

How Government Taxes impact aviation

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WFS Protecting Value track



Why do we care about taxes?

How do airlines manage to stay compliant?

In IATA's tax database (TTBS):

Airlines have to navigate a complex international tax framework....

- How can they ensure that they stay compliant?
- How do they keep track of all of the evolving rules?
- Is this a growing risk to the industry?
- Airlines are challenged by the number of taxes and their rapid evolution.

Over 2,300
passenger ticket
TFCs

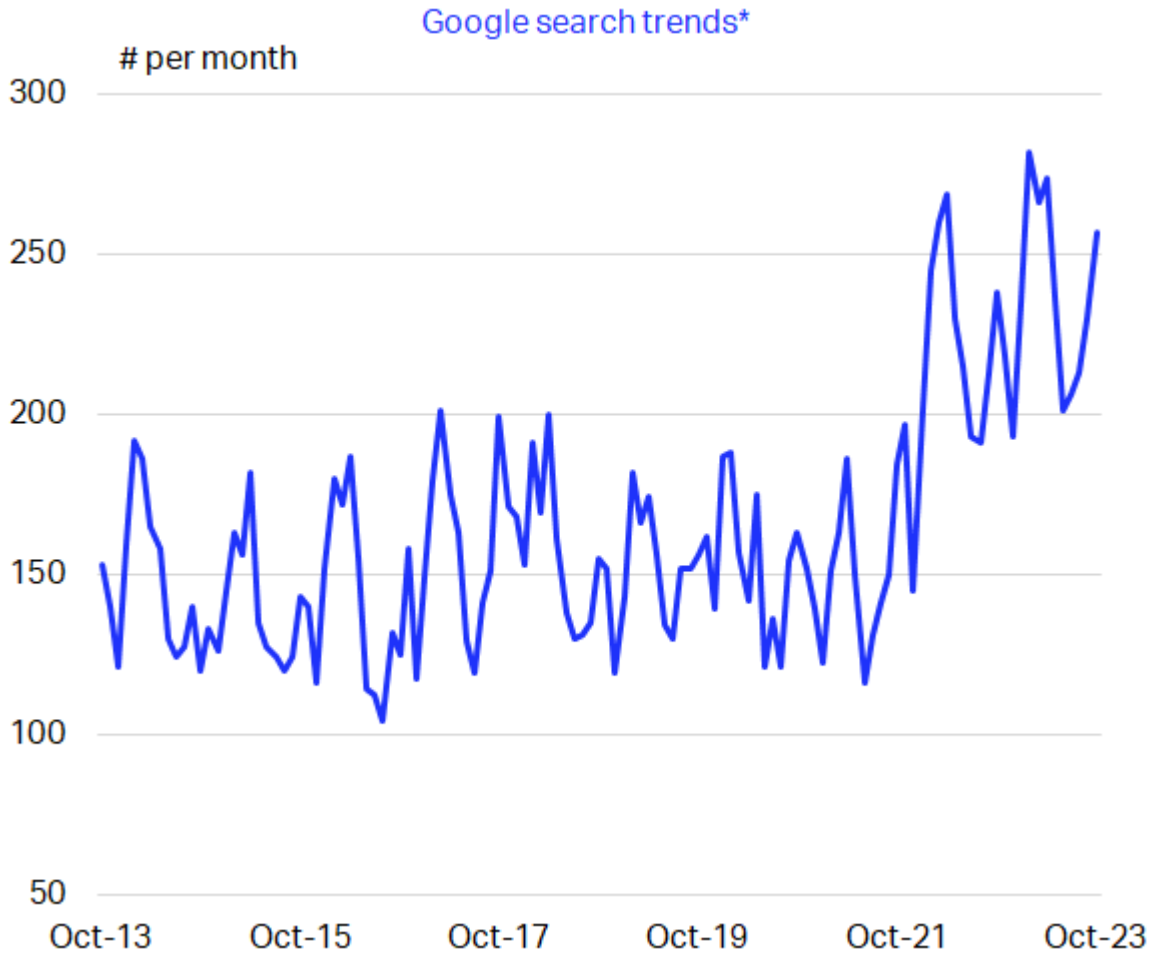
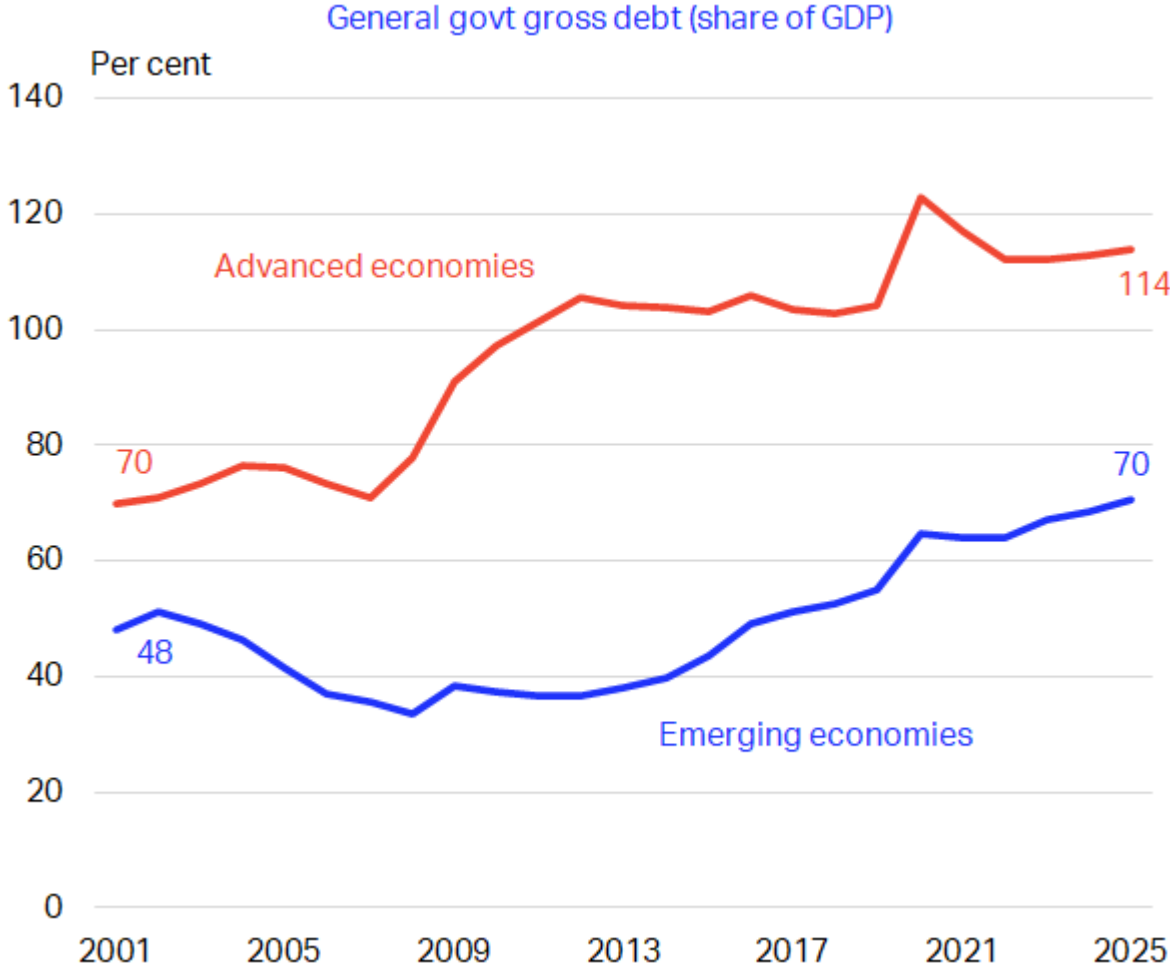
More than 100
modifications
issued each
month

