

Tax Reform (LC 214/2025) in Brazil: the potential impact on air travel 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.

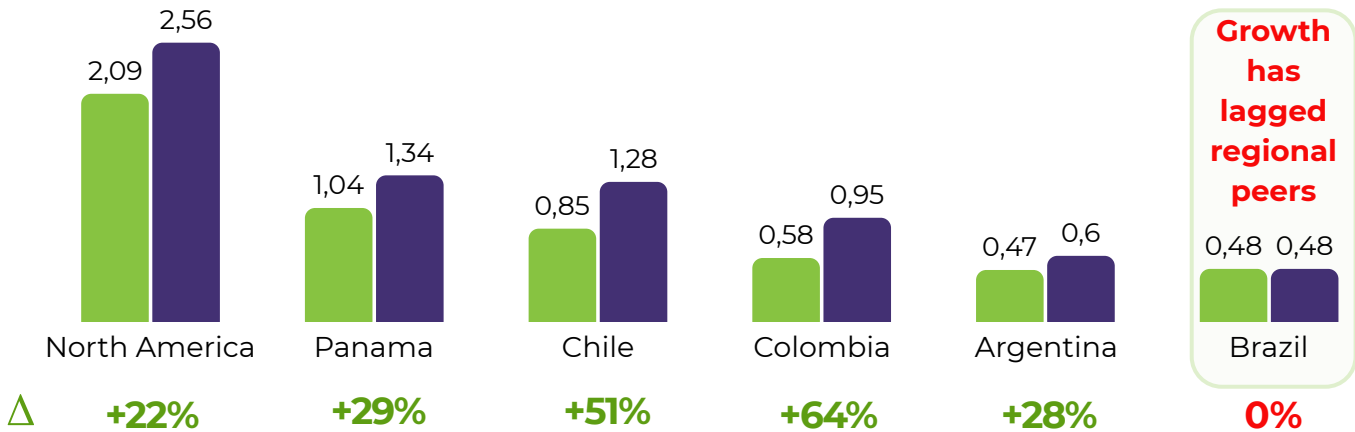
B. Brazil has significant room to expand air transport access

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

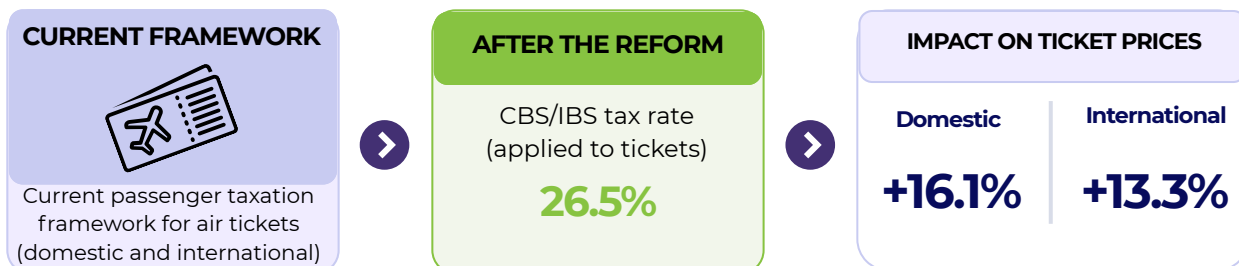


Source: IATA using Oxford Economics Data

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.

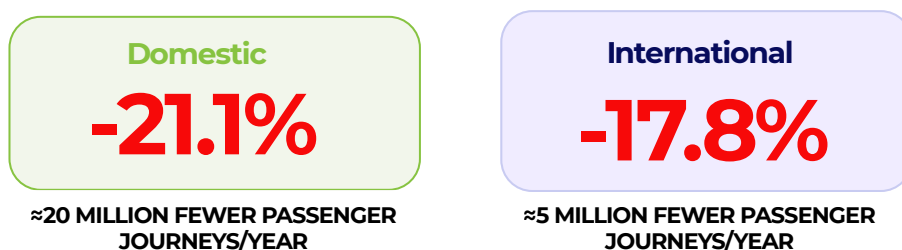
A. The reform raises the cost of flying



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



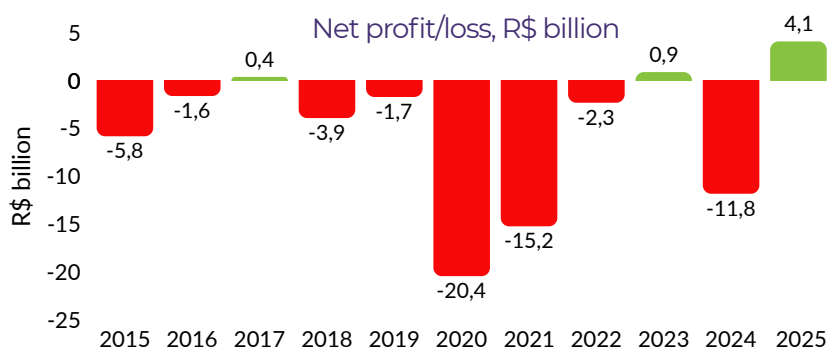
D. Airlines are under financial pressure

