ETOA
European tourism association

EU VAT Rules for Travel and Tourism

Remarks in support of EC consultation, October 2025

Introduction

ETOA welcomes the opportunity to contribute to this consultation. We share the Commission's concern that the framework has not kept pace with practice or market developments. The majority of ETOA's members are established in the EU, many of whom export their services to third countries. We also have non-EU members: destinations and supply-chain within wider geographic Europe, and operators in EU source markets worldwide. We therefore have relevant insight into tax options as they affect the sale of EU tourism product and the business processes that develop them.

Special Scheme for Travel Agents

ETOA continues to support the original purposes of the scheme as set out in the consultation:

- Simplifying VAT compliance for travel agents and tour operators; and
- Ensuring that VAT revenue accrues to the Member State where tourism services are consumed.

We recognise the issues described, including lack of uniform application within the EU, and agree harmonisation is desirable. We agree that the scheme does not ensure equal treatment between EU and non-EU established agents selling EU product.

ETOA supports the common industry position developed in collaboration with partners ECTAA and others which was last agreed in 2023 and re-validated in the context of current consultation.

Given the EU's focus on driving export revenue and sensitivity to tariffs, we make the following observations intended to complement the common position.

Applicability of TOMS

The recent experience of Germany's unilateral proposal to require non-EU agents selling to non-EU consumers to register for VAT in Germany, pay Germany VAT on the retail price paid, and seek to recover input VAT, was instructive.

Issues and potential impact included:

- Impossibility of enforcement. How could an EU state ensure comprehension and enforce collection throughout global source markets?
- Cost: what resources would be required to achieve outcomes above?
- Reduced competitiveness due to inflationary effect on retail price.
- Creation of an environment where those who do not understand their obligations (and who do not apply the tax) are more competitive than those that do.
- Non-EU intermediaries selling packages would become more competitive than EU based operators because they could recover input VAT.
- EU-based intermediaries would lose business from non-EU operators selling packages to consumers as these operators who would need to source package components directly rather than via intermediaries to recover input VAT.
- Displacement of demand from non-EU markets for whom competitive destination options are growing.
- Negative sentiment: Germany was seen as 'too difficult' as well as costly.
- Political friction: the proposal it caused unproductive and positional procedural wrangling, and intra-EU concerns.

If something similar were done at an EU scale, there would be comparable impact. Given the duration of primary tax regulation due to the complexity of reform, it would be a substantial risk if the EU were to change treatment on the basis that the EU will remain an appealing destination irrespective of administrative load and increased cost. Other destinations continue to develop and do not all share the EU's supply-side constraints and cost pressures.

Fall-back position

While we endorse the common position which addresses the sectoral complexity and options at issue, treatment based on consumer nationality (i.e. EU or non-EU) remains problematic. For reasons of legal certainty and practicability, place of purchase as the determining factor has merit. This would remove the anomaly that consumers offered the same options making the same purchase decision in the same place are subject to different rules.

Opt out

There should be a right to opt out as it is in the mutual interest of destinations and providers of MICE services especially, for which recovery of input tax may make business sense and justify the complexity of multiple registration and reporting.

Place of enjoyment

There are two distinct components to a package:

- The single service supplied to the traveller set out in Art.307 comprised of various elements acquired through ‘transactions made…by the travel agent in respect of a journey…supplied by the travel agent to the traveller’: that is, the various elements comprising the holiday which start from the first element (e.g. flight or accommodation) and end with the last. The costs of these are the ‘direct costs’ of the holiday.
- The process of packaging, which is a function of the agent’s business, whose costs are the ‘indirect costs’ borne by the business, typically covered by the cumulative gross margin added to the direct costs to make the retail price of the holidays sold. Actual margin made will depend on various issues including load factor, exchange rate, business costs and efficiency.

This distinction is necessary for a fair application of VAT. Not to make it would be to suggest that business overheads such as staff, IT costs and office rent are acquired through ‘transactions made in respect of a journey’. They are not. As the pandemic demonstrated, costs unrelated to the supply of travel services continued while travel stopped.

For operators seeking new product ideas and partners, costs incurred in their research and development cannot properly be classed as ‘transactions made in respect of a journey’. They are a business overhead whose benefit will only be felt by a traveller if she buys a package whose nature was influenced by that effort.

The single service supplied that is the journey is enjoyed to, from and within destination, depending on whether the travel to and from the start of the ‘land package’ is included. This is consistent with the definition of a package in the package travel directive.[1]

Therefore, the process of packaging is enjoyed by the consumer before she travels; typically, in her country of residence. The value-adding process of product research, design, development, negotiation and booking benefits her while she is going about her normal business. She books the holiday and leaves the rest to the professionals, much of which has already been done. Whether this service is subject to tax, i.e. a tax on the gross margin, is a matter for her travel agent’s country of establishment, which will also benefit from any tax on gross profit, or recognise any business loss in its assessment of any tax due.

