

Consultation on a Scottish Replacement to Air Passenger Duty

Analysis of Responses

July 2016



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Executive Summary

This report presents an overview of findings from analysis of responses to the Scottish Government's policy consultation on a Scottish replacement to Air Passenger Duty. The consultation sought views on proposals for a tax to replace Air Passenger Duty (APD) in Scotland from April 2018. The final number of submissions received was 160, including 76 submitted by group respondents and 84 by individuals.

The Principle of APD Reduction

The majority of respondents used their written submissions to make some comment on the reduction in APD, and most of these respondents expressed an **objection to or raised concerns around the potential impact of the reduction in APD**. This was primarily around the negative environmental impact of an increase in air travel as a result of the reduction in APD. These respondents also raised concerns around loss of funding to public services, the potential negative impact on other lower carbon transport modes, and the extent to which a reduction in APD will achieve the stated objectives.

Individual respondents accounted for the majority of those objecting to the policy, although more than a quarter of group respondents expressed similar concerns. It was clear that for a substantial number of respondents, objections to the reduction in APD had a significant impact on their response to the main body of the consultation.

Strategic and Policy Objectives

Around half of respondents agreed with the strategic and policy objectives set out in the consultation document. Group respondents were more likely than individuals to agree with the objectives, and individual respondents accounted for a large majority of those opposed.

The majority of those who supported the strategic and policy objectives highlighted the **potential economic benefits associated with increasing Scotland's international connectivity**. This was in relation to the ability of Scottish airports to maintain existing routes (including making marginal routes more viable), and also securing new direct routes (both domestic and international connections). Potential benefits for tourism in Scotland were also cited by a substantial number of respondents - both in terms of inbound tourism and the benefits associated with outbound tourism. A small number of those expressing support for the overall strategic and policy objectives raised some concerns around specific aspects of the proposed policy, including the extent to which the proposed reduction or abolition of APD would be effective in delivering the objectives.

Objections to the proposed 50% reduction in APD were a significant factor for those who disagreed with the strategic and policy objectives; nearly all of those providing comment in opposition to the objectives raised issues regarding the proposed reduction in APD. The environmental impact of an increase in Scotland's air connectivity was the issue most commonly raised by these respondents. Questions were also raised around whether the proposed reduction or abolition of APD will achieve the stated objectives, including the likely extent of any increase in air connectivity and suggestions that the reduction in APD is unlikely to result in a net increase in tourism for Scotland. The potential negative impact on other transport modes, potential loss of funding available to public services, and concerns regarding the "fairness" of the strategic and policy objectives (and the reduction in APD specifically) were also cited by a substantial number of those who disagreed with the objectives.

Scope and Structure of Duty

A large majority of those providing a view agreed that the current UK APD definitions of 'chargeable passenger' and 'chargeable aircraft', and the per-passenger charging model should be retained for the Scottish APD replacement tax. Those in favour of the current definitions and charging model referred to these being familiar to and well understood by airlines and others, having proven a simple and effective approach for administration and compliance, and the importance of minimising the administrative burden for current UK APD taxpayers. Most of those who disagreed with retention of the current definitions and/or charging model were individual respondents. This included some whose objection was based on a preference for the removal of all APD charges immediately once powers over APD are transferred to the Scottish Parliament. However, a substantial number of those objecting to the per-passenger charging model specifically, suggested that it may be appropriate to consider alternative models. This included some who expressed a preference for taxation of air travel to seek to reduce carbon emissions.

The majority of those providing a view agreed that the current UK APD destination-based banding system should be retained for the Scottish APD replacement tax. Reflecting views on definitions and charging models, most of these respondents referred to the destination-banding system being well understood, simple and effective, and its retention minimising disruption to taxpayers' systems. Most suggested that banding should be based on the distance between capital cities, where this is measured from Edinburgh (and with an increase in the band A distance threshold to allow for this change). However, a small number of those who supported destination banding suggested bands based on a specific set of destinations, rather than distance.

More than a quarter of respondents disagreed with the retention of current destination-based banding, most of these being individual respondents. This included some respondents who indicated a preference for a banding system with a closer link to environmental impacts of flights. A number of specific alternatives were suggested.

The majority of those providing a view agreed that the current UK APD rates system should be retained for the Scottish APD replacement tax. Again, for most respondents this support was based on the rate structure being familiar to and well understood by airlines and others, including suggestions that consistency with the current UK APD structure will be important for future administration of the two taxes. These respondents also saw the rate structure as relevant to passengers' experience (and ability to pay) across flight classes. Most of those in favour of the current rate structure felt that the rate definitions are appropriate to the Scottish market, and few suggested a need for change to the definitions.

A quarter of respondents disagreed with the retention of the current UK APD rates system, and individuals accounted for the large majority of these respondents. The most common reason given for an objection to the current rates system was a preference for a replacement tax which addresses the environmental impact of air travel, and/or takes greater account of passengers' ability to pay.

Respondents' views on **how a reduction in APD should be introduced** were clearly linked to wider views on the principle of a reduction in APD. Those in favour of the reduction in APD typically focused on how its implementation could best achieve the anticipated benefits to Scotland's connectivity and economic growth – for example through the full 50% reduction being introduced as soon as possible. In contrast, those opposed to the APD reduction focused on how its implementation could best mitigate environmental impacts and ensure that economic benefits are shared – for example through an incremental introduction to allow for further work to assess and plan for the impacts of the reduction in APD.

Exemptions

A large majority of those providing a view agreed that the current UK APD passenger and flight exemptions should be retained for the Scottish APD replacement tax. Those in favour described the current exemptions as having been beneficial for air travel across the UK. Current exemptions for children under the age of 16, and for connecting flights and transit passengers were seen as particularly significant. The importance of minimising complexity for taxpayers and potential confusion for customers was also highlighted.

Around 1 in 5 of those providing a view indicated that they disagreed with the retention of current passenger and/or flight exemptions; individuals accounted for nearly all of these respondents. Most of those objecting to the current exemptions suggested specific reductions in current exemptions and/or broader changes to the approach to the Scottish APD replacement tax. This included several respondents who wished to see a significant reduction in flight exemptions as part of an approach which linked taxation of air travel to environmental impacts.

A large majority of those giving a view agreed that the current UK APD exemption for flights from the Highland & Islands region should be retained for the Scottish APD replacement tax. Most of these respondents made reference to the social and economic benefits of air connectivity, and specifically in relation to the low population density and relative remoteness of the region. A small number of respondents based in the region also provided detailed submissions which made reference to specific benefits, including supporting “marginal” air routes, incentivising airlines to consider new services, and benefits for local economies and communities associated with air travel. These respondents suggested that removing the exemption would have a significant detrimental effect on the region.

Around 1 in 5 respondents indicated that they wished to see the current Highland and Islands exemption modified. Most of these respondents suggested that the “lifeline” status could not be applied to all flights from the region, and wished to see a reduction or removal of the exemption for Highlands & Islands flights. This included a specific focus on flights from Inverness to destinations outwith the Highlands and Islands region (most commonly flights to “ski and sun” destinations).

Connected Flights

The majority of those giving a view agreed that the current UK APD connected flight rules should be retained for the Scottish APD replacement tax. Most of these respondents re-stated the benefits set out in the consultation document, including for example protecting the status of UK hub airports. Some also emphasised the importance of maximising consistency with UK APD to minimise confusion for passengers and ensure administrative simplicity for taxpayers. Around a quarter of respondents indicated that they disagreed with retention of current UK APD connected flight rules. Most of these respondents saw the connected flight rules as inequitable, and cited specific examples where the application of an APD exemption across all parts of a journey was seen as unfair. A substantial proportion of those who did not support retention of current connected flight rules wished to see APD applied to subsequent parts of all connected flights.

A minority of respondents commented on the circumstances where “double taxation” might apply following introduction of a Scottish APD replacement tax. Some of these respondents suggested that this issue would be minimised if the current connected flight rules are retained – although it was also suggested that the extent of any double taxation would also be dependent on decisions taken by the UK Government. However, respondents referred to a range of specific examples where double taxation is currently an issue and/or where the introduction of a Scottish replacement tax could exacerbate the issue. These respondents most commonly referred to passengers purchasing separate tickets for unconnected flights currently being subject to a higher APD charge than those able to purchase a single through ticket. This was raised as a specific issue in the context of the growing role played by low cost operators reliant on point-to-point tickets and where connected flights are not available. In this context, a small number of respondents suggested that an agreement is made with the UK Government on circumstances where the principle of connected flight rules could be applied to unconnected flights.

Administrative Aspects of the Replacement Tax

The consultation sought views on a range of other issues regarding the administration of a Scottish APD replacement tax. Relatively few respondents commented on these aspects of the consultation document, perhaps reflecting the extent to which proposals for the administration of the replacement tax are most relevant to those who will be liable to account for and pay the Scottish APD replacement tax.

The majority of those providing comment agreed with the range of proposals set out in the consultation document relating to the administration of the replacement tax. This included the proposed approach for registration for the replacement tax, tax return and payment arrangements, record keeping, tackling tax avoidance and tax evasion, investigatory and enforcement powers, and dispute resolution. To the extent that these proposals were based on approaches to current UK APD or other devolved taxes, respondents saw benefits in these approaches having proven effective to date and in simplifying compliance for taxpayers currently subject to UK APD.

For those respondents who did not support aspects of the proposed approach to the administration of the Scottish APD replacement tax, this was most commonly linked to an objection to any reduction in APD in Scotland. Few respondents suggested changes to specific proposals set out in the consultation document, and where changes were proposed by respondents these were typically for relatively minor modifications.

1. Introduction

- 1.1. This report presents an overview of findings from analysis of responses to the Scottish Government's policy consultation on a Scottish replacement to Air Passenger Duty.

The consultation

- 1.2. The policy consultation sought views on proposals for a tax to replace Air Passenger Duty (APD) in Scotland from April 2018. The consultation document sets out that the replacement tax is intended to boost Scotland's international connectivity and help deliver the Scottish Government's strategic objective of sustainable growth. The Scottish Government has announced its intention to reduce the burden of the replacement tax by 50%, beginning in April 2018 and delivered in full by the end of the current session of the Scottish Parliament. The consultation document also makes clear that the Scottish Government's intention is for the tax to be abolished "when resources allow".
- 1.3. The consultation period ran from 14 March 2016 with responses invited by 3 June 2016. The consultation exercise included two distinct strands:
- A policy consultation on proposals for a Scottish APD replacement tax¹; and
 - A consultation on the Strategic Environmental Assessment (SEA) Screening and Scoping Report for the Scottish APD replacement tax².
- 1.4. This report presents an analysis of responses to the policy consultation, and incorporates feedback submitted via an APD "Dialogue" webpage³. A separate analysis has been undertaken of responses to the SEA Screening and Scoping Report, and this can be found at <https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty>.
- 1.5. In addition to setting out detailed proposals for the replacement tax, the policy consultation document included 34 questions where respondents' views were sought. Most questions incorporated a 'closed' yes/no element, although all give respondents an opportunity to provide written comment. The consultation questions related to each of the main elements of the proposed replacement tax, including:

¹ A consultation on a Scottish replacement to Air Passenger Duty: <http://www.gov.scot/Publications/2016/03/3238/downloads>

² A Scottish replacement to Air Passenger Duty: Strategic Environmental Assessment Screening and Scoping Report: <http://www.gov.scot/Publications/2016/03/6647/downloads>

³ Scottish Government APD Dialogue: <https://www.ideas.gov.scot/air-passenger-duty>

- The strategic and policy objectives for improving Scotland’s air connectivity, to which the replacement tax is expected to contribute;
- The scope and structure of the replacement tax including tax bands and rates;
- Exemptions for certain passengers and flights;
- How the replacement tax will be applied to connected flights;
- Arrangements for taxpayer registration under the replacement tax;
- Arrangements for fiscal and administrative representatives;
- Arrangements for tax returns and payment; and
- Other administrative arrangements including record keeping, enforcement and penalties.

Overview of responses

1.6. The final number of submissions received was 160. Of these, 76 were submitted by group respondents and 84 by individual members of the public. A profile of respondents by type is set out in Table 1.1 below.

Table 1.1: Profile of Respondents

	Number	% of all respondents
Airlines and airline representatives	12	8%
Airports and airport representatives	8	5%
Other transport and travel organisations	13	8%
Business, economic development and tourism organisations	25	16%
Professional tax and accountancy organisations	2	1%
Environmental organisations	6	4%
Other organisations	10	6%
<i>Group respondents (Total)</i>	76	48%
Individual	84	53%
TOTAL	160	100%

- 1.7. Seven broad respondent types have been used to categorise group respondents for the main analysis. These respondent types have been developed in response to the number and profile of responses received, and seek to reflect the range of sectors and interests represented. As such, this typology is a move away from the standard categories used in the respondent form for the consultation. The seven categories are summarised below:
- 12 airline and airline representative respondents included airlines and professional and representative bodies for the sector.
 - 8 airport and airport representative respondents again included airport respondents and professional and representative bodies.
 - 13 other transport and travel respondents comprised a mix of organisations involved in non-aviation travel including those providing travel services, a number of Transport Partnerships, professional and representative bodies, and campaign organisations.
 - 25 business, economic development and tourism respondents. This diverse set of respondents included a mix of trade representative bodies, public sector organisations with a specific focus on business and economic development, and third sector organisations. This group also includes 13 Scottish chambers of commerce who submitted standard text responses.
 - 2 professional tax and accountancy organisations.
 - 6 environmental organisations included a mix of public bodies, third sector and campaign organisations with a specific environmental focus.
 - 10 'other' organisations represent a range of interests and include local authorities, other public bodies, parliamentary organisations, representative bodies and third sector organisations.
- 1.8. Reflecting the range of sectors and interests represented, there was some variation across submissions in focus on specific elements of the proposals set out in the consultation document. For example, a large majority of respondents answered questions in relation to the objectives for the replacement tax, while relatively few addressed more detailed aspects of the administration of the tax.
- 1.9. In addition to comments addressing proposals for the replacement tax, several respondents expressed concerns regarding the consultation process itself. This included reference to the timing of the consultation after a commitment has already been made to reduce APD; a perception that the profile of the APD stakeholder forum is weighted in favour of aviation industry organisations and others who are most likely to benefit from a cut in APD; concern that research cited by the

consultation document on the economic benefits of a reduction in APD was commissioned by the aviation industry; and perceptions that the consultation document is weighted in favour of a reduction in APD in places, for example reference to description of APD rates as high relative to the rest of the world without contextual information on other tax exemptions to the aviation industry in the UK.

Reporting approach

- 1.10. The remainder of this report presents a question by question analysis of responses given at each of the 34 consultation questions. The report mirrors the consultation document in being structured around the main elements of the proposed replacement tax.
- 1.11. The results of the ‘Yes/No’ questions for 26 of the 34 questions are presented in tabular form. A number of respondents did not make their submission on the consultation questionnaire, or submitted additional free text documents that were not structured around the consultation questions. This material was analysed in relation to the most directly relevant consultation questions or sections, to ensure that the report considered the full range of material provided by respondents.
- 1.12. Statistical analysis was not appropriate for the qualitative written responses included in submissions. However, in considering the balance of views expressed we use the following reporting conventions:
 - “A small number” to refer to 5 or fewer respondents.
 - “Several” or “some” to refer to between 5 and 10 respondents;
 - “A substantial number or proportion” to refer to more than 10, but less than half of respondents.
 - “Most or “the majority” to refer to more than half of respondents.
- 1.13. While the 50% reduction in APD (and subsequent abolition when resources allow) noted above is an important part of the context to the proposed approach to the Scottish APD replacement tax, this was not a specific focus for the consultation questions. However, the majority of consultation respondents made some reference to the reduction in APD, and it was clear that for a substantial number of respondents their views on this policy commitment had a significant impact on their response to the main body of the consultation. We therefore provide a summary of the key points raised by respondents in relation to the principle of a 50% reduction and subsequent abolition of APD at [Section 2](#) of this report, to place some of the subsequent findings in context.

1.14. Most of the respondents commenting on the proposed reduction in APD raised some form of environmental concern or objection. Similar concerns were also raised in relation to specific aspects of the proposed approach to the replacement tax. While these comments were provided in response to the policy consultation, clearly they also have a direct bearing on the SEA consultation. In recognition of this, and to ensure that all views have been incorporated consistently within the two analysis reports, within this report we provide an overview of the main environmental issues raised by respondents and how they relate to views on the proposed replacement tax. Environmental concerns, and some of the evidence cited in support of these, are considered in further detail within the SEA Screening and Scoping Report consultation analysis which can be found at <https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty>.

2. The Principle of APD Reduction

- 2.1. As noted in the previous section, the consultation was focused on gathering views on the proposed approach to a Scottish APD replacement tax. As such, the consultation document did not ask specifically for views on the plan for a 50% reduction (and subsequent abolition of) APD in Scotland – although Question 8 did ask for views on how and when the proposed 50% reduction should be implemented.
- 2.2. The majority of respondents used their written submissions to make some comment on the reduction in APD. Moreover, it was clear that for a substantial number of respondents, their views on this policy commitment had a significant impact on their response to the main body of the consultation. Below we provide a summary of the key points raised by respondents commenting on the principle of a 50% reduction and subsequent abolition of APD.
- 2.3. A total of 94 respondents commented specifically on the proposed reduction in APD, 59% of all respondents. This included 35 group respondents and 59 individuals. A large majority of those commenting on the policy expressed an objection to or raised concerns around the potential impact of the reduction in APD; 78 of the 94 respondents commenting on the reduction.

Table 2.1: Profile of respondents raising concerns about the principle of a reduction in APD.

