



HM Treasury

Aviation tax reform: consultation

March 2021

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Executive summary

In January 2020, the government committed to reviewing Air Passenger Duty (APD) to consider how the tax could support Union and regional connectivity and our commitment to reach net zero emissions by 2050. Following this process, the government committed to consult on aviation tax reform at Budget 2020 and, in particular, the case for amending the APD treatment of domestic flights and for increasing the number of international distance bands.

This consultation delivers on that commitment and sets out the government's current approach to taxing the aviation sector, via APD. It then seeks views on the government's initial policy position that in order to support Union and domestic connectivity following the UK's departure from the EU, the effective rate of APD on domestic flights should be reduced and the potential options through which this could be achieved. It also seeks views on a potential increase to the number of distance bands, in order to align the tax more closely with our environmental objectives. Taken together, these proposals could better reflect the government's priorities to balance domestic connectivity, our environmental goals, and ensuring we raise the taxes needed to fund our public services. Finally, the consultation sets out the factual position regarding the devolution of APD in Scotland, Wales and Northern Ireland and the government's initial position on a potential Frequent Flyer Levy.

Chapter 1

Introduction

- 1.1 This chapter provides context on the government’s current approach to, and objectives for, the taxation of the aviation sector. The Government’s objectives are that aviation tax:
- supports Union and international connectivity;
 - aligns with our environmental objectives, particularly the government’s commitment to net zero emissions by 2050; and
 - ensures that the aviation sector makes a fair contribution to public finances.

APD and its contribution to the public finances

- 1.2 APD is the UK government’s principal tax on the aviation sector, since tickets are VAT free and aviation fuel incurs no duty. The tax raised £3.6bn in 2019-20 and its primary objective is to ensure that airlines make a fair contribution to the public finances.¹ The Government is committed to ensuring public finances are on a sustainable footing as we recover from Covid-19 and that any reforms to APD meet this objective. Revenue raised by APD funds vital public services for people and families across UK, and this proposed package of reforms reflects this. The UK is one of several countries to levy a per passenger tax on aviation.
- 1.3 APD is paid by airlines and is levied on a per-passenger basis on all flights departing UK airports. The rates differ according to a passenger’s class of travel and the distance of their journey. APD is simple to collect and complies with the UK’s international obligations, notably the Chicago Convention² and subsidy controls.³
- 1.4 The current distance band structure, as well as the APD rates for 2020-21, 2021-22 and 2022-23, are set out below.

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/881784/2020_Mar_APD_Commentary.pdf

² https://www.icao.int/publications/Documents/7300_cons.pdf

³ <https://www.gov.uk/government/publications/complying-with-the-uks-international-obligations-on-subsidy-control-guidance-for-public-authorities>

Chart 1.A: Current distance band structure

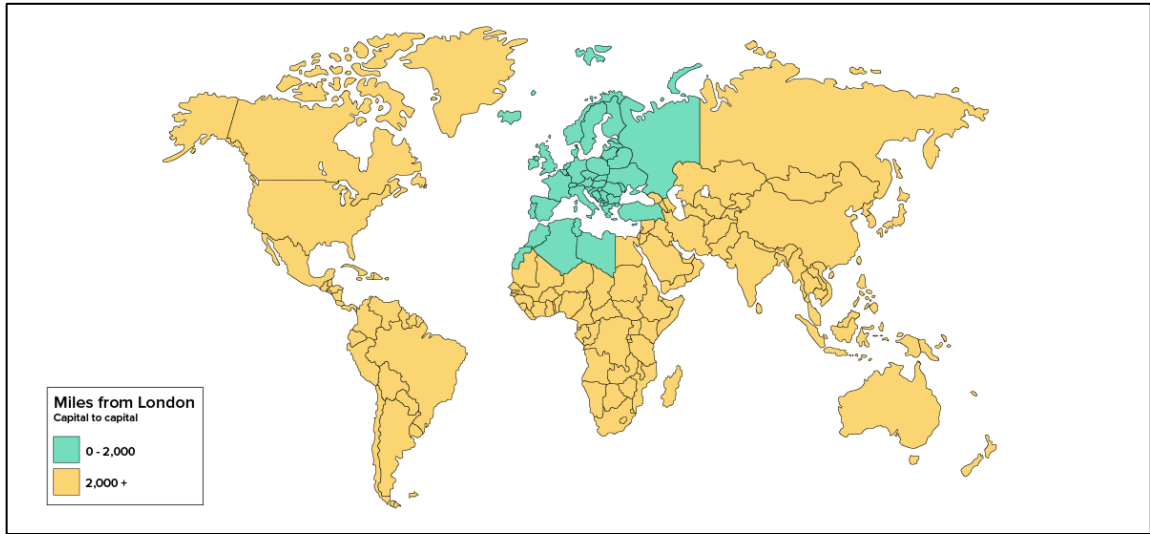


Table 1.A: APD rates for 2020-21; 2021-22; and 2022-23

Air passenger duty rates ^{4, 5}									
Bands (approximate distance in miles from London)	Reduced rate (lowest class of travel)			Standard rate ⁶ (other than the lowest class of travel)			Higher rate ⁷		
	From 01 April 2020	From 01 April 2021	From 01 April 2022	From 01 April 2020	From 01 April 2021	From 01 April 2022	From 01 April 2020	From 01 April 2021	From 01 April 2022
Band A (0 – 2,000 miles)	£13	£13	£13	£26	£26	£26	£78	£78	£78
Band B (over 2,000 miles)	£80	£82	£84	£176	£180	£185	£528	£541	£554

⁴ APD applies to all flights aboard aircraft 5.7 tonnes and above.

