



3 More London
Riverside
London SE1 2RE
TEL 0203 859 9371
WEB www.aef.org.uk

Aviation Environment Federation (AEF) submission on taxation measures for HMT consultation September 2024

Dear HMT,

Aviation is an under-taxed sector, paying no duty on its fuel and no VAT on tickets. This is only partially offset by the revenue raised from Air Passenger Duty (APD). We are pleased to have an opportunity to send you the attached short table presenting our recommendations for possible avenues for taxing aviation in advance of the upcoming Autumn budget.

In the short-term, we believe that increasing APD is a straightforward and effective tax mechanism, with a view to further adjusting the rates of APD to reflect the disproportionate climate impact of private jets, first class and business class flights.

There are other legally-feasible options open to the Chancellor. Please read our full submission to see details of these options, including a kerosene tax, VAT on tickets, and specific non-CO2 charges. Of course it is possible to consider introducing all of these measures together.

Justification: It remains the case that aviation is significantly undertaxed compared to other modes of transport. While motorists pay tax every time they fill their cars with fuel, no tax is levied on airline fuel. If aviation fuel was taxed at the same rate as petrol, it would raise in excess of £12 billion for the Exchequer. The only tax applied to the industry is APD, which is still levied at a lower rate than fuel tax, raising just £3.845 billion in 2023/24. This seems to be a difficult anomaly to explain or justify.

MEASURE	HOW DOES IT WORK?	FEASIBILITY & IMPACT
INCREASE APD	<p>Update APD rates for a general increase, or increase the duty for the specific bands for private jet and premium (standard) passengers – currently the rate is too low to compensate for the negative externalities</p> <p>Could increase on routes where there is a viable train alternative (domestic)</p>	<p>Socially just, polluter pays principle</p> <p>Doesn't require any new mechanisms/legislation to be established.</p>
KEROSENE TAX	<p>Treasury applies tax to every litre of kerosene uplifted at UK airports or it could be applied to segments ie. private jets</p> <p>Despite common misunderstanding that kerosene cannot be taxed, it's legally possible to apply a fuel duty to all EEA destinations today under the post-Brexit ASA, and to pursue bi-lateral agreements through ASAs with states such as the US. ICAO's Chicago Convention only prohibits taxing fuel already on board an aircraft.</p>	<p>Previous HMT estimates in response to Parliamentary Questions have estimated that £12-13bn per annum¹ could be raised if kerosene was taxed at the same rate as motorists, and VAT was added. This is a serious anomaly when APD only accounts for approx £4.2bn - Aviation is not paying its way.</p> <p>It would embed the polluter pays principle – only option listed here which will be <i>paid directly by the industry</i></p>
ADD VAT TO AIRLINE TICKETS	<p>Simple to implement – no new legislation needed as zero-rated VAT schedule already exists</p> <p>Could increase on routes where there is a viable train alternative</p>	<p>No good reason for not applying VAT to tickets, especially when most forms of domestic tourism pay VAT – this is an easy way to raise significant revenue</p> <ul style="list-style-type: none"> - 80+% of trips by air are for discretionary leisure travel. - Business travel by air is in long-term decline².
FREQUENT FLYER LEVY OR AIR MILES LEVY	<p>Tax added at the point of sale for outbound flights, either through a central registry of flights booked or through an individual reference number</p>	<p>It's a progressive tax as it targets frequent flyers who tend to have the highest incomes</p>

¹ <https://www.aef.org.uk/air-passenger-duty/>

²

<https://neweconomics.org/2024/05/demand-for-business-flights-falls-almost-a-third-as-economy-moves-away-from-corporate-air-travel#:~:text=Research%20published%20by%20NEF%20last,what%20it%20was%20in%202013.>

	<p>issued to customers. For every additional flight per year, the tax increases.</p> <p>The tax applies either to the number of flights per year, or the cumulative distance “air miles” travelled p/pax.</p>	<p>Polluter pays principle - Inequitable share of aviation emissions in the carbon budget (15% of people cause 70% of emissions)</p> <p>Evidence showed it was a popular suggestion during Climate Assembly³</p>
PRIVATE JET TAX	<p>Create a new tax (but could be administered through APD or VAT)</p> <p>possibly make tax exemptions for fully electric private jet flights</p>	<p>Socially just, polluter pays principle</p> <p>Evidence from Possible⁴ suggests it would be popular with voters</p>

³ <https://www.climateassembly.uk/report/read/final-report-exec-summary.pdf>

⁴

https://docs.google.com/document/d/1WdGEPGb7W5QvomzJCmtSDwG_NdvtcU3zxzpQNIZ-mHo/edit#heading=h.u6xdl3y0oc6d