



The Scottish Parliament  
Pàrlamaid na h-Alba

Published 1 April 2017  
SP Paper 118  
5th Report, 2017 (Session 5)

## Finance and Constitution Committee Comataidh Ionmhais is Bun-reachd

# Stage One Report on the Air Departure Tax (Scotland) Bill



Departures  

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# Finance and Constitution Committee

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(a) any report or other document laid before the Parliament by members of the Scottish Government containing proposals for, or budgets of, public revenue or expenditure or proposals for the making of a Scottish rate resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;

(b) any report made by a committee setting out proposals concerning public revenue or expenditure;

(c) Budget Bills; and

(d) any other matter relating to or affecting the revenue or expenditure of the Scottish Administration or other monies payable into or expenditure payable out of the Scottish Consolidated Fund.

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# Introduction

1. The Air Departure Tax (Scotland) Bill was introduced to the Scottish Parliament by the Cabinet Secretary for Finance and the Constitution (“the Cabinet Secretary”), on 19 December 2016 <sup>1</sup>. The Bill makes provision for a tax, named the Air Departure Tax (ADT), to be charged on the carriage of chargeable passengers on chargeable aircraft by air from airports in Scotland.
2. The Bill is, in essence, an enabling Bill designed to provide the Scottish Government with the authority to levy a tax on the carriage of passengers that depart from Scottish airports. The Bill proposes that Revenue Scotland will be responsible for the collection and management of ADT. The Bill does not include proposals on passenger exemptions, aircraft exemptions or the tax bands and tax rate amounts which the Scottish Government intend to apply via secondary legislation. Although not part of the Bill the Scottish Government has stated, in the Bill’s accompanying documents, that it is committed to—
  - ” a 50% reduction in the overall tax burden by the end of the fifth session of the Scottish Parliament, starting to implement that reduction in 1 April 2018 when it is proposed that the tax will come into effect, and also abolishing the tax when resources allow. <sup>2</sup>

# Background

3. At present, the levying of a tax on passengers from airports within the UK is levied by the UK Government through Air Passenger Duty (APD). APD came into effect in 1994 and is legislated for by the Finance Act 1994 (as amended). The Smith Commission, established in 2014 to agree proposals on the further devolution of powers to the Scottish Parliament, recommended that—

” The power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament. The Scottish Government will be free to make its own arrangements with regard to the design and collection of any replacement tax, including consideration of the environmental impact.

In line with the approach taken in relation to the Scotland Act 2012, if such a tax is introduced by the Scottish Parliament to replace Air Passenger Duty (APD), the Scottish Government will reimburse the UK Government for any costs incurred in ‘switching off’ APD in Scotland.

A fair and equitable share of associated administrative costs will be transferred to the Scottish Government. The Scottish Government’s block grant will be adjusted in line with the principles set out in paragraph 95 to accommodate the devolution of APD.<sup>3</sup>

4. Section 17 of the Scotland Act 2016 devolved responsibility to the Scottish Parliament to levy a tax on the carriage of passengers by air from airports in Scotland. Section 17 of the 2016 Act came into effect on 23 May 2016 providing the Scottish Government with the power to legislate in this area. The Policy Memorandum to the Bill comments—

” APD will cease to apply in Scotland from 1 April 2018 and, if this Bill is enacted, ADT will replace it from that date. The provisions of the 2016 Act which disapply the existing APD regime in Scotland will be brought into force with effect from 1 April 2018 by regulations laid by Her Majesty’s Treasury in the UK Parliament.<sup>4</sup>

5. Prior to the introduction of the Bill, the Scottish Government consulted on the form a replacement to APD should take and on a Strategic Environmental Assessment Screening and Scoping report.<sup>5</sup> In addition, the Scottish Government established a stakeholder forum to provide expert input into the development of the Bill. This body consisted of representatives from a range of sectors including airlines, airports, travel organisations, business representatives, tax accountancy and legal professional bodies and environmental organisations.<sup>6</sup>

6. The Finance and Constitution Committee (“the Committee”) was designated the Lead Committee on the Bill and has scrutinised the Bill over four evidence sessions. The Committee also issued a call for written evidence.<sup>7</sup> The Bill consists of four main components as follows—

- Part One – The Purpose of the proposed tax;
- Part Two – The key concepts of the Bill;

- Part Three – The tax structure, bands and rates; and
  - Part Four – Payment, collection and management of the tax.
7. The Committee's consideration of the Bill in this report broadly follows the structure outlined above.<sup>8</sup>

## Part One: Purpose of the Tax

8. The overall purpose of the Bill is to provide for the levying of a tax on the carriage of passengers by air from Scottish airports was broadly supported in the evidence the Committee received. In general, there was support amongst those who commented on the issue for the principle that APD should be devolved to the Scottish Parliament.
9. In terms of the content of ADT contained in the Bill, the Scottish Government proposes to largely mirror the structure of APD. For the Scottish Government, the structure of the Bill had largely been driven by the responses received to its consultation. The Bill team, commented on the legislative approach taken that—
  - ” The driving factor was not to assume automatically from point zero that the structure of the tax would be copied across. We allowed people to bring forward alternative proposals through the consultation paper. Some people did that in minor ways, but there was an overwhelming consensus from the stakeholders and the consultation responses, and that played a large part in the decisions that we arrived at on the bill.<sup>9</sup>
10. The overall approach of mirroring the structure of APD was generally supported by respondents to the Committee’s call for evidence and in oral evidence. Amongst those who commented on the proposed approach there was a broad acceptance that mirroring APD would be administratively straightforward. In particular, stakeholders in the aviation industry tended to favour this approach due to concerns regarding administrative complexity should there be a significant variation away from APD. For example, Jonathan Hinkles from Loganair Ltd stated—
  - ” We have no fundamental issues with what is proposed in the bill. We are content with suggestions that were made and all that we have heard in meetings that the Scottish Government has held to consult airlines in preparation for the bill.<sup>10</sup>
11. Glasgow Chambers of Commerce commented on this issue that—
  - ” The scope of the Scottish tax should be as close as possible to the existing UK tax in order to ensure ease of administration and minimal confusion for businesses and taxpayers. If alternatives are being considered we would like clarification on these as soon as possible in order to consider any potential impact they may have on Glasgow’s business community.<sup>11</sup>
12. Minimising the complexity of administering ADT also tended to shape the view of respondents who expressed an opinion on alternative forms of taxation which could be applied. For example, Mike Robinson of Stop Climate Chaos commented as follows—
  - ” There is some debate about the different types of taxes that could be introduced and there has certainly been debate in the forum about having frequent flyer taxes and other such measures. However, those are incredibly complex, difficult to administer and very expensive to enforce so the fact that you pay every time you fly is about as equitable as it gets.<sup>12</sup>

13. Respondents were also cognisant of the Bill being an enabling Bill and that once APD is disappplied in Scotland from April 2018 that there would be no legal basis for levying the tax without legislation being in force. For other respondents, given the Scottish Government's stated commitment to ultimately abolish the tax then adopting broadly the same structure as APD represented a pragmatic approach to take given the likelihood of the tax being short-lived.
14. Some respondents did however question the overall approach that the Scottish Government had adopted in the Bill. The Chartered Institute of Taxation (CIOT), for example, whilst recognising that if ADT is to be short-lived and recognising that it would be simpler in administrative terms for the key concepts of APD to be retained for ADT went on to question the approach taken. CIOT observed—<sup>13</sup>
- ” From the point of view of trying to move in a distinctively Scottish direction with the tax, however, simply following UK APD is arguably not the correct approach, since it makes it more likely that the Scottish tax will continue to be restricted or influenced by the UK approach. A cleaner break in terms of concepts within the tax would arguably make it easier to be bolder in relation to decisions about the tax and its level. It is noticeable that the opportunity recognised by the Smith Commission, is not being fully seized.
15. For a couple of other respondents, the lack of provision in the Bill with regard to tax bands and rates and exemptions merited withdrawing support for the Bill. For example, Reform Scotland stated—
- ” Although Reform Scotland has backed the Scottish Government's aim of cutting then scrapping APD, we cannot support this Bill. .... We do not believe that legislation dealing with the creation of a new tax, or any new tax, can simply ignore the issue of the rates and bands. It is not transparent, nor accountable to state, as the policy memorandum does that they 'will be delivered at a later date'.<sup>14</sup>
16. A large number of respondents considered issues that were not covered in the Bill including tax bands, rates, exemptions and the Scottish Government's stated policy objectives although not tending to view this as a reason for outright rejection of the Bill. The Committee considers these issues later in this report.

