

## Aviation tax reform: consultation

### Response by the Chartered Institute of Taxation

#### 1 Executive Summary

- 1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response.
- 1.2 The UK government has set itself a legislative target of achieving net zero emissions (produced) by 2050 (Scotland's target must be achieved by 2045). In addition, it has published a 10 point plan for a green industrial revolution. We think it is important that the UK government formulates a climate change tax policy roadmap, building on the 10 point plan, to ensure that tax policies align with achieving the net zero target(s). We are concerned that the consultation proposals for aviation tax reform in relation to domestic flights are not consistent with the achievement of the net zero emissions target. Nor do they send a coherent message to the aviation industry and consumers about the scale of measures that are required in order to achieve net zero emissions.
- 1.3 In relation to this, we are concerned that the presentation of some of the information within the consultation document may give the impression that domestic flights have less environmental impact than they do. For example, both domestic and international flights not only produce carbon emissions, but also nitrogen oxide and noise pollution. However, the consultation document only mentions the latter two forms of pollution in respect of international flights. Table 4.A compares emissions based on kilometres travelled, but does not go on to show emissions per passenger-kilometre travelled, which are actually higher for domestic flights than for international flights.
- 1.4 We question whether there is a need to incentivise domestic air travel by reducing the effective rate of domestic APD, and whether there is clear evidence that such a reduction would have a noticeable positive effect on regional connectivity. In terms of aligning tax policy with net zero targets, and recognising that some carbon emissions will always be present, we wonder whether it might be more effective to invest in improvements to forms of transport that generate lower carbon emissions, such as rail, with the aim of

improving regional connectivity, and connectivity between main city rail stations and (bearing in mind the impact of 'onward flights') international airports.

- 1.5 More broadly, we note that it has been observed by climate change experts that the achievement of net zero emissions consumed is required, rather than those produced. This is because reducing the UK's production of emissions can actually lead to displacement of the production of emissions and even the overall increase of emissions consumed, both in the UK and globally.
- 1.6 Given the above and the limited options in relation to taxing aviation due to international agreements and rules, we accept that in the foreseeable future APD should remain the main tax on the aviation sector. However, we note that in a market economy, in order to create the right incentives for economic decisions to be made consistently with achieving net zero, there would need to be a uniform carbon price across all sectors. For this to be achieved by taxation imposed unilaterally by one country, it seems inescapable that there would need to be a carbon border adjustment charge. If it is not possible, due to international agreements, to impose such a uniform carbon tax to the aviation sector, then APD (both domestic and international) needs to be set at a level such that it acts as the best proxy available to ensure that the aviation sector contributes its fair share to the achievement of the net zero targets, and that people and businesses make economic decisions consistent with that.
- 1.7 Achieving uniform carbon pricing across all sectors would likely mean a general increase in the cost of goods and services. This might justify starting at a low level, but one which it is understood would escalate over time, providing an incentive for the development of greener alternatives, a reduction in 'non-green' consumption and the choice of greener alternatives by consumers, as well as by producers at intermediate stages of production (such as the development and greater use of 'greener' fuels in the aviation sector as envisaged by the 10 point plan). In this way, the tax system could send clear signals to consumers and businesses about the scale of changes needed in order for the 10 point plan to succeed and for the UK to achieve net zero emissions while assisting the achievement of net zero emissions globally. We understand that such an approach, including the many operational practicalities, requires further consideration both in the context of this consultation and more widely. This is warranted by the scale and urgency of the problem.

## **2 About us**

- 2.1 The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 2.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 2.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

- 2.4 Our members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.

### 3 Introduction

3.1 We welcome the opportunity to respond to the HM Treasury consultation on aviation tax reform. This follows from government commitments made in 2020 to review Air Passenger Duty (APD) and consult on aviation tax reform.

3.2 Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

3.3 The government has taken an initial policy position to reform aviation tax such that it supports Union and domestic connectivity and aligns more closely with government environmental objectives. The UK government has passed legislation, making a binding commitment to achieve net zero emissions by 2050.<sup>1</sup> The Scottish government has set itself a target of achieving net zero emissions by 2045.

