport are entirely endorsed by ICAO resolutions.
- Equitable treatment for international aviation throughout the many jurisdictions into which it operates is essential. In addition, air transport contributes to further enhancement of the development and expansion of international travel and trade. This is assured under ICAO resolutions.

¹ ICAO Doc 8632

Solidarity Tax

Airlines and their passengers should not have to pay for social programmes that are not related to airport and aeronautical services.

SITUATION

An example of discrimination against the air transport industry was introduced by the French government on 1 July 2006 with a “solidarity” tax on air travel to support aid to developing countries. France’s President Chirac at a World Economic Forum meeting in 2005 first introduced the concept of a tax on airline tickets to generate aid for developing nations.

In February 2006, the French government invited over 100 countries to a ministerial conference in Paris in an attempt to persuade them to follow this initiative.

A limited number of countries are likely to follow the lead set by France whilst other countries are opposed to the solidarity tax. The Council of Economics and Finance Ministers of the European Union (ECOFIN) considered and ultimately rejected the idea of implementing such a tax on a EU-wide basis. Even the African Union has publicly expressed its opposition to the concept.

IATA POSITION

Airlines and their passengers should not pay for states’ funding of social programmes. Besides the fact that this is fundamentally wrong, the air industry having to absorb more taxes means that it will have fewer resources to invest in growth and remain financially stable.

With airlines struggling to regain profitability since 2001 the last thing needed is to be hit with discriminatory taxes that treat air travel as a sin, akin to alcohol and tobacco. In some regions, taxes now account for up to 26% of the cost of a USD 200 ticket. IATA is strongly against these tax initiatives.

KEY REASONS WHY SOLIDARITY TAX SHOULD NOT BE IMPOSED

- 1 ICAO Policies do not support any taxes on aviation, including on the sale and use of international air transport¹.
- 2 This initiative is based on the erroneous assumption that air transport is a luxury item only enjoyed by a privileged few. Air transport, however, is the world’s only form of global mass transit. Over 2 billion people travel by air each year and not all of them are wealthy.
- 3 This initiative ignores the active and substantial contribution that air transport already makes to economic development. It connects people and businesses to the global economy. It facilitates improved inward investment and productivity in industries that have nothing to do with air transport.
- 4 Whilst aviation is the largest single contributor to economic development through tourism, passenger demand is very sensitive to the price of tickets. Typically, a 10% rise in price will reduce demand by 15%.
- 5 Imposing such a tax would discourage passenger traffic and inhibit the air transport industry’s ability to drive economic development to its full potential, thereby negatively affecting the countries implementing the tax and moreover the very countries that are intended to benefit from such a tax.
- 6 In many cases, the administrative costs associated with collecting and reconciling the proposed new tax may outweigh the intended benefits.

¹ ICAO Doc 8632

Tourism Tax

Imposing taxes to finance activities other than airport and/or aviation-related services has a huge impact on a country's aviation and tourism industry.

Tourism taxes are counterproductive. In many cases, the revenue raised from such taxes is far outweighed by the economic benefits that are foregone as a result of reduced demand for air travel.

Generally, governments increase tariffs or taxes on a given product – such as tobacco – when they intend to dissuade its consumption, not promote it. It is paramount to keep in mind this basic principle when evaluating such tax proposals by States. Any government decision leading to an increase in the cost of air travel imposes a barrier to the development of the aviation and tourism industries.

IATA POSITION

IATA strongly opposes any form of tax or fee where the resulting revenue is not reinvested in the aviation industry and is merely meant to increase general government revenues. Such a tax or fee contradicts ICAO principles, where fees charged on air transport are to be associated with services provided in support of aviation (e.g., the provision of airport services).

