

air departure tax: who benefits?

analysis for scottish policymakers



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About Fellow Travellers

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Fellow Travellers is a not-for-profit, unincorporated association campaigning for fair and equitable solutions to the growing environmental damage caused by air travel. We aim to protect access to reasonable levels of flying for the less well-off, whilst maintaining aviation emissions within safe limits for the climate.

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introduction

This paper explores the clearest dimensions of the distributional impacts of the Scottish Government's planned 50% cut in air passenger taxes, asking the question: who benefits?

Our analysis of Civil Aviation Authority (CAA) Passenger Survey data from Scottish airports reveals that this £160m+ annual tax giveaway will predominantly go to line the pockets of wealthy frequent flyers and corporations, while the majority of Scots will lose out.

The Air Departure Tax (Scotland) Bill presently before Holyrood does not set out rates or bands for the new tax, so there is still time for the Government to take a more progressive approach to taxing air travel from Scotland's airports. We hope this report can help contribute to a change of direction.



executive summary

1. Cutting taxes paid by air passengers at Scotland's airports in half will cost the Scottish public purse hundreds of millions in foregone tax revenue in this parliament alone, whether the cut is introduced immediately in 2018/19 or phased in gradually over the next four years.
2. Well over half of the Scottish public do not take any flights in a given twelve month period, so will derive no direct benefit from the tax cut. The large majority of Scotland's lower income households are in this non-flying group.
3. Almost 30% of the total value of the planned tax giveaway - £47.3m in 2018/19 - will go to businesses, with 12% of the total (£15.5m) going to subsidise UK business passengers on domestic flights within the UK.
4. Well over three quarters (78%) of APD paid by all leisure passengers at Scottish airports is paid by UK residents. This equates to well over half (55%) of the total APD tax break pie - or £89.7m in 2018/19 - going to subsidise leisure flights by UK residents. Meanwhile only 16% of the pie (£26m) will go to overseas residents visiting Scotland for leisure.
5. Almost a fifth (£31m in 2018/19) of the total APD tax break pie will go to reward passengers on internal UK leisure flights. The majority (£18.4m) of this will go to subsidise leisure flights between Scotland and London.
6. Direct benefits to UK leisure passengers are heavily skewed towards the wealthiest sections of society. 8.3% of the total tax break pie - £13.5m in 2018/19 - will go to leisure passengers in the richest 10% of Scottish households, while only 2.4% (£4m) goes to the poorest 10%.
7. Passengers flying on first or business class tickets or on luxury jets make up a very small proportion of all passengers, but will benefit disproportionately from a blanket 50% cut in air passenger taxes. We estimate the average per journey saving for a passenger on a luxury jet is £54, while a first class passenger will save £20 and an economy class passenger just £8.
8. The biggest individual beneficiaries of the planned tax cut will be wealthy frequent flyers. While almost half of all passengers take just one or two flights each year, some 5% report flying at least four times per month. These 'hypermobile' individuals are predominantly in the richest 10% of Scottish households, and stand to gain over 40 times as much from the tax cut as regular travellers. Commuting by plane is overwhelmingly the preserve of the wealthiest travellers. We estimate that each air commuter will save on average £850 in 2018/19 after a 50% cut in air passenger tax rates.
9. Our analysis shows that taken together, the direct distributional impacts of the planned tax cut are overwhelmingly fiscally regressive. This is predominantly a tax giveaway for Scotland's wealthiest households and corporations.

background

Powers to levy tax on air travel were devolved to the Scottish Parliament in 2016, and the present Scottish Government is committed to reducing tax paid by air passengers by 50% as soon as possible, with a view to abolishing it altogether ‘when resources allow’¹.

This follows on from a Scottish National Party (SNP) 2015 manifesto pledge to this effect², which was itself based on claims for major economic benefits which could arise from a reduction in air passenger tax. These claims were set out in a range of reports produced on behalf of the UK aviation industry between 2012 and 2014³, and recapitulated in a further report commissioned by Edinburgh Airport in 2016⁴. The SNP commitment to reduce and then abolish flight taxes represents a triumph for the decades long campaign against Air Passenger Duty (APD) waged by the UK aviation lobby⁵, and is a key stage in their wider strategy for achieving tax-free air travel throughout the UK.

While the Scottish Government prefers to describe aviation tax as a ‘burden’⁶, this is a matter of perspective. International treaties mean airlines have paid no tax on jet fuel since 1947, and aviation is zero rated for VAT, alongside wheelchairs and baby clothes. In 2012, the (quantifiable) effective tax subsidy to the UK aviation sector via these exemptions was around £11.4 billion – or over £400 per household⁷. These calculations do not take into account direct state aid to regional airports, which the EU-focused NGO Transport & Environment estimate at €3bn annually⁸. Air Passenger Duty was introduced in 1994 in recognition of the fact that the sector is “very lightly taxed”⁹. Moreover, APD is in practice a fiscally progressive tax that is mostly paid by corporations, visiting tourists and the wealthier members of society. In the financial year just ended APD

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- 1 Policy Memorandum, para.10. (2017)
 - 2 SNP Manifesto (2015) <http://votesnp.com/docs/manifesto.pdf>
 - 3 York Aviation. (2012). The Impact of APD on Scotland / Price Waterhouse Coopers. (2013). The economic impact of APD / Oxford Economics. (2014). Aviation Benefits Beyond Borders
 - 4 Biggar Economics. (2016). Economic Impact of Edinburgh Airport
 - 5 e.g. www.afairtaxonflying.org/affects-you/families/
 - 6 E.g. <http://www.gov.scot/Publications/2015/12/9056/3>
 - 7 [Flying in the Face of Fairness: intergenerational inequities in the taxation of air travel, Intergenerational Foundation report, November 2012](#)
 - 8 Briefing: 50/50 snapback for aviation ETS, Transport & Environment, Nov 2013
 - 9 House of Commons Environmental Audit Committee, Third Report, Feb 2008

contributed over £300m to Scottish public finances, but would have to rise to four times its current level to offset the value of the industry's exemptions from fuel duty and VAT¹⁰. Even at present rates APD is not high enough to cover the environmental costs (or 'externalities') imposed on society by air travel, which is itself the most carbon intensive consumer behaviour by some margin¹¹. Cutting the tax in half is expected to increase emissions from Scottish aviation by around 4%¹², undermining Scotland's climate commitments and its status as a world leader in driving down emissions.

Senior economists at the World Bank have highlighted that the 'largely untaxed' status of aviation "not only gives these industries an undue edge over other transport modes, but worsens climate problems", and said "the gains simply from easing the anomalous tax treatment of these sectors can be significant."¹³ Complaints from airlines and airport operators that APD is the highest tax of its kind in Europe¹⁴ need to be viewed in this context.

10 See e.g. Policy Studies Institute (2010) A new basis for aviation taxation

11 Emissions per hour of flight depend on many factors; using an average of 150kg/CO₂e per hour of economy air travel is a mid-range figure which does not apply an RFI multiplier. No other common consumer behaviour generates carbon emissions at anywhere near this rate per hour; for comparison, the UK Freight Transport Association calculates that driving a 17 ton diesel truck results in around 40kg of CO₂e per hour (assuming an average journey speed of 40mph). http://www.fta.co.uk/export/sites/fta/_galleries/downloads/cost_information_service/managers_guide_sample.pdf http://www.carbonindependent.org/sources_aviation.html

12 Committee on Climate Change (2016) Reducing emissions in Scotland: 2016 progress report, p.73.

13 <http://blogs.worldbank.org/developmenttalk/fear-flying-or-sailing-pricing-international-aviation-andmaritime-emissions>

14 See e.g. <http://airlinesuk.org/flying-high-how-competitive-is-air-passenger-duty-2/>

scope

There are three key dimensions to the distributional impacts of changes in fiscal regimes:

Direct impacts of the change on those who pay the tax in question

Indirect impacts of the change in revenue to the exchequer from the tax

Wider economic impacts on the markets and sectors affected by the tax, either directly or indirectly

Distributional impacts arising from a reduction in public finances following a cut in a particular tax are dependent on how this cut is paid for. The Scottish Government have yet to clarify which services will be cut or which other taxes will be raised to plug the hole in the Scottish budget which will result from their proposed loss of APD revenue. These are important questions that lie outside the scope of this paper.

Likewise, whilst there is little doubt that the aviation sector itself will profit from any increase in air traffic arising from a cut in APD, the wider economic impacts that have been claimed for this cut by airport operators and airlines are speculative and contested. So far, the evidence for the alleged benefits comes exclusively from the special interests who will benefit most directly. The economic rationale presented for the cuts has been extensively critiqued elsewhere¹⁵ (including by us¹⁶), and the UK aviation lobby has a particularly poor record of making exaggerated claims for jobs and growth which never materialise following expansion¹⁷.

