



# Aviation Tax Reform

## Response to HMT Consultation

15 June 2021

Stansted Airport Watch (SAW), formerly Stop Stansted Expansion (SSE), has some 7,500 members and registered online supporters including 150 parish and town councils, local residents' groups, and national and local environmental groups. Our objective is to ensure that the airport's operations are managed to reduce and minimise their adverse impacts. In this way we aim to protect the quality of life of the communities adversely affected by Stansted Airport and the natural environment locally and globally.



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## 1 INTRODUCTION

- 1.1 Stansted Airport Watch ("SAW") welcomes the opportunity to respond to this HMT consultation on aviation tax reform ("the ATR consultation"). Our forerunner, Stop Stansted Expansion ("SSE"), submitted a comprehensive response to HMT on the similar consultation carried out in 2011.
- 1.2 Our response includes proposals which are not addressed in the ATR consultation and so cannot be aligned with your structured consultation questions. Nevertheless, we trust you will give careful consideration to the analysis and proposals we have set out below.
- 1.3 Except where otherwise stated, this response has been prepared on a revenue-neutral basis notwithstanding the fact that the aviation sector is significantly under-taxed compared to other transport sectors. We deal separately with that issue.
- 1.4 Finally, by way of introduction, we are disappointed to note that HMT has used the same misleading economic data as used by the Department for Transport ("DfT") as the basis for the exaggerated claim that the aviation sector *"contributed at least £22 billion to the UK economy, along with over 230,000 jobs, prior to COVID-19"*<sup>1</sup>. These are aggregate numbers for the aviation and aerospace industries and include the manufacture, maintenance and repair of military aircraft and spacecraft as well as civil aircraft and spacecraft<sup>2</sup>. It is quite wrong to conflate the aviation and aerospace sectors in this way and it undermines HMT's reputation for reliability and objectivity.

## 2 SETTING THE SCENE

- 2.1 Air Passenger Duty ("APD") was introduced in 1994 not as an environmental tax but because the then Chancellor, Ken Clarke, considered the aviation industry to be lightly taxed compared to other sectors, largely due to its exemption from fuel duty and VAT.
- 2.2 APD was initially set at £5.00 for short haul economy flights. Defined by HMT as "the reduced rate", this applies to more than three quarters of all flights. Short haul is defined as flights to locations where the country's capital city is within 2,000 miles from London. In 1997 this rate was increased to £10.00.
- 2.3 In 2001, Gordon Brown, as Chancellor, halved the reduced rate of APD to £5.00 and he then put it back to £10.00 in 2007. His successor, Alistair Darling, raised it to £11.00 in 2009. The next Chancellor, George Osborne, increased it to £12.00 in 2010 and then to

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<sup>1</sup> ATR consultation document, para 1.13.

<sup>2</sup> The employment and GVA numbers quoted by HMT for aviation are the aggregate of the following four ONS categories: (i) SIC 30.3 - Manufacture of air and spacecraft and related machinery; (ii) SIC 33.16 - Repair and maintenance of aircraft and spacecraft; (iii) SIC 51 Air transport; and (iv) SIC 52.23 Service activities incidental to air transportation.

£13.00 in April 2012 and it has since remained at that level. In the March 2021 Budget, the Chancellor announced that the reduced rate would remain at £13.00 for this fiscal year and for 2022/23.

- 2.4 Thus, in the 24 years since 1997, the rate of APD for short haul economy flights, i.e. the 'Reduced Rate', has increased by just £3.00. This increase of 30% compares to an increase of 91% in the Retail Price Index over that period<sup>3</sup>. In other words, the Reduced Rate of APD (paid by 78% of passengers) would need to be £19.10 today to equate to the £10 charged in 1997.

### 3 REVENUE CONSIDERATIONS

- 3.1 APD is payable on departure from a UK airport and so is payable on both legs of a domestic round trip but only on the outward leg of a round trip to an overseas destination.
- 3.2 APD raised £3.7 billion for public finances in 2019/20 (i.e. pre-pandemic) and this is forecast to increase to £4.4 billion by 2025/26, helped by higher rates for premium class travel and an expected increase in air travel. Annual APD receipts are as follows<sup>4</sup>:

#### APD Receipts - HMRC data

Out-turn		Forecast				
2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
£3.7bn	£0.6bn (est.)	£1.3bn	£2.0bn	£3.1bn	£4.3bn	£4.4bn

- 3.3 APD would need to be 3.2 times its current level, i.e. around £42 for the Reduced Rate, to equate to the value of the industry's exemption from fuel duty and VAT. The basis for this estimate is shown in Annex A.

