



# Impact of taxes and charges on air transport development

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— to represent, lead and serve the airline industry

# Government taxes on air transport

Some **650** different statutory taxes levied on tickets worldwide, of which:

- ä All Americas = 90 taxes (14%)
- ä Central/South America = 47 taxes
- ä Caribbean = 34 taxes
- ä North America = 9 taxes [of which 4 are purely domestic so not of concern
- ä In average, taxes are roughly 6% of the ticket price for LATAM/Caribbean

# Tax concerns in LATAM

- ä Tourism taxes: Taxes to promote tourism
  - ä Passenger Departure/Arrival Taxes
  - ä Value Added Taxes (IVA)
  - ä Sales Taxes
  - ä Transportation Taxes
- } on international tickets

Also:

- ä Passenger departure taxes (paid cash at check-in)
- ä New developments: e.g. Retention Income Tax in Argentina



# Tourism Taxes in LATAM

- ä Costa Rica Tourism Arrival Tax: USD 15 / pax
- ä Ecuador Tourism Fee: USD 5 / pax
- ä El Salvador Tourism Contribution Tax: USD 7 / pax
- ä Guatemala Departure Tourism Tax: USD 30 / pax
- ä Peru Tourism Arrival Tax: USD 15 / pax
- ä Mexico Tourism Tax: USD 23 (equiv. MXN 306) / pax
- ä Nicaragua Tourism Arrival Tax (sales outside): USD 5
- ä Nicaragua Tourism Departure Fee: USD 3 / pax
- ä Jamaica Tourism Enhancement Fee: USD 20 / pax

...



# VAT/sales tax on international tickets

- ä **Antigua & Barbuda:** Ticket tax of **10%** on all intl tickets originating in A&B
- ä **Argentina:** Ticket Tax of **5%** on all intl tickets sold in AR (or sold outside if for AR citizens or residents) for travel originating in AR
- ä **Barbados** VAT on international tickets: **17.5%** of ticket value for travel commencing in Barbados
- ä **Bolivia** Sales Tax: **14.94%** on intl tickets for travel originating Bolivia regardless of place of sale
- ä **Colombia** IVA: **16%** on value of oneway tickets, **8%** on value of return tickets for intl travel
- ä **Costa Rica:** **5%** Transportation Sales tax for sales made outside Costa Rica, for travel commencing in Costa Rica + also **5%** Transportation Sales tax for sales in Costa Rica. To support Costa Rican *Tourism* Institute.
- ä **Dominica:** **7.5%** transportation tax on intl tickets paid or issued in Dominica
- ä **Dominican Republic:** **18%** of ticket price for intl tickets issued in the republic
- ä **Ecuador:** **12%** Government Transportation tax for tickets originating EC
- ä **El Salvador:** **13%** VAT of intl ticket value sold anywhere with travel originating in El Salvador.
- ä **Guatemala:** **12%** VAT of intl ticket value issued in Guatemala with travel originating in Guatemala.
- ä **Guyana:** **15%** Government Sales tax for intl travel from Guyana regardless of place of sale.
- ...

# Taxation Policy

## ä Chicago Convention

- ä Art 15 – no taxes, charges to enter/exit/overfly a territory
- ä Art 24 – jet fuel used for international air transport

## ä ICAO Doc. 8632

- ä Taxation of fuel, lubricants and other consumable technical supplies for use in international traffic
- ä Taxation of income and aircraft of international airlines
- ä Taxes related to the sale and use of international air transport



# Taxation on Jet fuel

- ä In contravention with international air service agreements, Chicago Convention and ICAO Doc 8632
  - ä Bahamas Charge 7% Import duty on Jet fuel
  - ä Dom Rep charges ITBS 6,5% on Jet Fuel
  - ä Canada (Ontario only) applies PFT 3,7 CAD cents per liter
  - ä Ecuador charges 5% DGAC tax on Jet fuel
  - ä Domestic VAT is very high on domestic Jet fuel in countries such as Brazil, Chile, Argentina and others

# Taxation Policy – cont.

## Corporate Income Tax

### ä Double Taxation Treaties

- ä Art 8 – provides that profits from the operation of aircraft in international traffic shall be taxable only in the State in which the place of effective management of the enterprise is situated
- ä IATA Guidelines for Taxation of International Airline Profits

