

Potential Impacts of Brazil's Tax Reform on Air Transport Demand, Connectivity and Tourism

Brazil's tax reform would substantially increase the effective tax burden on air transport, potentially affecting passenger demand, connectivity and long-term economic competitiveness.

Brazil's Tax Reform and the Future of Air Connectivity

How changes in passenger taxation could influence competitiveness, connectivity and long-term growth.

Aviation is a strategic driver of Brazil's economy

The sector already supports economic growth, jobs and tourism. **Ensuring that air transport remains accessible and competitive** will be essential for Brazil to fully realize its long-term growth potential.

A. Aviation already generates significant value



US\$46
billion

contribution to
Brazil's GDP (ATAG)

ECONOMIC IMPACT



1.9
million

jobs supported by
aviation (ATAG)



≈US\$22
billion

in domestic tourism
spending enabled
(WTTC/PNAD Turismo, IBGE)

TOURISM IMPACT



2 out of 3

international
visitors to Brazil
arrive by air
(Embratur 2025)

Examples of sectors that rely on air connectivity



Health & Pharma

Over **US\$3 billion** imported annually by air in vaccines, medicines, and active pharmaceutical ingredients. Essential for public health and complex treatments.



Automotive & Manufacturing

Brazil is the **8th largest vehicle producer** worldwide, with **2.5 million+ units** in 2024. Relies on air imports of sensors, modules, electronic components and just-in-time parts.



Electronics & Telecommunications

Imports over **US\$1 billion** in chips, SSDs and lithium batteries by air. The ICT sector contributes **>6% of GDP** and drives 5G, Industry 4.0 and digital services.



Agribusiness

Brazil is the **one of the largest melon exporter** worldwide (**250k+ tons annually**). Premium fruits, refrigerated meat and hybrid seeds depend on air logistics.

B. Brazil has significant room to expand air transport access

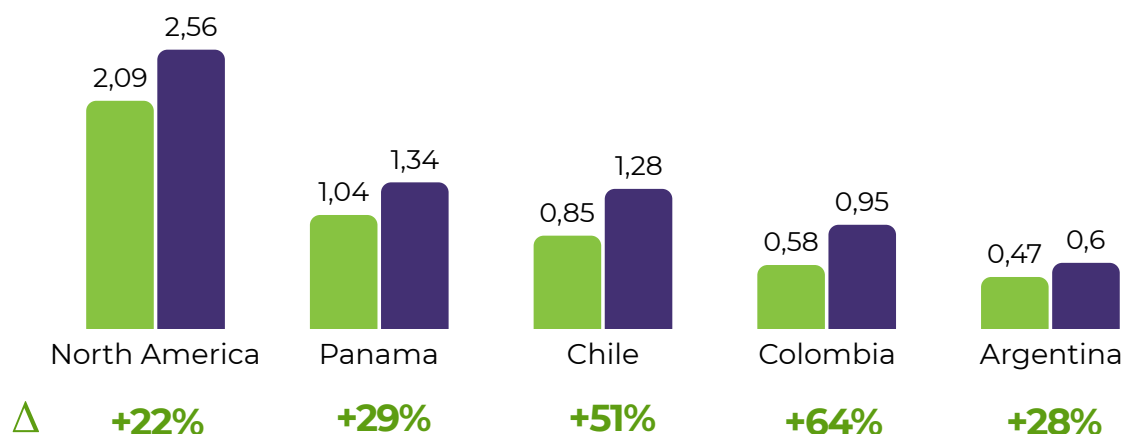
Although Brazil's aviation market has grown, air trips per capita have remained broadly unchanged over the past decade, while regional peers have expanded considerably.

AIR TRIPS PER CAPITA

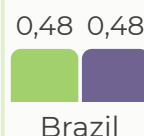
● 2014

● 2024

△ Change 2014-2024



Growth has lagged regional peers

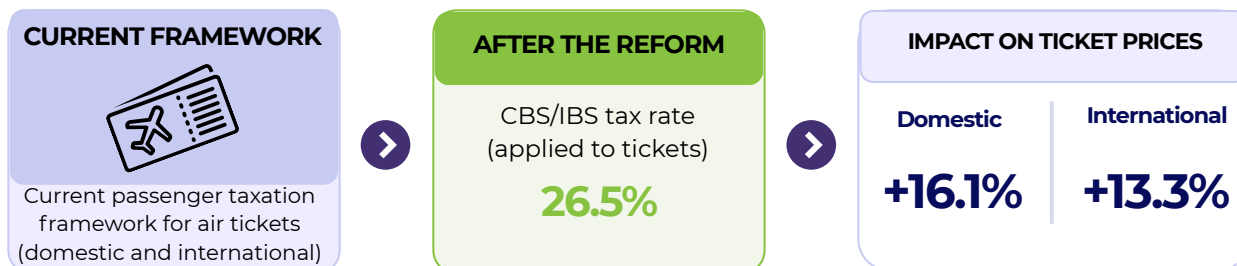


0%

How the tax reform affects air connectivity

Higher passenger taxes could increase ticket prices, reducing demand and making it more difficult to expand air connectivity.

