Portugal scorecard

Tax gap: The Portuguese government is losing out on €1.2 billion a year from its aviation sector

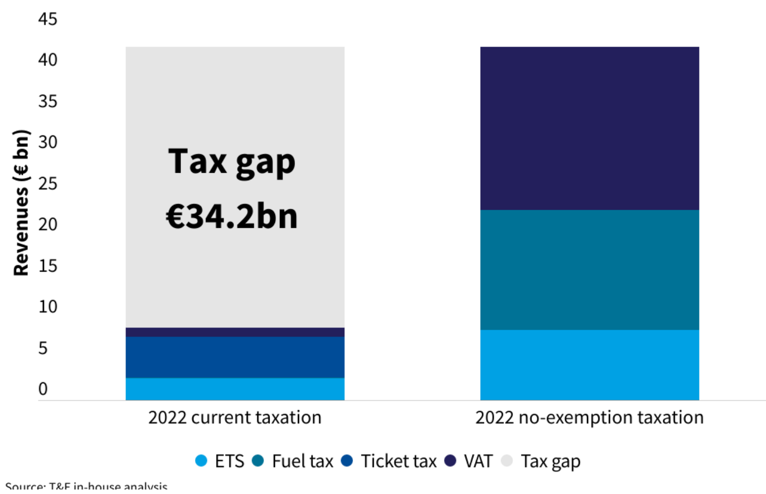
The aviation sector has been under-taxed and under-regulated for decades. This has resulted in a sharp increase in emissions at a time when they should be going down. Transport & Environment's "Aviation *Tax Gap*" report delves into this problem, by looking at exactly how much the aviation sector benefits from unjustified exemptions in taxes and emissions pricing every year.

We define the *tax gap* as the gap between the revenues from current levels of taxation and what would be raised if the sector did not benefit from such exemptions. A tax gap is calculated for 2022 and also for 2025[1].

The report looks at taxes and carbon pricing mechanisms specific to the aviation sector (i.e. the revenues of which are not reinjected into the sector) including VAT, fuel tax, ETS, ticket taxes and CORSIA.

It shows that:

- **The tax gap across Europe in 2022 was €34.2 billion. This is the difference between the revenues raised in 2022, and what should have been collected, if exemptions were removed;**
- **In 2025, if we continue on this trajectory (i.e. under-taxing the sector), the tax gap will increase to €47.1 billion.**



And what is happening in Portugal?

The carbon market for aviation (EU ETS) applies to emissions from all flights departing from Portugal to destinations in the EEA, Switzerland, the UK as well as domestic flights, although airlines receive a large share of their allowances for free. Portugal also applies a Portuguese carbon tax on tickets to the amount

[1] In 2025, we assume that air travel has fully recovered to pre-pandemic levels. For that year, we estimate what the tax gap would be in a business-as-usual scenario, and assess how different policies could contribute to closing the tax gap.

of €2. Flights between the mainland and Azores/Madeira are exempted. But the rates of this tax are too weak to have an impact on revenues and to compensate for aviation's tax gap. For more information, please consult Annex II.1 of the report.

As a result:

- **The tax gap in Portugal in 2022 was €1.2 billion. This can be seen as lost revenue to the Portuguese state, a part of which could have been directed to invest in railways and decarbonise the aviation sector and mitigate against the worst effects of climate change.**
- **In 2025, if we continue on this pathway, the Portuguese government will lose out at least €1.4 billion.**
- **The Portuguese government lost out on €450 million of tax revenues from its national carrier's activity, TAP. At European level, European governments lost out on €630 million from TAP's activities.**

Key recommendations

1	Negotiate at EU level the extension of the EU ETS to cover all departing flights including long haul, implement a kerosene tax on all departing flights and set a 20% VAT rate on all flight tickets.
2	If the above-mentioned recommendations are not implemented, Portugal should introduce a ticket tax on all departing flights to fill the tax gap. This tax should reach €20 for domestic flights, €48 for intra-European flights and €281 for long-haul flights.
3	Reinvest part of the revenues raised in building new railways and producing and deploying clean technologies, such as synthetic kerosene produced from renewable energy sources, to decarbonise the wider economy and the aviation sector.