

Association of Accounting Technicians (AAT) response to the HM Treasury Consultation on Aviation tax reform

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to this HM Treasury consultation on Aviation Tax Reform published in March 2021.
- 1.2. The role of the tax system is becoming more important in ensuring the UK reaches its commitment to “net zero” emissions by 2050 and as such AAT is increasingly playing an active role in policy debates in this area.
- 1.3. In September 2019, AAT surveyed its Assembly and Council members, as well as AAT Licensed Accountants, on the issue of reaching net zero by 2050. 100% of AAT Council and Assembly members think it is important, as do 88% of AAT Licensed Accountants. There are few issues that can achieve such high levels of agreement.
- 1.4. AAT is submitting this response on behalf of our membership and to advance public education, which is one of AAT’s charitable objectives.

2. Executive summary

- 2.1. **AAT does not agree with proposals to reduce Air Passenger Duty (APD) on UK domestic flights.**
This is because doing so contradicts and greatly weakens government policy on seeking to reach “net zero” by 2050, flies in the face of a wealth of national and international evidence about the damaging impact of short haul flights and seriously undermines the UK’s credibility ahead of COP26 in November 2021.
- 2.2. **Taxing flights rather than passengers would appear to better align with the Government’s environmental objectives because doing so would better target the level of emissions by encouraging airlines to fill their planes.**
It is obviously the case that airlines ordinarily seek to fill their planes to maximise profits but where this isn’t achieved, the level of emissions remains the same.
- 2.3. **AAT agrees that the number of international distance bands within APD should be increased because doing so will more closely align APD with the Government’s stated environmental objectives as well as ensuring tax receipts continue to grow.**
However, rather than revert to the four bands in place until 2008 or the suggested alternative of three bands, AAT believes there may be merit in considering the introduction of a six-band system to better reflect the polluter pays principle.
- 2.4. **AAT believes that the apparently dismissive approach taken to a frequent flyer levy is unwarranted and that instead Government should revisit the possibility and thoroughly explore its merits or otherwise before reaching any final decision.**
A short public consultation or call for evidence on this specific issue may be worthwhile in helping to inform Government policy here.

3. AAT response to the consultation paper

The government's initial policy position

- 3.1. **Do you agree with the government's initial policy position that the effective rate of domestic APD should be reduced? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?**
- 3.2. No. AAT does not agree with the policy position given it contradicts and greatly undermines government policy on seeking to reach "net zero" by 2050, flies in the face of a wealth of national and international evidence about the damaging impact of short haul flights and seriously undermines the UK's credibility ahead of COP26 in November 2021.
- 3.3. AAT appreciates that the government has a range of competing priorities to balance i.e. improved domestic connectivity, securing the optimum level of tax receipts and environmental goals, but believes these proposals mistakenly emphasise the former over the latter.
- 3.4. As AAT highlighted in its March 2021 response to the Budget¹, government policy in this area is highly contradictory;

*"Although AAT supports the increase in Vehicle Excise Duty rates for cars, vans, motorcycles and motorcycle trade licences by RPI with effect from 1 April 2021...it **again questions the contradictory nature of environmental taxes that see APD on long haul flights increased but not for more polluting short haul flights**, VED increased but yet another freeze in fuel duty."²*
- 3.5. Although the consultation document rather misleadingly and very simplistically states, "...long-haul flights are responsible for a greater amount of emissions on a per flight basis, as they cover longer distances." It is widely accepted that domestic and other short-haul flights are actually the most carbon intensive form of travel and emit more CO2 per person per mile than long haul flights. This is primarily because the act of taking-off and landing uses the most fuel.
- 3.6. HM Treasury should perhaps consult with colleagues in BEIS/Defra who calculate that planes on routes of 700 km or less emit 251 grammes per km compared to 195g/km for a long haul flight.³
- 3.7. In light of the above, the proposal to reduce ADP for domestic flights further reinforces the contradictory and irrational nature of environmental taxation in the UK and should be rejected.
- 3.8. It is also worth highlighting that other countries not only recognise this but are taking action to address it. Earlier this month France banned domestic flights on routes that can be travelled in less than two and a half hours by train. This was a watered-down version of original proposals to ban any journeys that could be travelled in less than four hours⁴ but will still cover over 10% of domestic flights in France.
- 3.9. **What evidence can you provide about the impact of an effective reduction in the domestic rate of APD on Union and regional connectivity?**
- 3.10. AAT is not aware of any robust evidence base in relation to the impact of APD on regional connectivity.
- 3.11. The often-referenced example of the collapse of regional airline Flybe, for which APD was largely blamed, with Covid-19 being the final nail in the coffin, is far from sufficient to warrant a reduction in APD for all operators flying domestic routes.

