Air Departure Tax (Scotland) Bill

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Call For Evidence On The Air Departure Tax (Scotland) Bill

Written Response From Aberdeen International Airport Consultative Committee

Aberdeen International Airport Consultative Committee

AIR DEPARTURE TAX BILL – CALL FOR EVIDENCE

Introduction
The following statement of evidence is submitted on behalf of the Aberdeen International Airport Consultative Committee. It is based on the submission made by the Committee to the initial consultation on a Scottish replacement for APD, in June 2016, and seeks to provide evidence in response to the Finance and Constitution Committee’s call for evidence as they scrutinise the Air Departure Tax Bill.

Aberdeen International Airport Consultative Committee

The Aberdeen International Airport Consultative Committee is the committee established under UK civil aviation legislation to enable the operator of Aberdeen International Airport to consult with a range of stakeholders on issues relating to the
operation and development of the airport. The Committee, which was established in 1953, has some twenty members, including four Aberdeen City and three Aberdeenshire Councillors, a representative of each of the two community councils whose areas are most affected by the operation of the airport, representatives of economic and trade bodies, including the Aberdeen and Grampian Chamber of Commerce, Scottish Council Development and Industry and Association of British Travel Agents/Scottish Passenger Agents’ Association, and those associated with aviation, including NATS Aberdeen, the Airport Operators’ Committee and the UK Helicopter Operators’ Association.

The Committee is independent of the airport management and has no executive powers. It meets quarterly under the chairmanship of Dr Peter Smart, who is independent of all stakeholder interests. It is advised as appropriate by the Managing Director of the airport. This submission of evidence is made on behalf of the Committee and does not necessarily reflect the views of the owner, operator and management of Aberdeen International Airport.

Meeting the Scottish government’s objectives
In our submission to the government’s consultation last summer, we argued that a reduced level of ADT should be a means to an end, and not an end in itself. The aim of any reduction in ADT must ultimately be to support and nurture the growth of the Scottish economy to the point where the additional revenue raised from a higher level of exports, in-bound tourism and developing Scotland further as a location of choice for international business will greatly exceed the revenue ‘lost’ through the reduction in ADT. The government’s objectives may be met in two ways. New routes and connectivity will be one factor that should lead to such economic development. If these are to be long haul routes, then the immediate beneficiaries are likely to be Edinburgh and Glasgow airports and their hinterlands. As the Committee representing one of Scotland’s two main airports on the periphery of the country, we are concerned that the reduction should also be used to protect the competitiveness of peripheral parts of Scotland, a core aim of the Scottish government. We consider these points in more detail later in this submission.

We are sure that any reduction in ADT will be welcomed by both business and leisure flyers, provided it is passed on by airlines in their pricing structures. But we believe that for the government to meet its stated objectives, an initial reduction to 50% of UK APD and the ultimate abolition of ADT should be implemented in the shortest possible timescale. To put the proposed 50% reduction into context, on a domestic or European economy flight, a reduction from £13 to £6.50 is more or less equivalent to the price of an in-flight sandwich and coffee. It is not sufficiently large for the flyer to say, ‘I’ve just saved on ADT enough to make another flight’. That is why a full abolition of APD is required over the medium-term.

Balancing the interests of the central belt with the peripheral regions of Scotland We support the Scottish government’s objective of attracting a greater range of long haul services to and from Scotland’s airports. However, in practice, only Edinburgh and Glasgow airports have a sufficient catchment area and runway facilities within Scotland to support long haul services.
Whilst services to and through Turkish and Middle Eastern hubs are beneficial to residents and businesses located in the central belt, they are not a substitute for the current range of connecting services through the main UK and European hubs for passengers from Scotland’s two other main regional airports (ie Aberdeen and Inverness). We are therefore concerned that the interests of airports serving the peripheral regions of Scotland, particularly Aberdeen, are not overlooked in the Scottish government’s overall aviation strategy, in view of Aberdeen airport’s importance to the economic development of the north east of Scotland. It is important to remember that passengers from Dundee, Aberdeen and Inverness do not have the option to use rail travel to London as a way to do business. As ADT is implemented, the government has the chance to ensure these locations retain competitiveness.

Put simply, we believe that any reduction in ADT must be as beneficial to travellers from airports outside of the central belt as it may be to Edinburgh and Glasgow. In terms of international connectivity, there is no great body of evidence to show that large numbers of passengers from outside the central belt are travelling by road or rail to Edinburgh and Glasgow to make use of their increasing number of long haul services. Rather, it appears that most travellers continue to prefer the convenience of hubbing within the UK and Europe from the airport local to their home or business. Thus, there must be incentives under ADT for the maintenance and growth of these hubbing services, as well as new leisure and business routes from the peripheral airports.

The key concepts of the Bill with regard to passengers and aircraft
We are keen that ADT should be simple to administer and reflects as far as practical the way in which APD is currently administered. But it is also critical that the Scottish government uses its new powers to the benefit of those places in Scotland most disadvantaged by peripherality to the rest of the UK that do not already benefit from the current exemptions under APD. We cover this point in detail below.

We support in principle the retention of two geographical bands, based on distance travelled, and two levels of ADT, based on class of travel until such time as ADT is abolished. We suggest that the geographical bands should be defined by country rather than by distance from a specific point.

We also support the adoption of the current APD exemptions into the ADT regime. In other words, we support wholeheartedly

- the exemption of every flight whose departure and arrival points are both within the area of the Highlands, Northern and Western Isles and other ‘life line’ services, such as Glasgow to Barra and Campbelltown;
- the continued exemption from ADT of every flight originating in the geographical area currently covered by APD exemption, other than Inverness, where the destination is outside the area (for example, Lerwick to Aberdeen
and Stornoway to Glasgow). We feel that services from Inverness to UK destinations outside the exemption area should be dealt with under ADT in the same way as services from Aberdeen, in view of the vibrancy of Inverness as a city, as reflected by the increasing number of services flying from there (for example, to Heathrow and Amsterdam);

- flights on helicopters as a requirement to get to/from place of work. This exemption applies almost entirely to servicing off-shore installations, where there is no alternative form of transportation available.

We then propose a new exemption for Scotland’s peripheral airports (in other words, Aberdeen, Dundee and Inverness) for services to other UK airports, where surface transport, by fastest train and/or by road, takes more than four hours. Four hours is the indicative time used as the threshold beyond which business travellers have little option but to fly, rather than use surface transport, to enable them to get to their appointment, conduct their business and get home again the same day. This proposed exemption would recognise the essential need, rather than straight personal choice, to fly between Scotland’s peripheral airports and all the major UK provincial cities, and would show government support to economic development and growth for these peripheral locations.

In practice, this exemption would apply to all UK destinations south of the border from Aberdeen and Inverness. It would also apply to flights to destinations in the current exemption area from outwith the area (for example, from Aberdeen to Wick and the islands). We propose that this extension of the exemption scheme will give a boost to the economies of the north and north east of Scotland, in much the same way as any increase in new long haul services will to the central belt.

We trust that the Committee find our submission helpful in its scrutiny of the Air Departure Tax Bill.

Dr Peter Smart
Chairman

On behalf of the Aberdeen International Airport Consultative Committee
Overview

AGS Airports Limited is a partnership between Ferrovial and Macquarie Infrastructure and Real Assets (MIRA) established in 2014 to invest in Aberdeen, Glasgow and Southampton airports.

Aberdeen and Glasgow airports have long supported the devolvement of Air Passenger Duty (APD) to the Scottish Parliament. Doing so will play a major role in strengthening Scotland’s connectivity and will help boost our economy.

APD is a regressive tax which is stifling Scotland’s connectivity and we support the Scottish Government's long standing commitment to the reduction and abolition of this tax, contained in the Scotland’s Future white paper of 2013 and reiterated in its Programme for Government and in the Scottish National Party manifestos of 2015 and 2016.

We welcome the opportunity to respond to the Finance and Constitution Committee’s call for evidence on the Air Departure (Scotland) Bill. We have set out how why we believe the Bill will help the Scottish Government achieve its strategic and policy objectives and would be happy to provide further detail should it be required.

Executive summary

- Together, Aberdeen and Glasgow airports support in excess of 10,700 jobs and generate some £310 million annually for the Scottish economy. Both are key components of Scotland’s transport infrastructure and are key economic drivers for the national economy.

- Not only is APD the highest form of aviation tax in the world, it undermines Scotland’s connectivity with both domestic and international markets, making it more expensive to fly people around an increasingly competitive global marketplace.

- The UK Government has significantly increased rates and restructured APD since 2007. Rates for short haul travel has increased by around 160% with long haul rates increasing by between 225% and 360%.

- When compared with member countries of the Organisation for Economic Co-operation and Development (OECD), the UK has the highest tax for long-haul destinations for travel in any class.

- The UK is ranked 137th out of 138 when it comes to air ticket taxes and charges according to the 2015 World Economic Forum’s Travel and Tourism Competitiveness Report. Only Chad ranks lower than the UK.

- In addition to acting as a barrier to securing new services, APD makes it extremely challenging to maintain vital, existing domestic services. This is of particular relevance to Aberdeen considering the impact of the current economic conditions in the north east of Scotland and the effect of the current low oil price.
The so-called “double whammy” impact of having APD charged on both legs of a return trip must be addressed. Domestic traffic accounted for 56% and 46% of Aberdeen and Glasgow airports’ passenger traffic respectively in 2016.

The Scottish tourism industry generates over £4.8 billion per annum for the economy with visitors from within the UK accounting for the majority of tourism volume and value. Good air links are vital to the success of tourism, with overseas visitors in particular relying on air travel to visit Scotland.

APD is not an environmental tax and it does not have a positive impact on emissions. Our high APD rates have the effect that inevitably some people are incentivised to take connecting flights via European airports such as Amsterdam Schiphol and Dublin, in order to avoid APD. This results in a net increase in carbon emissions.

The aviation industry doesn’t enjoy the benefits that many other public modes of transport do, particularly in the form of subsidies. In 2012/13, for example, the rail industry was subsidised by over £5bn a year. Bus and coach companies’ subsidies amounted to £2.19bn in the same year.

We would urge the Scottish Government to implement its promised 50% cut in APD/ADT as soon as possible. Any piecemeal approach would significantly undermine the benefits an early 50% cut would bring.

Any new tax regime should be clear and simple for airlines. The 50% cut should be applied across the board to long haul, short haul and domestic services. It should also apply to new and existing services and the current UK APD per-passenger charging model should be retained.

In addition to implementing the 50% cut in full in 2018, we would urge the Scottish Government to set out a detailed timetable for the complete abolishment of APD/ADT.
Supporting the Scottish Government’s strategic and policy objectives for improving Scotland’s air connectivity

We agree with the Scottish Government’s position which states “international connectivity plays an important role in facilitating trade, tourism and investment.”

Scotland is located on the periphery of Europe and as such it has a unique reliance on aviation. Travelling by air is not a luxury but an essential element of business and family life. The ability of Scotland to maintain and increase its global competitiveness is dependent on having air links with established and emerging markets.

On that basis, we welcome the Scottish Government’s commitment to “improving both long-haul connections to Scotland and connectivity through world hubs.” Our ability to secure long haul connections, however, is severely restricted by APD which undermines our connectivity.

According to a report commissioned and published by the British Air Transport Association (BATA) in 2016\(^1\), when compared with member countries of the Organisation for Economic Co-operation and Development (OECD), the UK has the highest tax for long-haul destinations for travel in any class. It found that UK APD is:

- amongst the highest taxes applicable for travel in economy for Band A
- the highest for travel in economy in Band B
- the highest tax applicable for travel in higher classes.
- At a global level, UK APD for long-haul journeys ranks alongside a number of developing countries such as Ghana and Fiji

\[\text{Figure 1: Air passenger taxes Band B (economy), EU28+2}\
\[\text{Source: IATA Airport, ATC and Fuel Charges Monitor; Steer Davies Gleave analysis}\

\(^1\) Flying High? How competitive is APD, Steer Davies Gleave, BATA, March 2016
Just six EU countries levy a similar tax but with substantially lower rates.

- Ireland abolished its air travel tax in 2014
- Holland abolished its air passenger ticket tax in July 2009
- Belgium abolished its air travel tax in 2008
- Denmark phased out its air passenger tax in 2006-07

At the start of 2013 Germany froze its air passenger tax after the German federal Government published a study on the economic effects of the tax, concluding that two million passengers did not travel in 2011 due to the higher air fares. All of these countries cited aviation tax as having a negative impact on their respective economies.

This places Scotland’s airports at a severe disadvantage when it comes to competing for new routes, particularly long haul. Due to the size of the market (population) in Scotland we will always find it more difficult to attract and sustain new routes than other more densely populated parts of the UK and Europe. This situation is compounded further by APD which simply serves to dissuade airlines from placing aircraft in Scotland, instead opting for other countries with more favourable taxation policies.

The stark impact of APD was highlighted in a 2012 report commissioned by Aberdeen, Edinburgh and Glasgow airports which analysed the impact of APD on Scotland. The York Aviation report warned that in addition to costing Scotland two million passengers per annum, by 2016, APD will cost the Scottish economy up to £210 million in lost tourism spend per annum.

It is widely accepted that connectivity plays a key role in levels of trade, tourism and investment decisions. In 2015, CBI/AECOM published an infrastructure survey of over 700 business leaders across the UK. Key findings included:

- 94% of businesses reported quality of infrastructure as a decisive factor when planning future investment
- 64% of businesses reported the need to see improvements on flights to emerging markets, in order to grow their operations.
- Only 45% said emerging market connections are fit for purpose, while 46% of Scottish respondents stated they were dissatisfied with UK domestic air links

Unless APD is reformed, people travelling to and from Scotland - who must fly due to the lack of feasible alternatives - will face some of the highest levels of taxation in Europe. Not only is this a clear disincentive to travel, it will prevent the Scottish Government from achieving its strategic and policy objectives for improving Scotland’s air connectivity.

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2 The Impact of APD on Scotland, York Aviation, 2012
3 Turning momentum into delivery, CBI/AECOM infrastructure survey 2015
Air Departure Tax supporting Scottish Government’s objectives

The Scottish Government has a very real opportunity to shape a replacement tax that can truly support its ambitions of improving Scotland’s international air connectivity.

Scotland’s two largest airlines, easyJet and Ryanair, carry a combined total of nine million Scottish passengers per year and both have committed to adding capacity in the event of a single 50% cut in APD.

*easyJet has stated* it would expect to increase flights to and from Scotland by around 30%. This would mean the current 5.5 million passengers it carries every year would increase to over seven million. Ryanair has also publicly committed to delivering additional capacity if APD is abolished in Scotland.

The clear benefits of a marked reduction or complete abolishment of APD have been widely documented. *PwC published research* in February 2013 found that significantly reducing or abolishing APD would result in a significant increase in the UK’s Gross Domestic Product and would result in the creation of tens of thousands of new jobs. It also found that reducing or abolishing APD would actually increase the revenues to the Treasury from other taxes so much that it would pay for itself.

A similar report commissioned by Edinburgh Airport concluded that halving APD would create nearly 4,000 jobs and add £1bn to the Scottish economy by 2020.

The BATA report, which also looked at the impact a 50% reduction would have on a Scottish replacement to APD, concluded that if implemented:

- Scotland would rank fourth highest amongst EU28+2 countries, behind England, Wales, Greece and Italy
- Scotland would rank second highest for Band B economy, behind the UK, however its rate would be much more in line with the equivalent rates for Germany and Austria
- Scottish APD would rank 99th highest for Band A economy, compared to 61st for England and Wales
- Scotland would rank 9th highest for Band B economy, compared to 1st for England and Wales.

Whilst it is clear that a 50% cut would deliver an immediate boost to Scotland’s competitiveness, the findings from the BATA report also confirm that Scotland would still have the second highest rate of tax for long-haul destinations when compared with other member countries of the OECD.

We do, however, believe that the proposed reduction in APD/ADT will play a particularly strong role in supporting new long haul routes in their early years by boosting demand.

A reduction in APD/ADT is likely to bring forward in time the viability for a route and hence accelerate long haul route development.

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4 The economic impact of APD. A study by PwC, February 2013
5 The impact of reducing APD on Scotland’s airports, Edinburgh Airport March 2015
In addition to helping to create the right financial conditions for airlines to come to Scotland, the 50% cut in APD will play a vital role in supporting and maintaining Scotland’s domestic connectivity.

Domestic traffic accounted for 57% and 47% of Aberdeen and Glasgow airports’ passenger traffic respectively in 2016. The so-called “double whammy” impact of having APD charged on both legs of a return trip must be addressed.

It has taken almost 10 years for passenger numbers at Scotland’s three central belt airports to return to pre-recession levels. During the intervening period passengers shifted between the three airports, however, a 50% cut in APD/ADT will enable Scotland’s airports to achieve sustainable growth and in doing so, enhance the nation’s global connectivity.

Irish example

The Republic of Ireland abolished its air travel tax in 2014 which contributed to an increase in demand for air travel. Passenger numbers grew by 7% in 2014 and 12.7% in 2015 as airlines responded to the move. Highlights included:

• Ryanair launched 21 new routes to/from Dublin, Knock and Shannon airports in direct response to the move. This will result in more than 1.7m additional passengers travelling through Irish airports in 2015
• Capacity on US routes up 20% - United to Chicago O’Hare / Aer Lingus to Washington and Chicago
• UAE market up 50%
• Belgian market up 40%
• Czech Republic market up 36%
• Finnair returned after eight year hiatus
• Vueling and WOW to launch services to Barcelona and Reykjavik/Keflavik
• Ethiopian Airlines launched service from Addis Ababa – Dublin – Los Angeles
• Shannon Airport secured flights to Boston
• In 2016 Aer Lingus introduced direct flights from Dublin to Los Angeles, Newark and Hartford, Connecticut. Air Canada introduced direct services to Vancouver

Achieving sustainable growth

We recognise that CO₂ emissions from the aviation sector are rightly an area of concern for both policy makers and the public. We support the Government’s aim of striking the right balance between its support for sustainable growth in aviation and measures that help limit the impact of aviation on the local environment.

Glasgow Airport is a signatory to Sustainable Aviation. Launched in 2005, Sustainable Aviation brings together the main players from UK airlines, airports, manufacturers and air navigation service providers to set out a collective and long term strategy to ensure a sustainable future for UK aviation. Balancing the sector’s growth with the need to reduce emissions is central to Sustainable Aviation’s work.

It has published a series of Road-Maps looking at how the UK aviation industry can reduce its environmental impact and deliver sustainable growth.
Its CO$_2$ Road-Map was published in March 2012$^6$. It concludes that UK aviation is able to accommodate significant growth to 2050 without a substantial increase in absolute CO$_2$ emissions. We believe this can be achieved through the deployment of technology, sustainable fuels, improved operational measures and carbon trading.

Over the last 10 years, 20 million tonnes of CO$_2$ have been saved from UK airline flights thanks to the steps taken by members of Sustainable Aviation.

Recent analysis from Transport Scotland found that the estimated impact of a 50% cut on emissions will not change markedly either way.

By applying a 50% reduction in APD/ADT in Scotland, the return ticket price will be cut by between 3.7% and 8.8% and passenger numbers will increase by an estimated 742,000 - a rise of over 3%. Assuming a linear average relationship between passengers and emissions suggests the reduction in APD/ADT could increase aggregate emissions by 34 KtCO$_2$e (0.034 MtCO$_2$e) over the course of a full year. This represents an increase in transport emissions of just over 0.25% over the current total.

The 50% cut in APD/ADT would also encourage direct travel therefore reducing the need for passengers to take additional flights to transfer through European airports in order to avoid paying higher rates of APD/ADT.

Aviation’s contribution to global carbon emissions should be put in context. If we grounded every UK flight tomorrow, global man-made CO$_2$ emissions would be reduced by 0.1%. All UK domestic and international aviation accounts for around 5.3% of UK CO$_2$ emissions compared to 19% from road and rail transport.

$^6$Sustainable Aviation CO2 roadmap 2012
Scope and structure of Air Departure Tax

It was made clear by those airlines who attended the APD Stakeholder Forum that the Scottish Government should avoid complicating what is an otherwise simple and efficient tax. Airlines do not want to have to contend with two separate tax regimes within the UK and from our discussions, we believe airlines will respond if the Scottish APD tax regime is simple.

With this in mind, we believe the Scottish Government should replicate the existing UK-wide APD regime to ensure ease of compliance and administration. This includes maintaining the current UK APD destination based banding system.

The Scottish Government has committed to abolishing APD when it can afford to do so. We do not see the point in investing considerable time and effort in creating a different APD model if it is to be abolished in the near future.

We believe the UK APD definitions of “chargeable passenger” and “chargeable aircraft” should be retained under a Scottish replacement tax. We also believe the current UK APD per-passenger charging model should be retained under a Scottish replacement tax.

Planned introduction of Air Departure Tax

The Scottish Government should implement its promised 50% cut in APD/ADT as soon as it is devolved to the Scottish Parliament in April 2018. We believe that a phased introduction of the 50% cut over a period of years would significantly undermine the benefits an early cut would bring.

We believe any new tax regime should be clear and simple for airlines. The 50% cut should be applied across the board to long haul, short haul and domestic services. It should also apply to new and existing services.

This policy commitment should not simply focus on improving Scotland’s international connectivity, it should help ensure our domestic connectivity is not eroded. The UK is Scotland’s biggest export and inbound tourism market. It is vital, therefore, that the Scottish Government makes progress on this policy as a matter of urgency to ensure the economy of the north east of Scotland, which is enduring a sustained downturn, can make a swift recovery.

We believe a 100% abolition of APD/ADT on all intra-Scotland routes would incentivise services between Aberdeen and Glasgow/Edinburgh. This would deliver a journey time of under two hours which is what the business community in Aberdeen has been calling for and it would provide further feeder services for Scotland’s long haul routes.

Typically, airlines take decisions on prices, flight schedules and fleet deployment 12 to 18 months in advance. We believe details of the new tax rates should be announced at least 12 months before their implementation on 1 April 2018, to allow airlines to respond appropriately apply the new rates to flight bookings made in advance.

In addition to implementing the 50% cut in full in 2018, we would urge the Scottish Government to set out a detailed timetable for the complete abolishment of APD/ADT.
Air links to the Highlands & Islands provide vital lifeline services for local communities. They support the local economies by generating tourism and providing residents and businesses with access to key destinations and onward connections from Scotland’s main airports.

We believe extending the exemption to include passengers flying to the Highlands and Islands from other Scottish airports would provide a further boost for local economies.

