



# IATA ECONOMIC BRIEFING

## EUROPEAN AVIATION TAXES

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### KEY POINTS

- Airline passengers are already highly taxed. Even so, the industry continues to face political pressure from some quarters for new or higher taxes – whether on environmental, development or just revenue-raising grounds.
- The US Air Transport Association estimates that airlines and their passengers pay a total of US\$15.8 billion in taxes and charges in the United States. This note sets out IATA's initial estimate of the tax and charge burden in Europe.
- Taxes are defined as specific taxes on airline operations plus passenger related charges that are separately identified and additional to the basic fare price paid. On this basis, the total tax burden for EU airlines is estimated to be at least **€5.92 billion** (US\$7.3 billion) in 2004. This estimate does not include the large number of other small taxes and charges at smaller airports, for which it is difficult to obtain precise information.
- The estimate also excludes new or proposed taxes. The new French Solidarity Tax will add an estimated €246 million a year to the total tax burden, while the proposed Swedish Environmental Tax would add a further €149 million.
- The tax burden is equivalent to an estimated 14-15% of the total passenger revenues for airlines on all routes within Europe in 2004, or over five times the total profits earned by all European airlines. However, the implied tax rate on European flights will be slightly lower than 14%, as the estimated tax burden includes some receipts from long-haul journeys (e.g. it includes UK air passenger duty receipts from non-European flights too).
- But taxes are just one part of the story. Including payments for infrastructure costs, as well as taxes, sees airline passengers contribute between €4.6 and 8.4 for each air journey from/to France, Germany and the UK. By contrast, road users contribute less than €0.5 for each journey while rail and light rail users are heavily subsidised.

### ESTIMATE OF AIRLINE-SPECIFIC TAXES IN EUROPE

- Value Added Tax (VAT) is charged on domestic air travel in several EU countries, including the four largest domestic air markets of Germany, France, Italy and Spain. IATA estimates that VAT receipts from domestic air travel totalled **€65 million** in 2004, of which €702 million was paid by IATA member airlines.
- In addition, there are several large aviation-specific taxes that are imposed in some countries. These taxes include:
  - UK air passenger duty (APD), with receipts of **€1,270 million** (£864 million) in 2004.
  - The Spanish departure tax, with estimated receipts of **€330 million** in 2004.
  - The French Civil Aviation Tax, with estimated receipts of **€230 million** in 2004.
  - The Danish Transportation Tax, with estimated receipts of **€53 million** in 2004.
  - The City Council Tax at Rome Fiumicino airport, with estimated receipts of **€28 million** in 2004.
- In addition to these taxes, there are passenger related taxes and charges that are all added on to the basic ticket price for airline customers. Focusing on just ten major European airports shows estimated passenger service, security or other charges of **€2.9 billion** (see Table 1).
- Therefore, these identified taxes and charges come to an annual total of **€5.92 billion**. This is equivalent to:
  - An estimated 14-15% of passenger revenues for all airlines operating on routes within Europe in 2004.
  - Over five times the total level of net profits of all European-registered airlines in 2004.
- The estimate excludes new or proposed taxes on the airline industry. The French Solidarity Tax, due to become effective from 1 July 2006, will cost an estimated €246 million per annum, while the proposed Swedish Environmental Tax would add an estimated €149 million to the overall tax burden.

- The implied tax rate on a European airline ticket will be slightly less than 14%, as the estimated total includes some taxes on long-haul journeys (e.g. UK APD) that cannot be separated out due to difficulties in obtaining precise information. However, this would be offset to some degree by the large number of other smaller taxes and charges not included in the €5.92bn estimate, largely due to the difficulties in obtaining precise information on their size.