- 17. The Committee supports the introduction of legislation to ensure that a tax upon the carriage of air passengers from Scottish airports can be levied from 1 April 2018.**

## Part Two: Key Concepts

18. Part Two of the Bill defines the concepts of the Bill, in particular, the concepts of a 'chargeable passenger' and of a 'chargeable aircraft'. Again, the Bill essentially provides the same definitions as are currently used for APD and this approach was generally supported in evidence the Committee received and in particular from stakeholders in the aviation sector. For example, Tim Alderslade of Airlines UK stated—

” We are happy to have in place the same arrangements on chargeable passengers and chargeable aircraft as those that currently exist in the UK, and we do not want any changes. We are happy with what we have seen. <sup>15</sup>

19. Generally, however there was support for adopting the concepts used for ADT. For example, the Royal Society for the Protection of Birds (RSPB) commented—

” In general, we are satisfied with the key concepts of the Bill and that they are consistent with the definitions in the Finance Act 1994, which introduced Air Passenger Duty. <sup>16</sup>

## Exemptions

20. The Bill does not stipulate the exemptions to the definitions of chargeable passenger or aircraft. In other words, it does not identify which category of passenger and aircraft will not be subject to the tax. This is unusual in tax legislation, where the scope of taxation (liability as distinct from bands and rates) is provided for in primary enactments.<sup>i</sup> It contrasts with the Finance Act 1994 where the exemptions to APD are set out in primary legislation and also with regard to the approach taken with other devolved taxes, such as Land and Buildings Tax Transactions Tax (LBTT).

21. A range of respondents expressed concern that the same legislative approach as APD had not been adopted in this Bill. For example, the Institute of Chartered Accountants of Scotland (ICAS) stated—

” Part 2 section 8 of the Bill refers to the amendment of key concepts and we question whether this is appropriate. ICAS does not support the use of secondary legislation to change primary legislation, particularly when this relates to powers such as the setting of rates or key concepts. The granting of powers, duties and functions are an important exercise of Parliament's duties. Such powers should be exercised through primary legislation. <sup>17</sup>

22. The Bill team commented on the response to the Scottish Government consultation on this issue and the rationale for the legislative approach taken being that—

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<sup>i</sup> The Committee agreed to this sentence by division. For - 6 (Adam Tomkins, Neil Bibby, Murdo Fraser, Patrick Harvie, James Kelly and Liam Kerr); Against - 5 (Bruce Crawford, Willie Coffey, Ash Denham, Ivan McKee and Maree Todd).

” Clearly, there was an overwhelming consensus among the stakeholders and in the responses to the consultation that we should retain the current exemptions. With regard to the exemptions, we have provided a power in section 8 of the bill that allows regulations to be brought forward through subordinate legislation. We are considering our overall approach to exemptions in the round. There are some further technical and legal matters that need to be worked through. <sup>18</sup>

23. There was also strong support in the evidence that the Committee obtained for the APD chargeable passenger and aircraft exemptions to be applied for APD. For example, the International Air Transport Association (IATA) sought the same exemptions as APD when commenting that—

” As the Scottish Government looks to establish the regulations accompanying the ADT, significant attention should be paid to ensuring that the same passenger exemptions (e.g. infants under 2 years who are not allocated a separate seat, etc.) and flight exemptions (e.g. from the Scottish Highlands and Islands region, emergency / public service flights, circumstances beyond the control of the airline etc.) under the APD are provided for under the Scottish ADT. <sup>19</sup>

24. In a similar vein, the Caithness Transport Forum and Wick John O’Groats Airport Consultative Committee (CTF & WJOGACC) observed—

” We understand that this is an enabling Bill, and that a number of additional issues – including exact definitions of chargeable passengers – are to be specified by Scottish Ministers at a later date.

However, we are concerned that no attempt at all has been made to include definitions of exempted passengers or flights in the primary legislation. This stands in contrast to, for example, the Land and Buildings Transaction Tax (Scotland) Act 2013, which explicitly defines a number of exempt transactions.

While we understand the need for Scottish Ministers to retain powers to alter the definitions of chargeable passengers / chargeable flights as they see fit, some existing exemptions under APD (e.g. for emergency medical or humanitarian flights) are surely deserving of inclusion in the Bill. <sup>20</sup>

25. In evidence to the Committee, the Cabinet Secretary appeared to suggest that the Scottish Government intended to mirror the APD exemptions when commenting that—

” The reason for our decision is that we want consistent flexibility and the ability to adapt as it is the Government’s intention to match the current exemptions for passengers and ministers have previously agreed to retain under ADT all the current UK APD exemptions. <sup>21</sup>

26. The Cabinet Secretary elaborated further, in evidence to the Committee, to suggest there were two reasons for the use of secondary legislation in relation to exemptions. These were firstly—

” In order to remain competitive, we must have the ability to change through due process, using a statutory instrument, if we choose to do so. You say a different approach is being taken on air passenger duty. That is because the UK Government has the ability to make – I decided not to say “has the luxury of making” – amendments through a finance bill that has its own process at Westminster, which is a process that I do not have here. That is the first reason...

The second point considers consideration of tax rates in the round. There might be a better way of delivering some of the exemptions in that way. It is about having the ability to produce not only good primary legislation but good legislation in general that delivers outcomes.<sup>22</sup>

27. The Delegated Powers and Law Reform Committee (DPLRC) considered this issue with regard to section 8 of the Bill which provides for the key concepts in the Bill to be amended via secondary legislation. DPLRC exchanged correspondence on the issue of the use of secondary legislation to deal with exemptions and subsequently reported to this Committee.<sup>23</sup> In its report, DPLRC note that the “Scottish Government appears not yet to have reached a settled view on what the exemptions from liability for ADT should be, with its policy still under development”.<sup>24</sup> The DPLRC went on to recommend that—

” The Committee recommends that the Scottish Government bring forward amendments at Stage 2 which make detailed provision for exemptions from the definition of ‘chargeable passenger’ and ‘chargeable aircraft’. This would afford the Parliament the best opportunity for full and effective scrutiny of this significant aspect of the Bill’s policy.

The Committee also expresses its disappointment that the legislation has been introduced in the absence of full development of the Scottish Government’s policy regarding exemptions from the charge to tax.

In the Committee’s view, delegated powers should not be taken as a substitute for policy development and the Committee would encourage the Scottish Government to avoid applying this approach to future legislation.<sup>25</sup>

28. The Committee considers the exemptions which will be applied to ADT are a fundamental component of the proposed structure of the tax and that understanding of the exemptions which the Scottish Government proposes to apply is essential to scrutiny of the Bill. Furthermore, the Committee notes that exemptions for Land and Buildings Transaction Tax (LBTT) and Landfill Tax were placed in primary legislation and sees no reason why this should not be the case for APD.

**29. The Committee agrees with the view of Delegated Powers and Law Reform Committee that delegated powers should not be taken as a substitute for policy development.**<sup>ii</sup>

ii This recommendation was agreed to by division. For - 6 (Adam Tomkins, Neil Bibby, Murdo Fraser, Patrick Harvie, James Kelly and Liam Kerr); Against - 5 (Bruce Crawford, Willie Coffey, Ash Denham, Ivan McKee and Maree Todd).

30. **The Committee recommends that the Scottish Government brings forward amendments at Stage 2 which make detailed provision for exemptions from the definition of ‘chargeable passenger’ and ‘chargeable aircraft’.** <sup>iii</sup>

## Exemptions: Highlands and Islands

31. A number of suggestions were made to the Committee with regard to aspects of the current APD exemptions regime which could be extended. For example, the exemption for children under 16 could be extended to those under 18 and on the treatment of emergency and public service flights. In particular, the Committee received a range of evidence suggesting that the exemption applying to passengers departing from an airport in the Highlands and Islands could be extended. For example, Loganair commented—

” We believe there is a strong opportunity to make a difference in the Highlands and Islands by reciprocating the current exemption for flights from the Highlands and Islands so that passengers who depart from Glasgow, Edinburgh and Aberdeen on flights to the Highlands and Islands are lifted out of APD, as it is today, and ADT, as it will be in the future. That would give the fastest return on investment of the Scottish Government’s funding, which would in cash terms be well below £2 million a year – that is the tax that is currently collected from those customers. <sup>26</sup>

32. The importance of aviation in terms of connectivity to the Highlands and Islands and the lack of viable alternative modes of transport was raised in a wide range of evidence that the Committee received. Chris Day from Transform Scotland for instance observed that—

” There is a case for treating the islands, in particular, differently because of the argument that there is no alternative for some types of journeys to and from the islands. I am not quite sure what the distinction is between travelling in and out, in the sense that people are charged APD or ADT on one leg of the journey, but a consistent theme throughout our evidence is that where there is clearly no alternative, there is a case for a different regime. <sup>27</sup>

33. The Committee did receive evidence suggesting that flights from Inverness airports to, what are termed, ‘ski and sun destinations’ should be exempt from ADT. Jonathan Hinkles (Loganair Ltd) noted that such flights amounted to “a miniscule part of the picture for the Highlands and Islands network”. <sup>28</sup>

34. **The Committee asks the Scottish Government to respond to the suggestion that flights to Highlands and Islands airports from other Scottish airports should be exempted from the definition of chargeable aircraft.**

<sup>iii</sup> This recommendation was agreed to by division. For - 6 (Adam Tomkins, Neil Bibby, Murdo Fraser, Patrick Harvie, James Kelly and Liam Kerr); Against - 5 (Bruce Crawford, Willie Coffey, Ash Denham, Ivan McKee and Maree Todd).