AGS Airports Limited
February 2017
Airlines for America ("A4A") appreciates the opportunity to comment on the proposed Air Departure Tax (Scotland) ("ADT") Bill that will replace the existing Air Passenger Duty ("APD") on 1 April 2018. A4A is the principal trade and service organization of the U.S. airline industry, and its member airlines and their affiliates transport more than 90 percent of all U.S. airline passenger and cargo traffic. Two of A4A’s passenger carrier members – American and United– and one associate member – Air Canada – operate services between Scotland and the United States and Canada respectively - and have a strong vested interest in the implementation of ADT. We respond to the issues identified in the Parliament’s Call for Evidence.

- How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate;

We commend the Governments’ commitment to a 50 percent reduction in the APD tax burden with effect from 1 April 2018. The reduction will boost Scotland's air connectivity and economic competitiveness. It will also help ensure a more level playing field with other European airports competing to attract services. In A4A’s view, the best way to achieve the Government’s objectives is to abolish the existing tax burden altogether and we are encouraged by the Government’s commitment to its eventual abolition.
The potential benefits from eventual elimination of the tax are illustrated by comparing the numbers of passengers who fly to the United States from Ireland. Ireland has an economy and population roughly comparable to Scotland’s but passengers departing Ireland pay zero departure tax. In 2015, 470,000 passengers traveled from Scottish airports to the United States. Ireland had roughly five times that number with over 2.5 million passengers flying to the United States. In A4A’s view, the significant reduction and eventual elimination of the tax will help Scotland to unlock this potential and bridge this divide.

- *The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate;*

Retention of the APD’s chargeable passenger and chargeable aircraft definitions are welcome. These definitions are simple and familiar and their retention will facilitate administration and compliance.

- *The appropriateness of the proposed structure for the tax;*

A4A welcomes the Bill’s retention of the same tax rate structure for ADT as is currently used for APD. This structure is simple and efficient and is familiar to current APD taxpayers.

We also agree with application of the “premium” rate to seats with a pitch in excess of 1.016 meters or 40 inches and the application of the “standard” rate to seats with a smaller pitch. This differentiation introduces welcome clarity and is faithful to the traditional distinction between Economy and Business Class.

We also support retention of the per passenger approach. Airlines and others in the aviation value chain are familiar with this approach and again its retention will facilitate administration and compliance.

- *The proposed administrative arrangements for the payment, collection and management of the tax; and*

We have no comments on the proposed administrative arrangements for payment collection and management of the tax.

- *Any other issues which are considered relevant to the proposed tax.*

As noted, we believe that the Scottish economy would benefit most from abolition of APD and fully support the Government’s plan is to abolish the tax in the longer term.
When the government does formally adopt legislation to authorize the proposed 50 percent reduction, it should afford the industry a lead time of at least 12 months, and ideally 18 months, for pricing and programming purposes. Airlines start to sell tickets a year in advance of a scheduled flight and without sufficient lead time a passenger ticketed before the proposed change is formally adopted could be charged APD at prevailing UK rates. This would result in refund issues that cause passenger inconvenience and an unnecessary drain on industry resources.

We understand that tax bands and rate amounts will be dealt with at a later stage but take this opportunity to identify the economic benefits that would flow from reducing the significant differential between short- and long-haul rates under the current APD regime. When introduced in 1994, the long-haul rate was twice the short haul rate. The long-haul rate is now 5 to 6 times higher than the short-haul rate. According to a 2011 Oxford Economics study, this disproportionate tax burden on long-haul travellers is both harmful to the economy and contrary to sound economic policy. Data from the Office for National Statistics show that long-haul visitors typically spend twice as much as short-haul travellers when visiting the UK, making them more valuable to the country’s economy. In addition, long-haul destinations include many rapidly growing and emerging markets with which the UK is looking to increase its trade. These long-distance trade links will be particularly important to the Scottish economy when the UK exits the EU.

In our view, the Scottish government should consider a more equitable apportionment of the tax burden among short and long-haul carriers. This approach is consistent with the Adam Smith principles that Scotland applies to taxation and will generate net economic benefits for the Scottish economy.

Finally, A4A strongly believes that the Scottish Government should preserve the APD’s exemption for children under the age of 16 and to extend the exemption to children under 18. This will make holidays more affordable for families across Scotland and will help boost inbound tourism.

Thank you for your consideration of these comments.

Sincerely,

Keith Glatz, Vice President-International Affairs
UPDATED FORECAST

An updated forecast of the impacts of reducing APD/ADT should be presented for comment before the proposed bands and rates are announced.

There have been significant changes in the last 12-18 months which need to be incorporated into a comprehensive forecast, for example fx rates, added capacity. Seasonality needs to be addressed. In addition, further capacity increases and new routes have been announced for summer 2017 and winter 2017-18.

A bridge to the previously published forecasts should be provided to aid the understanding of changes to assumptions.

TAX ADMINISTRATION

APD/ADT must be one of the easiest taxes to collect.

The process is mature having been in place since 1994, although the specific tax generating traffic flows for Scotland will not have been identified by airlines in their UK-wide submissions. The bookings and yield management systems used by airlines are very highly advanced so data extraction is straightforward. Each airline is estimated to spend only 2 days per return, so in total 800 days based on 4 returns per annum for 100 tax payers costing £0.1m. The current APD2 return only has 18 boxes to complete.

I cannot understand how Revenue Scotland estimated an implementation cost of £1.5m and £0.6m per annum running costs (9.75FTE + 0.75FTE) to manage the process going forward.

The classic 80/20 rule will apply, each airline can be categorised into one of four headings (a) Band A Only, (b) Band B Only, (c) Band A & B No Connecting, and (d) Band A & B Connecting.

To improve both workflow and cashflow, I would suggest that the quarterly reporting is realigned to create ‘pools’ of specific airlines into Month 1 and Month 2 with Month 3 being the default. The table below is indicative based on my knowledge of airlines operating from Scotland, some of the groupings are quite deliberate to give a comparison in a similar market (eg the ME3 carriers, US carriers, Keflavik hub) :
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<td>Icelandair</td>
<td>Aer Lingus</td>
<td>Turkish</td>
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<td>WOW Air</td>
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It would be practical to create a relatively simple desktop compliance tool, backed-up by a spot visit as necessary, based on published CAA traffic flows, published airline timetables and air traffic control logs given that we are only dealing with five Scottish airports (EDI, GLA, ABZ, PIK, DND).
ABTA response to the Finance and Constitution Committee of the Scottish Parliament

Call for Evidence: Air Departure Tax (Scotland) Bill

ABTA – The Travel Association - was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members and over 4,500 retail outlets and offices. In Scotland, ABTA has 42 members and 284 outlets and offices. Our Members range from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names, from call centres to internet booking services to high street shops. ABTA’s focus is ensuring that Members can operate their businesses in a sustainable and successful manner, enabling their customers to travel with confidence.

The success of ABTA Members’ businesses is directly reliant on the UK’s aviation infrastructure; several of ABTA’s larger Members are themselves part of groups that own airlines. ABTA Members provide 90% of the package holidays sold in the UK, with Members also selling millions of independent travel arrangements. Annually, ABTA Members’ turnover is in excess of £32 billion. The business of our Members is the provision of quality, efficient and competitively priced passenger travel.

ABTA has attended the ADT stakeholder meetings in 2016 and 2017.

Introduction

ABTA believes that the high levels of UK Air Passenger Duty (APD) inhibit the contribution of the travel and tourism sector to growth and employment and are damaging the position of the UK as a hub for global air travel. This impact is particularly felt in Scotland which is very reliant on air transport links and excellent global connectivity. ABTA has continued to call for a reduction in overall rates of APD across the whole of the UK for the benefit of UK plc and all UK consumers.

ABTA therefore welcomed the Scottish Government’s confirmation that they will reduce ADT by 50% by the end of the next Scottish Parliament and abolish the tax
completely when resources allow. We further welcome the Scottish approach to taxation, particularly the engagement through the Scottish ADT stakeholder forum.

Executive Summary

- Although not liked, APD is an administratively simple tax. It is transparent and passengers know how much they will have to pay. There is much to be said for keeping ADT very similar in structure to APD.
- ABTA is pleased that the APD definitions and the rules relating to connected flights will be retained under ADT.
- The destination bands should be defined by distance from Edinburgh to capital cities with a 2,500 miles threshold.
- The 50% reduction should be applied from 1 April 2018 and should not be phased in. ABTA believes the reduction should be across the rates.
- As much advance notice as possible of rates, bandings and exemptions would be welcomed to ensure that tickets/holidays go on sale at the correct price to avoid unnecessary adjustments by refund, and in view of IT changes needed.

Call for Evidence

How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate;

The Scottish Government states that it will design and structure ADT in a way which boosts Scotland’s air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism. It further states that cutting the tax burden will help ensure a more level playing field with many other European airports competing to secure the same airlines and similar routes.

ABTA views ADT as positive providing that rates are reduced from the current APD levels charged in the UK.

*Improving Scotland’s air connectivity*

ABTA believes that a reduction in tax would result in additional demand and encourage airlines and tour operators to introduce new services and routes from Scottish airports bringing more competition. This, in turn, is beneficial to consumers. Indeed, at the stakeholder meetings, airlines have said they would base more aircraft in Scotland.

The UK has the highest air travel tax anywhere in the world, making it a less attractive destination to visit, trade with, and invest in than many of our global competitors including Germany and France. It also makes holidays more expensive for families.

Pan-European air tax analysis, carried out by the *A Fair Tax on Flying* (AFTOF) campaign, in which ABTA is one of the leading organisations, shows that passengers flying from a UK airport pay, on average, five times more in passenger departure
taxes than in those European countries that levy an equivalent tax. Only four other European countries levy a comparable tax (Austria, France, Germany and Italy), none of which comes close to the cost of APD.

In 2013, Germany froze its air passenger tax after the German Federal Government published a study on the economic effects of the tax, concluding that two million passengers did not travel in 2011 due to the higher air fares. The Dutch, having introduced a higher air travel tax than the Germans in July 2008 (levied at between €11.25 and €45) scrapped the tax after just one year because it was found that an estimated 1 million Dutch passengers opted to fly from German airports instead, to avoid paying the Dutch levy.

The Irish government's air travel tax was originally levied on air passengers at a rate of €10 for journeys of over 300km from Dublin with shorter flights levied at €2 per passenger; then reduced to a single rate of €3 per passenger. The tax was subsequently abolushed by the Irish government in April 2014 with the aim of boosting their air service network and assisting inward investment and tourism growth; we understand that they have since seen very positive results.

PwC’s 2015 research, The Economic Impact of Air Passenger Duty¹, quantifies the significant benefits that abolition of APD could bring across the UK. Their research shows that APD reform could boost UK GDP by 0.5% in the first year, with continuing positive benefits to 2020: the economy could be 1.7% larger by 2020 than would be the case if APD were to remain unchanged. The report goes on to state that 61,000 jobs could be created. The report does not show specific figures for Scotland.

An ABTA infographic showing the value of travel and tourism to Scotland is attached at Annex 1.

Timing

ABTA strongly believes that the 50% reduction should be applied from 1 April 2018. There is a risk that the full productivity and growth potential of reducing APD would not be fully felt if it is phased in. Further, reduced tax is beneficial to passengers.

A phased introduction would be administratively burdensome and mean unnecessary changes having to be made to booking systems (websites; airline reservation systems; Global Distribution Systems (GDSs) and other third party booking/reservation systems; interfaces between these and operators/agents’ own booking systems; back office systems used to generate e-tickets/itineraries/receipts/invoices, etc.).

As expressed at the stakeholder meetings, long lead-in times are required by airlines and tour operators for planning purposes. Typically, a scheduled airline will have tickets on sale up to 360 days in advance of departure. Tour operators sell holidays/publish brochures up to 18 months in advance and are required to include and identify all government taxes; holidays are already on sale for summer 2018.

¹ The Economic Impact of Air Passenger Duty - Analytical Update (May 2015)
Practically, it would be helpful for the rates, bands and exemptions to be known as soon as possible so that tickets/holidays go on sale at the correct price. This would ensure there was little subsequent adjustment by way of refunds. This is advantageous to the passenger and all concerned in the booking process.

**The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate;**

**The appropriateness of the proposed structure for the tax;**

The Scottish Government has stated that the structure of ADT will be similar to the structure of APD, in that the amount of tax incurred for the carriage of a chargeable passenger on a chargeable aircraft will depend on the passenger’s final destination and class of travel.

ABTA believes that, although APD is not liked, it is an administratively simple tax. It is transparent and passengers know how much they will have to pay. There is much to be said for keeping ADT very similar to APD from an administrative perspective. Further, it is well understood by airlines, travel agents and tour operators.

For the same reasons, ABTA believes that there is much merit in retaining the destination based banding system, and the current APD exemptions. For example, the exemption for children was introduced following campaigning by AFTOF and is worth £50 million in the UK. In the interests of Scottish families travelling abroad for their annual holiday, for fairness, ABTA believes that whilst APD continues to exist these exemptions should continue in Scotland if they apply to the rest of the UK.

ABTA welcomes the designation of the APD Reduced, Standard and Higher rates as Standard, Premium and Special rates. We believe that these are more descriptive of the classes of travel.

**Destination bands**

ABTA agreed that the rate of ADT should depend on the passenger’s final destination and believes destination bands should be defined by the distance from Edinburgh to capital cities.

ABTA recommends that the Scottish Government retains two bands with a modification to the 2,000 miles threshold (from London) to 2,500 miles (from Edinburgh). This would include all of the European Union, and allow Egypt and Israel to be given parity with other countries bordering the Mediterranean. Inclusion of these destinations in APD Band B with the long-haul destinations (despite their market competition being in the less expensive APD Band A) leads to a competitive challenge emerging. This would be politically expedient and assist Egypt in rebuilding their tourism industry to emerge again as a key destination for Scottish holidaymakers with the possibility of direct flights. By increasing the distance, this also reflects the maximum return journey that can be made in a single day, so there is a clear distinction between short-haul and long-haul flights within the tax banding.
There would be an advantage to the ADT bands being made known as soon as possible as, as mentioned above, changes will have to be made to booking systems.

**Connected Flights**

ABTA agrees with the ADT Connected Flight rules at Schedule 1 so that ADT is charged according to the passenger's final destination on connected flights on through tickets. Similarity with the APD rules relating to connected flights makes it simpler for all passengers and anyone selling a ticket to understand. It also ensures that Scottish originating passengers continue to use the UK hub airports to the advantage of all thus maintaining the choice of routes.

However, there are cases of double taxation which are not to a passenger's advantage. Under the APD rules, double taxation typically results from a passenger taking a domestic flight from UK airport A to UK airport B then taking an international flight from UK airport B on a separate unconnected ticket. The tickets would have been separately issued as they are different types of airline e.g. no-frills followed by a scheduled airline or charter airline which have completely different unconnected ticketing systems; or it could be on two scheduled airlines that do not have an interline agreement. The UK Government has been willing to consider any suggestions put forward to avoid double taxation but, so far, no resolution has been found when a passenger is not flying on a through ticket.

For example, a passenger commencing their journey in Edinburgh and connecting through Heathrow to Johannesburg would:

- On a through ticket pay the applicable rate of ADT for the entire journey.
- On unconnected separate tickets, pay the applicable ADT rate to Heathrow, the APD Band B rate to Johannesburg, and on the return the APD Band A rate to Edinburgh.

The proposed administrative arrangements for the payment, collection and management of the tax; and

These arrangements are for airlines so ABTA has no comments to make.

**Any other issues which are considered relevant to the proposed tax.**

ABTA has no further comments to make.

Thank you for taking our comments into consideration. We would welcome the opportunity to discuss any points raised in our response further with the Committee.
Value of travel and tourism in Scotland

Scotland’s vibrant tourism mix, made up of inbound, outbound, and domestic travel and tourism businesses contributes over 10% of total GDP each year and a £12bn\(^2\) total economic impact.

**INBOUND**
- Spend = £1.8bn
- Visits = 2.7 million\(^1\)

**DOMESTIC**
- Spend = £2.9bn
- Visits = 12.5 million\(^3\)

**OUTBOUND**
- Spend = £1.7bn
- Visits = 3.9 million\(^1\)

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1 ONS Travel Trends 2014
2 Deloitte, Tourism: jobs and growth, 2013
3 GBTS 2014
4 Cruise Scotland, 2015
5 CEBR, the UK’s leisure aviation economy, 2013
6 Scottish Parliament Information Centre, 2016
7 ONS Characteristics of tourism industries 2014
Tourism employment in Scotland

% of tourism employment by region

<table>
<thead>
<tr>
<th>% of tourism employment</th>
<th>Regions</th>
<th>Colour represented on map</th>
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<tr>
<td>10.86% to 17.30%</td>
<td>Lochaber, Skye, Lochalsh, Arran, Cumbrae, Argyll, Bute, Orkney Islands, Perth, Kinross, Stirling, South Ayrshire, City of Edinburgh, East Dunbartonshire, West Dunbartonshire, Helensburgh, Inverclyde, East Renfrewshire, Renfrewshire and South Lanarkshire</td>
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<tr>
<td>9.23% to 10.85%</td>
<td>Caithness &amp; Sutherland, Ross &amp; Cromarty, Angus, Dundee City, East Lothian, Midlothian, Dumfries, Galloway, Glasgow City, East Ayrshire, North Ayrshire mainland, Inverclyde, East Renfrewshire, North Ayrshire mainland, Inverclyde, East Renfrewshire, Renfrewshire and South Lanarkshire</td>
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<td>8.37% to 9.22%</td>
<td>Clackmannanshire, Fife, Aberdeenshire, Aberdeen City, Aberdeenshire and Scottish Borders</td>
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<tr>
<td>7.48% to 8.36%</td>
<td>Falkirk</td>
<td>Blue</td>
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<tr>
<td>4.91% to 7.47%</td>
<td>North Lanarkshire and West Lothian</td>
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292,000 tourism economy jobs

11% of all employment

42% under 30

58% female
Air Departure Tax (Scotland) Bill
Call for evidence

We welcome the opportunity to respond to the Scottish Government call for evidence on the Air Departure Tax (Scotland) Bill.

BAR UK is an airline trade organisation representing over 70 scheduled airlines undertaking business in the UK. Our members are scheduled network airlines operating into commercial scheduled airports across the UK. Being an association, our responses are general in nature as we are unable to respond on specific individual competition issues, carrier economic data or to present the views of individual airlines. This response does, however, have the agreement of our members.

Our member airlines acknowledge and support the high level of engagement and detailed process undertaken by the Scottish Government in preparing the Bill.

We continue to support the Scottish Government’s plans to replace APD with a more competitive and fairer tax, and the longer term aim to abolish it altogether, in order to place connectivity, growth and jobs at the forefront of Scotland’s future economic prosperity.
1. How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate;

In order to meet the strategic and policy objectives of the Scottish Government to replace the existing UK Air Passenger Duty with a new tax that will boost Scotland’s air connectivity and create a fairer and more competitive tax regime, it is necessary to introduce legislation that lays the foundations for introduction of the replacement tax.

BAR UK believes that the extensive stakeholder consultation that was undertaken has enabled The Air Departure Tax (Scotland) Bill to be presented as a fully developed and workable legislation that is fit for purpose for the introduction of the new tax bands and rates.

BAR UK continues to strongly support the Scottish Government’s strategic and policy objectives for introduction of its proposed Air Departure Tax and we particularly note the focus on maintaining simplicity and retaining some structural and procedural alignment with UK Air Passenger Duty that will reduce risk and potential complexity during the transition to the new tax.

2. The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate;

BAR UK recognises that the key concepts of the Bill are generally aligned with UK APD and are appropriate.

Section 8 appears to enable the full provision and amendment for exempted passengers and this will be an important aspect of effectively implementing the tax. We have previously highlighted the importance of unambiguous and aligned exemptions for infants and children under 16 years, emergency and public service flights and for Scottish Highlands and Islands airports.
With specific respect to Scottish Highlands and Islands airports, we have previously highlighted the anomaly of point to point or connecting flights where no tax would be payable where departing from a Highlands and Islands airport and connecting onto a long-haul service and whether this is a desired tax outcome.

3. **The appropriateness of the proposed structure for the tax;**

   We concur with the appropriateness of the overall tax structure however, as per our previous submission, we still believe that the definition of standard class under Section 7 should allow for provision of an enhanced economy product up to a specific seating configuration since these products that are often sold at a modest premium are highly valued by many travellers with special needs or reduced mobility as an enabler of their ability to travel. High taxation on these products has resulted in a number of airlines reducing or even entirely removing this product on services to the potential detriment of this group of passengers.

   We also reiterate the need for clarity on defining the tax bands based on capital city to capital city and how the new tax will require careful consideration of the change in distance from London to Edinburgh as the calculation point.

4. **The proposed administrative arrangements for the payment, collection and management of the tax;**

   The provisions outlined in the Bill appear consistent with the consultation and feedback from airlines and fit for purpose.

   However, we have received feedback from the responsible team at our global trade organisation IATA on the following points for consideration and clarity:

   - **Taxpayer Amendments** – Under Section 83 of the Revenue Scotland and Tax Powers Act 2014 (“RSTPA 2014”), it is IATA’s understanding that taxpayers will be able to amend their tax returns for a period of up to 12 months from the filing date of the tax return. In this respect, confirmation is sought that such tax return amendment procedures apply to the ADT and if not, the Air Departure Tax (Scotland) Bill should be amended to include such procedures.

   - **Relief from Overpayment of the ADT** – Beyond the 12 month tax return amendment period, it is IATA’s understanding that taxpayers will be permitted by means of a written submission to Revenue Scotland to make a claim of overpayment of the ADT under Sections 106-107 of the RSTPA 2014. Under Section 106 (Relief in case of double assessment) and
Section 107 (Claim for relief for overpaid tax etc.) of the RSTPA 2014, there is a five year time limit to making a claim of overpayment and IATA requests confirmation that such provisions apply to the overpayment of ADT. If not, the Air Departure Tax (Scotland) Bill should be amended in order to permit relief from the overpayment of ADT.

- **Record Keeping for ADT Purposes** – Regarding the retention of the appropriate records in relation to the correct and complete imposition and remittance of the ADT, confirmation is sought that, as stipulated under Sections 74-75 of the RSTPA 2014, taxpayers are required to maintain and preserve such records and returns for a period of five years. If not, the Air Departure Tax (Scotland) Bill should be amended in order to include the appropriate record retention period.

5. **Any other issues which are considered relevant to the proposed tax.**

Our airline members remain concerned with regards to being provided sufficient notice on bands and rates since anything less than 12 months implementation notice can result in complex under-collection or over-collection situations that are costly and time-consuming for the industry.

Concern also exists on the transition from APD to ADT for Scottish departures and we will seek specific assistance, understanding and guidelines on effectively managing the transition period.
1) Introduction

This submission is being made on behalf of the Caithness Transport Forum and the Wick John O’Groats Airport Consultative Committee.

