

TAX BRIEFING NOTE

AIR PASSENGER DUTY

JANUARY 2023

What is it?

Air passenger duty (APD) is a levy paid by passengers to depart from UK (and Isle of Man) airports on most aircraft. Onward-bound passengers on connecting flights are not liable if the first flight was not liable (but all connecting flights are treated as a single flight), nor those on aircraft weighing under 10 tonnes or with fewer than 20 seats.

It was introduced in 1994 at a rate of £5 per passenger to EEA destinations, and £10 to non-EEA destinations. In 2001 a higher rate for non-economy class seats was introduced. In 2009 EEA and non-EEA bands were replaced with four distance bands (measured from the destination's capital city to London, not the actual flight distance) around thresholds of 2,000, 4,000 and 6,000 miles.

In 2015 the highest two bands were abolished, leaving only two remaining: band A up to 2,000 miles and band B over 2,000 miles. For each band there is a reduced rate (for the lowest class seats), a standard rate and a higher rate (for seats in aircraft of over 20 tonnes equipped for fewer than 19 passengers). Passengers under 16 are exempt.

From April 2023, there will again be four destination bands. This will include a domestic band and three international bands: band A for up to 2,000 miles; band B for journeys between 2,001, and 5,500 miles; and band C for those over 5,500 miles. The reduced, standard and higher rates remain in place and will range from £6.50 (for a reduced domestic flight) to £601 (for a band C higher rate flight).¹

What's the problem with it?

Flights within the European Economic Area were covered by the EU emissions trading scheme (ETS) from 2012,² meaning that there is practically no emissions-based reason to tax EEA flights. This is because any reduction in emissions from discouraging air travel would simply be replaced by another emitter buying the freed-up permit. The UK's emissions trading scheme replicates this. The duty is payable per passenger despite there being only a weak link between passenger numbers and CO₂ emissions. It takes no regard of the fuel efficiency of the aircraft. So even on non-EEA flights, the environmental case for APD is weak.

APD introduces distortions between air travel and other forms of domestic and EEA transport. There is no equivalent duty on coach or rail passengers. There are consequential losses for suppliers such as airlines, airports and their associated industries together with the welfare loss from those journeys switched.

APD does not remove the distortion between types of consumption liable to VAT (including private transport) and air travel because it is so arbitrary. While purchases of petrol, cars and taxi rides are subject to VAT (if the supplier's revenues are above the VAT threshold), public transport is not.

¹ HM Revenue & Customs, *Rates for Air Passenger Duty*, 21 July 2022, www.gov.uk/guidance/rates-and-allowances-for-air-passenger-duty, (accessed 7 November 2022).

² European Commission, *Development of EU ETS (2005-2020)*, 2022, https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/development-eu-ets-2005-2020_en, (accessed 7 November 2022).

What should be done?

1. Abolish APD immediately.
2. Switch to an air flight duty limited to non-EEA flights based on emissions, not passengers, for flights not covered by the UK ETS.