



Air Passenger Duty Ten Key Points



1. APD was introduced in 1994 by Ken Clarke, the then Chancellor of the Exchequer, not as an environmental tax but because he considered the aviation industry to be lightly taxed compared to other sectors, largely arising from its exemption from fuel duty and VAT.
2. It was initially set at £5.00 for short haul economy travel, which accounts for more than three quarters of all air travel. In 1997 Ken Clarke doubled APD to £10.00 for short haul economy flights.
3. Gordon Brown halved the short haul economy rate of APD in 2001, put it back up again to £10.00 in 2007 and Alistair Darling raised it to £11.00 in 2009. George Osborne increased it to £12.00 in 2010. There was no increase in 2011 but it was raised to £13.00 in April 2012. Thus, for the vast majority of passengers APD has increased by just £3.00 (30%) over the past 15 years.
4. APD is payable only on departure from a UK airport and so the basic Band A rate of £13.00 is for a round trip to an overseas destination. APD is however payable on both legs of a domestic round trip within the UK.
5. APD raised £2.6 billion for public finances in 2011/12 and this is planned to increase to £3.9 billion by 2015/16. APD would, however, need to rise to four times its current level to offset the value of the industry's exemption from fuel duty and VAT. If airlines paid the same level of fuel duty and VAT as road users, the cost to the aviation industry would be around £10.5 billion a year.
6. Not only do airlines pay no VAT on fuel, they are exempt from VAT on everything they buy relating to the provision of air transport services. Mostly, VAT is not charged in the first place; aircraft and aviation fuel, for example, are zero rated. However, where VAT is charged, the airlines claim this back and in 2010/11, HMRC paid UK airlines a VAT rebate of £583 million (net).
7. In 2010/11, the latest year for which a detailed HMRC breakdown is currently available, 77% of passengers paid APD at the short haul economy rate (Band A).
8. Whilst it is true that "passengers can end up paying £184.00 tax on some flights", as we are repeatedly told by the industry, this is the very top rate of APD and applies only to first class and business class passengers on long haul flights to countries whose capital city is more than 6,000 miles from London. Less than 0.4% of all air passengers fell into this category in 2010/11.
9. Regarding the alleged negative impacts on the UK economy of the recent hikes in APD, it is worth noting that overseas leisure trips by UK residents reduced from 60.1 million in 2008 to 49.2 million in 2011 – a fall of 10.9 million (21.5%) whilst the number of foreign tourists coming to the UK fell by less than 300,000 (1.6%) over the same period, from 23.8 million to 23.5 million. The effect of this was to reduce the UK's tourism trade deficit by £6.8 billion and to boost spending in the domestic UK tourism industry by £5.1 billion over the same period (2011 vs 2008).
10. Finally, those in the aviation industry who are pressing the Government for APD to be reduced should explain how they would propose to make up the revenue shortfall to the Exchequer. Should we sack some more policemen, teachers or nurses? Should we cut pensions or welfare benefits? Or should we raise VAT and/or extend its scope?