3.4 Given the challenge of meeting the net zero emissions target, and the intermediary targets before then, it would appear that in order for the UK to be successful, a clear overarching strategy and framework is required. In order to achieve net zero, environmental tax policies need to complement and reinforce the broad climate change strategy. It is also essential that tax policies not directly related to climate change are at the very least neutral in their environmental impacts, and certainly do not work against the net zero target. In light of this, we think that it would be helpful if the government were to produce a climate change tax policy roadmap. The basis for the roadmap should be the 10 point plan for a green industrial revolution that the government published in November 2020.<sup>2</sup> Consideration needs to be given as to how these aviation policy proposals match up against that plan, and whether more or tougher measures are needed in order to ensure the objectives set out in that plan can be met. In particular, we note that the aviation objectives in the 10 point plan depend heavily on research and its success. Unless all the research envisaged is to be conducted by the state (which would seem very stretching for the UK to pursue on its own, even if thought desirable), it will be necessary to ensure that market carbon pricing either directly or through the best proxies available incentivises and creates an economic case for such research, as well as the investment in and the take up of greener products that it hopefully generates.

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<sup>1</sup> <https://www.legislation.gov.uk/uksi/2019/1056/contents/made>

<sup>2</sup> <https://www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution>

- 3.5 Although the consultation sets out the current position in relation to the devolution of APD to Scotland, the proposals within the consultation do not seem to take account of the fact that the tax is in the process of being devolved. It would be helpful if the UK and Scottish governments could provide clarification about plans to resolve the issues relating to the Highlands and Islands exemption that are currently preventing devolution from being completed. Indeed, it may be necessary to resolve these issues in order for the proposals in relation to domestic APD to be taken forward.
- 3.6 In terms of aviation tax reform and this consultation document, we think it is important that all proposed aviation tax policies align with environmental objectives or at least do not detrimentally affect the UK's ability to achieve net zero carbon emissions. As the consultation document notes at paragraph 1.2, 'APD is the ... principal tax on the aviation sector' and aviation 'accounts for around 8% of the UK's total greenhouse gas emissions' (paragraph 1.10). According to a House of Commons Library Insight, transport emissions have barely fallen since 1990, despite there being a 45% cut in greenhouse gas emissions produced in the UK overall since that year.<sup>3</sup> We make our comments in light of our stated objectives for the tax system, the government's 10 point plan and also the key environmental targets that the UK needs to achieve.
- 3.7 We have a concern that the consultation and the proposals therein do not present a coherent policy picture. We acknowledge that it is necessary to consider taxes and tax systems holistically in terms of overall objectives. However, we are concerned that the policy proposal in respect of domestic flights works against the achievement of the net zero emissions target. In addition, taken together, the domestic proposal and the international proposal (and the objectives for each) seem to be in conflict with one another. We think this is likely to send a confusing message to the UK population, reduces transparency and muddies the waters in terms of the government trying to get the public on board with behavioural changes that will be required in order for the UK to achieve net zero emissions of production. We recognise that there will always be some carbon emissions and that regional connectivity, like other desirable things, may demand the tolerance of some carbon emissions. However, net zero will not be achieved if it is simply sacrificed to every other desirable objective. The value of achieving that other objective must be evidenced and priced, and priority given to those carbon sacrifices for which there is the greatest evidenced benefit. We have not seen evidence to support the impact of proposed reductions in APD on regional connectivity, and think consideration should be given as to whether regional connectivity can be better served by forms of transport that produce lower carbon emissions.
- 3.8 We think it is both striking and surprising that the consultation document only mentions additional externalities such as nitrogen oxide (NOx) and noise pollution in respect of international aviation. It should be clear that domestic aviation also contributes to these externalities.
- 3.9 Table 4.A sets out the level of emissions for certain flights from London and their distance. It would have been more informative for this table to include some domestic flights and an extra column setting out the carbon emissions per passenger-kilometre of each flight. The relationship between distance and emissions is not linear, since take-off is more emission intensive. So, while in absolute terms flights of shorter distance may produce fewer emissions, they produce higher emissions per passenger-kilometre, and the comparison with international flights is less striking than distance alone would suggest.
- 3.10 Chart 1.A sets out the current distance band structure of APD. If the aim is for APD not only to raise revenue but also to help drive behaviour to ensure that the UK meets its net zero emissions target, we think it is important to consider what the overall philosophy behind the different bands and rates should be. For

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<sup>3</sup> <https://commonslibrary.parliament.uk/uk-and-global-emissions-and-temperature-trends/>

example, should the bands and rates reflect carbon emissions, and if so, carbon emissions per passenger-kilometre or overall emissions per flight. This should then be set out clearly to industry and passengers.