⁵ Rates for direct long-haul flights from Northern Ireland are devolved and set at £0. Direct long haul journeys are those where the first leg of the journey is to a destination outside Band A.

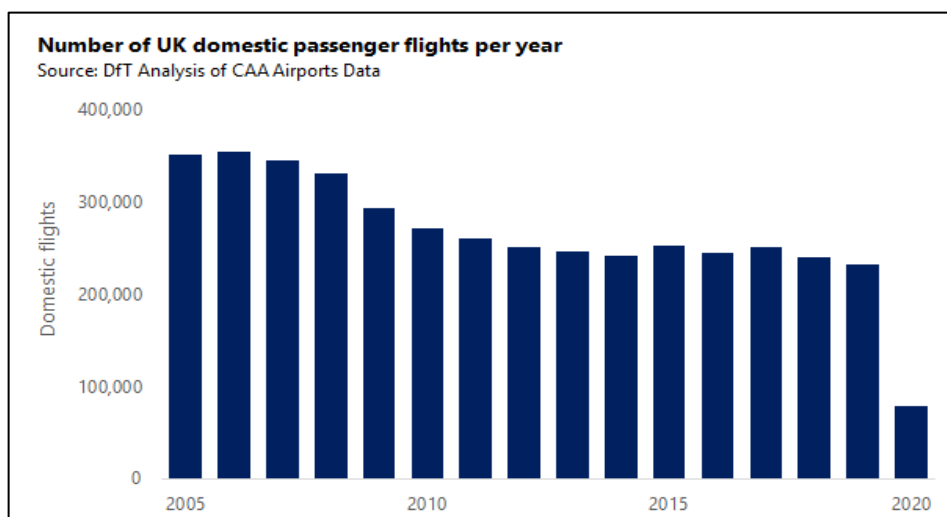
⁶ Where a class of travel provides a seat pitch in excess of 1.016 metres (40 inches), the standard rate is the minimum rate that applies

⁷ The higher rate applies to flights on aircraft of 20 tonnes and above, with fewer than 19 seats.

Union and international connectivity

- 1.5 The first component of this proposed package of reforms is changes to support domestic connectivity in the UK. Domestic connectivity is a central pillar of the government's commitment to supporting the Union and levelling up all parts of the UK. Union-wide air connectivity has an important role to play within this objective and provides a number of benefits to the UK.
- 1.6 Firstly, domestic connectivity is vital in fostering integration between all parts of the UK and increasing the social cohesion of the Union. Travel by road or rail is not always practical for certain journeys within the UK, and it is important our domestic air network enables those who live in the UK to connect to areas that are otherwise hard to reach. This is particularly the case, given the limited alternative modes of transport, between Great Britain and Northern Ireland, as well the connections from the Scottish Highlands and Islands to the mainland.
- 1.7 Secondly, strong domestic air connectivity provides economic development in all parts of the UK. Regional airports in all nations of the UK play a crucial role in the areas in which they are situated, acting as hubs for growth by serving local businesses and bringing tourism directly to many parts of the country. Core and specialist aviation services, freight companies, logistics hubs and aerospace investment are often located close to airports, creating jobs in the local area. UK regional airports also act as wider magnets attracting non-aviation businesses due to the air connections the airport offers but also the strong road and rail access links that can support the airport. They enable inward investment, which drives local economic development and employment. The UK's regional airports are also vital for freight operations, with around 56 per cent of freight on cargo-only aircraft handled at airports outside of London in 2019.
- 1.8 Chart 1.B shows that the number of UK domestic routes has significantly declined since 2005, including prior to COVID-19 disruption.

Chart 1.B: number of UK domestic passenger flights per year since 2005



- 1.9 Thirdly, strong domestic air connectivity ensures that all parts of the UK are able to access and benefit from the UK's global connectivity opportunities. This is particularly the case for domestic routes from UK regional airports into international hubs, such as Heathrow and Gatwick. Domestic air connectivity can therefore foster greater global connectivity, facilitating trade links and cementing our position as one of the biggest international aviation networks in the world.

