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VAT and the Travel Industry – UK and wider developments.

With travel picking up again following the pandemic, now is a good time to think about how the VAT world has changed, what this means for your business and the further changes that may be coming down the line.

UK VAT Tour Operators Margin Scheme – Zero Rating extended

With the UK exit from the EU, effective from 1/1/21, the UK VAT TOMS legislation changed and extended VAT zero rating to the margin on TOMS supplies in destinations outside the UK. The standard rate still applies to the margin on supplies in the UK.

With the retained standard rate VAT in the UK, conference and event organisers and Travel Management Companies (TMCs') may still want to operate as a disclosed agent for arranging transport or accommodation for UK events and travel services, so that the TOMS rules will not apply.

Overseas operators selling UK inbound, can still apply the UK TOMS place of supply rule of "where the supplier is established".

HMRC's guidance confirms that there are no changes to the UK TOMS Scheme for B2B wholesale supplies, so that the normal UK rules and rates continue to apply.

EU TOMS (Croatia and Germany)

For UK operators selling into the EU, from 5/1/21 Croatia determined that non-EU operators could not apply TOMS to sales of travel services in Croatia, such as hotel accommodation, transfers and excursions. This means that non-EU operators might have to register and account for VAT in Croatia.

Germany proposed implementing similar changes. These have been postponed until 1/1/23, although further delays could be announced.

EU TOMS Review

The European Commission is progressing the review of the EU TOMS VAT rules. The main proposals are:

- keeping a margin scheme;
- regularising the travel services subject to the scheme in all Member States; and
- changing the place of supply to “where the consumer is established/resident”.

On this last proposal, tour operators established in one country but selling to consumers in EU countries may have to register and account for VAT in the consumers’ country. That said, the Commission may also extend the EU One Stop Shop VAT accounting scheme, where a supplier charges and declares VAT on all EU sales (at each countries applicable VAT rate) via a single VAT registration in one EU country.

If and when these changes might be agreed and implemented is unclear.

EU and Agency Services – One Stop Shop VAT accounting

UK businesses selling travel services as a disclosed agent are not immune to EU VAT rules.

Where UK businesses operate B2B, charging fees or commissions to accommodation owners and, transport operators, they can still rely on the EU B2B place of supply of services rules. These rules are based on where the B2B customer is established, with the recipient accounting for any applicable VAT.

Consumers, however, are charged B2C. Hotel or transfer booking fees, for example, are taxable where the underlying supply takes place, so where the accommodation is, with the supplier required to register and account for VAT on the charges.

From 1/7/21, the EU One Stop Shop scheme was extended so that suppliers must declare VAT on all EU sales (by reference to each countries VAT rate) through a VAT registration in one EU country, potentially making it easier for the relevant tax authority to enforce these rules.

EU VAT rules for Platforms/Intermediaries

From 1/7/21, changes to the EU and UK VAT rules for supplies of goods through Online Market Places (OMP) and intermediaries mean that, in some circumstances, the OMP or intermediary can be jointly and severally liable for VAT due from the underlying suppliers.

This can also apply to some supplies of services, including electronic supplies of services, admission to events but, at present, does not include travel agents and travel booking platforms. The EU, however, is also in the process of reviewing “VAT in the Digital Age”, which could lead to the joint and several liability being extended to other intermediary sectors where the intermediary collects the customers payments.

UK VAT Compliance – including Making Tax Digital (MTD)

HMRC has just released details of the MTD penalty regime, including possible penalties of £400 per failure and/or between £5 to £15 a day for non-compliance - albeit with a guide to avoiding these penalties. [Compliance checks: How to avoid penalties for Making Tax Digital for VAT - CC/FS69 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/compliance-checks-how-to-avoid-penalties-for-making-tax-digital-for-vat)

TOMS calculations can still be an adjustment to the VAT account outside of MTD, but tour operators must apply MTD requirements to other VAT processes.

With all VAT registered businesses now required to follow MTD rules, now may be a good time to review your VAT accounting processes to ensure they produce fully compliant returns. In addition, you may find efficiencies can be gained by streamlining or automating processes. Ensuring efficient cash management, for example, including the full capture of recoverable VAT at the earliest opportunity, can have a beneficial impact on the business’ cash position.

If you would like to discuss any of these, please do not hesitate to contact me on damon.wright@evelyn.com or +44 (0)7741 684156