



**WORKING PAPER**

**ASSEMBLY — 39TH SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 39: Economic Regulation of International Air Transport – Policy**

**THE ECONOMIC IMPACT AND CHALLENGES RELATED TO THE PROLIFERATION OF UNJUSTIFIED AND EXCESSIVE TAXATION**

(Presented by IATA)

**EXECUTIVE SUMMARY**

Taxation on international aviation should be limited to what is contained in ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632). The propagation of taxes outside the scope of Doc 8632 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.

**Action:** The Assembly is invited to:

- a) urge Member States to adhere to ICAO's policies on taxation and ensure its recommendations are followed by all relevant taxing authorities within those States;
- b) enhance the awareness of ICAO's policies and guidance material and promote their implementation;
- c) urge Member States to avoid imposing any unjustified or discriminatory taxes on international aviation, and reduce or eliminate any such existing taxes, as they have a negative effect on the competitiveness of the aviation industry and impact States' national economies;
- d) encourage Member States' ministries of civil aviation or transport to update their counterparts in charge of taxation, in particular finance ministries, on the details and reasoning behind ICAO's policies on taxation;
- e) urge Member States to perform a cost benefit analysis for existing taxes beyond the scope of ICAO's Policies on Taxation to determine the net impact of aviation taxes on economic growth and social well-being as well as the impact on the industry; and
- f) encourage ICAO to collaborate with relevant industry associations to develop analysis of the impact of unfair and discriminatory taxation and to further enhance guidance to States on the impact of taxes and other levies on air transport.

<i>Strategic Objectives:</i>	This working paper relates to the Strategic Objective D — <i>Economic development of air transport</i>
<i>Financial implications:</i>	Not significant

<sup>1</sup> English, Arabic, Chinese, French, Russian and Spanish versions provided by IATA.

<i>References:</i>	Assembly Resolution A38-14, Consolidated statement of continuing ICAO policies in the air transportation field ATConf/6 Report, Agenda Item 2.6: Taxation of and other levies on international air transport ATRP/13 Report, Agenda Item 2 f): Explore additional ways and means by which to enhance the status of ICAO's policies for the sustainable economic development or the air transport system Doc 8632, <i>Policies on Taxation in the Field of International Air Transport</i>
--------------------	--

## 1. INTRODUCTION

1.1 ICAO's policies and guidance material on taxes are clearly defined in Assembly Resolution A38-14, Appendix D, as well as in *ICAO's Policies on Taxation in the Field of International Air Transport* (Doc 8632).

1.2 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 global GDP and supports almost 63 million jobs as reported in 2016 by the Air Transport Action Group (ATAG) in *Aviation Benefits Beyond Borders*. A properly functioning air transport sector is a vital enabler of sustainable economic growth worldwide.

1.3 It is widely accepted that the 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 and sovereign right of governments. However, 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 taxation should be opposed as it has a detrimental impact on the taxing State's national economy, on airline and airport finances, on consumers and constitutes a material obstacle to the development and expansion of international travel and trade.

## 2. GLOBAL TAXATION DEVELOPMENTS

2.1 A significant increase of unjustified and discriminatory taxes has been witnessed by the industry over the past decade. However, there have also been several examples of States recognizing the detrimental effect of new taxes and thus taking the decision to withdraw them. More specifically, both the Republic of Ireland and the Netherlands withdrew taxes (the Air Travel Tax and Air Passenger Departure Tax respectively) because studies showed that the net revenue loss (for airlines, airports and the tourist sector as a whole) outweighed the revenues generated by the taxes.

2.2 Several States have implemented air passenger taxes often portrayed as environmental levies. In reality, these so-called "green" taxes are simply blunt instruments for public revenue generation and do not deliver any environmental benefit.

2.3 Other examples of taxes singling out aviation are taxes levied only on air passengers for aid purposes, so-called 'solidarity taxes'. While for a good cause, these taxes in their current form are discriminatory and should be removed in favor of voluntary schemes.

2.4 Value Added Tax and other consumption or sales taxes levied on international air transport operations and related services are also of serious concern. Some States (essentially in Latin America and Asia Pacific) impose VAT or GST on international air tickets.

2.5 These contradict ICAO Doc 8632 principles with respect to taxes on the sale and use of international air transport and do not adhere to standard and globally accepted VAT/GST principles and best practices that incorporate zero-rating of international air transport and related services.

2.6 An increasing trend by various States is to levy taxes on income generated from international air transport and related services in contradiction to applicable bilateral agreements, whereby such income is only to be subject to taxation in the home State (place of effective management) of the airline. Such forms of multiple taxation of income from international air transport contradict not only the principles detailed in ICAO Policy Doc 8632, but also those contained in the Organization for Economic Co-operation and Development's Model Tax Convention on Income and Capital and the United Nation's Model Double Taxation Convention.

### 3. ECONOMIC AND SOCIAL EFFECTS OF TAXES

3.1 The rationale of most of these unwarranted aviation taxes is to generate additional revenues for the general budget of a country. However, evidence from some countries, as outlined above, indicates that the economic loss from the taxes on the economy as a whole outweighs the expected return from the tax. Overall, taxes on air transport discourage travel, reduce consumer benefit, hamper connectivity, and can retard economic development.

3.2 The extent of the decrease in air travel depends on the price sensitivity of travellers and shippers as well as the characteristics of the market. Reduced air transport in a country will result in less contribution from the sector to GDP and employment. The supply chain associated with air transport services will also be smaller as will the other activities supported by the supply chain. And fewer visitors means less money being spent by those visitors in the local economy.

3.3 Travellers and shippers may switch to other modes of transport, choose other destinations, or refrain from traveling or shipping altogether – all of which would be less desirable to consumers. With its speed, reliability and reach, there is no close alternative to air transport for many of its customers.

3.4 As reported by ACI EUROPE (in its *Position on Aviation Taxes in the EU*), in some countries the introduction of aviation tax has had a major impact on passenger traffic and diverted passengers to neighbouring countries, leading to a lower than anticipated tax return for the government.

### 4. CONCLUSION

4.1 The current proliferation of discriminatory aviation taxes and the trend of State governments to introduce unfair tax schemes or increase existing taxes to make up for budget deficits should be halted. Instead, the following provision in ICAO Doc 8632 should be considered: "... *each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate as soon as its economic conditions permit 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. **RECOMMENDATIONS**

5.1 The Assembly is invited to:

- a) urge Member States to adhere to ICAO's policies on taxation and ensure its recommendations are followed by all relevant taxing authorities within those States;
- b) enhance the awareness of ICAO's policies and guidance material and promote their implementation;
- c) urge Member States to avoid imposing any unjustified or discriminatory taxes on international aviation, and reduce or eliminate any such existing taxes, as they have a negative effect on the competitiveness of the aviation industry and impact States' national economies;
- d) encourage Member States' ministries of civil aviation or transport to update their counterparts in charge of taxation, in particular finance ministries, on the details and reasoning behind ICAO's policies on taxation;
- e) urge Member States to perform a cost benefit analysis for existing taxes beyond the scope of ICAO's Policies on Taxation to determine the net impact of aviation taxes on economic growth and social well-being as well as the impact on the industry; and
- f) encourage ICAO to collaborate with relevant industry associations to develop analysis of the impact of unfair and discriminatory taxation and to further enhance guidance to States on the impact of taxes and other levies on air transport.

— END —