- 3.11 If global net zero emissions are to be achieved, some climate change experts note that it is essential that countries aim to reduce their carbon consumption, rather than simply their carbon emissions produced. One way of achieving this would be to set a uniform carbon price and also have a carbon border adjustment charge. This would price carbon into all consumption costs and ensure the polluter – both the consumer and everyone making a less green choice at every stage of production – pays. This could be set so as to escalate over time, in order to provide an incentive for research into greener fuel, which is one of the objectives for aviation set out in the government’s 10 point plan. We are not experts in the economics of a carbon price, and we understand that there are a number of issues and complications, but we think the government should consider making an explicit policy announcement that the level of APD will be set so as to provide a proxy within the aviation sector (given the constraints of international agreements) for the application of taxes to carbon (and similarly damaging) emissions entailed in the whole chain of ‘production’ of a flight.

#### **4 Domestic connectivity**

- 4.1 *1. Do you agree with the government’s initial policy position that the effective rate of domestic APD should be reduced? In your view, what would be the positive and negative effects of such a change, particularly in light of the government’s objectives for aviation tax?*

We do not generally comment on policy objectives. However, we point to our comments at paragraphs 3.4 ff. above, and question whether sufficient consideration has been given to the government’s key public objective of achieving net zero carbon emissions by 2050. We also question the evidence base for the impact of the proposed reduction on the actual benefits of regional connectivity by this proposal as distinct from alternative means.

The UK is a relatively small country. We question whether there is a need to incentivise domestic air travel by reducing the effective rate of domestic APD. Is there clear evidence that, given the current rate is £13, a reduction would have any noticeable positive effect on regional connectivity? Rather than reducing domestic APD, could funds be invested in a manner that both improves domestic/regional connectivity and assists with the achievement of the UK’s net zero targets? There are a variety of forms of transport that provide domestic connectivity, including road, rail and aviation. Ideally, there should be an overarching strategy for domestic connectivity that considers these various modes of transport coherently. There are certain routes where aviation is no doubt of greater importance, such as to ensure connectivity for the Scottish islands, but there are other routes, where overland forms of transport can provide swift connections, or could do so with appropriate investment. Several regional airports are connected by rail or tram, as well as bus, to main city rail stations, such as Edinburgh and Manchester airports, but the overall integration of the regional rail system with international airports is poor. Investment could be used to improve such connections between airports and the rail system, meaning a reduced need for onward flights. Moreover, it should be noted that aviation is currently the form of transport that generates most carbon emissions per passenger-kilometre (for distances up to around 1,000 kilometres).<sup>4</sup> Consideration should be given as to whether the initial policy position would send desirable messages to the aviation industry and the UK population in relation to the

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<sup>4</sup> <https://ourworldindata.org/travel-carbon-footprint>

climate change emergency, and whether it would encourage behaviour that has an adverse effect on the UK's ability to meet its legal commitment to achieve net zero emissions.

In addition, we would question whether the objectives for aviation tax in respect of domestic flights (in particular the order they are listed in) give the requisite priority to achieving net zero targets. Given the need to achieve net zero emissions, is it sensible to introduce a policy that encourages increased frequency of air travel and in particular, where alternative forms of transport are available that generate lower carbon emissions per passenger-kilometre? An alternative to a blanket reduction in APD on domestic flights would be to target a relief or exemption at routes where alternative modes of transport are not practical. For example, the current Public Service Obligations (PSOs) in operation that provide an exemption from APD for passengers carried on flights leaving from airports in the Scottish Highlands and Islands region, among others.

We note that the French National Assembly has recently (in April 2021) voted to ban domestic flights on routes that can be travelled by train in under two and a half hours.<sup>5</sup> Given the low emissions of rail transport, it may be worth observing the impact of this policy in France and considering the viability of such a policy in the UK, particularly where there are already good rail alternatives in place.