	Concerns or objections to the reduction in APD	All respondents
Airlines and airline representatives	0	12
Airports and airport representatives	1	8
Other transport and travel organisations	6	13
Business, economic development and tourism organisations	1	25
Professional tax and accountancy organisations	0	2
Environmental organisations	5	6
Other organisations	8	10
<i>Group respondents (Total)</i>	<i>21</i>	<i>76</i>
Individual	57	84
TOTAL	78	160
Percentage of all respondents	49%	-
Percentage of respondents commenting on proposed reduction in APD	83%	

- 2.4. Individual respondents accounted for the majority of those raising concerns (57 of 78), although a total of 21 group respondents expressed similar concerns. Non-aviation transport and travel organisations, environmental organisations and “other” organisations accounted for most of these group respondents, although a small number of airport and business/economic development respondents also raised potential issues for the proposed reduction in APD.
- 2.5. The 78 respondents raising concerns in relation to the proposed reduction and subsequent abolition of APD included some who strongly objected to any reduction in taxation of air travel. It was clear from these respondents in particular that this fundamental objection to the policy of APD reduction framed much of their subsequent response to the proposals for the Scottish replacement tax; for example, some objected to specific aspects of the proposed approach to the replacement tax primarily on the basis of their being used to deliver a reduction in APD. Other respondents were notable for including a caveat alongside their support for aspects of the proposed replacement tax, making clear that this support was dependent on current levels of APD being maintained or increased. This included some who suggested modifications to the proposed approach to deliver what was perceived to be a “fairer” approach to taxation of air travel.
- 2.6. In terms of the concerns and issues raised in relation to the proposed reduction in APD, the **negative environmental impact** of an increase in air travel was by far the most commonly mentioned by respondents. Nearly all of those raising issues for the policy made reference to the environmental impacts associated with aviation. These respondents noted the significant increase in carbon emissions predicted by Transport Scotland’s assessment of the emissions impact of a reduction in APD in Scotland⁴, and cited a range of other evidence on the environmental impact of a growth in air travel as a result of the APD reduction. A substantial proportion of these suggested that the strategic and policy objectives set out in the consultation document are inconsistent with the Scottish Government’s environmental policy, and indeed with wider transport objectives such as supporting more sustainable modes of transport.
- 2.7. The full range of environmental issues raised by consultation respondents is explored in further detail within the SEA Screening and Scoping Report consultation analysis which can be found at: <https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty>.

⁴ Estimate of the Impact on Emissions of a Reduction in Air Passenger Duty in Scotland: <http://www.transport.gov.scot/report/j340458-01.htm>

- 2.8. Respondents highlighted a range of other potential negative impacts associated with the reduction in APD. These included:
- Concern around the **loss of funding available to public services** as a result of a cut in APD (described as a relatively efficient tax) was also cited by a range of respondents. This was seen as a particular issue at a time of ongoing constraints on public spending, and some felt that the reduction proposed a significant risk: *“it is the Scottish economy – and Scottish taxpayers – who would have to make up any shortfall”*.
 - The **balance between air connectivity and other transport modes, and in particular lower carbon transport modes**. Several respondents suggested that growth in air connectivity, and particularly domestic air travel, is likely to be at the expense of other transport modes. This included concerns that the reduction in APD could have a significant negative impact on growth in cross-border rail travel for example, including specifically the proposed high-speed rail link.
 - The **“fairness” of the reduction in APD was questioned** by some respondents. Several respondents described the policy as “socially regressive” in that the more prosperous parts of the population who are able to afford air travel are likely to see the greatest benefit. Some also suggested that the aviation industry is subject to a relatively low overall tax burden (not being subject to VAT or fuel duty for example) and questioned the fairness of a further “subsidy” for the industry: *“With no tax on fuel, no VAT on airline tickets, removing APD would result in aviation being an effectively untaxed industry”*.
 - The **potential risks of market distortion** if Scottish and UK government policy on APD is not consistent, and the extent to which the success of the policy may be dependent on actions by the UK Government. This included suggestions that any advantage gained for Scotland as result of a reduction in APD is likely to be lost if the rest of the UK adopt a similar policy – referred to as a *“race to the bottom”*.
- 2.9. In addition to the potential negative impacts of the reduction in APD, a substantial proportion of those raising concerns questioned the **extent to which a reduction in APD will achieve the stated objectives**. This included reference to the complexity of factors influencing passenger behaviour and airlines’ decisions on the introduction of new routes, the risks that tourism growth as a result of a cut in APD will benefit outbound (rather than inbound) tourism, and respondents citing evidence that questions the nature of the causal link between air connectivity and economic growth.

2.10. In the context of this scepticism around the anticipated benefits of a reduction in APD, a range of respondents suggested that there is a need for **a more robust evidence base** on the likely outcomes of the policy, including detailed modelling of specific impacts. This included questioning of the evidence cited in the consultation document (some suggesting that this over-stated benefits and under-estimated risks) and reference to other relevant evidence sources.

3. Strategic and Policy Objectives

- 3.1. The consultation document provided a summary of the Scottish Government's strategic and policy objectives around improving Scotland's air connectivity. This included an overview of the key developments in Scotland's air connectivity since 2000, key elements of the Scottish Government's approach to growing Scotland's air connectivity, and how devolution of APD can contribute to achieving this growth.
- 3.2. This section considers respondents' views on the two consultation questions set out in the consultation document in relation to the Scottish Government's strategic and policy objectives for improving Scotland's air connectivity.

Views on strategic and policy objectives

Q1a: Do you agree with our strategic and policy objectives for improving Scotland's air connectivity? Please answer yes or no.
Q1b: Please explain your answer to Q1a.

- 3.3. The first consultation question asked whether respondents agreed with the strategic and policy objectives set out in the consultation document. Table 3.1 over the page summarises responses.
- 3.4. 137 respondents answered Question 1a, 86% of all respondents. Around half of these respondents agreed with the objectives set out in the consultation document; 72 respondents, 53% of those answering the question. A further 65 respondents indicated that they disagreed with the objectives, 47% of those answering the question. Objections to the proposed 50% reduction in APD appeared to be a relatively significant factor for those who disagreed with the strategic and policy objectives; the great majority of those answering "no" at Question 1a had also raised concerns around the proposed reduction in APD (as discussed in the previous section of this report).
- 3.5. There was some variation in the balance of views across respondent types. Group respondents were more likely than individuals to agree with the strategic and policy objectives; three quarters of group respondents agreed with the Government's strategic and policy objectives, compared to around a third of individuals. Individual respondents accounted for a large majority of those opposed to the objectives. Across group respondents, airline/airline representatives, airport/airport representatives, other transport and travel organisations, and business/tourism respondents were most likely to agree with the

strategic and policy objectives. Nearly 9 in 10 respondents across these groups agreed.

Table 3.1: Q1a Do you agree with our strategic and policy objectives for improving Scotland's air connectivity?

	Yes	No	No response	TOTAL
Airlines and airline representatives	10		2	12
Airports and airport representatives	5	2	1	8
Other transport and travel organisations	7	4	2	13
Business, economic development and tourism organisations	21	1	3	25
Professional tax and accountancy organisations			2	2
Environmental organisations	1	3	2	6
Other organisations	2	5	3	10
<i>Group respondents (Total)</i>	<i>46</i>	<i>15</i>	<i>15</i>	<i>76</i>
Individual	26	50	8	84
TOTAL	72	65	23	160
Percentage of all respondents	45%	41%	14%	100%
Percentage of those answering question	53%	47%	-	100%

3.6. A total of 133 respondents provided further written comment at Question 1b, more than 4 in 5 of all respondents. The number and breadth of comments received reflects the scope of the question with responses addressing a broad range of issues including the overall balance of objectives, how these fit with wider Scottish Government strategy and policy, views on the policy of reducing APD, and suggested amendments or additions to the objectives set out in the consultation document. Those providing written comment at Question 1b were evenly balanced between those who supported the strategy and policy objectives (65 providing further comment), and those opposed (62 providing comment). A further 6 respondents did not provide a direct “yes” or “no” answer at Question 1a, but provided written comment.

Comments from those in favour of the strategic and policy objectives

3.7. The profile of the 65 respondents in favour of the objectives who provided written comment was broadly in line with the profile of support set out at Table 3.1 above. The largest groups were business/economic development/tourism organisations (21 providing comment), airlines/airline representatives (9 providing comment), and individuals (20 providing comment). Reflecting this mix of respondent types, written comments raised a broad range of issues relating to the strategic and policy objectives. These are summarised below.

- 3.8. The majority of respondents making comment in support of the strategic and policy objectives highlighted the **potential economic benefits associated with increasing Scotland's international connectivity**, including a number of the benefits referenced in the consultation document. Specific evidence around the economic benefits associated with air travel and connectivity was cited by a number of these respondents.
- 3.9. The specific benefits mentioned by respondents focused on stimulating wider economic growth, including for example international trade and investment, access to a larger and enhanced customer base, better collaboration with organisations outwith the UK, and providing local employment. Several group respondents and individuals cited other countries as illustrations of the correlation between increased air connectivity and wider economic growth. The importance of air connectivity in the context of Scotland's geographic position in relation to Europe was also highlighted, including the extent to which their location relative to major hub airports places Scottish airports at a competitive disadvantage to those in southern England and Europe.
- 3.10. Most of those emphasising the link between air connectivity and economic growth included specific comments on benefits for tourism growth in Scotland - both in terms of inbound tourism and the benefits associated with outbound tourism. Several of these respondents cited evidence on the potential impact of increased air travel on tourism, including for example recent increases in visitor numbers at Edinburgh Castle alongside growth at Edinburgh airport. However, one 'other' organisation respondent cautioned that, while increased air connectivity would lead to tourism growth in some areas, it may lead to a reduction in other areas.
- 3.11. A substantial number of those making comment referred to **current APD levels having a negative impact on Scotland's air connectivity**. This included comments, primarily from aviation industry and business/economic development respondents, supporting points set out in the consultation document around the adverse impact of APD on demand for air travel and on airlines' willingness to invest in route and traffic growth. These respondents suggested that this undermines Scotland's international competitiveness, and highlighted lower APD rates across much of mainland Europe. One airport respondent also specifically suggested that APD has a particularly negative impact for Scotland in the context of difficulties attracting new routes in competition with more densely populated parts of the UK and Europe.

“The current excessive levels of APD in the UK stifle the potential size of inbound markets...negatively impacts outbound leisure and taxes business travel; restricts operating periods of seasonal flight schedules, and adds commercial risk to the decision for airlines to add capacity or frequencies and to launch new routes.”
Board of Airlines Representatives in the UK

- 3.12. Respondents also raised a number of other issues relating to Scotland’s air connectivity. These included suggestions that a reduction in APD could bring significant consumer benefits in terms of lower fares, expansion in non-stop destinations, and greater frequency of flights. A small number of airline and business/economic development respondents were also concerned that a difference in APD policy between Scotland and the rest of the UK may arise, and have a distorting effect on competition between airports. This was seen as having the potential to result in a loss of passengers to or from regional airports in the north of England, dependent on how Scottish and UK APD policy develops. One airline respondent also warned of the risks in structuring APD to shape airline planning decisions, suggesting that these planning decisions are often complex and that this kind of policy intervention may have unintended (and unwelcome) effects such as preventing airlines from allocating additional aircraft to Scottish airports.
- 3.13. A minority of those in favour of the strategic and policy objectives set out in the consultation document addressed **environmental issues raised by these objectives**. These issues were most commonly referenced by business and economic development respondents, and in particular the 13 Chambers of Commerce who submitted standard text responses. These respondents suggested that APD was not intended for use as an environmental tax, and that higher taxes on air passengers will encourage more passengers to use hubs on the European mainland and thus “export of carbon emissions”. A professional tax/accountancy respondent cautioned that a differential in APD between Scotland and the rest of the UK may encourage passengers to drive further to use Scottish airports.
- 3.14. A small number of those expressing support for the overall strategic and policy objectives raised some **concerns around specific aspects of the proposed policy**. This included questions around the extent to which *“the broad-brush measure of reducing the rate of Air Passenger Duty would play any significant role in achieving”* the objectives set out in the consultation document – a view which is discussed in further detail at Question 2. These respondents also noted that growth in air travel will lead to a significant increase in carbon emissions, and suggested that these impacts must be carefully considered:

“...we would stress that the wider wellbeing of Scotland should not be compromised in the desire to attract airlines and full cognisance of environmental issues must be considered appropriately.” South West Scotland Transport Partnership

- 3.15. The balance between air connectivity and other travel modes was also highlighted by several business and economic development, other transport and travel, and ‘other’ group respondents. An other transport and travel respondent suggested that the proposed reduction in APD could be sufficient to undermine the long-term growth of mainland rail lines, and potentially affect the business case for developing high speed rail links to Scotland. A business and economic development respondent also suggested that higher speed train links should be an important part of improving Scotland’s connectivity, and should be a consideration for the Scottish replacement tax.
- 3.16. In addition to the range of points outlined above, a number of those providing comment in support of the strategic and policy objectives **suggested amendment or additions to these objectives:**
- While some specifically welcomed the emphasis on international connectivity, others wished to see this balanced against the importance of strengthening existing domestic connectivity and links to travel hubs across the rest of the UK and Europe. The quality of surface travel links to the north of Scotland, and the extent to which these provide a viable alternative to air travel for domestic journeys, was also cited as a factor in the importance of domestic air travel for regional economies. Domestic travel networks (within Scotland, and between Scotland and the rest of the UK) were also highlighted as important in enabling economic gain from improved international connectivity to expand beyond the initial travel hub to support Scotland’s regional economies.
 - An airline respondent disagreed with the objective set out in the consultation document to enhance access to main hubs, suggesting that existing access to these hubs is sufficient, and has prevented Scottish airports from accessing new direct routes.
 - The different contexts within which airports across Scotland operate was mentioned by a small number of respondents. This included specific concerns regarding the extent to which some strategic and policy objectives, such as new direct routes to emerging markets, can only be achieved by Edinburgh and Glasgow airports due to their scale and population base. These respondents suggested that the objectives set out in the consultation document do not include sufficient recognition of the importance of regional airports in supporting economic development.

- A business and economic development respondent wished to see an additional objective that all air links should seek to support economic development in Scotland – in terms of business development, international trade and tourism. This was also suggested as a basis for the judgement of the plans to abolish APD in Scotland “when public finances allow”, such that this judgement is based on demonstrating that additional tourism and international trade as a result of a reduction in APD, matches current APD revenues.

Comments from those objecting to the strategic and policy objectives

- 3.17. The 62 respondents providing comment at Question 1b and who were opposed to the strategic and policy objectives included 14 group respondents and 48 individuals. Nearly all of these respondents raised issues regarding the policy principle of a reduction in APD. Specific issues raised in relation to this policy principle are considered in further detail at [Section 2](#) of this report.
- 3.18. A small number of respondents who had not answered Q1a also provided written comment on the strategic and policy objectives. Comments here raised a number of issues which these respondents felt required further consideration, although these were not necessarily presented as significant flaws in the stated objectives.
- 3.19. As was the case for comments made in support of the strategic and policy objectives, written comments from those objecting to the objectives raised a broad range of issues. These are summarised below.
- 3.20. The **environmental impact of an increase in Scotland’s air connectivity** was the issue most commonly raised by those objecting to the objectives; most of the 62 respondents making written comment included reference to environmental impacts. This included a substantial number of respondents noting the increase in carbon emissions predicted by Transport Scotland’s analysis of the emissions impact of a reduction in APD, and citing other evidence sources. As such, a substantial proportion of those making comment here suggested that the strategic and policy objectives are inconsistent with the Scottish Government’s environmental policy – and specifically the commitment to reduce carbon emissions by 80% by 2050.
- 3.21. The specific environmental issues highlighted by respondents in relation to the reduction in APD are summarised in the previous section of this report, and are explored in further detail by the analysis of responses to the SEA Screening and Scoping Report consultation published separately.

- 3.22. Those making comment also raised questions around **the extent to which the proposed reduction in APD will achieve the stated objectives**. This included comments across a range of respondent types, primarily other transport and travel respondents, professional tax/accountancy organisations, environmental organisations and individuals. Specific concerns included the complexity of decisions on the introduction of new flight routes, the extent to which tourism benefits will be focused on outbound tourism, and some scepticism around the likely scale of economic benefits associated with a reduction in APD - including whether these benefits will be limited to specific sectors or locations. These points are considered in further detail later in this section under Question 2.
- 3.23. The potential for growth in air connectivity, and particularly domestic air travel, to have a **negative impact on other transport modes** was also a significant concern for a small number of other transport/travel and individual respondents. These respondents suggested that the focus on increasing air connectivity appeared to be inconsistent with other specific transport objectives such as the East Coast and West Coast mainlines, the extension of HS2 to Scotland, and active travel.
- 3.24. A substantial number of those making additional comment, and particularly individual respondents, suggested that a reduction in APD would result in a **loss of funding available to public services**. This was noted as a significant issue in the context of ongoing constraints on public spending, and it was suggested that the reduction in APD may result a shift in revenues from those accruing to the Scottish Government (in the form of APD) to those accruing to the UK Government (in the form of VAT).
- 3.25. The **“fairness” of the strategic and policy objectives**, and the reduction in APD specifically, was questioned by a range of respondents including other transport/travel, environmental, ‘other’ group and individual respondents. Several of these described the objectives as “socially regressive” in that they are likely to most benefit more prosperous parts of the population (i.e. those able to afford air travel). Some noted that an increase in air travel may have an adverse impact on other transport modes which are more widely accessible (such as active travel and, public transport). The fairness of a “tax break” for the aviation industry was also questioned in responses across a number of respondent types:

“We also question the fairness of reducing or removing a tax for one of the least taxed industries in the world. With no tax on fuel, no VAT on airline tickets, removing APD would result in aviation being an effectively untaxed industry.” Spokes (the Lothian Cycle Campaign)

- 3.26. A number of respondents also raised **concerns in relation to the evidence base** for the strategic and policy objectives, and specifically evidence for the potential benefits of a reduction in APD. This included concerns regarding the aviation industry, who are most likely to benefit from a reduction in APD, having funded evidence cited in the consultation document and also accounting for most APD stakeholder forum members. These respondents also questioned the extent to which this analysis has over-stated any economic benefits, and/or under-represented potential loss of revenue.
- 3.27. An ‘other’ organisation respondent also highlighted a range of **health factors** associated with the objectives set out by the consultation document, and which should be balanced against the potential benefits of increased air connectivity.
- 3.28. In addition to the range of points outlined above, a number of those providing comment in objection to the strategic and policy objectives **suggested amendment or additions to these objectives:**
- The stated objectives focus primarily on international connectivity, but should also recognise the importance of connectivity to other UK destinations as being important to Scotland’s regional economies. The objectives should give greater recognition of the differences in connectivity between the main Glasgow/Edinburgh airport hubs, and other regional airports.
 - The reduction in APD should be structured to stimulate growth in regional airports, alongside easing of congestion around the main Glasgow and Edinburgh hubs – for example, a 100% reduction in APD for airports handling less than 3 million passengers per annum, consistent with European guidelines.
 - Devolution of APD to a local authority level, permitting authorities to set APD policy for the airports in their area.

