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Air Transport Sector Bears Greater Tax and Fee Burden than Competitors, at Home and Abroad: C.D. Howe Institute

Toronto, Feb. 8 – The Canadian air transportation sector is burdened with taxes and fees that are high, relative to other transport modes and industry sectors, and may threaten industry growth and firm survival, says a study by the C.D. Howe Institute. In *Excess Baggage: Measuring Air Transportation's Fiscal Burden*, authors Ben Cherniavsky and Benjamin Dachis introduce a new and unique analysis, comparing effective tax rates on airline costs in Canada with those in other sectors and in the United States.

In Canada, say Cherniavsky and Dachis, the marginal effective tax rate on airline costs is 14.5 percent. In comparison, the effective tax rate on marginal costs for passenger rail is 10.6 percent, for the oil and gas industry it is 5.9 percent, for manufacturing, 13.1 percent and for the retail industry, 12.4 percent.

Canadian airlines also face a heavier tax burden than their counterparts in the US: The effective tax rate on airline costs for domestic flights is 16.8 percent in Canada, compared to 12.0 percent in the US. For international flights, the effective tax rate is 11.2 percent in Canada, compared to 8.9 percent in the US.

If the aviation sector is to be at its most productive in providing personal and commercial air travel, policy changes are in order, says the study.

Among them:

- Reforming fuel taxes, which are unevenly applied in different provinces and in the United States;
- Balancing the government's airport security charge revenue with spending on security;
- Revising the formula for rent paid by Canada's various airport authorities;
- Reducing the sector's effective tax rate relative to other sectors;
- Launching a review of airline ownership restrictions.

The authors say that in pursuit of a neutral tax system, which is the economic benchmark, the federal government should ensure that Canada's air transportation industry is taxed on a level playing field with other modes of travel, such as rail and bus, and with its international counterparts.

The study, *Excess Baggage: Measuring Air Transportation's Fiscal Burden*, by Ben Cherniavsky and Benjamin Dachis, is available at www.cdhowe.org.

The C.D. Howe Institute is Canada's leading independent, nonpartisan, nonprofit economic policy research institution. Its individual and corporate members are drawn from business, universities and the professions.

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Excess Baggage: Measuring Air Transportation's Fiscal Burden. C.D. Howe Institute Commentary No. 242, by Ben Cherniavsky and Benjamin Dachis (February 2007). 30 pp; \$12.00 (prepaid, plus postage & handling and GST — please contact the Institute for details). ISBN 0-88806-702-X.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at www.cdhowe.org.