Over 6,900
airports in more
than 249
jurisdictions

463.38k different
rate counts,
c.47.52k current

Why do we care right now?

Governments face twin pressures of fiscal deterioration & society trends



* Search terms: environment tax, sustainability tax, aviation tax



How taxes affect the economy

- Taxes are a **transfer** from the private to the public sector.
- Taxes are **necessary** to pay for public services.
 - However, they are **distortionary** in the sense that choices will be based on taxes and not only on real economic costs and benefits.
- In order to combat the distortionary effect, tax policy needs to strive to provide a **level playing field**.
- Taxation should **aim directly at the policy problem** to limit any unintended consequences.
For example:
 - If the goal is to reduce demand for air travel, then a ticket tax **will reduce demand for air travel**. This reduced demand for air travel may or may not lead to lower CO2 emissions.
 - If the goal is to reduce CO2 emissions, a tax on fossil fuels **will reduce demand for such fuels** which are the greatest source of CO2 emission.

The economics of a tax

At its simplest: higher prices reduce demand

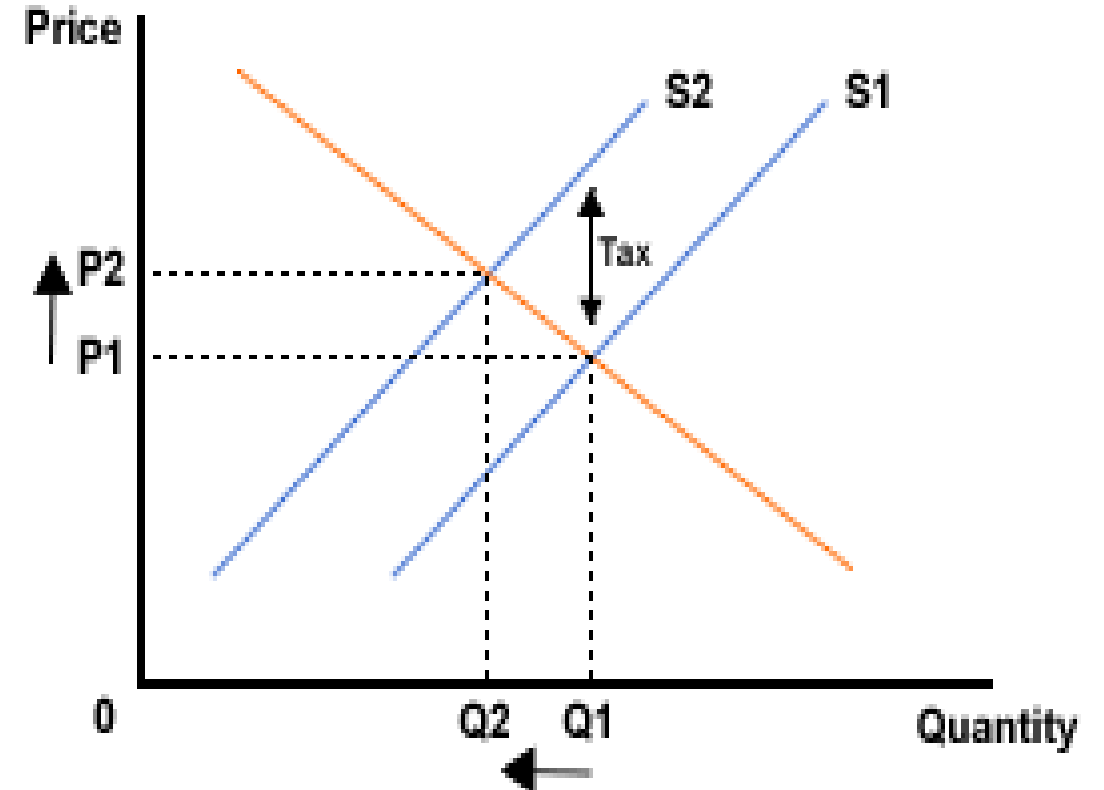
The application of a tax has the fundamental impact of increasing price.