### 4 DISTANCE BANDS

- 4.1 HMT is considering whether the existing two-band system should be extended to three or more bands<sup>5</sup>. Whilst we understand the arguments for linking APD more closely to carbon emissions, we are not persuaded that this is the most appropriate approach for addressing the climate change impacts of aviation.
- 4.2 Furthermore, in 2011, when HMT was considering 'Duty per Plane' as an alternative to APD, the legal advice received was that this could be in breach of the Chicago Convention because it too closely resembled a carbon tax which is, in effect, a fuel tax. There is the

<sup>3</sup> RPI was 155.4 in March 1997 and 296.9 in March 2020.

<sup>4</sup> HMT Red Book, Budget - March 2021, Table C5.

<sup>5</sup> Prior to 1 April 2013 there were four distance bands.

risk that the same interpretation could apply to a distance banding system which was more closely aligned to aircraft emissions (i.e. fuel usage) than the present two-band system.

4.3 Also, as noted in the ATR consultation document, the four-band structure which applied from 2008 to 2015 gave rise to certain anomalies. For example, Los Angeles and San Francisco were in Band B whereas the whole of the Caribbean was in Band C. This was not only illogical but also inequitable having regard to the prosperity of California relative to Caribbean LDCs, particularly in view of their dependence upon foreign tourism.

4.4 We believe there is both merit and logic in having a single APD band, regardless of distance, for the following reasons:

*i. Choice of Mode*

There is no realistic alternative to air travel for long haul journeys whereas for short haul journeys, there is often a viable rail alternative, particularly for domestic travel but also for travel to mainland Europe.

*ii. Fuel Efficiency*

Long haul flights are significantly more efficient than short haul flights in terms of fuel use per seat kilometre and this relates directly to CO<sub>2</sub> emissions. Typically, 25%-30% of the fuel consumption on a short haul flight is used for the LTO (landing and take-off) and climb cycle compared to 5%-10% for long haul flights. The final column in the following extension of Table 4A in the ATR consultation document provides a further illustration of the comparative inefficiency of short haul relative to long haul flights:

**Comparative emissions for one-way flights from London**

Journey	Distance (km)	Emissions per passenger (kg CO <sub>2</sub> )	Typical seating capacity	Emissions per seat kilometre (kg CO <sub>2</sub> )
London to Rome	1,442	136.7	180	0.09
London to New York	5,536	335.4	330	0.06
London to Tokyo	9,585	418.3	330	0.04
London to Perth	14,499	498.6	330	0.03

*Notes: Based on ICAO calculator<sup>6</sup> (as per Table 4A in the ATR consultation), for economy class, single trip, using an assumed 82% load factor.*

*iii. APD Leakage*

A single APD distance band would remove the opportunity for long haul rates of APD to be avoided by hubbing via a non-UK airport such as Dublin or Amsterdam. A multi-band system provides an incentive for this type of hubbing, which has an adverse

<sup>6</sup> <https://www.icao.int/environmental-protection/Carbonoffset/Pages/default.aspx>.

impact not only on APD revenues, but also on UK airport and airline revenues and on overall carbon emissions where it results in an additional LTO/climb cycle and/or additional distance.

*iv. Presentation*

When APD comes in for criticism from the aviation lobby, the example invariably given is the £328 cost for a family of four<sup>7</sup> to the highest band destination (currently Band B), ignoring that fact that the vast majority of passengers (78%) pay just £13 APD. In this respect a unitary rate would be more defensible.

*v. Impact*

A Reduced Rate of APD of £30 and a Standard Rate of £60 - regardless of distance - would enable the removal of distance bands on a revenue neutral basis (see Annex B). Having regard to the price elasticity of air travel, this would slightly dampen demand for short haul flights, especially short stay leisure trips (week-end breaks etc) to mainland Europe. Short-stay leisure trips are increasingly difficult to justify in a climate emergency and a reduction in such trips could provide economic benefits for the UK by diverting consumer spending to the domestic economy (see Annex C).

*vi. "Poor subsidising the rich"*

Any such concerns that might arise from introducing a single distance band could be countered by the introduction of a Frequent Flyer Levy. See section 7 below.

