



Aviation tax vindicated

Almost every national newspaper and all the national environmental organisations have pointed out that aviation benefits from huge tax concessions. To attempt to refute that case, BAA have recently published a report by Volterra Consulting.⁽¹⁾

In his covering letter, BAA Chief Executive Mike Clasper, claims that “aviation is the only mode of transport making a significant contribution to public funds.” Not so: road transport contributes £38 billion a year (after paying for road building and road maintenance) whereas aviation pays only £0.85 billion.

The report is equally off track. It does not address the key question of whether air travel should be taxed at a similar rate to car travel, and merely describes aviation as ‘public transport’ which should be taxed at a low rate. No attempt is made to justify that claim.

Public Transport?

There is nothing magic about ‘public transport’. Planes are not publicly owned, and nor are buses or trains. Airlines do not provide cheap fares for the elderly or provide an essential service for the needy. It is true that aviation does provide a service for the public - but so do all service industries, from hotels to hairdressers, from taxis to telephones. Unlike aviation, they all pay VAT. Car travel could equally be called ‘public transport’ as it is the method of transport used by the majority of the public - and everything to do with car travel pays VAT.

The Volterra Report shows that trains and buses receive substantial subsidies and pay low rates of tax. That has never been in doubt. The crucial question is whether aircraft should be treated like trains and buses, or like cars. Most authoritative commentators and environmental groups⁽²⁾ have argued that, in terms of the level of pollution, aircraft are more akin to cars than to trains or buses.

There are special reasons which account for the low tax on trains and buses. They have been seen as a means of travel to work whereas 80% of air trips are for leisure. Trains and buses help to relieve traffic congestion in towns. These reasons do not apply to air travel, indeed low tax on aviation merely increases congestion in the sky.

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The reasons for taxing air travel

There are two reasons for taxing air travel like car travel. The first is that aviation should pay tax to cover the damage it does to the environment. Aviation and road transport have roughly the same impact on climate change. (Road vehicles account for four times the level of carbon emissions but aircraft emissions at high altitude are about three times more damaging ⁽³⁾, and are growing at a faster rate than those of any other industry). Yet road transport contributes over 40 times as much in taxation.

The Government agrees that aviation should cover its external costs. The Treasury estimate of around £1.5 billion a year is, however, far too low, mainly because it does not cover the risk of climate catastrophes such as the disappearance of the Gulf Stream. The correct figure may well be over £4 billion, rising to £15 billion in 2030 ⁽⁴⁾. This issue is dodged in the Volterra report.

The other reason why air travel should be taxed like car travel is that air travellers should, like car users, make a contribution to the cost of public services such as health, education or police. The Volterra report does not discuss this issue although it does admit that the current "contribution in taxation to the Exchequer" (which is shown to amount to 3%) "may seem a low rate of tax."⁽⁵⁾

£9 billion tax subsidy confirmed by BAA

The Volterra report, endorsed by BAA, confirms that if VAT were imposed on air tickets and if duty were imposed on aviation fuel at the same rate as on petrol for cars, and if Air Passenger Duty and Duty Free were both abolished, the additional revenue to the Exchequer would be £8.9 billion.⁽⁶⁾ This is remarkable confirmation of the figure of £9 billion tax concessions for the aviation industry which has been quoted by many environmental groups during the past year.

It may also be noted that BAA and Volterra do not dispute the three main points made by environmental groups - that putting fuel tax and VAT on air travel:

- would not mean higher fares - the tax rises would merely cancel the forecast fall;
- would not stop the growth in air travel - merely reduce the rate from 4% to 2%;
- would mean no need for any new runways in the UK.

Case for taxing aviation proved

If this weak Volterra report is the best the aviation industry can do to justify their exemption from fuel tax and from VAT, then the case for removing those exemptions must be considered proved.

References:

1. "Fiscal treatment of Public Transport" Volterra Consulting November 2003
2. AEF, CPRE, FoE, IPPR, RCEP, RSPB, T2000, Woodland Trust.
3. Intergovernmental Panel on Climate Change
4. Airport Watch response to the DfT/HM Treasury Consultation on the potential use of economic instruments for aviation, October 2003
5. Volterra report page 2.
6. Volterra report pages 12 and 18.