Chart 1.A sets out the current distance band structure of APD. If the aim is for APD not only to raise revenue but also to help drive behaviour to ensure that the UK meets its net zero emissions target, we think it is important to consider what the overall philosophy behind the different bands and rates should be. For example, should the bands and rates reflect carbon emissions, and if so, carbon emissions per passenger-kilometre or overall emissions per flight. This should then be set out clearly to industry and passengers.

In addition, it is essential that the charge is relatively simple to calculate and administer. The rates are currently frozen for three years ahead. We appreciate the need to set rates well in advance given the lead time for the pricing of flights, however, in terms of achieving climate targets, consideration should be given to increasing rates over time. This would incentivise the use of alternatives (both by passengers and airlines in terms of fuels and aircraft) while offering time to adjust gradually to higher rates of tax. It would also incentivise research into green alternatives, which appears to be the cornerstone of the 10 point plan so far as aviation is concerned.

It is not immediately apparent to us how increasing the frequency of domestic flights within the Union will assist with levelling up all parts of the UK. Domestic connectivity could also be improved by investing in better rail connectivity (infrastructure and rolling stock) between different regions of the UK, (not just from different regions of the UK to London), for example improving trans Pennine rail routes.

4.2 *2. What evidence can you provide about the impact of an effective reduction in the domestic rate of APD on Union and regional connectivity?*

It is unclear to us whether there is any evidence already available to the government that has prompted the suggestion of reducing these rates.

4.3 *3. How would a reduction in the effective rate of domestic APD affect airlines? Will the benefits be passed onto consumers in ticket prices or retained by airlines?*

Whether by this means or by increasing profitability, the reduction seems likely to make such flights more frequent, at a cost to the government's declared environmental objectives as addressed in 4.7 below.

<sup>5</sup> <https://www.theguardian.com/business/2021/apr/12/france-ban-some-domestic-flights-train-available-macron-climate-convention-mps>

- 4.4 *4. Which domestic air routes, if any, are likely to be introduced/restart following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?*

N/A

- 4.5 *5. Which existing domestic air routes, if any, would benefit from an increased number of services following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?*

N/A

- 4.6 *6. By how much would you estimate that the number of passengers currently flying domestically increase?*

N/A

- 4.7 *7. What could the environmental impact of reducing the effective domestic rate of APD be? How could any negative impacts be mitigated?*

Paragraph 1.10 sets out that international aviation accounted for 37MtCO<sub>2</sub>e in 2019, compared to 1.4MtCO<sub>2</sub>e from domestic aviation. As the consultation itself states, this is largely due to the fact that the majority of flights departing UK airports are international flights and the fact that they cover longer distances – it is not because domestic flights are less damaging to the environment per passenger-kilometre. It is also no doubt partly because in the case of domestic flights there are potentially more readily available alternative ways of making the journey – but there is no reason to suppose this process of substitution of alternatives has been exhausted or should be thrown into reverse. It is therefore not clear why increased domestic aviation should be encouraged (on the basis that any increase in domestic emissions will be compensated for by a decrease in international aviation emissions), given the climate targets.

If a reduction in the effective domestic rate of APD leads to an increase in domestic air traffic, it is likely that carbon emissions, noise pollution and nitrogen oxide (NO<sub>x</sub>) emissions will all increase, unless there are significant and extremely swift advances in the development of fuel that emits lower emissions and other technology that reduces the carbon emissions of aircraft and flights. It should be noted that take-off requires more energy and therefore fuel than the cruise part of a flight. This means carbon emissions are higher per passenger-kilometre for domestic flights than for international flights.<sup>6</sup> So, an increase in domestic flights might lead to a disproportionate increase in the emissions from domestic flights as compared to international flights.

In terms of mitigation of impacts, it is important that not only are carbon emissions (and other environmental impacts) reduced, but also that there is focus given to improving sequestration and biodiversity. A climate change tax roadmap could assist with incentivising behaviours that reduce emissions and investment in sequestration and biodiversity projects, while disincentivising behaviours that increase emissions.

Consideration could be given to uniform carbon pricing and carbon border adjustments across the economy, thus removing the opportunity for distortions.

- 4.8 *8. What could the impact of reducing the effective domestic rate of APD be on other modes of transport (eg road/rail)?*

In principle, alternative methods which are less damaging to the environment will become less competitive.