Whatever the merits or otherwise of the case presented by the

15 See e.g. Common Weal (2016) APD Cut: A flighty economic case <https://www.commonspace.scot/articles/8401/new-report-apd-cut-flighty-economic-case>

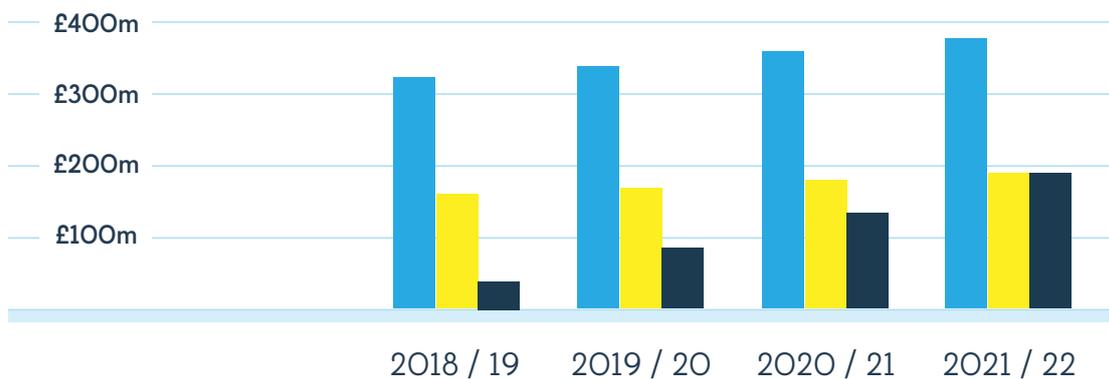
16 New Economics Foundation and Fellow Travellers, (2015) Transport Justice for Scotland, Stephen Devlin & Sandra Bernick, <https://s3-eu-west-1.amazonaws.com/media.afreeride.org/documents/FFL+Scotland+Paper.pdf>

17 Aviation Environment Federation (2009) Airport jobs: false hopes, cruel hoax, Brendon Sewill http://www.aef.org.uk/uploads/Airport_jobs___false_hopes_cruel_hoax.pdf and <http://stopheathrowexpansion.co.uk/press-releases-1/2016/10/2/campaign-group-unearts-figures-which-cast-doubt-on-heathrows-3rd-runway-jobs-claims>

aviation lobby for an APD cut, the claimed wider economic benefits can at best be characterised as uncertain, while the distributional impact on public spending and other areas of taxation is as yet unknown.

By contrast we can have a relatively high degree of confidence in the direct cost to the Scottish public finances of a 50% cut in the tax. Because devolution of aviation tax powers comes with a concomitant reduction in the Scottish Government block grant from HMRC, the Office of Budgetary Responsibility is obliged to provide a detailed assessment of the value of this concession to the Scottish budget for each year up to 2021/21. This counterfactual allows us to assign a relatively precise value to the Scottish Government’s proposed tax giveaway, set out in Table 1 below.

policy cost of 50% APD cut to scottish public finances



● OBR APD forecast	£326m	£342m	£360m	£378m
● Scenario 1: immediate	£163m	£171m	£180m	£189m
● Scenario 2: phased	£40.75m	£86m	£135m	£189m

Table 1

OBR forecast for Scottish APD revenues (£ million), showing Scenario 1: value of immediate 50% reduction 2018-19 to 2021-22, and Scenario 2: value of 50% reduction phased in gradually between 2018-19 to 2021-22.

Source: Office for Budget Responsibility (2016), Devolved Taxes Forecast, November 2016. Available at <http://cdn.budgetresponsibility.org.uk/DevolvedAS2016.pdf>

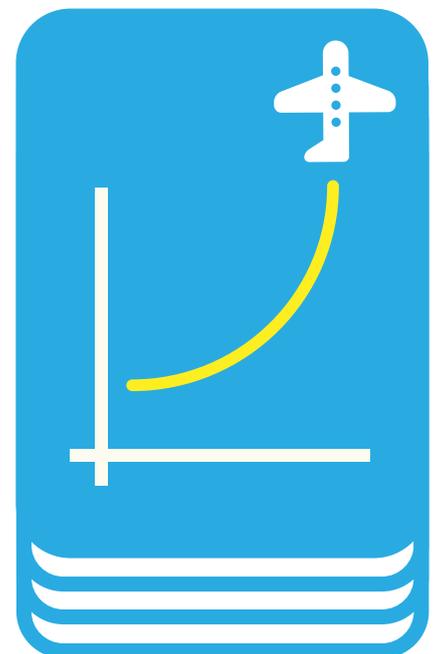
However, the Scottish Government have yet to confirm a planned timetable for introduction of the 50% cut. The aviation industry is demanding an immediate cut, and the standing commitment is to cut the new tax by 50% 'as soon as possible', which technically implies 2018/19. Meanwhile, notwithstanding ongoing vagaries, the commitment must be met in full by the end of the Parliament, or 2021/22. For simplicity our headline figures here focus on an immediate 50% cut to the tax in 2018/19. The chart above shows two scenarios which quantify the costs of meeting the policy commitment in full in the years 2018/19 and 2021/22 respectively. The second scenario assumes a four year phase-in schedule beginning in 2018/19 with a 12.5% cut.

This paper addresses only the direct benefits of the cut in aviation tax to those who currently pay it. Civil Aviation Authority Passenger Survey data from Scottish airports permits a detailed breakdown of precisely where all this money - £163m if introduced in 2018/19, rising to £189m by 21/22 - will go when it is no longer contributing to public finances.

methodology

We obtained detailed CAA passenger survey data from Aberdeen, Edinburgh and Glasgow airports from the last year in which the Scottish airports were surveyed, 2013. Taken together flights from these airports accounted for 97% of all chargeable passengers at Scotland's airports in 2015¹⁸, so this data is an appropriate proxy for the sources all Scottish APD receipts.

We assigned 2018 APD values (see Table 2 below) to each flight recorded in the 2013 passenger survey based on ticket class and destination.



18 <https://www.transport.gov.scot/publication/scottish-transport-statistics-no-35-2016-edition/SCTO1171871341-11#tb1>

APD rates from 1 April 2018

Destination Bands and distance from London (miles)	Reduced rate (for travel in the lowest class of travel available on the aircraft)	Standard rate (for travel in any other class of travel)	Higher rate (for travel in aircraft of 20 tonnes or more equipped to carry fewer than 19 passengers)
Band A (0 to 2,000 miles)	£13	£26	£78
Band B (over 2,000 miles)	£78	£156	£468

Table 2

Source: <https://www.gov.uk/government/publications/rates-and-allowances-excise-duty-air-passenger-duty/rates-and-allowances-excise-duty-air-passenger-duty>

After assigning an APD value to each passenger journey recorded in the CAA survey data, we totalled these receipts and calculated the proportion of this total hypothetical tax take contributed by each passenger journey. We then applied this 2013 pattern of air passenger tax distribution to the total projected Scottish APD receipts in the year 2018/19, to show how a 50% cut would be distributed amongst passengers in that year.

limitations

The higher rate of APD is only paid by passengers on certain types of aircraft, which is not recorded in the CAA passenger surveys, and HMRC do not publish figures for either Scottish or UK tax receipts from higher rate paying passengers¹⁹. However, the much greater value of the tax paid by each passenger on these flights mean they will derive much greater financial benefit from a 50% cut than

¹⁹ <https://www.uktradeinfo.com/Statistics/Tax%20and%20Duty%20Bulletins/apd0916.xls>

most other passengers. We spoke to HMRC statisticians about this and they have agreed to explore options for improving transparency on this measure in future. For the purposes of this report we have therefore had to exclude higher rate paying passengers from the primary analysis.

Separately from this main analysis, we have also made some predictions about the likely proportion of passengers flying on higher rate tickets and the associated tax revenues from these passengers. The UK wide figures imply that only 0.03% of all passenger journeys incur the higher rate of APD, so we have transposed this proportion onto Scottish flights by up-rating a proportionate subsection (0.6%) of standard rate payers for both Band A and Band B journeys to higher rate payers. To choose which passengers to uprate, we used values for the relative propensity to fly first or business class for each Band of journey within each income group to calculate their implied propensity to fly on a higher rate ticket.

The CAA survey covers only terminal passengers at Scottish airports, and therefore does not capture the other side to this distributional equation: those who take no flights at all in any given year. To understand which demographics of Scotland's population will derive no direct benefit at all from the proposed tax cut, we rely on 2015 Scottish Household Survey data²⁰, which records the number of flights respondents report having taken for both leisure and business purposes during the past 12 months. Answers to Freedom of Information requests submitted to Transport Scotland have allowed us to break down propensity to fly by income to understand how disbenefits of the policy are distributed across the income spectrum.

The CAA survey data on household income of UK leisure passengers features a high proportion of respondents who refused to answer this question; indeed, those who answered 'refuse' are the largest single group in the sample, accounting for 19.7% of UK leisure passenger respondents. It is important to note that the largest average APD spend per person per trip (by a large margin - 7.3% more than the next highest category) is for those actively refusing to disclose their income, and this group

were more likely to fly first or business class than the average passenger, so we can infer that these passengers are likely to have incomes at the higher end of the spectrum. This affects the apparent spread of APD payments across income groups, skewing the distribution towards lower income passengers. We cannot correct for this distortion in a robust way, so the headline figures are virtually certain to underestimate the benefits of the tax break which will accrue to higher income passengers.



who benefits?

Losers

Before we examine which groups of passengers will derive the most benefit from the planned cut, we need to separate out those who will derive no direct benefit whatsoever: non-passengers.

No-fly

Scottish Household Survey data reveals that over half of Scots do not take any flights for any purpose in any given year, and will therefore be 'losers' under the planned policy change. This pattern has remained constant since 2009, with the proportion of Scottish residents who report that they have taken no leisure flights in the past twelve months ranging between 52.9% and 56.5% (business flights are only ever taken by around 8% of Scots).