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).**



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

B. Tourism growth at risk

≈360,000

fewer tourism-related jobs by 2036

relative to the baseline growth scenario

≈US\$7.7 billion

lower Travel & Tourism GDP in 2036

equivalent to ≈US\$640 million per month

Nearly 1 in 4

projected new tourism jobs could fail to materialize over 2026–2036

Under the baseline growth path, tourism-related employment could rise from 8.3 million in 2026 to 9.8 million in 2036. Under the modeled tax scenario, it would reach around 9.44 million instead.

Illustrative scenario combining domestic and international tourism effects. The domestic estimate applies the modeled 21.1% reduction in air travel demand to the estimated share of domestic tourism activity associated with air travel. The international estimate applies the modeled 17.8% reduction in demand under an international round-trip scenario in which the 26.5% reference CBS/IBS rate applies to the Brazil-originating portion of the itinerary, assumed to represent 50% of the total fare. Estimates assume full transmission to tourism activity before substitution effects. See Appendix for methodology.

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.

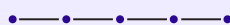


FUTURE GROWTH

Air trips per capita

2014 ➔ 2024

0.48 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:

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

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.

Tourism impacts are estimated by applying the modeled reductions in air travel demand to the share of tourism activity associated with aviation. For domestic tourism, the analysis uses the WTTC (World Travel & Tourism Council) Economic Impact Research projection of R\$785.7 billion in domestic visitor spending in 2036 and an ALTA calibration based on PNAD Turismo (IBGE – Brazilian Institute of Geography and Statistics) travel propensity, air-use and expenditure patterns. This calibration estimates that 18.36% of domestic visitor spending may be associated with air travel; this is an ALTA proxy and not a statistic directly published by PNAD. Applying the modeled 21.1% reduction in domestic air travel demand results in approximately R\$30.4 billion in visitor spending associated with the affected travel volume. For international tourism, WTTC projects R\$59.7 billion in international visitor spending in 2036. Embratur data indicate that approximately 66% of international visitors arrive in Brazil by air; this share is used as a proxy for the proportion of international visitor spending associated with air arrivals, since expenditure by mode of entry is not directly observed. The modeled 17.8% reduction in international demand assumes that the 26.5% reference CBS/IBS rate applies to the Brazil-originating portion of an international round trip, assumed for modeling purposes to represent 50% of the total fare, resulting in an equivalent 13.25% increase in the total round-trip price. This produces approximately R\$7.0 billion in international visitor spending associated with the affected travel volume. The combined R\$37.4 billion in affected visitor spending is translated into Travel & Tourism GDP using WTTC's 2036 spending-sensitive structure. The analysis applies the ratio of direct GDP + domestic supply-chain effects – imported leakage + induced GDP to internal tourism consumption, which equals 1.154. Capital investment and government collective spending are excluded because they are not assumed to adjust proportionally to changes in passenger demand. This results in approximately R\$43.2 billion, or US\$7.7 billion, less annual Travel & Tourism GDP in 2036. The employment impact is estimated using WTTC's implied 2036 employment intensity of 9.80 million jobs supported by R\$1,172.1 billion in Travel & Tourism GDP, resulting in approximately 360,000 fewer tourism-related jobs supported. This represents around 24% — nearly one in four — of the approximately 1.51 million additional tourism jobs in WTTC's 2026–2036 baseline.

These estimates represent an illustrative full-transmission scenario and assume that lower air travel demand translates proportionally into lower tourism activity before potential substitution to other transport modes, destinations or spending patterns. They represent the difference relative to WTTC's 2036 baseline, not cumulative losses between 2026 and 2036 and not observed job losses. The WTTC outlook is used as the reference baseline and should not be interpreted as a separately validated "without-reform" counterfactual. The ≈US\$640 million per month shown in the main document is the monthly equivalent of the estimated annual US\$7.7 billion GDP difference in 2036.

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



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