



1 July 2019

YB Tuan Lim Guan Eng  
Minister of Finance  
Ministry of Finance Malaysia  
No. 5 Persiaran Perdana Presint 2,  
Federal Government Administrative Centre,  
62592 WP Putrajaya,  
Malaysia.

## **MALAYSIA AIR PASSENGER DEPARTURE LEVY**

Dear YB Tuan Lim Guan Eng,

As you are aware, the International Air Transport Association (IATA) is a global trade association for airlines representing over 290 airline members and accounting for 82% of total global air traffic. Our members include Malaysia Airlines, Malindo Air, Singapore Airlines, Silk Air, ANA, Garuda Indonesia, Qatar Airways, Etihad Airways, Emirates, Thai Airways, KLM Royal Dutch Airlines, Air China, China Eastern, amongst many others, which operate services to/from Malaysia.

Further to our previous letters to you dated 23 November 2018 and 27 May 2019 on the Malaysia Air Passenger Departure Levy, and based on recent media articles<sup>1</sup>, it is our understanding that the Government of Malaysia is currently considering the following rate structure associated with the Levy, including: 1) MYR 8 per departing economy-class passenger to ASEAN destinations; 2) MYR 20 per departing business- and first-class passenger to ASEAN destinations; 3) MYR 50 per departing economy-class passenger to non-ASEAN international destinations; and 4) MYR 150 per departing business- and first-class passenger to non-ASEAN international destinations.

While IATA continues to oppose the implementation of the Air Passenger Departure Levy on the grounds that it is a discriminatory tax that unfairly targets air transport (and not other modes of transport) and that is counter to standard taxation policies and principles, we would like to highlight certain issues associated with the proposed rate structure of the Levy, as well as the need for clarity around the application of the Levy to ensure that it is implemented as efficiently and cost effectively as possible.

These issues are presented below for your kind consideration.

### **Rate Structure**

With respect to the proposed Levy rate structure, it is important to note that the rates associated with international departures to non-ASEAN destinations, and specifically MYR 50 (or approximately USD 12) per departing economy-class passengers and MYR 150 (or approximately USD 36) per departing business- and first-class passengers are significantly higher than similar forms of passenger-based ticket taxes in the region. By comparison, the single rate Air Passenger Departure Tax in Hong Kong is HKD 150 (approximately USD 15.25) per departing international passenger and the single rate Tourist Tax in Japan is JPY 1,000 (approximately USD 9.20) per departing international passenger.

As previously detailed in our letter dated 23 November 2018, when examining the growth in tourist arrivals in neighbouring countries in the region, Malaysia's performance over the 2013-2017 has been weak. As indicated in Exhibit 1 below, most other ASEAN Member States experienced a significant growth in tourist arrivals over the period, with Vietnam, Indonesia, and Thailand recording compound annual growth rates (CAGR) of 11.3%, 9.8%, and 5.9%, respectively. By contrast, Malaysia recorded a CAGR in tourist arrivals of just 0.2% over the 2013-2017 period.

It is clear that even before the increase in the cost of air travel that will result from the Air Passenger Departure Levy, Malaysia has been struggling to attract tourists. The imposition of the Levy at rates at, and in excess of, MYR 50 per departing international

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<sup>1</sup> Source: <https://www.theedgemarkets.com/article/departure-levy-be-gazetted-next-month-%E2%80%94-sources>

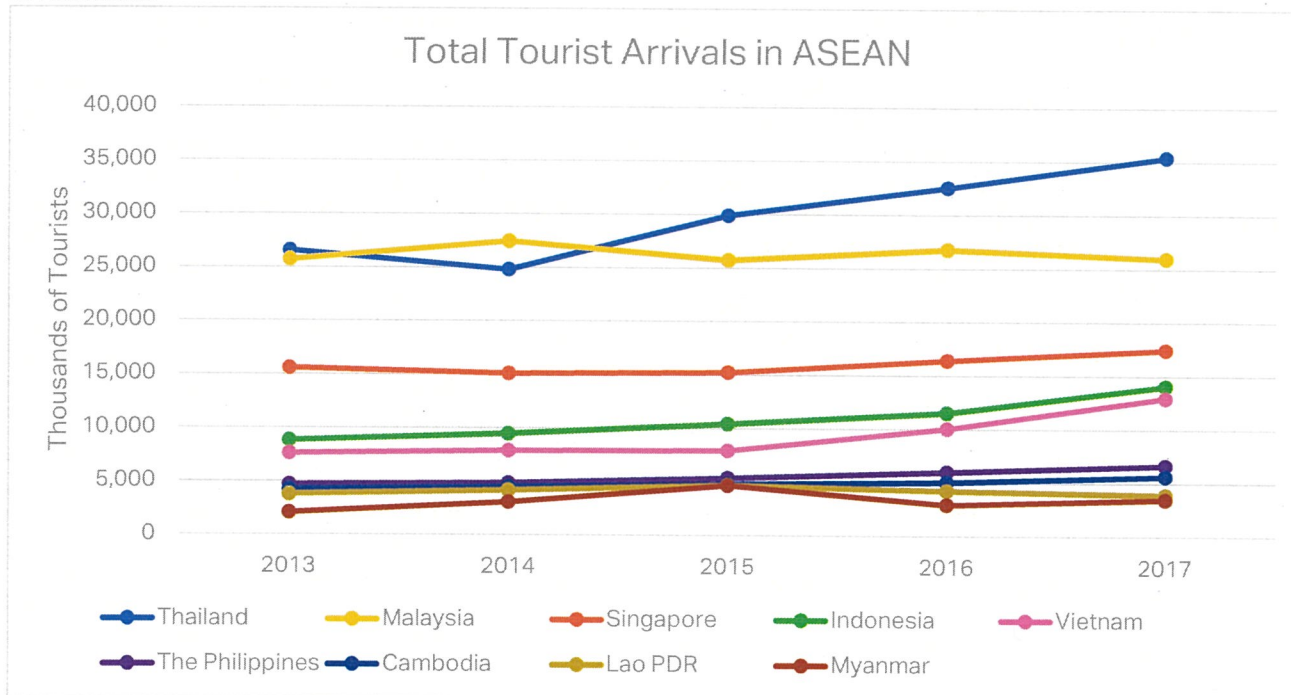
passenger would only exacerbate this issue and further erode Malaysia's competitiveness as a tourist destination in the region to the detriment of its economy.