Environmental objectives

- 1.10 In addition to domestic connectivity, the government is also committed to our climate objectives, and so the second part of this proposed package addresses these objectives. The UK government has committed to bring all greenhouse gas emissions to net zero by 2050. The transport sector, including aviation, has a crucial role to play in tackling the problem of climate change and reaching this target. UK aviation accounts for around 8% of the UK's total greenhouse gas emissions. International aviation is responsible for the vast majority of this contribution and accounted for 37MtCO₂e in 2019, whereas domestic aviation was responsible for 1.4 MtCO₂e.⁸ The sector's share of UK emissions is likely to continue to increase as other sectors, such as energy and manufacturing, decarbonise more quickly.
- 1.11 The government will therefore consult on how the aviation sector will deliver its contribution to our net zero commitment later this year and has already put in place a wide range of initiatives to support the decarbonisation of the industry:
- We have established the Jet Zero Council as a sector-wide partnership to drive the delivery of new technologies and innovative ways to cut aviation emissions. It launched in 2020, with the aim of delivering net zero aviation by 2050.
 - We have invested £15m for competition to support the production of sustainable aviation fuel (SAF) in the UK and funding to establish a SAF clearing house, the first of its kind in Europe, to enable the UK to certify new fuels and drive innovation. We have also invested £15 million into FlyZero – a 12-month study, delivered through the Aerospace Technology Institute (ATI), into the strategic, technical and commercial issues in designing and developing zero-emission aircraft that could enter service in 2030.
 - The UK was instrumental in reaching agreement in 2016 on a global market-based measure for international aviation, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and will continue to lead efforts in the International Civil Aviation Organisation (ICAO) to negotiate for robust, environmentally effective emissions

⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957605/final-greenhouse-gas-emissions-tables-2019.xlsx

reduction measures that address international aviation emissions in the most cost-effective way. This includes negotiating for ICAO to agree a long-term goal for international aviation emissions that is consistent with the temperature targets of the Paris Agreement. The Department for Transport have recently consulted on the implementation of CORSIA, which is currently in its pilot phase, within the UK.⁹

- The UK's new Emissions Trading Scheme (ETS), which has replaced our membership of the EU ETS, covers participants from the aviation, power and industrial sectors. It sets a total annual cap on greenhouse gases emitted by these sectors to ensure that polluters pay for their emissions. It covers domestic flights within the UK and flights from the UK to the EEA.

Impact of COVID-19

- 1.12 APD revenues have significantly declined following the reduction in passengers caused by COVID-19, with receipts between April 2020 to September 2020 down 86.9% compared to the same period in 2019.¹⁰
- 1.13 The government recognises the importance of the aviation sector, which contributed at least £22 billion to the UK economy, along with over 230,000 jobs prior to COVID-19, and has provided unprecedented support, including schemes to raise capital, flexibilities with tax bills and the extended furlough scheme.¹¹ The aerospace sector and its aviation customers are being supported with almost £11 billion made available through loan guarantees, support for exporters, the Bank of England's Covid Corporate Financing Facility and grants for research and development. This includes £8bn of UK Export Finance guarantees.¹² The sector has also been able to benefit from the bespoke support provided by the Airport and Ground Operations Support Scheme, which was renewed at the Budget for a further six months from the start of 2021-22. This will provide support for eligible businesses in England up to the equivalent of half of their business rates liabilities during 2021-22, subject to certain conditions and a cap per claimant of £4 million.¹³
- 1.14 The government's objective is to see a safe and sustainable return to international travel and is leading a successor to the Global Travel Taskforce, working with industry to develop a framework that can facilitate greater travel when the time is right, whilst managing the risk from imported cases and variants.

⁹ <https://www.gov.uk/government/consultations/implementing-the-carbon-offsetting-and-reduction-scheme-for-international-aviation/implementing-the-carbon-offsetting-and-reduction-scheme-for-international-aviation-corsia>

¹⁰ <https://www.gov.uk/government/publications/air-passenger-duty-bulletin/air-passenger-duty-statistics-commentary>

¹¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/769695/aviation-2050-web.pdf

¹² BEIS analysis of government support schemes, 2021

¹³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf

Chapter 2

Domestic connectivity

- 2.1 The first component on this package focuses on supporting Union and regional connectivity via reforms to APD.
- 2.2 Ensuring UK wide transport connectivity is a central pillar of the government’s commitment to supporting the Union between England, Scotland, Wales and Northern Ireland, and levelling up all parts of the UK. Such connectivity fosters integration across the Union, supports local economies and helps ensure that all parts of the country can benefit from our global connections. Domestic air connectivity has an important role to play within this, particularly by linking those areas where road and rail alternatives are not available or take a long time.
- 2.3 The government currently supports UK air connectivity via Public Service Obligations (PSOs). A PSO is a domestic air route that is deemed essential for connectivity but commercially unviable, and therefore benefits from a direct subsidy and an APD exemption. There are currently 22 such routes in the UK, which connect Anglesey to Cardiff; Dundee, Derry and Newquay to London; and 18 further routes connecting Scottish airports.
- 2.4 The government has received several representations from the aviation sector, including in response to Sir Peter Hendy CBE’s Union Connectivity Review¹⁴, that a reduction in the rate of APD on domestic flights could provide a further boost to Union air connectivity, by supporting the economic viability of domestic air routes, potentially leading to the introduction of new domestic air routes or increased frequency on existing routes.
- 2.5 In light of the benefits afforded by domestic air connectivity, as set out above, the government’s initial policy position is that the effective rate of APD on domestic flights should be reduced, in order to support Union and regional connectivity. Such a proposed reduction would apply to all flights departing from a UK airport to a destination within the UK. This chapter seeks views on this initial position and the two potential policy options that could achieve this outcome, namely: (1) the introduction of an APD exemption for the return leg of domestic return flights; or (2) the introduction of a new band for domestic flights. Chapter 3 sets out the factual position regarding the devolution of APD to the devolved

¹⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/968214/DfT-Union-Connectivity-Review-Interim-Report-March-2021-accessible.pdf

administrations and our commitment to engage with Scotland, Wales and Northern Ireland on these potential reforms.