¹ AAT submission to the Treasury Select Committee following Budget 2021:

<https://committees.parliament.uk/work/1002/budget-2021/publications/>

² Ibid

³ BEIS/DEFRA Greenhouse gas reporting: conversion factors 2019:

<https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019>

⁴ France and its new environmental eco tax on aviation, Business Traveller, January 2021:

<https://www.businesstraveller.com/features/france-and-its-new-environmental-eco-tax-on-aviation/>

- 3.12. The failure of Flybe appears to have had very little to do with APD and much more to do with poor financial decision making, especially the decision to spend \$1.3bn on unsuitable aircraft in 2010, shortly after listing on the stock exchange. This helped ensure tens of millions of pounds worth of losses in most subsequent years (7 out of 10 years) as did the more recent price wars with Logan Air (2017-2020). Rising fuel costs also undoubtedly played a part in the regional operators decline.
- 3.13. Given the lack of any overwhelming evidence here, AAT does not believe there is sufficient justification for any reduction in APD. In fact, quite the opposite is true.
- 3.14. **How would a reduction in the effective rate of domestic APD affect airlines? Will the benefits be passed onto consumers in ticket prices or retained by airlines?**
- 3.15. A reduction in APD would probably benefit airlines more than consumers given their current financial predicament but clearly some of the saving would need to be passed on to consumers in the hope of attracting increased sales.
- 3.16. **Which domestic air routes, if any, are likely to be introduced/restart following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide? Which existing domestic air routes, if any, would benefit from an increased number of services following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?**
- 3.17. Questions relating to route viability and related benefits would be best answered by organisations other than AAT, a professional body specialising in tax, accountancy and education.
- 3.18. **By how much would you estimate that the number of passengers currently flying domestically increase?**
- 3.19. Although unable to predict the level of any increase with a high degree of certainty, the fact the Treasury has framed the question in this way demonstrates HM Treasury's confidence that any reduction will inevitably lead to increased passenger numbers.
- 3.20. Such confidence appears to be well placed given that when first introduced in 1994 at a rate of just £5 (short haul) and £10 (long haul) it was believed that APD would reduce flights by 2.5%.
- 3.21. A report by PwC in 2015 concluded that the tax suppressed demand for flights by 10%⁵. Since this report was published, APD has further increased and so it is reasonable to assume that the suppression is probably higher than 10%.
- 3.22. Such conclusions obviously work both ways and so in the same way that increases result in reductions, it is inevitable that reductions in APD on domestic flights will work in reverse i.e. there will be a concomitant increase in passenger numbers.
- 3.23. As the Committee on Climate Change has advised Government that a reduction in the trend of annual increases is needed, it makes no sense to introduce a measure that will achieve precisely the opposite.
- 3.24. **What could the environmental impact of reducing the effective domestic rate of APD be? How could any negative impacts be mitigated?**
- 3.25. The environmental impact of reducing domestic APD is obvious – it will be entirely negative. The best means of mitigating such negative impacts would be to abandon any plans for a reduction in APD.
- 3.26. **What could the impact of reducing the effective domestic rate of APD be on other modes of transport (e.g. road/rail)?**
- 3.27. Reducing domestic APD would be a further blow for domestic rail, a far more environmentally friendly mode of transport and one that has suffered a collapse in usage due to Covid-19, requiring multi-billion pound support from the taxpayer as a result.

