



International Civil Aviation Organization

WORKING PAPER

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ECONOMIC COMMISSION

Agenda Item 26: Economic Development of Air Transport

RECENT CHALLENGES TO ICAO POLICIES ON THE IMPOSITION OF TAXES ON THE INCOME OF INTERNATIONAL AIR TRANSPORT ENTERPRISES AND ON THE USE OF INTERNATIONAL AIR TRANSPORT SERVICES

(Presented by the International Air Transport Association (IATA))

EXECUTIVE SUMMARY

The United Nations (UN) Economic and Social Council recently endorsed significant changes to *Article 8 of the United Nations Model Double Taxation Convention between Developed and Developing Countries* (the UN Model Convention) impacting taxation of the income of air transport. Separately, we observe an increasing and persistent policy fragmentation across States regarding taxation of the use of international air transport. Of particular concern are coordinated or multilateral initiatives which undermine the International Civil Aviation Organization's (ICAO) primacy and leadership in policies pertaining to international aviation and compromise the integrity of global efforts under the Convention on International Civil Aviation (Chicago Convention) and ICAO Assembly Resolutions.

Action: The Assembly is invited to:

- note the revision to Article 8 of the UN Model Convention;
- encourage States to coordinate with their relevant taxation or finance authorities regarding compliance with the *Assembly Resolution A41-27, Appendix B – Taxation*.
- urge States to implement *ICAO's Policies on Taxation in the Field of International Air Transport* (Doc 8632) within their jurisdictions and to invite all appropriate national authorities to comply with such to avoid double or discriminatory taxation on air transport; and
- urge States to abide by Assembly Resolution A41-22 specifying the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) as the only global market-based measure for international aviation CO₂ emissions and call for States and other UN agencies to refrain from introducing national/regional/international policy fragmentation.

<i>Strategic Goals:</i>	This working paper relates to the Strategic Goal: <i>The Economic Development of Air Transport Assures the Delivery of Economic Prosperity and Societal Well-Being for All</i>
<i>Financial implications:</i>	<i>Negligible</i>

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

<i>References:</i>	<i>Doc 8632, ICAO's Policies on Taxation in the Field of International Air Transport. ICAO Assembly Resolutions A41-21, A41-22 and A41-27. UN Model Double Taxation Convention between Developed and Developing Countries. Reports of the Committee of Experts on International Cooperation in Tax Matters on its twenty-ninth session, in October 2024, and its thirtieth session, in March 2025.</i>
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1. DEVELOPMENTS IN RELATION TO TAXES ON THE INCOME OF INTERNATIONAL AIR TRANSPORT ENTERPRISES

1.1 On 10 June 2025, the United Nations (UN) Economic and Social Council (ECOSOC) endorsed amendments to Article 8 of the *UN Model Double Taxation Convention Between Developed and Developing Countries*, as approved by a subsidiary expert body (membership in personal capacity), the Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee) in October 2024 and March 2025.

1.2 These developments disregard and directly contradict the International Civil Aviation Organization's (ICAO) policies on taxation, increase the risk of double taxation of airline income, and create challenges to bilateral Air Services Agreements (ASAs).

1.3 The amendments to Article 8 introduce a source-based taxation preferred model (Alternative A) which shifts from the exclusive residence-State taxation historically applied to income from international air transport in the UN Model Convention (Alternative B). The Appendix details the new Article 8.

1.4 *ICAO's Policies on Taxation in the Field of International Air Transport* (Doc 8632) recommend exclusive residence State taxation (where an airline profit is taxed only in the State of effective management of the airline). The ICAO approach is designed to avoid multiple taxation of the income of air transport enterprises, based upon the principle of reciprocity. In addition, the 41st Session of the ICAO Assembly, as outlined in Assembly Resolution A41-27, urged Member States to follow ICAO's Policies and to avoid double taxation in the field of air transport. The amendments to Article 8 will generate situations of multiple taxation, a concern explicitly acknowledged by the UN Tax Committee.

1.5 The UN Tax Committee also acknowledge, but disregard, the impact on airline financial sustainability; "*airlines historically have had modest profits and operating an airline involves large expenses, such that taxation on a gross basis, with no recognition of expenses, may result in over-taxation*".

1.6 Furthermore, bilateral ASAs negotiated under the expectation of residence-based taxation may require renegotiation, creating uncertainty that becomes a barrier to investment and route development. The ASAs set specific conditions that allow airlines of the bilateral partners (States) to reap economic and social benefits. Any changes to these conditions could also potentially jeopardize the operation of valued air services between the respective countries.

1.7 Such a disruption extends beyond taxation to affect the broader bilateral aviation relationship, as tax provisions are often integral to the overall balance of negotiated benefits. The incorporation of tax provisions in ASAs is deliberate, designed to create a predictable operational and fiscal environment for air carriers. These reciprocal tax exemptions are not incidental but are fundamental to the balance of benefits negotiated between States. It is crucial to approach potential challenges to these

agreements with caution, recognizing their status as international treaties and the complex web of rights and obligations they create.