### ä Bilateral Air Service Agreements (ASAs)

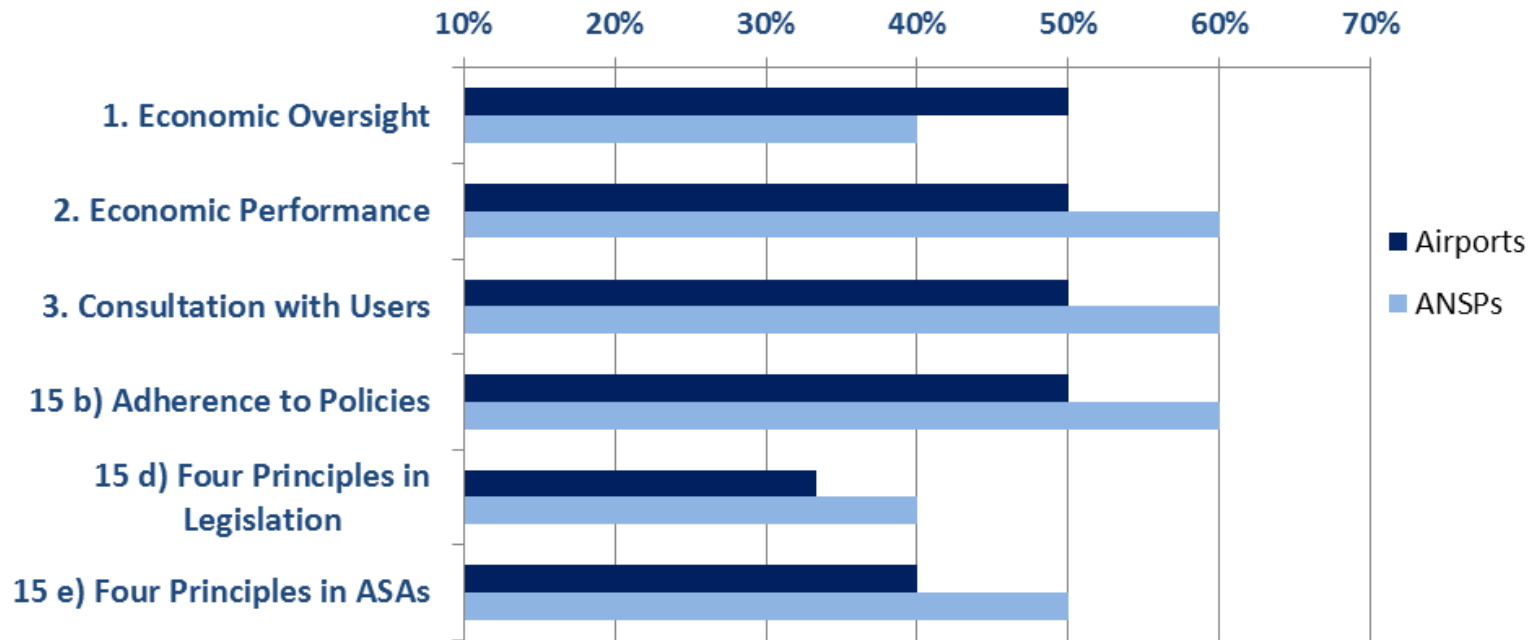
- ä E.g. between US – EU (Art 11 on Customs Duties and Charges)