- 2.6 These considerations sit alongside the Union Connectivity Review, which is considering how the UK government can level up transport infrastructure and improve connectivity between Scotland, Wales, Northern Ireland and England and which will report in Summer 2021.

A return leg exemption

- 2.7 When APD was first introduced in 1994, the government included an APD exemption for the return leg of domestic return flights. The government subsequently removed the exemption in 2001, in response to concerns from the European Commission.
- 2.8 Following our departure from the EU, the government is considering the reintroduction of an APD exemption for the return leg of a domestic return flight. Under this proposal, domestic flights would continue to be treated within the shortest band of APD, although airlines would not be liable to pay APD for passengers travelling on the return leg of a domestic return flight. A return leg exemption could operate as follows:
- Airlines would only be able to benefit from such an exemption if they provided evidence that a passenger was travelling on a return ticket, i.e. that both legs of the journey were purchased at the same time, although there would be no time limit on when the return flight needed to take place.
 - APD would still be due on the outbound leg, but the airline would be exempt from the duty on the passenger's return leg if the relevant eligibility conditions were met.
 - The exemption would only apply to passengers travelling between the same UK airports.
 - Both the outbound and return service would need to be provided by the same carrier.
 - The exemption would apply across all classes of travel, including business jets.
- 2.9 The government considers that the reintroduction of a return leg exemption could give rise to administrative complexities for both HMRC and airlines because it is dependent on a ticket being classed as a return and would welcome the views of respondents regarding this matter. Furthermore, in light of modern ticketing practices, we consider that consumers may be less likely to purchase a return ticket and that it may be difficult to determine whether or not a passenger is returning on a single or return ticket. In addition, a return leg exemption would only apply to returns and therefore would not benefit those passengers travelling on a single ticket.

A new band for domestic flights

- 2.10 An alternative option the government is considering is to introduce a new, separate domestic band within APD for routes between UK airports, which would be set at a lower rate than the shortest international band. Under this proposal, domestic flights would no longer be included within the shortest international band.
- 2.11 The introduction of a new domestic band would ensure that all domestic flights benefited from a lower rate of APD, including single leg journeys. The government considers that such an approach would be simpler for HMRC and airlines to administer than a proposed return leg exemption, because it would apply to all domestic flights, not just those on a return ticket.
- 2.12 In light of these factors, the government's initial policy position is that the introduction of a new domestic band would be the most appropriate approach to reducing the domestic rate of APD, as opposed to the reintroduction of a return leg exemption.

Questions

The government's initial policy position:

- 1 Do you agree with the government's initial policy position that the effective rate of domestic APD should be reduced? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?
- 2 What evidence can you provide about the impact of an effective reduction in the domestic rate of APD on Union and regional connectivity?
- 3 How would a reduction in the effective rate of domestic APD affect airlines? Will the benefits be passed onto consumers in ticket prices or retained by airlines?
- 4 Which domestic air routes, if any, are likely to be introduced/restart following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?
- 5 Which existing domestic air routes, if any, would benefit from an increased number of services following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?
- 6 By how much would you estimate that the number of passengers currently flying domestically increase?
- 7 What could the environmental impact of reducing the effective domestic rate of APD be? How could any negative impacts be mitigated?
- 8 What could the impact of reducing the effective domestic rate of APD be on other modes of transport (e.g. road/rail)?

- 9 If the effective rate of domestic APD is reduced, would you favour the introduction of a return leg exemption or a new domestic rate? What would you see as the comparative risks and benefits of these options?
- 10 Is there an alternative approach to reducing the effective rate of APD on domestic flights, that you think would be more appropriate than either of the options identified?

A return leg exemption

- 11 What are your views on the way a return leg exemption could operate as set out in paragraph 2.8? What are the benefits and risks of this proposal? What amendments would you suggest, if any?
- 12 Do airlines currently differentiate between single and return tickets in their booking systems and, if so, how?
- 13 What evidence could airlines provide to HMRC to demonstrate that a passenger was travelling on a return ticket?
- 14 If the return leg exemption were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to provide evidence to HMRC on their APD liabilities?
- 15 Are there any particular considerations around the application of a return leg exemption to business jets, in light of how business jets are operated?

A new band for domestic flights

- 16 Do you agree with the government's initial position that a new domestic band would be the most appropriate approach to reducing the rate of APD on domestic flights?
- 17 What are your views on the way a new domestic rate could operate as set out in paragraph 2.11? What are the benefits and risks of this proposal? What amendments would you suggest, if any?
- 18 If a new domestic rate were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to provide evidence to HMRC on their APD liabilities?