The role of a replacement to APD in achieving the objectives

Q2: How could a Scottish replacement to APD help achieve these objectives?

- 3.29. A total of 114 respondents provided further written comment at Question 2, 71% of all respondents. Those providing written comment included a mix of those who supported the strategy and policy objectives at Question 1a (63 of those providing comment here) and those opposed to the objectives (44 providing comment). A further 7 of those providing written comment did not provide a direct “yes” or “no” answer at Question 1a.

3.30. Analysis of these responses makes clear the extent to which points raised by respondents in relation to how the Scottish replacement tax may help to achieve the strategic and policy objectives, are linked to respondents' overall support for or opposition to those objectives. We therefore consider each group in turn below.

Views of those in support of the strategic and policy objectives

3.31. A substantial number of those commenting on how the replacement tax can help to achieve the strategic and policy objectives re-iterated their view that **APD has a significant adverse impact on demand** for air travel and airlines' willingness to invest in route and traffic growth – and as such results in a significant loss of investment and business. This included reference to UK APD being uncompetitive relative to mainland Europe, which compounds Scotland's wider disadvantage in terms of air connectivity relative to other parts of the UK and Europe.

3.32. Respondents referencing the significant impact of UK APD on air travel suggested that its **reduction through a replacement tax could provide a significant boost to Scotland's domestic and international connectivity**. This was referenced in relation to the ability of Scottish airports to maintain existing routes (including making marginal routes more viable), and also securing new direct routes (both domestic and international connections). Several responses – primarily from airline and airport respondents – cited a range of evidence and estimates of the contribution that a reduction in APD could make to Scotland's connectivity.

“An efficient transport system is one of the key enablers for enhancing productivity and delivering faster, more sustainable growth. Enhancing transport infrastructure and services can open up new markets, increase access to employment and help to build a critical mass of businesses that drive up competitiveness and deliver growth.” Scottish Enterprise

- 3.33. A cut in APD was also seen to send a positive signal to carriers in encouraging investment in new destinations and routes. A small number of respondents suggested that Scotland is more reliant on air travel than other parts of the UK, such that a reduction in APD may have a more pronounced impact. An airport and a business/economic development respondent made specific reference to a number of airlines having made a commitment to increasing capacity in the event of a 50% reduction or abolition of APD. However, a small number of respondents cautioned that capacity constraints at major airports in Scotland and elsewhere in the UK mean that the full potential benefits to Scotland's connectivity are unlikely to be fully realised.
- 3.34. Those citing benefits to Scotland's connectivity associated with a reduction in APD also made reference to a range of other specific benefits associated with improved connectivity:
- Boosting connectivity will support further development of Scotland as a **tourist destination and stimulate economic growth**. This included a number of respondents citing detailed evidence on the potential scale of impact in terms of economic growth and job creation.
 - A reduction in APD was cited by a number of respondents as having the potential to bring significant **consumer benefits** in terms of lower fares, more non-stop destinations, and greater frequency of flights.
 - An airport/airport representative respondent suggested that ongoing work to improve sustainability of air travel could enable the cut in APD to stimulate growth in air travel without a significant increase in emissions.
 - A small number of respondents who supported the Scottish Government's objectives raised concerns that the focus on international connectivity will disadvantage regional airports that cannot deliver certain international routes, and as such will not deliver the full potential economic growth. These respondents suggested that a more "balanced" set of objectives for improving connectivity would be more effective.

Concerns regarding whether and how APD replacement will contribute to achieving objectives

- 3.35. A substantial number of those making comment here expressed concerns regarding the **extent to which an APD replacement will realise the predicted benefits**, and ultimately the contribution that a reduction in APD may be able to make in achieving the strategic and policy objectives.

“...we have reservations as to whether the broad-brush measure of reducing the rate of Air Passenger Duty would play any significant role in accomplishing these goals, as (a) much of the impact comes from boosting tourism and it is not clear that this significantly enhances connectivity, and; (b) the strongest boost to connectivity through air travel accrues to the Highlands and Islands, where airports are already exempt from APD.” The Royal Society of Edinburgh

- 3.36. These respondents referred to a range of issues or questions around the likely contribution of a reduction in APD to the Scottish Government’s objectives, and which it was felt the consultation document did not adequately address. These included APD’s efficiency as a revenue-raising tax, the potential impact on carbon emissions, the extent to which APD is a “regressive” tax, and the need for a detailed assessment of where and how a 50% reduction in APD will contribute to the stated objectives.
- 3.37. Several respondents suggested that the range and complexity of factors influencing expansion of flight routes, and passenger behaviour, will reduce the **extent to which a reduction in APD will result in increased connectivity**. It was suggested that a reduction in APD could be part of a strategy to grow international connectivity, boost international competitiveness and increase inbound tourism – but APD is unlikely to be *“the only driver (or even the key driver)”* of these objectives.
- 3.38. These respondents also cited evidence of the impact of other changes in APD policy as illustrations of the extent to which passenger behaviour takes a wider range of factors into account than price alone. The likelihood of the UK government reducing APD in response to the Scottish replacement tax was also raised as having the potential to undermine the benefits to Scottish connectivity, and thus to impact on the contribution that the replacement tax can make to the Scottish Government’s objectives.
- 3.39. A substantial number of respondents suggested that the reduction in APD is **unlikely to result in a net increase in tourism** growth within Scotland in the short to medium term. While most of those raising these concerns acknowledged that a reduction in APD is likely to result in some increase in connectivity, these respondents expressed significant doubts that this would deliver a substantial increase in inbound tourism. Indeed, a small number of respondents suggested that there is potential for a reduction in APD to have a negative net impact on domestic tourism.

“[we] consider that arguments suggesting that the effect of a 50% reduction in APD would be to boost tourism, create jobs and increase productivity in Scotland are not well established.” The Royal Society of Edinburgh

- 3.40. In addition to specific concerns regarding the impact on tourism, some respondents also questioned the extent to which APD reduction could lead to **wider economic benefits**. In addition to concerns around the extent to which the policy would stimulate domestic tourism, a small number of respondents suggested that there is a need for greater recognition that improved air connectivity has the potential for negative impacts across some sectors, and more detailed analysis of where these negative impacts might fall.
- 3.41. In addition to questions around the likely scale of tourism and economic benefits, respondents also raised concerns around the likelihood of these economic benefits accruing evenly across Scotland’s regions. The potential for Edinburgh and Glasgow airports to benefit disproportionately was specifically highlighted by a small number of respondents. An ‘other’ organisation respondent also suggested that reducing the rate of APD for all Scottish airports could in effect reduce the advantage afforded by current exemptions to airports in the Highlands and Islands.
- 3.42. **Environmental concerns** were again raised in relation to the likelihood of a growth in connectivity resulting in an increase in carbon emissions. This included suggestions that APD is in effect “the only quasi-carbon tax” applied to air travel. Several respondents suggested that delivery of objectives around increased connectivity should be balanced against environmental targets, including specific suggestions from several individual respondents that the implementation of the 50% reduction in APD is structured to incentivise lower emissions linked to air travel.
- 3.43. In the context of the above points around the negative impact of APD, a number of respondents expressed concerns that a **difference in APD policy between Scotland and the rest of the UK** will distort competition between airports. This included those in favour of and those opposed to the objectives noting the potential for the reduction in APD for Scotland resulting in negative consequences, dependent on how Scottish and UK APD policy develops.

Comments on how the replacement tax is implemented:

- 3.44. A number of responses across all respondent types made reference to specific aspects of how the Scottish replacement tax is implemented, as significant for the success of the replacement tax in achieving the strategic and policy objectives:

“The current proposal would need to be carefully designed, structured and targeted in order to achieve the intended aims.” Chartered Institute of Logistics and Transport Scotland

- 3.45. Some suggested that there remained a need for independent analysis of the potential impact of APD reduction, including how changes in connectivity will interact with activity across economic sectors, on which to base the detail of the replacement tax. In this regard, a business/economic development respondent suggested that a Scottish aviation strategy would help to ensure the potential benefits of a Scottish APD replacement tax are realised.
- 3.46. Respondents also made a range of comments specifically on how the replacement tax could be implemented to achieve the strategic and policy objectives:
- Several respondents wished to see the 50% reduction implemented immediately – this included a small number of airport respondents suggesting that a 50% reduction over the course of a parliament will not attract airlines to invest in more direct routes in the way that an immediate 50% reduction would.
 - A substantial number of respondents also emphasised a preference for the replacement tax to be abolished as soon as possible. Several of these respondents suggested that even following a 50% reduction, Scotland would still have a relatively high rate of air travel tax.
 - An airline respondent suggested that maintaining the administrative simplicity of UK APD, and ensuring the Scottish replacement tax is compatible with the UK APD system, would be important in maximising the benefits of the reduction in APD.
 - Several respondents commented on how the reduction in APD might be applied to specific sectors and routes, and a mix of views were expressed. This included an airline respondent suggesting that a reduction across all routes would maximise the impact, while an airport respondent suggested that the reduction in APD is focused on airports with fewer than 3 million passengers as a means of stimulating growth in regional airports, while reducing growing pressure at key airport hubs. Others suggested a targeted reduction on specific destination bands; an other transport/travel and an individual respondent suggested that direct international flights to band B locations should be the priority for the objective of improving international connectivity, and would also recognise the availability of lower carbon surface travel options for domestic routes. In contrast, another individual

respondent suggested that the first priority should be flights from Scotland to other parts of the UK, followed by international flights.

- An 'other' respondent suggested that responsibility for APD policy is further devolved to local authorities, to be defined based on local need.
- A small number of respondents - including an environmental organisation, other group respondent, and several individual respondents - suggested alternative approaches to the proposed replacement for APD. These included a "Frequent Flyer Levy" which would tax air passengers based on how often they travel, and a 'Reformed Aviation Duty' on a per-flight basis to strengthen incentives for aircraft to fly as fully-loaded as possible and to favour more efficient aircraft.

4. Scope and Structure of Duty

- 4.1. The consultation document set out a range of proposals relating to the scope and structure of the Scottish APD replacement tax. This included the following specific aspects of the replacement tax:
- The definitions of “chargeable passenger” and “chargeable aircraft” on which the replacement tax will be based, and whether the replacement tax retains the current UK APD per-passenger charging model.
 - Whether the replacement tax retains the destination-based banding approach currently used by UK APD, and if so how journey distances should be measured.
 - The extent to which the reduced/standard/higher rates system – and the definitions on which these rates are based - should be retained.
 - How and when the proposed 50% reduction in APD in Scotland should be implemented.
- 4.2. This section considers respondents’ views on the six consultation questions set out by the consultation document in relation to the scope and structure of the Scottish replacement tax.
- 4.3. It should be noted that respondents’ views on the objectives set out by the consultation document, and the commitment to a 50% reduction in APD in particular, appear to have shaped some responses in relation to the proposed scope and structure of the Scottish replacement tax. This was evident in specific comments from a small number of respondents that made clear that views expressed on the proposed scope and structure were based on the replacement tax being abolished as soon as possible.

Scope of APD

Q3a: Should the UK APD definitions of ‘chargeable passenger’ and ‘chargeable aircraft’ be retained under a Scottish replacement tax? Please answer yes or no.

Q3b: If you answered no, please explain your answer.

- 4.4. The first question in this section asked whether the current UK APD definitions of ‘chargeable passenger’ and ‘chargeable aircraft’ should be retained by the Scottish replacement.

- 4.5. 97 respondents answered Question 3 (61% of all respondents). A large majority of these respondents agreed that the current UK APD definitions should be retained; 87 respondents, 90% of those answering the question. A further 10 respondents indicated that they disagreed (10% of those answering the question). All of those who disagreed with the proposal were individual respondents; all group respondents answering the question agreed with retaining current UK APD definitions.

Table 4.1: Q3 Should the UK APD definitions of ‘chargeable passenger’ and ‘chargeable aircraft’ be retained under a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	11		1	12
Airports and airport representatives	5		3	8
Other transport and travel organisations	8		5	13
Business, economic development and tourism organisations	20		5	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations	2		8	10
<i>Group respondents (Total)</i>	<i>46</i>	<i>0</i>	<i>30</i>	<i>76</i>
Individual	41	10	33	84
TOTAL	87	10	63	160
Percentage of all respondents	54%	6%	39%	100%
Percentage of those answering question	90%	10%	-	100%

- 4.6. A total of 39 respondents provided further written comment in support of their answer at Question 3a. This included 29 of the 87 respondents in favour of retaining UK APD definitions of ‘chargeable passenger’ and ‘chargeable aircraft’, and 9 of the 10 respondents who disagreed with this proposal. One respondent (a professional tax and accountancy organisation) who had not provided a “yes” or “no” answer at Question 3a also provided written comment.

- 4.7. The great majority of **respondents providing further comment in favour of retaining UK APD definitions**, indicated that this support was based on these definitions having proven a relatively simple structure in terms of administration and compliance. It was suggested that current definitions should therefore be applicable to the Scottish replacement tax, if this is not expected to radically change the current UK APD structure. A number of airline/airline representative respondents in particular made reference to airlines who will be subject to the Scottish replacement tax being familiar with these definitions, and minimising the administrative burden of having to modify established

systems for reporting APD (which are based on UK APD definitions). This was highlighted as particularly significant for airlines who will continue to be subject to UK APD alongside the Scottish replacement tax.

- 4.8. As noted earlier in this section, a small number of those commenting made reference to the application of UK APD definitions being on an “interim” basis, and re-stated their support for the abolition of the replacement tax as soon as possible. This included a specific suggestion from a professional tax and accountancy respondent that retention of existing UK APD definitions would be the practical approach if the replacement tax is likely to be relatively short-lived (i.e. prior to the tax being abolished).
- 4.9. Nine of the ten individuals **opposed to the retention of existing UK APD definitions** provided further written comment at Question 3b. Comments indicate that this objection was most commonly based on a preference for the removal of all APD charges immediately once powers over APD are transferred to the Scottish Parliament.
- 4.10. A small number of respondents also disagreed with the retention of UK APD definitions on the basis of a fundamental objection to the proposal to reduce current UK APD charges. This included some individuals suggesting that current UK APD definitions, and the structure of UK APD more widely, should be re-thought to link charges to carbon emissions. This included a suggestion that the Scottish replacement tax is based on aircraft size, rather than the number and type of passengers. A professional tax and accountancy organisation also noted that an alternative approach to UK APD definitions may be appropriate, if the Scottish Government wished to use the replacement tax to contribute towards meeting environmental targets.
- 4.11. In addition to these comments linked to views on the fundamental purpose of and approach to the Scottish replacement tax, a small number of individual respondents wished to see amendment to current UK APD definitions. This included a broad suggestion that these are modified to reflect the specific profile of air travel to and from Scotland, and a more specific proposal that the definition of ‘chargeable passenger’ is expanded to include all transit passengers and those on connecting flights, and that ‘chargeable aircraft’ is extended to include all aircraft.

Q4a: Do you think that the current UK APD per-passenger charging model should be retained under a Scottish replacement tax?

Q4b: If you answered no, please explain your answer. Subject to compliance with State Aid rules and current aviation agreements, what alternative charging model(s) should be considered?

- 4.12. Question 4a asked whether the current UK APD per-passenger charging model should be retained under the Scottish replacement tax.
- 4.13. 103 respondents answered Question 4a (64% of all respondents). The majority of these respondents agreed that the current UK APD per-passenger charging model should be retained; 83 respondents, 81% of those answering the question. A further 20 respondents indicated that they disagreed with the proposal, 19% of those answering the question.
- 4.14. There was some variation in this profile of views across respondent types. Group respondents were more likely than individuals to agree with the per-passenger charging model; more than 9 in 10 group respondents agreed with this, compared to 7 in 10 individuals. Individual respondents accounted for the majority of those opposed to the proposal.