# Implementation of ICAO policies in NACC

**Table 6. Implementation of CEANS recommendations**

**NACC**

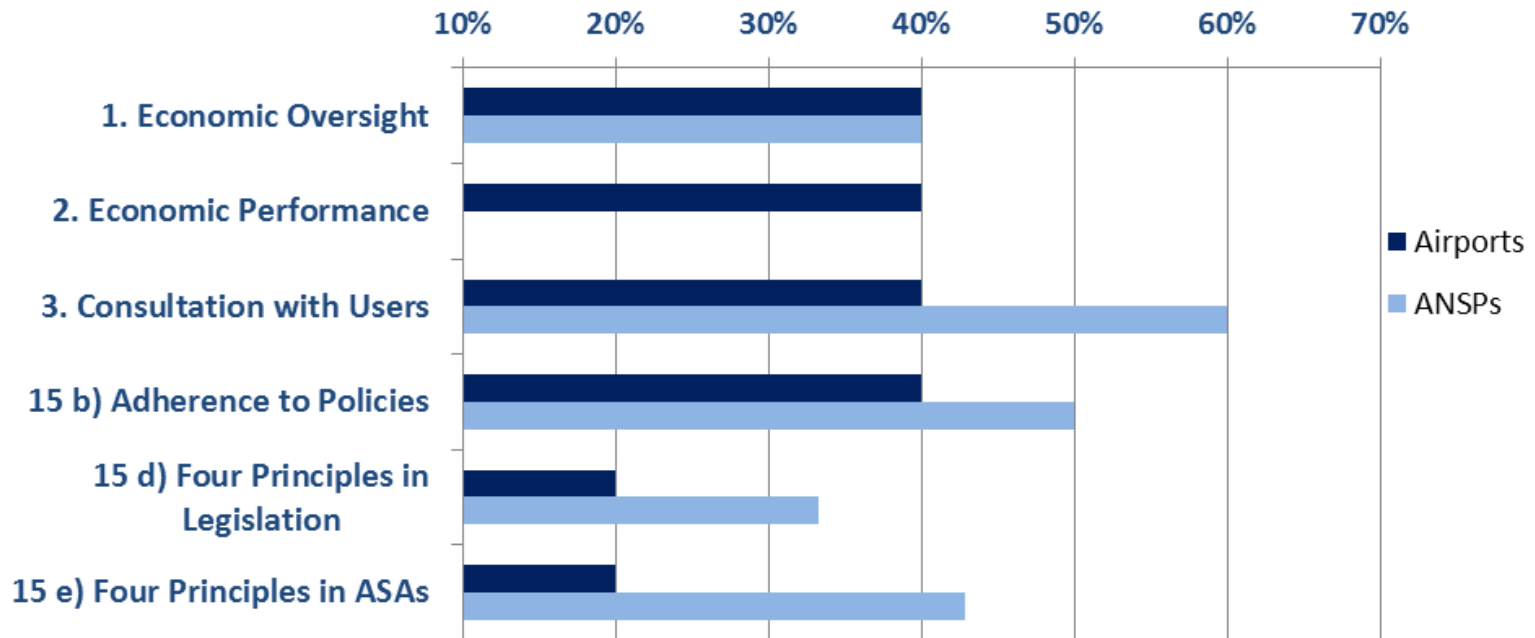


Source: ICAO. 2013. Implementation by States of the Recommendations of the Conference on the Economics of Airports and Air Navigation Services. ATConf/6-WP/9. <http://www.icao.int/Meetings/atconf6/Pages/WorkingPapers.aspx>

# Implementation of ICAO policies in SAM

**Table 7. Implementation of CEANS recommendations**

**SAM**



Source: ICAO. 2013. Implementation by States of the Recommendations of the Conference on the Economics of Airports and Air Navigation Services. ATConf/6-WP/9. <http://www.icao.int/Meetings/atconf6/Pages/WorkingPapers.aspx>

# Specific concerns: Privatization & Concessions

- ä Airport investments are must needed however some concessions went in the wrong way
  - ä Governments are the regulators and the shareholders - Brazil
  - ä Huge concession fees such as in Colombia, Brazil, Ecuador etc.
  - ä Governments control the tariffs and receive a big share 9Peru, 46%, Colombia 47%, Brazil 35,8%
  
- ä IATA position
  - ä Delivering the cost and service levels that airlines require is more important than airport's ownership structure.
  - ä Privatization is not a short-term revenue raising option for governments. It must be part of a long-term vision for economic development.
  - ä IATA supports the removal of concession fees and airport rent

# Summary

- ä Aviation is key to economic growth
- ä Air Transport is not an end product but an input to other economic activities – taxing air transport creates adverse distortions that are larger than those of tax policies
- ä Lowering the cost of air transport supports the development of aviation
- ä ICAO's policies are designed with the intention to foster an efficient level of costs and protect airlines
- ä Many of such policies have not yet been fully implemented in the Americas, resulting in significant costs to airlines and the wider economy
- ä All stakeholders should work together towards resolving such issues



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