Table 37a: Flights in the last 12 months for leisure, holidays, visiting friends or family 1

	2009	2010	2011	2012	2013	2014
Yes	46.8	44.3	43.4	45.9	46.7	46.16
No	52.9	55.5	56.5	54.1	53.3	53.78

Table 3

Scottish residents - leisure flights in past 12 months, 2009-2014

Source 2015 Scottish Household Survey, available at <https://transportscotland.gov.uk/media/20127/j450918-02.xls>

Breaking down the SHS data by income shows large disparities in the propensity to fly between different income groups.

	poorest	D2	D3	D4	D5	D6	D7	D8	D9	richest
Annual net income up to:	£8,292	£11,040	£13,460	£16,250	£19,444	£23,400	£28,500	£35,321	£45,210	£765,400
Yes	29.9	26.8	29.3	32.4	36.2	39.5	48.3	51.7	60.5	70.2
No	69.9	73.2	70.7	67.5	63.7	60.4	51.7	48.2	39.3	29.7

Table 4

Percentage of people who have taken a flight for leisure purposes by income decile.

Source Scottish Household Survey data 2010-14, bespoke tabulation by Transport Scotland in response to FOI request from Fellow Travellers

As Table 4 shows, 70% of those in the wealthiest income decile - earning between £45,210 and £765,400 - stand to benefit directly from a cut in air passenger taxes, while 70% of those in the poorest income decile - earning less than £8,292 - will derive no direct benefit. Just from this data alone it is clear that poorer households will in general be losers under the planned policy, while the richest households will tend to be winners. Only the top three income deciles are more likely to fly than not in any given year.

No-pay

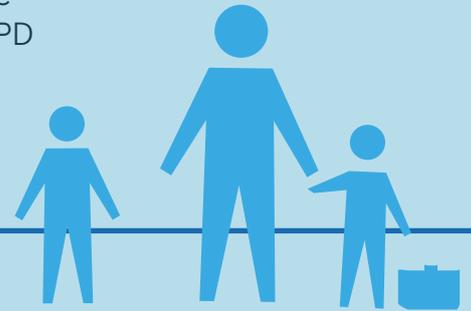
As well as those who do not fly, there are also certain passenger groups who will derive little or no benefit from the planned policy: those who do not pay APD currently.

Highlands & Islands

Outbound passengers from the many smaller airports in the Highlands and Islands (including relatively busy aerodromes such as Inverness), who do not pay APD, only account for



around 6% of all passengers at Scotland's airports²¹. But it is important to note the implied geographical distribution of the benefits of the planned 50% cut, which will accrue predominantly to those living in Scotland's central belt, while residents of the Highlands and Islands will benefit only from a reduction in APD on the return leg of their journeys.



Children

First Minister Nicola Sturgeon has repeatedly emphasised that their plans will “be a tax cut for... families who go on holiday”²². This is a curious focus, since as of April 2016 children under the age of 16 flying on economy tickets no longer pay APD²³, and will therefore be ‘losers’ under the policy. By extension, ‘family holidays’ - assuming adults travelling with one or more dependent children for leisure - will benefit from the new tax regime only half as much as passengers on other types of journey.

Whilst parents taking their children on holiday may well welcome the cut, ONS Tourism data shows that only 6% of all international flights by UK residents are taken by children²⁴. This suggests that a similar proportion of international flights are likely to be taken by adults from Scotland paying APD as part of the costs of a family holiday²⁵. Families travelling abroad on holiday therefore represent a very small fraction of the beneficiaries of a cut to aviation taxes, and focusing on the benefits to this group is highly misleading.

21 Scottish Transport Statistics No.35 2016 edition, Chapter 8 Air Transport in Scotland <https://www.transport.gov.scot/publication/scottish-transport-statistics-no-35-2016-edition/SCTO1171871341-11#tb1>

22 See e.g. <http://www.bbc.co.uk/news/uk-scotland-scotland-politics-38961851>

23 <https://www.gov.uk/government/publications/excise-notice-550-air-passenger-duty/excise-notice-550-air-passenger-duty#exemptions-from-apd>

24 Office of National Statistics (2016) UK residents visits abroad 2015 <https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/ukresidentsvisitsabroad>

25 Based on 2016 national statistics around household makeup and family size, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2016#average-household-size-remains-stable-over-the-decade-to-2016>

winners

Taking the total APD tax revenue that the Scottish exchequer could expect to receive in 2018/19 and dividing it up by passenger type, we can accurately predict the share and total cash value of the tax giveaway 'pie' which will go to these different groups.



People vs Corporations

First we see that businesses will walk away with 29.02% of the pie, or £47,309,379 in 2018/19. Individual business passengers do not pay for their own tickets, so this share of the pie can be straightforwardly viewed as a tax break for businesses.

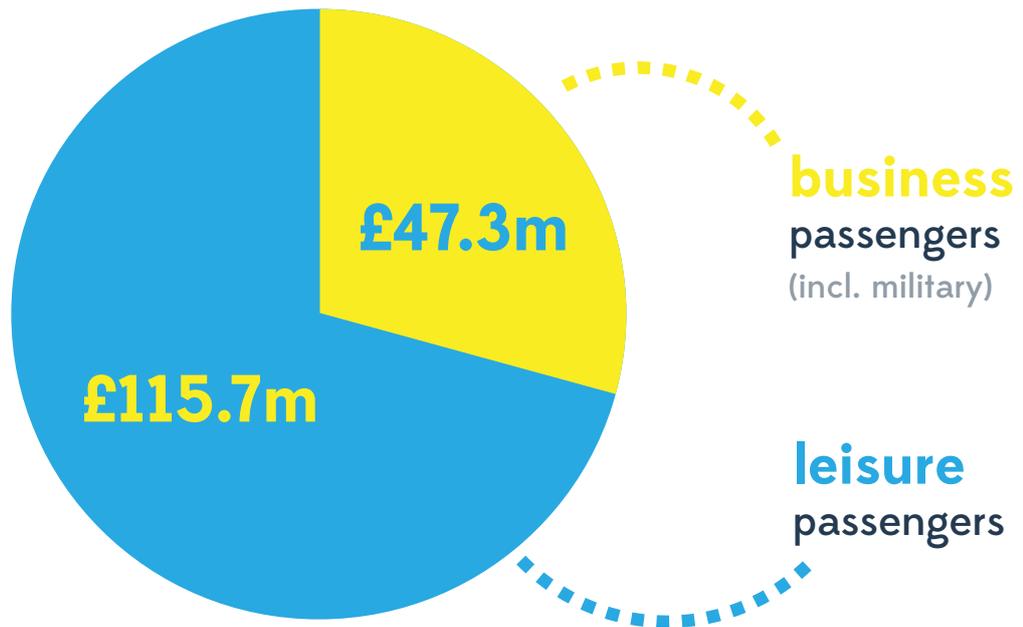


Chart 1

All flights

UK vs Overseas Businesses

Around three quarters of the business share (73.61%) goes to UK residents flying on business, with the remainder rewarding international business visitors to Scotland.

