Leaked study shows aviation in Europe undertaxed

Study shows this is especially the case when compared to non-European markets

May 2019

Summary

A leaked report, completed last year for the European Commission but yet to be made public, finds that the European aviation sector is chronically undertaxed relative to other aviation markets, that international law does not prevent the introduction of greater aviation taxation in Europe, and that taxing aviation fuel would cut emissions by at least 10% and raise revenue while having no impact on overall GDP and employment.

This report should be published immediately as its findings justify introducing measures such as fuel tax aviation which are currently under discussion at European and member state, including at a high level ministerial meeting on aviation taxation next month in the Hague.

1. Context

The report was commissioned by the European Commission following a commitment in its 2015 Aviation Strategy to examine the status of aviation taxation in Europe. This is the final version of that yet to be published report. It looks at taxes which are in place, but also tax exemptions, and contrasts taxation levels in Europe with other aviation markets.

It concludes that European aviation is significantly undertaxed even compared to such countries as the US, Australia, Brazil and China. Most member states have zero taxation of international aviation while twelve do not even tax domestic aviation despite the total absence of any legal barriers to do so. This stands in contrast to other parts of the world, where ticket taxes are widespread and taxing kerosene for domestic aviation is common.

2. Examination of specific types of aviation taxation

The report looks principally at three types of taxation - passenger ticket taxes, VAT and kerosene taxation. The legal basis for each type of taxation is set out and taxation levels in Europe and compared with key EU aviation partners.

A model is used to assess the impact of either removing existing taxes, or applying taxes at consistent rates across the EU 28, using metrics such as GDP, employment, revenue, CO2 emissions and noise impact.

2.1. Ticket taxes

The report defines ticket taxes as "taxes imposed on all air passengers to the benefit of national (or regional) government's treasury".

The report details the existing ticket taxes in Europe, including variation of rates depending on destination or class of travel, as well as the collection method. The report finds that only seven states in the EU/EEA have such taxes, with the UK's Air Passenger Duty levying the highest rate. That rate is varies from €14.42 for short haul economy travel to €499.24 for long-haul business class. Other European states have minimal rates, for example the French rate is €45.07 for long-haul business class but only €1.13 for short-haul economy. EU-wide, the average ticket tax per passenger is around €11 a ticket.

These low or non-existent taxes compare unfavourably with major EU aviation partners. Australia levies a €40 ticket tax on all international departures, Mexico €37.50, Brazil €30.70 and the US €15.04. Not noted in the report is that the US taxes inbound international passengers at the same level[1].

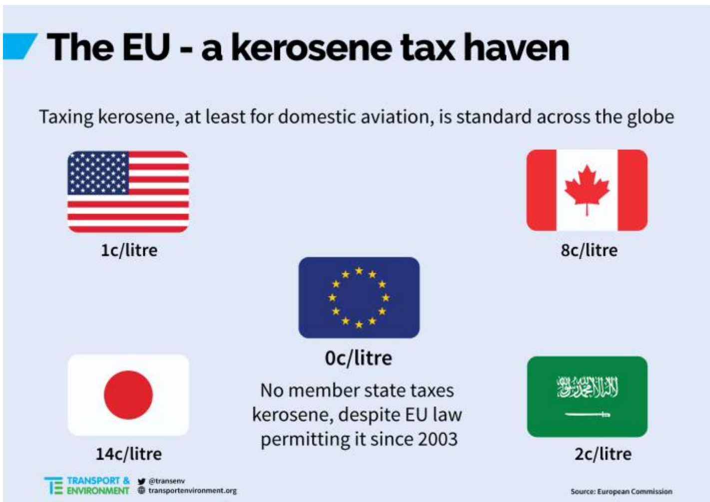
2.2. VAT

VAT on passenger tickets for flights between European states were zero rated before the Union was created and this practice codified in EU Directive (2006/112/EC). Nevertheless this hasn't stopped 23 member states applying VAT to domestic flight tickets at rates varying from 6% (Portugal) to 25% (Croatia). The weighted EU-28 VAT average per ticket is €4.

Internationally, VAT, also known as a sales or consumption tax, is applied in many domestic aviation markets including Australia (10%), Vietnam and Indonesia (10%), Japan (8%), Thailand (7%) Malaysia (6%), Canada (5% domestic and to the US), US (7.5% for domestic and flights to Mexico and Canada) and Mexico 4% for all domestic/international flights.

2.3. Kerosene taxation

In Europe, fuel for commercial aircraft is exempt from taxation under Directive 2003/96/EC but from 2003 member states were permitted to tax fuel for domestic aviation, and, subject to bilateral agreement with another member state, tax fuel used for flights between them. None of the EU-28 currently tax fuel uplifted for domestic flights nor for flights within the EU on a bilateral basis.



By contrast kerosene uplifted for domestic aviation is taxed in a good number of states; Canada, the USA, Hong Kong, Australia, Japan, Armenia, Saudi Arabia, Laos, Myanmar, Philippines, Thailand and Vietnam.

Importantly the report notes that the Chicago Convention "does not explicitly prohibit the taxation of jet fuel", only the taxation of fuel already on board an aircraft upon arrival in another state. It makes clear that exemptions from taxing jet fuel largely arise from bilateral air services agreements. Our study "Taxing Aviation Fuel in Europe" details how this barrier can be overcome.

