How Government Taxes impact aviation

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Why do we care about taxes? How do airlines manage to stay compliant?

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.

In IATA’s tax database (TTBS):

- 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

Source: IATA TTBS
Why do we care right now?
Governments face twin pressures of fiscal deterioration & society trends

General govt gross debt (share of GDP)

- **Advanced economies**
  - Per cent: 114
  - Year: 2021
  - 2001: 70
  - 2005: 70
  - 2009: 48
- **Emerging economies**
  - Per cent: 70
  - Year: 2021

Google search trends*

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

Source: IMF, Google
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.

Source: IATA Economics.
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

- Distance
- Region
- Cost of direct substitutes
- Type of travel
- Alternative travel modes

- 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

Source: IATA, Intervistas
Airline financial performance has rebounded strongly. Industry expected to return to profitability in 2023.
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)

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

- South America and Caribbean: Ticket taxes 87, Passenger charges 43
- North America: Ticket taxes 49, Passenger charges 29
- Africa: Ticket taxes 38, Passenger charges 15
- Middle East: Ticket taxes 37, Passenger charges 4
- Europe: Ticket taxes 35, Passenger charges 11
- Asia Pacific: Ticket taxes 30, Passenger charges 6

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.

Source: IATA Economics analysis based on data from DDS, TTBS and ACIC
EU-28: changes in airfare composition 2008 vs 2018

- 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.

Source: IATA Economics analysis based on data from DDS, TTBS and ACIC.
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?

- 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.’

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