Table 4.2: Q4a Do you think that the current UK APD per-passenger charging model should be retained under a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	11	1		12
Airports and airport representatives	5	1	2	8
Other transport and travel organisations	8		5	13
Business, economic development and tourism organisations	20		5	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations	1	2	7	10
<i>Group respondents (Total)</i>	45	4	27	76
Individual	38	16	30	84
TOTAL	83	20	57	160
Percentage of all respondents	52%	13%	36%	100%
Percentage of those answering question	81%	19%	-	100%

- 4.15. The consultation document invited further written comments at Question 4b, from those who objected to the current per-passenger charging model being retained under a Scottish replacement tax. A total of 37 respondents provided further written comment, including 17 who supported retention of the per-passenger model, and 18 of the 20 respondents who objected to the proposal.
- 4.16. Consistent with views on the retention of UK APD passenger and aircraft definitions, most of those providing **comment in support of the per-passenger model** indicated that this was based on the model being understood by airlines (and travel professionals and passengers). These respondents suggested that the model had proven a relatively simple structure in terms of administration and compliance, and its retention would minimise disruption and cost to taxpayers. An airport respondent and other transport/travel organisation also made reference to the extent to which an alternative per-aircraft model would disadvantage airports servicing lower population density areas, where passenger loads are generally lower.
- 4.17. Most of the 20 respondents **opposed to the retention of the per-passenger model** provided further written comment at Question 4b. This included a small number indicating that this objection was based on a preference for the removal of all APD charges immediately once powers over APD are transferred to the Scottish Parliament.
- 4.18. However, around half of those making comment in objection to Question 4a suggested that it may be appropriate to consider alternative models, dependent on the Scottish Government's objectives and for example if the Government wishes to reconsider how tax on air travel may contribute to environmental targets. This included a number of 'other' organisations and individuals opposed to the per-passenger charging model, the latter group including a small number of individuals who wished to see taxation of air travel seeking to reduce carbon emissions. In addition, a professional tax and accountancy respondent and an 'other' organisation respondent made reference to the potential value of considering an alternative model. Respondents referred to the potential for a per-plane charging model to encourage more efficient use of aircraft, although it was noted that the prior experience of the UK Government in proposing such a model cast some uncertainty on whether an alternative to the per-passenger model is possible.
- 4.19. A small number of those opposed to the per-passenger charging model also indicated that they agreed with the principle of a per-passenger model, but raised concerns or suggested alternative approaches to how the model is applied. This included references to how charges are scaled across the lower, standard and higher rates; a proposal that APD should not apply at airports below a threshold for volume of

passengers per annum, and a proposal for the replacement tax to be banded against passenger's frequency of air travel.

Tax bands

Q5a: Do you think that the current UK APD destination based banding system should be retained under a Scottish replacement tax?

Q5b: If you answered yes, should destination bands be defined by distance to capital cities or what alternative measures could be considered? What would be the optimum number and definition of bands to support the achievement of the Scottish Government's strategic objectives for a Scottish replacement tax?

Q5c: If you answered no, please explain your answer. What system do you think should be used instead?

- 4.20. Question 5a asked whether the current UK APD destination-based banding system should be retained under the Scottish replacement tax.
- 4.21. 100 respondents answered Question 5a (63% of all respondents). The majority of these respondents agreed that the current UK APD destination-based banding should be retained; 72 respondents, 72% of those answering the question. A further 28 respondents indicated that they disagreed with this proposal, 28% of those answering the question.
- 4.22. There was some variation in this profile of views across respondent types. Group respondents were more likely than individuals to agree with the retention of the current UK APD destination banding system; 9 in 10 group respondents agreed, compared to a little more than half of individuals. Individual respondents accounted for the majority of those opposed to the proposal.

Table 4.3: Q5a Do you think that the current UK APD destination based banding system should be retained under a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9	1	2	12
Airports and airport representatives	4	1	3	8
Other transport and travel organisations	8	1	4	13
Business, economic development and tourism organisations	20		5	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations	2	2	6	10
<i>Group respondents (Total)</i>	43	5	28	76
Individual	29	23	32	84
TOTAL	72	28	60	160
Percentage of all respondents	45%	18%	38%	100%
Percentage of those answering question	72%	28%	-	100%

4.23. The consultation document invited further written comments at Questions 5b and 5c, asking those who agreed with destination-based banding how these bands should be defined, and those who disagreed which banding approach should be used. A total of 87 respondents provided further written comment, including 60 of the 72 respondents who supported retention of destination-based banding, and 24 of the 28 who disagreed.

4.24. As was evident in relation to definitions around the scope of APD (at Questions 3 and 4), most of those **providing comment in support of destination-based banding** indicated that this was based on the system being familiar to and well understood by airlines and others. These respondents suggested that this has been proven to be relatively simple and effective, and its retention would minimise disruption to taxpayers' systems – and also recognise that any such disruption would be disproportionate if the replacement tax is to be abolished when finances allow. It was also noted that, as was suggested in relation to other aspects of the scope and structure of the replacement tax, consistency with UK APD would be beneficial for taxpayers who will continue to be subject to both taxes.

4.25. Most of those providing comment here suggested that destination-based banding should be based on the distance between capital cities. Several of these respondents suggested that this approach would involve less of an administrative burden for airlines, compared to for example bandings based on distance between airports. Nearly all of those making specific reference to the basis on which distance to capital cities is measured suggested that this should be based on

distance from Edinburgh. However, a business and economic development respondent questioned whether the change to an Edinburgh-based measure would be worthwhile if the replacement tax is to be relatively short-lived.

- 4.26. In addition to suggestions for capital to capital distance bandings, an 'other' organisation respondent was in favour of devolving responsibility for APD to local authorities, with distance-based tax bands then based on the airport within the local authority.
- 4.27. In contrast to these suggestions, a small number of respondents suggested a move away from banding based on specific distance thresholds, to bands based on a specific set of destinations. This was most commonly based on all destinations currently within band A for UK APD being retained within this band for the Scottish replacement tax (and all other destinations are classified as band B). However, a small number of respondents (including some who supported a distance-based criteria) also specifically suggested that band A is extended to bring Egypt and Israel within the lower band.
- 4.28. The great majority of those who wished to see destination banding based on distance from Edinburgh suggested that the band A threshold is revised upwards to 2500 miles to take account of this change, and to avoid Scotland's connectivity being negatively impacted. However, a professional tax and accountancy respondent noted that such an increase may add complexity to the tax system, without a corresponding change in UK APD thresholds.
- 4.29. The majority of those providing comment specifically suggested retaining two tax bands. This was recommended on the basis of maintaining consistency with UK APD for taxpayers subject to both taxes, and also ensuring clarity and efficiency in line with the principles of taxation highlighted in the consultation document. Several respondents also suggested that the use of two bands would minimise the complexity and administrative burden for taxpayers, including an airline/airline representative respondent who suggested that the previous multi-band system under UK APD had resulted in a number of anomalies.
- 4.30. However, a small number of group respondents – including other transport/travel business/economic development and other organisations - suggested that an additional band could be added which distinguished between short-haul (current band A) flights where a viable surface-based alternative is available, and short-haul flights where no such alternative is available. These respondents suggested that reducing APD specifically for flights where no viable alternative is available would encourage use of lower carbon surface travel options for shorter domestic journeys, and would also help to address the

disadvantages facing airports in the north of Scotland where there is often no viable surface-based alternative to domestic air travel. In terms of a practical definition for this banding structure, respondents suggested that this is based on a minimum distance (e.g. circa 350 miles) and/or where the surface-based travel time would exceed 3-4 hours. A small number of individual respondents also made broader suggestions that tax bands are defined so as to discourage air travel for shorter journeys, and to take greater account of the environmental impact of flights.

- 4.31. A small number of respondents, including airlines and other transport and travel organisations indicated that while they agreed with the retention of two distance-based tax bands, they wished to see a reduction in the charges levied on band B.
- 4.32. A large majority of the 28 **respondents who disagreed with the retention of distance-based tax banding** provided further comment. Relatively few of these respondents made reference to a specific rationale for their objection to distance-based tax banding. Comments from some of these respondents make clear that their objection to distance-based tax banding was based on a desire to see APD abolished in Scotland, or an objection to the proposed 50% reduction in ASD. Other respondents made clear that their objection was based on distance-based bands providing a “crude and inaccurate proxy for environmental impacts”. This included a small number of respondents who specifically suggested that tax bands should be structured to incentivise modal shift from air to rail on routes where rail provides a viable alternative.
- 4.33. Respondents made a range of specific **suggestions for how an alternative tax banding might be structured**. These suggestions included:
- An airport respondent and a small number of individuals proposed banding based on the distance from departure to destination.
 - Fine-grained distance bands or the introduction of a discounted “intermediate” banding for flights where there is no viable rail alternative, in order to take better account of environmental impacts and to encourage a modal shift to rail where this is a viable alternative. This was suggested by an other transport/travel organisation, ‘other’ group respondent, and a small number of individuals.
 - A “frequent flyer levy” where tax bands would be based on the number of flights taken by the passenger during the year (and where this banding would not apply to business travel) was suggested by an ‘other’ organisation.

- An other transport and travel respondent suggested moving away from a destination or distance based banding, suggesting that distance should only be one factor taken into account when determining tax bands. It was suggested that a set of tariffs could be published annually, allowing for incremental changes in banding as the impact of the reduction in APD is assessed.
- A reduced rate banding for developing countries where GDP is below a defined threshold was suggested by an individual.
- An airline/airline representative respondent suggested the removal of tax bands, such that there is a single charge across both reduced and standard tax rates, and a separate charge for higher rated passengers (although it was suggested that the current differential in charge for higher rate passengers should be reduced).

Tax rates

Q6a: Do you think that the reduced, standard and higher rates system used for UK APD should be retained under a Scottish replacement tax?

Q6b: If you answered yes, do the UK definitions remain appropriate for practices in the aviation industry in Scotland?

Q6c: If you answered no, please explain your answer. What system do you think should be used instead?

- 4.34. Question 6a asked whether the rates system used for UK APD (based on reduced, standard and higher rates) should be retained under the Scottish replacement.
- 4.35. 92 respondents answered Question 6a (58% of all respondents). The majority of these respondents agreed that the current UK APD rates system should be retained; 69 respondents, 75% of those answering the question. A further 23 respondents indicated that they disagreed with this proposal, 25% of those answering the question.
- 4.36. There was some variation in this profile of views across respondent types. Group respondents were more likely than individuals to agree with retaining current UK APD rates; more than 9 in 10 group respondents agreed with this, compared to less than 6 in 10 individuals. Individual respondents accounted for the large majority of those opposed to the retention of UK APD rates.

Table 4.4: Q6 Do you think that the reduced, standard and higher rates system used for UK APD should be retained under a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	10	1	1	12
Airports and airport representatives	4	1	3	8
Other transport and travel organisations	7		6	13
Business, economic development and tourism organisations	19		6	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations	2	1	7	10
<i>Group respondents (Total)</i>	<i>42</i>	<i>3</i>	<i>31</i>	<i>76</i>
Individual	27	20	37	84
TOTAL	69	23	68	160
Percentage of all respondents	43%	14%	43%	100%
Percentage of those answering question	75%	25%	-	100%

4.37. The consultation document invited further written comments at Questions 6b and 6c, asking those who wished to retain the current tax rates system whether the UK APD tax rate definitions should be applied to Scotland, and those who disagreed which alternative approach should be used. A total of 78 respondents provided further written comment, including 57 of the 69 respondents who supported the retention of destination-based banding, and 19 of the 23 who disagreed.

4.38. Again, most of those **providing comment in support of retaining current tax rates** indicated that this was based on the rate structure being familiar to and well understood by airlines and others. This included references to the extent to which the rate structure has been proven relevant to passengers, and a reasonable reflection of differences of experience (and ability to pay) across flight classes. Several respondents, particularly aviation industry and business/economic development respondents, also referred to the administration of APD, suggesting that the current rate structure has supported an efficient approach to tax collection, and that changes to this would require disruption to taxpayers' systems. Maintaining consistency with the current UK APD structure was also seen as important for future administration of the two taxes. In this context, a professional tax and accountancy respondent also noted that any disruption to systems would be disproportionate if the intention is for the replacement tax was to be abolished within a relatively short timeframe.

- 4.39. The majority of those in favour of the current rate structure felt that the rate definitions are broadly appropriate to the Scottish market, and relatively few of these respondents suggested a need for change to these definitions.
- 4.40. The most common issue raised in relation to the current rate definitions related to what was seen as a disproportionate treatment of economy and enhanced/premium economy classes within the current definitions. Several airline/airline representatives, airport and other transport/travel respondents suggested that the significant differential in charge between the “reduced” and “standard” APD rates does not reflect the relatively small difference in service and ticket cost between these classes, and wished to see the rates redefined to better reflect current classes of air travel. A small number of these respondents also supported a specific suggestion from an airline/airline representative, with the aim of making the definitions more relevant to and more easily understood by passengers:
- The Reduced rate to be redefined as “Standard”, incorporating economy and enhanced/premium economy;
 - Standard rate to be redefined as “Premium”, to incorporate first and business class; and
 - Higher rate to be renamed as “Private”, using the existing higher rate definition.
- 4.41. Reflecting views provided at Question 5, a business/economic development respondent suggested that the rate structure could be amended to distinguish short-haul flights where a viable surface-based alternative is not available. This respondent suggested that a discounted rate is introduced for these flights.
- 4.42. Consistent with views expressed in relation to other aspects of the scope and structure of APD, a small number of **those opposed to the current rate structure** indicated that this was based on a wish to see APD abolished. An airport respondent also expressed concern that the current tax rates could dis-incentivise carriers from delivering the new international connections that are prioritised by the strategic and policy objectives.
- 4.43. However, comments from those who disagreed with retaining the current rate structure suggest that the most common reason for this is a preference for a replacement tax which addresses the environmental impact of air travel and/or takes greater account of passengers’ ability to pay:

- Several respondents, including an 'other' organisation and several individuals, suggested that current rates should be replaced with a structure that reflects the environmental impact of air travel. This reflected a wider view (considered in relation to the strategic and policy objectives for APD at [section 3](#) of this report) that the replacement tax should be used to minimise the negative environmental impacts of air travel. In terms of the basis of an alternative rate structure, these respondents made reference to factors such as distance travelled, size of aircraft and volume of fuel used.
- Reforming the rate structure to take greater account of passengers' ability to pay was also suggested by a small number of respondents, including some of those in favour of a more environmentally focused tax. This included a specific suggestion of a flat percentage tax rate, proposed as an easy to administer approach which would reflect the difference in fares across the main classes of seat and, in setting that flat rate, would take some account of passengers' ability to pay.

Q7: Can you provide any evidence on the impact of the introduction of the higher rate which came into effect from 1 April 2013?

- 4.44. In addition to Question 6 which sought views on the suitability of the three current UK APD categories of rates for a Scottish replacement tax, Question 7 specifically asked respondents for any insight on the impact of the introduction of the higher rate of APD in April 2013. This rate applies only to passengers on aircraft with an authorised weight of greater than or equal to 20 tonnes and which carry no more than 18 passengers, and in practice primarily applies to private aircraft and charter flights.
- 4.45. A total of 68 respondents provided some written comment at Question 7. However, the great majority of these responses indicated that they could not offer any insight into the specific impact of the higher rate. This included a number of airline/airline representative and airports respondents noting that the private aircraft to which the higher rate applies account for a very small proportion of air travel in Scotland; one airport respondent indicated that higher rate flights accounted for only 0.1-0.2% of flights from Glasgow and Aberdeen airports in 2015. Some of these respondents suggested that the small size of this sector means that it is likely to have a negligible effect in terms of the overall air passenger profile across Scotland, and indeed for revenues generated by APD.

- 4.46. Only one respondent – an airline/airline representative – made any substantive comment on the impact of the introduction of the higher rate. This respondent reported having received negative feedback from corporate jet operators affected by the higher rate, suggesting that some of these operators have reduced numbers of flights to the UK.
- 4.47. A small number of other transport and travel respondents were of the view that the lack of evidence available on the impact of the higher rate of APD illustrated the need for independent analysis and effective monitoring of the impact of tax changes. This included a suggestion that this evidence should be secured before further taxation changes are proposed.

Reducing the tax burden

Q8: Do you have any views on how and when the planned 50% reduction in the burden of APD should be implemented?

- 4.48. The consultation document notes that the Scottish Government has plans to “reduce the burden of APD in Scotland” by 50%, by the end of the next Scottish Parliament (expected to be in 2021). The final consultation question in relation to the scope and structure of APD sought respondents’ views on how and when the proposed 50% reduction in APD is implemented.
- 4.49. A total of 95 respondents provided written comment at Question 8, 59% of all respondents. Analysis work makes clear that many of the comments on how a reduction in APD should be introduced, reflected respondents’ wider views on the principle of a reduction in APD. For example, those in favour of the 50% reduction typically focused on how its implementation could best achieve the anticipated benefits to Scotland’s connectivity and economic growth. Conversely, those opposed to the 50% reduction focused on how its implementation could best mitigate environmental impacts, and ensure that economic benefits are shared.
- 4.50. In terms of **the timing of the 50% reduction in APD**, nearly half of those providing comment wished to see this as soon as possible, and ideally immediately at the point that the power is transferred. This view was held primarily by business/economic development and aviation industry respondents. Most of these respondents suggested that an incremental introduction would be less effective than a “big bang” approach in delivering the anticipated benefits, for example in terms of the media and industry interest generated. The additional administrative burden associated with a phased introduction of the 50% reduction was also highlighted.

