BRIEF

Taxes applied to air transport enterprises and services

Background

Taxation plays a fundamental role in how modern societies operate, allowing governments to fund essential public services and pursue social and economic goals. International airlines and all multinational enterprises are subject to a wide range of taxes. For airlines, the complexity of the fiscal system has increased with more numerous and new types of applicable taxes. Moreover, airlines' exposure to different taxing jurisdictions has grown as the global aviation network has expanded. In addition to "standard" taxes, such as corporate, value-added, and excise taxes, many governments levy aviation-specific taxes that can differ significantly from country to country. Such fragmentation is very detrimental to the global civil aviation system as it can deter, displace, and discontinue the provision of air transport services, and thus affect the entire global network.

The International Civil Aviation Organization (ICAO) is the United Nations' specialized agency designated to oversee global civil aviation. The ICAO Assembly has adopted a resolution which sets out policies regarding the taxation of international air transport[1] and forms the basis of the global framework. It urges member countries to avoid discriminatory taxes and double taxation. Furthermore, it encourages countries to reduce, and eventually eliminate, all forms of taxation related to international air transport, including taxes on operators' gross receipts and those directly levied on passengers or shippers.

Embodied in the Resolution are also the aims to harmonize practices globally, promote fair competition, and ensure the efficient functioning of international air transport, while respecting the sovereignty of individual countries. Importantly, the 193 ICAO member States that have agreed to this framework should adopt it into their local legislation and align any locally imposed taxes accordingly. Any departure from this framework will create fragmentation and be in opposition to the goals adopted by all ICAO member States.

These goals stem from the Chicago Convention of 1944, which recognizes that global civil aviation is necessary to promote peace and prosperity for all. This can only be achieved if the system safeguards equal opportunities for aircraft operators across the world, which in turn requires globally harmonized rules and regulations. This paper aims to shed some light on the taxation landscape faced by airlines, the different types of taxes that apply, and the arrangements that govern their application.

Types of taxes applied to corporations

Direct versus indirect taxes

Direct taxes are usually taxes paid by individuals and corporations that are levied on earnings, profits, capital gains, property, wealth, etc. Direct taxes tend to be progressive, with higher rates being charged as the taxable amount increases.

Indirect taxes are levied on goods and services and are paid by the consumer of said goods and services. These taxes are "indirect" because the tax is paid by the customer, collected by an intermediary, such as a manufacturer or retailer, and then passed on to the taxation authority. Indirect taxes are notably consumption taxes (e.g., sales taxes, VAT, GST) and excise (e.g., customs) taxes.[2]

[1] ICAO, *ICAO's Policies on Taxation in the Field of International Air Transport*, 2000, Doc 8632. URL: https://www.icao.int/publications/doc-8632
[2] Taxes such as stamp duties and local business taxes are beyond the scope of this brief.

Corporate income tax

Corporate income tax (CIT) is generally imposed on a company's net income or profits (i.e., gross income minus allowable tax deductions). Almost all tax systems impose CIT applying a "residency" principle: business entities that are registered and with a "significant presence" in the country are subject to tax on income attributable to that country (Table 1). This principle is backed up by the network of bilateral tax treaties (commonly based on the OECD's Model Tax Convention)[3], where countries agree on the conditions under which they can tax each other's "resident entities" and avoid taxing the same earnings twice, i.e., "double taxation".

While the ICAO Policies on Taxation in the Field of Air Transport (doc 8632) adopts the residency principle of taxation (taxation only in the country where the operator is headquartered), the UN Model Double Taxation Convention Between Developed and Developing Countries ("UN Model Convention") recently amended Article 8 and introduced a source-based taxation preferred model (Alternative A). This is a most regrettable departure from the use of residence-State taxation that historically applied to airlines in the UN Model Convention (Alternative B). The new Model Convention offers countries a choice between Alternative A and B.