KEY REASONS WHY TOURISM TAX SHOULD NOT BE LEVIED

- Taxes on aviation will reduce the overall demand for air travel, which, as a result of the multiplier effect, can negatively impact tourism and GDP, which in turn can adversely impact government tax receipts.
- There are over 20 countries globally that levy tourism or tourism-related taxes. For example, in Guatemala, the Departure Tourism Tax has increased one-way international outbound airfare by approximately 9.0%, whereas in Jamaica, the Tourism Enhancement Fee has increased one-way international inbound airfare by almost 7.0% (based on 2014 data).
- As the economic benefits from tourism accrue to the wider economy, levying a discriminatory tourism tax on an enabling sector like aviation is an ineffective and ill-conceived policy choice. Government funding of tourism and tourism-related initiatives should be achieved through less distortionary means (e.g., through general government revenues).

KEY ELEMENTS TO TAKE INTO CONSIDERATION BEFORE INCREASING COSTS TO PASSENGERS

1. ICAO's Policies on Taxation in the Field of International Air Transport (Document 8632) states that "Each Contracting State shall reduce to the fullest practicable extent...all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers."
2. ICAO's Policies on Charges for Airports and Air Navigation Services (Document 9082) supports the levying of charges related to the provision of aviation and aviation-related services on a cost recovery basis only.
3. Air travel is highly sensitive to price, due to factors such as the Internet, no frills competition and centralized corporate purchasing power.
4. The rise of corporate buying and the increased transparency of price have led to more price sensitivity for business travel as well.
5. When a new tax on air travel is introduced, the ultimate liability for such a tax rests with passengers. This results in an increase in ticket prices in the hands of passengers, which is harmful to air travelers, airlines and the broader economy due to reduced purchasing power, lower passenger volumes, and the negative spillover effect on the economy, respectively.
6. In certain cases, imposing a tourism tax can result in the diversion of tourists and air passengers to neighboring jurisdictions that do not impose such a tax. The loss in economic activity due to the resulting decline in demand for tourism-related services is further compounded by lower than expected government tax revenue due to diverted air travel.

“Green” Taxes

Taxing air transport has no positive impact on the environment but brings a detrimental effect on jobs, competitiveness and the economy.

SITUATION

Environmental issues are at the top of the aviation industry's agenda, alongside safety and security. The aviation industry recognizes the need to address the global challenges of climate change and has adopted a set of ambitious targets to mitigate CO₂ emissions from air transport, including the following:

- An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020;
- A cap on net aviation CO₂ emissions from 2020 (carbon-neutral growth); and
- A reduction in net aviation CO₂ of 50% by 2050, relative to 2005 levels.

In 2016, the ICAO Assembly adopted a global Carbon Offsetting and Reduction Scheme for International Aviation (CORSA). Under CORSA, aircraft operators will be required to purchase offsets, or “emission units”, for the growth in CO₂ emissions above 2020 levels covered by the scheme.

In addition to its climate change action, the industry is also engaged in efforts to mitigate its impacts on the local environment and is working with competent authorities to find tailor-made measures to address noise and air quality problems at airports.

IATA POSITION

IATA strongly opposes any form of national or regional environmental scheme that would result in double and extra-territorial taxation of aviation's emissions as this would negatively affect the economy. The implementation of CORSA obviates the need for existing and new economic measures to be applied to international aviation emissions on a regional or national basis and all international flights should be subject exclusively to CORSA. While domestic flights are beyond the scope of the global market-based measure (GMBM), any market-based measures applicable to domestic flights should be aligned and made compatible with the GMBM. Such an alignment would avoid regulatory fragmentation, reduce the administrative burden for operators and Governments, and minimize potential market distortions.

Furthermore, in accordance with ICAO's Policies on Charges for Airports and Air Navigation Services (ICAO Doc 9082), any noise- or local air quality-related levy should be levied only at

airports experiencing noise or local air quality problems, be in the form of a charge rather than a tax¹, and be designed to recover no more than the costs applied to their alleviation or prevention.

WHO IS NEGATIVELY IMPACTED BY AN ENVIRONMENTAL TAX?

A wide cross-section of the economy is impacted by the imposition of an environment tax, including: 1) passengers; 2) airlines; 3) the broader tourism sector; and 4) governments/revenue authorities.

In general, air travel has a high price elasticity of demand (i.e., is highly sensitive to changes in price). The imposition of an additional form of taxation on the price of air travel, in addition to the existing taxes, fees and charges already levied in many jurisdictions, means the overall demand for air travel is negatively impacted.