The Caithness Transport Forum aims to bring together local transport stakeholders and operators to promote a strong, inter-connected road, rail, sea and air transport network to, from and within the county of Caithness for the economic, social and environmental benefit of businesses and residents of Caithness.

The Forum is funded by Dounreay Site Restoration Limited and Highland Council and has been facilitated by Caithness Chamber of Commerce since December 2012.

The Wick John O’Groats Airport Consultative Committee brings together a range of key stakeholders and statutory agencies in a bid to improve the accessibility of air travel to and from Caithness. It is chaired by Trudy Morris, Chief Executive of Caithness Chamber of Commerce.

2) Summary

We support the Scottish Government’s strategic and policy objectives in introducing this Bill and welcome their commitment to reduction and eventual abolition of this tax. For too long, Air Passenger Duty has acted as an unfair burden on businesses in Scotland, and devolution of this tax to the Scottish Government is a necessary first step towards realising the eventual goal of totally abolishing this form of taxation.

3) Strategic & Policy Objectives

Insofar as the accompanying Policy Memorandum to the Bill reiterates the Scottish Government’s commitment to a reduction in the overall tax burden by 50%, this will go some way to meeting the stated strategic objectives.

Scotland as a whole is reliant on aviation to do business, and this issue is of particular importance to businesses in the North Highlands. Both inbound and outbound flights are
a key part of the overall connectivity of the region, with services to Aberdeen and Edinburgh giving onward access to both UK and international destinations, and any reduction in cost will bring real benefits to businesses in the region.

We would note that the Scottish Government currently proposes to reduce the tax burden by 50% by the end of the fifth session of the Scottish Parliament i.e. by 2021 at the latest. Given that this Bill is proposed to come into effect in 2018, we can see no reason to delay the reduction any longer than necessary.

There has been some discussion about the environmental nature of APD as a tax. Transport Scotland in 2014 carried out work on potential emissions increases as a result of a 50% reduction, and found that emissions would increase by around 0.0341 MtCO$_2$e over the course of a year. This represents an increase of just 0.25% of total transport emissions$^1$, or just 0.073% of total emissions$^2$ (based on 2014 figures).

While we appreciate that the Scottish Government has a policy objective to reduce overall greenhouse gas emissions in Scotland, we would argue that the projected minimal increase in emissions from this 50% reduction is outweighed by the economic benefits. In addition, any increase in emissions is likely to be offset by increases in efficiency in modern aircraft.

Finally, we would emphasise that the end goal of this process – of which this Bill is a necessary first step – should be to abolish this tax entirely. A 50% reduction in the tax burden is a good first step, but would still leave Scotland with one of the highest air travel taxes in the EU. If the Scottish Government’s policy objectives are to be fully realised, abolition of this tax must be the ultimate objective.

We would also caution that reduction and eventual abolition of Air Departure Tax in Scotland should not impact in any way on the Air Discount Scheme currently operating in the Highlands & Islands. This scheme enables passengers from some of Scotland’s most remote regions to access services and opportunities elsewhere in Scotland, and is a key lifeline for many in the region.

For Scottish businesses – and, by extension, the Scottish economy – to grow, we need greater access to UK and international markets. This Bill, as a first step towards a significantly lower and eventually abolished air travel tax, will help to meet that objective.

4) Chargeable Passengers / Flights

We understand that this is an enabling Bill, and that a number of additional issues – including exact definitions of chargeable passengers – are to be specified by Scottish Ministers at a later date.

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However, we are concerned that no attempt at all has been made to include definitions of exempted passengers or flights in the primary legislation. This stands in contrast to e.g. the Land and Buildings Transaction Tax (Scotland) Act 2013, which explicitly defines a number of exempt transactions.

While we understand the need for Scottish Ministers to retain powers to alter the definitions of chargeable passengers / chargeable flights as they see fit, some existing exemptions under APD (e.g. for emergency medical or humanitarian flights) are surely deserving of inclusion in the Bill.

With regards to the issue of chargeable passengers, we would also note the importance of retaining the existing exemption for flights departing from the Highlands and Islands. More than any other region of Scotland, the Highlands & Islands is dependent on aviation for connectivity, and exemption from ADT is a key part of this.

Finally, we would note that the existing exemption only applies to departures, meaning Air Passenger Duty is currently charged on flights to destinations in the Highlands & Islands. While we appreciate that it is outwith the scope of this Bill to define charges on flights from elsewhere in the UK, we would be keen to see an exemption apply on flights from other Scottish airports to the Highlands & Islands.

5) Proposed Structure

We have no comment on the structure of the Bill itself, other than to note that it would make sense for it to follow as closely as possible that of the existing legislation on Air Passenger Duty, to enable ease of transition to the new regime.

6) Payment, Collection & Management

We do not propose to comment on the technical details of administration of the tax, as this is really a matter for those responsible for paying, collecting and managing the tax.

7) Conclusion

We welcome the opportunity to submit evidence to the Committee on this Bill. Please direct any correspondence to:
1 Introduction

1.1 The Chartered Institute of Taxation (CIOT) welcomes the opportunity to offer our comments in response to the call for evidence: Air Departure Tax (Scotland) Bill, issued by the Finance and Constitution Committee of the Scottish Parliament.

1.2 Air Passenger Duty (APD) is being devolved to Scotland with effect from 1 April 2018 under the Scotland Act 2016. Following a consultation on a Scottish replacement to Air Passenger Duty to which the CIOT responded, the Scottish Government introduced the Air Departure Tax (Scotland) Bill on 19 December 2016. This provides for a tax to be charged on the carriage of passengers by air on flights that begin in Scotland. The tax is intended to apply only to the carriage of chargeable passengers on chargeable aircraft, and will be payable by the aircraft operator. The Bill assumes that Revenue Scotland will take responsibility for the collection and management of Air Departure Tax (ADT).

1.3 The Scottish Government has committed itself to a tax system that has regard to Adam Smith’s four principles: the burden proportionate to the ability to pay (equality); certainty; convenience; efficiency of collection (economy). The CIOT agrees that these are important principles for a sound tax system.

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1.4 The objectives which we identify for a good tax system include:

- A legislative process which 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.

1.5 As an educational charity, our primary purpose is to promote education in taxation. One of the key aims of the CIOT 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 Executive summary

2.1 We do not comment on the appropriateness of the strategic and policy objectives. In order to determine whether or not the objectives are achieved, it will be necessary to monitor and measure certain outcomes – we think the Bill should contain provision to do so.

2.2 Given that the tax may be relatively short-lived, an appropriate approach has been adopted, of following the concepts and structure of the UK tax. However, in doing so, it must be noted that the Scottish Government has not taken the opportunity to develop a specifically Scottish approach or to give environmental objectives a role.

2.3 The proposed administrative arrangements seem reasonable. The main question-mark would be over whether a monthly reporting cycle should have been adopted, rather than a quarterly one. It is important that the arrangements are suitable for operators and Revenue Scotland.

2.4 We are concerned that some key issues have been left to regulations rather than being included in the primary legislation, for example, exemptions. In general, we think regulations should be used only for administrative and procedural matters.

2.5 We think it would be helpful to all stakeholders if the Scottish Government published a timetable, setting out when and how the proposed 50% reduction in the ADT burden will be phased in and dates by which the rates and bands for ADT will be announced.
3 How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate

3.1 The Scottish Government set out the policy and strategic objectives for the Bill in the accompanying Policy Memorandum.\(^3\) We do not comment on whether or not the objectives are appropriate – as this is a matter for politicians. Generally, we observe that while tax can often be a factor in the decision-making of taxpayers, it is rarely the only factor or the most important one. It is unlikely therefore that changes made to a single tax will, by themselves, achieve significant strategic objectives.

3.2 We note that the objectives include boosting Scotland’s air connectivity and economic competitiveness, the establishment of new routes and an increase in the number of aircraft based in Scotland. In order to do this, the Scottish Government propose to reduce the burden of ADT (and abolish it completely when resources allow).

3.3 Reducing the tax burden on airlines may encourage them to develop new routes and base more aircraft in Scotland. The elasticity of demand is unclear however.\(^4\) If there is no/ little demand for the new routes, the airlines are unlikely to sustain them in the long-term. In addition, the tax burden of ADT is likely to be only one factor when airlines are considering where to base aircraft and which routes to develop.

3.4 Reducing the tax burden may also result in an increase in inbound tourism; it will undoubtedly also result in an increase in outbound tourism, which the Policy Memorandum does not appear to recognise.

3.5 A reduction in the ADT burden will also reduce tax revenues received by the Scottish Government.\(^5\) These revenues will need to be replaced, unless there are matching expenditure reductions. This will mean passing the equivalent tax burden onto a different group of taxpayers. It is inevitable that such a shift will create winners and losers. In the interests of trying to identify who gains and who loses, we have previously shared with the Scottish Government a matrix (prepared jointly in December 2015 by CIOT and the Institute of Chartered Accountants of Scotland) setting out the likely effect of reducing the burden of ADT (or UK APD) on a variety of different stakeholders. We attach the matrix at Appendix 1.\(^6\)

\(^3\) http://www.parliament.scot/parliamentarybusiness/Bills/102778.aspx.
\(^4\) It is unclear how much effect the level of ADT will affect a passenger’s choice of route and airport. Other considerations will no doubt include convenience and location of the airport.
\(^5\) According to the estimates contained in Government Expenditure & Revenue Scotland (GERS), Scotland’s share of UK APD was £270 million in 2013/14, £290 million in 2014/15 and £275 million in 2015/16 (http://www.gov.scot/Resource/0050/00504649.pdf). If the proposal to first reduce ADT by 50% and ultimately remove it altogether proceeds, the Scottish Government will need to replace the lost revenue either through alternative sources of taxation or by increasing other taxes, unless the reduction generates sufficient growth in other tax revenues to replace it.
\(^6\) We have not updated the matrix, but attach it as originally provided to the Scottish government. It therefore refers to APD rather than ADT.
3.6 In terms of trying to ensure that the policy and strategic objectives are achieved, we think it would be helpful if the Bill contained a provision to monitor the outcomes of the Bill and the policy, for example:

- the number of new routes opened as a result of the policy;
- the number of aircraft placed in Scotland as a result of the policy;
- the increase in inbound and outbound passenger numbers as a result of the policy; and
- whether the reductions in ADT are passed on to consumers.7

3.7 It would be helpful to understand how the Scottish Government intends to assess whether or not the objectives are achieved, as it is not immediately apparent how to measure sustainable growth and increased connectivity for example, or how to determine whether or not, or the extent to which, changes in these can be attributed to the ADT policy.

3.8 We note that if the aim of improving Scotland’s air connectivity is achieved, there are likely to be other consequences, which may or may not be desired. For example, an increase in passenger numbers may mean an increase in road users, having effects on the environment and infrastructure. We think these other impacts should also be evaluated.

4 The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate

4.1 The answer depends to some extent on how long it is anticipated that ADT will exist, since the Scottish Government’s policy means that there is a possibility that ADT might be relatively short-lived.8

4.2 In the event of a short-lived tax, it is likely to be simpler in terms of administration if the key concepts that apply to UK APD are retained for ADT. The key concepts with regard to chargeable passengers and aircraft largely follow those for UK APD. In that respect, we think they are appropriate. It means there is less of a learning curve in relation to ADT for operators, provided Revenue Scotland interpret the legislation in a similar manner to HM Revenue & Customs.

4.3 From the point of view of trying to move in a distinctively Scottish direction with the tax, however, simply following UK APD is arguably not the correct approach, since it makes it more likely that the Scottish tax will continue to be restricted or influenced by the UK approach. A cleaner break in terms of concepts within the tax would arguably make it easier to be bolder in relation to decisions about the tax and its level. It is noticeable that the opportunity recognised by the Smith Commission, is not being fully seized: ‘The Scottish Government will be free to make its own arrangements with regard to the design ... of any replacement tax, including consideration of the environmental impact.’9

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7 This is intended as a short list of possible numbers to monitor. It is not intended to be exhaustive.

8 ADT will continue to 2021 at least, since the Scottish Government’ commitment is to achieve a 50% reduction in the tax burden by the end of the current Parliament.


P/tech/subsfinal/STC/2017
4.4 The Bill does not set out exemptions – these can be added by regulations, under the provisions of the Bill. Since the detail of exemptions are as yet unknown, it is not possible to comment further on whether the key concepts are appropriate.

5 The appropriateness of the proposed structure for the tax

5.1 As with the key concepts, the answer to some extent depends on how long it is anticipated that ADT will exist.

5.2 In the event of a short-lived tax, it is likely to be simpler for those dealing directly with the tax if it mirrors the structure of UK APD as far as possible. The structure as set out in the Bill features three rates, which are essentially the same as for UK APD, although they have been renamed.  

5.3 The Bill does not set out the number of bands, but it does specify that they will based on the final destination of the passenger, as with UK APD. The Bill provides for regulations to set out the rates and bands in due course.

5.4 The structure, as set out in the Bill, seems appropriate. In particular, the measures involved for determining which rate should apply are objective, meaning it should be straightforward to identify the correct rate to apply. It is to be hoped that the measures for determining the correct band will also be objective and straightforward to apply.

6 The proposed administrative arrangements for the payment, collection and management of the tax

6.1 In general, we support the idea of having a single framework for the administration of the devolved taxes, under the Revenue Scotland and Tax Powers Act 2014, unless there is a clear reason for differences.

6.2 If ADT is short-lived however, there is an argument that it would be advantageous for the administration to be similar to that for UK APD, as this would involve fewer changes to systems and less learning time.

6.3 We think it is important above all that the arrangements for payment, collection and management are effective and efficient for relevant stakeholders, particularly Revenue Scotland and the taxpayers (airline industry).

6.4 In the Scottish Government consultation document, the arguments put forward in favour of a quarterly return cycle (which has been adopted in the Bill) did not appear to us to be entirely valid. The fact that Scottish Landfill Tax (SLfT) also has a quarterly return period is irrelevant, since it is unlikely that a

10 The tax rates for ADT are named ‘standard’, ‘premium’ and ‘special’; for APD the rates are ‘reduced’, ‘standard’ and ‘higher’.
taxpayer will be paying both ADT and SLfT. We also had a concern that choosing the same quarterly periods for these taxes might cause a problem for Revenue Scotland, as there will be similar peaks and troughs in workload for the two taxes.

6.5 An advantage of a quarterly return cycle however is that Revenue Scotland do not need to provide the option of an annual return cycle. Instead, there is an option to make occasional returns, which will be appropriate for certain airline operators.

7 Any other issues which are considered relevant to the proposed tax

7.1 We understand that the Scottish Government has commissioned an independent assessment of the impact of reducing or abolishing ADT. We suggest that this should be published in the interests of transparency. This is particularly important, since the studies that have been referred to previously by the Scottish Government have been commissioned by the aviation industry.

7.2 The Bill does not set out tax bands, tax rates or exemptions. This differs from UK APD, which sets these matters out in primary legislation. We think the exemptions should be set out in the Bill; this would be comparable to the approach adopted with Land and Buildings Transaction Tax (LBTT). In general, we think the aim should be to have all the main tax rules in primary legislation. Although statutory instruments will be subject to Parliamentary oversight, they should be used for administrative and procedural matters, not important principles and rules.

7.3 We think it is important that ADT has the same connected flights rules as UK APD, to minimise double taxation. We are pleased that Schedule 1 of the draft Bill appears to follow the UK rules. Schedule 1 refers to flights starting and ending within the United Kingdom, which suggests that airports in the rest of the UK will be treated as domestic, rather than international destinations. It is important that this is co-ordinated with the UK, such that the same applies in reverse in respect of Scottish airports and UK APD.

7.4 We are concerned that the Financial Memorandum published alongside the Bill contains forecasts for revenue from ADT that reflect the current rates and bands of UK APD. They take no account of the proposed reduction in the tax burden of ADT. Similarly, the Business Regulatory Impact Assessment does not appear to consider the impact of reducing the ADT burden by 50%. Although the Bill does not specifically provide for the reduction, because it does not set out the rates and bands of the tax, given the proposed 50% reduction is Scottish Government policy, it would seem appropriate to have considered this in relation to the Bill, as it will undoubtedly receive less scrutiny if only considered as part of the regulations that set the rates and

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bands.

7.5 We think it would be helpful to all stakeholders if the Scottish Government published a timetable, setting out:

- how the proposed 50% reduction in the ADT burden will be phased in between 1 April 2018 and the end of the Parliament;
- dates by which the rates and bands for ADT will be announced;
- dates by which the exemptions for ADT will be announced.

8 Acknowledgement of submission

8.1 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 call for evidence is published.

9 The Chartered Institute of Taxation

9.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. 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. 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.

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. The CIOT’s comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT’s 18,000 members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.

The Chartered Institute of Taxation
17 February 2017
# Appendix 1

## Air passenger duty – Impact summary

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Corporation tax</th>
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<th>National Insurance</th>
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<tbody>
<tr>
<td><strong>Tax per GERS</strong>&lt;sup&gt;2&lt;/sup&gt; 2013-14</td>
<td>Total £2,817m</td>
<td>Total £11,410m</td>
<td>Total £8,730m</td>
<td>Total £10,060m Gross £5,030m Net £4,432m</td>
<td>Total £251m</td>
<td></td>
</tr>
<tr>
<td>Scottish government</td>
<td>Share of UK receipts</td>
<td>Will be wholly devolved – benefits from increase or loses from decrease</td>
<td>Share of UK receipts</td>
<td>50% share of any increase or decrease (based on current UK rates)</td>
<td>Wholly devolved – benefits from increase or loses from decrease. If rate reduced by 50%, at first likely to simply have only 50% of previous APD revenues.</td>
<td>Cost of state benefits may be affected by any growth due to reduction in APD</td>
</tr>
<tr>
<td>UK government</td>
<td>Benefits from any growth in profits taxable in UK due to APD reduction</td>
<td>Will not share in any benefits or losses</td>
<td>Benefits from any employment growth that increases NIC receipts</td>
<td>Any increase in spending by visitors increases VAT receipts, but possible loss if effect is to</td>
<td>Unlikely to be any major direct impact as few Scottish airports close enough to rest of UK to</td>
<td>Any growth in employment may impact on cost of state benefits.</td>
</tr>
</tbody>
</table>

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<sup>1</sup> Figures for tax revenues are estimates taken from table 3.1 in “Government Expenditure & Revenue Scotland 2013-14” (March 2015): [http://www.gov.scot/Publications/2015/03/1422](http://www.gov.scot/Publications/2015/03/1422)

<sup>2</sup> The term “Total” is used to refer to the amount calculated as being revenue from Scotland in “General Expenditure & Revenue Scotland 2013-14” (GERS). Under income tax, the term “Smith” is used to refer to the income tax that would be within the Scottish Government’s power under the latest Scotland Bill, following the Smith Commission recommendations. “SRIT” is used to refer to the amount under the control of the Scottish Government according to the Scotland Act 2012. For VAT, the gross is the VAT receipts that the Scottish Government estimates will be assigned to Scotland before taking into account VAT refunds.
### Appendix 1

#### Tax and Scottish Revenues

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<tr>
<td>Tax per GERS(^2)</td>
<td>(\text{Total } £2,817\text{m})</td>
<td>(\text{Total } £11,410\text{m})</td>
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</tr>
<tr>
<td></td>
<td>Smith £10,911\text{m})</td>
<td>SRIT £4,258\text{m})</td>
<td>Gross £5,030\text{m})</td>
<td>Net £4,432\text{m})</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Tax**

- **Corporation tax:** Total £2,817m
- **Income tax:** Total £11,410m
- **National Insurance:** Total £8,730m
- **Value added tax:** Total £10,060m
- **Air passenger duty:** Total £251m

**Other – non-tax issues**

- **Revenue Scotland:** No impact
- **Airlines:** May pay more corporation tax if UK profits increase, but some airlines may not be wholly subject to UK corporation tax.

#### Revenue Scotland

- No impact

#### Airlines

- May pay more corporation tax if UK profits increase, but some airlines may not be wholly subject to UK corporation tax.

- May have to pay more employers’ NIC if reduction in APD leads to more employment.

- Substantial gains but these may be reduced if passed onto customers in lower fares, although the UK paper to the House of Commons – see footnote – on APD asserted that the demand for travel is

### Footnote

3 In a note entitled “Air passenger duty: introduction” prepared for the House of Commons by Anthony Seely on 19 September 2012, HMRC asserted “…analysis indicates that the price elasticity of demand for changes in APD duty rates is low, and air travel has proven relatively unresponsive to changes in price.” However, other studies reach different conclusions. The current rates of APD for travel up to 2,000 miles is £26 standard and £13 reduced. There is no tax on children under 12. Thus for a family of four the saving could be as little as £26 (two adults at the reduced rate).
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<td>Total £10,060m</td>
<td>Total £251m</td>
<td>relatively inelastic. when deciding whether or not to develop new routes from Scottish airports, for example, availability and cost of slots; likely feasibility of route in terms of passengers; infrastructure.</td>
</tr>
<tr>
<td>Operators of other forms of transport (bus, train, coach, taxi, ferry etc.)</td>
<td>May pay less corporation tax if UK profits decrease</td>
<td>No impact</td>
<td>May pay less NIC if reduction in APD leads to less employment due to a fall in customers</td>
<td>Most other transport (except taxis) is zero-rated so unlikely to be a significant VAT effect</td>
<td>Reduction in APD reduces cost of air travel of employees, but reduction partly offset by corporation tax – net benefit will be about 80% of reduction.</td>
<td>Possible opportunities for routes connecting to airports if a significant number of passengers find it acceptable to travel to avoid APD, but seems unlikely.</td>
</tr>
<tr>
<td>Business – company</td>
<td>If profits increase due to lower travel cost by employees, increase in tax paid, but mostly</td>
<td>No impact</td>
<td>As for airlines</td>
<td>Any increase in business activity e.g. more visitors to a hotel, will result in more VAT payable</td>
<td>Reduces cost of air travel of employees, but reduction partly offset by corporation tax –</td>
<td>In the main, the cost of APD is unlikely to outweigh the cost or inconvenience to a business</td>
</tr>
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<td>Gross £5,030m</td>
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<td>net benefit will be about 80% of reduction.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Net £4,432m</td>
<td></td>
<td>traveller of not travelling from his or her nearest airport.</td>
</tr>
<tr>
<td></td>
<td>negligible</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business – individual</strong></td>
<td>No impact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Possible impact on state benefits entitlement due to higher net income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If profits increase due to lower travel cost causing increased demand, increase in tax paid but mostly negligible</td>
<td>As for airlines Also increase in class 4 NIC</td>
<td>As for company businesses</td>
<td>Reduces cost of air travel, but reduction offset by income tax and class 4 NIC increase – net benefit could be less than 50% of APD reduction</td>
<td></td>
</tr>
<tr>
<td><strong>Employees and jobseekers</strong></td>
<td>No impact</td>
<td>Increase in demand may provide job opportunities but the travel and retail industries usually pay low wages, so probably minimal income tax effect. Note also that UK government controls level of personal allowance and</td>
<td>Most new employees will pay NIC because earnings will be over the threshold of £8,060, but this may be different for part-time workers including those on zero-hour contracts.</td>
<td>No impact unless they are also travellers, when there is an impact on their employer’s business - see below.</td>
<td>Reduced cost of travel where they travel on business as employees</td>
<td>Possible impact on state benefits as above</td>
</tr>
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<td></td>
<td></td>
<td>Net £4,432m</td>
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<td></td>
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<tr>
<td></td>
<td>this will be linked to the National Minimum Wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travellers from Scotland to overseas destinations</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Scots travellers will buy goods and services overseas and pay VAT there and not in Scotland</td>
<td>Reduction in travel cost by £26 per traveller over 12 (standard) and £13 (reduced) if journey less than 2,000 miles, or by £142 (£71) if over 2,000 miles.</td>
<td>Reduction may stimulate travel from Scotland. For 4 passengers over 12, the saving could be £568 – worth a train journey in some cases. As noted, business travellers are unlikely to see £142 (£71) as worth the additional travel time</td>
</tr>
<tr>
<td>Travellers from Scotland to other UK destinations</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Passengers will presumably pay VAT on goods and services in the rest of the UK instead of Scotland</td>
<td>Reduction in travel cost</td>
<td>It seems unlikely that there would be a significant increase in air travellers from Scotland.</td>
</tr>
<tr>
<td>Travellers to Scotland from overseas</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Increase in VAT due to spending on hotels,</td>
<td>Reduction in travel cost</td>
<td>The question is whether there would be a</td>
</tr>
</tbody>
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<sup>1</sup> Appropriate codes and notes are included.