## **5 DOMESTIC AIR TRAVEL**

5.1 The ATR consultation document refers to the 1944 Chicago Convention but it should be noted that the Convention does not apply to domestic flights. The US, Canada and Japan all apply fuel duty to domestic flights, and France, Germany and Italy apply VAT to domestic flights. These are policy options which could be considered if the Government so wished. The application of fuel duty and/or VAT to domestic flights could be part of the toolbox to deliver the Government's climate change objectives. This does not however form part of our proposals in relation to this particular consultation and we acknowledge that applying fuel duty and/or VAT to domestic flights would run counter to the Government's objective of improving domestic connectivity.

5.2 HMT has identified two options for easing the burden of APD on domestic flights, namely:

- (i) An APD exemption for the return leg of a domestic return flight; or
- (ii) A new band of APD for domestic flights.

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<sup>7</sup> Note that from March 2016, all children under 16 travelling in the lowest class of travel were exempt from APD.

- 5.3 We respectfully propose a third option which, we believe would provide a significantly better fit with the Government's connectivity and climate change objectives, namely, to grant APD exemption (**other than for Higher Rate APD<sup>8</sup>**) to any airport handling less than (say) 3 million passengers per annum (mppa)<sup>9</sup>.
- 5.4 For the three calendar years 2017-2019, only 16 UK airports averaged more than 3mppa, including 3 in Scotland which are subject to devolved arrangements<sup>10</sup>:

### The UK's 16 largest airports

Heathrow	Birmingham	Liverpool
Gatwick	Bristol	East Midlands
Manchester	Glasgow	Leeds Bradford
Stansted	Belfast International	Aberdeen
Luton	Newcastle	
Edinburgh	London City	

- 5.5 The 16 largest UK airports account for 95.0% of all passengers<sup>11</sup> and a higher share of APD receipts since the smaller airports have very few long-haul flights or business/first class travel<sup>12</sup> (other than private/business aircraft) and many smaller airports are already exempt from APD. We estimate that APD receipts would decline by just 3% if all airports below an average annual throughput of 3mppa were exempted. The list is as follows:

### Smaller UK airports which could be exempted from APD

Belfast City (George Best)	City Of Derry (Eglinton)	Isle of Barra
Southend	Humberside	Wick John O Groats
Southampton	Kirkwall	Tiree
Cardiff Wales	Teesside International	Campbeltown
Doncaster Sheffield	Stornoway	Lerwick (Tingwall)
Exeter	Scatsta	Biggin Hill
Inverness*	Isles Of Scilly (St. Marys)	Lydd
Bournemouth	Lands End (St Just)	Cambridge
Prestwick	Islay	Gloucestershire
Norwich	Benbecula	Oxford (Kidlington)
Newquay	Dundee	Shoreham
Sumburgh	Blackpool	Manston

**Note:** Many of the above airports are already covered by exemptions, including all the Highlands and Islands airports, Isles of Scilly and other airports with PSO support.

<sup>8</sup> Higher Rate APD, which applies to Private/Business jets - see Section 8 below - would continue to be payable at smaller airports, noting that some of them - e.g. Biggin Hill and Farnborough - handle substantial traffic of this type.

<sup>9</sup> Based on CAA statistics for the three calendar years preceding the start of the fiscal year. The Covid-19 impact could either be disregarded (i.e. by ignoring 2020 and 2021) or it could be incorporated, thereby allowing more airports to qualify for exemption in the early years of the scheme.

<sup>10</sup> Belfast International airport is also subject to devolved arrangements for international flights.

<sup>11</sup> Three-year average for 2017-2019 inclusive.

<sup>12</sup> Subject to Standard Rate APD, which is currently set at twice the reduced rate.

- 5.6 A further advantage of adopting a selective approach for small airports rather than a blanket concession on domestic flights is that it would avoid the risk of any material shift from rail to air. On domestic journeys where air and rail are in competition, such as between London and Scotland or between London and the North or North West of England, the relevant airports would not qualify for exemption from APD.
- 5.7 It would be open to the Government to consider whether the exemption should apply to international flights as well as domestic. At present, the UK's small regional airports, as listed above, have very little international traffic and there may be an economic justification for providing support in that regard.
- 5.8 Finally, on this point, the estimated 3% decline in APD revenues which would arise from exempting smaller airports from APD could be almost entirely recovered by extending the scope of aviation tax to include cargo flights, as explained below.