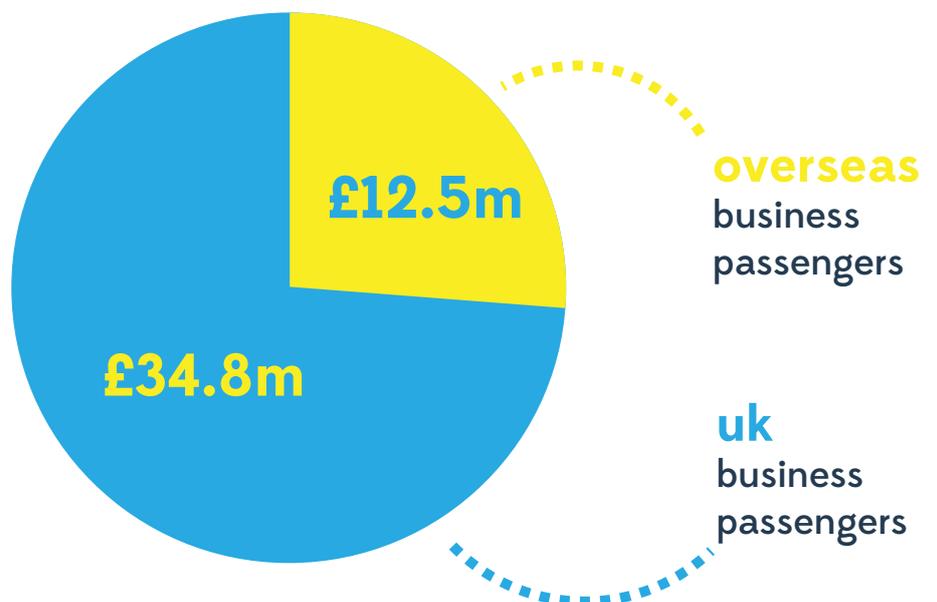


Chart 2

Business flights

International vs domestic UK business travel



Chart 3

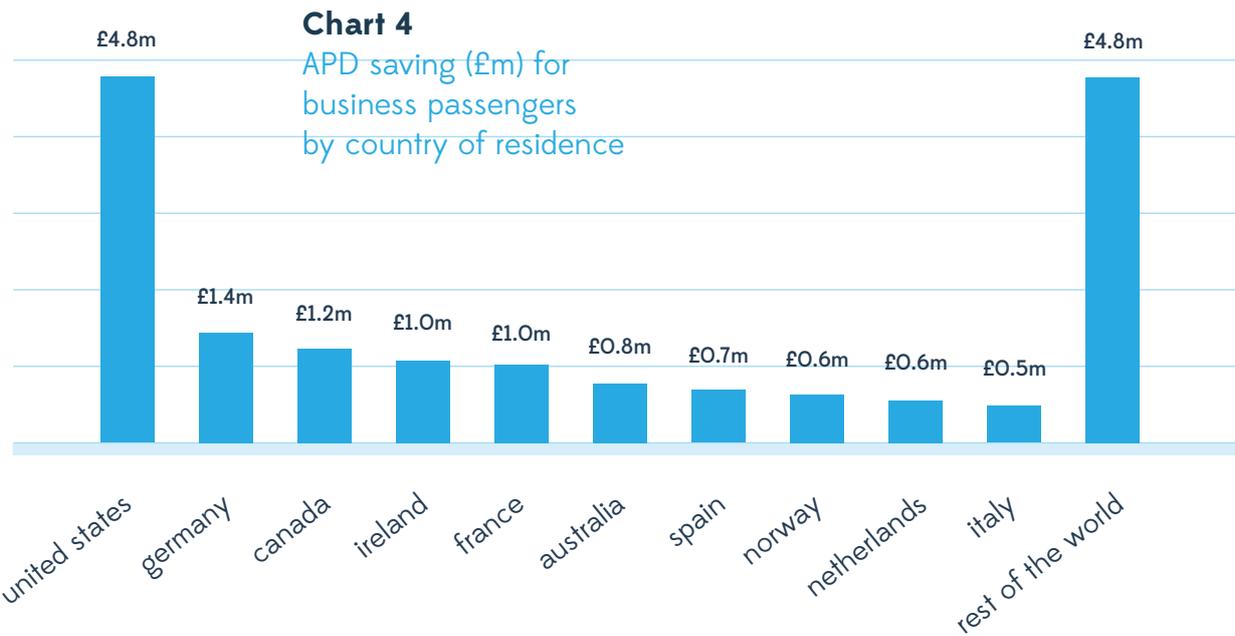
Business flights

Because such a high proportion of UK business travel from Scottish airports is comprised of domestic flights (i.e. to airports within the UK), around 12% (11.8%) of the total APD tax break pie - £15,529,420 in 2018/19 - will go to businesses responsible for these journeys.

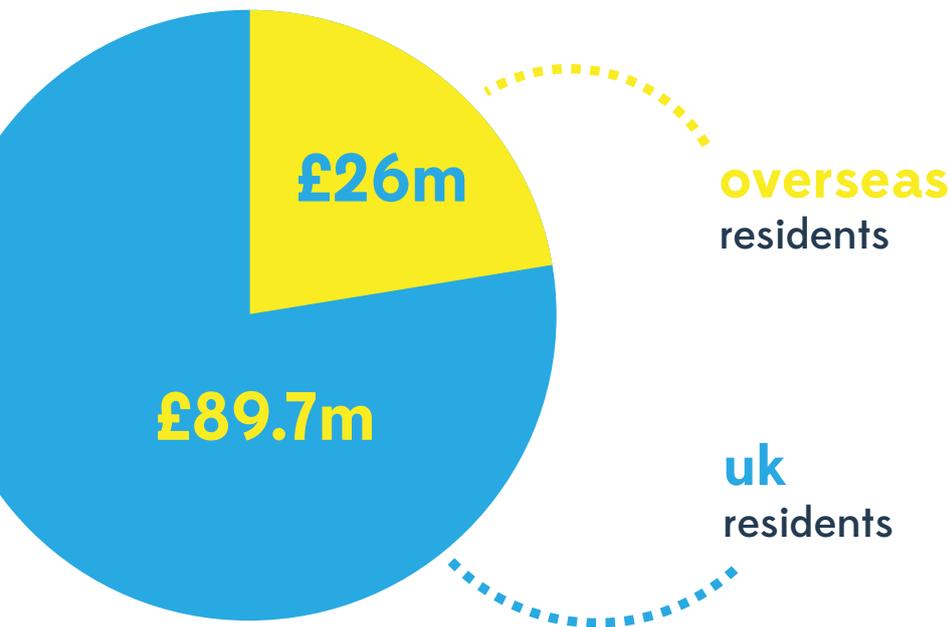
Such a generous tax subsidy for business flights within the UK will harm rail travel by incentivising a modal shift towards air travel. Yet these journeys are amongst the easiest to substitute for lower carbon modes of transport, an essential component of any effective strategy to reduce overall emissions from transport. Rewarding British businesses for choosing to fly between UK cities is not likely to yield wider economic benefits, but will make reducing overall transport emissions more difficult.

Overseas businesses

Of international business visitors to Scotland, the biggest winners by a large margin are US businesses, who will take a £4,770,780 slice, around 2.9% of the total pie. Canadian, Australian and European businesses make up the rest of the top



ten beneficiaries, with all businesses from the rest of the world receiving the same sized slice between them as US businesses alone. [US: £4.77m vs Rest of World: £4.78m]



Leisure flights:

UK residents vs visitors to Scotland from overseas²⁶

Well over three quarters (78%) of APD paid by all leisure passengers at Scottish airports is paid by UK residents. This equates to well over half (55%) of the total APD tax break pie - or £89,668,902 in 2018/19 - going to subsidise leisure flights²⁷ by UK residents. Meanwhile only 16% of the pie (£26,021,719) will go to overseas residents visiting Scotland for leisure.

Chart 5
All leisure flights

26 In 2016, 99% of all UK resident terminating passengers at the three airports covered in the CAA passenger survey dataset we are using originated in Scotland, with only 1% coming from England and Wales. For simplicity's sake we are referring to all UK-resident leisure passengers at these airports as 'Scottish'. Table 8.16, <https://www.transport.gov.scot/publication/scottish-transport-statistics-no-35-2016-edition/SCTO1171871341-11#tb8>

27 Leisure travel includes a number of categories other than 'holiday' flights, such as 'visiting friends and relatives'.

As one of the key economic arguments put forward by the aviation industry in support of the planned tax cut relates to an alleged boost for the Scottish tourism sector, it is important to note two relevant factors here. First, Scots already spend more on overseas leisure trips than overseas residents spend on leisure visits to Scotland; this 'net tourism deficit' stood at £300m in Quarter 3 of 2015²⁸. Second, the level of domestic tourism spend (£3.3bn in 2015) is around twice that of overseas tourism expenditure (£1.7bn in 2015)²⁹ in Scotland.

Reducing the cost of air travel through the SNP's planned tax giveaway will lower the cost of taking holidays outside of Scotland relative to holidays within Scotland, cannibalising holidaymakers from Scotland's domestic tourism industry. In parallel, we can expect it to incentivise leisure flights to and from Scotland roughly equally, increasing the total volume of leisure traffic at Scottish airports and thereby increasing the size of Scotland's net tourism deficit by a proportionate amount.



Leisure travel by UK residents:

Long haul vs short haul vs domestic flights

Chart 6

Long haul vs short haul vs domestic leisure flights by UK residents



28 <http://scottishtrends.co.uk/wp-content/uploads/2016/02/Scottish-Economy-update-February-2016.pdf>

29 <http://www.gov.scot/Topics/Statistics/Browse/Tourism>

Scots take a lot of domestic flights for leisure, meaning almost a fifth (19% - or £31m in 2018/19) of the total APD tax break pie is going to reward passengers on internal UK leisure flights.

The Scottish Government's own projections for increases in flight numbers following a 50% cut in APD show that domestic flights will account for 60% of the additional journeys they expect - and that the majority of these will be for leisure purposes³⁰.

Destination of domestic leisure flights by UK residents: London vs rest of UK

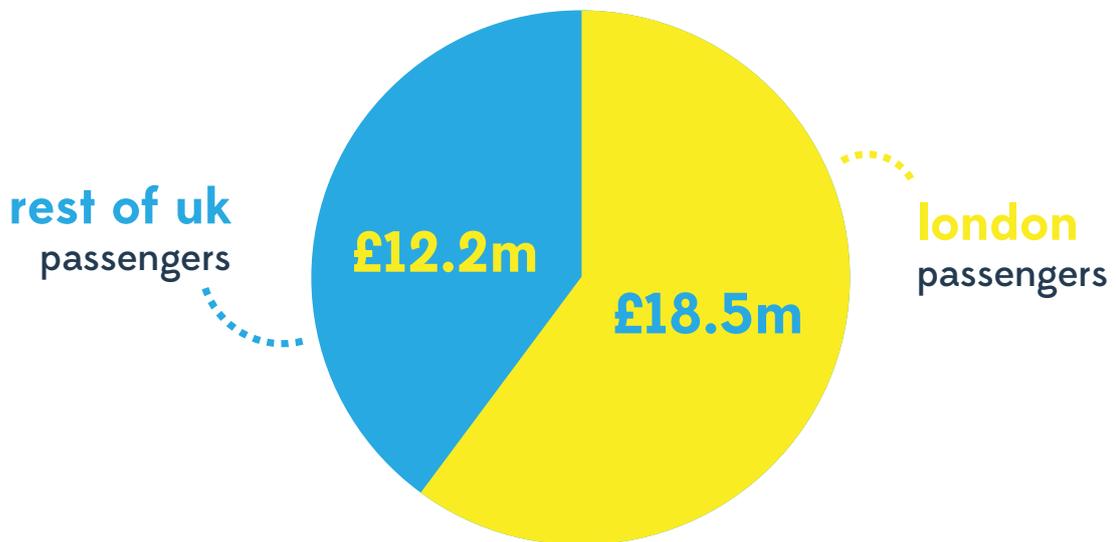


Chart 7

UK residents domestic flights within the UK: London airports vs RUK

60% of the APD from domestic leisure flights from Scottish airports is paid by passengers on flights to London airports. This equates to £18,461,832 of the total APD tax break pie in 2018/19 going to subsidise leisure flights between Scotland and London.