- 4.51. A substantial number of those favouring an immediate introduction of the 50% reduction in APD reiterated their desire to see the full removal of APD in Scotland as soon as possible. Some business and economic development respondents also wished to see greater clarity on how the Scottish Government will determine that “resources allow” the full removal of the replacement tax, including requests that a timetable for abolition is published.
- 4.52. Other respondents suggested that there may be benefit in an incremental introduction of the 50% cut in APD - this included other transport/travel, professional tax/accountancy, environmental and ‘other’ organisations. These respondents suggested a need for further work to assess and plan for the impacts of the reduction on travel behaviours, tax revenues, economic benefits and environmental impacts, before a full 50% reduction is introduced. Careful monitoring of the impact of the reduction in APD was also recommended to ensure the anticipated benefits are being realised.
- 4.53. A substantial proportion of those providing comment at Question 8 – primarily individuals and other transport/travel respondents – reiterated their view that the reduction in APD should not be introduced. This included reference to a need for a clear plan on how the shortfall in tax revenue will be compensated, and quantification of associated economic benefit and environmental impacts.
- 4.54. A substantial number of respondents highlighted the importance of ensuring the aviation industry receives clarity on the Scottish Government’s intended approach with sufficient lead in time to inform route and schedule planning. This was cited as important in ensuring the planned APD reduction can stimulate new direct routes for Scotland, and also in enabling taxpayers to make any necessary changes to their systems. These respondents also noted that tickets are sold up to a year in advance of travel, and the lead in period required was most commonly suggested as 12-18 months with 12 months suggested as the minimum required.
- 4.55. Respondents made a range of comments around **how the 50% reduction in APD should be introduced**. The single most common suggestion was for a consistent reduction across all tax bands and rates. This was recommended by most business/economic development respondents and a small number of aviation industry respondents as the clearest and simplest approach. Respondents also described this as an approach which “*send[s] a clear message to airlines that Scotland is serious about cutting air taxes and attracting more air services to Scotland*”.

- 4.56. Amongst respondents commenting on the potential for an incremental introduction of the reduction in APD, a number of specific areas were identified as priorities for implementation:
- A small number of respondents suggested targeting the reduction on specific tax bands, with a mix of views expressed. A small number of business/economic development and aviation industry respondents suggested that the 50% reduction is targeted initially on long haul band B flights. This was recommended as consistent with the focus on increasing direct international connectivity, and also recognising the substantial contribution that long-haul visitors make to local economies. In contrast, an airline respondent recommended that the full 50% reduction should be applied immediately for band A (and the reduction for band B applied over time) on the basis that a staged reduction in band A rates would be costly for both carriers and tax collectors.
 - A small number of respondents suggested that the reduction in APD is targeted on specific sectors or routes. This included an airport respondent suggesting that the reduction is achieved through a 100% removal of APD for flights from airports where total annual passenger numbers are less than 3 million. Another airport respondent recommended extending the current exemption on flights departing from the Highlands and Islands to include flights into the region. A further airport respondent wished to see a 100% removal of APD for intra-Scotland routes, as a means of incentivising services between Glasgow/Edinburgh and airports in the north of Scotland and recognising the benefits to regional economies of reducing travel times.
 - A small number of respondents suggested an approach to the 50% reduction which sought to minimise environmental impacts and/or to support an appropriate modal shift to surface travel options. This included for example suggestions that the reduction is prioritised for domestic flights where there is no viable surface travel alternative.
- 4.57. A small number of respondents made specific reference to the importance of careful planning and effective engagement with taxpayers during the period of transition to the replacement tax. This included a suggestion from an airline representative respondent that transitional rules may be required to provide clear guidance to airlines on the remittance of APD, for example where tickets are sold prior to the implementation of the replacement tax for travel when the replacement will be active. An environmental organisation recommended that the Scottish Government develop a long-term plan setting out a planned approach to achieve emission reductions to offset increases in aviation emissions as a result of the change in APD policy.

5. Exemptions

- 5.1. The consultation document included an overview of current UK APD exemptions for passengers and flights. This noted that passengers are exempt from UK APD in a number of circumstances including where they are (i) passengers on a connected flight, (ii) children, (iii) transit passengers making a stop en route for example to refuel, (iv) passengers carrying out certain duties such as flight crew and cabin attendants, or (v) passengers carried under a statutory obligation. In relation to flights, the five main types of flight exempt from UK APD are (i) emergency or public service flights, (ii) short pleasure flights of 60 minutes or less, (iii) where the flight details of destination changes due to circumstances beyond the airline's control, (iv) NATO flights, and (v) flights departing from the Highlands and Islands region.
- 5.2. This section considers respondents' views on the three consultation questions in relation to passenger and flight exemptions.

Passenger exemptions

Q9a: Do you think that the current UK APD passenger exemptions should be retained under a Scottish replacement tax?

Q9b: If you answered yes, to what extent are the existing definitions appropriate for the Scottish industry?

Q9c: If you answered no, please explain your answer. Is there any evidence to support the introduction of any additional or alternative exemptions?

- 5.3. Question 9a asked whether the current UK APD passenger exemptions should be retained by the Scottish replacement.
- 5.4. A total of 87 respondents answered Question 9a (54% of all respondents). A large majority of these respondents agreed that the current UK APD passenger exemptions should be retained; 70 respondents, 80% of those answering the question. A further 17 respondents indicated that they disagreed with this proposal, 20% of those answering the question.
- 5.5. There was some variation in this profile of views across respondent types. Group respondents were more likely than individuals to agree with the use of current passenger exemptions; more than 9 in 10 group respondents agreed with this, compared to around two thirds of individuals. Individual respondents accounted for nearly all of those opposed to retaining current passenger exemptions.

Table 5.1: Q9a Do you think that the current UK APD passenger exemptions should be retained under a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9	2	1	12
Airports and airport representatives	5		3	8
Other transport and travel organisations	7		6	13
Business, economic development and tourism organisations	19		6	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations	2		8	10
<i>Group respondents (Total)</i>	<i>43</i>	<i>2</i>	<i>31</i>	<i>76</i>
Individual	27	15	42	84
TOTAL	70	17	73	160
Percentage of all respondents	44%	11%	46%	100%
Percentage of those answering question	80%	20%	-	100%

- 5.6. The consultation document invited further written comments at Question 9, asking those who wished to retain current UK APD passenger exemptions whether the current definitions should be applied to Scotland, and those who disagreed which alternative approach should be used. A total of 69 respondents provided written comment, including 52 of the 70 who supported retention of the existing UK APD passenger exemptions, and 16 of the 17 who disagreed.
- 5.7. For **those in favour of retaining current passenger exemptions**, these were described as having been beneficial for air travel across the UK to date, and also for Scotland’s future air connectivity. This included reference to specific aspects of current exemptions as being of particular importance for Scotland’s air connectivity – the exemption for children under the age of 16 and exemptions for connecting flights and transit passengers were seen as particularly significant.
- 5.8. More broadly, the importance of retaining consistency between the Scottish and UK APD tax regimes was also emphasised by a substantial number of those in favour of retaining current exemptions, including reference to minimising complexity and confusion within the market. A small number of these respondents expressed specific concerns that passengers who are exempt from UK APD on departure from elsewhere in the UK, should not be subject to the Scottish replacement tax due to differences in exemptions or definitions. In this context, several respondents suggested that engagement with airlines would be required well in advance of any proposed changes exemptions, to minimise the costs associated with implementation and to provide time for any required changes to systems.

- 5.9. A small number of those indicating broad support for retention of UK APD exemptions suggested areas where these should be extended. This included reference to extending the current exemption for children to include those up to the age of 18, to introduce exemptions for charities, exemptions for passengers of pensionable age, and exemptions for passengers travelling on medical grounds (for example between the Scottish Islands and the mainland).
- 5.10. An other transport and travel respondent broadly supportive of current exemptions also suggested there may be value in considering a progressive phasing out of exemptions for connecting flights and transit passengers, in order to encourage more direct flights to Scotland.
- 5.11. There appeared to be broad support for current exemption definitions amongst those who supported the retention of UK APD exemptions under the Scottish APD replacement tax. A substantial proportion of these respondents made explicit reference to the suitability of these definitions, and only one of those supporting the current exemptions suggested modification to current definitions. An airline/airline representative respondent wished to see clarification of definitions for non-revenue and standby travellers.
- 5.12. The great majority of **those opposed to the retention of current UK APD passenger exemptions** provided further written comment at Question 9c; 2 airlines and 14 individuals.
- 5.13. Comments from some individual respondents indicated that this was based on a wish to see APD abolished, or an objection to the proposed reduction of APD in Scotland. This latter group included some who wished to see an increase in taxation of air travel, for example via removal of some or all exemptions and/or a wider increase in APD charges.
- 5.14. Most of those providing written comment on their objection to the current UK APD exemptions suggested alternative approaches. This included a small number of respondents suggesting an extension to current exemptions; the exemption for children to include all classes of travel, and the introduction of an exemption for foreign students studying full-time at a Scottish University. However, most suggested specific areas where they wished to see exemptions reduced and/or broader changes to the approach to the Scottish replacement tax:
- The most common suggested change was limiting or removing exemptions for connecting flights and transit passengers. This included a suggestion from an airline respondent that the connecting passenger exemption in particular dis-incentivises direct flights. In terms of limiting this exemption one respondent suggested that this should only apply to those stopping to refuel,

for example such that a flight from the UK to the USA and then an onward journey of more than 200km would attract APD on both legs.

- A small number of respondents suggested that the exemption for children should be limited or removed. This included suggestions for changes to the age threshold of the exemption (those under school age or those aged under 2 who are not occupying a seat) and a suggestion for a reduced tax rate to apply to all children.
- An individual suggested the removal of the exemption for passengers carrying out certain duties, recognising that these passengers make the same contribution to carbon emissions as others not exempt from APD.
- An individual suggested the removal of the exemption for short leisure flights, alongside a revised replacement tax which links the level of charge with the environmental impact of the flight.
- An individual respondent suggested that all exemptions (and tax bands) are removed, with a percentage of the fare levied across all passengers.

Flight exemptions

Q10a: Do you think that the current UK APD flight exemptions should be retained under a Scottish replacement tax? Please answer yes or no.

Q10b: If you answered yes, to what extent are the existing definitions appropriate for the Scottish industry?

Q10c: If you answered no, please explain your answer. Is there any evidence to support the introduction of any additional or alternative exemptions?

- 5.15. Question 10a asked whether the current UK APD flight exemptions should be retained under the Scottish replacement tax.
- 5.16. 84 respondents answered Question 10a (53% of all respondents). A large majority of these respondents agreed that the current UK APD flight exemptions should be retained; 67 respondents, 80% of those answering the question. A further 17 respondents indicated that they disagreed with this proposal (20% of those answering the question) with 11 of these respondents also disagreeing with the retention of current passenger exemptions (at Question 9).

5.17. There was some variation in this profile of views across respondent types. Group respondents were more likely than individuals to agree with this proposal; more than 9 in 10 group respondents agreed with the use of current flight exemptions, compared to around two thirds of individuals. Individual respondents accounted for nearly all of those opposed to retaining current flight exemptions.

Table 5.2: Q10a: Do you think that the current UK APD flight exemptions should be retained under a Scottish replacement tax? Please answer yes or no.

	Yes	No	No response	TOTAL
Airlines and airline representatives	11		1	12
Airports and airport representatives	4	1	3	8
Other transport and travel organisations	7		6	13
Business, economic development and tourism organisations	17		8	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations	1	1	8	10
<i>Group respondents (Total)</i>	<i>41</i>	<i>2</i>	<i>33</i>	<i>76</i>
Individual	26	15	43	84
TOTAL	67	17	76	160
Percentage of all respondents	42%	11%	48%	100%
Percentage of those answering question	80%	20%	-	100%

5.18. The consultation document invited further written comments at Question 10, asking those who wished to retain current flight exemptions whether the current definitions should be applied to the Scottish APD replacement tax, and asking those who disagreed which alternative approach should be used. A total of 64 respondents provided further written comment, including 50 of the 67 respondents who supported retention of the current UK APD flight exemptions, and 14 of the 17 who disagreed.

5.19. For **those in favour of retaining current flight exemptions**, these were seen as having made a positive contribution to air travel across the UK to date, and as being relevant to Scotland's future air connectivity. This included references to the importance of retaining consistency between the Scottish and UK APD regimes in recognition of the global nature of aviation, and to minimise complexity for taxpayers and potential confusion for customers.

- 5.20. A small number of airline and airline representative respondents mentioned aspects of the current exemptions as being of particular relevance and which these respondents wished to be retained. This included specific reference to exemptions required under international law such as for military and search/rescue aircraft, and exemptions for routes subsidised by Public Service Obligation flights in recognition that this subsidy is in place to ensure the service is sustainable.
- 5.21. A small number of those indicating broad support for the retention of UK APD exemptions and associated definitions also suggested areas where these should be extended or amended:
- An airline respondent suggested that an exemption is introduced for charter flights for charities.
 - An airline respondent wished to see an amendment to short leisure flight exemptions, such that the 60-minute flight time is measured from “wheels up to wheels down”.
 - An other transport and travel respondent suggested that the authorised take-off weight for flight exemptions is increased to 13.5 tonnes to include some smaller aircraft.
- 5.22. The great majority of **those opposed to the retention of current UK APD exemptions** provided further written comment at Question 10c; 1 airport, 1 other organisation, and 12 individuals. As was evident in relation to passenger exemptions, some individual respondents indicated that this objection was based on a wish to see APD abolished, or an objection to the proposed reduction in APD in Scotland (primarily on the basis of minimising the environmental impact).
- 5.23. A small number of those objecting to the retention of all current flight exemptions highlighted specific exemptions which were seen as of particular value. This included a business and economic development respondent who wished to see the continuing exemption of helicopters, noting the importance of this exemption for the north-east economy.
- 5.24. However, most suggested specific areas where they wished to see exemptions reduced and/or broader changes to the approach to the Scottish replacement tax. This included several respondents who wished to see a significant reduction in flight exemptions in recognition that all flights have a similar environmental impact in terms of carbon emissions. Specific amendments suggested by respondents were:
- Removal of the exemption for short pleasure flights was suggested by a small number of group and individual respondents.
 - Two individuals suggested the removal of the exemption for NATO flights.

- An individual respondent suggested that all exemptions (and tax bands) are removed, with a percentage of the fare levied across all passengers.
- Amendment to the exemption for flights departing from the Highlands and Islands – views here are considered in further detail later in this section under Questions 11 and 12.
- An individual respondent suggested the removal of the exemption for helicopters on the grounds that they produce comparable emissions to other aircraft which are not exempt from APD.

Q11: What are the benefits to the local economy and residents of the Scottish Highlands and Islands region from the current UK APD exemption for passengers departing from airports in the region?

- 5.25. The consultation document notes that an exemption for all outbound flights from an airport in the Highlands and Islands region was introduced in 2001, in recognition of residents' reliance on air travel. Question 11 sought respondents' views on the benefits of this exemption for the economy and residents of the region, before Question 12 asked specifically for views on whether and in what form the exemption should be retained.
- 5.26. A total of 56 respondents provided written comment at Question 11, 35% of all respondents. This group of respondents comprised 23 individuals and 33 group respondents, the latter including a small number of airport, other transport/travel and business/economic development respondents from the Highlands & Islands region.
- 5.27. The large majority of those giving a view on the impact of APD exemptions for the Highland and Islands region were **positive about the exemption**. Most of these respondents made reference to the social and economic benefits of air connectivity generally, and also specifically in relation to the nature of the region - for example the extent to which residents and businesses are reliant on what were described as "lifeline" routes. This included several respondents noting that the rationale for the introduction of the exemption in 2001 - low population density and relative remoteness, including the impracticality of surface travel options – remain significant issues for the region.

"The exemption from APD...benefits residents and businesses both through direct impacts on air fares and by enabling greater range and frequency of air services to be offered than if APD were charged." Highlands and Islands Enterprise

- 5.28. In addition to these more general points around the positive impact of the exemption, a substantial number of respondents made reference to more specific benefits for the region. This included a small number of respondents, primarily group respondents based in the region, providing more detailed submissions which set out the positive impacts in some detail including citation of a range of evidence sources.
- 5.29. As noted above, the importance of air travel for the Highlands and Islands region was mentioned by a substantial proportion of those making comment, with particular reference to the impracticality of alternative surface travel options. The exemption was also seen as a **significant factor in supporting air routes** which otherwise may not be sustainable, and in incentivising airlines to consider new services to the region. A small number of respondents noted that most air services in the region are “thin” routes with relative low frequency of service, operated primarily by smaller aircraft often with low passenger loads which impacts on the commercial sustainability of services without public subsidy. An airport respondent also referred to several new services introduced to the Highlands and Islands region in recent years, indicating that feedback from airlines suggests that the APD exemption has been a significant factor in the introduction of new routes. This included services from Inverness highlighted as being highly sensitive to changes to APD; cross-border services due to their being based on a “high volume low-fare” model, and newly introduced international services due to the higher rates of APD that would be levied.
- 5.30. Most of those making comment at Question 11 made specific reference to the economic importance of air travel and **the positive impact of the exemption for local economies** within the Highlands and Islands region. This included reference to what were seen as “key sectors” for the local economy such as tourism, energy, life sciences, and food and drink. These respondents suggested that many businesses and employers in the region are highly dependent on air travel to key destinations, with links to Aberdeen and Edinburgh, and to UK and international hubs cited as particularly significant. It was also suggested that lower cost air connectivity has been a significant factor in growth of tourism services in the region, and for many businesses choosing to locate in the area.
- 5.31. Specific **resident benefits** mentioned by respondent included supporting access to study, to employment, to critical mainland services, maintaining links with friends and family, and accessing holiday routes. Some also noted that benefits to residents are linked to the economic importance of air travel for the area; attracting more business and tourism activity contributes to local employment opportunities, and to population retention and the continuing sustainability of local communities.

