Scotland update – consultation on a Scottish replacement to air passenger duty

General Features Indirect Tax

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The CIOT responded to a Scottish Government consultation on a Scottish replacement to air passenger duty (APD). There is provision for the devolution of APD from April 2018, and the current proposals are for the tax to be reduced by 50% by the end of the current parliament. Although CIOT agrees with many of the administrative proposals, we urge caution to ensure that the policy will meet the government's objectives

The CIOT responded in June to a Scottish Government consultation on a Scottish replacement to APD. This follows the inclusion of provision for the devolution of APD in the Scotland Act 2016. The policy proposals and discussion topics in the consultation paper were, in part, developed by the feedback obtained from the APD stakeholder forum, which the Scottish Government established in 2015 and of which the CIOT is a member. The CIOT also attended a meeting of the forum at the end of May to discuss the document.

The Scottish Government has made it clear that one of the key factors in its decisions on APD is the likelihood of improvements in connectivity, although other factors such as how to replace the lost revenues will also feature. It should be borne in mind that the tax raised more than £300m for Scotland in the last financial year. A further key issue will be support for the proposals since the current government no longer has a majority in the Scottish Parliament. There was an accompanying consultation on the strategic environment assessment, to which CIOT did not respond.

On the APD, we reiterate our support for the idea that there should be one overarching framework for all devolved taxes in Scotland, while noting that there is possibly a tension between this and the Scottish Government proposals. This might result in the Scottish replacement for APD being a relatively short-lived tax, although, if the government adheres to its target for reduction, the tax is likely to still be in place at least until the end of the parliament in May 2021.

In our submission, we voice our *agreement* with many of the administrative proposals, which draw on the Revenue Scotland and Tax Powers Act 2014.

Areas that we consider to be of particular concern or importance include the connecting flight rules and how these interact with the UK rules, having a certain and sustainable structure and policy for the tax and doing more work to ensure all stakeholders are contacted. In addition, careful, independent research should be carried out to ensure that the proposed policy will assist the Scottish Government in meeting its objectives.

We do sound a note of caution, however. If the replacement for APD improves Scotland's air connectivity, although inbound tourism may increase, outbound tourism might too, particularly since Scotland is a relatively wealthy country. Outbound tourism could have a number of impacts on taxation, including possible loss of VAT receipts. It may be that these are compensated in part by inbound tourism spending and by pre-travel spending by outgoing tourists.

We also note that it is not clear, due to conflicting reports and studies, how elastic supply and demand is between different airports and how much competition might exist. It is also unclear how much effect APD and its level influences passengers' choice of routes and airports. For some passengers, if not most, convenience and location of the airport will outweigh the benefit of a lower ticket price, particularly if to benefit from this they have to spend more time and money to reach the airport. This will also be the case for business travel where even the higher rate of APD may be less than the cost of a traveller's time taken to reach an alternative airport.

It is anticipated that the Scottish Government will consider their proposals in the light of the responses. The intention is to introduce a Bill before the Scottish Parliament to make provision for the devolution of APD in April 2018. The Scottish Government's policy (as stated in the *Programme for Government 2015-16*) for APD includes a reduction of the burden in Scotland by 50% by the end of the current

parliament. There is also a plan to abolish the replacement tax when resources allow.

The CIOT will continue to contribute to discussions, including through the APD stakeholder forum, which will continue to meet.

The CIOT response is available on the CIOT website.