The impact of an environmental tax on the aforementioned groups includes the following:

- **Passengers** – may choose not to travel as a result of the price increase, may substitute other means of travel for air travel (i.e., train, automobile, etc.) or may attempt to divert air travel to a jurisdiction where such a tax has not been levied, all of which reduces productivity and may result in displacing environmental problems to other locations.
- **Airlines** – are negatively affected due to the decline in passenger revenue and/or their inability to recover such a tax from passengers, which limits their ability to invest in newer, cleaner and quieter equipment and technology.
- **The Tourism Sector** – is negatively affected as a decline in air passenger volumes leads to decreased demand for their goods and services, resulting in a negative impact on GDP.
- **Governments/Revenue Authorities** – may not necessarily benefit from the imposition of such a tax. The price elastic nature of air travel means that the proportional increase in tax revenue derived from an environmental tax may be outweighed by the greater proportional decrease in the quantity of air travel and the resulting reduction in revenue from lost travelers' spending as well as uncollected fees, charges and taxes.

Consequently, while the overall goal of an environmental tax is laudable, its distortionary effect on jobs and the economy, while at the same time not incentivising the development or use of newer and greener technology, makes it an ineffective policy choice.

¹ICAO policies make a distinction between a charge and a tax, in that a charge is a levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation, and a tax is a levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis.

FURTHER RATIONALE AGAINST AN ENVIRONMENTAL TAX

- 1 As a tax, the income generated from the imposition of an environmental tax is general revenue to a government, whereby it can be used to fund any variety of public sector programs and initiatives. Therefore, no direct link exists between the revenues raised from such a tax and actual measures aimed at mitigating the impact of aviation on the environment. In fact, by taking away funds from airlines, this weakens the ability of the sector to dedicate resources to such measures.
- 2 The effectiveness of levies as incentives for the introduction of cleaner and quieter aircraft is doubtful. Experience, for example, shows that the removal of noisy aircraft from operations has been similar at airports with high noise charges and at airports with no such charges. In practice, fleet choices are indeed driven by the normal fleet renewal process and other considerations such as capacity and fuel efficiency.
- 3 The 39th session of the ICAO Assembly reiterated that market-based measures should not be duplicative and international aviation CO₂ emissions should be accounted for only once. ICAO Assembly Resolution 39-3 also stipulates that CORSIA is to be the market-based measure applying to CO₂ emissions from international aviation. Therefore, any carbon pricing instrument applied to international flights would be incompatible with the agreement reached at the last ICAO Assembly.
- 4 The imposition of an environmental tax is contrary to the *Policies on Taxation in the Field of International Air Transport* contained in ICAO Document 8632, which states that “each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate ... all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers”.
- 5 The imposition of environmental taxes is contrary to ICAO's Council Resolution on Environmental Charges and Taxes², which states that environmental levies should have no fiscal aims, should be related to costs of mitigating the environmental impacts of aircraft, and should not discriminate against air transport compared to other modes of transport.
- 6 Airport and air navigation charges paid by airlines for the infrastructure they use represent some 14% of the overall cost of air transport worldwide and are therefore a significant expense to the airlines. In 2016, airlines and their customers are forecast to generate an estimated \$118 billion in tax revenues for governments. That's the equivalent of 45% of the industry's GVA (Gross Value Added, which is the firm-level equivalent to GDP).
- 7 A number of states levy passenger taxes on air tickets over and above infrastructure charges. These taxes have no equivalent for other modes of transport and are discriminatory since singling out air transport is ultimately detrimental to the aviation industry and the global economy.
- 8 By 2032, if forecasts are accurate, there will be over 6.5 billion passengers and aviation will support 103 million jobs and USD 5.8 trillion in economic activity. Taxation measures (such as an environmental tax) that increase the cost of air travel will have a negative impact on these forecasts and the resulting global economic benefits that aviation would otherwise deliver.

² Available at www.icao.int/environmental-protection/Pages/Taxes.aspx