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Murphy, Pat

From: Murphy, Pat
Sent: 18 March 2010 15:19
To: Daly, Caroline
Subject: FW: Infringement decisions taken by the Commission No 2008-4984 - Air Travel Tax
Attachments: 2008-4984.pdf; Briefing re EU Commission infringement decision 18 March 2010.doc

Caroline

For your information at this stage.

Pat

From: Murphy, Pat
Sent: 18 March 2010 14:02
To: Dorgan, Eoin
Cc: Mahon, Alan; Meenan, Brian; Moran, Derek; Burke, John; Gargan, Eric; Herbert, Cathy; O'Brien, Jim; Moylan, Dermot; 'Ryan, Joe'
Subject: Infringement decisions taken by the Commission No 2008-4984 - Air Travel Tax

Eoin

The EU Commission has today issued a letter of formal notice to Ireland concerning the Air Travel Tax (1st document above). The Commission's concerns relate to Ireland applying two different rates of tax to air travel within the EU.

In case the Commission issue a Press Release on it, which is not always the case for letters of formal notice, and you are contacted by the press regarding it, the second document contains a response that could be used, together with some further information/briefing that may be useful to you.

For your information, the Commission has today written to Ireland regarding 12 infringements; two of which are Reasoned Opinions and the rest letters of formal notice.

Regards
 Pat

Note for Press Office

EU Commission's Infringement 2008/4984 re: Air Travel Tax – 18 March 2010

Response to Press Queries

The EU Commission has issued a letter of formal notice to Ireland concerning its Air Travel Tax. The Commission's concerns relate to Ireland applying two different rates of tax to air travel within the EU.

A letter of formal notice is only the Commission's first stage of an infringement process. As is the practice the Commission's letter will be examined by the Irish authorities. Ireland will be responding to the Commission, through the appropriate channels, in due course.

Further briefing/Information

As part of the Irish Government's response to the current unprecedented fiscal challenges, an air travel tax on passengers departing Irish airports was introduced on 30 March 2009. The tax is currently estimated to yield revenue of around €125 million in a full year.

A general rate of €10 per passenger applies, with a lower rate of €2 for shorter journeys. The lower rate of €2 applies departures from *any* Irish airport where the destination is 300kms or less from Dublin airport. Slightly over 50% of passengers subject to the lower rate of €2 will be travelling to destinations outside the State (to some parts of the UK).

There are no plans to abolish the Air Travel Tax.

[Introducing a single rate of tax, on a revenue neutral basis, would require a rate of around €9. (But €10 has a nice ring to it)]

2. Air Travel Tax

TRG Proposal

- Survival Action 2 calls for the removal of the Air Travel Tax. The TRG considered that any apparent immediate fiscal benefit from the Air Travel Tax was more than outweighed by the actual and potential damage done to overseas tourism earnings, due to the additional cost wedge on Irish routes vis-à-vis other possible routes for carriers.
- The Renewal Group also considered that the tax was having a significant impact on confidence in the Irish tourism industry, which is already under pressure, as it gave an impression that Government undervalues tourism, its earnings, exports and jobs.
- The Group suggested that the Report of the Commission on Taxation provided the opportunity to re-examine the Air Travel Tax in the context of a broadening of the tax base generally.

Government Position

- The former Minister wrote to the Minister for Finance making the case on behalf of the sector for adjustments to the Air Travel Tax.
- However, the D/Finance position is that the Government has to consider its response to any measure with additional tax or spending implications within the wider context of fiscal sustainability and economic renewal – in the face of significant financial challenges, the air travel tax is an important revenue raising measure.
- The Government has tried to be as fair as possible in looking at areas for additional tax revenues. D/Finance notes that fuel used by commercial airlines is completely exempt from tax, so it's a sector that already has considerable preferential treatment.

Recent Developments (For the Minister's information only – not yet in the public domain)

- Following a number of complaints, the European Commission has initiated infringement proceedings against Ireland with regard to the application of the lower rate of €2, which benefits domestic flights. **This development is not yet in the public domain.**