## Part Three: Tax Structure, Bands and Rates

35. Part 3 of the Bill sets out the broad structure proposed for ADT. APD currently consists of three categories. These are, firstly, 'reduced' which tends to be economy class travel. Secondly, 'standard' which broadly refers to premium economy, first class and business class travel. Lastly, 'higher' applies to travel by passengers on aircraft which weigh 20 tonnes or more and carry less than 19 passengers. The Bill essentially retains these categories but renames them as 'standard', 'premium' and 'special' categories. The Policy Memorandum to the Bill sets out the Scottish Government's rationale for this approach as being that—

” The Bill largely provides for the same rates structure for ADT as is used under APD, on the basis that this: has strong stakeholder support (from both respondents to the Scottish Government's policy consultation paper and members of the stakeholder forum); has proven to be a simple and efficient model for APD; is familiar to current APD taxpayers; and provides a structure whereby tax rate amounts can be set broadly on a basis of proportionality to the ability to pay.<sup>29</sup>

36. The approach taken in the Bill with regard to the broad overall structure of the tax was generally supported in evidence to the Committee. Again, evidence received from stakeholders in the aviation and tourism sectors tended to strongly support the three categories outlined in the Bill. For example, ABTA – The Travel Association remarked—

” ABTA welcomes the designation of the APD Reduced, Standard and Higher rates as Standard, Premium and Special rates. We believe that these are more descriptive of the classes of travel.<sup>30</sup>

37. As noted above, the Bill does not include the tax bands and tax rates amounts which will apply under ADT. Instead, the Scottish Government intends to bring forward its tax rates and bands proposals via secondary legislation at a later date. In evidence to the Committee, some witnesses questioned the extent to which this made it possible to adequately scrutinise the Scottish Government's approach to ADT. For example, Chris Day from Transform Scotland observed—

” As it stands, the bill seems to be a piece of enabling legislation. What is important is that the nature of the tax and the bands that are applied to it. In our submission, we make the point that it not quite clear how these will be subject to parliamentary scrutiny, which seems a bit odd.<sup>31</sup>

38. In evidence from the Scottish Government Bill team it was confirmed that no consideration had been given to introducing criteria into section 10 of the Bill that would require Scottish Ministers to consider before proposing tax rates and bands.<sup>32</sup>

39. The Cabinet Secretary outlined his rationale for the legislative approach taken with regard to tax rates and bands in the following terms—

” Once the core foundations of the tax are in place, we will put forward tax rate amounts and tax bands in secondary legislation in the autumn. The fact that the secondary legislation will be subject to the affirmative procedure means that Parliament will have the opportunity to scrutinise our proposals at a later date; it will not be possible for them to come into effect without Parliament’s approval.

The approach of setting tax bands and tax rate amounts in subordinate legislation is consistent with the approach that has been adopted in relation to other devolved taxes in Scotland.<sup>33</sup>

**40. The Committee notes the approach taken by the Scottish Government with regard to the setting of tax rates and bands and that this approach is consistent with the approach taken in relation to other devolved taxes.**

## Secondary Legislation

41. Section 10 of the Bill contains the provisions which enable Scottish Ministers to set tax bands and rates via secondary legislation (affirmative procedure). Section 10(2) of the Bill would confer the power on Scottish Ministers to, by regulations, make other provision concerning the structure of the tax. The Delegated Powers and Law Reform Committee (DPLRC) sought clarification from the Scottish Government on the scope of this power. In correspondence with DPLRC the Scottish Government stated that the provision was intended to provide the Government with sufficient legislative flexibility to change provisions about tax rates and determination of a chargeable passenger’s final destination with regard to three main criteria. These criteria are:

1. In order to continue to support key government priorities;
2. In order to reflect changing market conditions; and
3. In light of Revenue Scotland’s operational experience of collecting and managing ADT.

42. DPLRC accepted, in principle, the Scottish Government’s justification for proposing the power set out in section 10(2). However, the Committee considered that section 10(2) appears to have been drafted more widely than necessary to give effect to the Government’s stated policy intention. Accordingly, DPLRC recommended that—

” The Scottish Government considers bringing forward an appropriate amendment at stage 2 to more closely align the power in section 10(2) with its stated policy intention of enabling the Scottish Ministers to make provision relating to the core structure of ADT, as provided for in section 9 of the Bill, which does not relate to tax bands or tax rate amounts.<sup>34</sup>

**43. The Committee agrees with the recommendation of DPLRC with regard to section 10(2).**

## Finance Bill

44. With regard to the use of secondary legislation to set ADT tax bands and rates, the Cabinet Secretary for Finance and the Constitution contrasted the position of the UK Government where bands and rates could be set via a Finance Bill with the position of the Scottish Government. He considered that in the absence of a Finance Bill it was necessary to have the flexibility provided via recourse to secondary legislation.
45. The Committee recognises the validity of the point raised by the Cabinet Secretary with regard to the absence of a Finance Bill as a means of setting tax rates. The Committee also considers that this issue is of a far wider nature than simply ADT. For instance, it would also apply to other revenue raising measures such as LBTT, Landfill Tax and Non-Domestic Rate Income. The Committee notes that the Cabinet Secretary suggested that this is an issue which could be considered by the Budget Process Review Group.<sup>35</sup> The Committee agrees with this approach.

- 46. The Committee recommends that the Budget Process Review Group should consider whether a Finance Bill would be a more appropriate means for the setting of devolved tax rates and bands.**

## 50% Reduction in ADT

47. The Scottish Government's stated policy intention is to reduce ADT by 50% during the current session of the Scottish Parliament and abolish ADT when resources allow. The Scottish Government has stated that it intends to begin the process of reducing ADT from 1 April 2018. In other words, reduction of ADT will begin from the introduction of ADT.<sup>36</sup> The Scottish Government has not set out a timetable for phasing in the 50% reduction over the course of the parliament session or whether the 50% reduction would apply from April 2018. The Committee recognises that the policy of a 50% reduction does not constitute any part of the provisions of the Bill. Indeed, the Committee did not seek responses on this issue in its call for written evidence. Nevertheless, a substantial proportion of both the oral and written evidence received by the Committee, if not indeed the majority, considered the issue of a proposed 50% reduction in ADT. This report therefore considers, in broad terms, the main themes of the evidence heard in this regard.
48. The Policy Memorandum to the Bill comments on the Government's strategic objectives for ADT in the following terms—

” The Scottish Government will design and structure ADT in a way that boosts Scotland’s air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism. The Scottish Government is also keen to create an environment which encourages airlines to base more aircraft in Scotland, which not only creates new routes, but creates new jobs, including flight crew, cabin crew, engineering and ancillary support roles. Scotland’s airports are competing on a world stage to secure new routes and capacity. Cutting the tax burden helps ensure a more level playing field with many other European airports competing to secure the same airlines and similar routes.<sup>37</sup>

49. For the Cabinet Secretary, a further key consideration was that APD as an aviation tax “is one of the highest of its kind in the world – and certainly the highest in Europe – and it is self-evidently the case that there is an issue in that respect”.<sup>38</sup> Broadly, respondents from the aviation, business and tourism sectors supported the Scottish Government’s proposal for a 50% cut and eventual abolition of ADT and agreed with the economic benefits the Scottish Government suggests would be derived from this policy position. Other common reasons provided in support of the Scottish Government’s position included:

- That APD is a regressive tax and therefore the Scottish Government’s approach of reducing ADT by 50% and ultimately abolish the tax is to be welcomed
- That even with a 50% reduction, Scotland would still continue to have one of the highest rates of aviation tax in Europe
- Scotland’s peripheral location required that measures were taken to improve connectivity
- That a 50% cut would send a signal that Scotland was ‘open for business’, stimulate economic growth including encouraging inbound tourism
- Post-Brexit, it was imperative that measures were taken to improve Scotland’s connectivity
- That regional connectivity across Scotland would be improved
- That social welfare / citizen well-being would be enhanced as air travel would be more affordable

50. Alternatively, a number of witnesses raised concerns or questioned the policy objectives of the Scottish Government. Objections raised with regard to the Scottish Government’s policy objective could be broadly grouped into five categories of environmental, economic, fiscal, distributional impacts and displacement effects.