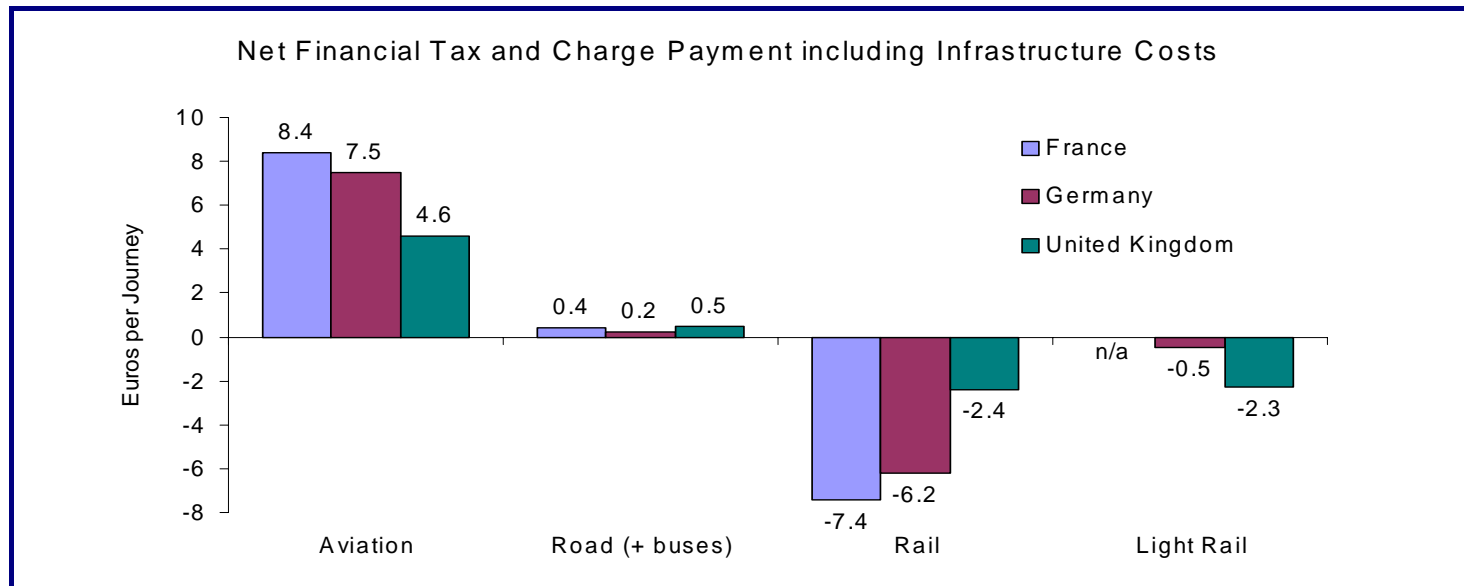
Table 1: Examples of Airport Related Taxes and Charges

Country	Airports	Taxes and Charges	Estimated Cost (€m)
France	CDG / ORY	Airport Tax	319
UK	LHR / LGW	Passenger Service Charge	750
Germany	FRA	Passenger Service Charge, Security Charge	689
Italy	FCO	Embarkation Tax	124
Netherlands	AMS	Passenger Service Charge, Security Charge and Noise Charge	595
Austria	VIE	Passenger Service Charge, Security Charge	139
Portugal	LIS	Passenger Service Charge, Security Tax	81
Greece	ATH	Passenger Service Charge, Security Charge and Airport Development Tax	204

## AIRLINE TAXES AND CONTRIBUTIONS TOWARDS INFRASTRUCTURE COSTS

- European airline passengers are also highly-taxed relative to other transport modes. IATA's recent detailed economic briefing "[Aviation Taxes and Charges](#)" showed that airlines make a positive net contribution – after including net tax payments and charges towards the cost of infrastructure use – in Germany, France and the UK (see Figure 1). By contrast, rail and light rail users are heavily subsidised for each journey they make.

Figure 1: Taxes and Charge by Transport Mode



- In discussing the case for new taxes on aviation, it should be remembered that:
  - In some countries, airline tax revenues are already higher than the revenues derived from environmental taxes (e.g. UK APD raises higher revenues (£864 million) than the UK Climate Change Levy (£764 million)).
  - There are no excess returns in the industry with which to justify a tax. The return on invested capital for European airlines over the last cycle was significantly below the costs of capital (See: "[Value Chain Profitability](#)" report).
  - Constraining air transport growth through taxation runs the risk of reducing the substantial wider economic benefits that air transport provides (See: "[Airline Network Benefits](#)" report).

## APPENDIX: ESTIMATING THE COST OF THE VARIOUS TAXES

### ➤ VAT on Domestic Air Travel

The number of domestic RPKs is taken from figures provided by the Association of European Airlines (AEA) for each of its member airlines. The % share of each airline of total AEA member domestic RPKs is then calculated. AEA provide a figure for total passenger revenues on domestic routes, which is then allocated according to the % share of RPKs. For each country where VAT is charged on domestic air travel, the relevant rate is applied to each airline's estimated revenues from domestic routes. Lastly, SRS Analyser schedule data is used to estimate the market share of other airlines on domestic routes in each country, and a pro-rata VAT payment allocated to these airlines based on their domestic market share.

### ➤ Aviation-Specific Taxes

UK Air Passenger Duty – figures taken directly from the UK Treasury.

Spanish Departure Tax – estimated by multiplying the number of domestic departures by a rate of €4.48, and the number of international departures (from mainland airports) by €4.19 for EU destinations and €6.64 for non-EU destinations.

French Civil Aviation Tax – figures taken from *Les Comptes du Transport*.

Danish Transportation Tax – estimated by multiplying the number of departures by DKK38.

Italian City Council Tax – estimated by multiplying the number of departures from FCO by a rate of €2.00.

### ➤ Airport Taxes and Charges

All figures are estimated by calculating the relevant number of departures at each of the airports by the various rates for each separate tax or charge. For example, the AMS noise tax is estimated by multiplying the number of departures by a rate of €2.00.

### ➤ New or Proposed Taxes

French Solidarity Tax – estimated by multiplying the number of departures from French airports by a rate of €1, €4, €10 or €40, depending on whether the destination is within or outside of Europe and whether the class of travel is economy or business class.

Swedish Environmental Tax – estimated by multiplying the number of domestic and international departures by a rate of €10.8 per passenger.

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