Consumers are sensitive to changes in price.

Higher prices reduce demand.

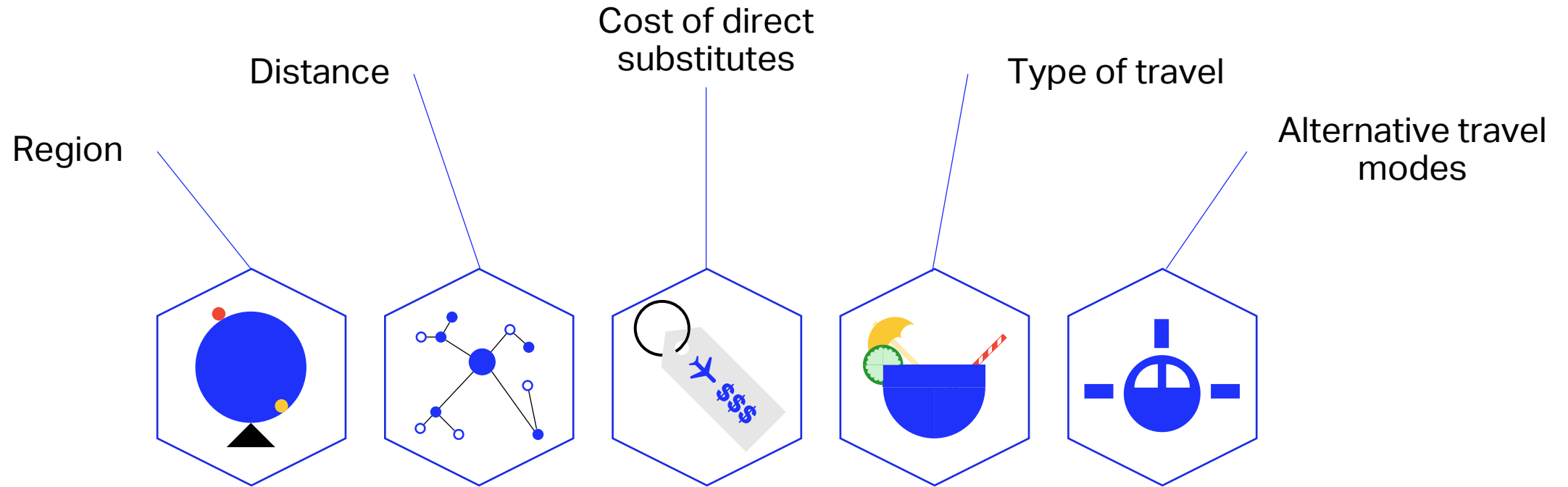
Exact impact varies depending on how sensitive consumers are to the change in price

Economists refer to this as the price elasticity of demand...



Consumers are sensitive to changes in price

How so exactly depends on the 'price elasticity of demand', which has multiple components