51. In terms of environmental objections, evidence received by the Committee emphasised the impact of a 50% reduction upon climate change emissions and of the policy proposal being contrary to the wider climate change objectives of the Scottish Government. For example Mike Robinson from Stop Climate Chaos stated—

” It is not helpful in the context of Scotland, because we have a set of targets and ambitions around climate change, and we should not exempt one industry from the responsibility to deliver them. That is a fundamental point. The rest of society is aiming for an 80 per cent reduction in carbon emissions by 2050, but this one industry is doubling its carbon impact at the moment and is expected to do so again by that date. It has to play a role. Why is it being treated differently from every other industry? Apart from everything else, that seems to be anti-competitive.<sup>39</sup>

52. The economic case for a 50% reduction was questioned from a variety of perspectives. Respondents questioned how long any initial competitive advantage from a 50% cut would last, that changes to ADT represented a small proportion of the cost of air travel and would be far outweighed by other factors such as the decline in the value of sterling. Other respondents suggested that factors such as the capacity of Scottish airports to expand and the ability of the wider public infrastructure, such as road and rail connections, would act as significant brake on any growth in air travel. The benefits to business of a reduction in ADT was questioned, by organisations such as Common Weal, who considered that demand for travel was relatively inelastic and therefore unlikely to be particularly responsive to a reduction in ADT. In terms of tourism, a number of respondents noted that any increase in inbound tourism would be more than offset by an increase in outbound tourism. Lastly, the view that air travel was a generator of economic growth was questioned with groups such as Transform Scotland suggesting that air travel tends to follow economic growth rather than being a catalyst for growth.

53. With regard to distributional impacts, some respondents noted that the loss of revenue to the Scottish budget from a 50% reduction would require either a reduction in Scottish Government expenditure or an increase in another area of taxation resulting in differential impacts for taxpayers. Some respondents queried, in particular, the impact on different income groups and household types. The Scottish Government Bill team were questioned on this issue by the Committee. In response, the Scottish Government stated “The impact on specific groups is another thing that we will factor into our analysis”.<sup>18</sup> The Cabinet Secretary commented on this issue that—

” Obviously, it is right that any financial decision that the Government makes takes into account those kind of considerations. However, it would not just be a matter of what is raised by way of the tax, because we must also reflect on the economic benefits that would come from growth, whether that is new routes, sustaining existing routes or supporting our airports.<sup>33</sup>

54. In addition, the geographical impact of a 50% reduction was also questioned by some respondents. For instance, Common Weal suggested that the impact of a 50% cut could result in regional imbalances as growth in air traffic may be spatially concentrated in airports in the central belt of Scotland whereas airports such as Aberdeen and Inverness were considered to be unlikely to be significantly affected.

55. A range of displacement effects were also suggested in evidence to the Committee. The impact of a loss of revenue on the Scottish budget resulting from a 50% cut was considered by a number of respondents to be unlikely to result in any gain in revenue for the Scottish budget resulting from increased air travel. Instead some respondents suggested that any benefit to the public purse would benefit the UK

exchequer through taxes such as corporation tax. The Committee questioned witnesses on this issue but were unable to obtain evidence on the impact of a proposed 50% reduction in ADT upon devolved public finances. The impact of increased air travel upon public infrastructure such as road and rail networks was also cited. Lastly, the impact of increased use of air travel within the UK upon rail travel and a potential conflict with public policy objectives seeking a modal shift from air to rail was also highlighted in evidence to the Committee. For example, David Horne of Virgin Trains stated—

” We know that rail competes strongly with the aviation market and we know that initiatives that we have launched in the past year have been successful in attracting customers from airlines to rail, as well as in having boosted Scotland’s connectivity.

We know that the market is competitive, which is why we are extremely concerned that a reduction in the tax that is paid by air passengers will result, on domestic routes, in a switch from rail to air, which will fundamentally undermine the investment in the rail routes between London and Scotland.<sup>40</sup>

56. **The Committee invites the Scottish Government to note the above evidence in finalising its proposals for the rates and bands.**

## Evidence Base: Economic Impacts

57. The issue of the extent to which there was an evidence base underpinning the proposal for a 50% reduction in ADT was a recurring theme throughout the evidence the Committee took on this issue. Generally, the evidence cited in a favour of a 50% reduction fell into two categories. Firstly, the impact of a reduction in aviation tax in other jurisdictions was frequently cited. In particular, the experience of Germany, Netherlands, Republic of Ireland and Northern Ireland were regularly referred to. Secondly, a number of reports which had been commissioned on this issue were also utilised by both proponents and opponents of a 50% reduction in ADT. The most commonly cited were reports by Biggar Economics which was commissioned by Edinburgh Airport<sup>41</sup>, York Aviation<sup>42</sup>, Price Waterhouse Coopers<sup>43</sup> and Oxford Economics<sup>44</sup>. The Cabinet Secretary when questioned on the evidence that the Scottish Government had considered commented that—

” Our officials have certainly looked at all the reports and considered them. To the best of my knowledge, we have not commissioned any independent research of our own, but we have certainly looked at all the reports that have been published and provided, and we have also looked at the experience in Ireland.<sup>45</sup>

58. Under further questioning on this issue the Cabinet Secretary stated—

- ” The convener asked whether the Government has commissioned its own independent survey, and the answer is that we have not done so but we have looked at all the other pieces of work that are in the public domain, who commissioned them, what they were for and the summary of each report. All that can be fed in, once we have the power and the ability to collect the tax, so that we can arrive at a decision on the rates and bands. <sup>46</sup>
59. Despite the polarisation of opinion regarding the Scottish Government’s policy position with regard to a 50% reduction in ADT, there was considerable consensus across all spectrums of opinion that the evidence base underpinning the proposed reduction required development. The quotes below provide an indication of the views expressed to the Committee on the issue of the proposed 50% reduction in ADT.
60. Gordon Dewar from Edinburgh Airport stated—
- ” If the Government did that analysis, it would be fantastic, because if we were to commission it, the accusation would be, ‘They would say that, wouldn’t they?’ That would be unhelpful. After all, we would commission it only because no one else would. ...The right answer would be for the Government to undertake a full analysis of the revenue and economic benefits of this move. <sup>47</sup>
61. Gareth Williams of the Scottish Council for Development and Industry remarked—
- ” We would welcome some analysis that builds on what York Aviation, PWC and Edinburgh Airport have produced. We also said that, if that analysis was felt to be necessary for the Parliament to understand the issues and the potential benefits, the Scottish Government should lead and commission it as soon as possible. That is still our position. <sup>48</sup>
62. Mike Robinson from Stop Climate Chaos stated—
- ” The bill should be more evidence based. As I have already said, the bill needs to have a much sounder evidence base as regards its economic and, in particular, its environmental impacts. That should form the basis for any decision making; for me, it should be a trigger for a decision being allowed or not allowed. <sup>49</sup>
63. The Committee also sought views on the regional impacts in other countries, in particular the Republic of Ireland, where there had been a reduction in the level of, or abolition of, aviation tax. The Cabinet Secretary agreed to provide more information on the impact of abolition of aviation tax upon the economy of the Republic of Ireland. <sup>45</sup> The Cabinet Secretary also committed, in correspondence with the Committee, committed to “look into whether there is any information available on the impact on regional airports of the abolition in 2014 of air passenger tax in the Republic of Ireland” <sup>50</sup> in the Scottish Government’s response to the Committee’s Stage One report.
64. The Committee considers the evidence base with regard to environmental impacts further later in this report. The Committee agrees that the evidence base for the proposed reduction in ADT currently lacks an adequate evidence base. In particular,

there is a lack of an independent economic assessment of the proposed 50% reduction. In evidence to the Committee, the Cabinet Secretary stated—

” It is fair to say that we have to return to Parliament with the evidence on the reduction, what we would be trying to achieve with our preferred approach and whether it makes economic and environmental sense. We have a broad policy intent. Having established the ability to raise the tax, we will return to Parliament with how that policy intent is refined into the tax proposition that is to be considered. The more information that is produced to support that case, the better. I get that point and I commit to doing that.<sup>51</sup>

65. The Cabinet Secretary also commented in evidence to the Committee that “I have told the Committee that I think that there should be economic and environmental consideration in advance, as we put our tax position across.”<sup>51</sup>
66. The Committee notes the Scottish Government’s commitment to evidence-based policy making and welcomes the Cabinet Secretary commitment to return to Parliament with evidence regarding economic and environmental impacts of its approach to ADT. The Committee considers it essential that an economic and environmental impact analysis of the proposed 50% reduction is undertaken if Parliament is to be able to scrutinise the Scottish Government’s policy intention.

**67. The Committee recommends that the Scottish Government commission an independent economic impact analysis of the proposed reduction in ADT.**

**68. The Committee recommends that the economic impact analysis should be published ahead of or at least at the same time as the Scottish Government proposes its approach in its consultation document on ADT tax rates and bands.**

## Outcomes

69. Linked to the issue of an evidence base were issues with regard to how outcomes arising from the Bill would be assessed. Both the Chartered Institute of Taxation (CIOT) and ICAS questioned how outcomes arising from the Bill would be measured and suggested that there should be provision in the Bill regarding the monitoring of outcomes. For example, CIOT stated—

” It would be helpful to understand how the Scottish Government intends to assess whether or not the objectives are achieved, as it is not immediately apparent how to measure sustainable growth and increased connectivity for example, or how to determine whether or not, or the extent to which, changes in these can be attributed to the ADT policy.<sup>52</sup>

70. The Cabinet Secretary for Finance and the Constitution when questioned specifically on the CIOT recommendation that there should be monitoring of outcomes arising from the Bill responded that—

” Yes, I think that it would be helpful to consider an evaluation of the economic outputs that the fiscal policy has achieved. There will, of course, also be the environmental assessment, but I am open to that kind of evaluation of tax policy and intervention.<sup>53</sup>

71. The Committee agrees that the economic and environmental outcomes arising from ADT should be monitored and reported upon. Provision to this effect should be placed in the Bill. The Committee considers there should be a biennial report to Parliament on the outcomes arising from ADT.