- 5.32. Respondents referred to the importance of the APD exemption in supporting air connectivity (and its associated benefits) to the Highlands and Islands region, suggested that **removing this exemption would have a significant detrimental effect**. These respondents referred to increasing travel costs for residents and businesses and to the likely loss of air services to the area – including citation of evidence on current “leakage” of traffic from Inverness airport’s catchment. In relation to impact on services, this included an airport and an other transport/travel respondent who emphasised that the regions would be disadvantaged by any changes to APD policy. These respondents suggested that this would result from any removal or reduction of the exemption for the region, or from Scotland-wide changes to APD which reduced the differential in APD afforded to the region.
- 5.33. In addition to the above points, an other transport and travel respondent suggested that there is a need for more and better evidence on the impact of APD exemptions as a whole - including specifically in relation to the Highlands and Islands.
- 5.34. A small number of respondents **raised concerns** around some of the benefits associated with the Highlands and Islands exemption. These respondents acknowledged the importance of the exemption for “lifeline” services. However, some concern was raised around the exemption for flights from Inverness to destinations outwith the Highlands and Islands region. This was most commonly in relation to “ski and sun” destinations such as routes to mainland Europe. However, there was also a suggestion from an airport respondent that subsidising air travel from Inverness to other parts of the UK, while flights from other Scottish airports remain subject to APD, was not equitable:

“Air travel from the Highlands & Islands to locations abroad should not be exempt, as these cannot be considered as ‘lifeline’ services.” Transform Scotland

- 5.35. A small number of individual respondents who wished to see taxation of air travel which took greater account of environmental impacts, suggested that the environmental impacts from currently exempt Highlands and Islands flights are equivalent to other flights, and as such should be subject to APD. This included reference to concerns that island communities may be more severely affected by climate change than other parts of Scotland.

Q12a: Do you think the current exemption for outbound flights from the Highlands and Islands region should be retained or modified under a Scottish replacement tax?

Q12b: If you answered 'modified', please explain your answer. In what way should it be modified?

- 5.36. Question 12a asked whether the current UK APD exemption for outbound flights from the Highland & Islands region should be retained by the Scottish replacement.
- 5.37. 84 respondents answered Question 12a, 53% of all respondents. A large majority of these respondents agreed that the current UK APD exemption for flights from the Highland & Islands region should be retained; 66 respondents, 79% of those answering the question. A further 18 respondents indicated that they wished to see the current exemption modified (21% of those answering the question), 12 of whom also wished to see the removal or modification of other current UK APD flight exemptions (at Question 10).
- 5.38. There was some variation in this profile of views across respondent types. Group respondents were more likely than individuals to agree with the proposal; nearly 9 in 10 group respondents agreed, compared to a little more than two thirds of individuals. Individual respondents accounted for nearly three quarters of those opposed to retaining the Highland and Islands exemption in its current form.

Table 5.3: Q12a Do you think the current exemption for outbound flights from the Highlands and Islands region should be retained or modified under a Scottish replacement tax?

	Retained	Modified	No response	TOTAL
Airlines and airline representatives	7	1	4	12
Airports and airport representatives	3	2	3	8
Other transport and travel organisations	8		5	13
Business, economic development and tourism organisations	18		7	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations	1	2	7	10
<i>Group respondents (Total)</i>	37	5	34	76
Individual	29	13	42	84
TOTAL	66	18	76	160
Percentage of all respondents	41%	11%	48%	100%
Percentage of those answering question	79%	21%	-	100%

- 5.39. The consultation document invited further written comments at Question 12b, asking those who wished to see a modification of the current Highlands and Islands exemption what changes they think should be introduced. A total of 26 respondents provided further written comment, including 9 of the 66 respondents who supported retention of the current exemption, and 17 of the 18 who wished to see the exemption modified.
- 5.40. Amongst those in favour of retaining the exemption for outbound flights from the Highlands and Islands region, several of those providing further comment reiterated points discussed at Question 11 on the positive contribution the exemptions have made to the region. Several respondents also referred to the importance of **retaining consistency** between the Scottish and UK APD regimes in recognition of the global nature of aviation, and to minimise complexity for taxpayers and potential confusion for customers.
- 5.41. However, most of those providing further comment at Question 12 used the opportunity to suggest some modification to the current exemptions for Highlands & Islands flights. This included a small number of those who had indicated that they wished to see the exemption retained.
- 5.42. In terms of **modifications which would extend the current APD exemption** for the region, respondents suggested the following:
- Several respondents suggested that the exemption should be extended to include all inward flights to airports in the region. The potential for this change to act as a stimulus to domestic leisure travel and the region's tourist economy was emphasised by these respondents.
 - An other transport and travel respondent expressed concerns that the proposed reduction in APD across Scotland will have an adverse impact on the continuing development of the region's air connectivity. This respondent suggested that "a compensatory and equitable intervention" is introduced for the region, alongside the wider reduction in APD for other parts of Scotland. An intervention in the order of circa 10% of the value of the wider APD reduction was suggested, although the need for further consideration around the size and nature of the intervention was acknowledged. In this regard, the respondent made reference to a range of EU categorisations and other funding mechanisms that may be used as a basis for any such intervention.
- 5.43. Most of those suggesting specific modifications wished to see a **reduction or removal of the exemption** for Highlands & Islands flights. These included:

- A small number of respondents suggested that the current exemption for flights from Inverness to destinations outwith the Highlands and Islands region should be removed. This was most commonly in relation to flights to destinations outwith the UK which these respondents suggested could not be considered “lifeline” services. However, there was also a suggestion from an airport respondent that subsidising air travel from Inverness to other parts of the UK, while flights from other Scottish airports remain subject to APD, was not equitable.
- A small number of ‘other’ organisations questioned the definition of the region subject to exemption, and in particular the inclusion of western parts of Moray. It was suggested that these exempt areas have relatively easy access to Inverness airport, while rural parts of Aberdeenshire for example have more limited access to Aberdeen airport yet remain subject to APD. One of these respondents suggested an exemption for any locations with a surface journey time of more than 2 hours to an urban centre.
- Several individual respondents wished to see the exemption for the Highlands and Islands region reduced or removed entirely. This included some who wished to see an overall increase in taxation of air travel. Others suggested that the region should be subject to a reduced rate of APD, recognising the availability of alternative travel options and that these flights have an environmental impact.

6. Connected Flights

- 6.1. The consultation document included an overview of current UK APD connected flight rules, and suggested that there is potential for these rules to form the basis of connected flight rules for the Scottish replacement tax. Current UK rules state that a passenger is not a chargeable passenger on subsequent flight(s) of a journey, if the flights are connected (specific criteria are set for when two flights are considered to be connected). This approach ensures that passengers transiting through UK airports are not subject to “double taxation”. Moreover, the exemption for subsequent parts of connected flights helps to protect the hub status of UK airports relative to other non-UK airports.
- 6.2. This section considers respondents’ views on the extent to which current UK APD connected flight rules could be used for a Scottish replacement tax, and the risks of passengers being subject to double taxation.

Q13a: Do you think that the current UK APD rules relating to connected flights should form a baseline position for a Scottish replacement tax?

Q13b: If you answered no, please explain your answer. What rules do you think should be considered instead?

- 6.3. Question 13a asked whether the current UK APD rules on connected flights should form the basis for the Scottish replacement tax.
- 6.4. 81 respondents answered Question 13a, 51% of all respondents. The majority of these respondents agreed that the current UK APD connected flight rules should be retained; 59 respondents, 73% of those answering the question. A further 22 respondents indicated that they disagreed with this proposal (27% of those answering the question).
- 6.5. There was some variation in the profile of views across respondent types. Group respondents were more likely than individuals to agree with the proposal; more than 9 in 10 group respondents agreed, compared to around half of individuals. Individual respondents accounted for a large majority of those opposed to retaining current connected flights rules.

Table 6.1: Q13a Do you think that the current UK APD rules relating to connected flights should form a baseline position for a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9	1	2	12
Airports and airport representatives	5		3	8
Other transport and travel organisations	7	1	5	13
Business, economic development and tourism organisations	17		8	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations	2	1	7	10
<i>Group respondents (Total)</i>	<i>41</i>	<i>3</i>	<i>32</i>	<i>76</i>
Individual	18	19	47	84
TOTAL	59	22	79	160
Percentage of all respondents	37%	14%	49%	100%
Percentage of those answering question	73%	27%	-	100%

- 6.6. The consultation document invited further written comments at Question 13b, asking those who did not think that current UK APD connected flight rules should form a baseline for the replacement tax, which rules should be considered instead. A total of 41 respondents provided further written comment, including 22 of the 59 respondents who supported the UK APD connected flight rules, and 18 of the 22 who disagreed.
- 6.7. Most of **those supporting use of UK APD connected flight rules** who provided further comment re-stated some of the benefits set out in the consultation document. This included for example in protecting the status of UK hub airports, although an airport respondent noted that changes in the range and profile of operators in the domestic market have resulted in a significant reduction in opportunities for connected flights from Scotland since UK APD was first introduced.
- 6.8. Some of these respondents also emphasised the importance of maximising consistency with UK APD, in terms of minimising confusion for passengers and for administrative simplicity for operators and other travel organisations. This was similar to views expressed by these respondents in relation to other aspects of the scope/structure and exemptions for the Scottish replacement tax.
- 6.9. A professional tax/accountancy organisation suggested that development of the Scottish replacement tax would have to consider whether the rest of the UK is treated as an 'international' destination, given two different administrations will be involved. An airport and a business/economic development respondent also noted that there will

be a need to secure agreement with the UK Government around the application of connected flight rules in the event that a lower charge Scottish APD replacement tax is in place alongside unchanged UK APD charges.

- 6.10. Most of **those who did not support retention of UK APD connected flight rules** saw this exemption as inequitable. Several of these respondents made specific reference to examples of an APD exemption on the first part of a journey applying across the journey as a whole, and which were seen as unfair. This was most commonly in relation to flights from the Highlands & Islands to Scottish or other UK airports, which subsequently connect with international flights. An airline respondent also suggested that connected flight rules disincentivise direct flights and subsidise point to point operations of those airlines which also offer a connecting service – and in this way discriminates against airlines which operate only point to point flights.
- 6.11. A substantial proportion of those who did not support retention of UK APD connected flight rules wished to see the removal of any exemption for subsequent parts of a connected flight. This included an airline, an other transport/travel respondent, an ‘other’ organisation respondent, and several individuals. These respondents suggested that passengers should be treated as chargeable passengers across all parts of a journey, such that all passengers travelling to the same destination are equally subject to APD. This included a specific interest in ensuring that exemptions for APD only apply to the initial non-chargeable part of a connected flight.
- 6.12. For several of the individual respondents advocating a removal of connected flight rules, this was in the context of a desire to see wider changes in approach to the Scottish APD replacement tax. This included for example those seeking an overall increase in taxation of air travel, and those who wished to see a closer link between taxation and environmental impact (e.g. based on total journey distance).

Q14: What situations do you think could result in double taxation after a Scottish replacement to APD is introduced, and how might double taxation in such situations be avoided?

- 6.13. The consultation document makes clear that the Scottish Government intends to work with the UK Government to ensure that passengers on connected flights are not considered chargeable passengers under both UK APD and the Scottish replacement tax, where that is not the policy intention. Question 14 asked respondents about the circumstances where this “double taxation” might apply, and the approaches that might avoid these circumstances.

- 6.14. A total of 53 respondents provided written comment at Question 14, 33% of all respondents. This group of respondents comprised 16 individuals and 37 group respondents, the latter primarily comprising aviation and other transport/travel, and business/economic development respondents.
- 6.15. In terms of the **circumstances where double taxation might arise**, a substantial proportion of those providing written comment suggested that these circumstances would be minimised if the same connected flight rules are adopted for the Scottish APD replacement tax. This was mentioned by a range of respondents including airlines, airports, business and economic development, and professional tax/accountancy respondents.
- 6.16. However, respondents referred to a range of specific examples where double taxation is currently an issue and/or where the introduction of a Scottish replacement tax could exacerbate the issue of double taxation.
- 6.17. The circumstance most commonly mentioned by respondents related to the impact of connected flight rules for passengers purchasing separate tickets for unconnected flights. It was noted that these passengers are currently subject to APD on three legs of the journey, while those able to purchase a single through ticket are only charged for one leg. This was raised as a specific issue in the context of changes to the air travel market in Scotland since the introduction of UK APD, including the significant role played by low cost operators reliant on point-to-point tickets and where connected flights are not available. A small number of respondents noted that this was a particular issue for Scotland's regional airports, and thus could have a significant impact on regional economies.
- 6.18. Several respondents referred to the impact of EU regulations which do not allow differential treatment of domestic UK flights and flights to other band A locations. These respondents noted that these regulations mean that return flights within the UK are subject to APD on both legs of the journey, while for return flights to other band A destinations APD is due only on the outward leg.
- 6.19. A small number of airline and other transport/travel respondents expressed concerns around cases where a flight from Scotland to an airport elsewhere in the UK continues on to an international destination. It was noted that airlines must not be required to pay for the final number of passengers departing the UK to the Scottish Government, and then again to the UK Government.

- 6.20. As was noted in relation to Question 13, a small number of respondents noted the risk of the UK Government choosing to charge APD on outward flights from UK airports for connecting passengers originating from Scotland. It was suggested that an agreement will be required with the UK Government around the application of connected flight rules in the event of the lower Scottish replacement tax is in place alongside unchanged UK APD charges.
- 6.21. While most of those providing comment at Question 14 highlighted potential double taxation circumstances as requiring action, it should be noted that some did not see double taxation as a significant negative. This was particularly the case for those who objected to the proposed reduction in APD. Others also noted that these and other concerns would not apply if a decision is taken not to devolve APD to Scotland.
- 6.22. In relation to **addressing the risks of double taxation**, respondents again noted that ensuring consistency in approach to connected flights with UK APD would minimise the risks of double taxation. However, a professional tax/accountancy organisation noted that the extent of any double taxation is also dependent on decisions taken by the UK Government – for example if the application of UK APD to use of hub airports is amended. It was suggested that close working between the Scottish and UK Governments will be required on an ongoing basis.
- 6.23. Respondents also made a number of other suggestions of measures that could be introduced to minimise double taxation:
- In relation to double taxation on unconnected flights originating in Scotland where a through ticket is not available, a small number of business/economic development and other group respondents suggested that an agreement is made with the UK Government on circumstances where the principle of connected flight rules could be applied to unconnected flights.
 - A business respondent suggested that APD (or the Scottish replacement tax) is not charged on any domestic UK flight connecting to an international flight.
 - A small number of respondents suggested that consideration is given to the time periods allowed for connected flights to ensure that these are sufficient to cover all cases. This included specific reference to the frequency of flights to remote and rural locations (such as the Highlands & Islands region) as potentially requiring an extension of the current permitted time between connected flights.

- An other transport and travel respondent suggested that a different approach which taxes all flights from Scotland whether or not they are connected flights might be “simpler, greener and better for Scotland’s economy”. This respondent suggested that all flights should attract some level of APD, and that larger reductions in APD could be targeted on some direct flights such that the overall 50% reduction is achieved. However, it was noted that further analysis and planning would be required to inform such an approach.

7. Registration

- 7.1. The current UK APD system requires anyone operating chargeable aircraft for the carriage of chargeable passengers from a UK airport to register for APD – although an Occasional Operator Scheme is available for operators with very low numbers of flights (and therefore low APD liability). The consultation document proposes an approach to registration which is broadly similar with that currently used for UK APD. It is proposed that anyone with the intention to operate chargeable aircraft for the carriage of chargeable passengers from a Scottish airport from the date of the introduction of the Scottish APD replacement tax, will be required to register.
- 7.2. The consultation sought respondents' views on the proposed approach to registration for a Scottish APD replacement tax, including whether there are grounds to incorporate an Occasional Operator Scheme similar to that provided by UK APD.

Q15a: Do you agree with our proposals regarding registration for a Scottish replacement to APD?

Q15b: If you answered no, please explain your answer.

- 7.3. Question 15a asked whether respondents agreed with the Scottish Government's proposals regarding registration for the Scottish APD replacement tax.
- 7.4. Relatively few respondents answered Question 15 (40 responses, 25% of all respondents). This perhaps reflects the extent to which the proposals for registration are most relevant to those who will be liable to account for and pay the Scottish APD replacement tax, and as such has a less direct impact on achievement of the Scottish Government's strategic and policy objectives. This is illustrated in the number of group and individual respondents specifically stating that they were not in a position to comment on the proposals for registration.
- 7.5. The majority of respondents answering the question agreed with proposals regarding registration for the Scottish APD replacement tax; 30 respondents, three quarters of those answering the question. A further 10 respondents indicated that they disagreed with this proposal, all of these being individual respondents. All group respondents answering the question agreed with the registration proposals.

Table 7.1: Q15a Do you agree with our proposals regarding registration for a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9		3	12
Airports and airport representatives	1		7	8
Other transport and travel organisations	3		10	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations	1		9	10
<i>Group respondents (Total)</i>	<i>17</i>	<i>0</i>	<i>59</i>	<i>76</i>
Individual	13	10	61	84
TOTAL	30	10	120	160
Percentage of all respondents	19%	6%	75%	100%
Percentage of those answering question	75%	25%	-	100%

- 7.6. The consultation invited respondents to provide further written comment in support of their response at Question 15a; 11 respondents did so, around a quarter of those answering the question. This included 3 of those expressing support for the proposals, and 7 objecting to the proposals.
- 7.7. Most of those providing written comments referred to the principle of a reduction in APD, rather than the detail of the proposals for registration. This was particularly the case for those who objected to the registration proposals. Nearly all of those providing written comments who did not support the proposed approach to registration indicated that they objected to any reduction in APD, while a further respondent supported an immediate 100% removal of APD. Objections to any reduction in APD were also raised by a small number of those in favour of proposals for registration; these respondents indicated that their support for proposals were conditional on the replacement tax maintaining or increasing current levels of APD.
- 7.8. Only 1 respondent providing written comment raised a substantive point regarding the detail of proposals for registration. One airline/airline representative respondent suggested allowing taxpayers to register within 7 days of a chargeable flight (consistent with current UK APD registration rules).

Q16a: Do you currently use the Occasional Operator Scheme for UK APD?