#### Exhibit 1<sup>2</sup>

#### Tourist Arrivals to ASEAN Member States

2013-2017

In Thousands



In addition, implementing a differentiated rate structure based on class of travel and destination will create additional cost for airline systems to implement and accurately incorporate at the ticket pricing level. Such a differentiated rate structure will increase the cost and complexities associated with the administration of the Levy, both for airlines during the tax filing and returns process, as well as for the Malaysian Tax Authority/Royal Malaysian Customs Department (RMCD) that will be tasked with verifying and auditing the tax returns and remitted amounts.

Consequently, IATA strongly recommends that the Government of Malaysia implements a single/uniform rate not in excess of MYR 20 for all departing international passengers irrespective of destination or, alternatively, to apply the rates applicable to ASEAN destinations (i.e., MYR 8 for economy-class passengers and MYR 20 for business- and first class-passengers) across the board to all international destinations. This would help to ensure that the Levy does not further erode Malaysia's competitiveness as a tourist destination, as well as to reduce the administrative burden for both airlines and the RMCD.

#### Additional Considerations

##### 1. Exemptions from the Air Passenger Departure Levy

As previously highlighted in our letter dated 27 May 2019, the industry awaits further clarification as to the definitions and application of certain passenger exemptions under the Air Passenger Departure Levy. Based on the Departure Levy Bill, the following passengers are exempt from payment of the Levy, including: 1) toddlers under 24 months; 2) cabin and technical

<sup>2</sup> Source: UN World Tourism Organization (<https://www.e-unwto.org/toc/unwtotfb/current>)



crew; and 3) passengers in transit. In this respect, IATA continues to seek the following clarification with respect to these passenger exemptions, and specifically:

- Does the exemption from payment for toddlers under 24 months apply to all toddlers irrespective of whether they occupy a seat or only to those toddlers that do not occupy a seat?
- Does the exemption for transit passengers apply equally to transfer passengers? Note that within the air transport sector, passengers in transit refers to passengers that do not change to a different aircraft or flight number, while transfer passengers change to a different aircraft and/or different flight number. Based on the wording of the exemption in the Departure Levy Bill, IATA is of the understanding that this exemption applies equally to both transit and transfer passengers, but where formal confirmation from the Malaysian authorities would be welcomed.

As the aforementioned passenger exemptions are automatable in airline pricing/ticketing systems, issues around their incorrect application should be manageable. That being said, to the extent that additional passenger exemptions are contemplated, and which are not automatable in airline pricing/ticketing systems, any refunds to passengers associated with the incorrect application of such exemptions should be made directly to RMCD by passengers and should not involve air operators.

With respect to exemptions from charging the Levy, IATA requests that the Malaysian authorities/RMCD clarify the definition of Irregular Operations in advance of the implementation date to ensure the exemption is accurately and appropriately applied.

## 2. Record Keeping

Similarly, and subsequent to our previous submission, IATA continues to request that the passenger records for purposes of applying the Levy, and specifically information concerning: 1) nationality; and 2) passport number be removed. As neither of these data elements are required in order to accurately and appropriately apply the Levy or the exemptions, such information appears to be redundant and would only serve to unnecessarily increase the administrative burden associated with the Levy.

IATA appreciates the opportunity to provide its comments to you and thanks you for your attention to this important matter. We would be happy to meet with you or your representatives to discuss the content of this letter, or any other matters pertaining to the Air Passenger Departure Levy, should you desire.

Yours sincerely,

Conrad Clifford  
Regional Vice President  
Asia-Pacific

cc. YB Anthony Loke Siew Fook, Minister of Transport, Ministry of Transport Malaysia  
Mr. Vinoop Goel, Regional Director, Airports and External Relations, IATA  
Mr. Azhar Azahari, Area Manager, Malaysia, Bangladesh, Sri Lanka, Brunei, Maldives, IATA  
Mr. Gregory Leshchuk, Manager, Industry Taxation, IATA  
YB Datuk Mohamaddin bin Ketapi, Minister of Tourism, Art and Culture  
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