**72. The Committee recommends that the socio-economic and environmental outcomes arising from ADT should be regularly evaluated and reported upon every second year to Parliament. Accordingly, the Committee recommends that the Scottish Government bring forward amendments at Stage 2 that will place a duty on Scottish Ministers to this effect.**

## Environmental Impacts

73. The Environmental Assessment (Scotland) Act 2005 requires the Scottish Government to consult on the environmental implications of a policy prior to such a proposal being submitted into the legislative process. The Scottish Government is currently undertaking a Strategic Environmental Assessment (SEA) in relation to the environmental impacts of the Government’s proposal to reduce ADT by 50% over the course of the parliamentary session. The Government had previously, prior to the introduction of the Bill, consulted on a Screening and Scoping report which outlined the proposed methodology for the SEA. The SEA will be subject to a 12 week statutory public consultation. Mike Stewart, from the Scottish Government, outlined the process for the SEA in the following terms—

” The remaining step of the SEA process is to publish an environmental report as well as a set of proposals from the Government on the tax banding and tax rate amounts. There will be a 12-week period for public consultation, which is a statutory part of the SEA process. That consultation process must be concluded and a reasonable amount of time must be allowed after that before the secondary legislation for the tax bands and tax rate amounts can be laid before Parliament. ... We will probably lay that secondary legislation some time in the autumn. I cannot give exact timings but, working back from that on the basis of a 12-week process, the SEA consultation will most likely begin before the summer recess.<sup>45</sup>

74. In the same way that the Committee received a substantial amount of evidence regarding tax rates and bands, despite these not forming part of the Bill, the same was also the case with regard to environmental impacts. Accordingly, we summarise briefly the main strands of evidence received by the Committee with regard to environmental impacts.

75. Proponents of a 50% reduction in ADT tended to stress that APD was not an environmental tax and that it could be considered as being responsible for increasing emissions. For example AGS Airports commented that—

” Our high APD rates have the effect that inevitably some people are incentivised to take connecting flights via European airports such as Amsterdam Schiphol and Dublin, in order to avoid APD. This results in a net increase in carbon emissions.<sup>54</sup>

76. Airlines tended to emphasise the range of measures which the aviation industry was taking in order to seek to reduce emissions. Potential measures cited included investment in new aircraft with reduced emissions, improved performance in relation to fuel efficiency per flight, investment in more sustainable aviation fuel, and, participation in carbon trading or CO2 offset schemes, such as the EU Emissions Trading Scheme and the Carbon Offsetting and Reduction Scheme for International Aviation. Lastly, airport operators and airlines highlighted participation in ‘Sustainable Aviation’ which seeks to ensure a sustainable future for UK aviation including recognising the need to reduce carbon emissions.

77. However, when representatives of airlines were questioned whether they had any objection that there should be a requirement upon Scottish Ministers to achieve an impact on aviation emissions when they set ADT tax rates and bands, witnesses did not object to this proposal. For example, Tim Alderslade of Airlines UK commented—

” That is not something that I have given great thought to. All that I can say is that, as a global industry, those are the commitments that we have made. We have made them now for a number of years, and we are on target to hit them.<sup>55</sup>

78. Alternatively opponents of the proposed 50% reduction emphasised the detrimental environmental impacts in terms of increased carbon emissions and that this could conflict with the Scottish Government’s stated climate change objectives. For example, the Royal Society for the Protection of Birds (RSPB) stated—

” Phasing out this tax would represent a huge missed opportunity to use a substantial source of revenue to support delivery of the Scottish Government’s social and environmental goals and is particularly inconsistent with Scotland’s ambitions to be a world leader in addressing climate change.

Climate change is one of the greatest long-term threats to people and wildlife. Tax cuts in support of aviation growth and increased emissions are likely to have detrimental impacts on climate change, the development of Scotland’s low carbon economy, and the natural environment. We therefore do not consider the Scottish Government’s proposal to cut and then abolish ADT to contribute to sustainable growth.<sup>56</sup>

79. In correspondence with the Committee, the Scottish Government outlined their assessment of the impact of a 50% reduction on carbon emissions in the following terms—

- ” The Scottish Government has forecast that a 50% reduction in Air Departure Tax could lead to an estimated increase in emissions of around 0.06 MtCO<sub>2</sub>e in the first year (i.e. around an increase of 3% in aviation emissions; 0.1% in total Scottish emissions). The transport envelope in the draft Climate Change Plan accommodates the expected increase. The draft Plan sets out how the Scottish Government will reduce overall transport emissions by a third between 2014 and 2030.<sup>57</sup>
80. As noted earlier in this report, organisations such as Stop Climate Chaos considered that the aviation industry should be held accountable for meeting climate change targets rather than emissions across transport as whole. This perspective led a number of respondents to suggest that there was a need, following the devolution of APD, for the Scottish Government to develop an aviation strategy including with regard to the carbon emissions of the aviation industry in Scotland.
81. In addition, the Rural Economy and Connectivity Committee (RECC) in its recent report on the Scottish Government’s Draft Climate Change plan, 2017-2032, recommended that—
- ” The Committee recommends that the potentially negative impact on carbon levels as a result of the proposed reduction in air passenger duty should be clearly covered in the Climate Change Plan. It also recommends that the Scottish Government should commit to undertaking and publishing an analysis of the likely increase in carbon emissions from aviation if air passenger duty were to be reduced.<sup>58</sup>
82. The Cabinet Secretary articulated his position to the Committee on this issue—
- ” We recognise that, even with some of the progress that has been made in aviation around fuel efficiency and technology, that will take us only so far. If there is growth in the sector and there are more emissions, that increase has to be within an area that is tolerable to the Scottish Government. Increased emissions – and the Committee on Climate Change, which has looked at the matter, has advised that any increase in emissions from the reduction in APD is likely to be manageable.<sup>59</sup>
83. The UK Committee on Climate Change (UKCCC) commented on the Scottish Government’s proposals to reduce ADT over the course of the parliamentary session as follows—
- ” Total aviation emissions in Scotland are 1.6 MtCO<sub>2</sub>e and the Government’s APD consultation paper estimated that a 50% cut would lead to a maximum increase in emissions of around 0.06 MtCO<sub>2</sub>e (i.e. around a 4% increase; 0.1% of total Scottish emissions). This is therefore likely to be manageable, but will require additional emission reductions to be made elsewhere in the economy in order to stay within legislated targets. Within the Climate Change Plan there needs to be a credible overall strategy for aviation that is line with its climate obligations and what comes out of the ICAO agreements.<sup>60</sup>
- 84.

In correspondence with the Committee, the Cabinet Secretary for Environment, Climate Change and Land Reform, commented on the approach being taken to monitor emissions levels via the draft Climate Change Plan in the following terms—

” The transport emissions envelope within the draft Climate Change Plan covers all emissions from transport modes in Scotland, including public transport, freight, aviation, shipping, private motoring, active travel and the regulations, policies and infrastructure designed to support all of these. The transport envelope accommodates the expected increase in aviation emissions from the Scottish Government’s proposal for a 50% reduction in the overall burden of ADT by the end of the current session of the Scottish Parliament. The draft Plan sets an emissions reduction trajectory for transport as a whole (to be reduced by a third between 2014 and 2030), not for individual transport modes and so individual envelope for aviation has been set. <sup>61</sup>

85. The Cabinet Secretary went on to state—

” The Scottish Government has committed to annual reporting on a monitoring framework for the delivery of the Climate Change Plan. This will allow us to review the impact of changes in aviation emissions and consider any corrective action that is necessary to keep us on track to deliver our climate targets. <sup>62</sup>

**86. The Committee intends to fully scrutinise the environmental impacts of the proposed 50% reduction in ADT when the Strategic Environmental Assessment is published alongside the proposed rates and bands for ADT.**

**87. The Committee agrees with the RECC Committee that the Scottish Government should publish an analysis of the likely increase in carbon emissions arising from the proposed 50% reduction and recommends that the Scottish Government publish this as part of the Strategic Environmental Assessment.**

**88. The Committee agrees with the UKCCC, that within the Climate Change Plan there needs to be a credible overall strategy for aviation that is in line with its climate obligations.**

## Timetable for the Proposed Reduction of ADT

89. Proponents of a 50% reduction in ADT, in particular stakeholders in the aviation industry and business organisations, tended to advocate that the reduction should be applied immediately in order to maximise the impact upon airlines in terms of decision-making with regard to routes. For instance, 'ABTA – The Travel Association' stated—

” ABTA strongly believes that the 50% reduction should be applied from 1 April 2018. There is a risk that the full productivity and growth potential of reducing APD would not be fully felt if it is phased in. Further, reduced tax is beneficial to passengers.