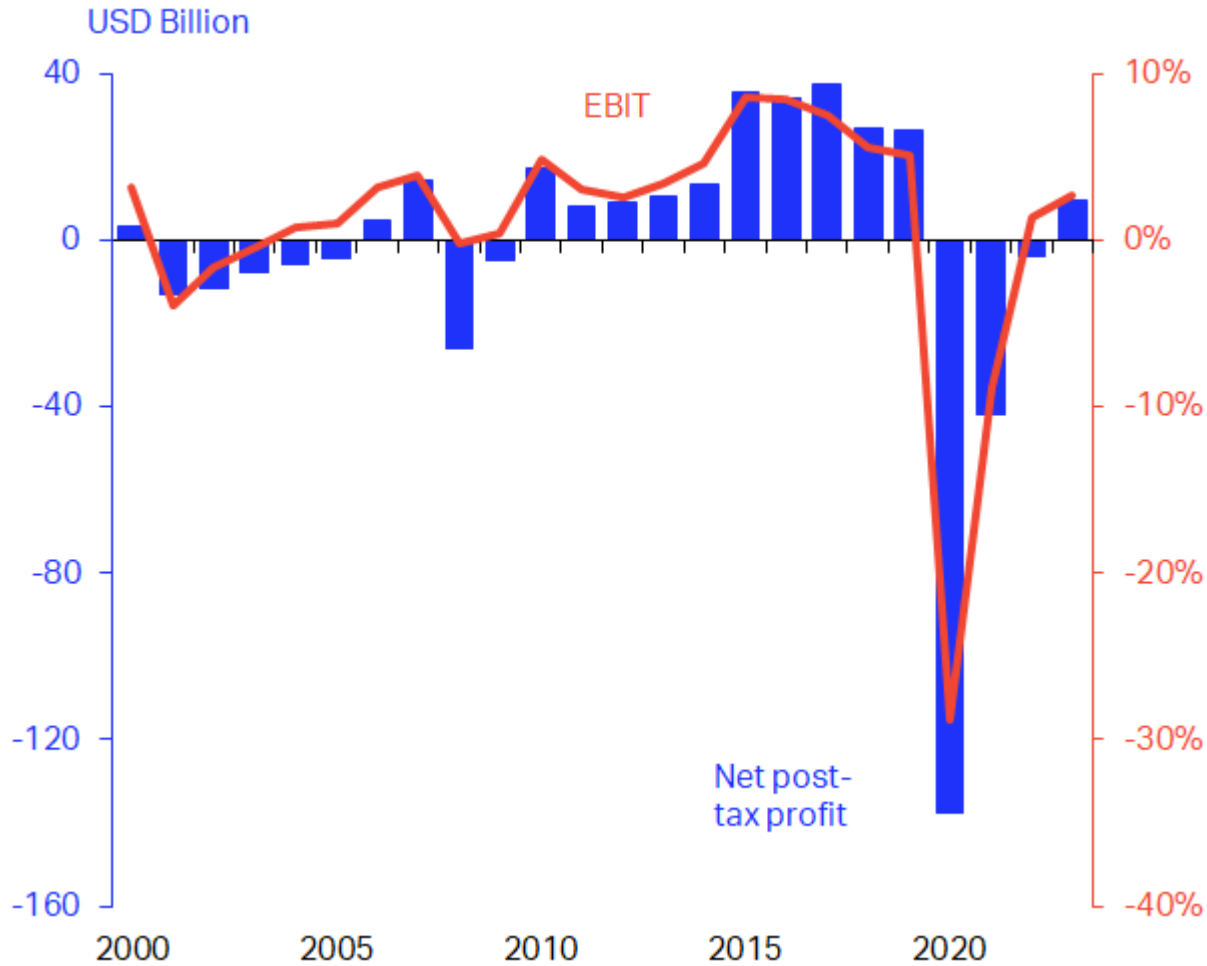
e.g. increase in airport landing fees on a particular short-haul route in Asia: -1.46

e.g. impact of a tax on flight departing from a sample EU country on Trans Atlantic traffic: -0.96

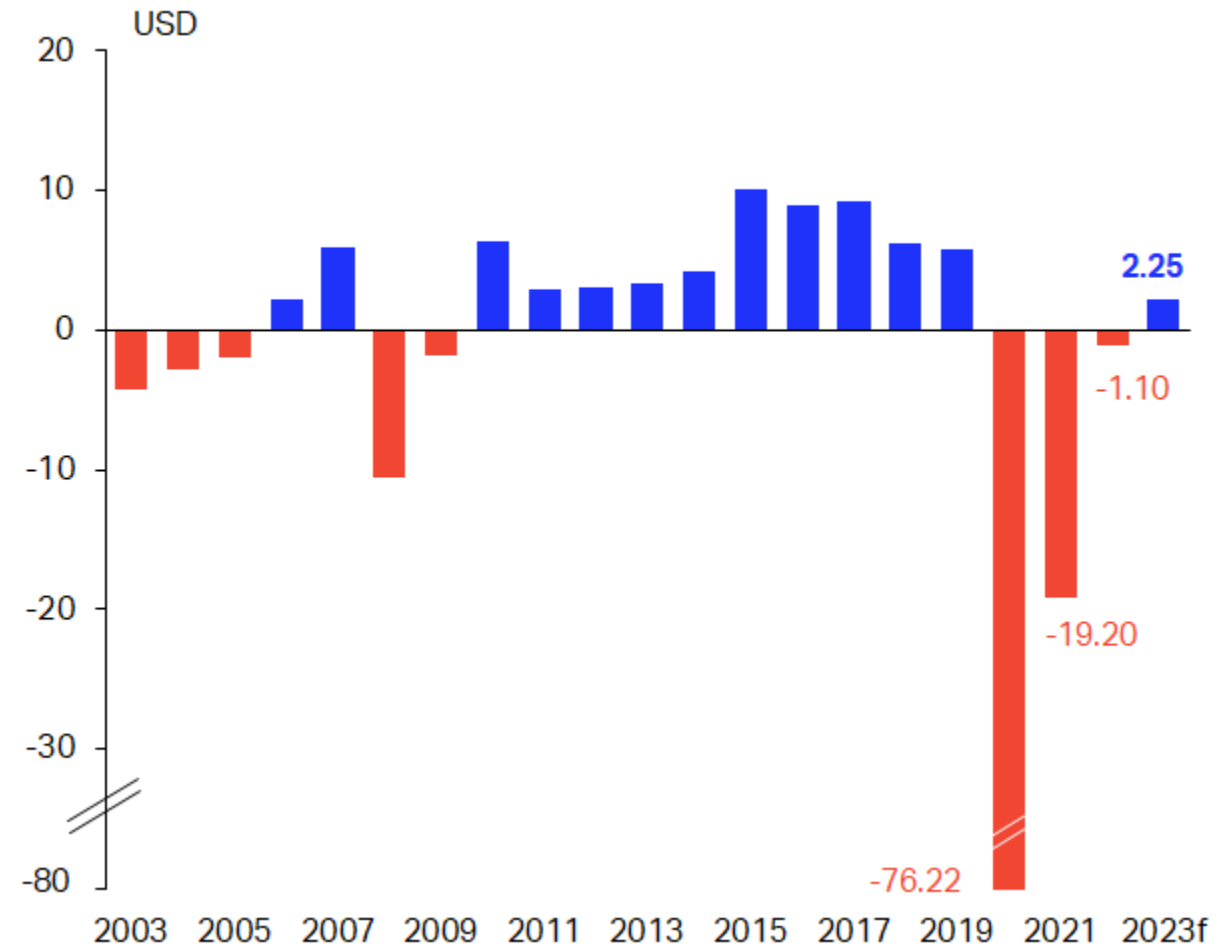
Airline financial performance has rebounded strongly

