



WORKING PAPER

ASSEMBLY — 40TH SESSION

ECONOMIC COMMISSION

Agenda Item 32: Economic Regulation on International Air Transport — Policy

TAXATION OF INTERNATIONAL AIR TRANSPORT

(Presented by the Airports Council International (ACI))

EXECUTIVE SUMMARY

ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632) represents an agreed and valuable guidance for States on the taxation of international air transport. ICAO makes a clear distinction between taxes and charges—the two concepts that are often unintentionally confused by non-experts or deliberately confounded for political reasons.

The proliferation of various taxes on air transport, and which goes beyond the current scope of *ICAO's Policies on Taxation* as contained in Doc 8632, is of growing concern, notably as regards its negative impact on the sustainable development of air transport.

This paper calls for attention to the existing issues of taxation in air transport and urges the aviation industry to engage with tax authorities to enhance State awareness of *ICAO's Policies on Taxation* and to identify ways to establish appropriate analyses on the cost and benefits of taxation to maximize States' economic benefits from aviation.

Action: The Assembly is invited to:

- a) reaffirm that ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632) is the only agreed standard for air transport taxation;
- b) recognize the fundamental difference between charges and taxes, and urge States to distinguish clearly the two concepts;
- c) urge States to acknowledge the significant social and economic benefits associated with air transport and risks associated with poorly designed and/or excessive taxation;
- d) urge States to recognise the importance of cost-benefit analysis (CBA) if they choose to design air transport-related taxes; and
- e) urge States to work closely with ICAO, ACI and other industry groups on issues related to air transport taxation.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objectives – <i>Economic Development of Air Transport</i> .
<i>Financial implications:</i>	N/A
<i>References:</i>	Doc 8632 - <i>ICAO's Policies on Taxation in the Field of International Air Transport</i>

¹ English, Arabic, Chinese, French, Russian, Spanish and versions are provided by ACI.

1. INTRODUCTION

1.1 Since the early 1950's, ICAO has had policies and guidance for States on the taxation of certain aspects of international air transport, namely: the taxation of aviation fuel, lubricants and other consumable technical supplies; airline income and aircraft and the sale and use of international air transport, such as on tickets, passengers and airline gross receipts.

1.2 Over the years, the ICAO Council has made a number of revisions to the policies on taxation of air transport, and in February 1999 adopted the consolidation of the previous four separate Resolutions into a single Resolution. This consolidated Resolution together with associated commentary is contained in the Third Edition of Doc 8632, *ICAO's Policies on Taxation in the Field of International Air Transport*, issued in 2000.

1.3 At its 33rd Session in 2001, the ICAO Assembly adopted Resolution A33-19, which inter alia refines the Organization's distinction between a tax and a charge and urges States to follow the Resolution of the Council as contained in Doc 8632. This Resolution was reissued under Assembly Resolution A37-20, Appendix E, unchanged.

2. CHARGES VERSUS TAXES

2.1 ICAO, for the purpose of its policy objectives, makes a distinction between a charge and a tax, in that charges are levies to defray the costs of providing facilities and services for civil aviation while taxes are levies to raise general national and local government revenues that are applied for non-aviation purposes.

2.2 While charges are designed specifically to recover costs and serve an economic purpose, taxes do not follow the same economic principle but rather increase cost of travel in an arbitrary manner. Therefore, the imposition of national or local taxes in connection with international air transport may have an adverse economic and competitive impact on international air transport operations.

2.3 Despite such clear distinction between the two concepts—taxes and charges—in widely available and easily accessible guidance material, some stakeholders continue confounding the general public. This represents a detrimental act to the global aviation community.

3. TAXES AND ECONOMIC BENEFITS OF AIR TRANSPORT

3.1 Aviation is a key driver of global economic development. Every day, 120,000 flights take off, carrying 12 million passengers and \$18.8 billion of cargo—over a third of all trade by value.

3.2 The aviation industry supports 65.5 million jobs around the world. Some of these roles are within the industry itself, at airports, for airlines, and in civil aerospace and air navigation services, while other jobs are supported by the economic activity that air travel creates.

3.3 The aviation industry supports \$2.7 trillion (3.6%) of the world's gross domestic product (GDP). If aviation were a country, it would rank 20th in size by GDP. That equates to the GDP of Switzerland or Argentina.