30 This is a result of both starting from a high base, and a high calculated price elasticity of demand for domestic leisure travel. <https://www.transport.gov.scot/publication/estimate-of-the-impact-on-emissions-of-a-reduction-in-air-passenger-duty-in-scotland/j340458-01>

Overseas leisure visitors to Scotland, by country

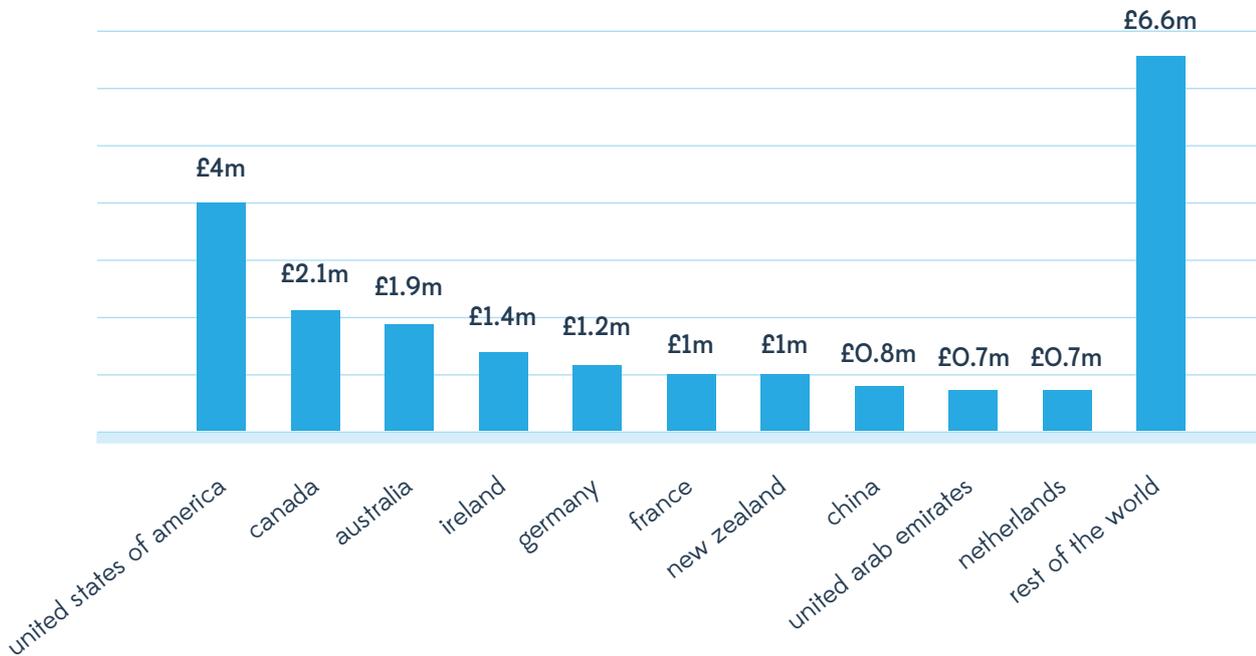


Chart 8

Overseas leisure visitors to Scotland by country of residence, top 10 & ROW

When it comes to overseas leisure passengers to Scotland, once again by far the biggest slice of the pie - almost £4m, or 2.5% of the total tax giveaway - goes to visitors from the US. The top 10 here is dominated by anglophone countries, followed by Europe, with £1.5m going to visitors from China and United Arab Emirates in 2018/19.

All leisure flights by UK residents - by income band

The most important social justice dimension of the planned APD cut is the distributional impact on Scottish leisure passengers across the income spectrum. Whilst the average Scottish household income in 2013 was £24,244³¹, the average household income of leisure passengers at Edinburgh airport that year was £56,288. Average leisure passenger income at

31 <http://www.gov.scot/Publications/2017/03/2213/downloads#res515392>

Aberdeen airport was £52,648³², and at Glasgow £43,837³³. Scottish air travellers tend, on average, to be over twice as wealthy as the Scottish population at large.

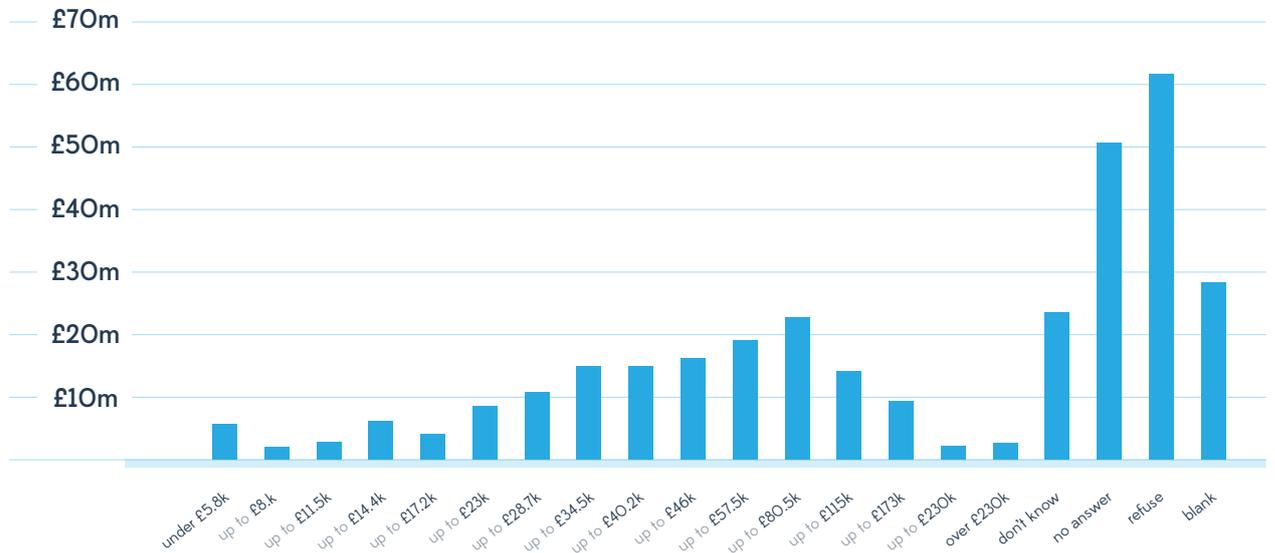
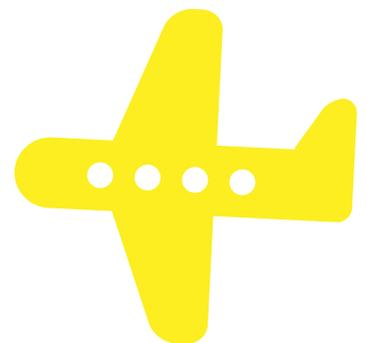


Chart 9
APD spend by reported income bracket

Unfortunately our calculations here are complicated by the very high proportion of UK leisure passengers in the CAA survey who do not give an answer to the household income question. Many (19.7%) actively refuse to answer this question, while 14.7% give 'no answer', 9.2% leave this field blank and 8.9% answer 'don't know'.

This means that under half of the passengers surveyed actually indicated their household income. Looking at those who answered 'refuse', we can see that as a group these passengers pay significantly more APD per person than any other group, and are more likely to be flying on a first or business class ticket. We can therefore infer, but not confirm, that passengers in this group are liable to be in the upper end of the income distribution. Consequently, the implied distribution of benefits of the APD tax break to different income groups shown here is liable to greatly under-represent the share of the pie going to the wealthiest passengers.



32 https://www.caa.co.uk/uploadedFiles/CAA/Content/Standard_Content/Data_and_analysis/Datasets/Passenger_survey/CAA%20Passenger%20survey%20report%202013.pdf

33 Ibid



Chart 10

APD saving in millions of £ per income decile

Plotting only the passengers who answered the income question onto Scottish household income deciles, we can see clearly that 40% of the tax giveaway for UK leisure passengers would go to the richest 10% of Scottish households. These figures indicate that 8.3% of the total tax break pie - £13.5m in 2018/19 - will go to line the pockets of leisure passengers in the richest 10% of Scottish households, while only 2.4% goes to the poorest 10%. As explained above, these calculations are almost certain to substantially underestimate the disparity of benefits of the tax giveaway.

Work on the composition of UK household carbon footprints has shown that emissions reduction policies which target transport emissions, and air travel in particular, will tend to be much more fiscally progressive than policies targeting other areas of

emissions such as those from home energy use³⁴. The Scottish Government's proposed cut to APD will have the opposite effect, offering financial incentives to the wealthiest, highest emitting households for increasing their emissions even further.

Given that lower income households are also most likely to be negatively impacted by a reduction in public finances, the social justice implications of the planned cut to APD appear dire, even before factoring in the impact on Scotland's national climate change goals. Climate change will disproportionately affect the world's poorest people, and exacerbating the problem by rewarding wealthy Scots for environmentally damaging leisure behaviour is impossible to reconcile with Scotland's commitment to climate justice.