<sup>6</sup> <https://ourworldindata.org/travel-carbon-footprint> and [https://theicct.org/sites/default/files/publications/ICCT\\_CO2-commercl-aviation-2018\\_20190918.pdf](https://theicct.org/sites/default/files/publications/ICCT_CO2-commercl-aviation-2018_20190918.pdf)

- 4.9 *9. If the effective rate of domestic APD is reduced, would you favour the introduction of a return leg exemption or a new domestic rate? What would you see as the comparative risks and benefits of these options?*

The consultation document notes some of the complexities that would likely arise for airlines and HMRC in relation to a return leg exemption. We would add that a blanket exemption for the return leg of domestic flights (including for business jets), would appear to directly work against the government's climate change objectives, since it would provide an exemption in relation to a form of transport that generates relatively high levels of carbon emissions per passenger-kilometre, in the form of domestic flights that are not economy class.<sup>7</sup> This is especially the case for aircraft that currently pay the highest rate of tax within Band A.

We agree that a separate band for domestic flights would likely be simpler to operate for both airlines and HMRC than a return leg exemption. We would note however that domestic flights are, broadly, the form of transport that produces most carbon emissions per passenger-kilometre. Therefore, we would question the rationale for having a lower rate for such a new band as compared to say short-haul international flights. We think there needs to be consideration of the rationale behind the rates for each band of air travel. Given the climate change targets, it is important that policies act in a coherent manner and send clear messages to the consumer. We would question whether setting a lower rate for domestic flights does this.

We think a separate band for domestic flights, together with a relief or exemption for essential routes (where alternative modes of transport are less viable), such as those identified in the consultation document, would be administratively simpler. However, we think more consideration should be given to climate change targets before setting the rate.

- 4.10 *10. Is there an alternative approach to reducing the effective rate of APD on domestic flights, that you think would be more appropriate than either of the options identified?*

In the second bullet point of paragraph 1.11, there is discussion about sustainable aviation fuel (SAF). One option might be to consider exemption or relief for flights that use SAF, and/or flights that make use of other carbon emission reducing technology. Consideration should be given to how damaging even those alternatives are, and the prospects for research in improving alternatives generally, but most importantly there need to be clear signals through the tax system to both consumers and operators of the scale of the changes that are needed for the government's 10 point plan to succeed. It seems that this objective would best be met by making the operation and level of APD act as closely as possible as a proxy within the aviation sector to a uniform carbon price consistent with achieving net zero objectives.

- 4.11 *11. What are your views on the way a return leg exemption could operate as set out in paragraph 2.8? What are the benefits and risks of this proposal? What amendments would you suggest, if any?*

As noted above, a blanket exemption for all classes of air travel incentivises the use of flights that generate relatively high levels of carbon emissions per passenger-kilometre, and therefore poses a risk to the ability of the UK to achieve net zero.

- 4.12 *12. Do airlines currently differentiate between single and return tickets in their booking systems and, if so, how?*

N/A

<sup>7</sup> <https://ourworldindata.org/travel-carbon-footprint>

4.13 *13. What evidence could airlines provide to HMRC to demonstrate that a passenger was travelling on a return ticket?*

N/A

4.14 *14. If the return leg exemption were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?*

N/A

4.15 *15. Are there any particular considerations around the application of a return leg exemption to business jets, in light of how business jets are operated?*

N/A

4.16 *16. Do you agree with the government's initial position that a new domestic band would be the most appropriate approach to reducing the rate of APD on domestic flights?*

We agree that if the government wishes to charge APD at a different rate on domestic flights in comparison with short-haul international flights, then the most administratively simply approach appears to be the introduction of a separate domestic flight band.

We think more consideration needs to be given as to what any rate should be and the rationale for that. In particular, we think there needs to be a clearer recognition of the climate change impact of domestic flights and the fact that there are alternative modes of transport, that generate lower carbon emissions, available in many cases. Implementing a reduced rate for domestic flights appears counter-productive given the net zero targets and the current lack of low emission technology for fuel and aircraft. In this regard we note that the policy proposal to reduce effective rates of air passenger duty on flights departing from Scottish airports was abandoned by the Scottish Government when it declared a climate emergency in 2019.<sup>8</sup>

4.17 *What are your views on the way a new domestic rate could operate as set out in paragraph 2.11? What are the benefits and risks of this proposal? What amendments would you suggest, if any?*

It appears that a new domestic rate band would be fairly straightforward to operate and introduce. It should be straightforward to objectively identify flights that fall within such a band.