Chapter 3

Devolution

- 3.1 The government is committed to supporting connectivity across all nations of the UK, which is why its initial policy position is that the effective rate of domestic APD should be reduced. This section sets out the factual position regarding the devolution arrangements for APD in Northern Ireland, Scotland and Wales.

Northern Ireland

- 3.2 From a Union connectivity perspective, Northern Ireland is in a unique position because it is not linked to Great Britain by road or rail. Northern Ireland also shares a land border with the Republic of Ireland, which does not levy a per passenger aviation tax.
- 3.3 The UK government devolved the power to set long-haul APD rates to the Northern Ireland Executive in 2012, in order to allow the Northern Ireland Executive to develop direct long-haul services, and support business and tourism. The Northern Ireland Assembly subsequently set the direct long-haul APD rate at £0.
- 3.4 At Budget 2018, the UK government established a Technical Working Group to consider the legal and operational challenges to changing short-haul APD for Northern Ireland. The group identified that a key operational barrier to the devolution of short-haul APD was the lack of an Executive in Northern Ireland. This barrier has subsequently been removed following the re-establishment of an Executive in Northern Ireland in January 2020. The UK government will continue to engage with the Northern Ireland Executive on this issue and on APD.

Scotland

- 3.5 The UK government legislated to fully devolve APD to the Scottish Government as part of the Scotland Act 2016. This decision was taken following the Smith Commission on devolution in Scotland (2014), which recommended that the power to charge tax on air passengers leaving Scottish airports should be devolved to the Scottish Government¹⁵ (subject to the assent of the Scottish Parliament). The Scottish Government subsequently passed the primary legislation setting out the structure of the new "Air Departure Tax" (ADT) in 2017. However, the commencement of

¹⁵ <https://www.gov.uk/guidance/devolution-settlement-scotland#the-scotland-act-2016>

the UK legislation has been deferred until the issues related to the Highlands and Islands Exemption identified by the Scottish Government have been resolved and, as agreed with the Scottish Government, the UK government has continued the application of APD in the interim.¹⁶

- 3.6 The UK government will continue to engage with the Scottish Government on this issue, and on APD while it continues to apply in Scotland.

Wales

- 3.7 APD has not been devolved to the Welsh Government. The UK government recently considered the case for devolution following an enquiry by the Welsh Affairs Committee in August 2019. Following careful consideration of the evidence gathered by the Committee, the UK government concluded that the introduction of tax competition between the Welsh and English aviation markets would not be beneficial overall.¹⁷
- 3.8 The UK government's role is to ensure a lasting devolution settlement that delivers for all parts of the UK and ensures the best outcome for business and consumers in all nations of the UK. In order to ensure a fair and lasting settlement, it is right that when considering devolution, the UK government takes account of the impact in both Wales and English regions.
- 3.9 In the case of devolution of APD to the Welsh Government, the UK government has previously been concerned about the potentially distortive impact of introducing different aviation tax policies within a single aviation market – notably between airports situated either side of the border between England and Wales. The UK government will continue to engage with the Welsh Government on this issue and on APD.

¹⁶ <https://www.gov.scot/policies/taxes/air-departure-tax/>

¹⁷ <https://publications.parliament.uk/pa/cm201719/cmselect/cmwelaf/2634/2634.pdf>

Chapter 4

International distance bands

- 4.1 The second part of this package focuses on reforms to APD that balance the government’s position on domestic flights with our environmental objectives, while maintaining the sector’s contribution to the public finances.
- 4.2 Aviation is currently responsible for 8% of the UK’s Greenhouse Gas Emissions.¹⁸ Emissions from international aviation are responsible for the majority of the sector’s environmental impact, contributing 37MtCO₂e in 2019, and have more than doubled since 1990.¹⁹ The majority of the increase came in the 1990s and early 2000s, however emissions have also been increasing since 2012.²⁰ UK domestic aviation contributed 1.4 MtCO₂e in 2019, representing less than 1% of UK Greenhouse Gas Emissions.²¹ The aviation sector’s proportion of UK emissions is forecast to increase as we approach 2050, as other sectors decarbonise more quickly. The sector also contributes further negative externalities, including Nitrogen Oxide (NO_x) and noise pollution.
- 4.3 As set out in paragraph 1.11, the government has put in place a wide range of initiatives to support the decarbonisation of the aviation industry and will be consulting on the overall strategy for the sector’s transition to net zero later this year.
- 4.4 This chapter sets out the government’s initial policy position that the number of international distance bands within APD should be increased. This would align APD more closely with our environmental objectives, and ensure that the overall proposed package of reforms balances our domestic connectivity and environmental goals, as well as maintaining the sector’s contribution to the public finances and our public services. The chapter also seeks views on the potential options through which this could be achieved.

Rationale

- 4.5 Prior to COVID-19, the majority of the aviation sector’s Greenhouse Gas Emissions came from international aviation, as these account for the majority

¹⁸https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957605/final-greenhouse-gas-emissions-tables-2019.xlsx

¹⁹ *ibid*

²⁰https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932122/decarbonising-transport-setting-the-challenge.pdf

²¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957605/final-greenhouse-gas-emissions-tables-2019.xlsx

of flights departing the UK. As set out in the below table, long-haul flights are responsible for a greater amount of emissions on a per flight basis, as they cover longer distances.