A phased introduction would be administratively burdensome and mean unnecessary changes having to be made to booking systems.<sup>63</sup>

90. Where a phased timescale over the course of the parliamentary session was considered by respondents then the importance of having a timetable for the entire phasing of the 50% reduction tended to be stressed. For example, ICAS observed that—

” We also consider it important to understand, if the phased reduction to 50% by the end of this parliament is to be achieved, the timetable for this. ... Stakeholders need to be able to plan in advance and delays to releasing the information may present business with budgeting issues regarding sales, pricing structures and software issues.<sup>64</sup>

91. More generally, airlines tended to stress that flight tickets tend to be on sale a year in advance and that the rates and bands need, therefore, need to be known at least 12 months in advance. Airlines for America remarks on this issue were similar to those from a number of airlines when commenting that—

” When the government does formally adopt legislation to authorise the proposed 50 percent reduction, it should afford the industry a lead time of at least 12 months, and ideally 18 months, for pricing and programming purposes. Airlines start to sell tickets a year in advance of a scheduled flight and without a sufficient lead time a passenger ticketed before the proposed change is formally adopted could be charged APD at prevailing UK rates. This would result in refund issues that cause passenger inconvenience and an unnecessary drain on industry resources.<sup>65</sup>

92. **The Committee will scrutinise the approach taken by the Scottish Government with regard tax bands and rates when these are published.**

## A Differentiated Approach?

93. Throughout the course of taking evidence on the Bill the Committee has sought views on the desirability of structuring ADT in a manner that would seek a differentiated approach for different areas, different airports or different categories of passenger. Some respondents to the Committee’s call for evidence also suggested that there were “opportunities to use bandings to encourage economic growth and ensure regional competitiveness”.<sup>66</sup> The Scottish Association for Public Transport (SAPT) specifically suggested that ADT on long-haul flights could be reduced in order to seek to improve the range of direct, international flights in order to provide greater connectivity to destinations, such as California and China, which currently have no direct flights to Scottish airports. For short haul flights, SAPT considered

that the current APD rates should continue to apply in order to avoid the growth of domestic flights at the expense of rail travel. The Committee has commented earlier in the report on the lack of transport alternatives to aviation available in the Highlands and Islands. Where transport alternatives are available, David Horne, from Virgin Trains, also emphasised the need to differentiate between the impact on short-haul and long-haul flights of a reduction in ADT. He commented that—

” Our concern is that reducing APD on domestic routes will simply achieve modal switch, which would be damaging for environmental policy objectives, and for economic objectives because of the loss of connectivity that would result in the medium to long term. <sup>55</sup>

94. The Committee sought the Cabinet Secretary’s view on this issue and he appeared to suggest that there were constraints on the Scottish Government’s flexibility to take a differentiated approach as a result of EU State Aid rules. In particular, the Cabinet Secretary suggested that there were particular constraints with regard to a different approach applying to different Scottish airports. Specifically the Cabinet Secretary stated—

” It may be difficult to establish a national tax policy that can be segmented in that way, but the key point is whether we will understand the needs of every part of the country in designing a policy, and the answer to that is yes. There are different ways to do that, but our policy must ultimately be compliant and consistent as well as practical for operators to administer.

We will do that by designing the right national policy, rather than try to have different policies for different parts of the country. That would be another way to do it, but it might not be legally compliant. <sup>67</sup>

95. **The Committee seeks clarification from the Scottish Government on what action it is taking to ensure that any differentiated approach is ‘legally compliant’.**

## Part Four: Payment, Collection and Management of Tax

96. The Bill proposes that Revenue Scotland should be the organisation responsible for the collection and management of ADT as opposed to HMRC which undertakes this function in relation to APD. The arrangements for payment, collection and management of APD broadly follow the arrangements for APD. However, there are four areas where arrangements differ.
97. Firstly, the Bill proposes that aircraft operators, who will be responsible for payment of the tax, make 'quarterly tax returns' rather than 'monthly returns' as is the case with APD. The Bill also makes provision for aircraft operators who operate infrequent flights or flights at particular times of the year to make 'occasional returns' in a manner similar to that for APD.
98. Secondly, the Bill differs slightly from ADT in its approach to tax representatives. Under APD, aircraft operators who do not have a business establishment, or other fixed establishment, in the UK are required to appoint a tax representative in the UK. The Bill proposes that in the case of ADT that such aircraft operators be required to appoint a tax representative based within the European Economic Area (EEA).
99. Thirdly, the administrative system for payment of the tax will be based on-line. Commenting on this change, Elaine Lorimer, Chief Executive of Revenue Scotland, commented—
- ” We will be moving to our online tax system for the aircraft operators to use to register with us and to submit their tax returns. HMRC has just – in January this year – introduced its digital system, which is obviously very new. If I had been sitting here in November, I would say that our move would be a fundamental change, but HMRC has moved to a digital system, so that is less new for aircraft operators.<sup>68</sup>
100. Lastly, aircraft operators will be able to pay ADT by credit or debit card which is not the case for APD. The Bill also provides, at section 13 of the Bill, for Revenue Scotland to keep a register, termed 'the ADT register', for the purpose of collecting and managing the tax. The Bill provides Revenue Scotland with a discretionary power to publish any, some or all, of the information in the ADT register. Revenue Scotland when questioned on whether there was any conflict between publishing information on the register and Revenue Scotland's legal obligations, under the Revenue Scotland and Tax Powers Act 2014, on taxpayer confidentiality observed that—

” We would absolutely not wish to be put in a situation, or indeed to put any aircraft operator in a situation, where we were breaching those obligations.

Our current thinking – we have not finalised it yet – is that we will move to a similar model to what we have for landfill tax, so the name of the aircraft operator will be on the register. It most certainly will not be the individual passengers. It is the aircraft operator who is the taxpayer, and it is the aircraft operator that we are interested in.<sup>69</sup>

101. With regard to quarterly tax returns, Revenue Scotland suggested that aircraft operators were supportive of the change as it would reduce the administration associated with making tax returns. The evidence the Committee received from airlines reflected this position. For instance, Tim Alderslade from Airlines UK commented—

” The quarterly online collection is more than adequate for our members – we have no problem with that at all. Currently, we have a monthly paper process, so the proposed arrangement is an improvement and we are happy with it.<sup>70</sup>

102. With regard to tax representatives, the Committee queried whether Brexit would have any impact on the proposal that tax representatives must be based within the EEA rather than the UK should it transpire that Scotland or the UK are not part of the EEA. In correspondence with the Committee on this question Revenue Scotland stated—

” There are aspects of EU law that apply to the process for aircraft operators appointing fiscal representatives, and the Air Departure Tax Bill has been drafted to comply with the current legal position.

In the event that the obligation to comply with that legal position was to change – for example, as a result of the outcome of Brexit negotiations – any decision to bring forward proposals to amend the provisions of the Air Departure Tax legislation would be a matter of policy for the Scottish Government to consider, rather than Revenue Scotland.<sup>71</sup>

103. The Committee queried what impact taking on responsibility for ADT would present for Revenue Scotland. Revenue Scotland highlighted that there would be compliance and enforcement challenges and that ADT would bring a new group of taxpayers into contact with Revenue Scotland for the first time. Elaine Lorimer commented on this issue in the following terms—

” Air departure tax opens up a new range of taxpayers to our organisation, with many tax operators being global businesses that are not domiciled in this jurisdiction. Although that may present challenges, we will be mindful of it as we develop our implementation programme, and we will build on our external engagement with taxpayers through face-to-face meetings and using digital technology to reach them as best we can; for example, our advice and review group will meet a number of aircraft operators again in London this week.<sup>72</sup>

104. The ability to adopt a differentiated approach to implementation of ADT is considered earlier in this report. The Committee questioned whether Revenue Scotland’s online system would be flexible enough to cope with such an approach

that would result in multiple rates and bands. Neil Ferguson, from Revenue Scotland, observed that—

” Our system has to be flexible enough to accommodate changes of rates and bands, and the addition and removal of bands. We can handle all that, but it would be difficult if entire structure of the tax were changed and if we did not have a per passenger tax on the basis of tax bands.<sup>73</sup>

105. He went on to add that—

” The more variables you add to the mix, the more complicated it will become for the airlines. It might be that the airlines would need more time to deal with that complexity. Ultimately, the airlines will be filling in a tax return that is an online form.<sup>74</sup>

106. The Financial Memorandum to the Bill, which is considered in more detail later in the report, estimates that the Revenue Scotland’s IT set-up costs for ADT would be £120,000. The Committee questioned whether this level of funding would be sufficient to deliver the IT system for ADT. Revenue Scotland responded that—

” The cost appears to be low because, ... we are not building the platform; we are, rather, adding something to an existing platform that already deals with user accounts, security measures and so on. We are not building a system from scratch or creating a completely bespoke system, which is why cost appears to be lower than it might otherwise have been. What we are doing takes some of the risk out of the process, as well.<sup>75</sup>

107. Generally, the evidence that the Committee received indicated that there was general support for the payment, collection and management arrangement provisions contained in Part Four of the Bill. In written evidence, a range of similar specific, technical questions were raised by the Board of Airline Representatives in the UK (BARUK), CIOT, ICAS and IATA. The Scottish Government are requested to consider these.