Industry expected to return to profitability in 2023

Airline industry net profits and EBIT margin

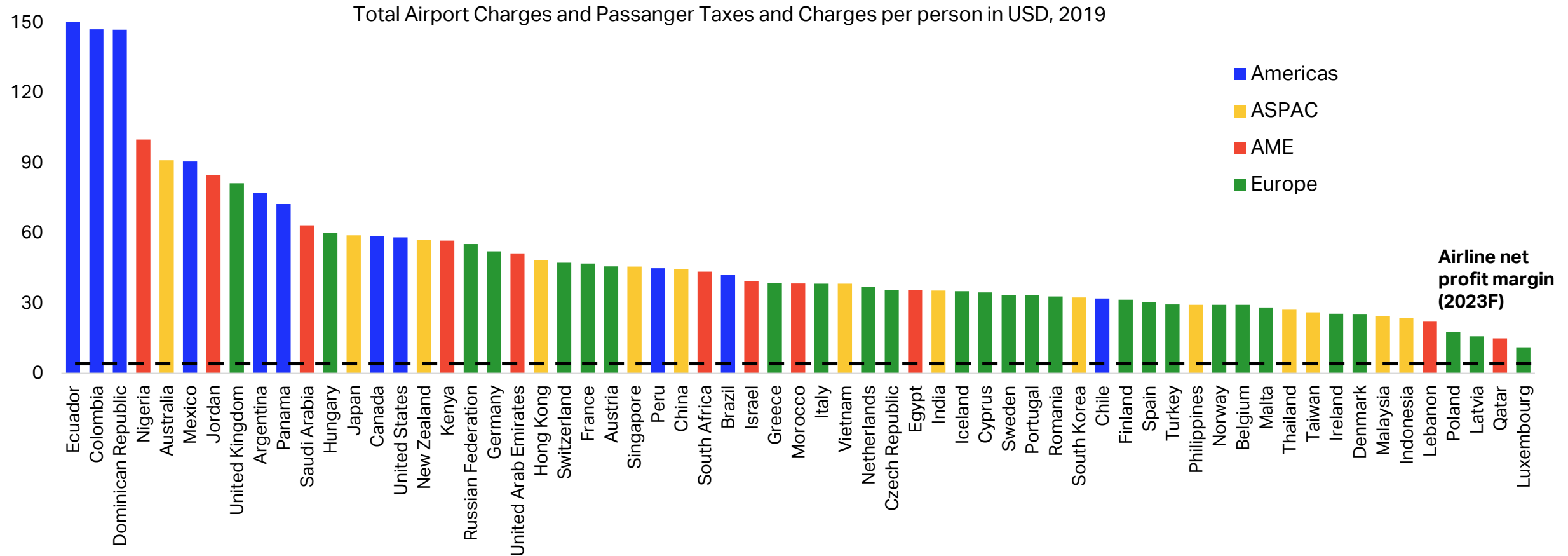


Net profit per passenger



Taxes and charges on aviation can vary widely

And are generally higher in the Americas than in other regions

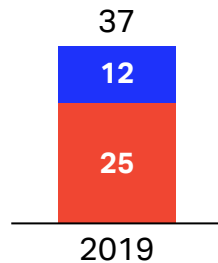


Price elasticity means that the economic incidence of the tax is not always the same as the legal incidence. Some portion is often shared by the producer.

On a per-passenger basis, travelers in the Americas incur the greatest burden of taxes and charges

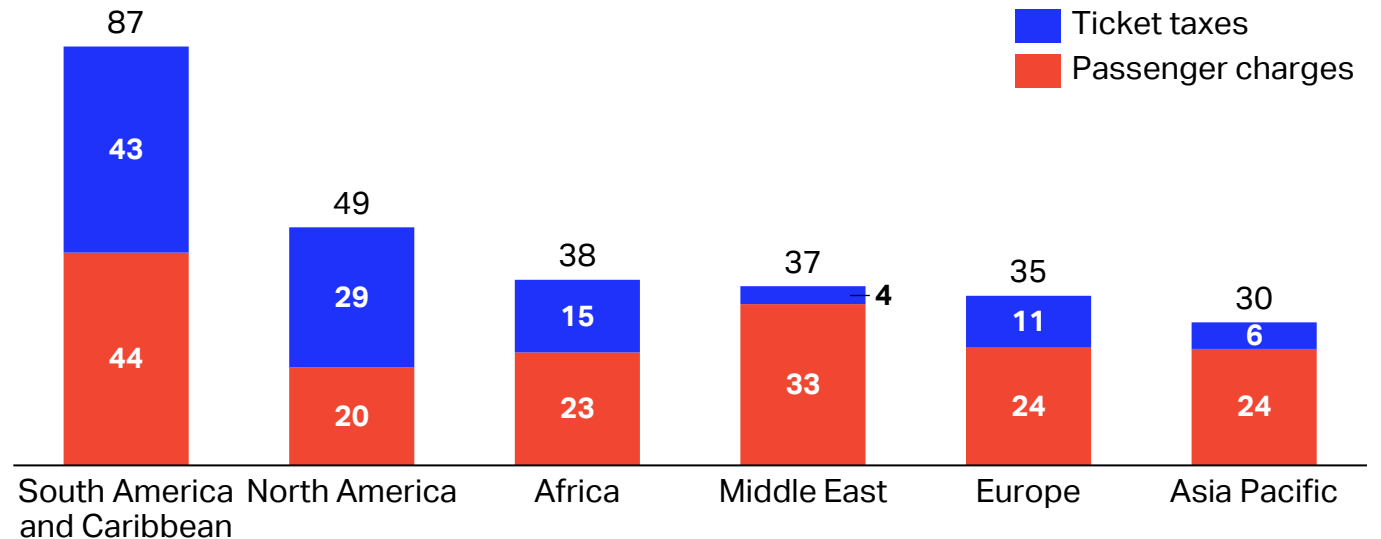
Passengers pay twice the amount in charges than in ticket taxes