Table 4.A: Emissions of respective flights from London

Journey	Emissions (kgCO ₂) ²²	Distance (km)
London – Rome	136.7	1,442
London – New York City	335.4	5,536
London – Tokyo	418.3	9,585
London – Perth	498.6	14,499

- 4.6 APD is currently structured under two distance bands: a short-haul band, where the distance from London to the destination country’s capital city is between 0 to 2,000 miles; and a long-haul band, where the distance from London to the destination country’s capital city is over 2,000 miles. Distance-based bands generally reflect airline coding systems, which are based on countries. Distance to a country’s capital city is used as a straightforward proxy for distance to that country, making it as easy as possible to administer the tax – as well as improving transparency for the end consumer. This distance band structure means that those who travel furthest incur a greater tax liability.
- 4.7 The government’s initial policy position is that an increase in the number of international APD distance bands would align APD more closely with our environmental objectives. This would reinforce the “polluter pays principle”, by ensuring that those who travel furthest internationally, and consequently have the greatest impact on the environment, incur the most APD. This also ensures that the overall proposed package of reforms balances our domestic connectivity and environmental goals, as well as maintaining the sector’s contribution to the public finances.
- 4.8 There are two potential policy options through which this could be achieved. The government could either revert to a four distance band structure, in line with that previously introduced in 2008, or introduce a new banding structure.

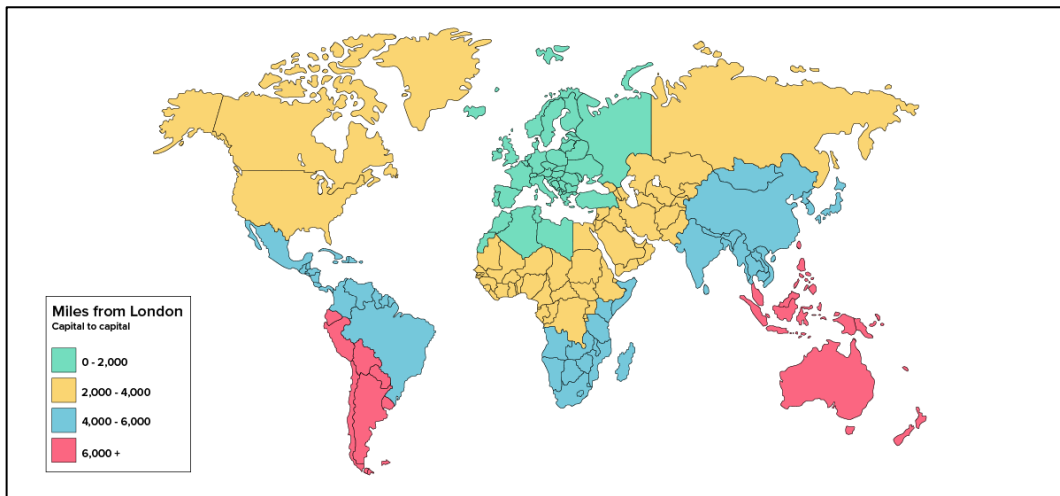
Policy Option A: revert to the 2008 distance band structure

- 4.9 One possible approach to increasing the number of international distance bands would be to introduce the four-distance band structure that was announced in 2008, with the distance bands set at 0-2,000 miles; 2,000-4,000 miles, 4,000-6,000 miles and 6,000 miles plus, from London

²² <https://www.icao.int/environmental-protection/Carbonoffset/Pages/default.aspx> - each figure assumes a single trip for a passenger flying in economy.

respectively. This structure would apply to all states with the exception of the Russian Federation, which would be split east and west of the Urals.²³

Chart 4.A: 2008 distance band structure



4.10 The government considers that the distances at which these distance bands are set would better support the government’s environmental objectives than the current two band structure, by strengthening the principle that those that fly further incur a higher rate of APD. We would expect airlines to easily incorporate this proposed distance band structure within their operating system, given that airlines have previously complied with the same distance band structure.