## **6 CARGO FLIGHTS**

- 6.1 Cargo air transport movements ("CATMs") account for about 2.5% of all UK air transport movements (pre-pandemic) and about the same proportion UK aviation's CO<sub>2</sub> emissions<sup>13</sup> but they lie outside the scope of aviation tax. Self-evidently, it is not possible to extend APD to CATMs but an alternative would be a cargo aircraft duty ("CAD") based on maximum take-off weight ("MTOW").
- 6.2 There were 57,535 CATMs in 2019 with the UK's 16 largest airports, as above, accounting for 53,579 (93%). For the purpose of this illustration we assume that the UK's smaller airports (as listed in the above table) would be exempt from CAD.
- 6.3 Again for illustrative purposes, let us assume that 50% of CATMs are aircraft categorised by ICAO as "heavy" (i.e. >136,000kg MTOW) and the remaining 50% are aircraft categorised by ICAO as "light" or "medium" (i.e. <136,000kg MTOW), and let us further assume that CAD is set at a rate of 40 x Standard Rate APD for heavy CATMs and 40 x Reduced Rate APD for medium or light CATMs. Using the APD rates of £60 (Standard) and £30 (Reduced) shown in paragraph 4.4(v) above, CATM duty would be £2,400 for heavy CATMs (40 x £60) and £1,200 for medium or light CATMs (40 x £30).
- 6.4 These illustrative rates of CAD would generate annual receipts of c.£96 million, equivalent to about 2.5% of combined APD and CAD receipts and in line with the share of UK aviation emissions attributable to CATMs<sup>14</sup>. (Indeed, the illustrative CAD rates above were set at a level to provide equivalence.)

<sup>13</sup> UK Aviation Forecasts, DfT, Oct 2017, <https://www.gov.uk/government/publications/uk-aviation-forecasts-2017>.

<sup>14</sup> Ibid, an estimated 1.0 MtCO<sub>2</sub> out of total UK aviation emissions of 37.3MtCO<sub>2</sub>, Table 69.

- 6.5 As noted in paragraph 4.2 above, when HMT previously considered 'Duty per Plane', there were concerns that this could be in breach of the Chicago Convention because it was related to distance bands and therefore too closely resembled a fuel tax. However, the CAD proposal above is based on MTOW rather than distance travelled and therefore cannot reasonably be described as a fuel tax.
- 6.6 Finally, by way of justification, it is inequitable, and runs contrary to the Government's climate change objectives, to tax the road transportation to market of fruit and vegetables grown in Kent, Somerset and Norfolk, while not taxing the air transportation to market of fruit and vegetables from as far away as Kenya, South America and New Zealand.

## **7 FREQUENT FLYER LEVY**

- 7.1 We agree that APD should continue to be the principal tax on the aviation sector. We also agree that a Frequent Flyer Levy ("FFL") which progressively increased the amount of tax payable according to the number of flights a passenger had previously taken would be so complex to administer as to render this form of FFL to be unworkable.
- 7.2 We do however believe that a simplified form of FFL could be introduced which, whilst retaining APD, would require frequent flyers to pay more. A possible basis for this is outlined in Annex D.

## **8 BUSINESS/PRIVATE AIRCRAFT**

- 8.1 The ATR consultation document makes no mention of the taxation of flights on business/private aircraft. Defined as 'Higher Rate' APD, this tax applies to all flights from UK airports aboard aircraft of 20 tonnes and above with fewer than 19 seats.<sup>15</sup> Aircraft below 20 tonnes but above 5.7 tonnes are also subject to APD but at the Standard Rate.
- 8.2 When first introduced in April 2013, Higher Rate APD, payable by passengers on board business/private aircraft, was set at £78 for Band A, £268 for Band B, £322 for Band C, and £376 for Band D<sup>16</sup>. It was projected by HMT to generate £5 million per annum<sup>17</sup> based on an average of three passengers per flight and the following further assumptions<sup>18</sup>:

*"The extension of the tax base to all flights on aircraft of 5.7 tonnes or more is estimated to bring an additional 50,000 flights within the scope*

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<sup>15</sup> [https://webarchive.nationalarchives.gov.uk/20130102201054/http://www.hm-treasury.gov.uk/d/condoc\\_responses\\_air\\_passenger\\_duty.pdf](https://webarchive.nationalarchives.gov.uk/20130102201054/http://www.hm-treasury.gov.uk/d/condoc_responses_air_passenger_duty.pdf)

<sup>16</sup> In April 2015, the number of distance bands was reduced from four to two.

