

Policy Statement on Withholding Taxes in the Aviation Sector

February 2026

POLICY STATEMENT

In line with international best practices, to avoid adverse economic consequences, and to ensure an international level playing field among airlines and regulatory systems, withholding taxes (**WHT**)* should not be applicable to or imposed on cross-border commercial aircraft or aircraft engine lease transactions.

* WHT is a tax which, although imposed on the payee of recurring payments, such as rent, is collected at source by requiring the payor (e.g., an airline) to make a deduction on account of tax before making the balance of the payment to the payee. Customary practice, in turn, has the airline 'gross up', that is, ensuring that the full contract payment is made to the payee, notwithstanding such deduction.

Background

The Aviation Working Group (**AWG**), a not-for-profit entity comprising the world's major aviation manufacturers, leasing companies and financial institutions, addresses regulatory and policy matters impacting the aviation sector. AWG members manufacture all large Western civil aircraft and associated engines, and lease or finance a substantial majority of them. AWG has worked closely with governments around the world since the late 1990s helping to promote the international aviation sector.

The commercial aviation industry is highly capital intensive, requiring airlines to efficiently access global capital sources for their business to remain profitable. Airlines will often lease a substantial portion of their fleet from international lessors. The leasing of commercial aircraft and aircraft engines is global and cross-border in nature, with the airline-lessee often being in a different jurisdiction than the lessor.

Main reasons supporting policy statement (no WHT on cross-border commercial aircraft or aircraft engine lease transactions):

1. International best practice
2. Avoid adverse economic consequences
3. Level playing field among airlines
4. Level playing field among regulatory systems

5. Reduce compliance and monitoring costs to taxpayers and tax authorities

International best practice

Eliminating WHT on cross-border leasing of aircraft and engines conforms with international best practice, following the trend of less reliance on WHT to enforce international tax norms.

In theory, all income should be taxed precisely once, by the taxpayer's home jurisdiction (or permanent establishment in another country), rather than the jurisdiction of the payee. Among the problems with WHT are: 1) as a gross-basis tax, it is at best a rough approximation (and often far in excess) of the net income tax that should be imposed on the taxpayer, and 2) WHT frequently results in double taxation, with the same income taxed by both the payor's and payee's jurisdiction.

Double taxation can be ameliorated by the use of double taxation treaties that reduce or eliminate WHT. For example, the OECD model income tax treaty typically provides a complete exemption from WHT on aircraft and engine lease payments under Article 7 (Business Profits), or in certain cases, Article 8 (International Shipping and Air Transport) or Article 12 (Royalties). The general position of the OECD model treaty is that equipment lease payments, including aircraft and engine lease payments, should be taxed only in the lessor's home jurisdiction or permanent establishment, not in the lessee's jurisdiction. **Annex 1** below sets forth a list of countries that either impose no WHT on lease payments (in general, or pursuant to a special domestic exemption for aircraft and engines), or have entered into double taxation treaties with at least one counterparty to eliminate such WHT. As can be seen in the list, many jurisdictions with a significant aviation presence impose no WHT on aircraft and engine lease payments in at least some circumstances. Uniform international adoption of the OECD treaty position conforms to the international best practice promulgated by the OECD (and broadly adopted by contracting states) and widespread provision of domestic exemptions by jurisdictions across the globe.

Avoid adverse economic consequences

National and international aviation rules and regulations should reduce the cost of capital in an otherwise highly capital intensive industry of manufacturing and sale, financing, leasing, acquisition and use of aircraft assets globally.

WHT on lease rental payments increases leasing costs as such WHT is customarily allocated by contract to airlines. Airlines operating in jurisdictions with WHT (as compared to jurisdictions with domestic WHT exemptions or which have entered into double tax treaties which allocate taxing rights to the state of residence of the lessor) report higher lease costs or reduced access to newer aircraft, impacting competitiveness and operational efficiency.