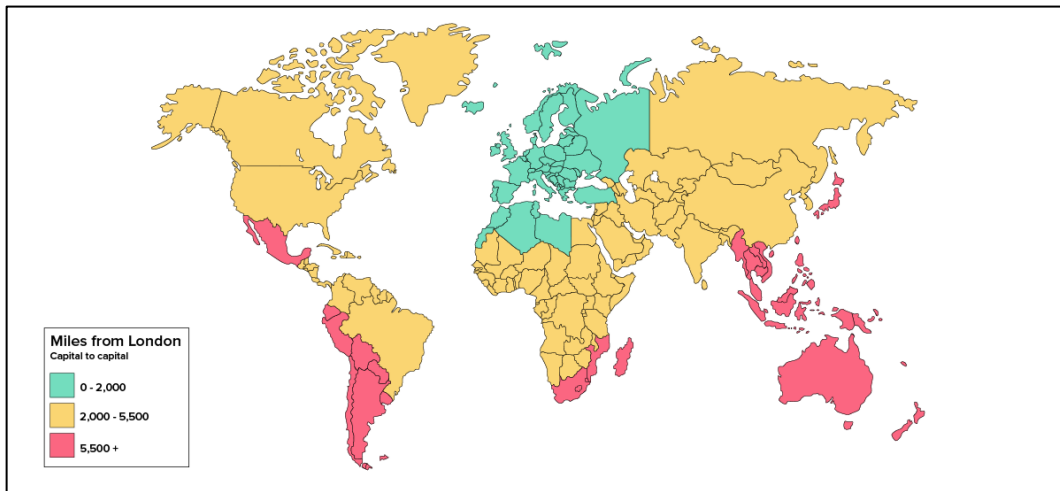
4.11 However, this structure previously posed some practical issues, notably between Bands B and C and also impacted on the UK’s international connectivity. In particular, the then government received several representations regarding concerns that the whole of the United States of America was included within Band B whereas the Caribbean was incorporated within Band C, because of the distance of their respective capitals. These factors led to decision in 2014 to revert to the two-band structure.

Policy Option B: design a new distance band structure

4.12 The alternative approach would be to design a new distance band structure, different to that introduced in 2008. The government could seek to introduce three international distance bands at the following distances: 0-2,000 miles; 2,000-5,500 miles; and 5,500 miles plus. As with the current two-band structure, the Russian Federation would be split east and west of the Urals.

²³ This is standard across the aviation industry.

Chart 4.B: revised distance band structure



4.13 As with option A, the government considers that, by increasing the number of distance bands from the current two band structure, this option would better support the government’s environmental objectives by strengthening the principle that those that fly further incur a higher rate of APD. However, a three band structure may be considered to better align with the government’s objective to ensure APD supports international connectivity, as it would reduce the number of destinations that were subject to differential APD treatment (compared to option A).

Frequent flyer levy

- 4.14 The Committee on Climate Change and several environmental stakeholders have suggested that the government should introduce a frequent flyer levy, in order to tackle the environmental impacts of flying in an equitable way.
- 4.15 A frequent flyer levy would seek to constrain overall demand for flights, by increasing the amount of tax liability due, according to the number of flights a passenger had previously taken. Unlike APD, the tax would be levied on the individual, rather than the airline.
- 4.16 A frequent flyer levy would be significantly more complex to administer than APD, for both airlines and HMRC, on the basis that it could require the government to collect and store personal information on each passenger. The government would have to be able to record and identify every flight an individual took from a UK airport for the purposes of calculating how many flights they had taken within a given period. This would not only increase complexity (because of the significant increase in taxpayers) but may also pose concerns around data processing, handling and privacy. There may be additional compliance issues, particularly with passengers who were able to travel under multiple passports. It may also pose challenges for individuals who have an essential need to fly frequently.
- 4.17 In addition, it is important to note that airlines ordinarily pass the cost of APD onto the passenger. Therefore, those passengers who fly more will, in effect, already pay more under the current system.

- 4.18 The government is therefore minded to retain APD as the principal tax on the aviation sector and not introduce a frequent flyer levy as a replacement, and welcomes views on this position.

Questions

International distance bands

- 19 Do you agree with the government's initial policy position that the number of APD distance bands should be increased? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?
- 20 What could the impact on the environment of a change to the banding structure? How could any negative environmental impacts be mitigated?
- 21 What evidence can you provide about the impact of an increase in the number of APD distance bands on international connectivity?
- 22 Which of the policy options for increasing the number of international distance bands do you think is most appropriate? Please explain your answer.
- 23 Is there an alternative banding structure that could better meet the government's objectives as outlined in paragraph 1.1?
- 24 If a new international distance band structure were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to provide evidence to HMRC on their APD liabilities?

Frequent flyer levy

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

Chapter 5

Summary of questions

The government's initial policy position on domestic APD:

- 1 Do you agree with the government's initial policy position that the effective rate of domestic APD should be reduced? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?
- 2 What evidence can you provide about the impact of an effective reduction in the domestic rate of APD on Union and regional connectivity?
- 3 How would a reduction in the effective rate of domestic APD affect airlines? Will the benefits be passed onto consumers in ticket prices or retained by airlines?
- 4 Which domestic air routes, if any, are likely to be introduced/restart following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?
- 5 Which existing domestic air routes, if any, would benefit from an increased number of services following any effective reduction in the domestic rate of APD, and what wider benefits would these routes provide?
- 6 By how much would you estimate that the number of passengers currently flying domestically increase?
- 7 What could the environmental impact of reducing the effective domestic rate of APD be? How could any negative impacts be mitigated?
- 8 What could the impact of reducing the effective domestic rate of APD be on other modes of transport (e.g. road/rail)?
- 9 If the effective rate of domestic APD is reduced, would you favour the introduction of a return leg exemption or a new domestic rate? What would you see as the comparative risks and benefits of these options?
- 10 Is there an alternative approach to reducing the effective rate of APD on domestic flights, that you think would be more appropriate than either of the options identified?