<sup>17</sup> Autumn Statement, HMT, November 2011, Table 2.1.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/228671/8231.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/228671/8231.pdf)

<sup>18</sup> [https://webarchive.nationalarchives.gov.uk/20130102201054/http://www.hm-treasury.gov.uk/d/condoc\\_responses\\_air\\_passenger\\_duty.pdf](https://webarchive.nationalarchives.gov.uk/20130102201054/http://www.hm-treasury.gov.uk/d/condoc_responses_air_passenger_duty.pdf)

*of APD. Between 5% and 10% of these flights will be captured by the new premium tax rate (planes with a certified authorised weight over 20 tonnes and fewer than 19 seats)."*

- 8.3 There is no available breakdown of the actual annual receipts from Higher Rate APD on business/private aircraft but we know that the current Higher Rate of APD is £78 for Band A ( $\leq 2,000$  miles) and £541 for Band B ( $> 2,000$  miles). If we were to suppose that 90% of flights are Band A and 10% Band B, the weighted average Higher Rate of APD would be £124. An average of three passengers per flight, as indicated by HMRC (see 8.2 above), would generate £372 per flight and so, if annual receipts are still of the order of £5 million as projected by HMT in the 2011 Autumn Statement<sup>19</sup> for the years 2013/14 to 2016/17, this would equate to some 16,000 flights per annum. This seems an implausibly low number when compared to the number of business/private flights reported by the CAA<sup>20</sup>.
- 8.4 Whilst the APD Bulletin published by HMRC<sup>21</sup> provides an annual breakdown for Reduced Rate and Standard Rate APD receipts for Band A and Band B, including the number of passengers in each category, this information is not provided for the Higher Rate of APD. If, however, the receipts are still of the order of £5 million per annum at 2013/14 prices, as first projected in the 2011 Autumn Statement<sup>22</sup>, we submit that this is woefully low relative to the climate change impact of these flights.
- 8.5 A recent report by Transport & Environment<sup>23</sup> estimated that, per passenger, private jets are between five and fourteen times more polluting than commercial aircraft and that departing flights from UK airports by private jets generated 425,500 tonnes of CO<sub>2</sub> in 2019. If that is the case, it would mean that private jets are responsible for about 1.1% of UK aviation's CO<sub>2</sub> emissions and so, in the interests of equity, should pay around 1.1% of total APD receipts. That would have amounted to about £42million in 2019.
- 8.6 We have found it extremely difficult to obtain reliable data for the private/business aircraft sector. The fact that much of this traffic emanates from small airports and airfields no doubt adds to the difficulty of producing reliable data and of ensuring that APD liabilities are properly declared and collected. Indeed, there is considerable anecdotal evidence of non-compliance. In any event we would encourage HMT and HMRC to review the

<sup>19</sup> Autumn Statement, HMT, November 2011, Table 2.1.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/228671/8231.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/228671/8231.pdf)

<sup>20</sup> CAA Airport Statistics (Table 3.1) show a total of 288,000 aircraft movements in 2019 attributable to air taxes (56,000), private flights (153,000) and business flights (79,000). These numbers include arrivals as well as departures and, since international arrivals do not pay APD, the potential number of taxable flights should be between 150,000 and 200,000. Even if all private flights were excluded, the potential number of taxable flights should be between 70,000 and 90,000. It seems implausible that only about 16,000 flights per annum are paying Higher Rate APD.

<sup>21</sup> <https://www.gov.uk/government/statistics/air-passenger-duty-bulletin>.

<sup>22</sup> Autumn Statement, November 2011 -

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/228671/8231.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/228671/8231.pdf)

<sup>23</sup> [https://www.transportenvironment.org/sites/te/files/publications/2021\\_05\\_private\\_jets\\_FINAL.pdf](https://www.transportenvironment.org/sites/te/files/publications/2021_05_private_jets_FINAL.pdf), May 2021.

application of APD to the private/business aircraft sector, as well as the rates of APD charged. We would also encourage HMRC to provide greater transparency in this area including, on annual basis, the total number of flights, passengers, and APD liabilities and receipts, by category of flight.