Eliminating WHT lowers the costs of leasing and improves the financial efficiency of airlines operating within the jurisdiction. These reduced capital costs translate into improved fleet modernisation, often with positive environmental effects, lower operational expenses, and enhanced airline profitability, with positive consequential effects across the broader economy of the local jurisdiction. For instance, eliminating WHT provides aviation industry players with greater predictability to budget for more sustainable and transparent operations and allows for more efficient allocation of resources to social programs and environmental protection.

Level playing field among airlines

National and international rules and regulations for the manufacturing and sale, financing, leasing, acquisition and use of aircraft assets globally are based on the primacy of open commercial and financial markets for aircraft and associated parts and components (**market primacy**) in a manner which provides a level playing field for all aviation manufacturers, financiers, lessors, and airlines vis-a-vis whomever they compete (**level playing field**). Regulatory policy, subsidies, or trade barriers from whatever source should

not be used to favor one party over another. Parties should compete on the basis of products and skills, not on the basis of the most favorable regulatory framework.

WHT on aircraft lease rental payments creates an uneven competitive environment, disadvantaging airlines in jurisdictions that impose WHT relative to carriers operating from jurisdictions where WHT has been eliminated by increasing leasing costs for such airlines, while their competitors from countries where no WHT is imposed (or is imposed but is exempted in respect of the leasing of commercial aircraft) enjoy a cost advantage over airlines that must bear WHT burdens and can access aircraft at lower effective rates. **Annex 2** below sets forth a comparative chart showing the WHT rates on aircraft lease payments for certain countries with meaningful aviation sectors.

Removing WHT promotes fairer competition by ensuring that airlines compete on operational efficiency and service quality, rather than being penalized by location-based tax distortions.

The creation of a more level playing field through the elimination of WHT supports the growth of emerging airlines, encourages market entry, and ensures consumers benefit from increased competition and better pricing. It also enables the country's aviation sector to integrate more fully into global networks, enhancing competitiveness on international routes.

Level playing field among regulatory systems

WHT on cross-border aircraft lease payments vary significantly across jurisdictions, creating an uneven playing field. This disparity distorts market dynamics.

Eliminating WHT would help harmonize international leasing practices, ensuring that decisions are driven by key operational considerations such as access to a skilled workforce with leasing expertise and other critical matters like familiar and predictable application of law, proximity to capital markets, availability of ancillary services such as asset management and insurance and participation in international conventions.

Reduce compliance and monitoring costs to taxpayers and tax authorities

The imposition of WHT on cross-border aircraft and engine lease payments significantly increases the regulatory and administrative cost for all parties involved. Rather than being driven by commercial or operational considerations, the need to navigate complex tax rules often results in transactions requiring extensive legal, accounting, and compliance resources.

These arrangements lead to elevated costs for both taxpayers and tax authorities. Taxpayers (both lessors and airlines) must incur expenses associated with treaty analysis, documentation and ongoing regulatory monitoring. Tax authorities must devote substantial resources to assess treaty eligibility, beneficial ownership and substance requirements, which can result in prolonged audits and disputes (which also raise costs to taxpayers, who must respond to associated information and document requests, and if necessary, dispute assessments and claims).

For airlines, these increased costs are ultimately passed through in the form of higher lease costs, reducing efficiency and competitiveness in the global aviation market. Eliminating WHT would simplify the regulatory landscape, reduce monitoring burdens for tax authorities and lower transaction costs for airlines and lessors alike, supporting a more transparent and economically efficient leasing environment.

END

Annex 1

List of countries with no WHT or at least one treaty eliminating WHT

Country	Domestic withholding tax rate
Germany	0%
Hong Kong	0%
Ireland	0%
Netherlands	0%
Norway	0%
Hungary	0%
Sweden	0%
Switzerland	0%
United Arab Emirates	0%
United Kingdom	0%

Annex 2

Comparative chart of countries' WHT rates on aircraft lease payments

Country	Domestic withholding tax rate
Argentina	14%
Brazil	3%
Indonesia	20%
Japan	20.42%
China	10%
Australia	30%
India	21.84%
Taiwan	3% / 20%
USA	30%
Singapore	2%