First, Business Class and luxury jet passengers

population

spend (£)

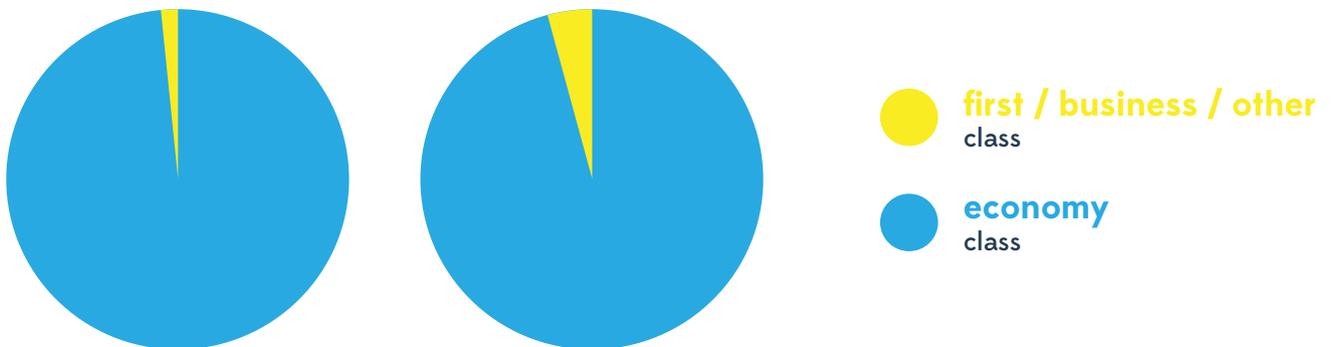


Chart 11

All passenger flights - reduced vs standard rate paying passengers

Chart 12

All APD revenue - reduced vs standard rate paying passengers

34 Buchs, M & Schnepf, S (2013), University of Southampton. UK Households' Carbon Footprint: A Comparison of the Association between Household Characteristics and Emissions from Home Energy, Transport and Other Goods and Services. <http://ftp.iza.org/dp7204.pdf>

Another way of dividing up the pie is to look at the share that will go to passengers flying on different classes of ticket. The vast majority of passengers from Scottish airports fly economy class, but the minority who choose to fly First or Business class - or on luxury jets - will benefit disproportionately from a blanket 50% cut in air passenger tax rates³⁵.



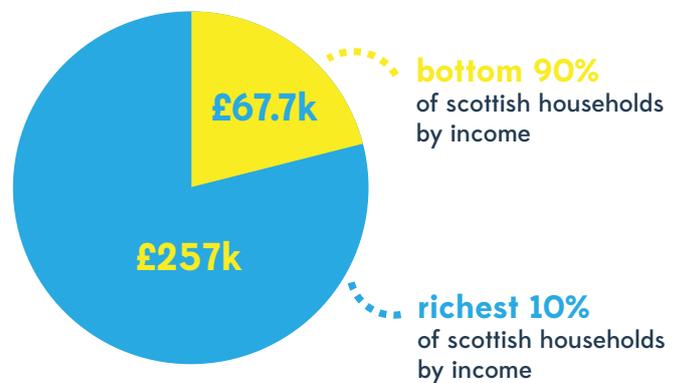
Chart 13

Average £ savings per person per flight, reduced vs standard vs higher

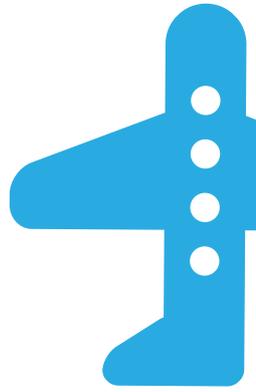
For luxury jet passengers, we also looked at how these gains break down by income. If all these passengers were Scottish residents, four fifths of the roughly £325,000 tax handout to luxury jet passengers would go to the wealthiest 10% of households.

Chart 14

£ share of 50% APD cut to higher rate passengers, richest 10% vs bottom 90% by income



35 See note in the limitations section for details on how we synthesised the higher rate passengers.



Frequent Flyers

Another important measure by which to assess the distributional benefits of a cut in APD is each passenger's propensity to fly. Individual Scots who take multiple leisure flights each year evidently stand to gain more personally from a cut in flight tax than those who fly only once or twice in any given 12 month period.

Returning to the Scottish Household Survey data for a high level view, we can see that there is a very close correlation between income and leisure flight frequency.

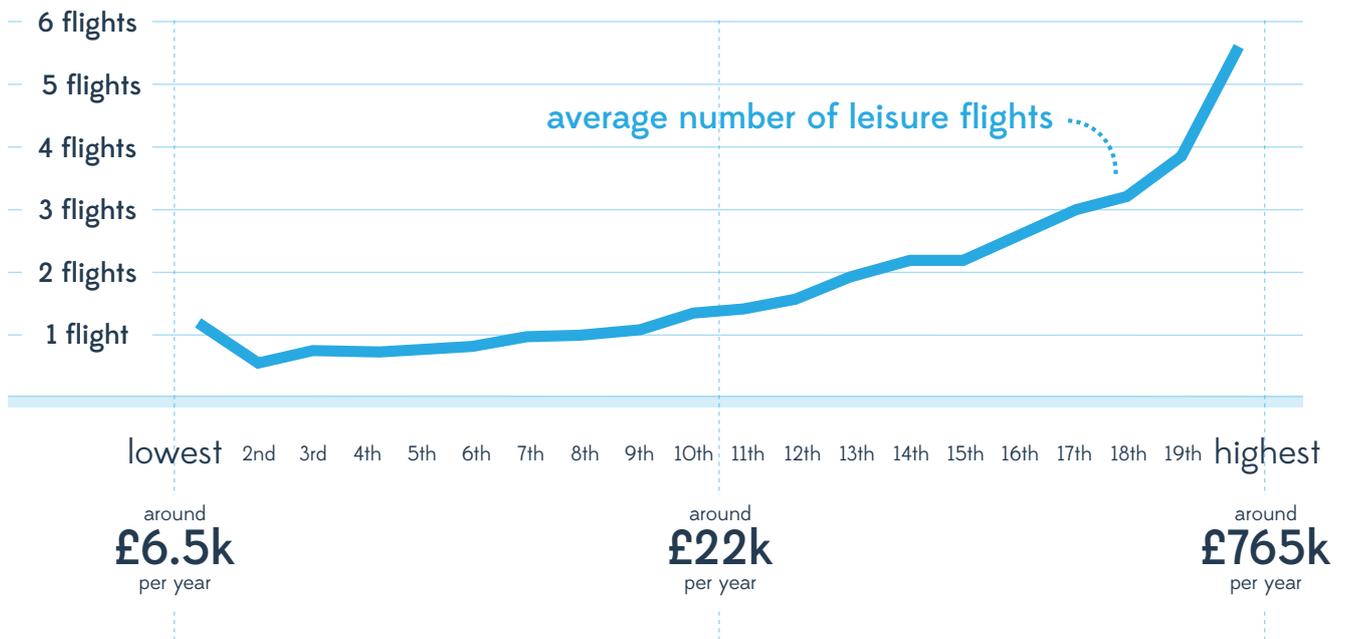


Chart 15 + Table 5 opp.

Average number of leisure flights in the past 12 months by income quintile. Source: Scottish Household Survey data 2010-14, bespoke tabulation by Transport Scotland in response to FOI request from Fellow Travellers.

However, averages mask very wide differences in the propensity to fly within each income group. To identify the biggest beneficiaries of the SNP's planned flight tax bonanza, we need to disaggregate the frequent flyers from the rest of the Scottish leisure passengers.



Annual net income up to	Vigintile	Avg. number of leisure flights
£6,552	Lowest	1.15*
£8,292	2nd	0.64
£9,766	3rd	0.72
£11,040	4th	0.72
£12,210	5th	0.77
£13,460	6th	0.81
£14,798	7th	0.94
£16,250	8th	0.96
£17,872	9th	1.06
£19,444	10th	1.31
£21,316	11th	1.38
£23,400	12th	1.56
£25,635	13th	1.93
£28,500	14th	2.14
£31,479	15th	2.15
£35,321	16th	2.54
£39,600	17th	2.98
£45,210	18th	3.18
£55,200	19th	3.83
£765,400	Highest	5.54

Table 5

* The lowest income vigintile in the survey reported taking an anomalously high number of flights. Transport Scotland advised that the average of 1.15 was a result of five individuals giving an answer of 20 or more flights, and should be treated with caution. However, a similar pattern also appears in the CAA survey data so it may not be a sample artefact. We speculate that these are individuals with wealth but no reportable income, such as students and gap year dependents.

Previous work by Fellow Travellers has shown that around 70% of all flights by UK residents are taken by just 15% of the population.³⁶ National Travel Survey data shows that in 2015, only 12% of UK residents reported that they took three or more leisure flights in the last year³⁷ although the proportion appears to be somewhat higher in Scotland.³⁸ We therefore categorise all those taking three or more return flights each year as ‘frequent flyers’.

The CAA passenger survey data offers a higher resolution than the National Travel Survey so it is possible to identify the small numbers of passengers who report levels of personal flying that are an order of magnitude higher than is typical. We categorise these travellers as ‘hypermobile’³⁹.