A return leg exemption

- 11 What are your views on the way a return leg exemption could operate as set out in paragraph 2.8? What are the benefits and risks of this proposal? What amendments would you suggest, if any?
- 12 Do airlines currently differentiate between single and return tickets in their booking systems and, if so, how?
- 13 What evidence could airlines provide to HMRC to demonstrate that a passenger was travelling on a return ticket?
- 14 If the return leg exemption were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?
- 15 Are there any particular considerations around the application of a return leg exemption to business jets, in light of how business jets are operated?

A new band for domestic flights

- 16 Do you agree with the government's initial position that a new domestic band would be the most appropriate approach to reducing the rate of APD on domestic flights?
- 17 What are your views on the way a new domestic rate could operate as set out in paragraph 2.11? What are the benefits and risks of this proposal? What amendments would you suggest, if any?
- 18 If a new domestic rate were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?

International distance bands

- 19 Do you agree with the government's initial policy position that the number of APD distance bands should be increased? In your view, what would be the positive and negative effects of such a change, particularly in light of the government's objectives for aviation tax?
- 20 What could the impact on the environment of a change to the banding structure? How could any negative environmental impacts be mitigated?
- 21 What evidence can you provide about the impact of an increase in the number of APD distance bands on international connectivity?
- 22 Which of the policy options for increasing the number of international distance bands do you think is most appropriate? Please explain your answer.
- 23 Is there an alternative banding structure that could better meet the government's objectives as outlined in paragraph 1.1?
- 24 If a new international distance band structure were to be introduced, how quickly could airlines integrate it within their operating systems to allow them to them to provide evidence to HMRC on their APD liabilities?

Frequent flyer levy

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

Chapter 6

How to respond

- 6.1 This consultation will run from 23 March to 15 June 2021.
- 6.2 Responses should be sent by email to:
ETTAnswers@hmtreasury.gov.uk
- 6.3 We are unable to respond to letters sent in the post at the moment. Please use the email address provided above to ensure your response is taken into account.
- 6.4 When responding, please say if you are making a representation on behalf of a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.
- 6.5 This notice sets out how HM Treasury will use your personal data for the purposes of the aviation tax reform consultation and explains your rights under the UK General Data Protection Regulation (UK GDPR) and the Data Protection Act 2018 (DPA).

Your data

- 6.6 The personal information relates to you as either a member of the public, parliamentarians, and representatives of organisations or companies.

The data we collect

- 6.7 Information may include your name, address, email address, job title, and employer of the correspondent, as well as your opinions. It is possible that you will volunteer additional identifying information about themselves or third parties.

Legal basis of processing

- 6.8 The processing is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in HM Treasury. For the purpose of this consultation the task is consulting on departmental policies or proposals or obtaining opinion data in order to develop good effective government policies.

Special categories of data

- 6.9 Any of the categories of special category data may be processed if such data is volunteered by the respondent.

Legal basis for processing special category data

- 6.10 Where special category data is volunteered by you (the data subject), the legal basis relied upon for processing it is: the processing is necessary for reasons of substantial public interest for the exercise of a function of the Crown, a Minister of the Crown, or a government department.
- 6.11 This function is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

Purpose

- 6.12 The personal information is processed for the purpose of obtaining the opinions of members of the public and representatives of organisations and companies, about departmental policies, proposals, or generally to obtain public opinion data on an issue of public interest.

Who we share your responses with

- 6.13 Information provided in response to a consultation may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).
- 6.14 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence.
- 6.15 In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.
- 6.16 Where someone submits special category personal data or personal data about third parties, we will endeavour to delete that data before publication takes place.
- 6.17 Where information about respondents is not published, it may be shared with officials within other public bodies involved in this consultation process to assist us in developing the policies to which it relates. Examples of these public bodies appear at: <https://www.gov.uk/government/organisations>
- 6.18 As the personal information is stored on our IT infrastructure, it will be accessible to our IT contractor, NTT. NTT will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we will hold your data (Retention)

- 6.19 Personal information in responses to consultations will generally be published and therefore retained indefinitely as a historic record under the Public Records Act 1958.

6.20 Personal information in responses that is not published will be retained for three calendar years after the consultation has concluded.

Your rights

- You have the right to request information about how your personal data are processed and to request a copy of that personal data.
- You have the right to request that any inaccuracies in your personal data are rectified without delay.
- You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.
- You have the right, in certain circumstances (for example, where accuracy is contested), to request that the processing of your personal data is restricted.
- You have the right to object to the processing of your personal data where it is processed for direct marketing purposes.
- You have the right to data portability, which allows your data to be copied or transferred from one IT environment to another.

How to submit a Data Subject Access Request (DSAR)

6.21 To request access to personal data that HM Treasury holds about you, contact:

HM Treasury Data Protection Unit
G11 Orange
1 Horse Guards Road
London
SW1A 2HQ

dsar@hmtreasury.gov.uk

Complaints

6.22 If you have any concerns about the use of your personal data, please contact us via this mailbox:

privacy@hmtreasury.gov.uk.

6.23 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, the UK's independent regulator for data protection. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF

0303 123 1113

casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.