2. DEVELOPMENTS IN RELATION TO TAXES ON THE USE OF INTERNATIONAL AIR TRANSPORT SERVICES

2.1 The ICAO 41st Assembly, again with reference to Doc 8632, urged Member States to follow ICAO's Policies on taxation "and to avoid imposing discriminatory taxes on international aviation."² The Assembly also established the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) as the "only global market-based measure [MBM] applying to CO₂ emissions from international aviation so as to avoid a possible patchwork of duplicative State or regional MBMs, thus ensuring that international aviation CO₂ emissions should be accounted for only once."³

2.2 The International Air Transport Association (IATA) observes increasing and persistent policy fragmentation among governments, particularly in Europe and Africa. A rising number of countries impose or consider taxes on the use of air transport to address environmental concerns. However, such taxes do not reduce emissions directly, and it is often uncertain whether the funds collected are allocated to pay for measures that do. In this way, such taxes are generally inefficient and inequitable in nature and come with adverse economic and social consequences. They impact affordability, connectivity, employment, and business activity, including tourism, all of which are the most detrimental to developing economies. Often unaccompanied by thorough financial and environmental cost-benefit analysis, the harm caused by these taxes can exceed any gains, potentially leading to a *decrease* in overall tax revenues, and no certifiable CO₂ emissions reductions.

2.3 These fragmented policy initiatives diverge from existing regulations and severely weaken the globally harmonized ICAO framework. Of particular concern are coordinated or multilateral initiatives that disregard ICAO's primacy and leadership regarding policies for the international aviation sector, and that compromise the integrity of global efforts under the *Convention on International Civil Aviation* (Chicago Convention) and ICAO Assembly Resolutions.

2.4 While the sovereign right of governments to impose taxes is recognized, such fragmentation severely undermines efforts to address emissions from international aviation and threatens the global international air traffic system. Countries implementing such taxes are also ICAO Member States and were instrumental in developing and establishing CORSIA. The unified implementation of CORSIA by all Member States without regional or national derogations, is vital to uphold its exclusivity to address international air transport CO₂ emissions. For aircraft operators, policy fragmentation imperils the global network, adds administrative and financial burdens, diverts crucial funds away from proven decarbonization solutions, such as the purchase of sustainable aviation fuel and carbon offsetting credits, and risks double charging the same tonne of CO₂ emissions.

2.5 In line with the authority vested in ICAO by its Member States as the sole legitimate forum for developing and globally harmonizing policies that support international civil aviation, it is vital that other UN agencies, Member States' relevant finance authorities, along with any other relevant body seeking to engage in this arena, respect the deliberations and decisions of the States taken under the auspices of ICAO.

² ICAO Assembly [Resolution A41-27](#)

³ ICAO Assembly [Resolution A41-22](#)

3. CONCLUSION AND CALL TO ACTION BY STATES

3.1 We respectfully draw the Assembly’s attention to these recent developments and critical issues in the imposition of taxes of the income of international air transport enterprises and of the use of international air transport services.

3.2 ICAO’s policies on taxation represent more than just technical guidance—they constitute essential development infrastructure. Like international postal agreements or telecommunications protocols, these frameworks enable global systems that create value far exceeding their individual components. States that abandon this consensus risk fragmenting a system that has proven remarkably effective at connecting their economies to global opportunities.

3.3 Aviation’s greatest value lies not in direct revenue generation but in its multiplier effect on economic development. Each new route creates business opportunities, facilitates knowledge transfer, and integrates markets, increasing the productivity of every industry that uses its services. The Chicago Convention’s vision of overseeing and developing air transport “soundly and economically” has enabled aviation to become one of the most effective catalysts of global economic development and integration, generating far more value through facilitated trade, tourism, and investment than taxes could ever yield.

3.4 The continued viability of this global system depends fundamentally on consistent and predictable regulatory and fiscal frameworks. Recognizing these interconnected challenges, we urge States to take actions as outlined in the Executive Summary.

APPENDIX

**REVISED ARTICLE 8 IN UNITED NATIONS MODEL DOUBLE TAXATION CONVENTION
BETWEEN DEVELOPED AND DEVELOPING COUNTRIES**

Article 8

International Shipping and Air Transport

Article 8 (Alternative A)

1. Income arising in a Contracting State from the operation by a resident of the other Contracting State of ships or aircraft in international traffic may be taxed in that other State.
2. However, income from the operation of ships or aircraft in international traffic arising in a Contracting State may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the income is a resident of the other Contracting State, the tax so charged in the State in which the income arises shall not exceed:
 - (a) if the taxation law of that State imposes tax on such income on a net basis, 50 per cent of the tax that would be imposed by that State on that income in the absence of this Convention, or
 - (b) ___ per cent [the percentage is to be established through bilateral negotiations] of the gross amount of the payments underlying such income,whichever is lower.
3. For the purposes of this Article, “income from the operation of ships or aircraft in international traffic” means the total gross amount received in consideration for the carriage of passengers, mail, livestock or goods in international traffic.
4. For the purposes of this Article, income from the operation of ships or aircraft in international traffic shall be deemed to arise in a Contracting State if that income is received for the carriage of passengers, livestock, mail or goods, where such carriage:
 - (a) starts from a location in that Contracting State and ends at a location outside that Contracting State; or
 - (b) ends at a location in that Contracting State and starts from a location outside that State.
5. The provisions of paragraphs 1 and 2 shall also apply to income from the participation in a pool, a joint business or an international operating agency engaged in the operation of ships or aircraft.

Article 8 (Alternative B)

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.
2. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

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