**108. The Committee notes the provisions in Part Four of the Bill. The Committee requests that Revenue Scotland provide written updates to the Committee on the implementation of ADT. The Committee requests that the Scottish Government consider the specific, technical questions raised in written evidence by organisations such as CIOT and ICAS.**

# Connected Flight Rules

109. Schedule One of the Bill sets out rules regarding flights which are to be treated as being ‘connected flights’. The rules, which are in essence the same as apply in this regard for APD, establish that the final destination of a passenger, with regard to tax bands, who is travelling on connected flights is the place where the last connected flight ends. The rules set out the time period which is permitted between two flights in order for them to be considered to be connected flights. The Bill team commented on the purpose of the rules as follows—

” Someone may take a flight from Edinburgh down to Heathrow and connect to another destination – perhaps a long-haul destination that is not offered by a Scottish airport. Under air departure tax, assuming that the flights are connected, the final destination will be the long-haul destination and not just Heathrow, so air departure tax will be charged on that further-away point rather than just on the shorter point.<sup>76</sup>

110. The connected flights rules were generally supported in the oral and written evidence the Committee received. However, a number of respondents whilst supporting the proposed rules raised similar issues with regard to ‘double taxation’. For instance, ABTA – the travel association stated—

” There are cases of double taxation which are not to a passenger’s advantage. Under the APD rules, double taxation typically results from a passenger taking a domestic flight from UK airport A to UK airport B then taking an international flight from UK airport B on separate unconnected ticket. The tickets would have been separately issued as they are different types of airline e.g. no-frills followed by a scheduled airline or charter airline which have completely different unconnected ticketing systems; or it could be on two scheduled airlines that do not have an interline agreement. The UK Government has been willing to consider any suggestions put forward to avoid double taxation but, so far, no resolution has been found when a passenger is not flying on a through ticket.<sup>77</sup>

**111. The Committee seeks the Scottish Government’s view on the issues raised with regard to double taxation where a passenger undertakes a journey involving connected flights.**

## Financial Memorandum

112. The Financial Memorandum (FM) to the Bill sets out the revenues forecast to accrue from ADT for the period 2016-17 to 2021-22 and the impact on the Scottish budget. The FM also estimates the costs, both in terms of set-up costs and then running costs, to Revenue Scotland. Lastly, the Scottish Fiscal Commission (SFC) will be responsible for producing forecasts of ADT revenue and the costs to the SFC arising from this responsibility are also contained in the FM.
113. The forecasts revenues for ADT contained in the FM are based on Office for Budget Responsibility (OBR) forecasts for APD. Concern was expressed by some respondents to the Committee's call for evidence, such as CIOT, that the FM forecasts revenue from ADT that reflects the current rates and bands of APD and take no account of the Scottish Government's stated policy intention of reducing ADT by 50% over the forecast period. James McLellan from the Scottish Government Bill Team outlined the rationale for not taking account of the proposed 50% reduction in the FM as follows—
- ” In the financial memorandum, we have included the currently available OBR forecasts of what would be raised through APD in Scotland. That gives us the OBR's assessment of how much would be raised if the current policy was continued and if it matched policies in the rest of the UK. As has been discussed, decisions on what the banding structure would look like, on how we would distribute the 50 per cent cut across that structure have not been finalised, so it is not possible at the moment for us to estimate the potential impact on the Scottish budget.<sup>78</sup>
114. The Committee share the concern that the impact of the proposed 50% reduction has not been forecast in terms of the impact on the Scottish budget over the parliamentary session within the Financial Memorandum. The Committee considers it to be essential that this information is made available at the same time as putting proposals for tax rates and bands out to public consultation.

- 115. The Committee therefore recommends that the forecast impact on the Scottish budget to 2021-22 is provided ahead of or at least alongside the proposals for tax rates and bands that the Scottish Government intends to consult upon and will form the basis for the secondary legislation that the Parliament will be required to consider.**

# Conclusions

116. **The Committee recognises that the Air Departure (Scotland) Bill is an enabling Bill. Nevertheless, the Committee is disappointed at the lack of information regarding exemptions and the economic, social, environmental and financial impacts of the Scottish Government's stated policy of a 50% reduction in ADT by the end of the parliamentary session. The Committee considers that the absence of supporting information regarding this policy approach has the potential to undermine scrutiny of the Scottish Government's ADT policy.**

117. **The Committee considers it essential that evidence on the above impacts of the Scottish Government's ADT policy is made available ahead of or at least alongside the proposals for tax rates and bands in order to allow time for parliamentary scrutiny of this issue.**

118. **The Committee supports the general principles of the Bill.** <sup>iv</sup>

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<sup>iv</sup> Patrick Harvie MSP dissented from this recommendation.

# Annex A - Extracts from the Minutes

## Extracts from the Minutes of the Finance and Constitution Committee

### Committee and associated written and supplementary evidence

#### *5th Meeting, 2017 (Session 5), Wednesday 1 February 2017*

4. **Air Departure Tax (Scotland) Bill:** The Committee took evidence on the Bill at Stage 1 from—

Mike Stewart, Bill Manager, James McLellan, Head of Devolved Taxes, and John St Clair, Senior Principal Legal Officer, Scottish Government;

Tim Alderslade, Chief Executive, Airlines UK;

Gordon Dewar, Chief Executive Officer, Edinburgh Airport;

Jonathan Hinkles, Managing Director, Loganair Ltd;

David Horne, Managing Director (East Coast Route), Virgin Trains.

#### [Written Evidence](#)

Edinburgh Airport

Loganair Ltd

Virgin Trains

#### *6th Meeting, 2017 (Session 5), Wednesday 8 February 2017*

3. **Air Departure Tax (Scotland) Bill:** The Committee took evidence on the Bill at Stage 1 from—

Garry Clark, Head of Policy and Research, Scottish Chambers of Commerce;

Gareth Williams, Head of Policy, Scottish Council of Development and Industry;

Stephen Leckie, Chair, Scottish Tourism Alliance.

#### [Written Evidence](#)

Scottish Chambers of Commerce

Scottish Council of Development and Industry

Scottish Tourism Alliance

#### *7th Meeting, 2017 (Session 5), Wednesday 22 February 2017*

1. **Air Departure Tax (Scotland) Bill:** The Committee took evidence on the Bill at Stage 1 from—

Elaine Lorimer, Chief Executive, and Neil Ferguson, Head of Strategy and Change, Revenue Scotland;

Mike Robinson, Board Member, Stop Climate Chaos;

Chris Day, Policy Adviser, Transform Scotland.

### Written Evidence

Revenue Scotland

Transform Scotland

### **8th Meeting, 2017 (Session 5), Wednesday 1 March 2017**

1. **Air Departure Tax (Scotland) Bill:** The Committee took evidence from—

Derek Mackay, Cabinet Secretary for Finance and the Constitution, James McLellan, Head of Devolved Taxes, John St Clair, Senior Principal Legal Officer, and Mike Stewart, Bill Manager, Scottish Government.

### Supplementary Written Evidence

Scottish Government

### **10th Meeting, 2017 (Session 5), Wednesday 22 March 2017**

3. Air Departure Tax (Scotland) Bill: The Committee considered a draft Stage 1 report and agreed to consider a further draft at its next meeting.

### **11th Meeting, 2017 (Session 5), Wednesday 29 March 2017**

1. Air Departure Tax (Scotland) Bill: The Committee considered and agreed a number of changes to its draft Stage 1 report, some by division.

Adam Tomkins MSP proposed that an additional sentence be added to paragraph 20:

This is unusual in tax legislation, where the scope of taxation (liability as distinct from bands and rates) is provided for in primary enactments.

This was agreed to by division. For - 6 (Adam Tomkins, Neil Bibby, Murdo Fraser, Patrick Harvie, James Kelly and Liam Kerr); Against - 5 (Bruce Crawford, Willie Coffey, Ash Denham, Ivan McKee and Maree Todd).

Adam Tomkins MSP proposed that in paragraph 29 that the words 'agrees with' replace 'notes'. This was agreed to by division. For - 6 (Adam Tomkins, Neil Bibby, Murdo Fraser, Patrick Harvie, James Kelly and Liam Kerr); Against - 5 (Bruce Crawford, Willie Coffey, Ash Denham, Ivan McKee and Maree Todd).

Adam Tomkins MSP proposed that the previous wording of paragraph 30 be replaced:

Previous wording - The Committee recommends, given the evidence received, that the Scottish Government gives consideration to bringing forward amendments at Stage 2 which make detailed provision for exemptions from the definition of 'chargeable passenger' and 'chargeable aircraft'.