<sup>2</sup> Adjustments for 2013-14 have been included.
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<td>Total £251m</td>
<td>significant increase in passengers because of lower APD in Scotland – e.g. London attracts more visitors even though its accommodation costs are significantly more. It may only change the sequence of travel.</td>
</tr>
<tr>
<td>destinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Travellers to Scotland from other UK destinations</strong></td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Shifts some VATable spending from UK to Scotland, but may not be significant.</td>
<td>Reduction in travel cost</td>
<td>Far more travellers are likely to use other transport, so the potential increase in passengers is probably minimal.</td>
</tr>
<tr>
<td>People who do not travel by air</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Whether a reduction in APD encourages these individuals to use air travel in future is moot. Other factors than cost –</td>
</tr>
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<td>£4,258m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Reduction in APD potentially reduces the tax's environmental impact, but note that APD was not intended to be an environmental tax and, if it does not greatly increase or decrease the demand for travel, it may have minimal impact anyway.</td>
<td>APD does not in and of itself encourage ‘green’ behaviours – for example, it does not encourage airlines to fill planes or use greener planes</td>
</tr>
<tr>
<td><strong>convenience; time; personal preference re mode of transport – will play a part</strong></td>
<td></td>
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</table>
Air Departure Tax

– A Post-Brexit Analysis –
Preface

This report forms a response to a request for opinion on the Scottish Government’s plan to cut Air Departure Tax (formerly Air Passenger Duty) by 50% starting in 2018 and to eliminate it entirely at an unspecified future date. There is significant evidence that the economic impacts of the cut will not be as great or as beneficial as has been claimed.

Key Points:-

• Even under the most optimistic circumstances put forward by proponents of the tax cut, additional revenue is unlikely to replace revenue lost by the cut.

• The case for increases in tourist traffic is substantially undermined by the impact of cheaper tickets inducing more domestic tourists taking foreign trips instead. Overall tourism numbers are at risk of reducing as a result of this tax cut.

• The spending of inbound tourists are generally more weakly linked to the economy than the domestic consumers who more likely to be induced to leave which may lead to a reduction in gross value added to the economy even if tourist spending remains constant.

• The reduction of the value of the pound sterling in the aftermath of “Brexit” is likely to have a substantially greater impact on tourism than the ADT cut is capable of inducing. The tax cut can only partially subsidise this Brexit effect.

• The case for business growth due to a cut in ADT appears particularly weak as business flights are driven by need and time pressures rather than price.

• The case for an ADT cut encouraging more visits to Scotland for the purposes of international trade and business deals is particularly weak as long haul business flights between the UK and the US and Asia is almost entirely price insensitive.

• If an ADT cut results in a transfer of revenue from ADT to corporation tax there may be deeper implications for the robustness of the Scottish budget under the devolved tax structure. This will be exacerbated in the case of corporate profits transferred outside of the UK entirely.

• Whilst the economy most directly linked to airport traffic will see an increase, this increase will ultimately be capped by the capacity of the airports in question. The seasonal nature of tourist traffic will exacerbate this impact.

• The greater impact on the transport network due to increased traffic needs to be considered in light of this proposal as do the economic imbalances created by the ADT cut inducing greater traffic in the Central Belt but little growth elsewhere.
If the reduction in revenue due to the ADT cut is not at least recouped in full then additional cuts in public spending may be required. The negative impacts on the economy of this additional austerity would then be dependent on precisely where those cuts occurred.

1 Introduction

Air Passenger Duty was first announced by the UK Government in the 1993 budget and was introduced in 1994 as a tax paid by any passenger departing from a UK or Isle of Man airport and levied according to the destination with longer flights charged more than shorter ones (special exemptions made such as for international passengers on connecting flights and leaving the UK within 24 hours of arrival or for small aircraft such as those serving the Scottish islands). Currently it is levied according to two bands with Band A covering shorter (<2000 miles as measured between London and the destination country's capital city*) and Band B covering longer (>2000 miles) journeys and according to three rates namely Reduced (for the lowest cost seats), Standard (for any other seat) and Higher (for non-exempt aircraft weighing more than 20 tonnes and with fewer than 19 passenger seats).[1]

<table>
<thead>
<tr>
<th>Air Passenger Duty / Air Departure Tax (2016-17)</th>
<th>Reduced Rate</th>
<th>Standard Rate</th>
<th>Higher Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band A</td>
<td>£13</td>
<td>£26</td>
<td>£78</td>
</tr>
<tr>
<td>Band B</td>
<td>£75</td>
<td>£150</td>
<td>£450</td>
</tr>
</tbody>
</table>

The devolution of powers over air passenger duty to the Scottish Government was granted as part of the Scotland Bill 2015 and is due to be in place not later than April 2018, by cutting the tax initially by 50% and then eliminating it altogether “when finances allow”. On the 14th March 2016, the Scottish Government launched a public consultation to seek views for or against this policy. This report takes on the views of The Common Weal and presents them as a contribution to the consultation.

*Due to its size and the relative proximity of Moscow, Russia is split into two regions for banding purposes.
2 The Case Presented For the Cut

The Scottish Government's case for a cut and eventual elimination of air passenger duty is based on three economic premises. First, it shall increase the profitability of business trips undertaken from Scotland and shall encourage trips to Scotland for the purposes of business negotiations and deals. Second, it shall increase net tourism in Scotland thus provide a direct economic boost to the tourist sector and, indirectly, to the wider economy. Third, it shall increase traffic within the airport service industry itself and boost economic activity undertaken whilst people are travelling. Together, it is claimed, these positive economic impacts will result in government revenue exceeding that lost directly by the cut in ADT.

These cases have been largely drawn from two studies undertaken by the airport industry sector themselves. Once by Edinburgh Airport\textsuperscript{[2]} and other by finance company PwC on behalf of a consortium of airlines including EasyJet\textsuperscript{[3]}. This report shall look in detail at the claims made in these papers to support the three growth factors that the Scottish Government are aiming to achieve. The report shall also draw on additional resources where required such as a prominent study into the impact on passenger flow due to taxation, prices and incomes by IATA\textsuperscript{[4]}.

Throughout this report much of the discussion will be spoken of in terms of “price elasticity” which is a measure of how much demand for a service changes as a function of price. For example, if a tax rise increases costs by 1\% and this results in a drop in demand of 0.3\% (or if a price reduction of 1\% causes a 0.3\% rise in demand) then the price elasticity is said to be -0.3. Any service in which elasticity is greater than ±0.5 is considered to be “price elastic” (i.e. it is significantly affected by price changes), whereas if the value is less than ±0.5 then the service can be said to be relatively price inelastic.

3 The Impact on Business Travel

According to the Edinburgh study business travel makes up approximately 31\% of all air travel departing from a UK airport with around two thirds of that consisting of intra-UK domestic travel. According to both Edinburgh and IATA
business travel of all kinds is particularly inelastic with regards to pricing as business requiring the physical presence of a worker will generally occur regardless of cost. The author has had personal experience of this kind of impact within the context of a previous occupation which required frequent flights (>20 over the course of a year) to various destinations in Europe and the United States. In only one instance would it have been possible to substitute a flight for one by road or rail in an economically viable manner and all of the trips were time sensitive enough that cost was not generally a significant factor in the decision making process.

Edinburgh estimates precisely zero change in behaviour for all international business travel except for European travel (-0.3) and domestic business (-0.3) and freely admits that this kind of travel will have little impact on the business community.

One aspect seems self-evident but also appears to have not been studied at all. ADT is collected directly at the point of purchase of the ticket and will be collected directly by the Scottish Government. If the ADT cut translates simply into reduced transport costs and hence increased final profits for a company and even assuming that the company is legally domiciled in the UK (and assuming that it uses no accounting mechanisms to transfer its profits outside of the country) then the ADT cut may be partially offset by a rise in revenue in corporation tax. However, as corporation tax is not collected by the Scottish Government and is a reserved power, there may be implications both in terms of funding via the Block Grant and in terms of the structure of devolution itself if tax revenue is transferred outside of the Scottish Government's control. This impact may be worse in the cases of companies which do not pay corporation tax in the UK as this revenue would essentially become lost entirely.

The secondary aspect of the business case lies in cheaper flights attracting longer term business growth via making Scotland more attractive as a destination to conduct trade deals and other business linkages. Given that longer air journeys to the markets with which those deals are likely to be conducted (for example the US or South East Asia) are entirely inelastic there simply does not appear to be a mechanism by which a cut in ADT could leverage this effect.
4 The Impact on Tourism

The flagship aspect of the proposed ADT cut is its claimed ability to make Scotland a more attractive location to visit by tourists. The three major studies highlighted here, Edinburgh, PwC and IATA, are all in broad agreement that lower prices and, in particular, prices undercutting similar nearby markets, are significant drivers of traffic towards a particular location although IATA and PwC are both careful to highlight that it is growing income in general which is the largest driver towards making a leisure flight in the first place. IATA specifically states whilst destinations may change in response to local price cuts total travel does not and that this would “significantly limit the effectiveness of national passenger taxes as a way of managing demand or limiting the rise of greenhouse gas emissions from air travel”[5].

The primary apparent flaw in the rationale behind the attraction of more tourists to Scotland via an ADT cut lies the elasticity of outbound Scottish holidaymakers as well as inbound tourists. The Edinburgh study makes great effort to show the increased traffic inbound to Scotland but, unlike IATA, does not appear to mention the effect of Scottish holiday makers taking advantage of cheaper flights over what would have otherwise been a domestic holiday.

Data from VisitScotland[6] estimates that in 2015 5.85 million trips were taken in Scotland by people from Scotland whereas only 2.7 million trips to Scotland and 12.27 million total by tourists from anywhere in the UK. This is compared to the 2.59 million trips which were taken by people from outside the UK. Data from The Association of British Travel Agents also indicates that people from Scotland take around 5.2 million trips overseas every year[7]. This suggests that a small percentage rise in outbound tourism may more than counteract a larger percentage rise in inbound tourism and therefore lead to a net tourism decrease.

The situation is complicated further by the relative spending of tourists to from various origins which may be more elastic than others. In general, tourists from ADT Band A countries served by low costs flights such as Europe will be reasonably elastic (Edinburgh: -0.7) whereas longer haul flights to the US, Australia, Asia etc will be inelastic (Edinburgh: -0.3).
IATA highlights the impact of changes in flight taxation and specifically draws attention to the differential elasticity caused by these taxes on domestic outbound and foreign inbound tourists\[^8\]. They apply an estimated additional elasticity multiplier of 1.3 for inbound tourism and 0.8 for outbound tourism. This means that a trip with a base price elasticity of -0.7 would actually experience a price elasticity of -0.09 for inbound travellers and -0.56 for outbound travellers.

The final point required to be able to calculate the impact of changes to ADT is the magnitude by which such a change would affect flight prices. This is a complicated issue as ADT is calculated as a flat payment whereas flight prices are extremely variable based on destination, season, time of booking and a myriad of other factors. Data from Skyscanner suggests that ADT in both Band A and Band B regions during peak seasons makes up between 5% and 15% of the total flight price. A median figure of 10% is assumed for the purposes of this report thus a cut in ADT of 50% shall reduce flight prices by 5%. Combined with the other factors outlined previously, it is therefore expected that demand for any particular flight route shall increase by between 1.2% and 4.6% depending on overall elasticity.

The table below extracts data from VisitScotland\[^9\] and the UK Government's Travel Trends\[^10\] database to attempt to estimates the impact of these various elasticities and forcings on travel numbers by travellers to Scotland from the top ten countries of origin (which includes more than 70% of all non-UK tourists to Scotland).
<table>
<thead>
<tr>
<th>Country of origin</th>
<th>Inbound trips before ADT cut</th>
<th>Additional inbound trips due to 50% ADT cut</th>
<th>Outbound trips before ADT cut</th>
<th>Additional outbound trips due to 50% ADT cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>409,000</td>
<td>7,976</td>
<td>264,174</td>
<td>3,170</td>
</tr>
<tr>
<td>Germany</td>
<td>323,000</td>
<td>14,697</td>
<td>151,218</td>
<td>4,234</td>
</tr>
<tr>
<td>France</td>
<td>196,000</td>
<td>8,918</td>
<td>317,799</td>
<td>8,898</td>
</tr>
<tr>
<td>Netherlands</td>
<td>157,000</td>
<td>7,144</td>
<td>150,231</td>
<td>4,206</td>
</tr>
<tr>
<td>Spain</td>
<td>146,000</td>
<td>6,643</td>
<td>1,211,860</td>
<td>33,932</td>
</tr>
<tr>
<td>Australia</td>
<td>142,000</td>
<td>2,769</td>
<td>36,590</td>
<td>439</td>
</tr>
<tr>
<td>Canada</td>
<td>98,000</td>
<td>1,911</td>
<td>48,736</td>
<td>585</td>
</tr>
<tr>
<td>Italy</td>
<td>92,000</td>
<td>4,186</td>
<td>199,436</td>
<td>5,584</td>
</tr>
<tr>
<td>Poland</td>
<td>87,000</td>
<td>3,956</td>
<td>114,285</td>
<td>3,200</td>
</tr>
<tr>
<td>Ireland</td>
<td>78,000</td>
<td>3,549</td>
<td>112,339</td>
<td>3,145</td>
</tr>
<tr>
<td><strong>Total Additional Trips</strong></td>
<td><strong>61,750</strong></td>
<td></td>
<td><strong>67,395</strong></td>
<td></td>
</tr>
</tbody>
</table>

The numbers for additional inbound tourists tie relatively closely to those implied by the Edinburgh study but, as can be seen, the number of additional outbound tourists exceeds this number and thus implies that the cut in ADT could lead to a net reduction in tourism within Scotland.

With regard to intra-UK tourism, whilst domestic leisure flights are relatively elastic (-0.7), only approximately 6% of English and Welsh tourists travel to Scotland by aircraft. The vast majority either drive (69%) or arrive by train (16%). It could be expected that some of this travel may transition to travelling by plane in the event of an ADT cut but, as indicated earlier, it is unlikely to significantly increase total tourist volume as the overall impact will be subject to the same bi-directional traffic increases as international travel. When the increased carbon footprint per passenger mile of aircraft compared to train and even car is included in these considerations, the Scottish Government should
reflect carefully on this potential transition with respect to their carbon emission targets.

A final factor which may influence tax policy considerations lies within the spending patterns of foreign tourists compared to domestic consumers was uncovered within the PwC study\(^{[11]}\) which found that:

\[
[T]he \ \text{positive effects of increased foreign tourism spending have weaker linkages with the rest of the economy. Foreign tourists tend to purchase a more limited range of lower value-added goods and services than domestic consumers. The net effect is a reduction in domestic production and consumption.}.
\]

In other words, even if inbound tourists match both the numbers and spending power of outbound tourists, their differing spending habits may lead to a decrease in GVA. This would run directly contrary to the stated goals of an ADT cut.

It is worth noting at this point that the Edinburgh study estimated that tourism expenditure growth due to the tax cut would be around £68 million per year and that overall GVA would increase by up to £200 million per year by 2020. Even if this upper range were reached despite the loss of GVA from formerly domestic tourists, the overall tax revenue growth from this GVA increase is unlikely to replace the £137 million revenue lost from a 50% reduction in ADT.

The shape of an economy is perhaps as important as its sheer size in GDP terms and the stated goal of the ADT cut is to attempt to boost the relative size of the inbound tourist industry. However it may be more effective to devise and implement a policy which has the effect of boosting inbound tourism in Scotland which does not also encourage domestic tourism to go abroad. Such a policy would have a far stronger positive impact on the tourism industry than a cut to ADT appears capable. It is clear that focusing simply on a change in GDP may not give a complete picture of the impact of the proposed change in taxation.
5 The Impact of “Brexit”

The analysis above so far discounts the impact of the 2016 referendum decision for the UK to leave the European Union. The referendum decision had a particularly significant impact on the value of the pound sterling (GBP) compared to other currencies with the GBP falling in value by 15% compared to the euro (EUR) and by 20% compared to the US dollar (USD) since June 2015. Unlike the case of the ADT cut which would make flights cheaper for both inbound and outbound passengers, the drop in the value of the currency has the effect of making holidays cheaper for inbound tourists from Europe whilst making them more expensive for Scottish tourists wishing to travel abroad. Further, this price impact has an effect on the entire price of the trip not just the price of the flight therefore can be expected to be a far larger contributor to the decision making process. It can therefore be seen therefore that the currency devaluation will have the effect of encouraging inbound tourism whilst discouraging outbound tourism.

For example, an average Scottish holidaymaker travelling to Spain would find that a trip which would have cost them £541 per trip in 2015 could rise by up to £106 to £647 whereas the proposed 50% cut in ADT would only reduce that bill by less than £7 per trip at reduced rate and even the elimination of ADT entirely would reduce the price by only £13. Similarly, an average trip to the USA which cost £1,450 in 2015 may cost closer to £1,800 at current exchange rates whilst ADT only contributes £75 of this total spend at reduced rate and £150 at standard rate.

A cut in ADT – or even the complete elimination of the tax – can therefore only partially subsidise the impact of Brexit upon the spending power of outbound tourists.

6 The Impact on Airport Traffic

With a potential increase in both inbound and outbound traffic it is reasonably indisputable that the airports themselves will be a beneficiary of any cut in prices. Edinburgh airport in particular derives around half of its total income from aircraft landing charges and baggage handling and around a third
from retail sales and parking charges\textsuperscript{[12]}. The Edinburgh study caveats its growth projections for Scotland wide airports by re-iterating that growth will be greatest in airports which see a higher proportion of leisure traffic such as Glasgow and Edinburgh whereas business oriented airports such as Aberdeen and Inverness will not be significantly affected due to the previously mentioned inelasticities in this sector. Ultimately this growth will be limited by the overall capacity of the airports in question particularly at peak tourist travel seasons. Glasgow in particular is operating already at near peak capacity (8.7 million passengers served in 2015\textsuperscript{[13]} compared to a rated capacity of 9.0 million\textsuperscript{[14]}) and whilst Prestwick, which has recently experienced a substantial decline in passenger traffic, could reasonably be assumed to take up some of that capacity the subject then must turn to the topic of the capacity of local wider transport infrastructure, for example the long discussed Glasgow Airport Rail Link (GARL), which itself may require careful planning. Another consideration must be that if traffic and investment is increasing substantially in the Central Belt due to the proposed ADT cut but not in Aberdeen, Inverness or other areas not closely served by an airport then an economic imbalance may be created and some form of redistributive measures may need to be taken.

7 Conclusion

The economic case for a cut and eventual elimination of ADT appears far less strong than has been claimed by proponents. The business case in particular appears very weak or almost non-existent as business traffic is not particularly price sensitive. The implications for the overall Scottish budget under the incoming devolved tax structure reveals some potential vulnerabilities with regard to the revenue from the devolved ADT transferring either partially to the reserved corporation tax or being transferred out of the UK entirely. Additionally, if any or all of the impacts highlighted in this report occur and result in the loss of revenue from the ADT cut (some £153.5 million per year for a 50% cut) not being at least fully recouped by growth in revenue from other sources then additional cuts in public spending may be required.
The negative impacts on the economy of this additional Austerity would then be dependent on precisely where those cuts occurred.

The case made for tourism growth appears to be weakened by the lack of consideration for an increase in outbound tourism countering the increase in inbound tourism. A case has been made that the effect will be an overall net decrease in the amount of tourism within Scotland and a reduction in the gross value added to the economy by tourist spending.

The direct economy of the airport infrastructure is likely to increase as a result of increases in both inbound and outbound tourism but this increase will ultimately be capped by the carrying capacity of not only the airports but the transport infrastructure surrounding them. Further, the increase will disproportionately benefit the Central Belt of Scotland whilst leaving the North East airports and areas of Scotland not well served by any airports largely unaffected. The infrastructure requirements and economic imbalances would need to be addressed as part of the larger economic plan associated with the tax cut.

A holistic approach to policy-making – which analysed tourism in the round, took a realistic attitude towards business travel and considered Scotland as a totality and its respective transport needs – would be greatly preferable to a clumsy slashing of a single tax power.
References

2. Edinburgh Airport, “The Impact of Reducing APD on Scotland's Airports”, March 2015
4. IATA, “Economics Briefing N° 9 – Air Travel Demand”, April 2008
5. IATA, “Economics Briefing N° 9 – Air Travel Demand”, April 2008, Page 40
8. IATA, “Economics Briefing N° 9 – Air Travel Demand”, April 2008, Page 10
About easyJet

easyJet is Scotland’s largest airline – in 2016 we carried more than 6.4 million passengers to and from Scotland. We operate 62 routes from our Scottish airports: Aberdeen, Edinburgh, Glasgow and Inverness.

We employ over 630 crew and base 13 aircraft in Scotland and directly support around 6,000 airport-related jobs in Scotland.

easyJet links Scotland with some the largest European cities, including Amsterdam, Paris, Athens, Milan, Prague and Berlin. Around 30% of easyJet’s passengers to and from Scotland are travelling on business.