This new flexibility creates the potential for double taxation if not appropriately managed through international agreements. The change arguably seeks to address the challenges of the digital economy, whose business models are radically different from those of airlines. For airlines, this means that they could be subject to income taxes not only in their home country but also in other countries where they generate revenue, such as where they sell tickets. As a given airline can fly to as many as 120 countries and 350 destinations, the complexity involved in attributing the airline's earnings across its network is staggering. Despite ICAO Guidelines, some ICAO member States continue to impose CIT on airlines headquartered in other States.

The impact of this change will be important regarding the airline industry's network of alliances and interline agreements, which help smooth operations across airlines and improve connectivity. Source-based taxation that needs to be attributed to specific airlines in each country within the alliance, rather than to the country of registration of the airline, will most likely diminish the benefits of alliances and interlining practices and lead to reduced connectivity.

Table 1. Examples of Corporate Income Taxes applicable to companies registered in respective countries

Country	Highest applicable rate
Argentina	35%
Ethiopia	30%
Egypt	22.5%
India	35% for foreign companies, 30% for domestic companies
Ireland	12.5% for trading corporations (15% above a certain revenue threshold), 25% for non-trading corporations
Saudi Arabia	20%
Singapore	17%
Thailand	20%
United Arab Emirates	9%
United Kingdom	25%
United States of America	21% (federal CIT)

Source: PWC[4]

[3] OECD, *Model Tax Convention on Income and Capital*. URL: https://www.oecd.org/en/publications/model-tax-convention-on-income-and-on-capital-full-version_9a5b369e-en.html

[4] PWC, *Tax summaries*, 2025. URL: https://taxsummaries.pwc.com/quick-charts/corporate-income-tax-cit-rates#anchor-U

General consumption-based taxes

Consumption taxes (VAT, GST, etc.) are levied on a wide range of goods and services, and apply to the economic value added at each stage of the production or distribution chain. Each intermediary charges VAT to its customers and recovers the VAT paid on its own supplies. Sales for consumption abroad (i.e., exported) are usually zero-rated. Sales taxes are consumption taxes, paid by the final customer.

ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632) provides for States to "reduce to the fullest practicable extent and make plans to eliminate as soon as economic conditions permit all forms of taxation on the sale or use of international transport by air".[5] The ICAO commentary adds that "the normal practice with respect to the sale or use of international air transport is to zero rate"[6] VAT and consumption taxes, explaining that this approach avoids the increased costs and administrative complexity that would otherwise burden international air travel.[7] In this regard, it helps foster a fair and equitable operating environment for all airlines, regardless of country of origin and destinations served. It also aligns with the practice that domestic consumption taxes do not apply to exports.

For instance, according to Article 148 of the EU Directive on the common system of VAT, EU countries must exempt from VAT the provision of airport services for airlines with chiefly international traffic.[8] In this sense, the supply of services to an aircraft used by an airline whose main activity is international transport and for its direct needs or the direct need of its passengers or cargo (e.g., airport passenger services) qualifies for VAT exemption.

Note that, despite the above, several countries, such as Panama, Colombia, and Mexico, impose VAT on international travel, which is contrary to international norms and multilateral agreements.

Excise duties

An excise duty is an indirect tax imposed on the consumption of specific goods. Furthermore, unlike tariffs, which apply per volume or quantity of product, excise duties are generally levied as a percentage of the price.

Like other forms of taxes, excise duties serve an important revenue-raising function for governments and can also target specific policy objectives. Excise duties are often used, for example, to discourage the consumption of alcoholic beverages, tobacco, sugared drinks, or single-use plastics.

Excise duties are imposed in one step at the time of release for consumption or commercialization of the good or service and are not applied at each stage of the supply chain. As with all general sales taxes, the fiscal burden is borne by the final consumer. One of the most extensive uses of excise duties applies to energy products, whether it is the production, extraction, or transformation of energy, including jet fuel, for example.

In this regard:

- Article 24 of the Chicago Convention states that "Fuel […] on board an aircraft of a contracting State, on arrival in the territory of another contracting State and retained on board on leaving the territory of the State shall be exempt from customs duty, inspection fees or similar national or local duties and charges." This implies that the jet fuel tax exemption only applies to the taxation of fuel which is already on board (i.e., "imported"), but not on the intake of fuel in another State.

