Memorandum: VAT Policy, June 2026

Competitive Risk to Inbound Travel to EU

This memorandum is intended to support current inter-service dialogue on the Special Scheme for Travel Agents (TOMS), as part of the review of VAT rules affecting travel. ETOA's membership includes operators who sell EU product in non-EU markets, and the value-chain who provide those services in the EU as packaged product and as single supply. We recognise the need for review, the opportunities for administrative simplification, and the desire to avoid competitive advantage for non-EU entities selling to EU clients. We think some of the options for reform would harm EU export revenue and competitiveness by creating barriers to inbound tourism.

ETOA priorities

1. Maximise benefit to EU of its inbound tourism.
2. Inform policy makers about source market perspectives.
3. EU competitiveness as a destination and as a place to do business.

We oppose the suggestion to impose EU VAT on sale of EU product to non-EU clients on three grounds.

1. Loss of EU competitiveness, compounding the impact of an inflationary business environment.
2. Deterrent effect causing economic loss through impact on pre-sold services and in-destination spend.[1]
3. Political perception, cost and practicality if non-EU sales were subject to a new EU 'tariff' and tax collection.

Tourism to the EU is subject to global competition but it is not mentioned in the Draghi report nor the Competitiveness Compass. Europe will remain appealing but cost, service, value and perception matter. Non-EU visitors tend to be cultural tourists bringing year-round business that complements domestic demand. Competitive loss will be compounded if alternative destinations generate positive repeat rates and referrals. As non-EU demand will grow faster than intra-EU demand due to demographic and economic drivers, the consequent loss would grow geometrically.

There is a political imperative to ensure we do not harm one of the EU's strategic assets. European Council conclusions of 19th March called on the Commission, in cooperation with Member States, to map dependencies in strategic sectors by the end of 2026 at the latest, observing that: "reducing strategic dependencies and strengthening Europe's geopolitical and commercial weight has become a precondition for resilience, growth and job creation." [2]

The Commission correctly describes tourism as a key industry for EU competitiveness and cohesion and wishes inbound travel to grow as a proportion of tourism arrivals. For 2025, it reports €866bn of GVA, equivalent to 7.3% of total EU GVA, and 582 million international tourists. For 2023, Eurostat report that the EU received 25.9% of worldwide international tourism spend, of which 15.2% is intra-EU tourism, 10.7% from non-EU visitors. Thus 41.3% of the EU's international tourism receipts would be vulnerable to the deterrent effect of adverse tax treatment of non-EU sales.

Tourism is less vulnerable to offshoring because the only place to enjoy Europe is here. But non-EU clients have options: their tax treatment has a strategic impact. Given tourism's contribution to EU soft power and export revenue we should aim to maximise benefit from higher-spending non-EU business and avoid regulatory overreach through attempting tax collection in third countries. All these issues should be considered in inter-service dialogue and impact assessment.

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[1] Germany's recent unilateral proposal, currently postponed to 2029, to prevent non-EU companies applying TOMS and require them to register for VAT in Germany had a deterrent effect in source markets in terms of product offer, forward bookings and business uncertainty, and an adverse impact on the German inbound sector, especially on DMCs whose VAT on packages sold to non-EU clients would be non-recoverable, unlike VAT on single supply.

[2] https://www.consilium.europa.eu/media/lwhk3itd/en-20260319-european-council-conclusions.pdf No.42-43

TOMS REFORM 2026: OPTIONS FOR CHANGE

Currently, travel agents and tour operators buying EU travel services use a scheme whereby VAT is paid on services such as accommodation in each member state and not reclaimed. Any tax due on the operator's margin (the difference between the cost of a holiday's components and the price paid by consumer) is paid to the member state in which the operator is based. This mechanism is known as the Tour Operators Margin Scheme (TOMS).

TOMS is a simplification: operators do not have to register in each EU member state to which they send their clients. The VAT is paid and un-reclaimed in the destination. TOMS is widely praised. It cuts bureaucracy, eases compliance and accurately apportions tax revenue where the value adding of the holiday's components takes place.

It has a potential drawback: if an operator is based outside the EU, the EU has no control over the taxation on the margin. This creates the possibility of non-EU agents and operators undercutting those within the EU if their tax position is more favourable. To address this, DG TAXUD has proposed three options to tax inbound tourism:

1. **Tax the margin of non-EU agents and operators** by making them pay VAT on their gross margin. This would be paid to the EU member states where the services take place.
2. **Levy EU margin taxation on the basis of the traveller's location.**
    a. The location of the client at time of booking would determine whether EU margin tax is paid. EU-based travellers booking EU travel would thus be taxed whether they bought from EU or non-EU entities.
    b. Non-EU travellers booking EU travel would not be taxed by the EU on the gross margin.
    c. Both EU and non-EU travellers would be paying the applicable tax on all the components.

   This would enable EU based companies to compete globally: non-EU companies could not compete within Europe for EU clients.
3. **Levy tax at the destination,** obliging all agents and tour operators, irrespective of their location, to register with the tax authorities in destination and pay the tax of the gross margin to the authorities in destination.

ETOA recommends Option 2. It gives EU-based companies an ability to compete in world markets and prevents unfair competition.

Option 3 is undesirable. It removes the simplification inherent in TOMS and involves financial transfer from those countries booking holidays to those where the holidays take place. This would have an adverse impact on competitiveness and third country perception of the EU as a place to do business.

Option 1 is the most damaging option. It seeks to create a level playing field by taxing non-EU tour operators as if they were in the EU. As TOMS implies, a package involves a range of additional costs and services that are incurred and delivered where the sale to consumers takes place and before the sale is complete: product development, packaging, marketing, commissions and sales. After sale, an operator delivers pre-departure processes and services, all of which cost money. These costs are also covered by the margin. The related services are enjoyed in the source market, not in destination.

Under the current TOMS the VAT on the holiday's components remains paid and un-reclaimed in the destination. At issue is the tax treatment of the margin covering the additional costs and services. When an EU package is sold in the EU, under TOMS, the operator pays VAT on the margin covering these to their domestic tax authority. When sold outside the EU, the additional services, enjoyed outside the EU, attract no EU VAT. They may be subject to domestic tax in source market.

The problem is that Option 1 proposes to make non-EU tour operators pay EU tax on the margin. This would be an EU consumption tax on services enjoyed outside the EU that facilitate money flowing into the EU. Taxing the process of sales of EU product to non-EU consumers would be a unique additional tariff on exports. Taxing activity that takes place outside the EU would be seen as unjust and unreasonable. Its legal coherence, let alone its success, would depend on compliance in all markets. This includes those where the remit of EU tax authorities is very limited.