In addition to the visitors we bring to Scotland from Europe, we also bring over 100,000 people each year who live outside Europe (but are travelling within it). Last year over 37,000 were from the United States and over 8,000 from the Far East including 2,000 from China.

easyJet also provides 64 daily flights between Scotland and London. These flights allow businesspeople in Scotland to make day trips for meeting in London and vice versa.

Strategic and policy objectives of the Scottish Government’s Bill

Scotland’s aviation policy recognises the potential for aviation to act as an enabler of economic growth and jobs through the benefits it brings in terms of trade and investment and productivity. Taxing aviation through Air Passenger Duty (APD) is in effect a tax on growth, and evidence shows it is counter productive as removing APD would not only support growth, but also fund itself through greater tax revenues due to this higher growth.
We support the Government’s plan that the new Air Departure Tax should be half the level of the current UK APD, which will not only support Scotland’s connectivity and economy, but by lowering the cost of travel for all passengers will also support social welfare by making it easier to go on holiday and visit friends and family.

If the Air Departure Tax is introduced in spring 2018 at 50% of the current UK APD, where this reduction is equivalent across the current bands and levels of the tax, we would expect to increase easyJet services to and from Scotland by around 30%.

**Economic growth and jobs**

There is strong evidence to show that aviation is an enabler of growth and jobs, for example from Frontier Economics\(^1\), pwc\(^2\) and Oxford Economics\(^3\). Frontier Economics\(^4\) analysis suggests that across the EU on average an additional 1 million passengers generates about £2.3bn of GDP. This benefit flows not simply from the employment generated within aviation, but because aviation supports trade and investment and enhances productivity. Without aviation the Scottish economy would be smaller, because trade and inward investment would be significantly lower. Consequently anything that increases the cost of travel for passengers, such as taxes, is a tax on growth and jobs.

**Connectivity**

We support Scotland’s efforts to enhance its connectivity, and we recognise the value and importance of connecting Scotland to short haul destinations of economic value. We believe that the most effective and sustainable way to support connectivity is to lower the costs of travel for all passengers and allowing consumers to determine where they want to fly and which routes are sustainable. This avoids trying to pick winners, and ensures that routes are sustainable in the long term; as if they are based on underlying consumer demand rather than artificial government support they are much more likely to survive.

Consequently we welcome the commitment to supporting airport competition and airline (driven by passengers) choice of airports for their routes. Airport competition is the most effective way to ensure that Scotland’s airports operate efficiently, and deliver service levels that passengers’ value. Allowing airlines to determine which routes are the most viable ensures they can work to match consumer demand.

It is also important that all flights are treated equally in any tax reduction. Both long haul and short haul flights contribute to Scotland’s connections, with short haul flights providing significant economic links to the rest of the UK and Europe. Short haul airlines can respond effectively to any tax change as they are growing and could direct more of their planned capacity increase towards Scotland. Short haul customers tend to also be more responsive to changes in price and the current Air

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\(^1\) Frontier Economics Ltd, Measuring the economic contribution of air travel in the EU, 2015  
\(^2\) Various pwc reports for the UK Airports Commission and The economic impact of Air Passenger Duty, 2013  
\(^3\) Oxford Economics, Aviation Benefits Beyond Borders, 2014  
\(^4\) Frontier Economics Ltd, Benefit of better regulation of airports in Europe
Passenger Duty makes up a significant portion of fares (e.g. easyJet's average fare is around £60).

**Introduction of the new rate**

The only way to ensure these benefits of the new Air Departure Tax are delivered as quickly as possible is to implement the 50% reduction in a single cut rather than phasing it in over time.

A phased reduction risks dampening the positive effect on connectivity and therefore removing a clear visible benefit from reducing the tax. Because airline capacity is lumpy, the market will respond more slowly to a phased reduction, delaying its positive economic benefits and connectivity gain.

Airline capacity and route networks are a result of decisions on how to allocate existing capacity - from within current aircraft fleets - and whether to expand overall capacity by increasing the size of fleets. The allocation of incremental capacity to Scotland will be made in the context of its profitability versus the allocation of that capacity to an alternative market. A decision to increase the overall capacity of an airline will be made with a view to incremental returns from a larger fleet. If Scotland reduces APD in relatively small steps over three years the airline response is likely to be slower overall than it would be to an immediate 50% reduction. In other words even at the end of the three years the impact is likely to be smaller than if the reduction was carried out in a single year.

A slower phased reduction will mean that airlines face a smaller incremental reduction in the cost of flying each year. This will in particular make new routes less likely to be induced by the reductions, particularly in the early years. Because aircraft capacity is relatively 'lumpy' a new route requires a significant investment of capacity. It is not a marginal decision. So small changes in the tax may not trigger sufficient changes in route economics to justify the allocation of an aircraft to a new route.

An in full 50% reduction in the tax mitigates these risks. It will make it easier for airlines to plan a step change in their capacity, either by reallocating aircraft from within their existing fleet or expanding their fleets to cater for Scottish routes. It will also support airline marketing around the reduction, including cross border marketing. This would lead to very visible increases in overall passenger numbers from Scottish airports and also immediate and significant increases in routes, providing very clear evidence of the benefits of the reduction in the tax.

**Passing the tax on to passengers**

It is important to point out that there is no suggestion a reduction would not be passed on to passengers. The level of competition in the airline sector is high, and consequently airlines are unable to sustain excessive fares. The impact of the recent reduction in fuel prices is a good example of this, with fares falling following lower oil
prices. The lower tax would lead to an immediate reduction to our ‘lead in’ fares\(^5\), and would lead to lower average fares as well.

The low barriers to entry on new routes and the transparency over fares mean that any attempt to ‘retain’ the benefit of lower APD would induce new entry into the market bringing down fares for everyone.

**Environmental considerations**

The environmental issues surrounding the tax are also relevant. Aviation policy must take into account the environmental impact of flights. UK APD was originally introduced in 1994 as an environment tax but it has now become a general tax (as recognised by the UK Government). Today aviation emissions are covered by the EU Emission Trading Scheme.

The aviation industry is continuing to invest to reduce its environmental impact. For easyJet’s part, our carbon emissions per passenger kilometre decreased by more than a quarter between 2001 and 2013 and we are already making good progress on our current target, which would mean easyJet’s carbon emissions per passenger kilometre would be over 31% lower than in 2001.

easyJet has an order for 130 A320neo aircraft, which will start to arrive in easyJet’s fleet from June 2017, which produce 14% less fuel than current generation A320 aircraft. These aircraft are also 50% quieter during take-off and landing than current generation aircraft.

Airlines UK\(^6\) has found that from 2006 to 2014 the growth in UK aviation was delivered, for the first time, without any increase in CO2 emissions – for the first time. Sustainable Aviation’s carbon roadmap\(^7\) shows that there could be significant growth in aviation to 2050 without a substantial increase in CO2 emissions.

**Administration of the tax**

The Government’s approach of largely replicating the administration of the current UK APD is welcome, as the current arrangements ‘work’ and will minimise the cost of compliance with the tax.

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\(^5\) The starting fare for each route, fares offered rise as booking increase over time, the overall average fare is determined by the market and is not controlled by easyJet

\(^6\) Airlines UK, Responding to the carbon challenge, 2017

\(^7\) Sustainable Aviation, Carbon roadmap, 2016
Call for evidence: Air Departure Tax (Scotland) Bill

Flybe submission

As Scotland’s largest regional airline, Flybe fully supports the decision to replace Air Passenger Duty with a reduced tax, which we believe will significantly boost the country’s economy and deliver better connectivity to its citizens. This submission sets out our rationale for supporting the ADT proposal, as well as the Scottish Government’s stated goal of abolishing the levy entirely when resources allow.

Executive summary

- Flybe welcomes the plan to reduce the financial burden on passengers through the introduction of an Air Departure Tax and agrees with the strategic objectives laid out in the Scottish Government’s policy memorandum.

- The reduced rate levied by ADT, and its expected abolition, will offer a strong incentive to develop Scotland’s air infrastructure, bringing the benefits of improved regional connectivity, and growing leisure and business travel.

- We note that the UK Government’s Draft Airports National Policy Statement makes clear “the importance of aviation to the UK economy…has only increased following the country’s decision to leave the European Union.” Post-Brexit, Scotland will need to ensure that it continues to be an attractive destination for business - ADT can help to achieve this.

- Flybe recommends that the Scottish Government considers carefully the ADT rates that it imposes. If it wishes to keep just two bands, then they should be set at a roughly comparable rate per mile. Furthermore, any action should target both short-haul and long haul travel, not just the latter.

- The Scottish Government should take account of the double taxation from ADT on vital domestic routes that are the core of Scottish air infrastructure.

- There are significantly more short haul business and tourist flights leaving Scotland than long-haul, so it is vital that any reductions in rates are applied to short-haul and domestic flights in order to benefit Scottish industry and the economy.

- We agree with other submissions recommending that the Scottish Government issue a timetable outlining further detail on timings for the implementation of ADT, and its eventual abolition.

- Flybe understands the Finance and Constitution Committee is keen to receive further data on the economic case for the policy. In 2014, Oxford Economics undertook a review of regional air travel in the UK for Flybe. This study featured extensive analysis of the impact of the Air Passenger Duty on regional aviation, showing the benefit of lower air passenger taxes. A copy of the report is included with this submission.

International comparison

- UK APD is the highest tax of its type in Europe (double that of Germany) and is among the highest in the world. Other European countries (notably Ireland, Belgium, Denmark
and the Netherlands) have found that abolishing their equivalents of APD has resulted in a net benefit to their economies through greater connectivity and additional job creation.

- We believe Scotland would similarly benefit through reducing and then abolishing APD. Edinburgh Airport published an economic study which estimated that:
  - The direct, indirect and induced impact of reducing APD in Scotland by 50% would initially support around 800 new jobs and £33 million in Gross Value Added (GVA). Over time, as the number of additional passengers grows, this would increase to around 1,100 jobs and £51 million in GVA.
  - The impact on tourism expenditure could be between £56 million and £68 million a year, resulting in between 1,200 and 1,500 additional jobs and between £47 million and £58 million in GVA.
  - Overall, air transport in Scotland could support around 3,800 additional jobs and £200 million per annum in GVA by 2020.
  - When set against the reduced tax take, they estimated this would deliver a benefit-cost ratio of around 1.6.

Increasing connectivity

- Scotland’s geography necessitates reliable and affordable air links. The imposition of a tax on domestic short-haul flights is both an obstacle to economic growth and a penalty on an essential mode of travel. Scotland competes with France, Germany and Holland, all with extensive land links and high speed rail. Scotland has only one land link and no high speed rail.

- Air travel provides connectivity between Scotland and other parts of the UK that are not practicable via rail or car. For example, Flybe offers flights between a number of Scottish cities and destinations including:
  - Edinburgh – Newquay
  - Glasgow – Cardiff
  - Aberdeen – Southampton
  - Inverness – Birmingham

- The findings from the Oxford Economics study underline the importance of regional aviation (in the context of UK airports and air services outside of the London area) to the Scottish economy: "The North West (17%) and Scotland (13%) enjoy the largest total contribution to gross value added from the impact of regional aviation activity at £2.3 billion and £1.8 billion a year, respectively." The highest concentration of employment by region is in the North West, where 20,500 direct regional aviation sector jobs are located, followed by Scotland, with 16,900 jobs.

- Flybe operates 1,000 flights (55,000 passengers) per week to and from Scottish Airports, making it a vital part of Scottish transport infrastructure.

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2 https://w3-eu-west-1.amazonaws.com/edinburghairport/files/2015/03/20150308_Edinburgh_Airport_APD_study_March_2015.pdf
• APD is a material part of a short-haul airfare. A typical Flybe airfare is £55 plus APD of £13, nearly 25% of the base fare. This is a significant disincentive to travelling by air. When flying domestically, travellers are doubly penalised by having to pay APD on each leg of their journey.

• Approximately 50% of Flybe customers are business travellers, so we are a key driver of economic growth and development. Businesses in Scotland rely on short-haul flights within Scotland, within the UK, and to the near continent. APD works against Scottish business as it discourages travel to meet customers, suppliers and colleagues. This is a cost much higher than for continental European rivals.

• Business passengers in particular are less likely to make a journey at all rather than choose an alternative mode of transport. For example, it is really only practicable to travel between Edinburgh to London return in a day via air.

• As well as reducing business travel, APD also disincentivises tourism, especially inbound tourism from the rest of the UK and the continent.

• The introduction of ADT can help Scotland take advantage of the construction of a third runway at Heathrow. International connectivity via the UK’s hub airport is a major asset for Scottish aviation and, coupled with the reduced levy, makes the opening of new routes more likely.

**Impact on short-haul flights**

• The existing tax regime discriminates against short-haul flights by charging proportionately more than long-haul. The majority of travellers using Scottish airports are on short-haul flights, so any action needs to address primarily domestic and short-haul APD.

• On a typical Edinburgh to London return flight (about 400 miles) the APD is 3.25p per mile. On the other hand, on a long-haul route, such as Glasgow to Vancouver (about 4,000 miles) it costs half of that, at only 1.66p per mile.

• This disincentivises regional air travellers when flying domestically within Scotland and the UK in favour of those flying long-haul or even those flying short-haul into Europe.

• As short-haul air travel competes with road, rail, and ferry, whereas long-haul flights have no alternative or competition, the APD tax distortion is greater on short-haul.

• As such, higher APD short-haul rates may actually reduce the tax take, or at least the net lost revenue would be only a fraction of the initial reduction.

• This is ultimately to the detriment to the Scottish economy. ADT needs to be equitable with, at the very least, a re-balancing of the way that the levy is administered to avoid penalising short-haul travellers.

**About Flybe**

Flybe is Europe's largest regional airline operating 187 routes and serving 10 countries from 74 departure points - 37 UK / 37 European airports. We operate more UK domestic flights than any other airline. In Scotland, we operate regular flights to and from Edinburgh, Aberdeen, Glasgow, and Inverness.
Scottish Parliament Finance And Constitution Committee
Call For Evidence On The Air Departure Tax (Scotland) Bill
Written Response From Glasgow Chamber of Commerce
About Glasgow Chamber of Commerce

Glasgow Chamber of Commerce (GCOC) has been the voice of business in Glasgow since 1783. As well as offering support to our growing membership of more than 1,200 organisations, the Chamber’s role is to promote Glasgow as a great business location to potential investors and to encourage economic and business growth locally, nationally and internationally.

Call for Evidence

GCOC welcomes the opportunity to respond to this call for evidence from the Scottish Parliament’s Finance and Constitution Committee on the proposed structure for the new Air Departure Tax.

GCOC’s consultation response is fully supportive of the response put forward by the Scottish Chambers of Commerce (SCC). We have focused our response on areas relevant to us as a Glasgow-based organisation.

GCOC welcomes the opportunity to further engage in the process and subsequent legislation relating to the development of rates and bands for the new Air Departure Tax.

GCOC Response

Q: How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate

GCOC supports the Scottish Government’s policy objective that the replacement tax to APD should improve connectivity, especially given national economic strategy objective for internationalisation, and particularly that:

“the Scottish Government will design and structure ADT in a way which boosts Scotland’s air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism.”

Glasgow has a well-deserved reputation for being Scotland’s economic powerhouse, generating around 32% of Scotland’s Gross Value Added and 33% of Scottish jobs, while being home to over 29% of businesses in Scotland. The city has a diverse economy with a variety of sectors which offer significant potential for economic growth including low carbon industries, financial and business services, life sciences, engineering, tourism and education.

There is no question that aviation connectivity is a key enabler for economic growth - facilitating trade in goods and services, attracting investment and enabling tourism. As a Chamber, we are eager to do all we can to further develop Glasgow’s excellent
business reputation and one of the key ways of achieving this is by improving our access to international markets through the reduction and eventual abolishment of APD.

GCOC fully support the Scottish Government’s commitment to reduce this tax by 50% once it is devolved to the Scottish Parliament in 2018, with a view to abolishing it entirely when finances allow. While we recognise that the subject of rates and bands for the new Air Departure Tax will explored in future legislation it is important to emphasis our view, and also the view of our partners at Scottish Chambers of Commerce and Glasgow Airport, that travelling by air is not a luxury but an essential element of business life.

The Scottish Government has a very real opportunity with the devolution of this tax to help make Scotland a more connected and competitive place to do business – bringing benefits to its cities and regions.

Due to its geographic location on the periphery of Europe, Scotland is more dependent on air travel – both for UK-domestic and international connections – than other parts of the country. The Glasgow business community relies heavily on air connectivity to access key international markets and domestic hubs. For that reason, a reduction in APD has the potential to make a profound impact on our city’s connectivity and economic worth.

Of the 120 destinations that Glasgow Airport serves, its busiest route is London Heathrow. In fact, domestic traffic accounted for 47% of Glasgow Airports’ passenger traffic in 2015. A reduction in Air Passenger Duty for domestic routes is equally as important as it is for international routes, and it is important that the 50% reduction is made as quickly as possible across all routes – both domestic and international.

It is evident that a Scottish replacement to APD would put more power into the hands of the Scottish Government to make meaningful change for the country. Already, two of Glasgow Airport’s largest airlines - easyJet and Ryanair - have committed to adding significant capacity to their networks in the event of a single 50% cut in APD. This commitment should not be underestimated, and we believe that other airlines will follow suit if the Scottish Government delivers on its commitment to reduce the tax by 50% in the first instance.

Q: The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate

Yes, the scope of the Scottish tax should be as close as possible to the existing UK tax in order to ensure ease of administration and minimal confusion for businesses and tax payers. If alternatives are being considered we would like clarification on these as soon as possible in order to consider any potential impact they may have on Glasgow’s business community.
Q: The appropriateness of the proposed structure for the tax

The scope and operation of Air Departure Tax by Revenue Scotland should operate as closely as possible to the existing UK APD in order to ensure that compliance and operation of the tax for airlines is as simple and straightforward as possible, using already understood concepts and models. This would make ADT easy to understand and would make Scottish Government policy towards the tax easy to understand too.

The Scottish Government should avoid complications where possible to what is a simple tax.

Q: The proposed administrative arrangements for the payment, collection and management of the tax

As this section relates directly to the airlines and those responsible for the administration of the tax, we do not propose to provide answers to these questions.

ENDS
Scottish Parliament Finance And Constitution Committee

Call For Evidence On The Air Departure Tax (Scotland) Bill

Written Response From ICAS | The Institute of Chartered Accountants of Scotland

Scottish Parliament
Finance and Constitution Committee
Air Departure Tax (Scotland) Bill: Call for Evidence

10 February 2017
About ICAS

1. The following submission has been prepared by the ICAS Tax Board. This Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 board and committee members.

2. The Institute of Chartered Accountants of Scotland (‘ICAS’) is the world’s oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors. ICAS is also a public interest body.

3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members in the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

General Comments

4. ICAS welcomes the opportunity to respond to the call for evidence: ‘Air Departure Tax (Scotland) Bill’, as issued by the Finance and Constitution Committee of the Scottish Parliament on 19 December 2016. We note that “The consultation will examine the overall structure for the tax. The committee is interested in hearing views on how best to achieve the strategic and policy objectives of the bill, the extent to which the key concepts of the bill are appropriate, the appropriateness of the proposed structure for the tax and the proposed administrative arrangements for the payment, collection and management of the tax”. ¹

5. We refer to the Air Departure Tax as ADT, Air Passenger Duty as APD and Revenue Scotland as RS throughout this document.

Achieving the strategic and policy objectives of the Bill

6. The Business and Regulatory Impact Assessment (BRIA) for ADT issued on 20 December 2016 by the Scottish Government stated that the main aims of the design and structure of ADT would be to boost Scotland’s connectivity internationally and help generate sustainable growth. It is not clear how these outcomes are to be assessed or to what extent the ADT will contribute to the outcomes, for example, when critically analysing viable links between increased passenger travel and ADT. In a similar way, we are curious to understand how the calculation of ‘sustainable growth’ has been defined. Scrutineers of the outcomes of the BRIA and legislation, once enacted, will wish to examine ADT and its standing as a direct cause and effect of

¹ http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/103012.aspx
sustainable growth so as to attribute viable links between the two and draw reasonable conclusions as to the efficacy of the legislation over time in terms of value for money to the taxpayer.

7. In 2016 ICAS produced a matrix jointly with the Chartered Institute of Taxation (CIOT) setting out the likely consequences of ADT (APD as was) reductions on various taxes and potential revenue growth. We have attached this matrix again, for ease of reference.

8. ICAS has noted in its review of the Financial Memorandum, published with the Bill, that the ADT revenue forecast illustrations appear to be based on current rates and bands of UK APD, which do not reflect the stated position of the Scottish Government in effectively halving the tax liability of airline operators with an ADT regime as compared to APD. This may need to be revisited.

The extent to which the key concepts of the Bill are appropriate

9. The draft legislation essentially mirrors the UK APD legislation with a few exceptions; however, we also note there are no specific references to what exemptions will be set out. It would be more appropriate and mitigate unnecessary complexity for exemptions to ADT to be set out in primary legislation rather than relying on secondary legislation.

The appropriateness of the proposed structure for the tax

10. The proposed structure for the tax appears to mirror that for APD and, in this respect, it will be less confusing and require administratively similar work for airline operators.

The proposed administrative arrangements for the payment, collection and management of the tax

11. The proposed administrative arrangements should be workable if Revenue Scotland has the necessary resources to follow through at its end and that the proposed timetable does not clash with other taxes such as Scottish Landfill Tax.

Anything else of relevance

12. We would encourage the Scottish Government to publish a timetable setting out the proposed dates for announcing rates and bands so that all interested parties can plan effectively. The airline industry and software providers need to understand what is ahead so they can plan their budgets and programme software respectively, both of which are likely to require significant lead times.

13. We also consider it important to understand, if the phased reduction to 50% by the end of this parliament is to be achieved, the timetable for...
this. As at point 12 above, stakeholders need to be able to plan in advance and delays to releasing the information may present business with budgeting issues regarding sales, pricing structures and software issues.

Specific points in the draft legislation

14. Part 2 section 8 of the Bill refers to the amendment of key concepts and we question whether this is appropriate. ICAS does not support the use of secondary legislation to change primary legislation, particularly when this relates to powers such as the setting of rates or key concepts. The granting of powers, duties and functions are an important exercise of Parliament’s duties. Such powers should be exercised through primary legislation so that there is full consideration before doing so. Secondary legislation should be used for administrative purposes only, such as how the powers in primary legislation are to be exercised and accounted for. Section 8(2)(b) of the Bill states that the Act may be modified by secondary regulations – surely SIs are meant to be restricted to administrative modifications and not to be used for modifications to primary legislation? (Please see Part 4 section 34 of the Bill for an example of an appropriate amendment by regulation).

