

## **Report to Partnership Meeting 16 November 2018**

### **RESEARCH AND STRATEGY DELIVERY**

#### **Air Departure Tax**

##### **Purpose of Report**

To provide members with an update on a Scottish Government Working Group set up to assist Government in resolving issues relating to the introduction of the Air Departure Tax within Scotland.

##### **Background**

The Scottish Government has established a Working Group of Highlands and Islands (H&I) stakeholders in order to develop a joint understanding of the issues, the importance of aviation and the current exemption to the H&I region, to support the Scottish Government in resolving the H&I exemption issue.

Air Departure Tax (ADT), is a proposed tax payable by aircraft operators and charged on the carriage of chargeable passengers on chargeable aircraft by air from airports in Scotland that will replace UK Air Passenger Duty following the inclusion of its devolution to the Scottish Parliament within the Scotland Act 2016. Following the commencement of section 17 of that Act on 23 May 2016, the Scottish Parliament obtained the power to legislate for a tax to replace Air Passenger Duty (APD) in Scotland.

As part of introducing the Air Departure Tax, the Scottish Government has set an aim to reduce the overall burden of ADT by 50% and abolish the tax when resources allow. The Government believes that these plans will help to boost Scotland's air connectivity and economic competitiveness, encouraging the establishment of new routes which would enhance business connectivity and inbound tourism and help generate sustainable growth.

The introduction of ADT in Scotland has been deferred until the issues raised in relation to the exemption for flights departing from the Highlands and Islands have been resolved, to ensure that devolved powers are not compromised. An exemption for all flights departing from H&I airports has applied under UK APD since 2001. The Scottish Government and UK Government have continued to work together to seek a solution but it has become clear that aiming to introduce the tax at the beginning of the next fiscal year, April 2019, is not possible.

The UK Government will maintain the application of Air Passenger Duty in Scotland in the interim. The current UK APD rates and bands, and Highlands and Islands exemption, will apply in Scotland from 2018-19.

The Scottish Governments Programme for Scotland 2018/19 has reiterated their commitment 'to reducing the overall burden of Air Departure Tax by 50%, abolishing the tax altogether when resources allow, and working with the UK Government to find the best possible solution for the Highlands and Islands before the tax can be introduced in Scotland'.

## **Socio-Economic Case for Retention of Highlands and Islands APD Exemption**

HITRANS has commissioned Reference Economic Consultants to undertake research to help quantify the socio-economic evidence base supporting the current Highlands and Islands exemption. A copy of this report is included as an appendix to this item which sets out clearly the socio-economic importance of the current Highlands and Islands APD (Air Passenger Duty) exemption to support Scottish Government's investigation of options for the introduction of ADT (Air Departure Tax). This included desk based research to assess the:

- Economic and social roles of the relevant flights.
- Specific role of the current exemption in lowering fares and increasing/sustaining service frequencies and sustainability.

The report was submitted to the Scottish Government's Highlands and Islands Working Group in advance of the most recent meeting in October along with contributions from other stakeholders including the Scottish Rural College who undertook an extensive online survey which received responses from across all areas in the Highlands and Islands served by air services. The next meeting of the Working Group is being scheduled for January 2019.

### **Recommendation**

Members are invited to note the report

### **RISK REGISTER**

#### RTS Delivery

Impact - Positive

Comment – This work supports RTS Strategic priority enhance intra-regional connectivity between island and peripheral communities and regional centres and national gateways

#### Policy

Impact - Positive

Comment – This work supports development of the Aviation policies set out in the RTS.

#### Financial

Impact – Positive

Budget line and value – An allowance has been made in the 2018/19 Business Plan for supporting this workstream.

#### Equality

Impact –neutral

Comment – The Air Discount Scheme and Air Passenger Duty exemption for the Highlands and Islands helps improve the connectivity of individuals in some of the most remote parts of the HITRANS area

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**Designation:** Partnership Manager

**Date:** 5<sup>th</sup> November 2018