Q16b: If you answered yes, what impact does this have on your organisation? What grounds are there to introduce a similar Occasional Operator Scheme for a Scottish replacement tax?

- 7.9. Only 1 respondent indicated that they currently use the Occasional Operator Scheme (OOS); an airline/airline representative. This respondent suggested that, while the OOS was welcome when first introduced, subsequent changes to APD mean that it is “almost redundant”. This respondent made reference to the simplified model of two bands, and particularly to the higher rates of APD assigned to the higher band meaning that the £5,000 annual threshold for the OOS can be met within a single long haul flight.
- 7.10. A further respondent, also an airline/airline representative respondent, indicated that they did not currently use the OOS but provided written comments based on their experience in supporting organisations that do use the OOS. This respondent suggested that the OOS provides a more efficient and convenient system for some operators, reducing the administrative burden particularly where an operators’ flight schedule is responsive to changing needs of customers and businesses. The respondent also noted that the OOS makes it easier for operators to link the duty to a specific flight, and suggested that this is important for some organisations. In terms of the Scottish replacement tax, this respondent recommended that the replacement should incorporate a scheme which is applied to non-scheduled operators conducting fewer than 24 departures annually from Scotland, and with a threshold of £50,000 annual duty. It was suggested that this should allow operators at least 45 days after departure for filing and payment, and that an electronic filing facility is provided.

Table 7.2: Q16a Do you currently use the Occasional Operator Scheme for UK APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	1	7	4	12
Airports and airport representatives		1	7	8
Other transport and travel organisations		4	9	13
Business, economic development and tourism organisations		2	23	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations		2	8	10
<i>Group respondents (Total)</i>	<i>1</i>	<i>16</i>	<i>59</i>	<i>76</i>
Individual		23	61	84
TOTAL	1	39	120	160
Percentage of all respondents	1%	24%	75%	100%
Percentage of those answering question	3%	98%	-	100%

8. Fiscal and Administrative Representatives

- 8.1. UK APD taxpayers are required to appoint a fiscal representative to act on their behalf, where they are liable to be registered for APD but have no business establishment in the UK (or, if an individual, their usual place of residence is in the UK). The role of the representative involves (i) taking responsibility for ensuring the taxpayer meets all APD obligations such that the fiscal representative is liable if these obligations are not met, or (ii) only keeping records and accounts on the taxpayer's behalf (referred to as an "Administrative Representative").
- 8.2. The consultation asked respondents about their use of fiscal and/or administrative representatives, and the impact of this on their organisation. Respondents' views were also sought on the advantages and disadvantages of retaining a similar system under a Scottish APD replacement tax.

Q17a: Do you currently use a fiscal representative for UK APD?

Q17b: If you answered yes, what impact does this have on your organisation? What would be the advantages and disadvantages of retaining a similar fiscal representative system under a Scottish replacement tax? How could the existing UK system be improved upon?

- 8.3. Only 1 respondent indicated that they currently use a fiscal representative for UK APD (an airline/airline representative respondent), although two further respondents indicated that they act as fiscal representatives for others (both airline/airline representative respondents).
- 8.4. The airline/airline representative respondent currently using a fiscal or administrative representative supported the retention of a fiscal representative system under a Scottish replacement tax, making reference to the "principles...of convenience and efficiency" set out in the consultation document. This respondent noted that consistency of approach was particularly important for their position as a franchise carrier, reliant on the accounting structures of the operator which are geared to the requirements of UK APD.

8.5. The two airline/airline representative respondents that act as fiscal representatives for other carriers also supported retaining this system under a Scottish replacement tax. The administrative burden of meeting APD requirements was highlighted by these respondents, particularly for carriers using the Occasional Operator System where the administrative requirements were seen as significant relative to the volume and frequency of flights. Specific reference was made here to requirements to submit nil APD reports and/or choose to de-register for APD, and the challenge in meeting filing and paying APD within seven days of departure. These were cited as factors in carriers choosing to use fiscal representatives. One of these respondents also noted that a Scottish replacement tax may create additional administrative burden for operators required to register separately under the Scottish and rest of the UK systems.

Table 8.1: Q17a Do you currently use a fiscal representative for UK APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	1	6	5	12
Airports and airport representatives			8	8
Other transport and travel organisations		4	9	13
Business, economic development and tourism organisations		2	23	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations		2	8	10
<i>Group respondents (Total)</i>	<i>1</i>	<i>14</i>	<i>61</i>	<i>76</i>
Individual		25	59	84
TOTAL	1	39	120	160
Percentage of all respondents	1%	24%	75%	100%
Percentage of those answering question	3%	98%	-	100%

Q18a: Do you currently use an administrative representative for UK APD?

Q18b: If you answered yes, what impact does this have on your organisation? What would be the advantages and disadvantages of retaining a system of administrative representatives under a Scottish replacement tax? How could the existing UK system be improved upon?

- 8.6. None of the consultation respondents indicated that they currently use an administrative representative, although as noted at Question 18, one respondent indicated that they currently act as an administrative representative for a number of registered operators (an airline/airline representative respondent).
- 8.7. This respondent supported retaining a system of administrative representatives under a Scottish replacement tax. As was noted at Question 18, this primarily reflected a view that administrative representatives provide an important function for operators where the administrative burden of meeting APD requirements is significant relative to the volume and frequency of flights. This respondent highlighted the administrative burden of meeting APD requirements as a particular issue for carriers using the Occasional Operator System.

Table 8.2: Q18a Do you currently use an administrative representative for UK APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives		7	5	12
Airports and airport representatives			8	8
Other transport and travel organisations		4	9	13
Business, economic development and tourism organisations		2	23	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations		2	8	10
<i>Group respondents (Total)</i>	<i>0</i>	<i>15</i>	<i>61</i>	<i>76</i>
Individual		22	62	84
TOTAL	0	37	123	160
Percentage of all respondents	0%	23%	77%	100%
Percentage of those answering question	0%	100%	-	100%

9. Tax Return and Payment

- 9.1. Chapter 8 of the consultation document sets out proposals for the tax return and payment system under a Scottish APD replacement tax, highlighting the importance that the processes around tax returns and payment should be efficient and convenient for taxpayers and the tax authority. Specific proposals detailed by the consultation document relate to the following key areas:
- Information required in the tax return;
 - Use of Special Accounting Schemes;
 - Frequency of tax returns;
 - Arrangements for submitting a tax return and making amendments to returns; and
 - Paying tax, including arrangements for claiming repayment and relief.
- 9.2. We consider respondents' views on these issues in turn in the rest of this section.

Content of tax return

Q19: What are your views on the current level of information required in the UK APD tax return? What additional information, if any, do you think it would be beneficial to collect on a Scottish tax return in order to ensure efficient and effective compliance of that tax?

- 9.3. The UK APD tax return requires taxpayers to provide a range of information including total numbers of chargeable passengers within each tax band, total numbers of exempt passengers, any under or over-declarations from previous tax periods, and whether a special accounting scheme is being used. Question 19 invited written comment on the range of information currently required by the UK APD tax return, and any additional information that could be collected by a Scottish tax return.
- 9.4. A total of 18 respondents provided written comment (11% of all respondents) with most of these being airline respondents (8 providing comment) or individuals (5 providing comment). The majority of those providing written comment referred specifically to current information requirements for UK APD, while less than half of those providing written comment gave a specific view on information to be collected under a Scottish replacement.

- 9.5. Most of those providing written comment felt that the current UK APD information requirements are adequate (12 of 16 commenting on this). It is notable that this view was expressed by all airline/airline representative respondents providing written comment at Question 19, and the four responses expressing reservations around current UK APD information requirements were all from individuals.
- 9.6. Those who supported the range of information currently required under UK APD referred to current requirements as “adequate” and “not overly burdensome”. This included specific reference to current requirements as having been tested through by experience to date under UK APD, and several respondents expressed an explicit view that maintaining these “proven” information requirements would have benefits in terms of simplifying taxpayer compliance with the Scottish replacement tax.
- 9.7. Most of those referring specifically to information to be collected under a Scottish replacement tax wished to see no change in the information currently collected for UK APD (7 of 9 comment on this). These respondents noted that ensuring consistency with UK APD information requirements would be consistent with the aim, stated in the consultation document, to “facilitate efficient and effective compliance” with the Scottish replacement tax.
- 9.8. Two respondents suggested additional information to be collected for the Scottish replacement:
- An airport/airport representative suggested that there may be value in gathering more detailed information on the profile of exempt passengers across specific exemptions.
 - An individual respondent recommended consulting with stakeholders who may find value in using statistical information collected under a Scottish replacement tax, and referred to specific information types such as flight times against APD paid and numbers of exempt passengers.

Special Accounting Scheme

Q20a: Do you currently use a special accounting scheme system for UK APD?

Q20b: If you answered yes, why and what impact does this have on your organisation? What would be the advantages and disadvantages of allowing similar special accounting schemes under a Scottish replacement tax?

- 9.9. The UK APD framework currently allows taxpayers to apply to use a special accounting scheme, which enables taxpayers to use an alternative approach to calculating their APD liability. Such schemes can only be used in certain circumstances (e.g. where it is impractical to calculate APD on a transaction-by-transaction basis from the taxpayer's systems), and with prior approval.
- 9.10. Only two respondents answering Question 20a indicated that they currently use a special accounting scheme for UK APD, both being airline/airline representative respondents. Only one of these respondents provided further written comment at Question 20b. This respondent wished to see similar special accounting schemes to be retained under a Scottish replacement tax, noting that these are important for capture and assessment of transit and transfer customer data, and for accurate payment of APD.
- 9.11. The benefits of these schemes in enabling taxpayers to meet their obligations in a flexible and cost effective way were also cited by an airline/airline representative respondent who does not currently use such a scheme. However, another airline/airline representative respondent also noted that the benefits of such schemes are somewhat offset by their administrative complexity.

Table 9.1: Q20a Do you currently use a special accounting scheme system for UK APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	2	5	5	12
Airports and airport representatives			8	8
Other transport and travel organisations		2	11	13
Business, economic development and tourism organisations		2	23	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations		2	8	10
<i>Group respondents (Total)</i>	<i>2</i>	<i>11</i>	<i>63</i>	<i>76</i>
Individual		15	69	84
TOTAL	2	26	132	160
Percentage of all respondents	1%	16%	83%	100%
Percentage of those answering question	7%	93%	-	100%

Frequency of tax return

Q21a: Do you agree with our proposal for a standard quarterly tax return cycle under a Scottish replacement to APD?

Q21b: If you answered no, please explain your answer.

- 9.12. The standard approach under UK APD is to place taxpayers on a calendar monthly tax return cycle, although taxpayers with an expected annual APD liability of less than £500,000 can apply to use an annual return cycle. The consultation document set out proposals for a standard quarterly tax return cycle for the Scottish replacement tax. This is also consistent with the tax return period used for Scottish Landfill Tax.
- 9.13. Relatively few respondents answered Question 21a, which asked whether respondents agreed with proposals for a standard quarterly tax cycle for the Scottish APD replacement tax; 26 responses, 16% of all respondents. This perhaps reflects the extent to which the issue of tax return cycles has most direct impact on those who will be liable to account for and pay the Scottish APD replacement tax, and has much less of a direct impact on achievement of the Scottish Government's strategic and policy objectives (which was the main focus for most consultation responses). Indeed, a number of group and individual respondents specifically stated that they were not in a position to comment on Question 21a.
- 9.14. The majority of those answering the question agreed with proposals for a standard quarterly tax return cycle; 17 respondents, around two thirds of those answering the question. A further 9 respondents indicated that they disagreed with this proposal, including 6 individual and 3 group respondents. The majority of group respondents answering the question supported the proposal.

Table 9.2: Q21a Do you agree with our proposal for a standard quarterly tax return cycle under a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	7	1	4	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations		1	1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>11</i>	<i>3</i>	<i>62</i>	<i>76</i>
Individual	6	6	72	84
TOTAL	17	9	134	160
Percentage of all respondents	11%	6%	84%	100%
Percentage of those answering question	65%	35%	-	100%

- 9.15. A total of 8 respondents provided written comment in relation to their objection to or concerns about the proposed quarterly tax return cycle.
- 9.16. These 8 respondents comprised six who disagreed with the proposal for standard quarterly tax returns, and two respondents who did not provide a yes/no answer to Question 21a. Three of the six respondents who objected to a quarterly tax return cycle indicated that this was based on their fundamental objection to any reduction in APD, rather than any concerns regarding the change in tax return cycles per se.
- 9.17. The five respondents making substantive comment on the specific tax return proposals expressed a preference for consistency with the current monthly tax return cycle used under UK APD. This view was primarily linked to a desire to minimise the administrative burden for taxpayers already subject to UK APD, although one respondent suggested that a quarterly cycle would be manageable with sufficient advance notice to implement changes to IT systems.
- 9.18. Two professional tax and accountancy organisations also questioned the consultation document's reference to quarterly reporting providing consistency with other devolved taxes. These respondents suggested that minimising amendments to the Revenue Scotland and Tax Powers Act 2014 should not be an overriding argument for quarterly returns. It was also noted that the significant number of taxpayers who would be subject to both UK APD and the Scottish replacement tax meant that consistency in the tax return period is more important here, than consistency with other Scottish taxes where the overlap with taxpayers subject to the Scottish APD replacement tax is likely to be more limited.

Q22a: Do you think taxpayers should be able to apply to use an alternative annual tax return cycle or non-standard accounting period?

Q22b: Please explain your answer.

- 9.19. UK APD currently allows taxpayers who cannot account for APD on the basis of calendar months to apply for permission to base returns on their own accounting periods. Taxpayers with an estimated annual APD liability of less than £500,000 can also apply for permission to use annual accounting instead of monthly accounting. Question 22a asked whether these options should be retained for the Scottish APD replacement tax.
- 9.20. Relatively few respondents answered Question 22a; 25 responses, 16% of all respondents. Again this may reflect the extent to which the issue of tax return cycles has most direct impact on those who will collect and pay the Scottish APD replacement tax, and as such is less relevant to a substantial number of respondents.
- 9.21. The majority of those answering the question thought that taxpayers should be able to apply to use an alternative tax return cycle or non-standard accounting period for the Scottish APD replacement tax; 15 respondents, 3 in 5 of those answering the question. A further 10 respondents indicated that they disagreed with this proposal, including 6 individual and 4 group respondents.

Table 9.3: Q22a Do you think taxpayers should be able to apply to use an alternative annual tax return cycle or non-standard accounting period?

	Yes	No	No response	TOTAL
Airlines and airline representatives	7	2	3	12
Airports and airport representatives			8	8
Other transport and travel organisations	1		12	13
Business, economic development and tourism organisations	1	1	23	25
Professional tax and accountancy organisations			2	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	9	4	63	76
Individual	6	6	72	84
TOTAL	15	10	135	160
Percentage of all respondents	9%	6%	84%	100%
Percentage of those answering question	60%	40%	-	100%

- 9.22. A total of 14 respondents provided written comment in support of their answer at Question 22a. This included nine respondents who agreed with taxpayers having the facility to use an alternative annual or other non-standard tax return cycle, and five who disagreed with this.
- 9.23. Some of those providing further comment in favour of allowing alternative tax return cycles highlighted the importance of flexibility and ensuring a more proportionate administrative burden for taxpayers, while ensuring tax revenues – one airline/airline representative respondent described such an approach as “mutually beneficial to Revenue Scotland and the tax payer”. In addition to support for an alternative annual return cycle for smaller operators, a small number of respondents also suggested permitting a more frequent return cycle for larger operators where this is consistent with their existing accounting systems. One airline/airline representative respondent suggested that this could result in greater accuracy of tax returns.
- 9.24. The five respondents providing further comment in opposition to allowing alternative tax return cycles included three respondents (all individuals) who repeated concerns about the fundamental basis of a Scottish APD replacement tax; two objected to any reduction in APD, and one wished to see APD abolished. The remaining two respondents providing comment included an airline/airline representative who wished to see the same tax return cycle for all taxpayers, and an individual who supported a fixed tax return cycle to enable data and revenues to be collated and reviewed more easily.

Submitting a tax return

Q23a: Do you agree with our proposal for tax returns for a Scottish replacement to APD being able to be submitted both online and by post, and having to be received no later than 30 days after the end of the relevant return period?

Q23b: If you answered no, please explain your answer.

- 9.25. Question 23a asked whether respondents agreed with the Scottish Government proposal for tax returns for the Scottish APD replacement tax, which represent a minor change to current UK APD processes.
- 9.26. As is the case for other questions relating to tax return proposals, relatively few respondents answered Question 23; 29 responses, 18% of all respondents. A large majority of these respondents agreed with the proposals; 25 respondents, more than 4 in 5 of those answering the question. A further 4 respondents indicated that they disagreed with

this proposal, including 3 individuals. Nearly all group respondents answering the question agreed with the proposals.

9.27. Four of the 29 respondents answering Question 23a provided further written comment in support of their answer. This included three individual respondents who repeated objections to any reduction in APD. One business/economic development/tourism organisation commented specifically on the proposals for submitting a tax return, suggesting that taxpayers would welcome the facility to submit and pay their tax returns online.

Table 9.4: Q23a Do you agree with our proposal for tax returns for a Scottish replacement to APD being able to be submitted both online and by post, and having to be received no later than 30 days after the end of the relevant return period?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9		3	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	3		22	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	15	1	60	76
Individual	10	3	71	84
TOTAL	25	4	131	160
Percentage of all respondents	16%	3%	82%	100%
Percentage of those answering question	86%	14%	-	100%

Q24a: Do you agree with our proposal for taxpayers, subject to certain conditions, being able to amend previously submitted tax returns either online or by post under a Scottish replacement to APD?

Q24b: If you answered no, please explain your answer.