Global average ticket taxes and passenger charges per international passenger (USD)



In South America and the Caribbean, per-ticket taxes and charges exceed twice the global average

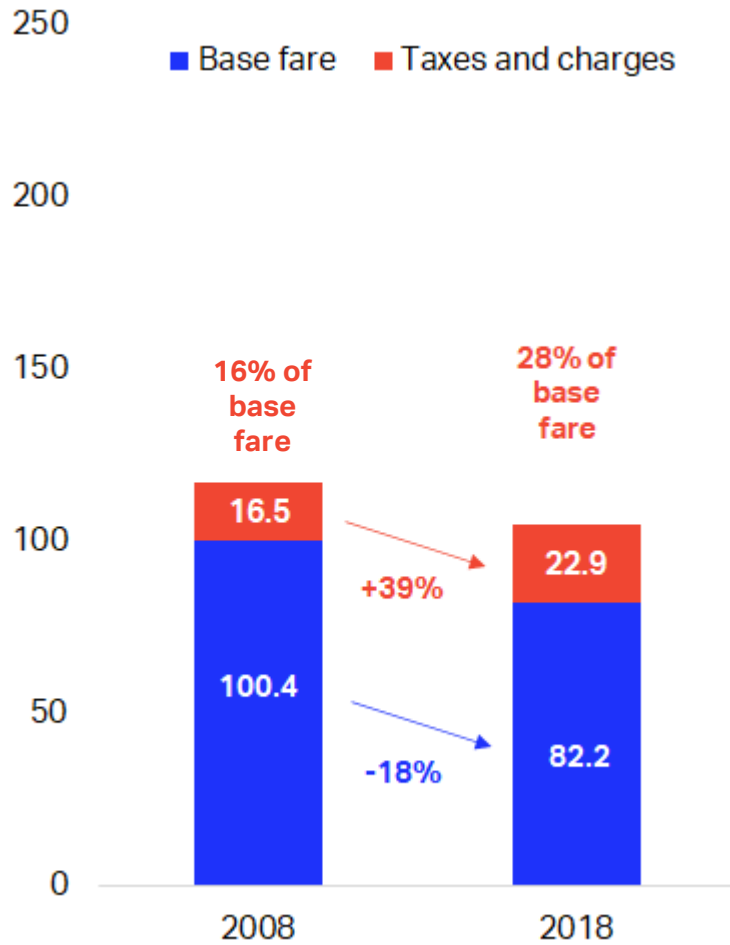
Average ticket taxes and passenger charges per international passenger, by region (USD)



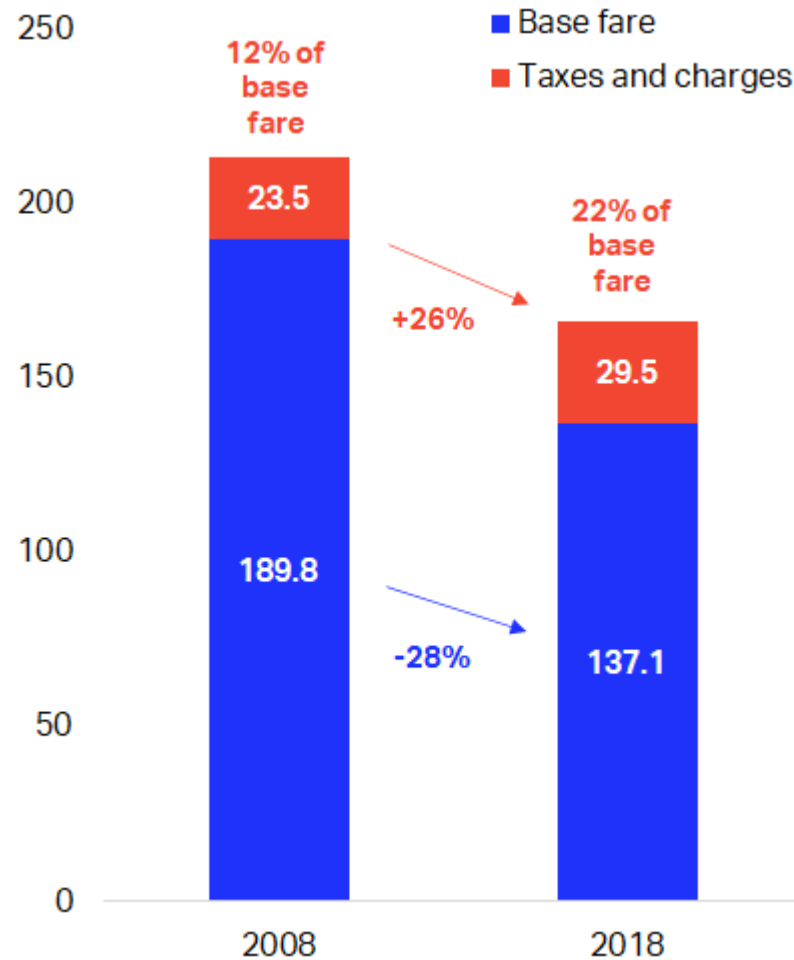
Model includes 64 countries that represent 80% of global international traffic. In each country, the top airports are considered that represent a cumulative share of 80% of international passengers. Overall, 186 airports are considered.