3.4 Air transport is already a significant taxpayer to local, provincial and national authorities around the world via passenger duties, domestic value-added tax (VAT), customs or immigration and other miscellaneous levies. In fact, air transport pays both user charges (to defray the actual costs of providing services and infrastructure) and taxes, contributing directly to State coffers – a substantial financial effort as compared to other modes of transport.

3.5 In the road and rail sectors, for example, user charges are not applied as such except in the case of some highways that apply a toll charge to road users. In the road sector, governments levy taxes such as fuel taxes, which in turn balance state investments in road networks. In the rail sector, governments levy taxes such as VAT, that are included in the rail ticket price. However, total revenues collected in this way are in most instances not enough to fully cover the rail sector's infrastructure costs, which is why most States heavily subsidize this sector. In contrast, aviation pays for all its infrastructure costs, and more, through taxes and user charges—making a net contribution to public funds in most developed States.

3.6 Several studies have demonstrated that the actual negative impact of the air transport-related tax on the national economy, outweighs the benefits from the revenue raised and may even result in reduced overall income from taxation due to consequential reductions in expenditure from fewer travellers and shippers.

3.7 High tax burden limits the potential economic benefits of air transport. Many governments across the globe view air transport as a luxury for the wealthy, despite a radical decrease in the real cost of air travel over the last decades. Taxation discourages demand for air transport, which in turn limits connectivity. The high tax burdens in some countries prevent them to fully unlock the economic benefits that air transport can bring in today's globalized society.

3.8 A thorough, methodologically robust and data-driven cost-benefit analysis (CBA) of taxation should be pursued by States when contemplating a new air transport-related tax or a tax increase.

4. COST-BENEFIT ANALYSIS TO TAXATION

4.1 In simple economic terms, taxation refers to a transfer of wealth from individuals and businesses to the government or a nation and is assumed to maximize economic welfare in terms of providing public goods including infrastructure and reducing inequality. However, taxation is often associated with economic distortion—the most apparent and immediate side-effect.

4.2 Cost-benefit analysis (CBA) is a systematic approach to estimating the strengths and weaknesses of alternative actions used to determine options which provide the highest benefits. A CBA may be used to assess a potential course of action or to estimate the value against the cost of a decision or policy.

4.3 The main cost associated with taxation can be seen in terms of a reduced economic impact of aviation through an artificially inhibited demand. Direct, indirect, induced and catalytic impacts of aviation should be considered. These encompass operation of airlines and airports with the entire range of other ancillary technical activities as well as commercial activities; provision of supplies; income generated by employees working in the aviation sector and expenditure it propels; investment decisions, tourism and trade, and productivity.

4.4 The combination of direct, indirect, induced and catalytic economic impacts of the air transport value chain should be evaluated vis-à-vis potential benefits produced by new or increased taxation in the ex-ante framework. Similarly, it should be possible to assess the foregone direct, indirect, induced and catalytic economic impacts associated with a current level of the existing taxation burden in the ex-post approach. Elasticity of demand with respect to taxation should be evaluated on a case-by-case basis.

5. CONCLUSION

5.1 *ICAO's Policies on Taxation in the Field of International Air Transport* (Doc 8632) represents an agreed and valuable guidance for States on the taxation of international air transport. However, various taxes imposed on air transport are often in contradiction to the ICAO policies on taxation as contained in Doc 8632. According to the industry, such taxes are counterproductive, since in many cases, the revenue raised is far outweighed by the economic benefits that are relinquished as a result of reduced passenger demand for air travel and air cargo shipments.

5.2 Additionally, the airport industry is particularly concerned by intentional confounding of taxes and user charges. While the latter are designed specifically to recover costs and serve an economic purpose, the former do not follow the same economic principle but rather increase cost of travel in an arbitrary manner and may pose a risk on the development of air transport and the associated economic benefits.

5.3 This paper calls for attention to the existing issues of taxation in air transport and urges ICAO with the appropriate support of the aviation industry to engage more in the dialogue with taxation authorities to enhance State awareness of ICAO's *Policies on Taxation in the Field of International Air Transport* (Doc 8632) and to identify ways to run appropriate analyses on the cost and benefits of taxation to maximize States' economic benefits of aviation.

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