[5] ICAO, *ICAO's policies on taxation in the field of international air transport* (doc 8632, Clause 3), 2000. URL: https://www.icao.int/publications/doc-8632
[6] In some countries, instead of being zero-rated, international air travel is classified as VAT-exempt with the right to deduct any VAT paid to suppliers. Consequently, stamp duties do not generally apply.
[7] ICAO, *ICAO's policies on taxation in the field of international air transport* (doc 8632), Commentary paragraph 16, 2000. URL: https://www.icao.int/publications/doc-8632
[8] EU, *Directive - 2006/112 - EN - VAT directive - EUR-Lex*. URL : https://eur-lex.europa.eu/eli/dir/2006/112/oj/eng Note that the European Commission launched an open consultation (until 16, October 2025) on the reform of the EU VAT rules for Travell and Tourism Sectors.

- Clause 1(c) of ICAO's Policies on Taxation in the Field of Air Transport (doc 8632) elaborates further on the taxation of jet fuel, stating that "it is the common practice of many States with respect to aircraft engaged in international transport generally to exempt all fuel and lubricants on board of arrival in each customs territory and, on a basis of reciprocity, to exempt from or refund taxes on fuel and lubricants taken on board at the final airport in that customs territory".
- Moreover, jet fuel intake is exempt from taxation in all EU member States, which is in accordance with Article 14(1)(b) of EC Directive 2003/96.

Specific taxes on the use of air transport

Specific taxes on air transport are typically fixed amounts[9] included when purchasing air tickets, and they apply per departing, arriving, and/or transiting passengers. The latter may sometimes qualify for a reduced rate or an exemption from such taxes. The size of the tax may vary depending on factors such as travel class, distance, type of travel (e.g., international or domestic), passenger age, or nationality. Specific taxes are collected by the airline at the time of ticket issuance and remitted to the relevant charging authority, usually after the passenger has traveled.[10]

Table 2. Examples of specific taxes applicable to air passengers flying internationally to and from respective countries

Country	Name of ticket tax	Rate per pax
Austria	Air Transport Levy	EUR 12-30
France	Air Passenger Solidarity Tax Civil Aviation Tax	EUR 7.40-120 (40 for economy class) EUR 5.14-9.25
Germany	Air Transport Tax	EUR 15.53 – 86.36 (70.83 if not considering stopover >24H)
Indonesia	Mandatory Travel Insurance Tax	IDR 5,000
Japan	International Tourist Tax	JYP 1,000
South Africa	Air Passenger Tax	ZAR 100 - 190
United Kingdom	Air Passenger Duty	GBP 15-253 (106 for economy class)
United States of America	Transportation Tax Passenger Civil Aviation Security Service Fee APHIS User Fee – Passengers Immigration User Fee Customs User Fee	USD 22.90 USD 5.6 USD 3.84 USD 7 USD 7.39

Source: IATA TTBS
Note: Rates as of September 2025

It is not always straightforward to distinguish these taxes from airport charges, which are also included in the air passenger ticket and can relate to airport security fees and other passenger services rendered at the airport. The specific taxes on the use of air transport and various fees and charges (together with VAT/GST on the sale, when applicable) are commonly referred to as "Ticket Taxes, Fees and Charges" (TTFCs) and are added to the cost of an airline ticket. Although visible on the ticket receipts, these TTFCs do not form part of airline revenue. Nevertheless, from the passengers' point of view, they impact the ticket price and the overall affordability of, and demand for, air travel.

[9] Exceptionally, some specific taxes are percentage-based. For instance, the Travel Voucher Tax in Guyana, the Ticket Sales Charge in Nigeria, or the Tourism Tax in Argentina. Source: IATA TTBS.
[10] In general, VAT/GST/sales taxes are due at the time of the airline ticket's sale, while specific taxes and airport charges included in the ticket are deferred until the passenger flies, with the payment being due to the charging authorities after the provision of transport.

