

IATA ECONOMIC BRIEFING

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THE IMPACT OF PASSENGER TAXATION CHANGES IN SWEDEN

- Air transport currently supports Swedish public sector finances to the order of SEK24 billion per year though taxes paid by industry operators, their supply chains, employees and domestic customers¹.
- Over SEK400 million of this total comes from direct taxation on passenger travel via a value added tax of 6% on purchases of domestic flights.
- This briefing assesses the impact of changes to the passenger taxation regime as proposed by the Swedish Environmental Party. For the purposes of this analysis the tax proposals have been grouped into the scenarios outlined in Table 1.

Scenario	A	B	C	D
	Domestic per-passenger tax	Domestic VAT increase	International per-passenger tax	All taxes
Tax	New SEK110 tax per passenger departure.	Increase VAT on domestic tickets from 6% to 25%.	New SEK110 per passenger tax for intra-EU flights and SEK270 for extra-EU flights. Tax applies on arriving and departing passengers.	Taxes from scenarios A, B & C combined.

Table 1: Taxation scenarios assessed

- Increasing taxation on passenger flights will raise the overall cost of travel for passengers who will, all else remaining constant, travel less as a result. This reduced demand for air transport will negatively impact the airline and airport operators serving the Swedish market. This impact will also ripple out through the broader economy along the air transport supply chain, through the tourism sector and via reduced wage spending from industry employees on goods and services they consume privately.
- Table 2 below outlines the scale of impact that could be expected under each of the four scenarios assessed. The top part of the table shows the expected impacts on passenger travel demand. The lower section of the table shows the implications for the broader economy in terms of aviation's contribution to GDP, employment and public sector finances.

Scenario	A	B	C	D'
<i>Impact on passenger markets</i>				
Travel cost increase, %	9.1*	17.9*	10.2 [^]	14.8
Demand impact, %	-11.2*	-22*	-11 [^]	-16.5
Demand impact, pax millions	-0.8	-1.5	-2.4	-4.9
<i>Impact on wider economy</i>				
Reduced contribution to GDP, SEK billion	-0.9	-1.8	-11.5	-14.4
Reduction in employment, jobs	-1,540	-3,010	-17,170	-21,980
Reduction in annual contribution to public finances, SEK billion	-0.4	-0.8	-5.6	-6.8
* for/of domestic passengers only				
[^] for/of international passengers only				
['] due to interaction between the tax effects the total is not the simple sum of components				

Table 2: Market and economic impacts. Source: Input-Output model built for IATA by Oxford Economics

¹ Oxford Economics estimate, 2009 figure. <http://www.benefitsofaviation.aero/Documents/Benefits-of-Aviation-Sweden-2011.pdf>

- Of the two domestic tax scenarios, the increase in VAT (scenario B) would be the more damaging, with impacts roughly double those of the domestic per-passenger tax. A rise in VAT to 25% on domestic tickets would increase the cost of travel for domestic passengers by almost 18% with a corresponding fall in traffic of 22% in the domestic market. As the effects of this fall in demand ripple through the economy the contribution to GDP from air transport and related tourism would fall by SEK1.8 billion. Three thousand jobs would be at risk and the industry's current contribution to public finances would fall by SEK800 million.
- Taxing international arrivals and departures on a per-passenger basis (scenario C) would raise the cost of travel for international passengers by just over 10% with a corresponding fall in demand of 11%. International passenger arrivals and departures make up three quarters of passengers flying in the Swedish market. The impact in the broader economy of 2.4 million fewer international passengers would drive an SEK11.5 billion fall in GDP and affect over 17,000 jobs. Contribution to public finances would fall by SEK5-6 billion.
- The combined effect of applying all these tax measures could see a fall in demand of close to 5 million passenger journeys annually. National GDP would be over SEK14 billion lower and 22,000 jobs would be affected. In addition to these GDP and employment impacts, the sector's existing contribution to public finances would fall by almost SEK7 billion.