15. At Part 3 of the Bill the heading should read ‘tax structure and rates’, and not just ‘tax rates’.

16. Part 4 section 10 (1), (2) and (3) of the Bill states that Scottish Ministers can amend the legislation by regulation. Please see our stance on using secondary legislation to change primary legislation at point 14 above.

17. ICAS considers that further detail should be made available at the earliest possible opportunity regarding the proposed format in which ADT information is to be maintained per Part 4 section 13 (2) and (4) of the Bill. Again, it would be useful for all stakeholders to be aware of this in advance.

18. Clarification is sought about whether there is a conflict with RSTPA 2014 Part 3 regarding taxpayer confidentiality and clause 13(4) of the ADT(Scotland) Bill at section in terms of RS choosing to publish any information ‘as it thinks fit’.

19. ADT stakeholders should be aware of what information RS is entitled to make public in advance. At present, it is not clear whether the register will comprise a list of aircraft operators, or whether it is to be the names of the individual travellers which might also be retained. It is also unclear from this legislation whether any passenger information retained by RS might serve a dual purpose – say, to enhance security or anti-terrorism/immigration measures. It would also be useful at this stage to obtain assurances from RS about data protection safeguarding and security measures.
20. At Part 4 section 20(5) (a) of the Bill RS can serve notice at any time to withdraw its approval of a special accounting scheme – clarification is sought on what the time frame is for this – for example, whether it is immediate or with say 30 days’ notice.

21. In Part 4 section 28 (2) and (3) of the Bill RS can attach any conditions it thinks fit to a direction under this section. ICAS wonders whether this is a reasonable stance and considers that any conditions should be published and consulted on prior to being implemented. Also in this section, all references to ‘person’ should instead read ‘taxable person’.

22. At Part 4 section 28 (6) of the Bill ICAS considers that it is an unusual stance for RS to assume future non-compliance by charging interest and penalties on a security withholding. Surely it must be the case that penalties and interest are only chargeable after an incidence of non-compliance has been proven, and not on the assumption that non-compliance has taken place by default. Quite apart from the matter of equity, business cash flow could be at risk in the event of such a stance being taken by RS.

23. At Part 4 section 31 (3) of the Bill RS must not give notice to a handling agent who is an individual. ICAS seeks clarification on whether the Scottish Government has considered the scope for avoidance if a taxable person is in financial difficulty and appoints an individual to be his handling agent.

24. At Part 4 section 33 (1) of the Bill clarification is sought on the definition of a ‘material inaccuracy’. For example, has a value been attributed to this definition and due consideration given to negligent or deliberate behaviours in reaching the perceived inaccuracy in terms of penalty mitigation process.
Air passenger duty – Impact summary

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Corporation tax</th>
<th>Income tax</th>
<th>National Insurance</th>
<th>Value added tax</th>
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<tr>
<td><strong>Tax per GERS</strong> 2013-14</td>
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<td>Total £8,730m</td>
<td>Total £10,060m</td>
<td>Total £251m</td>
<td></td>
</tr>
<tr>
<td>Scottish government</td>
<td>Share of UK receipts</td>
<td>Will be wholly devolved – benefits from increase or loses from decrease</td>
<td>Share of UK receipts</td>
<td>50% share of any increase or decrease (based on current UK rates)</td>
<td>Wholly devolved – benefits from increase or loses from decrease. If rate reduced by 50%, at first likely to simply have only 50% of previous APD revenues.</td>
<td>Cost of state benefits may be affected by any growth due to reduction in APD</td>
</tr>
<tr>
<td>UK government</td>
<td>Benefits from any growth in profits taxable in UK due to APD reduction</td>
<td>Will not share in any benefits or losses</td>
<td>Benefits from any employment growth that increases NIC</td>
<td>Any increase in spending by visitors increases VAT receipts, but</td>
<td>Unlikely to be any major direct impact as few Scottish airports close</td>
<td>Any growth in employment may impact on cost of state benefits.</td>
</tr>
</tbody>
</table>


3 The term “Total” is used to refer to the amount calculated as being revenue from Scotland in “General Expenditure & Revenue Scotland 2013-14” (GERS). Under income tax, the term “Smith” is used to refer to the income tax that would be within the Scottish Government’s power under the latest Scotland Bill, following the Smith Commission recommendations. “SRIT” is used to refer to the amount under the control of the Scottish Government according to the Scotland Act 2012. For VAT, the gross is the VAT receipts that the Scottish Government estimates will be assigned to Scotland before taking into account VAT refunds.
## Tax and Scottish Revenues

<table>
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<th>Stakeholder</th>
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<td><strong>Total £251m</strong></td>
<td><strong>receipts</strong></td>
</tr>
<tr>
<td>Smith</td>
<td>£10,911m</td>
<td>Gross £5,030m</td>
<td><strong>Net £4,432m</strong></td>
<td></td>
<td></td>
<td>possible loss if effect is to encourage UK persons to travel and spend abroad.</td>
</tr>
<tr>
<td>SRIT</td>
<td>£ 4,258m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>enough to rest of UK to encourage switching.</td>
</tr>
<tr>
<td><strong>Revenue Scotland</strong></td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Likely to take on administration and collection of APD</td>
<td>Costs of upskilling Revenue Scotland; also costs of changing the tax; IT costs.</td>
</tr>
<tr>
<td><strong>Airlines</strong></td>
<td>May pay more corporation tax if UK profits increase, but some airlines may not be wholly subject to UK</td>
<td>No impact</td>
<td>May have to pay more employers’ NIC if reduction in APD leads to more employment</td>
<td>Air travel is not subject to VAT in the UK so impact will be minimal</td>
<td>Substantial gains but these may be reduced if passed onto customers in lower fares, although the</td>
<td>Some administrative benefit if APD abolished, but this is likely to be minimal as APD systems may have to be</td>
</tr>
</tbody>
</table>

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5 In a note entitled “Air passenger duty: introduction” prepared for the House of Commons by Anthony Seely on 19 September 2012, HMRC asserted “…analysis indicates that the price elasticity of demand for changes in APD duty rates is low, and air travel has proven relatively unresponsive to changes in price.” However, other studies reach different conclusions. The current rates of APD for travel up to 2,000 miles is £26 standard and £13 reduced. There is no tax on children under 12. Thus for a family of four the saving could be as little as £26 (two adults at the reduced rate).
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<td>UK paper to the House of Commons – see footnote – on APD asserted that the demand for travel is relatively inelastic. retained for other countries including the rest of the UK. The airlines are likely to consider a number of non-tax issues when deciding whether or not to develop new routes from Scottish airports, for example, availability and cost of slots; likely feasibility of route in terms of passengers; infrastructure.</td>
</tr>
<tr>
<td>Operators of other forms of transport (bus, train, coach, taxi, ferry etc.)</td>
<td>May pay less corporation tax if UK profits decrease</td>
<td>No impact</td>
<td>May pay less NIC if reduction in APD leads to less employment</td>
<td>Most other transport (except taxis) is zero-rated so unlikely to be a</td>
<td>Reduction in APD reduces cost of air travel of employees, but</td>
<td>Possible opportunities for routes connecting to airports if a significant</td>
</tr>
</tbody>
</table>

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* GERS = Gross Domestic Product per head at factor cost.
## Tax and Scottish Revenues

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<td>Net £4,432m</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>due to a fall in customers</td>
<td></td>
<td>significant VAT effect</td>
<td>reduction partly offset by corporation tax – net benefit will be about 80% of reduction.</td>
<td>number of passengers find it acceptable to travel to avoid APD, but seems unlikely.</td>
<td></td>
</tr>
<tr>
<td>Business – company</td>
<td>If profits increase due to lower travel cost by employees, increase in tax paid, but mostly negligible</td>
<td>No impact</td>
<td>As for airlines</td>
<td>Any increase in business activity e.g. more visitors to a hotel, will result in more VAT payable</td>
<td>Reduces cost of air travel of employees, but reduction partly offset by corporation tax – net benefit will be about 80% of reduction.</td>
<td>In the main, the cost of APD is unlikely to outweigh the cost or inconvenience to a business traveller of not travelling from his or her nearest airport.</td>
</tr>
<tr>
<td>Business – individual</td>
<td>No impact</td>
<td>If profits increase due to lower travel cost causing increased demand, increase in tax</td>
<td>As for airlines</td>
<td>As for company businesses</td>
<td>Reduces cost of air travel, but reduction offset by income tax and class 4 NIC increase – net benefit</td>
<td>Possible impact on state benefits entitlement due to higher net income</td>
</tr>
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<td>Stakeholder</td>
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<td>Total £251m</td>
<td>paid but mostly negligible&lt;br&gt;could be less than 50% of APD reduction</td>
</tr>
<tr>
<td>Employees and jobseekers</td>
<td>No impact</td>
<td>Increase in demand may provide job opportunities but the travel and retail industries usually pay low wages, so probably minimal income tax effect. Note also that UK government controls level of personal allowance and this will be linked to the National Minimum Wage</td>
<td>Most new employees will pay NIC because earnings will be over the threshold of £8,060, but this may be different for part-time workers including those on zero-hour contracts.</td>
<td>No impact unless they are also travellers, when there is an impact on their employer’s business - see below.</td>
<td>Reduced cost of travel where they travel on business as employees</td>
<td>Possible impact on state benefits as above</td>
</tr>
<tr>
<td>Travellers from Scotland to overseas</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Scots travellers will buy goods and services</td>
<td>Reduction in travel cost by £26 per</td>
<td>Reduction may stimulate travel from Scotland.</td>
</tr>
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<tr>
<td>destinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travellers from Scotland to other UK destinations</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Passengers will presumably pay VAT on goods and services in the rest of the UK instead of Scotland</td>
<td>Reduction in travel cost</td>
<td>It seems unlikely that there would be a significant increase in air travellers from Scotland.</td>
</tr>
<tr>
<td>Travellers to Scotland from overseas destinations</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Increase in VAT due to spending on hotels, restaurants and</td>
<td>Reduction in travel cost</td>
<td>The question is whether there would be a significant</td>
</tr>
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<td></td>
<td>increase in passengers because of lower APD in Scotland – e.g. London attracts more visitors even though its accommodation costs are significantly more. It may only change the sequence of travel.</td>
</tr>
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<td></td>
</tr>
<tr>
<td><strong>Travellers to Scotland from other UK destinations</strong></td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Shifts some VATable spending from UK to Scotland, but may not be significant.</td>
<td>Reduction in travel cost</td>
<td>Far more travellers are likely to use other transport, so the potential increase in passengers is probably minimal.</td>
</tr>
<tr>
<td>People who do not travel by air</td>
<td>No impact</td>
<td>No impact</td>
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<td>No impact</td>
<td>No impact</td>
<td>Whether a reduction in APD</td>
</tr>
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</table>
## Tax and Scottish Revenues

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Corporation tax</th>
<th>Income tax</th>
<th>National Insurance</th>
<th>Value added tax</th>
<th>Air passenger duty</th>
<th>Other – non-tax issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax per GERS* 2013-14</td>
<td>Total £2,817m</td>
<td>Total £11,410m&lt;br&gt;Smith £10,911m&lt;br&gt;SRIT £4,258m</td>
<td>Total £8,730m</td>
<td>Total £10,060m&lt;br&gt;Gross £5,030m&lt;br&gt;Net £4,432m</td>
<td>Total £251m</td>
<td>encourages these individuals to use air travel in future is moot. Other factors than cost – convenience; time; personal preference re mode of transport – will play a part</td>
</tr>
<tr>
<td>Environment</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>Reduction in APD potentially reduces the tax’s environmental impact, but note that APD was not intended to be an environmental tax and, if it does not APD does not in and of itself encourage ‘green’ behaviours – for example, it does not encourage airlines to fill planes or use greener planes</td>
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*GERS: General升降税 statement
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<tr>
<th>Stakeholder</th>
<th>Corporation tax</th>
<th>Income tax</th>
<th>National Insurance</th>
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<tr>
<td><strong>Tax per GERS</strong>&lt;sup&gt;+&lt;/sup&gt; 2013-14</td>
<td>Total £2,817m</td>
<td>Total £11,410m</td>
<td>Total £8,730m</td>
<td>Total £10,060m</td>
<td>Total £251m</td>
<td>greatly increase or decrease the demand for travel, it may have minimal impact anyway.</td>
</tr>
<tr>
<td>Smith</td>
<td>£10,911m</td>
<td>Smith £10,911m</td>
<td>Smith £10,911m</td>
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<td>SRIT</td>
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<td>Gross</td>
<td>£5,030m</td>
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<td>Net</td>
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Appendix 1

Response To - Call for Evidence: Air Departure Tax (Scotland) Bill

Based on the text of the Air Departure Tax (Scotland) Bill and the request for comments on the issues presented in the Call for Evidence from the Finance and Constitution Committee, the International Air Transport Association ("IATA") presents below its responses for your consideration.

I. How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate.

The Air Departure Tax (Scotland) Bill appears to lay the foundation for the longer term achievement of the Scottish Government's objectives of developing and enhancing Scotland’s air connectivity to the benefit of the people of Scotland and to boost the Scottish economy. While only a full abolition of passenger ticket taxes on air transport, such as the proposed Air Departure Tax ("ADT"), will ensure that the full consumer and economic benefits of aviation are realized, IATA understands the current fiscal challenges faced by the Scottish Government. In this regard, IATA continues to recognize the Scottish Government's commitment to first substantially reduce the ADT (in comparison to the current UK Air Passenger Duty ("APD") rates) and ultimately completely abolish the ADT when resources allow.

This notwithstanding, and as previously noted in our submission of 30 May 2016, the proposed Scottish ADT should ensure the relative administrative simplicity associated with the APD from a taxpayer perspective is maintained and that it be aligned with the APD in terms of its design, application and administration to avoid unnecessary and costly duplication.

At present, it is our understanding that if the Air Departure Tax (Scotland) Bill is enacted, the ADT will become effective and will replace the UK APD in Scotland as of 1 April 2018. To this end, attention should be afforded to extending the implementation date of the ADT in order to provide taxpayers with at least 12 months advance notice from when the legislation is enacted and the regulations governing the ADT are issued. This would ensure taxpayers have sufficient time to make the necessary systems and administrative changes to comply with the new tax.
II. The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate.

With regards to passengers and aircraft that are to be subject to the Scottish ADT, these are, in general, aligned with the respective provisions governing the UK APD.

However, as the Scottish Government looks to establish the regulations accompanying the ADT, significant attention should be paid to ensuring that the same passenger exemptions (e.g., infants under 2 years who are not allocated a separate seat, etc.) and flight exemptions (e.g., from the Scottish Highlands and Islands region, emergency/public service flights, circumstances beyond the control of the airline, etc.) under the APD are provided for under the Scottish ADT. It is our understanding that such exemptions under the ADT can be made by means of separate regulations as afforded under Section 8 of the *Air Departure Tax (Scotland) Bill* and IATA encourages their creation.

III. The appropriateness of the proposed structure for the tax.

The proposed tax structure of the Scottish ADT based on the final destination of the passenger and the class of travel is consistent with the application of the APD. That being said, it is important that for consistency purposes with the APD, no more than two distance-based bands apply, as well as no more than two class of travel bands apply for non-special category aircraft under the ADT. Similarly, only one class of travel category should exist under the ADT for special category aircraft.

With respect to the proposed distance-based bands under the Scottish ADT, these should be applicable on a fixed point of departure and a fixed point of arrival basis similar to the current application under the UK APD. In this respect, the determination of which distance-based band applies under the UK APD (i.e., Band A or Band B) is based on the distance between London (irrespective of the point of departure in the UK) and the capital city of the country/territory of destination (irrespective of the actual destination in the country/territory). Similar provisions under the Scottish ADT would reduce the compliance burden to taxpayers and enhance the efficiency and accuracy of the tax calculation in airline pricing systems.

With respect to the proposed standard tax and premium tax rates for non-special category aircraft under the ADT, significant consideration should be given to including premium economy travel (with the relevant seat specifications) within the standard tax rate category. This is due to the fact that a passenger typically pays only a modest supplement over the cost of
traditional economy travel and as such, should not be subject to a higher, premium rate of tax as a result.

Finally, full consideration should be given to the tax treatment of taxable passengers that pay for class of service upgrades during the flight and where the upgrade in question occurs outside of Scotland. For example, if a passenger pays for and is issued a ticket for economy class travel for the route EDI-LHR-SIN and subsequently pays for an upgrade to business class only on the LHR-SIN segment, the taxpayer (airline) should not be liable for payment of the premium rate of ADT. In such situations, the application of the ADT should be commensurate with the ticket as originally issued, otherwise this would present a significant administrative burden to taxpayers in accurately accounting for the tax, as well as be an extrajudicial imposition of the Scottish ADT.

While such situations are relatively rare, the Scottish Government should actively look to clarify the application of the ADT by means of written guidance/interpretation in order to avoid ambiguity as to the application of the tax and the associated compliance challenges that may result for all parties.

IV. The proposed administrative arrangements for the payment, collection and management of the tax.

In general, the payment, collection and management of the proposed Scottish ADT appear to be manageable and generally consistent with those of the UK APD.

That being said, consideration should be given to developing and implementing an online reporting system that would allow taxpayers to file their ADT returns (be they quarterly or occasional tax returns) with Revenue Scotland. Such an online system would reduce the administrative burden for airlines and provide Revenue Scotland the requisite information to effectively ensure compliance with the ADT.

Additionally, confirmation is sought with respect to the laws and regulations covering the following matters, including:

- **Taxpayer Amendments** – Under Section 83 of the *Revenue Scotland and Tax Powers Act 2014* (“RSTPA 2014”), it is IATA’s understanding that taxpayers will be able to amend their tax returns for a period of up to 12 months from the filing date of the tax return. In this respect, confirmation is sought that such tax return amendment procedures apply to the ADT and if not, the *Air Departure Tax (Scotland) Bill* should be amended to include such procedures.
• **Relief from Overpayment of the ADT** – Beyond the 12 month tax return amendment period, it is IATA’s understanding that taxpayers will be permitted by means of a written submission to Revenue Scotland to make a claim of overpayment of the ADT under Sections 106-107 of the RSTPA 2014. Under Section 106 (Relief in case of double assessment) and Section 107 (Claim for relief for overpaid tax etc.) of the RSTPA 2014, there is a five year time limit to making a claim of overpayment and IATA requests confirmation that such provisions apply to the overpayment of ADT. If not, the *Air Departure Tax (Scotland) Bill* should be amended in order to permit relief from the overpayment of ADT.

• **Record Keeping for ADT Purposes** – Regarding the retention of the appropriate records in relation to the correct and complete imposition and remittance of the ADT, confirmation is sought that, as stipulated under Sections 74-75 of the RSTPA 2014, taxpayers are required to maintain and preserve such records and returns for a period of five years. If not, the *Air Departure Tax (Scotland) Bill* should be amended in order to include the appropriate record retention period.

V. **Any other issues which are considered relevant to the proposed tax.**

While not strictly a legal matter in relation to the *Air Departure Tax (Scotland) Bill*, it is of vital importance that the Scottish and UK Governments develop effective and fair transitional rules that provide clear and specific guidance to taxpayers as to the remittance of APD based on the date of passenger travel and collected in advance of the implementation of the Scottish ADT.

This is due to the fact that tickets for air travel can be sold up to 12 months in advance of travel and, in certain cases (e.g. charter flights), this can be as much as 18 months in advance. The APD is currently levied and collected at the time of ticket issuance, which in many instances will predate the implementation of the Scottish ADT.

However, similar to the proposed Scottish ADT, the APD is not due for remittance until the commencement of passenger travel. As such, this potentially creates an issue, based on when the passenger travels, as to which revenue authority the tax should be remitted to. Consequently, guidance from the authorities is necessary in order to avoid unnecessary costs and issues around taxpayer compliance.
The proposed Air Departure Tax will give the Scottish Government the powers, subject to approval by the Parliament, to charge a tax to replace the current Air Passenger Duty (APD) levied across the UK.

I am concerned that the Scottish Government, in line with the policy of the SNP, is currently proposing to reduce the level of tax paid under the APD regime. A proposal for certain reductions in air passenger tax has also been made by the Scottish Conservative & Unionist Party.

I believe that these proposals must inevitably lead to damaging environmental consequences, and reduction in government revenue, at a time when public services in Scotland are under pressure. The only way in which they would not have an effect on government revenue would be if the number of flights leaving from Scotland increased substantially, but that in itself would mean even greater effects on the environment.

I therefore urge the committee to recommend changes in the draft Air Departure Tax bill to make sure that the effect of any changes in the air passenger regime introduced by the Scottish Government would not have negative environmental consequences overall.

I have drafted a possible amendment to the Bill which seeks to achieve that objective. It is set out below. I should emphasise that I am not a parliamentary draftsman, and I am sure that the terms of my proposed amendment could be improved by those with expertise in that field. I believe, however, that it sets out important principles which should be incorporated in the Bill.

My proposal would allow the Scottish Government to vary the existing rates and bands of air passenger tax if it wished. It could, for example, reduce tax on international flights, but increase tax on domestic flights for which other methods of transport are easily available.
**Proposed amendment to the Air Departure Tax (Scotland) Bill**

In Section 10 of the Air Departure Tax (Scotland) Bill (Tax bands and rate amounts to be set by regulations) after sub-section (1) insert:

(2) Before making regulations under this section, the Scottish Ministers shall ensure that they undertake an environmental assessment of the impact of the regulations which they propose to make. Any such assessment shall include consideration of whether the making of such regulations would be likely to result in (i) a net increase of emissions contributing to global climate change, or (ii) a deterioration of air quality in the immediate vicinity of airports in Scotland.

(3) The Scottish Ministers shall have regard to any environmental assessment which is produced under sub-section (2) of this section in making any regulations under this section.

(4) The Scottish Ministers shall not make any regulations under this section which would be likely to result in (i) a net increase of emissions contributing to climate change, or (ii) a deterioration of air quality in the immediate vicinity of airports in Scotland.
Scottish Parliament Finance and Constitution Committee

Call For Evidence On The Air Departure Tax (Scotland) Bill

Response From Reform Scotland

Reform Scotland submitted written evidence to the Scottish Government’s consultation on Air Passenger Duty (APD), which was summarised in our briefing “Cut then scrap: The case against APD” which can be read in full online.

Reform Scotland understands that from April 2018 APD will be disapplied to airports in Scotland and, therefore, unless a new tax is created and introduced in Scotland at that time, tax will no longer apply.

We also back the Scottish Government’s ambition to scrap this tax altogether, and were pleased that this longer-term aim is contained in the Bill’s policy memorandum.

As a result, we understand why the Scottish Government is creating an Airport Departure Tax (ADT) which will more or less replicate APD for the time being.

We would agree with the Bill’s administrative proposals that Revenue Scotland collect and manage the tax.