Environmental taxes

An environmental (or sometimes referred to as a "green") tax is a levy on goods or activities that have an adverse impact on the environment. Environmental taxes may take various forms, are often indirect taxes, but can also take the form of extra taxes on profits. The target can be any greenhouse gas (GHG) emitting or polluting activity, including energy, transport, and resources. Environmental taxes can be added to energy products (including vehicle fuels), motor vehicles, transport services, measured or estimated emissions released to air and water, ozone depleting substances, certain non-point sources of water pollution, waste management and noise, as well as to the management of water, land, soil, forests, biodiversity, wildlife and fish stocks, etc.

The tax base can be a physical unit, for example, liters of gasoline, or a proxy of a physical unit, such as taxes on nuclear power stations. Environmental taxes pertaining to airlines usually focus on noise pollution and carbon emissions resulting from air transport activities. These taxes can be levied either in relation to the level of noise or emissions generated by flights, or in the form of specific taxes on the use of air transport on a per-passenger basis.

In 2016, the 193 ICAO member States agreed to a global carbon reduction and offsetting mechanism to address CO_2 emissions from international air transport (the Carbon Offsetting and Reduction Scheme for International Aviation, or CORSIA). The same States agreed, after having evaluated other options, that CORSIA should be exclusive of any other market-based mechanism, expressly rejecting any levies or taxes as an effective means to address carbon emissions of international air transport. Despite this international consensus, several States apply disparate taxes said to address airlines' environmental impact.

Not only is it deplorable that such policy fragmentation occurs, but these taxes offer little certifiable progress in terms of CO_2 emissions reduction. Taxes can only be successful in this respect if the proceeds are allocated to the specific aim of decarbonization. When that is not the case, the tax becomes part of the government's general funding strategy, does not deliver certifiable climate benefits, and detracts from the stated goals by diverting resources that could have been deployed for decarbonization.

Moreover, taxes tend to diminish the demand for the target activity and curtail the consumption of its output. Additional taxes on airlines and their services will thwart the economic development gains that all who use their services can benefit from, as well as distract from direct emissions reductions – a double "own-goal".

Table 3. Examples of environmental taxes on air transport

Country	Type of tax	Rate
Catalonia (Spain)	Tax on nitrogen oxide emissions	Varies by emissions generated
Colombia	Carbon Tax on domestic flights	USD 5/tonne of CO_2 (adjusted annually to inflation plus 1%)
Djibouti	Carbon Tax	USD 17/tonne of CO_2
Dominica	Environmental Levy	EUR 3 per pax
Poland	Emissions Tax	Varies by emissions generated
Portugal	Carbon Tax	EUR 2 per pax
South Africa	Carbon Tax	Annual increase, R 236/tonne of CO_2 (as of January 2025)
Vietnam	Environmental protection tax on aviation fuel	VND 100 /liter

Source: IATA TTBS

Conclusion

Air transport is a significant driver of global economic activity, both in its own right and in terms of facilitating and accelerating global economic activity and social development. Overall, the aviation industry supported more than 87 million jobs and contributed USD 4.1 trillion to global GDP output in 2023.[11] Importantly, this does not capture the increase in the productivity of all industry sectors which utilize air transport. Policymakers must also consider the fact that the industry's net profit margin is estimated at 3.7% in 2025 and has never exceeded 5%. Margins in air transport are at the low end of the generally low margins in the transportation sector, and significantly below those generated in the fossil fuel sector or in the financial and technology sectors, all of which generate net profit margins of around 20% or above.

We invite States to consider that:

- For the purpose of raising funds for general government expenditure, air transportation is a weak tax base.
- For the purpose of bringing about a swift reduction in CO_2 emissions from air transportation, States should support the frameworks that they have agreed upon under ICAO's purview for certifying such progress.
- For the purpose of raising funds specifically to assist developing countries with the costs of climate change and decarbonization, CORSIA, and the global carbon credit market, provide access to airlines and global investors – a tax base that is much greater than any locally applied ticket taxes borne by the local population.
- For the purpose of economic development and growing the local tax base, connecting developing economies with international supply chains and markets is indispensable, and air transportation is uniquely equipped to do so.

[11] ATAG, *Benefits Beyond Borders*. URL:https://aviationbenefits.org/media/e5ynn4x0/abbb2024_full_report.pdf .