## **9 CONCLUDING POINTS**

9.1 Except where otherwise stated, we have responded to this consultation on a revenue neutral basis. It is however important to remind ourselves that air travel benefits from a highly favourable tax regime, with its origins in the 1944 Chicago Convention, whereby the aviation sector is generally exempt from fuel duty and VAT. Substantially higher rates of APD are therefore not difficult to justify and could make a significant contribution to the delivery of government policy and to the best interests of the UK in three main ways:

- Increasing the cost of air travel would dampen demand and thereby contribute to the achievement of the government's climate change objectives and to the delivery of other environmental policies;
- Noting that outbound tourism is almost twice the size of inbound tourism, a reduction in tourism would reduce the UK trade deficit on international travel and divert consumer spending, investment and jobs to the UK economy (see Annex C); and
- An increase in APD revenues would enable other UK tax rates to be lowered, or government spending to be increased, or borrowing to be reduced, or a combination of all three.

9.2 As shown in Annex A, APD would need to be 3.2 times its current level to offset the fuel duty and VAT exemptions enjoyed by the aviation sector, using the yardstick of the rates of fuel duty and VAT paid by road users.

*Stansted Airport Watch*  
15 June 2021

**Annex A****Value of Duty and VAT Exemptions  
Basis for Calculations**

<b>Key Parameters (2019)</b>	<b>Quantity/Value</b>
Aviation turbine fuel consumed <sup>24</sup>	12.4 million tonnes
Convert to Litres <sup>25</sup>	15.5 billion litres
Road users: Fuel duty per litre <sup>26</sup>	57.95 pence
VAT on fuel per litre <sup>27</sup>	21.0 pence
Value of fuel duty and VAT exemptions to UK aviation <sup>28</sup>	£12.2 billion
HMRC - APD receipts <sup>29</sup>	£3.8 billion
Shortfall v APD Receipts (£billion)	£8.4 billion

**APD would need to be 3.2 times its current level to reach tax parity with road users.**

<sup>24</sup> DfT Transport Statistics. Table ENV0101: [Energy and environment: data tables \(ENV\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/energy-and-environment-data-tables-env).

<sup>25</sup> BEIS GHG Conversion Factors. Fuel Properties tab shows density for aviation turbine fuel =1,250 litres/tonne: <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021>.

<sup>26</sup> Fuel duty on petrol, diesel, biodiesel and bioethanol has been unchanged since March 2011 at 57.95p/litre: <https://www.gov.uk/tax-on-shopping/fuel-duty>.

<sup>27</sup> Based on pump price of £1.26/litre and VAT rate of 20% = 105p/litre + 21p VAT (AA Survey, May 2021): <https://www.theaa.com/driving-advice/driving-costs/fuel-prices>.

<sup>28</sup> Aviation turbine fuel consumption of 15.5 billion litres x (57.95+21.0) pence per litre = £12.2 billion.

<sup>29</sup> Receipts for 2019 - APD Bulletin, HMRC, March 2021: [Air Passenger Duty Bulletin - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/air-passenger-duty-bulletin).

**Annex B****Removal of Distance Bands: Estimation of single band APD rates on a revenue neutral basis****2019 Data**<sup>30</sup>

<b>Current</b>	<b>Applicable rate of APD</b>	<b>Number of Payments ('000)</b>	<b>Resultant Receipts (£m)</b>
Reduced Rate Band A	£13.00	95,969	1,248
Reduced Rate Band B	£82.00	20,259	1,661
Standard Rate Band A	£26.00	2,304	60
Standard Rate Band B	£180.00	5,518	993
<b>Total</b>		<b>124,050</b>	<b>3,962</b>

<b>Proposed</b>	<b>Applicable rate of APD</b>	<b>Number of Payments ('000)</b>	<b>Resultant Receipts (£m)</b>
Reduced Rate	£30	116,228	3,487
Standard Rate	£60	7,822	469
<b>Total</b>		<b>124,050</b>	<b>3,956</b>

**Note 1:**

In addition to the above, "Higher Rate" APD was introduced in April 2013 for travel on private aircraft/ business jets of 20 tonnes or more, equipped to carry fewer than 19 passengers. Higher Rate APD is currently set at £78 per passenger for Band A and £541 per passenger for Band B. HMRC do not publish a breakdown showing Band A and B receipts separately and so it has not been possible to calculate a weighted average. Again, however, it is suggested that distance banding should be ended.