36 Managing aviation passenger demand with a Frequent Flyer Levy, (2014) New Economics Foundation <https://s3-eu-west-1.amazonaws.com/media.afreeride.org/documents/FFL+Modelling+paper.pdf>

37 <https://www.gov.uk/government/statistical-data-sets/ntsO3-modal-comparisons>

38 <https://transportscotland.gov.uk/media/20127/j450918-O2.xls>

39 The Darker Side of Hypermobility, Gossling, S (2015) <http://journals.sagepub.com/doi/pdf/10.1177/0308518X15597124>

Infrequent flyers

1-2 flights - 44.77% of all passengers

£15.13 average financial benefit per passenger, 2018/19

Frequent flyers

3+ flights - 31.25% of all passengers

£61.89 average financial benefit per passenger, 2018/19

Very frequent flyers

12+ flights - 19.07% of all passengers

£167.27 average financial benefit per passenger, 2018/19

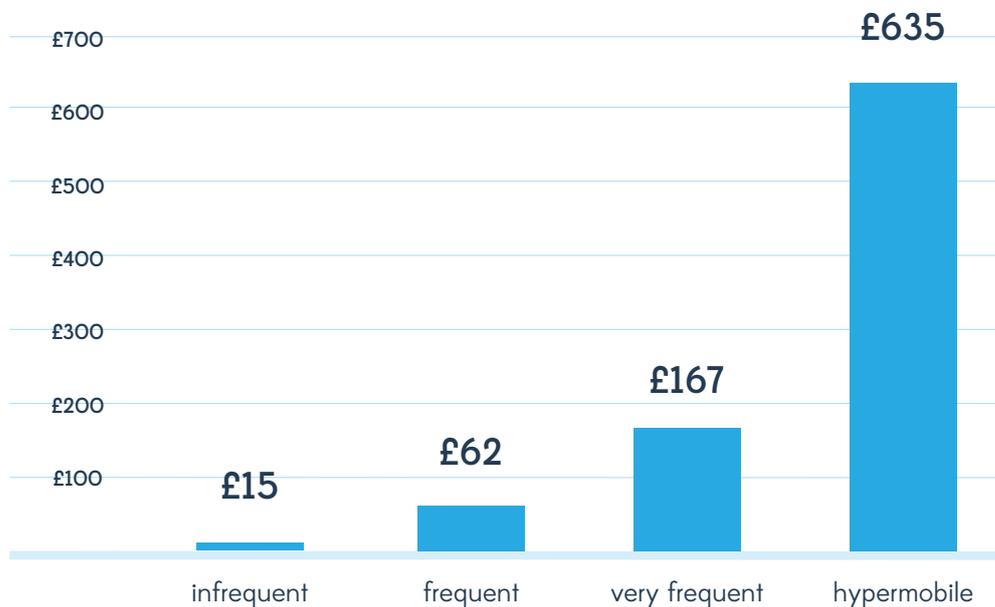
Hypermobile passengers

48+ flights - 4.84% of all passengers

£635.33 average financial benefit per passenger, 2018/19

Because most flights are taken by the minority of passengers who are frequent flyers, the financial benefits of the planned cut in APD will in practice be heavily concentrated with a small number of individuals.

Chart 16 of above



Whilst hypermobile travellers only make up 4.84% of all passengers at Scotland's airports, each individual in this group will derive financial benefits of £635.33 a year on average after a 50% APD cut in 208/19. Hypermobile passengers stand to gain over 40x more than infrequent fliers, who make up 45% of passengers in the sample.

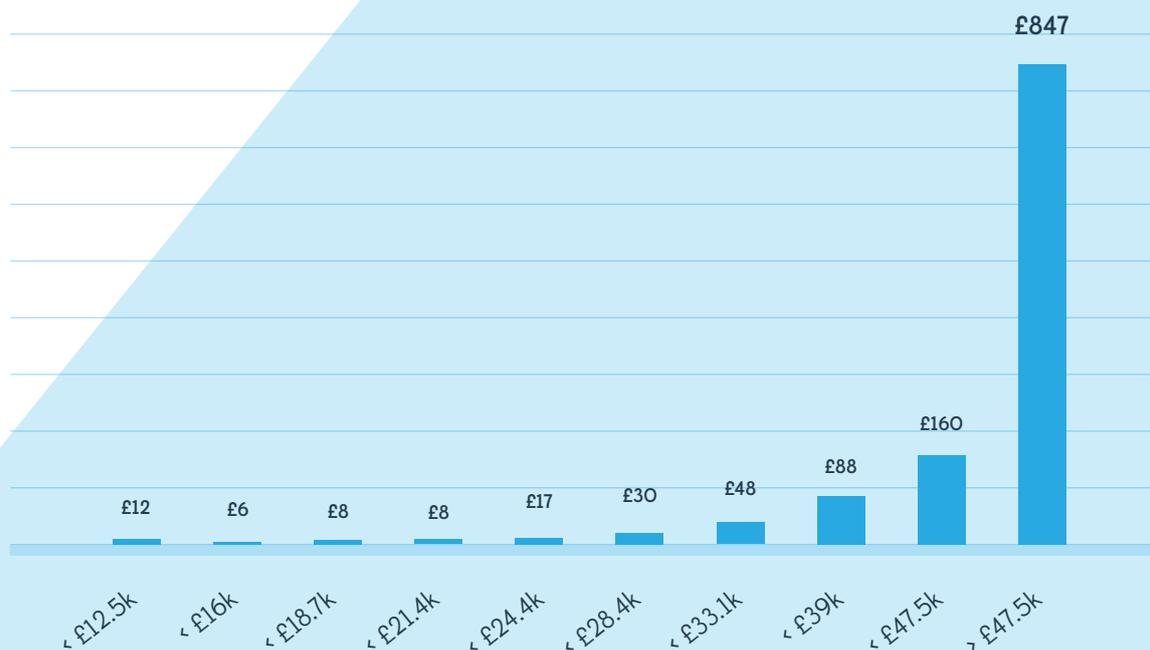
The richest 10% of households make up a disproportionate share of the “frequent”, “very frequent” and “hypermobile” categories. Around half of all “very frequent” and “hypermobile” passengers in the CAA data are in the highest income decile. The more environmentally destructive the lifestyle of these wealthy individuals, the greater the financial benefit they will derive from the Scottish Government’s planned APD cut.

Commuters

One distinct group that can be easily identified in the CAA survey data are air commuters. This group currently pays 1.2% of Scottish APD and will receive a roughly £2m share of the tax break pie in 2018/19. Air commuters reported taking an average of 23 (22.68) flights each in the past year, but this average should be treated with caution: many passengers in the survey who said they were commuting by air also reported zero flights in the past year, or did not answer this question. The true figure is likely to be much higher. Most (64%) (63.8%) commuters who reported their income are in the richest 10% of Scottish households, and each individual in this group can expect to be on average almost £850 better off after a 50% cut in APD in 2018/19.

Chart 17

Commuter APD saving by household income decile



conclusion

Much remains unknown about the promised cut to air passenger taxes in Scotland, but our analysis does at least serve to illuminate one key dimension of the likely outcome of this policy: who directly benefits. It does not look pretty.

fairer?

Austerity, imposed by Whitehall but enacted by all public offices, persists, to the detriment not only of Scotland's most vulnerable people but to the majority of its population. As Holyrood gains fiscal powers through devolution, the Scottish Government is taking control over some of the levers of public policy that help determine the wellbeing of its citizens for the first time. That one of its first acts is to sign away hundreds of millions in tax revenue to corporations and the wealthiest sections of Scottish society appears deeply perverse. It is a decision that is starkly at odds with the ambition for a 'fairer, wealthier, greener Scotland' that has defined the SNP's electoral platform.

Our analysis shows that the people and businesses who currently pay APD can very much afford to pay it, and that the relative benefits of the proposed tax cut to Scottish households are closely correlated with ability to pay. In summary, the richer you are, the more you are likely to gain from this tax giveaway. It is telling that the Scottish Government have still not set out how they intend to pay for the proposals.

wealthier?

International business travel is highly price inelastic; decisions about these journeys take place almost independently of ticket prices. The journeys that stand to increase the most as a consequence of a cut in flight taxes are short haul leisure flights from Scotland's airports - which our analysis shows are mostly taken by wealthy Scots. There is no reason to suppose that inbound short haul tourism will be stimulated more than outbound under this policy. If the current proportions of inbound vs outbound short haul tourists do remain similar while overall traffic volumes increase, then it is plain that the result will be a large net loss to the Scottish economy. This is before we factor in the likely disbenefits to Scotland's domestic tourism sector, which is currently worth around twice as much to Scotland as international tourism. In short, encouraging Scotland's wealthiest citizens to take their money and spend it in London or Europe instead of at home is not in general a good idea; doing this with public money in the form of foregone tax revenues is doubly misconceived.

We also need to account for the likely detriment to the rail industry that may result from price incentives

to domestic air travel. The Scottish Government's own estimates show that direct, indirect and induced economic impacts of demand for rail transport on GVA are greater than those for air transport.⁴⁰ This means that using public funds to invest in rail would boost GVA and employment more than using it to provide tax breaks to aviation.

So the implied sources of most of the additional air passengers envisaged by the proponents of scrapping aviation taxes are domestic tourists who would otherwise have holidayed within Scotland, and domestic travellers who would otherwise have made their journeys by train. Yet both of these groups contribute more to the Scottish economy now than they will when they have been incentivised onto planes through the planned tax cut.