The risk of setting a lower rate of APD for all domestic flights is that it encourages consumers to fly, and therefore contribute more carbon emissions, rather than use more carbon efficient modes of transport. This places the achievement of the net zero emissions targets at risk.

4.18 *If a new domestic rate were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?*

N/A

<sup>8</sup> <https://www.gov.scot/policies/taxes/air-departure-tax/> and <https://www.gov.scot/publications/global-climate-emergency-scotlands-response-climate-change-secretary-roseanna-cunninghams-statement/>

## 5 International distance bands

- 5.1 *19. Do you agree with the government's initial policy position that the number of APD distance bands should be increased? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?*

Consideration needs to be given as to what the purpose of APD is, aside from raising revenue. If it is to drive behavioural change, then the appropriate policy will depend on the behaviour to be encouraged or discouraged. Adding extra bands and rates, provided it is objectively simple to determine which rate applies, does not of itself add to the complexity of a tax system significantly. The rates for each band are for government to decide, but if the intention is for APD to drive behavioural change, then they need to be at a level that will achieve this.

The distance band structure is a fairly straightforward approach to determining what rate should apply. We note that it does not take account of the fact that shorter flights generate more emissions per passenger-kilometre. As we note earlier in our response, we question whether this is in line with the government's climate change targets, particularly in relation to domestic routes where an alternative mode of transport is often readily available and convenient.

- 5.2 *20. What could the impact on the environment of a change to the banding structure? How could any negative environmental impacts be mitigated?*

If a change in the banding structure leads to an overall reduction in flights departing the UK, there could be a reduction in carbon emissions and other environmental impacts. If the change leads to fewer very long distance flights, but more short-haul international flights, there could conversely be an increase in carbon emissions and other impacts. This is particularly because shorter distance flights are likely to be cheaper (before APD is considered) and also the carbon emissions per passenger-kilometre are actually higher for shorter flights, because of the demands of take-off.

It might be possible to mitigate some environmental impacts by developing policies that encourage the development and take up of sustainable air fuel and the development and use of more efficient aircraft.

- 5.3 *21. What evidence can you provide about the impact of an increase in the number of APD distance bands on international connectivity?*

N/A

- 5.4 *22. Which of the policy options for increasing the number of international distance bands do you think is most appropriate? Please explain your answer.*

We note the difficulties set out in paragraph 4.11 in relation to the original four band structure. One option might be to consider splitting other countries along the lines of the split that applied to the Russian Federation. We acknowledge that given the use of capital cities as the reference point in the majority of cases, but not in others, might cause similar difficulties.

Consideration would have to be given as to whether the suggested three band structure would lead to similar problems in relation to different countries – since the countries that would fall into the highest distance band are relatively few in number.

As noted above, having a greater number of bands does not in and of itself necessarily lead to greater complexity, provided it is clear which destinations fall within which band.

5.5 *23. Is there an alternative banding structure that could better meet the government's objectives as outlined in paragraph 1.1?*

N/A

5.6 *24. If a new international distance band structure were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to provide evidence to HMRC on their APD liabilities?*

N/A

5.7 *25. Do you agree with the government's assessment that APD should remain as the principal tax on the aviation sector? Would you propose any alternative tax measures which could further align the aviation tax framework with the government's environmental objectives?*

Given international rules, it would appear that there are limited options available for taxation of the aviation sector. APD should remain as the main tax. Indeed, since the international rules may even rule out the application of a uniform carbon tax to the aviation sector, it is important that APD is set at a level that ensures the carbon consumed by the aviation sector is priced at a level to ensure the aviation sector contributes its fair share to the achievement of the net zero targets. It may be necessary to reconsider the level of APD for all bands in that light.

We agree that the administration of a frequent flyer levy would be cumbersome for airlines and HMRC. It would likely involve the gathering and sharing of additional data in order to ensure its accuracy. There would also likely be avoidance behaviours by passengers, that would need practical solutions.

## **6 Acknowledgement of submission**

6.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

14 June 2021