EU-28: changes in airfare composition 2008 vs 2018

Avg. fare for domestic travel (USD)



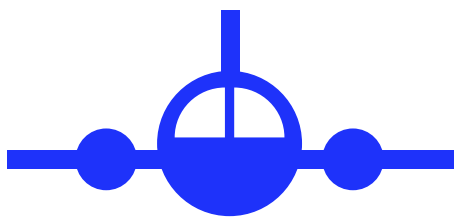
Avg. fare for international travel (USD)



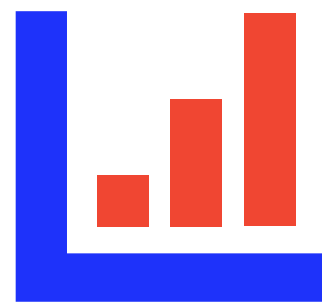
- Average base fare for domestic traffic decreased from 100 USD in 2008 to 82 USD in 2018
- Simultaneously, average airfare taxes and charges *increased* from nearly 17 USD to 23 USD
- Additionally, the avg. base fare for international travel decreased from around 190 USD in 2008 to 137 USD in 2018
- However, avg. ticket charges and taxes for international travel increased from 24 USD to almost 30 USD

Potential impacts of taxation

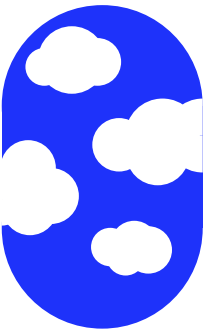
Passengers will fly through less taxed areas increasing miles flown



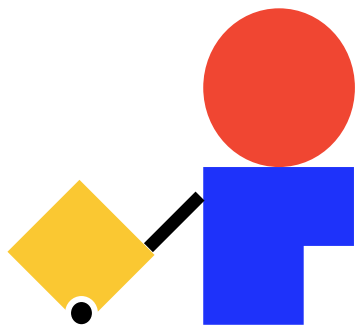
Governments may lose revenue if traffic volumes drop