However, most of the comments we wish to make with regard to the proposed legislation come under the fifth point on the call for evidence, namely “other issues”.

Economic modelling

As mentioned, Reform Scotland has backed the Scottish Government’s long-term aim to scrap APD in Scotland altogether. We believe that there is an economic case for scrapping the tax which would be of benefit to Scotland.

- A number of business organisations have highlighted the tourism and trade benefits from cutting or scrapping APD.
• Cutting the tax would also reduce the costs of family holidays, a benefit that was highlighted by the former UK Chancellor when he scrapped APD for children.
• Ryanair credits the Irish Government’s decision to scrap its air tax in 2014 as the reason behind the subsequent growth in Irish tourism.
• The Netherlands abolished its air tax in 2009, Belgium in 2008 and Denmark phased it out in 2006/7.
• A study by Edinburgh Airport, backed up by the UK PwC study, showed that the loss of direct revenue from APD could be at least matched by increases in tax revenue from other sources.

One of the criticisms we have received when making the case to scrap the tax has been that there is a lack of independent economic data to back up the assertion that it would be beneficial to the Scottish economy.

Therefore, as ADT would not replace APD until April 2018 we would urge the Scottish Government to carry out its own economic modelling into the costs and benefits of scrapping the tax at the same time as laying the groundwork for this replacement. If the modelling shows there would be a cost to the economy from scrapping that tax, then the replacement has already gone through the legislative process and can be adopted. However, should the analysis suggest, as we believe it will, that it would be more beneficial to do away with the tax, we would then urge the Scottish Government not to implement the new tax.

Reform Scotland believes that this is the best way forward. It allows for a replacement to be ready, if necessary, but also provides reassurance and justification for dropping the tax earlier.

**What people will pay and who will pay**

Although Reform Scotland has backed the Scottish Government’s aim of cutting then scrapping APD, we cannot support this Bill. We appreciate that the committee has made it clear that because the Bill does not deal with rates and bands, then this should not be addressed in written evidence. However, the Scottish Government gave a commitment to cutting the level of APD by 50%. This was a manifesto commitment from the SNP and an issue which has been widely debated. We do not believe that legislation dealing with the creation of a new tax, or any tax, can simply ignore the issue of the levels of the rates and bands. It is not transparent, nor accountable to state, as the policy memorandum does that they “will be delivered at a later date”.

The same issue applies to the definition of a ‘chargeable person’. For example, although the policy memorandum suggests that the definition of a ‘chargeable person’ is likely to be largely the same as under APD, the Bill itself does not define this, leaving it to regulations to be decided by ministers at a later date. Therefore, there is nothing in this legislation which ensures children under 16 are not charged ADT, as is the case with APD. As the legislation is currently drafted they are not specifically exempt, though, as the SPICe briefing on the Bill notes, this has been done before:
“This is a notable difference from APD legislation where Sections 29A (chargeable aircraft exceptions) and Section 31 (chargeable passenger exceptions) of the Finance Act 1994 set out APD tax exemptions. This also differs from the LBTT (Scotland) Act 2013 which lays out exemption for LBTT within the primary legislation.”

In other words, the Bill as drafted does not make clear who will be eligible to pay the tax and how much they will pay.

Who pays and what they pay are the main components of any tax. While it may be efficient to allow amendments to eligibility, rates and bands to be done through regulations, we believe that the initial basis on which these decisions are taken have to be set out. There should be a full debate about the tax at this stage in the interests of more open and accountable governance.

Geoff Mawdsley
Director
Reform Scotland

1 http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_17-05_Air_Departure_Tax_Scotland_Bill.pdf
Introduction

RSPB Scotland strongly objects to the Scottish Government’s intention to reduce and ultimately abolish Air Departure Tax (ADT) once it replaces Air Passenger Duty (APD). The Scottish Government should seek instead to use this taxation power to reduce emissions from the aviation sector, signalling a commitment to reducing greenhouse gas emissions in line with targets set out in the Climate Change (Scotland) Act.

Please see our response to the Scottish Government’s 2016 consultation on APD for the reasons for our position.¹

Our evidence here sets out proposals to ensure that any change to the rate of ADT is made in a way that fully takes into account the environmental and social impacts of such a reduction; and ensures that the existing APD tax rates remain in place until Scottish Ministers make regulations to alter the tax rates.

How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate

¹ Available at: https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/consultation/view_respondent?show_all_questions=0&__text=RSPB&uuid=728665765
The two objectives stated by the Scottish Government are:

- To design and structure ADT in a way which boosts Scotland’s international connectivity and helps generate sustainable growth.
- To put in place the necessary legislative framework for the collection and management of ADT, ahead of it coming into effect in Scotland from 1 April 2018

In addition, the Scottish Government has committed in its Programme for Government 2016-17 to reduce the APD replacement tax in Scotland by 50% by the end of the current Parliamentary session, with a view to abolishing the tax when resources allow.²

RSPB Scotland strongly objects to proposals to reduce the replacement for APD and ultimately phase it out completely. Phasing out this tax would represent a huge missed opportunity to use a substantial (estimated £230-£300 million per year) source of revenue to support delivery of the Scottish Government’s social and environmental goals, and is particularly inconsistent with Scotland’s ambitions to be a world leader in addressing climate change.

Climate change is one of the greatest long-term threats to both people and wildlife. Tax cuts in support of aviation growth and increased emissions are likely to have detrimental impacts on climate change, the development of Scotland’s low carbon economy, and the natural environment. We therefore do not consider the Scottish Government’s proposal to cut and then abolish ADT approach to contribute to sustainable growth. Instead, the Scottish Government’s aviation policy should be based on the following principles:

- The aviation sector should make an appropriate contribution to meeting carbon budgets.
- Aviation should be one part of a coherent, overarching low carbon transport strategy.
- Aviation should be subject to a fair tax framework which reflects its social and environmental impacts or ‘externalities’.

In order for the ADT Bill to better contribute to generating sustainable growth we would recommend that it should place a **duty on Ministers to produce an aviation strategy for Scotland** – this is consistent with the recommendations of the Committee on Climate Change in their Reducing Emissions in Scotland – 2016 progress report that Scotland should “Produce an aviation strategy which is in line with climate obligations and International Civil Aviation Organisation agreements.”³ We also recommend that the Bill should include a **requirement for Ministers to consider, report on and take account of the following criteria in making a ministerial order under section 10:**

- Impacts on climate change, including targets under the Climate Change (Scotland) Act 2009
- Impacts on the natural environment
- Impacts on equalities, including socio-economic equality
- Impacts on train passenger numbers

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- Anticipated receipts from the taxation rates and bands
- Anticipated effects on domestic tourism

These recommendations would ensure that decisions on the implementation of ADT would be based on a sound understanding of the direct and indirect impacts of those decisions, in the short and long term.

In order for the ADT Bill to put in place the necessary framework for the collection and management of the tax, we would recommend an addition to section 10 that puts in place existing UK rates and bands until a Ministerial order puts in place new Scottish rates and bands – currently the draft Bill would give a zero rate of tax until a Ministerial order was made which means that Parliament could be put in a situation of either accepting the tax rate proposed by Ministers or receiving no tax at all.

The extent to which the key concepts of the Bill with regard to passengers and aircraft which will be subject to the tax are appropriate

In general, we are satisfied with the key concepts of the Bill and that they are consistent with the definitions in the Finance Act 1994, which introduced Air Passenger Duty.

We understand that efforts are being made to develop alternative fuels for aviation; therefore we would recommend removing the specification in 3(2)(c) that an aircraft is only covered by the ADT requirements if it is fuelled by kerosene. We would also suggest including in section 9 the potential for separate bandings for different aircraft fuels.

The appropriateness of the proposed structure for the tax

Further to our point above, there may be some merit in creating supplementary bandings based on the type of fuel used by the aircraft. Although APD was not introduced as an environmental tax, it does in effect perform this function, and banding according to the environmental damage caused by a particular fuel type could help to compensate for the social and environmental externalities of aviation.

RSPB Scotland suggests that a proportion of ADT revenue should be used to support delivery of the Scottish Government’s sustainable development objectives, for example through supporting low carbon travel, and other efforts to mitigate climate change such as peatland restoration. For example, an allocation of 5% of ADT revenue, at the rates currently set for APD, could deliver 17,000 additional hectares of peatland restoration per year⁴, supporting existing Government targets (i.e. not an offset mechanism) and potentially saving 1.7million

⁴ Based on an average restoration cost of £880 per hectare estimated by ClimateXChange: http://www.climatexchange.org.uk/files/6313/7348/7778/AFOLU_accounting_implication_for_peatland.pdf
tonnes of CO$_2$e over ten years$^5$, in addition to a host of other biodiversity and ecosystem benefits such as natural flood management.

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$^5$ Using an average figure of 10tCO$_2$/ha/yr. [http://www.iucn-uk-peatlandprogramme.org/peatland-code/code-information](http://www.iucn-uk-peatlandprogramme.org/peatland-code/code-information)
Ryanair strongly urges the Scottish Government to stand firm on their Programme for Government 2016-17 commitment to cut APD by 50% (and subsequently abolish APD) and to implement the reduction evenly across all bands, as was the unanimous consensus between all airlines at the 12th January APD Stakeholder Forum meeting chaired by Cabinet Secretary for Finance and Constitution, Derek Mackay MSP.

If the reduction is implemented in full in 2018, rather than on a phased basis, traffic growth will be delivered sooner than a phased introduction, which would still leave Scotland less competitive than other EU markets.

**How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate;**

Only by removing this regressive and damaging tax in full can Scotland’s airports become as competitive as other EU airports, and therefore achieve their full potential for capacity and network development. In turn, traffic growth delivers improved connectivity, tourism development, business growth and employment. Scotland’s airports are in competition with not only UK airports, but those across Europe, most of which have no APD and are therefore more competitive. A 50% reduction, will improve the competitiveness of Scotland with other UK airports, but will still result in higher taxes than in most European countries. The reduction should be implemented on all traffic to increase the levels of capacity which airports are able to secure (and sustain).

Low cost airlines, such as Ryanair, are responsible for most future capacity growth (Ryanair alone will account for 40% of EU short haul capacity growth between now and 2024), and the EU airports with the most competitive conditions will be more successful in securing capacity growth and network expansion. Since most capacity growth will be delivered by short haul airlines, to limit a reduction only to long haul would cause Scotland’s airports to miss out on most growth opportunities.

**UK APD has held back aviation growth:**
- Air Passenger Duty (“APD”) in UK was doubled from £5 to £10 per departing passenger in 2007
- Total capacity at EU airports has grown 24% during 2006-2015 whereas total capacity at UK airports has grown by just 5% due to imposition of APD
- In the UK regions, there has been no capacity growth in the same period
- The Northern Irish Government was forced to abolish long haul APD to maintain its Belfast Newark route, but short haul APD remains in place and Government bodies now provide “marketing support” equal to the tax to airlines which will generate new EU city connections
- 900,000 people from Northern Ireland travel to Dublin each year, where there is no APD, to avail of lower fares, superior choice and schedules

The Irish Government abolished APD in 2014 and was rewarded with rapid traffic growth and network expansion:
- Introduced €10 air travel tax in 2009, reduced to €3 in 2011, abolished in 2014
- Capacity in 2014 represented a 20% reduction from 2010, (last year before tax)
- In 2015, the first full year since its abolition, Dublin airport has grown 12% (2.5m passengers), in comparison to EU average of 5%
- Michael Noonan, Ireland’s Minister for Finance said in his 2015 budget speech: “…the abolition of the air travel tax improved Ireland competitiveness. The benefit of these policies can be seen in tourist numbers, new businesses, the survival of established businesses and, most of all, in employment.”

Germany’s travel tax has penalised smaller airports and restricted overall growth:
- €7.50 aviation tax introduced in January 2012
- Traffic has grown just 3% since then, in comparison with EU average of 10%
- Germany outperformed the European growth average until 2012, since when it has underperformed
- The tax has disproportionately impacted smaller, regional airports, which rely on hard earned cost efficiency advantage to attract efficient airlines which can generate passenger demand for travel from smaller population centres
- Since 2011, the largest 9 airports in Germany have grown by 5%, and the remaining 23 have reduced by on average 11%
- 7 airports have closed completely.

The Netherlands abolished its aviation tax once year after introduction:
- Abolished aviation tax in 2009, one year after its introduction as the tax had stifled growth and resulted in a loss to the economy of €1.2bn
- The tax was introduced during an economic downturn (similar conditions to those currently developing in Norway), and was abolished because it prolonged the downturn and obstructed recovery
- The Dutch aviation tax generated €88m and lost €1.3bn, an overall loss of €1.2bn per annum, and prolonged the Netherlands’ economic downturn
- The following excerpts are taken from a report for the Ministry of Infrastructure and Environment by the KiM Netherlands Institute for Transport Policy Analysis (“Effects of the Air Passenger Tax, Behavioural responses of passengers, airlines and airports”)

“Passenger volumes at Schiphol were expected to drop by 8 to 10%. Passenger volumes at Schiphol immediately decreased following implementation of the air
passenger tax. As part of the Dutch government’s ‘Economic Crisis and Recovery Plan’ the air passenger tax was initially set at zero and then subsequently abolished. As a direct result of the air passenger ticket tax, SEO (Economic Research Organisation) estimated the loss of business for airlines, airports, tour operators and the tourism industry in the Netherlands at approximately 1.2 to 1.3 billion euros (SEO, 2009). The income generated by the air passenger tax was lower than expected. As stated in the Coalition Agreement, a structural income of 350 million euros per year as of 2008 was envisioned. The draft budget of 2008 was 152 million euros. According to the 2008 Annual Financial Report of the State, the actual income generated was 88 million euros”

Aviation taxes have failed in UK, Netherlands, Ireland and Germany. Aviation creates jobs (750 direct jobs per million passengers, according to Airports Council International, plus many more indirect jobs, and creates tourism and business spend. By restricting aviation activity, a travel tax also restricts tourism, business and employment.

In two separate studies, EY’s Attractiveness Survey – “Europe 2015, Comeback Time” and Cushman and Wakefields “European City Monitor 2010/2011”, the quality of transportation and links to other cities is highlighted as being one of the top four most important factors to companies when choosing a location. An immediate 50% reduction in the APD would create the conditions to secure additional airline capacity, stimulate economic growth by improving Scotland’s ability to attract business links, trade and capital investment, all of which leads to direct and indirect job creation

The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate;

APD is a burden on airlines (not airports or passengers since it is paid by airlines to the Government), and holds back both route and traffic growth. The current APD paid at the lower rate should be calculated on a total basis, cut by 50%, and then applied equally to all passengers, including connecting passengers.

The connecting passenger exemption disincentives direct flights and also subsidises point to point operations of those airlines which also offer a connecting service. Equal APD should apply to all passengers travelling to the same destination, and not discriminate against airlines which operate point to point flights, which are more environmentally friendly and more convenient for passengers.

The appropriateness of the proposed structure for the tax;

Ryanair agrees with the Scottish Government’s plan to implement a flat 50% reduction of the tax across all airlines and bands, which was also unanimous consensus between all airlines at the 12th January APD Stakeholder Forum meeting.
The Scottish Government should not seek to influence airline planning decisions or to decide which are the ‘type of flights which benefit Scotland. Instead, it should seek to simply improve competitiveness of aviation in Scotland by implementing the 50% tax cut across all bands promised in its referendum manifesto.

Many factors influence airline planning decisions, including aircraft utilisation. For example: if the APD reduction applied only to certain routes, that could prevent a Scottish airport gaining an additional based aircraft (including some of the Government’s preferred routes) since that aircraft would service a selection of routes, some of which may still have APD applied. Scotland would then been denied ‘the type of flights which benefit Scotland’ as a direct result of the APD structure.

It is also important to note that outbound tourism flights also benefit Scotland – sustaining airport and indirect jobs (e.g. bus, train, taxi, retail), and improving access to low cost travel and therefore quality of life. Access to travel and holidays is an important part of the Government’s aims to improve its citizens wellbeing.

The proposed administrative arrangements for the payment, collection and management of the tax;

We are in agreement with the proposed administrative arrangements for the payment, collection and management of the tax however it must be stated that this unnecessary cost burden for the set up (approx. £1.5 million) and ongoing administration (~£555,000 per annum) of Scottish APD would be removed if APD was abolished entirely.
CALL FOR EVIDENCE: AIR DEPARTURE TAX (SCOTLAND) BILL

RESPONSE FROM the Scottish Association for Public Transport 6/2/17

The Finance and Constitution Committee is seeking views on “How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate”. Our Association’s views are:

Boosting Scotland’s international air connectivity (an objective of the Bill) will, we agree, be likely to have a beneficial economic effect.

But boosting air travel growth by cutting air passenger tax will increase CO₂ and airport noise.

Air travel is increasing and is the fastest growing source of greenhouse gas emissions. Scottish aircraft movements increased by 6% in the last 4 years. Virgin Trains predict that up to 30% of Scotland-London rail passengers could transfer to travelling by air if APD is reduced. The case for extending HS2 to Scotland will be undermined by this level of rail revenue loss.

Heathrow expansion and additional Scotland-London flights will increase Heathrow as a hub-and-spoke airport and reduce the potential for more direct international flights from Scotland.

APD raises around £296 million of tax revenue. Loss of this means tax increases or budget cuts on public services for the Scottish people.

Therefore it is clear that the objectives of the bill could, if poorly implemented, conflict with other key objectives of the Scottish Government, namely

- tackling global warming
- encouraging greater use of rail transport
- maintaining public services for the people of Scotland without further tax increases

OUR SUGGESTION (first made in May 2016 in response to the APD consultation)

Our Association proposes that Air Departure Tax on long-haul BandB flights could be reduced to improve the prospect of direct international flights giving greater connectivity to key destinations not currently served from Scottish airports (eg California, China etc).

Air Departure Tax on short-haul Band A flights should be kept at current levels. This would:
• Avoid environmentally harmful growth of domestic flights at the expense of rail travel
• Reduce the need to increase taxation of the Scottish people to compensate for lost APD

Boost direct long-haul flights from Scotland compared with travel via Heathrow

Analysis of international destinations from Manchester, Edinburgh and Glasgow Airports (attached) shows that Manchester has double the number of international destinations compared with Scotland. Strategic world destinations linked directly with Manchester but NOT from Edinburgh or Glasgow include:

USA: Boston, Houston, Los Angeles, Miami, San Francisco, Washington
Far East: Beijing, Hong Kong, Singapore
Russia: Moscow

Our recommendation would boost prospects for such direct international Band B flights from Scottish airports but would avoid stimulating growth of domestic flight CO₂ emissions.

Prepared by: Dr. John McCormick

web: www.sapt.org.uk
DIRECT INTERNATIONAL FLIGHT DESTINATIONS from MANCHESTER, EDINBURGH and GLASGOW
As in 2017 (includes holiday flights)

107 international destinations are served from Manchester but not from Edinburgh or Glasgow.
Around 97 destinations are served directly from Manchester and Edinburgh and/or Glasgow Airports
6 international destinations are served from Edinburgh but not from Manchester
7 international destinations are served from Glasgow but not from Manchester

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Scottish Parliament Finance and Constitution Committee

Call For Evidence On The Air Departure Tax (Scotland) Bill

Response From The Scottish Chambers Of Commerce Network

About the Scottish Chambers of Commerce Network

Scottish Chambers of Commerce (SCC) is Scotland’s largest business network. 11,000 businesses, of all sizes and from all sectors, are members of 26 Chambers of Commerce across Scotland and SCC brings the views of this network together at a national level to form a clear and powerful expression of Scottish business opinion.

Introduction

The SCC network has long campaigned for the devolution, reduction and abolition of Air Passenger Duty (APD). Our view is that it is a tax on connectivity, a tax on internationalisation and an inhibitor to growth. We campaigned for the tax to be devolved in our submission to the Smith Commission in the wake of the referendum on Scottish independence in 2014. We were pleased that the Smith Commission recommended the devolution of the tax to the Scottish Parliament, that the UK Government legislated to deliver this in the Scotland Act 2016, and that the Scottish Government has introduced a bill to provide for a new devolved structure for Scotland.

The creation of the new devolved Air Departure Tax (ADT) in April 2018 gives Scotland’s politicians a great opportunity to reduce business costs, increase Scotland’s competitiveness and send out a clear message about our ambitions for growth and our attractiveness as a place to do business.

The Air Departure Tax (Scotland) Bill

We welcome the introduction of the Air Departure Tax (Scotland) Bill. We recognise that this is an enabling Bill and therefore does not cover detail regarding the rates and bandings of the proposed tax. These will be the subject of future secondary legislation in the Scottish Parliament and we will contribute to that discussion at the appropriate time. Nevertheless, we welcome the Scottish Government’s long standing commitment to reduce the burden of this tax by 50% and abolishing it when resources allow – a pledge which has been reiterated in the Policy Memorandum to this Bill.
Scotland has a heavy reliance on air connectivity for international travel and also, to a significant extent, for domestic travel. The latter is true particularly for the north and north east of Scotland. In these areas rail cannot be considered a substitute for access to other parts of the UK (due to journey times) and so air travel is critical for competitiveness and economic growth.

It is essential that the Scottish Government’s connectivity policy provides for the growth of air travel to and from Scotland, enabling the maximum use of our aviation infrastructure and balancing the delivery of direct international flights with access to hub airports to enable onward connections to markets where a direct service may not be able to generate a critical mass of passengers.

As Scotland is often more reliant than other parts of the UK on aviation, so too does the reduction in aviation taxes have a potentially more pronounced, and positive, impact. Air Passenger Duty is a tax on growth and international connectivity, holding back Scotland’s economic progress. Reducing and eliminating the tax, through the implementation of a lower Air Departure Tax, will help businesses to grow and to generate wealth and jobs. A lower and more competitive level of aviation tax in Scotland would make it easier for our airports to compete for new air services in a global marketplace and would make Scotland a more attractive prospect for airlines looking to develop new services. Such services could be international or domestic, potentially even creating the possibility of new air services operating between airports within Scotland.

The aim of the Scottish Government should be to grow Scotland’s connectivity and the Air Departure Tax provides an important means of achieving this goal. In 2015, Edinburgh Airport published a report which showed that the economic benefit to Scotland of £200 million per year, supporting around 3,800 additional jobs after five years, could be achieved by reducing APD by 50%.1 This report is the latest in a long line of reports by the likes of York Aviation and PwC which point to the positive economic and fiscal impact of reducing or abolishing aviation tax.

Looking at real life examples, The Republic of Ireland abolished its air travel tax in 2014, which resulted in an immediate 7% growth in passenger numbers, the launch of 21 new routes by Ryanair and increased capacity and new services on a number of routes serving key international markets.