⁵ The Economic Impact of Air Passenger Duty, PwC, May 2015:

<https://airlinesuk.org/wp-content/uploads/2015/06/The-economic-impact-of-APD-analytical-update-PwC-May-2015.pdf>

- 3.28. The pandemic is very likely to have a permanent negative effect on rail passenger numbers owing to increased working from home whether via hybrid working or permanent home working.
- 3.29. The pandemic has rapidly accelerated structural reform of the rail industry both operationally and in terms of financing.
- 3.30. Indeed, Sir Peter Hendy and the Chancellor reportedly discussing a 20% reduction in long term passenger demand is indicative of the parlous state of UK rail⁶. A reduction in domestic APD will further reduce already damaged rail passenger demand.
- 3.31. With regard to road transport, there appears to be an assumption that flying would somehow be less environmentally damaging than travelling by car. This is not true if the car journey is undertaken by an electric or hybrid electric car – cars which made up well over 10% of UK sales last year.
- 3.32. However, even a polluting petrol car is better than flying if more than one person travels in the vehicle.
- 3.33. Likewise, as BEIS statistics confirm, those travelling on the road by coach are also likely to cause less environmental damage than if flying, and in many cases emitting less emissions than travelling by rail too, depending on how full the vehicle is⁷.
- 3.34. So, assuming that a reduction in APD leads to less road travel and more flying as the Government appear to desire, this would represent a further blow to the Government's statutory objective of reaching "net zero" by 2050.
- 3.35. **If the effective rate of domestic APD is reduced, would you favour the introduction of a return leg exemption or a new domestic rate? What would you see as the comparative risks and benefits of these options?**
- 3.36. AAT does not favour either option and instead would like to see any planned reduction scrapped.
- 3.37. **Is there an alternative approach to reducing the effective rate of APD on domestic flights, that you think would be more appropriate than either of the options identified?**
- 3.38. Taxing flights rather than passengers would appear to better align with the Government's environmental objectives because doing so would better target the level of emissions by encouraging airlines to fill their planes. It is obviously the case that airlines ordinarily seek to fill their planes to maximise profits but where this isn't achieved, the level of emissions will remain the same. In the interests of simplicity, a per flight tax could be based on just two factors, the plane type and the distance travelled. The Government can set the tax for the plane and it would then be up to the airline as to how it distributes that cost amongst passengers.
- 3.39. AAT notes that the Coalition Government promised to explore such a reform in its first Budget in June 2010 but no further action appears to have been taken. More than a decade on, AAT strongly suggests HM Treasury re-examine such a proposal.
- 3.40. **What are your views on the way a return leg exemption could operate as set out in paragraph 2.8?**
- 3.41. Simply because the UK has departed the EU and is now able to introduce an exemption does not mean such an exemption should be re-introduced.
- 3.42. AAT opposes this proposal because it would be administratively complex, evidentially burdensome and bureaucratic, for both the airline industry and HMRC, but more importantly it would unnecessarily undermine the Government's commitment to "net zero" whilst simultaneously further reducing tax receipts.

⁶ Transport Network, April 2021:
<http://transport-network.co.uk/Hendy-talks-post-COVID-and-Williams-review/17259>

⁷ Greenhouse gas reporting: conversion factors 2019, July 2020:
<https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019>

- 3.43. **Do you agree with the government’s initial position that a new domestic band would be the most appropriate approach to reducing the rate of APD on domestic flights?**
- 3.44. AAT agrees with the Government that the alternative option of introducing a new, separate domestic band within APD for routes between UK airports (set at a lower rate than the shortest international band) would be simpler for HMRC and airlines to administer than a return leg exemption (because it would apply to all domestic flights, not just those on a return ticket).
- 3.45. However, although simpler, like a return leg exemption, it would still unnecessarily undermine the Government’s commitment to “net zero” whilst simultaneously further reducing tax receipts.
- 3.46. For these reasons AAT opposes such an approach.
- 3.47. **Do you agree with the government’s initial policy position that the number of APD distance bands should be increased? In your view, what would be the positive and negative effects of such a change, particularly in light of the government’s objectives for aviation tax?**
- 3.48. AAT agrees that the number of international distance bands within APD should be increased because doing so will more closely align APD with the Government’s stated environmental objectives as well as ensuring tax receipts continue to grow.
- 3.49. Rather than revert to the four bands in place until 2008 or the suggested alternative of three bands, AAT believes there may be merit in considering the introduction of a six-band system to better reflect the polluter pays principle.
- 3.50. Given the most polluting flights are those that travel less than 700km it would make sense to introduce a new band that was higher for the very shortest flights (whilst continuing to exempt Public Service Obligation domestic air routes).
- 3.51. At the other end of the spectrum, an additional band at 7,500+ should be considered. This would mean a 5,500-7,500 band would include South American routes such as those to Sao Paulo, Buenos Aires and Santiago as well as Asian routes including Malaysia and Singapore whilst the highest band of 7,500+ (instead of the proposed 5,500+) would include the increasingly popular (until Covid-19) long commercial journeys such as the 9,000+ mile Qantas service from London to Perth, Australia⁸.
- 3.52. Considering the journey length of a direct flight to Australia is over 60% longer than a 5,500 mile journey, it seems not just unfair to include this in the same banding but unrepresentative of the environmental impact such journeys have.
- 3.53. In addition to Australia, at some stage in the future there may well be additional long distance commercial flights in the future such as those to New Zealand, a journey that whilst currently lacking any direct service has been completed in the past.
- 3.54. **Do you agree with the government’s assessment that APD should remain as the principal tax on the aviation sector rather than the Committee on Climate Change proposal for a frequent flyer levy?**
- 3.55. As the consultation document notes, a frequent flyer levy has both advantages and disadvantages.
- 3.56. Permitting passengers at UK airports to have a single tax-free flight every 12 months, with an incrementally increasing levy for every flight thereafter during the same 12-month period has considerable appeal.
- 3.57. The single tax-free flight would be a tax reduction for many given “*Normal international travel behaviour for the British public is typically zero, one or two return flights per year.*”⁹

