

Cut then scrap: The case against Air Passenger Duty

FAST FACTS

- Air Passenger Duty will be devolved to Holyrood under the Scotland Act 2016
- The SNP's manifesto promised to halve APD by the end of this Parliament and to scrap it totally when resources allow.
- Reform Scotland wishes to see APD scrapped and supports the Scottish Government's incremental approach.
- A number of business organisations have highlighted the tourism and trade benefits from cutting or scrapping APD.
- Cutting the tax would also reduce the costs of family holidays, a benefit that was highlighted by the former UK Chancellor when he scrapped APD for children.
- Ryanair credits the Irish Government's decision to scrap its air tax in 2014 as the reason behind the subsequent growth in Irish tourism.
- The Netherlands abolished its air tax in 2009, Belgium in 2008 and Denmark phased it out in 2006/7.
- Only four other EU countries operate such a tax: Germany, France, Austria and Italy.
- A study by Edinburgh Airport, backed up by the UK PwC study, showed that the loss of direct revenue from APD could be at least matched by increases in tax revenue from other sources.
- Reform Scotland calls for all Holyrood opposition parties to advocate a position driven by economic benefit.

CONTEXT

Air Passenger Duty, APD for short, is due to be devolved to the Scottish Parliament following the passing of the Scotland Act 2016.

Reform Scotland believes that the tax should be scrapped, a stance shared by the business community which believes it could help encourage economic growth.

The SNP has outlined its commitment to cutting then scrapping the tax. However, all other political parties represented in the Scottish Parliament set out their opposition to such a policy in their manifestos.

News reports ¹ suggest that the Scottish Conservatives may reverse their opposition to the initial cut in the tax. However, whilst if this happens the APD cut *could* be agreed by Parliament, there remain question marks over the commitment to a complete scrapping.

BACKGROUND

APD is an excise duty applied to all chargeable air passengers travelling from a UK airport. It came into effect in 1994. In 2014 the then UK Chancellor scrapped APD for children aged up to 12 years from March 2015, and aged up to 16 years from March 2016 (in the lowest class of travel).

The following table gives the rates of APD as of 1 April 2016², while the diagram gives an indication of the areas covered by the different Bands:

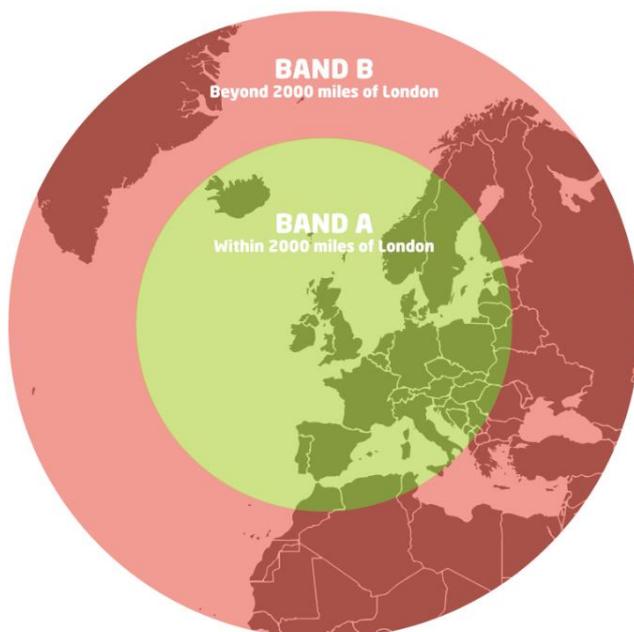
¹ <https://www.sundaypost.com/news/political-news/tories-set-drop-opposition-air-passenger-duty-cuts-wake-brex-it-vote/>

² <https://www.gov.uk/government/publications/rates-and-allowances-excise-duty-air-passenger-duty/rates-and-allowances-excise-duty-air-passenger-duty>

- Highlands & Islands: Passengers carried on flights departing from airports in the Highlands and Islands region are not chargeable passengers and are exempt from the tax.
- Northern Ireland: The power to set APD rates on direct long-haul flights (Band B) departing from airports in Northern Ireland was devolved to the Northern Ireland Assembly in 2013, the Assembly has set these rates at nil.

Destination Bands and distance from London (miles)	Reduced rate: (for travel in the lowest class of travel available on the aircraft)	Standard rate: (for travel in any other class of travel)	Higher rate: (for travel in aircraft of 20 tonnes or more equipped to carry fewer than 19 passengers)
Band A (0 to 2,000 miles)	£13	£26	£78
Band B (over 2,000 miles)	£73	£146	£438

Source: UK Government



Source: adaptabletravel.co.uk

There are a couple of location exemptions to the tax:

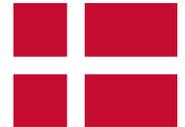
WHAT THE 2016 HOLYROOD MANIFESTOS SAID:

Party	Policy	Extract
	Halve then scrap	<i>"Air Passenger Duty (APD) is one of the most expensive taxes of its kind in the world and hampers Scotland's ability to secure new direct international routes and maintain existing ones. Indeed, the level of taxation on the tourism sector, taking account of both VAT and APD, is amongst the highest in the world. This relatively high burden of taxation restricts the potential of the sector to grow to attract many more visitors to Scotland. When the power to do so is devolved, we will reduce the overall burden of APD by 50 per cent, with the reduction beginning in April 2018 and delivered in full by the end of the next Parliament. Air Passenger Duty will be abolished entirely when resources allow."</i>
	Keep	<i>"We will not support the Scottish Government's proposed 50% cut in APD. Presently, there is a lack of independent evidence that would support the government's assertions that APD at current levels inhibits personal and business travel. We do believe reform should be pursued, however, with a change into a more progressive tax that is destination-linked to travel within particular geographic blocks. This would mean differing APD rates for flights within the UK, EU, EEA and others beyond, with broadly increasing rates by distance."</i>

