Service Tax: letter from the Director General of IATA to the Minister of Finance of the Republic of India, Shri Pranab Mukherjee – copied to the Minister of State for Civil Aviation, Shri Praful Patel

Geneva, 9 March 2010

Dear Minister Shri Mukherjee,

I am writing to urge you to roll back fully the service tax applicable to domestic and international air transport (namely the tax applied to first, business and economy class tickets, and cargo). IATA and its member airlines object in the strongest terms to the extension in the 2010/11 Union Budget of an already unacceptable service tax to economy class air tickets.

As explained in IATA’s earlier correspondence with the Ministry of Finance, taxation of any form on the sale and use of air transport is a clear violation of India’s international obligations under the Chicago Convention. ICAO’s policies were formulated in recognition of the adverse impact that taxation would have on growth and development of the aviation industry.

However, the tax not only contravenes ICAO’s policies\(^1\), but is also counter-productive. The aviation industry is a vital component of the Indian economy. Aviation is a major industry in its own right, employing large numbers of skilled workers. It is also a facilitator of economic growth in other industries. The World Travel & Tourism Council estimated that travel and tourism in India generated INR 3,239.4 billion (US$67.3 billion) of economic activity in 2009 or just under 6% of India’s GDP.

The extension of the service tax to international economy-class services and domestic operations will have adverse effects on the economic contribution associated with air travel. By referring to published studies on passenger sensitivity to the price of tickets\(^2\), we estimate that this 10.3% (service tax including cess) increase in travel cost due to additional taxation will result in 7-8% fewer passenger journeys by air. This equates to a fall of 3.1 million domestic passengers, 152,000 fewer international journeys within the Asian region, and over 97,000 fewer to Europe in a year. The airline industry will face a reduction in revenues of US$306 million due to the fall in demand across these three route areas alone.

This could not come at a worse time for aviation in India. The global airline industry had a tumultuous year in 2009 when we expected airlines to have chalked up net losses of US$9.4 billion. The Indian airline industry with US$1.5 billion in losses accounted for a huge proportion of these global losses.

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\(^1\) Doc 8632 – ICAO’s Policy on Taxation in the field of International Air Transport
In 2010, steep challenges remain for the airline industry. While we have seen traffic trends rising, improvement in the bottom lines of airlines remains a concern because of higher capacity growth, weak passenger yields and higher oil prices. IATA forecasts that the global airline industry will continue to be mired in losses in 2010 amounting to US$2.8 billion.

As the aviation industry goes through this fragile recovery phase, great care needs to be taken to ensure that this recovery gathers momentum and is not derailed. Government action needs to be geared towards promoting its healthy growth that can also generate wider benefits for the overall economy. The recent Union budget announcement, extending the service tax already applicable to first and business class tickets and cargo to economy class air tickets for both international and domestic flights, is absolutely a step in the wrong direction.

IATA strongly urges the Indian government to immediately and fully roll back the service tax applicable to domestic and international air transport. The imposition of a huge service tax is unaffordable for the aviation industry in India, puts its fragile recovery at high risk and overall will cost the Indian economy more than the tax revenue raised.

Your urgent attention to this matter would be greatly appreciated. I look forward to hearing from you.

Sincerely,

Giovanni Bisignani
Director General & CEO
IATA – International Air Transport Association
Montreal – Geneva