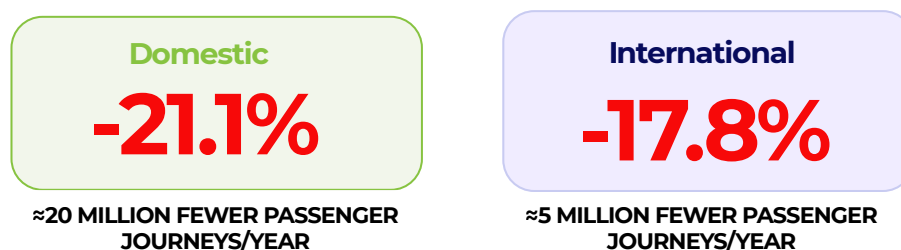
A. The reform raises the cost of flying



Note: Estimated increase in average fares under the proposed CBS/IBS treatment of domestic and international air tickets. Methodology summarized in Appendix

B. Higher prices could lead to lower demand

Estimated reduction in passenger demand



Estimates based on observed price elasticity of Brazilian air travel demand. Methodology summarized in Appendix

C. Lower demand requires airlines to adjust



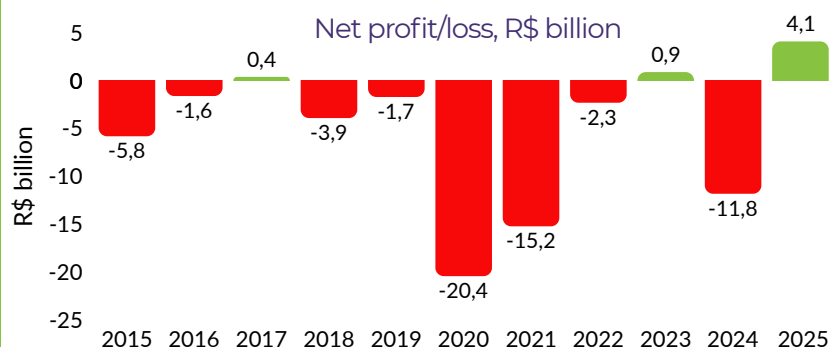
D. Airlines are under financial pressure

Between 2015 and 3Q2025, Brazilian airlines accumulated

R\$55 billion

in net losses.

Brazilian airlines accumulated significant net losses between 2015 and 2025



Source: ALTA Analysis using ANAC data

Limited capacity to absorb higher costs

Financial performance reflects multiple factors, including the COVID-19 pandemic, exchange-rate volatility, fuel prices and broader market conditions. The chart is presented solely to illustrate the sector's limited capacity to absorb additional structural costs.

Why this matters for Brazil's future

In a country that has already lagged behind regional peers in aviation growth, maintaining competitiveness is essential to close the gap.

A. Brazil would move from the region's most competitive passenger tax framework to seventh place

Illustrative ranking of passenger taxes and charges across Latin America and the Caribbean before and after the proposed tax framework (20 countries).**

BEFORE THE REFORM

- 1 BRAZIL
- 2 CHILE
- 3 GUATEMALA
- 4 TRINIDAD & TOBAGO



AFTER THE REFORM

- 5 PANAMA
- 6 COSTA RICA
- 7 BRAZIL
- ...

**Source: ALTA Air Transport Competitiveness Index in Latin America and the Caribbean – 2025

B. Why competitiveness matters

Higher passenger taxes

Less competitive market



Less competitive market

- Less routes
- Less connectivity
- Less tourism
- Fewer jobs and less investment

C. What is at stake



TOURISM

Air transport enables.

≈US\$22 billion

in domestic tourism spending and drives international arrivals.

2 out of 3

international visitors arrive by air.



CONNECTIVITY

Air connectivity has grown, but Brazil remains behind.

+129%

growth in domestic routes since 2014.

+133%

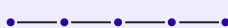
growth in international routes since 2014.



FUTURE GROWTH

Air trips per capita

2014 0.48 → 2024 0.48



While others advanced, Brazil remained unchanged.