It is instructive to ask how this decision came to be made, when the economic arguments supporting it are so unsound. Scotland's airports represent around 9% of the UK aviation market, but the devolution of aviation tax powers to Holyrood represented a strategic opportunity for the UK aviation lobby to leverage in service of their much wider zero tax agenda. Long term observers of the UK's aviation industry will be aware that vigorous lobbying against APD has been underway since the tax was introduced, but up until now has fallen largely on deaf ears at HMRC. Tax economists at the Treasury know that taxing air travel is efficient and progressive, because the price elasticity of demand is low and the tax is mainly collected from rich households.

Since the SNP's manifesto commitment to half and then scrap the tax following its devolution, mounting calls for recourse from airports in Northern England have begun to gain traction. The UK's aviation industry has finally managed to get hold of a thread which, when pulled hard enough, is capable of unravelling the fiscal framework for air travel right across the British Isles. The SNP's commitment has fired the starting gun for a race to the bottom on air passenger taxes in Great Britain. Any competitive advantage conferred on Scotland's airports from a reduction in these taxes will be short lived.

A policy commitment to scrap a sectoral tax based solely on evidence and arguments presented by the special interests that stand to gain from it makes the Scottish Government appear credulous. Our biggest concern here is that a public commitment has been made before an independent assessment of the economic impacts has been carried out, and political momentum may now mean that evidence has become immaterial to decision making on this issue.

greener?

These proposals are particularly problematic for Scotland's climate change commitments. While the present plans may only increase Scotland's aviation emissions by 4%, the further reduction of taxes on a sector which already enjoys significant

40 Scottish Government (n.d.). Multipliers [webpage]. Retrieved from <http://www.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Multipliers> [accessed on 12.05.17]

tax advantages over other transport modes will entrench aviation's uniquely privileged status in carbon reduction policy frameworks. International aviation is not covered under the Paris agreement, and is not expected to make any contribution to national emissions reductions under the UK's Climate Change Act. Its sectoral target is for emissions in 2050 to be no higher than they were in 2005, in recognition of the cost and difficulty of decarbonising air travel through technology change. It is not on course to meet this target.

The Climate Change Act (Scotland) 2009 has included international aviation in formal carbon budgets,⁴¹ but the draft Climate Change Plan which sets out how the targets in the Act are to be met has not determined a sectoral target for these emissions.⁴²

The Committee on Climate Change set out the suite of actions required to maintain the UK's international aviation emissions within the UK-wide limits in a report in 2009.⁴³ Whilst technology improvements are an essential part of this portfolio, they cannot on their own attenuate growth in emissions by enough to meet the sector's uniquely generous target. As the CCC put it, "deliberate policies to limit demand below its unconstrained level are therefore essential". Without physical constraints on airport capacity or rationing of flights, this leaves fiscal

policy and incentivising modal shift as the only levers available to government.

Fellow Travellers argue that a frequent flyer levy is the most equitable and politically deliverable approach to solving this problem,⁴⁴ but other approaches such as carbon taxes are also available. The global aviation industry's current plan, a scheme called CORSIA which aims to offset emissions growth from 2020, does not represent a credible solution.⁴⁵ Even the headline goal of the scheme - zero emissions growth from 2020 - is not consistent with the headline goal of the UNFCCC, which is to limit warming to well below 2°C. Its delivery mechanism is riddled with loopholes and caveats, and seeks to trade aviation emission weight for weight with emissions from other sectors, despite well established scientific evidence that aircraft emissions result in substantially more warming than carbon emitted from other sources. Overall, emissions from aviation are expected to at least treble between now and 2050, when the rest of the global economy needs to have almost completely decarbonised.

If our governments intend to honour our commitments under their Climate Change acts, both Westminster and Holyrood will eventually have to address this challenge via policy to reduce the rate of growth in demand for flights. Future fiscal demand management will

41 <http://www.legislation.gov.uk/ssi/2010/218/article/2/made>

42 http://www.parliament.scot/S5_Finance/General%20Documents/Letter_from_Climate_CabSec_21.03.17.pdf

43 Meeting the UK aviation target – options for reducing emissions to 2050, Committee on Climate Change, December 2009

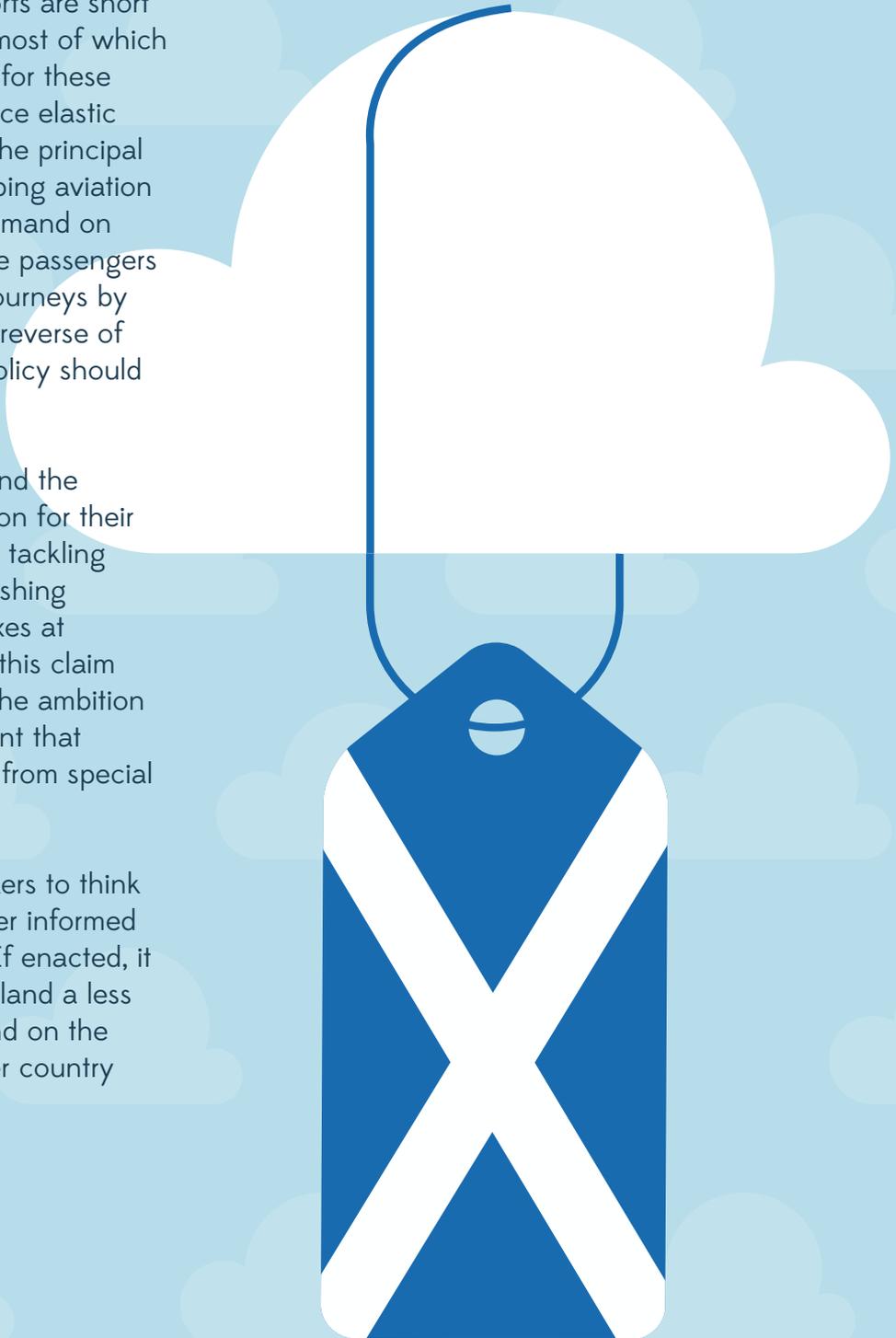
44 Managing aviation passenger demand with a frequent flyer levy, (2014) Fellow Travellers & New Economics Foundation <https://s3-eu-west-1.amazonaws.com/media.afreeride.org/documents/FFL+Modelling+paper.pdf>

45 See eg <https://www.wwf.org.uk/Heathrow2017>

be much more politically challenging if we are starting from a position where the public at large have become accustomed to air travel being entirely untaxed. Meanwhile, we should already be concentrating transport policy on encouraging modal shift away from air travel on routes where there are lower carbon alternatives. The vast majority of flights from Scotland's airports are short haul and domestic flights, most of which are for leisure. Yet demand for these flights is by far the most price elastic category of air travel, and the principal effect of reducing or scrapping aviation taxes will be to increase demand on these routes. Many of these passengers will be choosing to make journeys by plane instead of train - the reverse of what long term transport policy should be seeking to achieve.

The Scottish Government and the SNP both deserve recognition for their ambition and leadership on tackling climate change to date. Slashing then abolishing aviation taxes at Scotland's airports will sink this claim to leadership, and expose the ambition as a fairweather commitment that cannot withstand lobbying from special interests.

We urge Scottish policymakers to think again on this woefully under informed policy before it is too late. If enacted, it is guaranteed to make Scotland a less fair, less green country - and on the available evidence, a poorer country too.





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