<sup>30</sup> Receipts for 2019 - APD Bulletin, HMRC, March 2021: [Air Passenger Duty Bulletin - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531212/Air-Passenger-Duty-Bulletin-March-2021.pdf).

## Annex C

## Impact on UK Economy

- C.1 In 2019, UK residents made 93.1 million visits overseas, compared to 40.9 million visits to the UK by overseas residents. The outward financial flow was £62.3 billion and the inward flow was £28.4 billion, resulting in a record trade deficit of £33.9 billion<sup>31</sup>.
- C.2 In 2020, with international travel severely constrained by Covid-19, UK residents made 23.8 million visits overseas (-74% v 2019) and overseas residents made 11.1 million visits to the UK (-73% v 2019). The outward financial flow was £13.8 billion and the inward flow was £6.2 billion, resulting in a far smaller trade deficit of £7.6 billion<sup>32</sup>.

**Summary: UK Trade Deficit on International Tourism**

	2019	2020
Spend by UK residents visits overseas	£62.3 billion	£13.8 billion
Spend by overseas visitors to the UK	£28.4 billion	£6.2 billion
<b>Net trade deficit on international tourism</b>	<b>£33.9 billion</b>	<b>£7.6 billion</b>

- C.3 There were few constraints on international tourism until the end of March 2020, so the underlying reduction in the trade deficit on international tourism has been about £3 billion per month. This relates only to in-country spend and excludes the UK trade deficit on international air travel (mainly flight tickets) which amounted to £2.2 billion in 2019<sup>33</sup>.
- C.4 It is widely accepted (including by the Bank of England, Oxford Economics and Barclaycard) that the decline in international tourism over the past year has provided a net lift for the UK economy. Consumer spending has been diverted from overseas holiday destinations to the domestic economy. Part of this spending has been diverted to 'staycations' but most has gone to home improvements, white and brown goods and furnishings. In addition to boosting UK GDP, this results in a VAT benefit to HMRC.
- C.5 Leisure air travel accounted for 88% of all UK air travel in 2019<sup>34</sup> and its price elasticity has been estimated by the DfT at -0.7<sup>35</sup>. This indicates that a 10% increase in air fares would lead to a 7% reduction in demand for leisure flights. It follows that increasing APD would dampen the demand for leisure air travel and in turn would be likely to lead to a narrowing of the UK trade deficit.

<sup>31</sup> 'Travel Trends 2019', ONS - <https://www.ons.gov.uk/releases/traveltrends2019>.

<sup>32</sup> 'Travel Trends 2020', ONS - <https://www.ons.gov.uk/releases/traveltrends2020>.

<sup>33</sup> 'The UK Balance of Payments: Pink Book 2020', ONS - Trade in Services, Chapter 3, Table 3.2, Air Transport - [03 Trade in services, The Pink Book - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk). This mainly arises from expenditure on overseas airlines' tickets by UK residents *less* expenditure on UK airlines' tickets by overseas residents.

<sup>34</sup> 'Travel Trends 2020', ONS - <https://www.ons.gov.uk/releases/traveltrends2020>, Tables 2.07 and 3.07.

<sup>35</sup> UK Aviation Forecasts, DfT, January 2013, para 2.16.

## Annex D

### A Simplified Form of Frequent Flyer Levy

- D.1 The National Travel Survey<sup>36</sup> has been broadly consistent in recent years in showing that roughly half the population did not take any overseas flights in the previous 12 months and about a quarter of the population took only one return flight.
- D.2 A simplified form of FFL could be achieved by applying a substantial increase to the Standard and Reduced rates of APD and then allowing one APD rebate per person per annum, with the rebate set at a level which would neutralise the impact of the increase for those who took only one flight per annum. However, those who took more than one annual flight would pay significantly more APD than at present.
- D.3 The onus would be upon the individual to claim the rebate and this could be a relatively simple online process. Claimants would enter details of their flight as well as the usual personal identification details. A secure payment system would then automatically settle the claims. HMRC already operates this type of arrangement for VAT rebates on goods taken out of the country by foreign visitors. Claimants would need to sign a declaration that they had not made a claim in respect of any other flight in the previous 12 months and, after a year of operation, the system would then be able to check this.

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<sup>36</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/906847/nts-2019-factsheets.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/906847/nts-2019-factsheets.pdf). Note that this is for England and Wales only but there is no reason to suppose that the UK data would be materially different.