



# EUROPEAN TOURISM FORUM 2016

## DISCUSSION PAPER

### SESSION 1: A FAVOURABLE BUSINESS ENVIRONMENT FOR THE COMPETITIVENESS OF EU TOURISM SECTOR - TAXATION

#### Objectives

The objective of the panel is to exchange views over the impact of taxation on the competitiveness of EU travel and tourism sector. In particular, the main topics of debate will focus, amongst others, on the extent to which taxation determines the incentives to invest in tourism, the perceived benefits from the reduced VAT rates on tourism activities, and the challenges encountered by the European stakeholders in applying the special VAT scheme for travel agents.

#### Taxation and Incentives to Invest in the Tourism Sector

The travel and tourism sector makes a substantial contribution to European economies. In 2014, including direct, indirect, and induced impacts, travel and tourism supported 33.5 million jobs and made nearly €1.6 trillion in contribution to GDP (9.3%). By 2025, the travel and tourism sector's total economic contribution is expected to grow to 38 million jobs and €2.1 trillion in contributions to GDP (9.9%)<sup>1</sup>.

Therefore, it is important to understand how to reach the balance between maximising demand (and by association tax revenues) and achieving adequate fiscal returns to support investment and job creation.

There is a direct link between the magnitude of investment in tourism and the quality and capacity of European tourism infrastructure, which determine further the success and size of its contribution to the EU economy. Over the past years, tourism has grown at a higher pace than overall economy, even during times of recession. The liberalisation of travel has contributed greatly to this success. The forecasts indicate that this positive trend will continue for every major European region. However, this growth puts pressure on infrastructure capabilities and accentuates the need for additional infrastructure investment.

There is currently an intense debate about the role of tourism taxation and its impact on the competitiveness of tourism businesses and attractiveness of destinations. The capacity of tourism to stimulate economies by creating employment, attracting investment and adding value nationally, regionally and locally is well recognised. The taxation of tourism is seen as a means of providing the necessary investment in infrastructure and services to support tourism development. It is evident that the continuous investment in the economy has direct or indirect positive effects on the quality of the tourist products on offer to visitors. Nevertheless the travel and tourism industry wants to ensure that the level playing field is maintained in competition to other leisure time consumer industries and against tourism industries in rival destinations.

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<sup>1</sup> World Travel and Tourism Council (WTTC)

**Discussion points:**

*How taxation of travel and tourism related activities impacts the competitiveness of businesses and attractiveness of destinations?*

*What is the role of taxation in the creation of a business friendly environment?*

*Is there a way to measure the impact of taxation on the level of investment in tourism?*

**Tourism and the EU VAT System**

The common VAT system is a core element of Europe's Single Market. It is a major and growing source of revenue in the EU, raising almost EUR 1 trillion in 2014, which corresponds to 7% of EU GDP. All Member States share a common framework on VAT provided by Directive 2006/112/EC (VAT Directive).

Two aspects of the Directive are of particular importance for the tourism sector: (1) the application of reduced VAT rates and (2) the special VAT scheme for travel agents and tour operators.

***Benefits of the reduced VAT rates for tourism services***

The VAT Directive sets out general rules framing Member States' freedom to set VAT rates whereby, in general, the standard VAT rate of minimum 15% should apply to the supply of goods and services, with the option to apply a maximum of two reduced rates of minimum 5% to 24 categories of goods and services listed in Annex III to the Directive.

Tourism industry (e.g. accommodation, restaurants and catering, passenger transport, admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities, admission to sporting events, social wellbeing services) is among those sectors that benefit from a reduced VAT rate treatment at present.

***Challenges of the special VAT scheme for travel agents***

The VAT Directive also provides, under articles 306-310, for a special VAT scheme for travel agents, who acquire travel services from third parties and sell them in their own name to the customer, also sometimes referred to as Tour Operators' Margin Scheme (TOMS)<sup>2</sup>.

Under this special scheme, all transactions performed by the travel agent in respect of a journey are treated as a single supply of services for VAT purposes, taxable in its own Member State. The travel agent has no right to deduct VAT on supplies made to him, but on the other hand, he is only taxed on the profit margin realised on the supply of the travel package.

Thus, the special scheme is an origin based scheme (margin taxation), but follows the destination principle, because it leaves the non-deductible input VAT to the Member State where the final consumption of each individual service takes place. In other words, VAT on the travel agent's margin goes to the Member State where the travel agent is established and where the profit is generated, while e.g. the VAT on the hotel accommodation remains in the Member State where the hotel is situated.

***Next steps: VAT reform***

In its Communication on an on an action plan on VAT of April 2016<sup>3</sup>, the Commission recognises that the current VAT system is fragmented and complex for the growing number of businesses operating cross-border, especially in light of today's global, digital and mobile economy. Therefore, the

<sup>2</sup> The special scheme was initially introduced in 1977 by the Directive 77/338/EEC and maintained in Council Directive 2006/112/EC, which repealed Directive 77/338

<sup>3</sup> COM(2016)148 of 7.4.2016 – Commission Communication "Towards a single EU VAT area - Time to decide"

Commission proposes an action plan for the creation of a single EU VAT area to support a deeper and fairer Single Market.

To this end, the Commission envisages presenting a legislative proposal to put in place a revised VAT system<sup>4</sup>. Under this new scheme, the VAT system should be fully based on the principle of taxation in the country of destination of the goods/services (destination principle) and the taxation rules according to which suppliers of goods/services collect VAT from customers should be extended to cross-border transactions.

It also envisages modernising the VAT rates policy along two main options:

- 1) Extension and regular review of the list of goods and services eligible for reduced rates;
- 2) Abolition of the list granting MS greater rate-setting power on the number of reduced rates and their level.

As concerns the special VAT scheme for travel agents, the Commission intends to launch a dedicated study to analyse the implementation and application of Articles 306 to 310 of Directive 2006/112/EC and to evaluate the functioning of the current VAT rules provided for under the special scheme for travel agents, notably taking into account a digital environment and a VAT regime based on the destination principle, identifying and quantifying potential distortions of competition. The study should also identify, assess and compare options for reform both under the current place of supply rules and under place of supply rules based on the destination principle.

***Discussion points:***

***Reduced VAT rates***

*Which of the two VAT rates reform options is likely to better serve a competitive tourism sector across the EU?*

*To what extent the reduced VAT rates in tourism have contributed to the competitiveness of the industry?*

*What could be the impact on the competition between EU tourism operators should MS decide individually upon the rates and sectors with reduced rates?*

***Special VAT scheme for travel agents***

*Which adjustments, if any, would be needed so that the special VAT scheme ensures a level playing field for tour operators and travel agents?*

*Does the application of the special scheme create a competitive disadvantage for EU-based tour operators and destinations vis-à-vis non-EU ones?*

*Should the special scheme apply differently to B2C and B2B transactions?*

*How can the special scheme be applied to ensure a fair competition in the online market place?*

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<sup>4</sup> As part of the Regulatory Fitness and Performance Program (REFIT)