This was agreed to by division. For - 6 (Adam Tomkins, Neil Bibby, Murdo Fraser, Patrick Harvie, James Kelly and Liam Kerr); Against - 5 (Bruce Crawford, Willie Coffey, Ash Denham, Ivan McKee and Maree Todd).

Patrick Harvie MSP proposed that paragraph 56 be replaced by:

The Committee considers that the Bill should be amended to place a requirement on Ministers to produce, prior to making any decision on rates and bands, an analysis of the –

(1) economic impact which would result from a 50% reduction in ADT, with a particular focus on the quality and sustainability of employment generated

(2) indirect impacts on the public finances through the generation of economic activity its ADT policy is predicted to generate, and the proportion of the resultant revenues which would come to the Scottish Government in devolved taxes

(3) direct saving to passengers resulting from a 50% reduction in ADT broken down by income decile, based on current data on the number of flights taken by each income group

(4) additional carbon emissions which will be generated as a result of the tax reduction, the overall level of aviation emissions it anticipates, and the additional actions which it proposes in order to achieve commensurate emission reductions elsewhere in the economy.

This was disagreed to by division. For - 3 (Patrick Harvie, Neil Bibby and James Kelly). Against - 8 (Bruce Crawford, Adam Tomkins, Willie Coffey, Ash Denham, Murdo Fraser, Liam Kerr, Ivan McKee and Maree Todd).

At end of paragraph 88, Patrick Harvie MSP proposed that the following be included:

The Committee notes the UKCCC recommendation that aviation emissions should be capped at 2005 levels by 2050.

This was disagreed to by division. For - 1 (Patrick Harvie). Against - 10 (Bruce Crawford, Adam Tomkins, Neil Bibby, Willie Coffey, Ash Denham, Murdo Fraser, James Kelly, Liam Kerr, Ivan McKee and Maree Todd).

At paragraph 116, Patrick Harvie MSP proposed alternative wording as follows:

The Committee recognises that the Air Departure (Scotland) Bill is an enabling Bill. Nevertheless, the Committee is disappointed at the lack of information regarding exemptions and the economic, social, environmental and financial impacts of the Scottish Government's stated policy of a 50% reduction in ADT by the end of the parliamentary session. The Committee considers that policy should be decided on the basis of such information, and not in its absence. The Committee considers that the Government's approach has the potential to undermine scrutiny of the Scottish Government's ADT policy.

This was disagreed to by division. For - 3 (Patrick Harvie, Neil Bibby and James Kelly). Against - 8 (Bruce Crawford, Adam Tomkins, Willie Coffey, Ash Denham, Murdo Fraser, Liam Kerr, Ivan McKee and Maree Todd).

At paragraph 117, Patrick Harvie MSP proposed alternative wording as follows:

The Committee considers it essential that evidence on the above impacts of the Scottish Government's ADT policy is made available ahead of or at least alongside the first proposals for tax rates and bands and any subsequent proposals for revised rates and bands, in order to allow time for public consultation and parliamentary scrutiny of this issue. The Committee recommends that requirements for the publication of such evidence should be a requirement on the face of the Bill.

This was disagreed to by division. For - 3 (Patrick Harvie, Neil Bibby and James Kelly).  
Against - 8 (Bruce Crawford, Adam Tomkins, Willie Coffey, Ash Denham, Murdo Fraser, Liam Kerr, Ivan McKee and Maree Todd).

# Annex B - Written Evidence

## List of Other Written Evidence

These submissions can be found on the following [webpage](#).

- Aberdeen International Airport Consultative Committee
- AGS Airports - Aberdeen, Glasgow and Southampton Airports
- Airlines for America
- Alan Reid - individual submission
- ABTA - The Travel Association
- BARUK - Board of Airlines Representatives in the UK
- Caithness Transport Forum and the Wick John O'Groats Airport Consultative Committee
- Chartered Institute of Taxation
- Common Weal
- Easyjet
- Flybe
- Glasgow Chambers of Commerce
- ICAS - The Institute of Chartered Accountants of Scotland
- International Air Transport Association
- Mark Lazarowicz - individual submission
- Reform Scotland
- Royal Society for the Protection of Birds
- Ryanair
- Scottish Association for Public Transport
- Scottish Chambers of Commerce Network
- Scottish Passenger Agents' Association
- Virgin Atlantic

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- [2] Policy Memorandum, para.10. (2017).
- [3] Report of the Smith Commission, para. 86-88. (2014).
- [4] Policy Memorandum, para. 4. (2016).
- [5] Details of these consultation exercises and their responses. (2016). Retrieved from <https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/>
- [6] Details of the meetings of the Stakeholder Forum. (2016). Retrieved from <http://www.gov.scot/Topics/Government/Finance/scottishapproach/airpassengerduty/APDstakeholderforum>
- [7] Responses to the Committee's call for evidence. (2017). Retrieved from [http://www.parliament.scot/S5\\_Finance/General%20Documents/PUBLIC\\_Submissions\\_Pack\\_-\\_ADT.pdf](http://www.parliament.scot/S5_Finance/General%20Documents/PUBLIC_Submissions_Pack_-_ADT.pdf)
- [8] See SPICe Briefing 'Air Departure Tax (Scotland) Bill' for background information on the operation of APD and on the content of the Bill. (2017). Retrieved from [http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB\\_17-05\\_Air\\_Departure\\_Tax\\_Scotland\\_Bill.pdf](http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_17-05_Air_Departure_Tax_Scotland_Bill.pdf)
- [9] Finance and Constitution Committee. (2017, February 1). Official Report, Col.16. Retrieved from <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10773>
- [10] Finance and Constitution Committee. (2017, February 1). Official Report, Col. 33-34.
- [11] Glasgow Chambers of Commerce. (2017). Written Submission, para. 4.3.
- [12] Finance and Constitution Committee. (2017, February 22). Official Report, Col.22.
- [13] Chartered Institute of Taxation. (2017). Written Submission, para.4.3.
- [14] Reform Scotland. (2017). Written Submission, p.2.
- [15] Finance and Constitution Committee. (2017, February 1). Official Report, Col.34.
- [16] Royal Society for the Protection of Birds. (2017). Written Submission, p.3.
- [17] Institute of Chartered Accountants of Scotland. (2017). Written Submission, p.4.
- [18] Finance and Constitution Committee. (2017, February 1). Official Report, Col.28.
- [19] International Air Transport Association. (2017). Written Submission, p.2.
- [20] CTF & WJOGACC. (2017). Written Submission, p.2-3.
- [21] Finance and Constitution Committee. (2017, March 1). Official Report, Col.21.
- [22] Finance and Constitution Committee. (2017, March 1). Official Report, Col.23-24.

- [23] Delegated Powers and Law Reform Committee. (2017). 12th Report (Session 5), Air Departure Tax (Scotland) Bill at Stage 1, p.8-14. Retrieved from <https://digitalpublications.parliament.scot/Committees/Report/DPLR/2017/3/1/Air-Departure-Tax--Scotland--Bill-at-Stage-1#Annexe>
- [24] Delegated Powers and Law Reform Committee. (2017). 12th Report (Session 5), Air Departure Tax (Scotland) Bill at Stage 1, para.22.
- [25] Delegated Powers and Law Reform Committee. (2017). 12th Report (Session 5), Air Departure Tax (Scotland) Bill at Stage 1, p.5.
- [26] Finance and Constitution Committee. (2017, February 1). Official Report, Col.37.
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- [29] Scottish Government. (2017). Policy Memorandum to the Bill, para.56.
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- [34] Delegated Powers and Law Reform Committee. (2017). 12th Report, (Session 5) Air Departure Tax (Scotland) Bill at Stage 1, p.7.
- [35] Finance and Constitution Committee. (2017, March 1). Official Report, Col.21.
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- [44] Oxford Economics. (2014). Aviation Benefits Beyond Borders.
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- [47] Finance and Constitution Committee. (2017, February 1). Official Report, Col.42.

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- [49] Finance and Constitution Committee. (2017, February 22). Official Report, Col.22..
- [50] Correspondence from the Cabinet Secretary for Finance and the Constitution. (2017, March 21).
- [51] Finance and Constitution Committee. (2017, March 1). Official Report, Col. 17-18.
- [52] Chartered Institute of Taxation. (2017). Written Submission, para.3.7.
- [53] Finance and Constitution Committee. (2017, March 1). Official Report, Col.15.
- [54] AGS Airports Limited,. (2017). Written Submission, p.3.
- [55] Finance and Constitution Committee. (2017, February 1). Official Report, Col. 50.
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- [58] Rural Economy and Connectivity Committee. (2017). Report on the Draft Climate Change Plan - The Draft Third Report on Policies and Proposals 2017-2032, para.222. Retrieved from <https://digitalpublications.parliament.scot/Committees/Report/REC/2017/3/10/Report-on-the-Draft-Climate-Change-Plan--the-draft-Third-Report-on-Policies-and-Proposals-2017-2032-1#Aviation>
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