Local economies may suffer due to lower demand levels



Airline financial health diminished

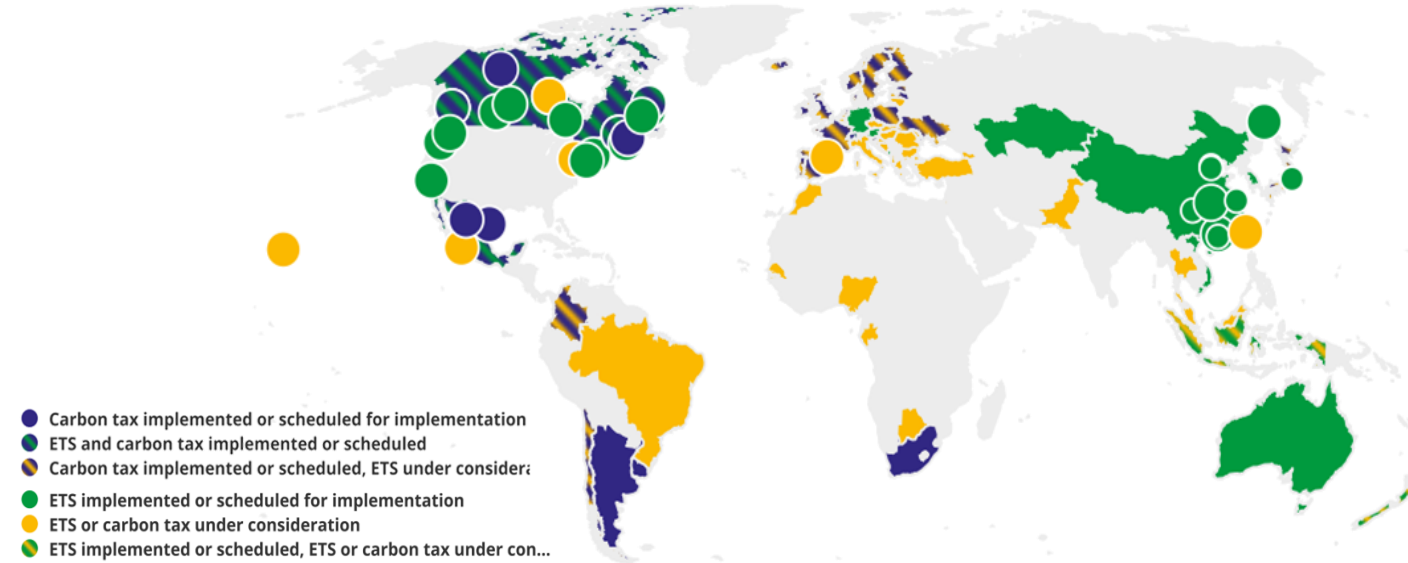


Reduces competition within the industry

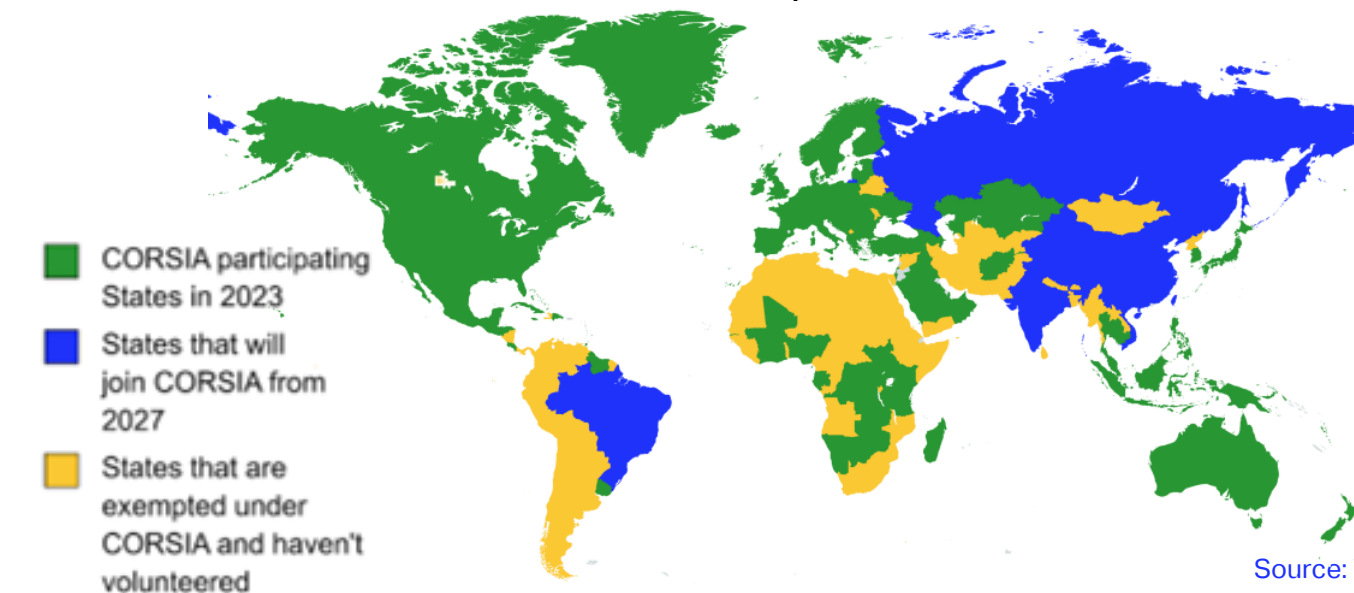


But environmental or 'green' taxes are different – right?

Regional, national and sub-national carbon pricing initiatives



CORSIA implementation



- Carbon taxes are designed to internalize aviation externalities, however, the reality is often different
- The problem of double counting and double charging – they often overlap with other regional Market-based Measures and local carbon taxes leading to charging airlines multiple times for carbon they emit
- Environmental taxes can have a negative impact on airlines and lead to offshoring and displacement of hubs to alternative markets or countries
- This could lead to wider economic implications for countries – jobs, revenue, tourism etc

Source: World Bank Carbon Pricing Dashboard and IATA Sustainability and Economics



What can be done?

Careful policy-making required for regulatory success

Credible, robust analysis
which underpins informed
policy decisions

Careful consideration of
unintended consequences

Ensure new regulation does
not deepen the regulatory
patchwork issue

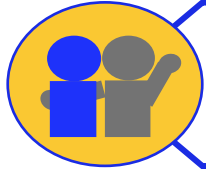


Considering comprehensive
and holistic policy solutions,
not only taxes

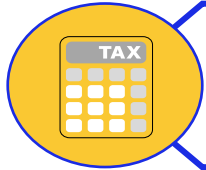
Ensure that proposed
approaches directly address
the problem being solved for

Provide clarity on the usage of
funds generated from taxes –
ensure they are used to address
the underlying challenge

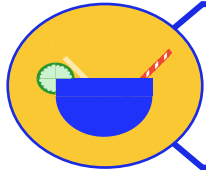
The post-Covid tax trends raise concerns



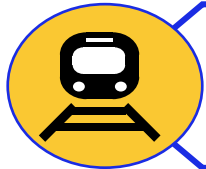
Restrictions regarding government support



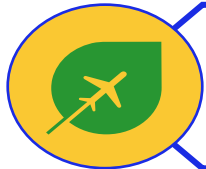
Increasing taxes (overall)



Higher taxes for regions with high tourism



Aviation to subsidize other modes of transport through taxes



Taxes as tool for climate change action (see previous)

Current trends present additional challenges for the airline industry in trying to move towards a long-term sustainable financial position.

Policy Roadmap to Net Zero 2050

Government taxes are a key element of the global policy framework

'The aviation industry cannot decarbonize alone, and the support of regulators and policy-makers on this journey is absolutely essential.'

	What we have today	2023	2030	2040	2050
Foundational policy lever	IATA Fly Net Zero	Support for R&D for operational solutions		Continuous support for R&D and increased adoption of solutions	NET ZERO
	ICAO- LTAG	Incentives for early adopters of new procedures and technologies	Increased collaboration between states for harmonization of measures		
		Unblock institutional barriers			

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