Ironically, the application of this analysis to the pricing of EU outbound travel would be both new and unwelcome to many as it would imply VAT on the margin payable in travel agent’s EU

[1] 2015/2302(EU) Art.3 (3) and(4):
(3) ‘package travel contract’ means a contract on the package as a whole or, if the package is provided under separate contracts, all contracts covering travel services included in the package;
(4) ‘start of the package’ means the beginning of the performance of travel services included in the package

country of establishment, despite the impact on competitiveness of EU destinations of the current VAT-free status of non-EU holidays.

The critical distinction is that this is an EU decision about VAT treatment of services enjoyed within the EU's jurisdiction, and there may be sound reasons to keep it in place when all interests are considered. Outbound tourism creates value within the EU.

Summary

In addition to employment supported by non-EU business, the EU's financial benefit from non-EU sales of EU travel product is through export revenue from:

- Input VAT on services enjoyed within the EU
- Tax on profit attributable to income from non-EU business
- Non-EU visitors spend in destination, which is typically higher than domestic spend

Therefore, in the interests of maximising EU export revenue, ensuring tax benefit to destination, and administrative simplicity, we recommend that the default for non-EU agents selling EU travel product to non-EU consumers is that they buy product for which any input VAT is non-recoverable.

Radical Re-set

Principles aside, as it is impractical to impose a tax burden outside its own tax jurisdiction, if the EU wished to ensure a level playing field, or even a favourable treatment of EU agents, then the most practical course would be to exempt the gross margin from VAT, irrespective of whom or where the consumer may be. This would make direct sales by EU agents and operators to non-EU consumers more likely. It would also address the competitive disadvantage of holidays to EU destinations versus non-EU destinations sold within the EU.

As things stand (and partly because consumers are encouraged to buy locally due to the persistent of siloed country-specific consumer protection arrangements) there is scarcely any significant direct export of packaged EU tourism product to non-EU consumers. There are some direct sales of single supply.

Given the increased sophistication of the paying public and the online marketplace this may be a missed opportunity as it deprives EU businesses of direct exposure to consumers in third markets if they are willing to work through the implications and manage the risk.

VAT on passenger transport

While ETOA is not a technical specialist on this topic we benefit from insight provided by our partners. We recognise that travel is the most significant driver of tourism's carbon footprint and thus requires urgent mitigation given the sector's continued growth and importance to the EU's economy, especially through export revenue, much of which derives from aviation-dependent long-haul travel.

We suggest the following principles for policy development:

1. **Encourage positive action.** Any tax framework should encourage beneficial behaviour by both business and consumers, providing that 'doing the right thing' and regulatory compliance receive sufficient support. For example:
    a. Requirements to meet usage targets for sustainable aviation fuel (SAF) and biodiesel for road transport should be accompanied by sufficient supply side development, such as tax incentives to produce biofuel from waste.[2]
    b. This requires urgent structural support, not least due to the apparent cooling of Big Oil's interest in related investment on economic grounds.[3]
2. **Use tax revenue to support system change.** In addition to VAT, other fiscal options such as carbon taxes/levies on travel may develop once there is an agreed framework for measurement in place that allows sufficient transparency and comparability, considering 'well to wheel' costs and impacts, including production processes.
    a. For carbon taxes and VAT (if VAT an appropriate means to raise revenue for environmental ends, which is doubtful) we should remain mindful of the risks outlined above. Increased costs in EU favour non-EU carriers and operators.
    b. Revenue should be hypothecated towards acceleration of sectoral decarbonisation and improved infrastructure, including improved connectivity and intermodal hubs.
3. **Avoid harm.** Care is needed to avoid unintended consequences. For example:
    a. Create an incentive to re-fuel outside the EU to minimise compliance cost and/or tax liability, and/or prefer non-EU carriers.
    b. Stigmatise any form of transport. Railways and road cannot provide sufficient connectivity, especially for more remote or peripheral regions. The problem relates to use of fossil fuel powering engines or generating electricity, not the mode of transport in question.

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[2] Declaration of interest: ZEERO Energies is a partner of ETOA in the context of our climate action plan. Their intention, which we support, is to develop scalable, modular production of biocrude from waste using hydrothermal liquefaction (HTL) in partnership with public and private sector stakeholders. Direct financial support and/or tax incentives to derisk and encourage development of such practice would make sense within the broader context of the EU's transition to net-zero, its clean industrial deal. It would also support other environmental goals including the development of a circular economy and reward regenerative practice. More information available via https://www.trees4travel.com/zeero-energies-projects

[3] https://www.shell.com/news-and-insights/newsroom/news-and-media-releases/2025/shell-not-restart-construction-rotterdam-biofuels-plant.html