9.28. Question 24a asked whether respondents agreed with the Scottish Government proposal for taxpayers to be able to amend previously submitted tax returns for the Scottish APD replacement tax, subject to certain conditions. These proposals are broadly consistent with the current approach to UK APD.

- 9.29. Again, relatively few respondents answered Question 24; 27 responses, 17% of all respondents. A large majority of those answering the question agreed with these proposals; 23 respondents, more than 4 in 5 of those answering the question. A further 4 respondents indicated that they disagreed with this proposal, including 3 individuals. Nearly all group respondents answering the question agreed with the proposal.
- 9.30. Four of the 27 respondents answering Question 24 provided further written comment in support of their answer. This included three individual respondents who repeated objections to any reduction in APD. One airline/ airline representative respondent commented specifically on the proposals regarding amendment to previously submitted tax returns. This respondent supported the proposals set out in the consultation document, and noted that any increase in complexity in the system would lead to an increase in the costs of collecting APD which are borne by airlines.

Table 9.5: Q24 Do you agree with our proposal for taxpayers, subject to certain conditions, being able to amend previously submitted tax returns either online or by post under a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9		3	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>14</i>	<i>1</i>	<i>61</i>	<i>76</i>
Individual	9	3	72	84
TOTAL	23	4	133	160
Percentage of all respondents	14%	3%	83%	100%
Percentage of those answering question	85%	15%	-	100%

Q25: What impact, if any, will there be on your organisation in not being able to adjust for under-declarations and over-declarations in later tax returns?

- 9.31. Four respondents provided written comment in relation to the impact of taxpayers not being able to adjust for under or over-declarations in later tax returns (Question 25); three airlines, and one airline representative body.
- 9.32. Two of these four respondents suggested that the impact of the proposal for taxpayers is likely to be relatively minor. One of the airline respondents indicated that the proposal would have a minimal impact on them as an organisation, while the airline representative body suggested that the number of under or over-declaration cases occurring outwith the 12-month limit is likely to be low.
- 9.33. Two airline respondents expressed a different view, and suggested that the proposed change in approach to retrospective under or over-declarations could have an impact on them and other organisations. One of these respondents suggested that the proposed change could have cashflow implications, while the other noted that the capacity to adjust for under or over-declarations is important to allow taxpayers to correct for human error in tax returns.

Paying tax

Q26a: Do you agree with our proposals regarding payment methods and time limits for a Scottish replacement to APD?

Q26b: If you answered no, please explain your answer.

- 9.34. Question 26a asked whether respondents agreed with the Scottish Government's proposals for payment methods and time limits for the Scottish APD replacement tax. Again, relatively few respondents answered; 26 responses, 16% of all respondents. The majority of respondents answering the question agreed with these proposals; 21 respondents, around 4 in 5 of those answering the question. A further 5 respondents indicated that they disagreed with this proposal, including 4 individuals. Nearly all group respondents answering the question agreed with the proposals.
- 9.35. Four individual respondents provided further written comment in support of their answer at Question 26. Comments from all four related to their views on the fundamental policy of a reduction in APD, rather than the specific proposals for paying tax.

Table 9.6: Q26a Do you agree with our proposals regarding payment methods and time limits for a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9		3	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>14</i>	<i>1</i>	<i>61</i>	<i>76</i>
Individual	7	4	73	84
TOTAL	21	5	134	160
Percentage of all respondents	13%	3%	84%	100%
Percentage of those answering question	81%	19%	-	100%

Q27a: Do you agree with our proposals regarding claims for repayment or relief from tax?

Q27b: If you answered no, please explain your answer.

- 9.36. Question 27a asked whether respondents agreed with the Scottish Government’s proposals regarding claims for repayment or relief from the Scottish APD replacement tax. These are different to arrangements under UK APD, and propose that taxpayers will have the right to make a claim for repayment or relief through amending their tax return (if within 12 months of the filing date) or by making a written claim (within 5 years of the filing date).
- 9.37. Again, relatively few respondents answered Question 27a; 26 responses, 16% of all respondents. The majority of respondents answering the question agreed with these proposals; 19 respondents, nearly three quarters of those answering the question. A further 7 respondents indicated that they disagreed with this proposal, including 5 individuals. A large majority of group respondents answering the question agreed with the proposals.

9.38. Six respondents provided further written comment in support of their answer at Question 27a. This included three individuals where comments related to views on the fundamental policy of a reduction in APD, rather than the specific proposals for repayment or relief. Of the three respondents making substantive comment on proposals at Question 27b, two were opposed to the proposals, and one supported the proposals:

- One airline/airline representative respondent was opposed to the proposals. In relation to the potential for Revenue Scotland to refuse a claim on the basis that repayment would “unjustly enrich” the taxpayer, this respondent noted that in many instances the cost of APD is borne by the taxpayer and is not recoverable through ticket fare.
- One individual respondent was opposed to the proposals, and suggested that any claims for repayment or relief should be limited to those made within 12 months of the initial filing date.
- One airline/airline representative respondent supported the proposals, but noted the importance that processes for repayment claims beyond the initial 12-month period are as efficient as possible for taxpayers, and that applications are processed and paid in a timely way. This respondent also suggested that consideration is given to permitting claims beyond the 5-year period where extenuating circumstances apply, and where the repayment amount is above a minimum threshold.

Table 9.7: Q27a Do you agree with our proposals regarding claims for repayment or relief from tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	8	1	3	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>13</i>	<i>2</i>	<i>61</i>	<i>76</i>
Individual	6	5	73	84
TOTAL	19	7	134	160
Percentage of all respondents	12%	4%	84%	100%
Percentage of those answering question	73%	27%	-	100%

10. Other Administrative Issues

10.1. This final section of the report considers respondents' views on consultation questions relating to a range of other issues regarding the administration of a Scottish APD replacement tax. The main issues administrative issues addressed in Chapters 9 to 14 of the consultation document were:

- Record keeping;
- Tax avoidance and tax evasion;
- Investigatory and enforcement powers;
- Penalties;
- Interest; and
- Dispute resolution.

10.2. We set out respondents' views on each of these issues in turn in the rest of this section.

Record keeping

Q28a: Do you agree with our proposals regarding keeping and preserving records in relation to a Scottish replacement tax?

Q28b: If you answered no, please explain your answer.

10.3. Question 28a asked whether respondents agreed with the Scottish Government proposals regarding the keeping and preserving of records for the Scottish APD replacement tax. These proposals are that certain types of records relating to the tax will be required to be kept for a minimum of five years – similar to the requirement under UK APD for records to be kept for a minimum of six years.

10.4. As was the case in relation to other administrative aspects of the consultation proposals such as registration and tax returns, relatively few respondents answered Question 28a; 28 responses, 18% of all respondents.

10.5. The majority of respondents answering the question agreed with these proposals; 22 respondents, around 4 in 5 of those answering the question. A further 6 respondents indicated that they disagreed with this proposal, including 4 individuals. A large majority of group respondents answering the question agreed with the proposals.

10.6. Five respondents provided further written comment in support of their answer at Question 28a. This included two respondents who supported proposals for keeping and preserving records and three who objected to the proposals, although two of those opposed repeated objections to any reduction in APD, rather than commenting on keeping and preserving records specifically:

- The two respondents in favour of the proposals were both airline/airline representative respondents, and their written comments highlighted the extent to which proposals represent an administrative burden on taxpayers. One of these respondents also recommended that the Scottish Government ensures consistency with UK APD in relation to the specific records to be kept, and the record keeping standards adopted.
- An airport/airport representative respondent opposed to the proposals indicated that this was based only on a suggestion that the Scottish Government also require airports to retain information on passenger numbers; this respondent agreed with all other proposals regarding keeping and preserving of records.

Table 10.1: Q28a Do you agree with our proposals regarding keeping and preserving records in relation to a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	9		3	12
Airports and airport representatives		1	7	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>14</i>	<i>2</i>	<i>60</i>	<i>76</i>
Individual	8	4	72	84
TOTAL	22	6	132	160
Percentage of all respondents	14%	4%	83%	100%
Percentage of those answering question	79%	21%	-	100%

Tax avoidance and tax evasion

10.7. The consultation document sets out the Scottish Government's proposals for dealing with tax avoidance and tax evasion in relation to a Scottish replacement tax. The tax avoidance proposals are based primarily on the Scottish General Anti-Avoidance Rule (GAAR) which applies to devolved taxes, and which allows Revenue Scotland to take counteraction against tax avoidance arrangements which it considers to be artificial. A tax avoidance arrangement is artificial if it is not a reasonable course of action in relation to the tax legislation, and/or the arrangement lacks economic or commercial substance.

Q29: To what extent, and in what areas, do you think that artificial tax avoidance is or is not currently an issue with UK APD? If you think it is an issue, what measures could be taken to reduce the potential for such avoidance?

- 10.8. Question 29 asked respondents the extent to which they think that artificial tax avoidance is an issue with UK APD. A total of 13 respondents provided written comment here; these comprised 8 airline/airline representative respondents, and 5 individuals.
- 10.9. Most of those providing comment on the extent of any artificial tax avoidance under UK APD felt that this was not a significant issue. This view was expressed by all airline/airline representative respondents making comment. These respondents made reference to APD being relatively straightforward in structure and administration and collection arrangements, and thus providing limited opportunity for artificial avoidance. Some also noted that the number of APD taxpayers is relatively limited, and as such should not present significant enforcement challenges.
- 10.10. While the majority of those providing comment were of the view that UK APD is not subject to significant artificial avoidance, several respondents made clear that anti-avoidance measures should remain a priority for the Scottish APD replacement tax. This included one airline/airline representative respondent who felt that "many operators" may not be paying APD, and who suggested that collecting APD via the airport as an airport fee would be a more effective approach in terms of tackling tax avoidance.
- 10.11. In addition to comments specifically in relation to artificial avoidance of APD, one airline/airline representative respondent suggested that growing access to comparative pricing via the internet has led to an increase in the practice of passengers avoiding APD or reducing their APD liability by using hubs outwith the UK.

Q30a: Do you agree with our intended approach to tackling tax avoidance and tax evasion in relation to a Scottish replacement tax?
Q30b: If you answered no, please explain your answer.

- 10.12. Question 30a asked whether respondents agreed with the Scottish Government's proposed approach to tackling tax avoidance and tax evasion for the Scottish APD replacement tax. As was the case in relation to other administrative aspects of the consultation proposals, relatively few respondents answered Question 30a; 28 responses, 18% of all respondents.
- 10.13. The majority of respondents answering the question agreed with these proposals; 23 respondents, more than 4 in 5 of those answering the question. A further 5 respondents indicated that they disagreed with this approach, including 4 individuals. Nearly all group respondents answering the question agreed with the intended approach.
- 10.14. Six respondents provided further written comment in support of their answer at Question 30a. This included four respondents (all individuals) who did not support the intended approach to tackling tax avoidance and evasion. Two of these respondents repeated their objection to the principle of reducing APD, while the remaining two suggested that retaining a UK-wide APD regime would minimise the scope for any evasion.
- 10.15. Two of those making comment (both airline/airline representative respondents) expressed support for the proposed approach to tackling tax avoidance and evasion in relation to a Scottish replacement tax. This included specific support for proposals to prosecute tax evasion under existing Scots law. However, both respondents expressed some concern regarding the definition of "artificial avoidance" set out under the Scottish General Anti-Avoidance Rule (GAAR), and specifically the extent to which this is "broad-based" and open to interpretation. These respondents suggested it would be important that the conditions set out under the Scottish GAAR are not subject to a narrow interpretation, and one suggested that clearer rules and guidance on what constitutes artificial avoidance should be provided.

Table 10.2: Q30a Do you agree with our intended approach to tackling tax avoidance and tax evasion in relation to a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	7		5	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	12	1	63	76
Individual	11	4	69	84
TOTAL	23	5	132	160
Percentage of all respondents	14%	3%	83%	100%
Percentage of those answering question	82%	18%	-	100%

Investigatory and enforcement powers

Q31a: Do you agree with our proposals for the investigatory and enforcement powers set out in Chapter 11 that will be available in relation to a Scottish replacement tax?

Q31b: If you answered no, please explain your answer. Are there any other safeguards that might need to apply to them or any other powers you think may be needed?

10.16. Question 31a asked whether respondents agreed with the Scottish Government's proposals for the investigatory and enforcement powers that will be available in relation to the Scottish APD replacement tax, which are consistent with the approach to other devolved taxes. Relatively few respondents answered Question 31a; 23 responses, 14% of all respondents.

10.17. A large majority of respondents answering the question agreed with these proposals; 20 respondents, nearly 9 in 10 of those answering the question. A further 3 respondents indicated that they disagreed with these proposals, including 2 individuals. Nearly all group respondents answering the question agreed with the proposals.

10.18. Three individual respondents provided further written comment in relation to their answer at Question 31a. This included two individuals who objected to any reduction in APD and/or any Scottish replacement tax, and a further respondent who referred to other industries as illustrating the importance of strong regulation and enforcement.

Table 10.3: Q31a Do you agree with our proposals for the investigatory and enforcement powers set out in Chapter 11 that will be available in relation to a Scottish replacement tax?

	Yes	No	No response	TOTAL
Airlines and airline representatives	8		4	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	13	1	62	76
Individual	7	2	75	84
TOTAL	20	3	137	160
Percentage of all respondents	13%	2%	86%	100%
Percentage of those answering question	87%	13%	-	100%

Penalties

Q32a: Do you agree with our proposals for civil penalties in relation to a Scottish replacement to APD?

Q32b: If you answered no, please explain your answer. Are there any other civil penalties that should be considered?

10.19. Question 32a asked whether respondents agreed with the Scottish Government's proposals for civil penalties in relation to the Scottish APD replacement tax, which are based on the penalty framework currently in place for other devolved taxes (with some minor amendments). Relatively few respondents answered Question 32a; 25 responses, 16% of all respondents.

10.20. The majority of respondents answering the question agreed with these proposals; 20 respondents, 4 in 5 of those answering the question. A further 5 respondents indicated that they disagreed with these proposals, including 4 individuals. Nearly all group respondents answering the question agreed with the proposals.

10.21. Four individual respondents provided further written comment in relation to their answer at Question 32a. This included two individuals who objected to the principle of any reduction in APD and/or any Scottish replacement tax. A further two respondents wished to see more substantial penalties in relation to the Scottish replacement tax.

Table 10.4: Q32a Do you agree with our proposals for civil penalties in relation to a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	8		4	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	1		24	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	12	1	63	76
Individual	8	4	72	84
TOTAL	20	5	135	160
Percentage of all respondents	13%	3%	84%	100%
Percentage of those answering question	80%	20%	-	100%

Interest

Q33a: Do you agree with our proposals for charging interest in relation to a Scottish replacement to APD?

Q33b: If you answered no, please explain your answer.

10.22. Question 33a asked whether respondents agreed with the Scottish Government's proposals for charging interest in relation to the Scottish APD replacement tax, which are consistent with the approach for other devolved taxes. Relatively few respondents answered Question 33a; 27 responses, 17% of all respondents.

10.23. A large majority of those answering Question 33a agreed with the proposals; 23 respondents, more than 4 in 5 of those answering the question. A further 4 respondents indicated that they disagreed with the proposals, including 3 individuals. Nearly all group respondents answering the question agreed with the proposals.

10.24. Four respondents provided further written comment in support of their answer at Question 33a. This included two individuals who did not agree with the proposed approach; for one respondent this was based on an objection to the principle of reducing APD, and for the second respondent this was based on a wish to see APD abolished. Two of those making further comment, both airline/airline representative respondents, agreed with the proposed approach to charging interest. One of these respondents suggested that interest rates should be reflective of market rates, while the second expressed dissatisfaction with the cost of collecting APD currently falling to airlines rather than HMRC.

Table 10.5: Q33a Do you agree with our proposals for charging interest in relation to a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	8		4	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>13</i>	<i>1</i>	<i>62</i>	<i>76</i>
Individual	10	3	71	84
TOTAL	23	4	133	160
Percentage of all respondents	14%	3%	83%	100%
Percentage of those answering question	85%	15%	-	100%

Dispute resolution

Q34a: Do you agree with our proposals for dispute resolution in relation to a Scottish replacement to APD?

Q34b: If you answered no, please explain your answer. What, if any, other decisions not on the proposed list of appealable decisions do you think should be included?

10.25. The final consultation question asked whether respondents agreed with the Scottish Government's proposals for dispute resolution in relation to the Scottish APD replacement tax, which are based on the internal review, independent tribunal and mediation approaches used for other devolved taxes. Relatively few respondents answered Question 34a; 24 responses, 15% of all respondents.

10.26. A large majority of respondents answering the question agreed with these proposals; 21 respondents, nearly 9 in 10 of those answering the question. A further 3 respondents indicated that they disagreed with these proposals, including 2 individuals. Nearly all group respondents answering the question agreed with the proposals.

10.27. Two individual respondents provided further written comment in support of their answer at Question 34a. One of these respondents suggested that dispute resolution is handled through the courts, while the second respondent repeated their earlier objection to the principle of APD being reduced.

Table 10.6: Q34a Do you agree with our proposals for dispute resolution in relation to a Scottish replacement to APD?

	Yes	No	No response	TOTAL
Airlines and airline representatives	8		4	12
Airports and airport representatives			8	8
Other transport and travel organisations	2		11	13
Business, economic development and tourism organisations	2		23	25
Professional tax and accountancy organisations	1		1	2
Environmental organisations			6	6
Other organisations		1	9	10
<i>Group respondents (Total)</i>	<i>13</i>	<i>1</i>	<i>62</i>	<i>76</i>
Individual	8	2	74	84
TOTAL	21	3	136	160
Percentage of all respondents	13%	2%	85%	100%
Percentage of those answering question	88%	13%	-	100%



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