[1] http://airlines.org/dataset/government-imposed-taxes-on-air-transportation/

3. Modelling the impact of aviation taxation

The second part of the report models the impact of three different taxation scenarios across the EU28; 1) abolishing the existing ticket taxes in Europe; 2) applying VAT on tickets for all flights to, from and within Europe 3) taxing aviation kerosene uplifted for all flights to, from and within Europe. The report does not examine the political or legal feasibility of each of the above scenarios. Instead, it models the impact on passenger demand, flights and connectivity, jobs, GDP, fiscal revenue from the aviation sector, CO2 emissions and noise.

In the model scenario where existing ticket taxes are abolished (scenario 1), EU-wide passenger demand, flights and connectivity increases 4%; ticket prices fall 4%; CO2 emissions increase 4% and those people affected by aircraft noise rise 2%. Member state revenues fall by 74% or €2.6bn, leaving revenue from the only remaining tax in place - domestic VAT. Jobs and value-added rise 4% in the aviation sector matched by an equal fall of 4% in jobs elsewhere. So a net effect of zero on total employment and GDP. This directly contradicts industry-sponsored reports which claim that abolition of existing ticket taxes would result in an increase in GDP and total employment[2].

The other two scenarios - introduction kerosene taxation and VAT - produce opposite results. The impact of both is modelled separately.

Imposing a fuel tax on all departing flights to all destinations at the 33 cents EU energy tax minimum would cause ticket prices to rise 10%; flights, passengers and CO2 emissions all fall 11%, people affected by noise drop 8% and fiscal revenues rise from €10 billion to €27 billion. Jobs and aviation value added falls 11% but the overall impact on EU jobs and GDP is zero.

VAT applied at the German rate of 19% on all tickets reduces passenger demand and flights by 19%; direct jobs and value added in aviation fall 18% while the overall effect on EU jobs and GDP is negligible. Member state revenues rise from €10 billion to €40 billion while CO2 emissions fall 18% and number affected by aircraft noise 12%.

4. Impact of the introduction of kerosene taxation in EU-28

Modelled impact of the introduction of taxation on all kerosene uplifted for flights within and departing from the EU. The rate of kerosene taxation is €0.33/litre, the minimum rate in the 2003 Energy Taxation Directive. The model does not consider to legal or political feasibility of these policies.

	Passenger numbers	**Connectivity (Number of flights)**	**Jobs (all sectors) (1,000 FTE)**	**GDP (€bn)**	**Revenue raised (billion euro)**	**CO2 (%)**	**Noise (People affected)**
EU wide	-11%	-11%	No effect	No effect	26.9	-11%	-8%
Austria	-8.00%	-8.00%	No effect	No effect	0.3	-8.00%	-7.00%
Belgium	-17.00%	-17.00%	No effect	No effect	0.5	-17.00%	-12.00%
Bulgaria	-11.00%	-11.00%	No effect	No effect	0.1	-11.00%	-5.00%

2 https://a4e.eu/tax/

Croatia	-6%	-6%	No effect	No effect	0.06	-6.00%	na	
Cyprus	-10.00%	-10.00%	No effect	No effect	0.09	-10.00%	na	
Czechia	-8.00%	-8.00%	No effect	No effect	0.1	-8.00%		-5.00%
Denmark	-9.00%	-9.00%	No effect	No effect	0.3	-9.00%		-6.00%
Estonia	-4.00%	-4.00%	No effect	No effect	0.01	-4.00%	na	
Finland	-12.00%	-12.00%	No effect	No effect	0.3	-12.00%		-10.00%
France	-9.00%	-9.00%	No effect	No effect	3.5	-9.00%		-7.00%
Germany	-12.00%	-12.00%	No effect	No effect	4.8	-12.00%		-8.00%
Greece	-7.00%	-7.00%	No effect	No effect	0.6	-7.00%	na	
Hungary	-5.00%	-5.00%	No effect	No effect	0.1	-5.00%		-4.00%
Ireland	-8.00%	-8.00%	No effect	No effect	0.3	-8.00%		-7.00%
Italy	-8.00%	-8.00%	No effect	No effect	3.2	-8.00%		-5.00%
Latvia	-14.00%	-14.00%	No effect	No effect	0.04	-14.00%	na	
Lithuania	-10.00%	-10.00%	No effect	No effect	0.03	-10.00%		-8.00%
Luxembourg		//	No effect	No effect				
Malta	-10.00%	-10.00%	No effect	No effect	0.04	-10.00%	na	
Netherlands	-19.00%	-19.00%	No effect	No effect	1.2	-19.00%		-15.00%
Poland	-10.00%	-10.00%	No effect	No effect	0.2	-10.00%		-8.00%
Portugal	-11.00%	-11.00%	No effect	No effect	0.5	-11.00%		-6.00%
Romania	-9.00%	-9.00%	No effect	No effect	0.1	-9.00%		-5.00%
Slovakia	-12.00%	-12.00%	No effect	No effect	0.02	-12.00%		-10.00%

Slovenia	-5.00%	-5.00%	No effect	No effect	0.02	-5.00%	na
Spain	-11.00%	-11.00%	No effect	No effect	2.4	-11.00%	-9.00%
Sweden	-8.00%	-8.00%	No effect	No effect	0.6	-8.00%	-7.00%
United Kingdom	-12.00%	-12.00%	No effect	No effect	7.3	-12.00%	-8.00%

Further information

Andrew Murphy, Aviation Manager
andrew@transportenvironment.org
Tel: +32(0)4 85 00 1214