Tax gap: The UK government lost out on £4.7 billion in 2022 from its aviation sector

The aviation sector has been under-taxed 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.

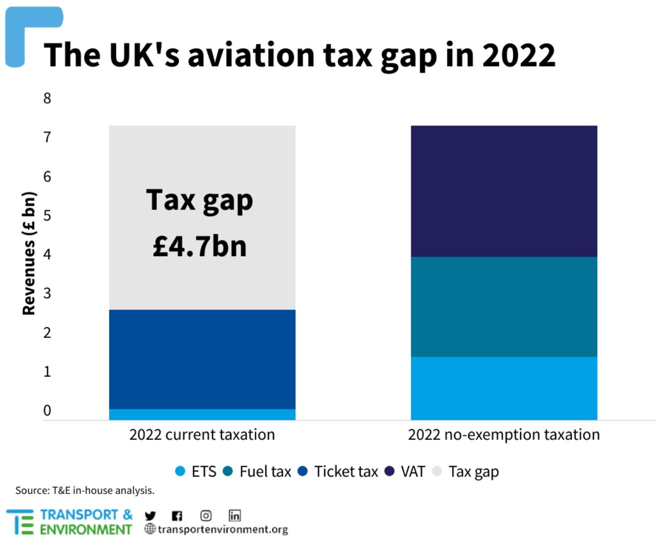
We define the *tax gap* as the gap between the revenues from current levels of taxation and what would be raised if the sector did not benefit from such exemptions. A tax gap is calculated for 2022 and also for 2025.[1]

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:

- **In 2022, the UK's tax gap was £4.7 billion. Across Europe as a whole, it was an incredible €34.2 billion (£29.2 billion). This is the difference between the revenues raised in 2022, and what should have been collected, if the sector was properly taxed.**

- **In 2025, if we continue on this trajectory (i.e. under-taxing the sector), the UK tax gap will increase to £7.4 billion. Across Europe it will be €47.1 billion (£41.6 billion).**



[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.

So what is happening in the UK?

The UK has its own carbon market for aviation (the UK Emission Trading Scheme) which applies a carbon price on all flights departing from the UK to destinations in the EEA, Gibraltar and Switzerland, as well as on domestic flights. The UK also applies a ticket tax in the form of Air Passenger Duty, levied at different levels depending on how far a person's flight is flying. But the rates of this tax are too low to cover the tax gap. For more information, please consult Annex II.1 of the report.

As a result:

- **The £4.7 billion tax gap can be seen as lost revenue to the British state, which could have been partly utilised to decarbonise the sector and mitigate against the worst effects of climate change.**
- **In 2025, if we continue on this pathway, the UK government will lose out on £7.4 billion.**
- **The British government lost out on £1.3 billion (€1.5 billion) of tax revenues from British Airways alone. At European level, European governments lost out on €2.0 billion (£1.7 billion) from BA.**

Key recommendations

1	Apply a kerosene duty to all fuel uplifted for domestic and EU-bound flights, at the Autumn budget.
2	Replicate the EU, and extend the UK ETS to all departing flights to all destinations from 2027.
3	Recognise that APD revenues do not fully compensate for the counterfactual lost VAT revenues. Initially VAT should be applied to premium-class tickets.

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