⁸ Qantas:
<https://www.qantas.com/gb/en/promotions/fly-non-stop-to-australia.html>

⁹ Committee on Climate Change, 2018:
<https://www.theccc.org.uk/wp-content/uploads/2019/04/1010-response-to-Call-for-Evidence-2018.pdf>

- 3.58. In light of research suggesting 70% of flights taken by those in Great Britain, were taken by just 15% of the population¹⁰, a frequent flyer levy would also be considered more socially just and morally defensible, especially when the average annual income of frequent fliers is factored in (£115,000). As the Committee on Climate Change has correctly observed; *“The greatest beneficiaries of aviation’s generous tax treatment in the UK are therefore those who could most easily afford to pay more for plane tickets.”*¹¹
- 3.59. AAT believes many of the supposed problems with a frequent flyer levy included in the consultation document are greatly exaggerated. For example, the suggestion that such a levy would, *“pose concerns around data processing, handling and privacy”*. Providing it was lawful, fair, transparent and accurate, stored for the sole purpose of levy calculations, effectively no more than being GDPR compliant, then there are unlikely to be any such concerns.
- 3.60. Likewise, the idea that, *“There may be additional compliance issues, particularly with passengers who were able to travel under multiple passports”* is rather far-fetched considering less than 1% of UK nationals hold dual nationality, and far fewer still “multiple passports”¹²
- 3.61. Many countries with large populations do not allow dual nationality (China, Japan and Brazil) likewise those with large numbers of flights to the UK like Singapore (55 flights a week, 2019) do not permit this. Of those countries like the UK that do permit dual nationality, the number of citizens that are similarly small and the impact likely to be negligible.
- 3.62. Of course, in addition to the reality of small numbers, it is surely not beyond the technological capabilities of airlines and the state, to establish a means by which to capture the details of such individuals.
- 3.63. The above excepted, AAT does agree with the important point highlighted in the consultation document, that passengers who fly more will, in effect, already pay more under the current system.
- 3.64. Should APD for domestic flights not be reduced and the additional bandings AAT recommends be introduced, this would ensure that frequent flyers pay more than is currently the case and may lessen the case for devising a new, more complex frequent flyer scheme.
- 3.65. In short, AAT believes that the apparently dismissive approach taken to a frequent flyer levy is unwarranted and that instead Government should revisit the possibility and thoroughly explore its merits or otherwise before reaching any final decision. A short public consultation or call for evidence on this specific issue may be worthwhile in helping to inform Government policy here.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 500,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:
- 5.2. E-mail: phil.hall@aat.org.uk Telephone: 07392 310264 Twitter: @PhilHallAAT
- 5.3. Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

21 April 2021

¹⁰ Full Fact, November 2016:

<https://fullfact.org/economy/do-15-people-take-70-flights/>

¹¹ Committee on Climate Change, 2018:

<https://www.theccc.org.uk/wp-content/uploads/2019/04/1010-response-to-Call-for-Evidence-2018.pdf>

¹² International Adviser, October 2020:

<https://international-adviser.com/only-1-of-brits-have-dual-nationality/>