

Aviation tax reform: CIOT response

Indirect Tax

30 July 2021

The CIOT's Climate Change Working Group submitted a response to HM Treasury's consultation on aviation tax reform.

HM Treasury published the consultation document (see tinyurl.com/te2j2f74) to follow up on government commitments made in 2020 to review air passenger duty (APD) and to consult on the reform of aviation tax. The government has taken an initial policy position to make reforms with a view to the taxation of aviation supporting UK domestic connectivity and aligning more closely with government environmental objectives. As such, it is proposing to reduce the effective rate of APD on domestic flights and to reform the banding system for international flights. It is not proposing to introduce a frequent flyer levy at this time. It should be noted that the UK government has passed legislation making a binding commitment to achieve net zero emissions by 2050, while the Scottish government has set itself a target of achieving net zero by 2045.

We noted the challenge of achieving the net zero targets and the need for tax policies as a bare minimum not to work against their achievement. We called on the government to produce a climate change tax policy roadmap, using their ten point plan for a green industrial revolution (published November 2020: see tinyurl.com/n9jrynw2) as a basis. Our response pointed out that consideration needs to be given as to how the aviation tax proposals in the consultation document match up against that plan.

We raised a concern that the consultation proposals do not present a coherent policy picture. In particular, the proposal in respect of domestic flights would appear to act against the achievement of net zero; the domestic APD and international APD proposals seem to conflict with each another. This is likely to send a confusing message to the public and reduces transparency in relation to policy objectives. The consultation document does not set out sufficient or convincing evidence that the proposed reductions in APD for domestic flights will improve regional connectivity. We think that consideration should be given as to whether regional connectivity can be better served by forms of transport that produce lower carbon emissions.

While acknowledging that there would be many operational practicalities to work through, we also use our response to suggest that the government might usefully explore the possibility of a uniform carbon price across all sectors, probably in conjunction with a carbon border adjustment charge.

Finally, although the consultation sets out the current position in relation to the devolution of APD to Scotland, we thought that the proposals did not seem to take account of the fact that the tax is in the process of being devolved. We asked for clarification about the plans to resolve the issues relating to the Highlands and Islands exemption that are currently preventing the tax being devolved.

The CIOT response is available at www.tax.org.uk/ref779