

Air Passenger Duty: Business Jets

Who is likely to be affected?

Air passengers (including domestic/international business and tourists), airlines and airports.

General description of the measure

Air passenger duty (APD) will be extended to smaller aircraft and business jets (5.7 tonnes threshold), effective from 1 April 2013. Passengers aboard luxury business jet flights will pay new premium rates of APD set at double the business/first class (standard) rates of APD.

Policy objective

The extension of APD to smaller aircraft and business jets supports the Government's objective of a fairer tax system.

Background to the measure

Budget 2011 announced that APD would be extended to include business jets for the first time, and launched a consultation on APD which included a question on how best to implement the business jets change. The consultation closed on 17 June 2011.

Following the consultation, further meetings were held with the business aviation sector. The evidence presented helped refine the Government's plans, and the announcement at the Autumn Statement of 29 November 2011 sets a new start date of 1 April 2013. This revision to the start date reflects the fact that the reforms will bring a substantial number of new tax payers into the APD regime and the need to design a scheme to minimise administration and compliance burdens.

The majority of passengers flying aboard business jets will pay APD at the same rates as passengers aboard commercial flights. To ensure the tax is fair, the Government is introducing new premium rates of APD for passengers on flights using planes with a certified authorised weight of 20 tonnes or more and fewer than 19 seats. Flights in this category, which tend to offer a luxury service, will pay APD at double the prevailing standard business/first class rates of APD.

Detailed proposal

Operative date

The changes extending APD to business jets and smaller aircraft come into effect on 1 April 2013.

Current law

Legislation setting out what aircraft are considered to be chargeable for the purposes of APD is contained in section 29 of the Finance Act 1994. Section 30 sets out the rates applicable to each destination band while section 31 sets out which passengers are considered to be exempt from APD and section 43(1) defines who is a passenger. Schedule 5A of the same Act lists the countries in each destination band.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to amend the following.

Section 29 will be amended to extend the scope of APD to business jets and smaller aircraft, by reducing the de minimis weight limit below which aircraft are not subject to APD from 10 tonnes to 5.7 tonnes. Provision will also be made to ensure that certain aircraft previously excluded from APD will remain excluded (e.g. emergency flights).

Section 30 will set out the rates to be applied from 1 April 2013 to the business jets and smaller aircraft. Additionally, it will define a combination of weight and seating capacity for business jets considered to be providing a premium service. Flights in this category tend to be luxury services which will pay APD at double the prevailing standard business/first class rates of APD. These new premium rates, effective from 1 April 2013, will be set out in section 30.

Section 43(1) will amend the definition of passenger to ensure that passengers on private jets will be brought within the scope of APD.

Legislation providing for exemptions to APD will be reviewed to ensure that certain passengers currently exempt from APD will remain exempt under this reform.

Summary of impacts

Exchequer impact (£m)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	-	-	+ 5	+ 5	+ 5	+ 5
	These figures were set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	<p>The extension of the tax base to all flights on aircraft of 5.7 tonnes or more is estimated to bring an additional 50,000 flights within the scope of APD. Between five per cent and ten per cent of these flights will be captured by the new premium tax rate (planes with a certified authorised weight over 20 tonnes and fewer than 19 seats).</p> <p>The extension of APD to business jet flights is not expected to have a significant effect on overall demand, given that generally APD will account for only a small fraction of the final price of hiring a business jet.</p> <p>The broader macroeconomic effects of the policy are expected to be negligible.</p>					
Impact on individuals and households	We estimate that the extension of APD to include all flights over 5.7 tonnes will bring around 50,000 additional flights within the scope of APD. Consultation with the industry revealed that, on average, business jet flights carry around three passengers per flight. It is expected that the majority of these passengers are relatively high-income individuals travelling on business.					
Equalities impacts	The majority of business jet passengers are male. No other equalities impacts are expected.					
Impact on business including civil society organisations	Based on consultation with the industry, we estimate around 1,500 business jet operators fly into the UK each year. In recognition of the concerns expressed by stakeholders about administration and compliance burdens, the Government intends to operate a new 'special scheme' which will allow operators who elect into the scheme to estimate their average					

	<p>passenger numbers for the purposes of APD. This should help to substantially lower administration and compliance costs for the industry.</p> <p>By adopting the new APD special scheme, we estimate the total one-off compliance costs for the business aviation sector will be around £1.5 million to £2 million. This includes the time taken for taxpayers to familiarise themselves with the tax regime, update their systems, and carry out a robust sample of passengers numbers over a specified period in cases where taxpayers elect for the new special scheme. This estimate also accounts for the fact that operators will need to be able to estimate how many of their flights will be classified as reduced rate and standard rate, and how many will be liable to pay the new premium rate of APD.</p> <p>Operators will also incur ongoing administration costs from filling in returns, record keeping, regular passengers sampling (in order to keep their estimates up-to-date). Owing to the much lower numbers of passengers involved, business jet operators will only be expected to submit APD returns on an annual basis. Overall, it is expected that the resulting recurring administrative burden placed on the industry from the policy will be around £0.5 million per year.</p>		
	Cost	Time Period (yrs)	
	Compliance Costs		
	One-off Costs	£1.5m - £2m	1
	Average Annual Costs	£0.5m	5
	Total Costs (PV)	£3.8 - £4.3m	
	Compliance Benefits		
	One-off Benefit		
	Average Annual Benefit		
	Total Benefit (PV)		
	Net Benefit (NPV)		
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£0.5m		£0.5m
Impact on public sector	<p>HMRC will incur a one-off cost in the region of £400,000 to bring in the new tax regime for business jets.</p> <p>HMRC will also need to administer and enforce the tax on an ongoing basis, incurring an initial administrative cost of around £250,000 and continuing administrative costs of around £450,000 per year.</p>		
Other impacts	<p><u>Carbon assessment:</u> The policy is expected to have a negligible impact on carbon emissions, and as aviation enters the EU Emissions Trading Scheme from January 2012 any increase will be offset by emission reductions in other covered sectors.</p>		

Monitoring and evaluation

HMRC will monitor receipts and information collected on tax returns, as well as the wider impact of the policy.

Further advice

If you have any questions about this change, please contact Pardip Bans on 020 7270 6178 (email: pardip.bans@hmtreasury.gsi.gov.uk).