The 50% reduction in the burden of the tax would be a start but there would still be a long way to go. A report by the British Air Transport Association suggested that this would still leave Scotland with the fourth highest air travel tax amongst the EU28+2 countries for Band A and the second highest tax (behind England and Wales) for Band B.2 Ultimately, abolition of this tax must be the objective.

Over the years, some have suggested that APD is an environmental tax. This is difficult to justify since some have been incentivised to connect via a variety of non-UK airports in order to avoid this tax, resulting in a potential net increase of carbon emissions compared to direct flights. A report by Transport Scotland has suggested

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1 Edinburgh Airport, The impact of reducing APD on Scotland’s airports (March 2015)
2 Flying High? How competitive is Air Passenger Duty?, BATA (March 2016)
that the impact of a 50% cut in APD on emissions would be minimal. In addition, all UK domestic and international aviation accounts for around 6% of UK CO₂ emissions, compared to 31% from power stations and 21.6% from road transport. The efficiency of modern aircraft is also improving rapidly. For example, in 2013 UK aviation emissions actually fell by 0.6%, despite a 4% increase in passenger numbers. This is in line with an average reduction in aviation emissions by 0.7% annually between 2009 and 2012.

We further note the commitment of the Sustainable Aviation group of UK airlines, airports, manufacturers and air navigation service providers to work with government and politicians to:

- Encourage more efficient air traffic management through closer working with international partners
- Support the development of more efficient aircraft and engine technologies
- Support the development and large-scale deployment of sustainable aviation fuels
- Support the establishment of a global carbon-trading solution

The scope and operation of Air Departure Tax should operate as closely as possible to the existing UK APD in order to ensure that compliance and operation of the tax for airlines is as simple and straightforward as possible, using already understood concepts and models. This would make ADT easy to understand and would make Scottish Government policy towards the tax easy to understand too. However, there are opportunities to use bandings to encourage economic growth and ensure regional competitiveness.

Passengers carried on flights departing from airports in the Scottish Highlands and Islands region should continue to be exempt from ADT, just as they were from APD. This would have a benefit to the local economy, as many businesses in the region are highly dependent upon air travel and their links to key destinations. Examples are services between Wick and Aberdeen and Edinburgh and the services linking Inverness to key UK and international destinations and hubs. Many businesses have chosen to locate in the Highlands and Islands as a result of this connectivity. One drawback of the system is that passengers travelling from other parts of the UK to airports in the Scottish Highlands and Islands do pay APD as the exemption only applies on departures but it would appear to be outwith the remit of the new Scottish tax to address this.

Many of the provisions set out in Part 4 of the Bill relate to the technical administration of the tax in respect of its payment, collection and management and are best left to those directly accountable for the handling of the tax. We do not propose to comment on these arrangements.

**Further Information**

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Scottish Chambers of Commerce would be happy to assist the Committee further, as may be required, in its scrutiny of the Air Departure Tax (Scotland) Bill.

Scottish Chambers of Commerce
Economic Development Intelligence Unit
February 2017
Scottish Parliament Finance And Constitution Committee

Call For Evidence On The Air Departure Tax (Scotland) Bill

Written Response From Scottish Passenger Agents’ Association

SPAA response to the Finance and Constitution Committee
of the Scottish Parliament

Call for Evidence: Air Departure Tax (Scotland) Bill

This response is submitted on behalf of the membership of the SPAA, Scottish Passenger Agents’ Association which was established in 1921. The SPAA is the world’s oldest travel trade association. Today, the SPAA is Scotland’s largest travel trade association representing the interests of Scotland’s major independent and Corporate Business Travel Management Companies as well as both Independent and Multiple Leisure Travel Agents.

The SPAA works alongside its Associate Members, which are made up of many of the world’s leading airlines, tour operators and cruise lines together with Edinburgh, Glasgow & Aberdeen Airports. Each of these sectors within the industry has an interest in aviation and package travel issues which are relevant to their customers who in turn become customers of the airlines and or of tour operators and airports, as well as ground arrangers, within the UK.

Our Association represents Scotland’s major travel agents within our Membership and we work increasingly pro-actively with a growing group of Associate Members, who are our industry Principals, to address the issues and meet the challenges of the constantly changing travel marketplace. Our aims are therefore to protect the interests of our members and mutual clients throughout the UK and beyond.

We are regularly involved in submissions to Government regarding major travel issues such as APD, reforming the ATOL scheme & review of the package travel regulations and work with Scottish transportation suppliers including rail operators, airlines & airports. SPAA continues to be a member of the Cross Party Aviation Group in the Scottish Parliament and is a founding member of the ‘Fair Tax on Flying’ National organisation created with the aim of achieving reductions in APD.
The SPAA has also attended all the ADT stakeholder meetings since its inception in 2016.

Introduction

SPAA feel that the high levels of UK Air Passenger Duty (APD) inhibits the contribution of the travel and tourism sector to growth and employment and it is damaging the position of the UK as a hub for global air travel. This impact is particularly felt in Scotland which is particularly reliant on air transport links and excellent global connectivity and the Scottish Government has a great opportunity to create a competitive edge over the rest of the UK.

As The Scottish Government implements ADT, it has a great opportunity to support Business investment in Scotland together with attracting huge growth in inbound tourism.

SPAA would be delighted to have confirmation of the Scottish Government's promise that they will reduce ADT by 50% by the end of the next Scottish Parliament and abolish the tax completely when resources allow.

SPAA feels that the whole approach by the Scottish Government in their handling of their approach to the introduction of Scottish ADT has been very positive and we have been pleased to be part of the stakeholder’s forum.

Executive Summary

- APD is an administratively simple tax and is transparent and passengers know how much they will have to pay. There is much to be said for keeping ADT very similar in structure to APD.
- SPAA agrees with the APD definitions and the rules relating to connected flights should be retained under ADT but would recommend a review on Domestic travel
- The destination bands should be defined by distance from Edinburgh/Glasgow to the final destination with an increase to 2,500 miles.
- The 50% reduction should be applied from 1 April 2018 and should not be phased in to give Scotland an effective & competitive edge
- SPAA also believes that 50% reduction should be across both bands and not confined to a single band as this will result in a loss of impact and growth for Scotland.
- SPAA has long advocated as much of a lead in time as possible for the rates, bandings and exemptions to enable airlines to consider potential new routes as well as the ability for tickets/holidays to go on sale at the correct price to avoid unnecessary adjustments by refund, and in view of IT changes needed.

Call for Evidence
How best to achieve the strategic and policy objectives which the Scottish Government have set for the Bill and whether these objectives are appropriate;

The Scottish Government has stated that it will design and structure ADT in a way which boosts Scotland’s air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism. It further states that cutting the tax burden will help ensure a more level playing field with many other European airports competing to secure the same airlines and similar routes.

SPAA views ADT as a great potential opportunity for Scotland to have a competitive edge over the rest of the UK if it produces the promised reductions when ADT becomes effective in April 2018.

**Improving Scotland’s air connectivity**

SPAA strongly believes that a reduction in tax would create additional demand and encourage airlines and tour operators to introduce new services and routes to and from Scottish airports.

The competitive edge that Scotland would have over the rest of the UK would mean that airlines may consider a number of additional flights such as:

- basing new aircraft in Scottish airports resulting in additional or increased flying/routes mainly for short haul airlines such as Easyjet, Ryanair and Jet2holidays as well as TUI and Thomas Cook.

- Possible new carriers such as a Chinese Airlines who would be looking to bring a great deal of additional inbound students/leisure & business passengers as we can see with Hainan Airlines and their recent investment in Manchester

- Additional long haul seasonal flights/routes during the summer which would bring a great number of inbound passengers to Scotland during the summer to events such as the Edinburgh Festival, Edinburgh Military Tattoo and the Fringe. The outward demand would then be available for holiday makers and/or business passengers to travel directly to new destinations. This in turn would create an opportunity for an airline to trial the viability of a new long haul route which, once established, could become a year-round service.

- Domestic connectivity is key to many business and passengers and there is a need for competition to continue so that airlines do not have an opportunity to increase fares due to their dominance. It is being very well received by passengers and Corporate passengers that Flybe will soon be competing on domestic flights via Heathrow and this activity should be encouraged. APD will be a key driver here together with landing charges
• Additional direct long haul routes based on APD reduction could be further driven by the inbound conference market and we need only look at how much Glasgow is expanding as a very highly rated Conference destination bringing investments and new traffic as well as an ‘entertainment city’ based around the SSE Hydro. The city is fast becoming a key player for such businesses and additional flights will certainly help grow the market for both leisure and also Corporate traffic.

• Connectivity should be available for both Bands as although sometimes it may be viewed that long haul routes are the key targets, it should be noted that the potential for European flying could stimulate just as much growth on both an outward and inbound basis.

• If the proposition was attractive enough, there is the potential for airports such as Edinburgh and Glasgow to create hubs in Scotland so that passengers travelling from overseas could use Scotland as their entry point rather than a Southern airport. (a recent conversation with an airline commented on traffic coming from Canada and then travelling on to the Middle East as it was a preferable route) This would involve investment at the airports but could potentially be a very positive route which could be influenced by ADT levels.

Historically we can see that the UK, currently, has the highest air travel tax anywhere in the world, making it a less attractive destination to visit, trade with, and invest in, than many of our global competitors including Germany and France. It also makes holidays more expensive for families and it has a detrimental effect on its potential to create additional employment and increases in GDP.

Historically areas where APD has either been abolished or reduced have seen great increases in their passenger traffic.

A Fair Tax on Flying (AFTOF) campaign, in which SPAA is one of the founding members, shows that passengers flying from a UK airport pay, on average, five times more in passenger departure taxes than in those European countries that levy an equivalent tax.

The Fair Tax on Flying Campaign has been lobbying the UK Government for many years been asking for a Review on the economic impact of APD and even with the PWC report on the impacts of reduced APD published back in 2013, there has been very few reductions to the levels of APD.

Germany froze its air passenger tax after the German Federal Government published a study on the economic effects of the tax and in Holland again the tax was scrapped after reviewing the loss of passengers travelling to Germany where they could avoid paying APD.
Closer to home, the Irish Government has often thought of as a prime example of what a change in APD can create. The Government reviewed and amended their APD but ultimately decided in April 2014 to abolish it altogether. The result of this has seen Dublin Airport grow with many new routes being successfully added, and their connectivity to Scotland has also dramatically increased once again as more and more passenger choose to travel via Dublin. Many of these passengers look to travel via Dublin as a hub today to save money via the lack of APD on their long haul flights to USA and beyond. This in turn, has stimulated their inbound tourism and created more jobs and income to their GDP.

In a report issued by Edinburgh Airport back in 2015 ‘The Impact of Reducing APD on Scotland’s Airports’ a number of predictions were made in relation to the impact of the reduction of APD. The report stated that the costs of a 50% reduction could be offset against the fact that the reduced level could provide benefits to Scotland worth £200 million along with 3,800 additional jobs being by 2020.

It is also worth noting that although the Rail Companies have been fierce in their market campaigns about the time differential and potential loss of traffic on routes to London, that many passengers travelling on Business from Scotland require the ability to travel London and return in a day (particularly relevant from North of the Central Belt) or connect on to other destinations within Europe or long haul. SPAA believes that passengers choose their mode of transport based on price and connectivity.

SPAA would like to acknowledge the importance of continued competitive and frequent Domestic flying as exceedingly important to the movement of business passengers on both a point to point and also connecting basis.

Timing
SPAA looks forward to the introduction of the Scottish ADT from the 1st April 2018 and strongly believe that the 50% reduction should be applied immediately and across all the bands. SPAA have consistently commented and recommended that the reduction should be applied in one single step.
There have been suggestions of the possibility of a phased in reduction but we would again comment that this would not be beneficial and would not achieve the full benefits that a single reduction would have for the passengers and the Scottish economy.

It would also not give Scotland the competitive edge that the 50% would over the rest of the UK and thus encouraging airlines to review potential new routes, resulting in further increases with inbound passengers and hence an increase in GDP.

The board rooms of airlines are continuously reviewing their routes and tend to plan their operational route network and any additional services generally need at least a 12 month lead in period.

Summer Schedules for some seasonal flights start generally at the end of March and so the 1st April is ideal for implementation. That said, as much notice as possible is required for decisions to be made to operate additional routes and the 50% reduction could well tip the scales in their decision.

Tour Operators publish their brochures up to eighteen months in advance of the travel date and need to therefore have their costings in place at the correct levels.

If the Scottish Government was to implement a phased in system to reach the 50% by the end of the current Scottish Parliament, the SPAA believes that this would not have the same effect and benefits and it that it would also add complication and burdens on the administration of the system. Administratively this would incur a number of changes having to be made to various bookings systems including websites, airline reservation systems; Global Distribution Systems (GDSs) and other third party booking/reservation systems; interfaces between these and operators/agents’ own booking systems; back office systems used to generate e-tickets/itineraries/receipts/invoices, etc.).

It would also lead to confusion by the passenger and not have the same impact on airline decisions.

It should be noted that some of the low cost carriers such as Easyjet/Ryanair and also Jet2holidays have already started considering where they are basing their aircraft and their route schedule for next year and they have openly stated that an early decision and 50% reduction would make the difference.

It would therefore be beneficial for the levels, bands and exemptions to come into the public arena as soon as possible to enable airlines and tour operators to make decisions on their schedules, take bookings with the correct levels of tax, and systems to be adjusted and tickets and holidays being sold at the correct price.

**The extent to which the key concepts of the Bill with regard to the passengers and aircraft which will be subject to the tax are appropriate;**
The appropriateness of the proposed structure for the tax;

The Scottish Government has stated that the structure of ADT will be similar to the structure of APD, in that the amount of tax incurred for the carriage of a chargeable passenger on a chargeable aircraft will depend on the passenger’s final destination and class of travel.

SPAA feels that the high level of engagement with the stakeholders has led to the potential new ADT structure being maintained with the same structure as APD. SPAA welcomes this as it is recognised and understood by airlines, Tour operators and Travel agents and the process and administration of the tax is transparent and easy for the passenger to understand.

SPAA also feels that it would be beneficial for the new ADT to maintain the destination based banding system, and the current APD exemptions.

The ADS scheme for the Highland and Islands has been extremely successful since its inception and has acted as a lifeline for the Highland and Islands in maintaining passenger traffic and routes and we see no reason for that to change along with PSO routes being awarded.

An exemption for children was introduced following campaigning by the Fair Tax on Flying and this has had a great effect for Scottish families travelling abroad for their annual holiday and we feel that this should be maintained with the introduction of ADT in line with the rest of the UK so that Scottish families are not penalised.

SPAA is in agreement with the designation of the APD Reduced, Standard and Higher rates as Standard, Premium and Special rates and fell that these are more descriptive of the classes of travel.

Destination bands

SPAA would endorse the decision that the rate of ADT should be based on the passenger’s final destination but would recommend that the destination bands should be defined by the distance from Glasgow or Edinburgh and not London to the final destination.

SPAA therefore feels that the mileage level should be increased from the 2000 miles (used under the current UK APD system) to 2,500 miles which would reflect the potential additional mileage for passengers travelling from Scotland and cover additional countries bordering the Mediterranean.

There needs to be a clear distinction between what is seen as short haul and long haul flights and countries such as Israel and Egypt are caught up in the fact that they are currently charged in UK APD as a long-haul destination and charged the higher band of APD. Holiday makers are therefore often put off by increased price although
they consider such destinations to be Europe. By increasing the distance, this would reflect a clear distinction between short-haul and long-haul flights within the tax banding.

SPAA hopes that the ADT bands will be made known as soon as possible as to enable decisions and changes will have to be made to booking systems.

**Connected Flights**

SPAA agree with proposed ADT Connected Flight rules at Schedule 1 which means that ADT is charged according to the passenger’s final destination on connecting flights as long as they are issued on through tickets. By keeping the same concept as UK APD, rules relating to connected flights makes it simpler for all passengers and anyone selling a ticket to understand. It also ensures that Scottish originating passengers continue to use the UK hub airports to the advantage of all which hopefully maintains a choice of routes for all passengers.

However, Scotland has a slightly different challenge relating to APD called ‘double dipping’ and Scottish originating passengers are penalised. A passenger travelling on Easyjet from Edinburgh to Gatwick and then on to Barbados with either a charter Company or a scheduled airline, will have to have two separate tickets as they cannot be through ticketed. In this case they will pay APD twice so once on the flight to Gatwick and then again leaving the UK on the long haul flight. This has always been deemed unfair to Scottish passengers.

This applies to many low cost carriers who do not allow through ticketing as well as charter airlines and is a frequent source of complaint.

SPAA has consistently lobbied Westminster on this subject but although they have been sympathetic they have not done anything to alleviate this and SPAA would like to see the Scottish Government look at this to try and provide a positive outcome.

It should also be noted that our requests for a review on levels of Domestic APD are currently not an option due to the EU ruling on competition but perhaps this could become an option with Brexit being triggered.

**The proposed administrative arrangements for the payment, collection and management of the tax;**

SPAA feels that the Scottish Government have recognised the need to create an online system for collection and administration of the processes appear to be good.

The process does not really affect us as an Association but we would urge the Scottish Government to have dialogue in particular with the airline major Global Distribution Systems (GDS) to ensure that they are on board and have the necessary process for changes as they become available.
Scottish Parliament Finance And Constitution Committee

Call For Evidence On The Air Departure Tax (Scotland) Bill

Written Response From Virgin Atlantic

Scottish Finance Committee – Air Departure Tax Bill

Introduction

As a predominately transatlantic long haul airline, we have been steadily investing in Scotland in recent years alongside our joint-venture partners Delta Air Lines. We operate on Virgin Atlantic metal to Orlando, and Las Vegas from Glasgow, and on Delta metal to New York JFK from Edinburgh. Furthermore, this year Delta will also be starting services between Glasgow and New York JFK.

We also announced at the end of last year that we would be extending our codeshare partnership with Flybe to cover their new operations from Edinburgh and Aberdeen to London Heathrow. This is in addition to our codeshare which covers services to Manchester from Scottish Airports. It’s an important development in delivering greater competition and choice for Scottish passengers travelling to long haul destinations through the UK’s hub airport.

As we approach an uncertain economic period it is absolutely right that Scotland is keen to improve its international competitiveness, supporting greater trade links and inbound tourism from long haul markets which will support jobs throughout Scotland.

Background

The Scottish Government has taken a progressive position on APD recognising the distortive impact of the tax on trade and tourism. We recognise that not every Scottish political party is convinced of the need to reduce and abolish this tax, but welcome the current position of the Scottish National Party and Scottish Conservatives. The recent history of air passenger taxes across Europe shows
country after country removing similar taxes because of their negative economic impact. Only a handful of other such taxes remain in Europe, all at much lower levels.

It is also important to recognise the history of APD and what the tax represents. The UK Government and HMRC have been clear in parliamentary hearings that it is not an environmental tax. Virgin Atlantic has been a leading champion of aviation reducing its environmental footprint and supports paying for our externalities through the current EU ETS scheme and more importantly through the recently agreed Carbon Offsetting and Reduction Scheme for International Aviation.

In the years since we established our Change is in the Air programme, we’ve made significant progress on our own carbon reduction efforts. Between 2007 and 2015, we improved our aircraft fuel and carbon efficiency by 9% and reduced absolute aircraft emissions by 15%. Our main implementation activities to date have been our multi-billion dollar fleet renewal programme and a range of operational improvements.

Most of our current carbon savings come from new aircraft. First to arrive were our ten A330s, followed by the introduction of 17 Boeing 787-9s (787s) between 2014 and 2018. The final addition is our latest order of 12 A350-1000’s to come into service between 2019 and 2021. At that point we will have a one hundred percent twin engine fleet, with each aircraft giving about 30% savings per trip compared to the older aircraft they’ve replaced. We are also supporting a flagship sustainable fuel project that has huge potential to radically reduce our carbon output in the future.

**Why APD needs to be reduced**

The competition to trade and export with emerging and developed world economies is fierce. As Scottish companies seek to succeed in the American, Chinese, and Indian markets, they will undoubtedly face competition from other European countries. At present there are just a small number of European countries which levy an aviation tax, along with the UK, principally Germany, Austria, Italy, Greece and France. The following table shows that the long-haul rate of UK APD is more than double the next highest tax in Europe.
This high level of tax puts UK airlines, businesspeople, and holiday-goers at a competitive disadvantage compared with their European counterparts who are subject to much lower, most often zero flight taxes. A significant reduction in long haul APD would redress that inequity.

In recent years there have been a number of well documented examples of countries abolishing their own aviation tax. In 2014, Ireland abolished its Air Travel Tax which was implemented in 2009, citing the negative impact it had on the economy. The Netherlands introduced an air passenger tax in July 2008 that was abolished a year later. The tax was abandoned due to a decrease in the number of passengers departing from airports in the Netherlands and a steep decline in visitor numbers. Whilst raising €300 million, it was estimated that €1 billion was lost due to the fall in visitors.²

If ever there was a time to develop greater trade and tourism links to markets across Asia, Africa and the Americas this is it. The lack of competitiveness becomes even starker when you consider the global league table.

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Devolution has presented Scotland with a unique opportunity to develop a policy that supports aviation and grows its links with international markets.

**Structure and Administration**

We have continued to advise the Scottish Government that keeping a simplified structure and administrative process is preferable. In terms of structure if there is to be a tax we would prefer to keep the banding structure consistent with the UK.

Revenue Scotland has worked with industry on the collection methods of this tax and we would encourage them to continue on the path they have set to have an online system with quarterly reporting. This will reduce the administrative burden for airlines and allow Revenue Scotland the requisite information to audit the tax in-take effectively.

**BANDING RATES AND EXEMPTIONS**

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Reducing the rate of tax on long haul flying will help create the conditions for growth in trade and tourism. We are supportive of the Government position to significantly reduce the rate of long haul APD, and welcome the Scottish Conservatives’ position to go further with long haul abolition.

We would also support ensuring connecting traffic through London Heathrow is taxed in the same way as people travelling through Amsterdam or Paris. This will help grow both routes and competition into London Heathrow from Scottish airports that are not viable direct. We currently have a codeshare with Flybe that will provide a seamless journey from Aberdeen and Edinburgh through London Heathrow to long haul destinations. The more we can support such routes in partnership with other airlines the better.

The administrative impact of changes to this tax will be easier with a longer notice period. Otherwise we will have to implement a mechanism for refunding customers who have already purchased a ticket for a date when a different tax rate would exist to the current high level.

**Conclusion**

The Scottish Government and Scottish Conservatives have suggested options that will significantly improve the competitiveness of Scotland, reducing the highest tax in the world on connectivity. The potential benefits of greater connectivity for Scotland’s exporters, new trade relationships, and inbound tourism from long haul markets are an exciting opportunity. We look forward to continuing to work with the Government and Parliament to support promoting Scotland as a place to visit or do business with.