A less competitive aviation market would make it harder to expand connectivity, support tourism, facilitate high-value trade, strengthen productive sectors, attract investment and create quality jobs.

As nearly half of international air cargo is transported in the bellyhold of passenger aircraft, reduced connectivity can also affect the movement of time-sensitive, high-value goods.

Policy Consideration

Maintaining a competitive tax framework for aviation would help Brazil continue expanding connectivity while supporting tourism, investment and economic growth.

Appendix

Tax Framework

This document models the potential effects of Brazil's tax reform on air transport demand under a scenario where higher effective taxation is reflected in final passenger airfare levels consistent with the application of CBS/IBS to transportation services. Under the CBS framework, transportation services are treated as taxable services, with the tax base defined as the value of the transaction.

For domestic tickets, the analysis compares an estimated pre-reform effective sectoral tax benchmark of approximately 9% with a reference CBS/IBS scenario of 26.5%. Under these assumptions, the estimated increase in final airfare levels reaches approximately 16.1%, calculated as:

$$\left(\frac{1 + 0.265}{1 + 0.09} - 1 \right) \times 100 = 16.1\%$$

The pre-reform benchmark used in this document does not represent an explicit TAX previously applied to domestic tickets. Instead, it reflects an estimated effective sectoral tax burden used exclusively for modeling changes in final passenger prices.

For international round-trip tickets sold in Brazil, this document models an equivalent burden of approximately 13.25% over the total ticket value. This scenario reflects the application of a 26.5% reference rate over 50% of the round-trip fare, consistent with the treatment established under LC 214/2025 for international passenger transport.

The analysis uses these values exclusively as modeling assumptions for the construction of demand scenarios. Actual effective tax burdens and market outcomes will depend on the final implementation framework and market conditions.

KEY ASSUMPTIONS (CENTRAL SCENARIO)



Pre-reform benchmark effective sector tax burden

9%



Reference CBS/CES rate applied to air transport

26.5%



Estimated increase in final domestic airfare levels

16.1%



Estimated increase in final international airfare levels (round-trip tickets sold in Brazil)

13.25%

Approximate increase in final passenger airfare levels associated with the modeled tax scenario under the central assumptions.

Methodology

This document estimates the potential impact of Brazil's tax reform on air transport demand using a scenario-based elasticity approach. The analysis applies the standard demand elasticity framework:

$$\frac{\Delta Q}{Q} = \epsilon \times \frac{\Delta P}{P}$$

Where:

- $\frac{\Delta Q}{Q}$ represents the estimated percentage variation in passenger demand;
- ϵ represents the price elasticity of demand;
- $\frac{\Delta P}{P}$ represents the estimated variation in final passenger airfare levels associated with the modeled tax scenario.

Under the central scenario:

- Domestic airfare levels increase by approximately 16.1%
- International round-trip airfare levels sold in Brazil increase by approximately 13.25%.

To estimate the resulting demand response, this document applies Brazil-specific air travel price elasticities developed in the UdeSA/ALTA study. Estimating Price and Income Air Travel Demand Elasticities in Latin America¹. The study is based on more than a decade of monthly route-level data across Latin America (2014–2024, excluding 2020), combining passenger traffic, airfare and capacity information at the origin-destination-month level. Unlike generalized elasticity assumptions frequently used in aviation policy analysis, the study estimates market-specific elasticities using observed passenger and fare behavior across thousands of routes in the region



The analysis applies:

-1.31
Domestic Price Elasticity

-1.34
International Price Elasticity

A key challenge in estimating air travel demand elasticities is that airline fares are endogenous, as airlines adjust prices dynamically in response to demand, competition, seasonality and network conditions. To address this issue, the UdeSA/ALTA study¹ estimates elasticities using a Two-Stage Least Squares (2SLS) instrumental variables approach, instrumenting fares with exogenous cost and network-related variables—including jet fuel prices, lagged cost variables and airline capacity instruments—while controlling for origin-destination fixed effects, time effects, seasonality and COVID-19 restrictions.

The resulting elasticity estimates are used in this document as inputs for a policy simulation. Estimated fare increases associated with the proposed tax framework are applied directly to the corresponding demand elasticities to assess the expected change in passenger volumes under a **ceteris paribus** assumption. The analysis is not intended to forecast actual market outcomes, but rather to estimate passenger demand sensitivity under the modeled taxation scenario. Actual impacts may vary across routes, competitive conditions and passenger segments.

¹ UdeSA/ALTA (2024). Estimating Price and Income Air Travel Demand Elasticities in Latin America.



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