	Keep	<i>"It is the wrong priority to be halving and then abolishing Air Passenger Duty (APD) at a time when our public services are being cut so deeply. This is socially unjust and environmentally reckless. It would cut hundreds of millions every year from the Scottish Government's budget."</i>
	Keep	<i>"APD is worth £250m to the Scottish budget but despite the pressures of austerity current Scottish Government proposals are to cut this tax by half when it is devolved in April 2018. This will damage public services and increase climate emissions. Green MSPs will fight Scottish Government austerity and campaign to retain APD."</i>
	Keep	<i>"Retain Air Passenger Duty, with the present lifeline exemptions, given the climate change risks of unlimited expansion in aviation."</i>



Belgium abolished its air travel tax in 2008.



Denmark phased out its air passenger tax in 2006/7.

Only four other EU countries have an airport passenger charge – Germany, France, Austria and Italy.⁴ Norway is reportedly planning on introducing an aviation tax from summer 2016.⁵

OTHER COUNTRIES:



Band B APD was devolved to Northern Ireland in 2013 and scrapped.

The Republic of Ireland abolished its Air Travel Tax in 2014. There was growth in passenger numbers of 3.3m to 29.8m in 2015 following the change. Ryanair has claimed that it is responsible for 70% of this growth by adding more routes and flights following the change in policy.



The Netherlands abolished their air passenger ticket tax in 2009.³



SUPPORTERS OF A CUT:

Edinburgh Airport undertook an outline assessment of the potential impact on passenger numbers at Scotland's airports and corresponding economic impact of a 50% reduction in Air Passenger Duty.⁶ The report builds on the PwC report, 'The Economic Impact of Air Passenger Duty'. The key findings of Edinburgh Airport's report include:

- The reduction in APD would result in around 0.7 million additional passengers passing through Scotland's airports.
- There is an effect across all APD bands but the largest impacts in volume terms

³ <http://www.bata.uk.com/06/scrap-flight-tax-and-watch-economy-take-off-suggests-new-analysis/>

⁴ <http://www.renfrewshirechamber.com/scottish-chambers-network-consultation-air-passenger-duty/>

⁵ http://www.travelmole.com//news_feature.php?c=setreg®ion=2&m_id=_r_rn_rT_r&w_id=31986&news_id=2022295

⁶ Edinburgh Airport, The impact of reducing APD on Scotland's airports, March 2015

would be on domestic and short haul traffic.

- All the main Scottish airports would receive a boost from the reduction in APD.
- The direct, indirect and induced impact of reducing APD in Scotland by 50% would initially support around **800 new jobs and £33 million in Gross Value Added (GVA)**. Over time as the number of additional passengers grows this would increase to around **1,100 jobs and £51 million in GVA**.
- The impact on tourism expenditure could be between £56 million and £68 million a year, resulting in between **1,200 and 1,500 additional jobs and £47 million and £58 million in GVA**.
- The estimates of the wider business impacts suggest that long term productivity benefits may support between **£81 million and £90 million per annum in GVA**.
- Reducing APD rates would result in around £110 million per annum in tax revenue being lost in 2015. Over the period to 2020⁷, we estimate the discounted value of lost APD to be around £650 million. When set against total GVA, this suggests a **benefit cost ratio for reducing APD by 50% of around 1.6**.

The Scottish Chambers of Commerce has described APD as a “*tax on growth and international connectivity, holding back economic progress*”⁸. It believes reducing the

tax will help businesses grow and generate wealth.

The British Air Transport Association (Bata)’s chief executive, Nathan Stower, described the SNP’s commitment as “*good news for Scottish businesses, families and visitors*” and that “*Halving the UK’s current rates would bring Scotland broadly in line with Germany’s aviation tax*”⁹

As well as the broader economic benefits, cutting the tax also helps cut the price of air travel for Scots. For example, a couple flying to America could save nearly £300 if the tax was scrapped.

POLICY RECOMMENDATION

The Scottish Government should bring forward in its programme for government proposals to cut APD, with a long-term aim of scrapping the tax altogether.

Although the SNP was the only main party at the Scottish election whose manifesto pledged to cut the tax, press reports suggest the Scottish Conservatives may reverse their opposition. Furthermore, numerous other groups, many of whom are referred to in this briefing, also back the proposal. This included those associated with the business community, due to the potential positive impact it would have on economic growth; as well as those from the tourism sector who highlighted the benefit in terms of lowering costs for Scottish families going on holiday, as well as attracting visitors to Scotland.

⁷ From 2015, the year of publication.

⁸ <http://www.renfrewshirechamber.com/scottish-chambers->

[network-consultation-air-passenger-duty/](http://www.travelweekly.co.uk/articles/56454/scottish-commitment-to-cutting-apd-welcomed)

⁹ <http://www.travelweekly.co.uk/articles/56454/scottish-commitment-to-cutting-apd-welcomed>

The benefits highlighted as a result of the abolition of child APD would also apply to cutting the main APD rate.

Reform Scotland believes that the Scottish Government should proceed with its plans to cut the tax. We would welcome any decision by the Scottish Conservatives' to reverse their position, and encourage the other opposition parties to also reconsider their positions and act in the best interests of our economy and our people.

If they fail to do so it will be up to them to justify why they oppose a measure which a wide range of voices argue will help promote economic growth and reduce the cost of Scottish families going on holiday.