Response from ICAS to the HM Treasury discussion paper

Options for supporting English regional airports from the impacts of air passenger duty devolution

8 September 2015
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About ICAS

1. The Institute of Chartered Accountants of Scotland (“ICAS”) is the oldest professional body of accountants. We represent around 20,000 members who advise and lead businesses. Around half our members are based in Scotland, the other half work in the rest of the UK and in almost 100 countries around the world. Nearly two thirds of our members work in business, whilst a third work in accountancy practices.

Introduction

2. ICAS welcomes the opportunity respond to the Treasury discussion paper ‘Options for supporting English regional airports from the impacts of air passenger duty devolution’, issued in July 2015.

3. Our evidence is restricted to ICAS areas of specific expertise which in relation to this discussion paper are the administration of taxation arrangements.

General Comments

Impact of devolution and tax competition

4. There is currently no evidence that the devolution of APD to Scotland and Wales will have an impact on English regional airports and the concerns outlined in the discussion document appear to have been raised by industry groups only. The powers are not yet devolved to the Scottish and Welsh Governments and, although there is a commitment by the Scottish Government to reduce the levels of APD, there is no timetable yet for this to be achieved. The concerns outlined in paragraph 1.4 of the discussion document on the impact of these possible changes on English regional airports do not appear to take into account the substantial travel and parking costs associated with travelling from England to Scotland or Wales to reduce airfares or the additional time used to complete such journeys. This will be a major consideration for business travel where the total cost of the journey, including lost staff time, is a key factor.

5. There is evidence however that the rates of APD in the UK are leading to travellers using strategies to reduce their exposure to APD by adopting strategies such as multi-ticketing. This involves buying a short haul ticket to a European hub destination and a separate long haul ticket from that airport. This reduces APD liability on flights leaving the UK to the short haul rate and there have been a number of studies which document this trend and its impact on UK airports.¹ Further changes to the UK system may increase this trend.

6. As noted in the discussion paper, APD for long haul flights was devolved to the Northern Ireland Assembly (NIA) in Finance Act 2012. The NIA reduced APD rates on direct long haul flights departing from Northern Ireland to zero. We understand from anecdotal evidence that this has had an impact in both retaining direct transatlantic flights from Belfast airports and on direct long haul flights departing from certain Scottish airports, such as Prestwick.

7. The devolution of long haul APD to the NIA has created tax competition and further devolution may increase this competition. A tax system works on a number of complex

¹ See for instance : http://corporate.easyjet.com/~media/Files/E/Easyjet-Plc-V2/pdf/content/APD-study-full.pdf
and interrelated principles and interactions and to date this has been balanced across the UK tax system. With devolution of tax powers, the success of the tax systems in each jurisdiction in the UK depend on each being an integrated and coherent part of the wider economic, legal and constitutional package. The House of Lords has been examining this issue and ICAS has provided evidence to the Select Committee on Economic Affairs on the devolution of public finances in the UK. Our response can be read here: https://www.icas.com/__data/assets/pdf_file/0003/169545/ICAS-Evidence-HoL-Select-Committee-on-Economic-Affairs-Devolution-of-Public-Finances-in-the-UK.pdf

8. Tax competition can also become tied up with ‘no detriment’ debates if the competition in one part of the UK turns out to be detrimental to another part. At the heart of the ‘no detriment’ principle is the notion that the impact of policy decisions taken in one part of the UK do not impact adversely on the funding of public services in another part.

Specific comments

Proposal to devolve APD within England

9. The Treasury proposals link changes to the rates of APD for English regional airports to reductions in central government funding to the relevant local authorities in line with the Azores criteria required for compliance with EU State Aid rules. As far as the Treasury is concerned, this is an exchange of income from APD matched with a reduction in funding to local authorities with no net effect on the Exchequer.

10. However, this change will have an impact on the income of local authorities if they do decide to reduce APD rates. The figures in the discussion draft indicate that full devolution of APD would result in a reduction of funding in respect of a medium-sized regional airport of £45 million. This is a substantial amount from the perspective of local authority funding. The pressure to reduce APD rates to support economic activity must be balanced against the wider issue of the financing of public services.

11. Devolving powers within England would create constitutional issues as outlined in the discussion document and alongside the funding issues for local authorities this would suggest that this is a step that requires forensic analysis before proceeding.

Proposal to vary APD rates within England

12. The discussion document highlights that this proposal would lead to a more complicated tax collection environment and ICAS would highlight this as a vital consideration. APD is a very cost effective duty to collect and administer, with the carriers bearing the administrative burden of collecting the data and tax on behalf of HMRC. Any changes to the current basis will result in additional costs for airlines and HMRC and reduced income to the UK Exchequer.

Proposal to provide aid to regional airports within England

13. The discussion document notes that EU State Aid guidelines would be in point where the UK Government choses to support regional airports in England to counteract the impact of devolution. The existence of these rules indicates that this is a complex area and there are many issues to consider before a decision is made to pursue this proposal.