

Ref: CR08-133/42

Per e-mail and fax:

European Commission
Directorate-General for Taxation and
Customs Union
VAT and other turnover taxes
Rue Montoyer 59, office 5/96
B-1049 Brussels
Belgium
Fax: +32-2-299-36-48
e-mail: taxud-d1-rates@ec.europa.eu

Brussels, the 9th of May 2008

Dear Sir or Madame,

Re: Commission consultation - Review of existing legislation on VAT reduced rates

ECTAA is pleased to submit a response to the Commission consultation paper on the review of existing legislation on VAT reduced rates launched beginning of March 2008.

This response is sent on behalf of ECTAA, which represents over 80.000 travel agents and tour operators in the EU and other European countries.

We are content for you to publish this response on your website should you wish to do so.

In general ECTAA is in favor of **retaining the reduced VAT rates** for all tourism services included in the annex III, i.e. **hotel accommodation and passenger transport services** (question n° 16). It also supports the **inclusion of restaurant services** into the annex III (question n° 5).

The reduced VAT rates for these typical tourism services should be maintained to improve the European tourism given that the tourism industry is a substantial part of the service industry (footnote with statistics) which is an important driver for the EU's global competitiveness. Suppressing the reduced VAT rates for these tourism services will weaken our global competitive position and have a significant long-term economic impact. A reduced VAT rate in the tourism industry is of vital importance for the competitiveness and the welfare of the population including job creation.

However, ECTAA would welcome if the **Member States would align their reduced VAT rate**. The current divergent VAT rates in the EU have a negative impact on the tourism and conference industry because of their effect on the tourists' or conference holders' decision where to spend their holiday or organize their conference. In other words, the large divergences in VAT rates applied to certain tourism services has the potential to distort consumers' buying decisions and affect the distribution of tourism receipts between Member States, and in particular in border regions (question 7).

In addition, ECTAA would support the **inclusion of two additional services in the annex III (question 16)**.

The first inclusion concerns intermediary services in connection with passenger transport services. Currently there are distortions of competition between the service of selling domestic air tickets through an airline or through a travel agent, as the airlines' service fee for issuing a ticket is taxed at the same rate as the passenger transport service at a reduced VAT rate, while the agent's service fee of issuing the ticket is taxed at the standard rate. This creates distortions of competition between airlines and agents in the sale of airline tickets. For example, when airlines charge clients a booking fee for the reservation of a domestic flight on the airline's website, this booking fee is taxed at the reduced VAT rate, while the same service of an online agent (providing access to fares and the facility to make a reservation and issue the ticket) is taxed at the standard rate. ECTAA would thus welcome if item 5 of annex III would be extended to include services relating to the transport of passengers. The item could use the same wording as item 10 of annex X part B, which refers to "transport of passengers and ... luggage..., or the supply of services relating to the transport of passengers".

The second inclusion concerns travel agents' services, in so far as they include services which are subject to the reduced VAT rate. Under to the margin taxation scheme provided for in articles 306-310 of the VAT Directive, travel agents who sell in their own name services acquired from third parties for the direct benefit of the traveller are subject to a special VAT scheme according to which the services supplied by the agent are treated as one single service taxable at the margin at the standard VAT rate. However, this taxation scheme has the disadvantage that it does not take into account the nature of the services provided so that these services are always taxed in the margin at the standard VAT rate, irrespective of whether the service is eligible to apply a reduced VAT rate under annex III. This creates distortions of competition between service suppliers eligible to apply the reduced VAT rate and the supplies made by travel agents under the margin taxation scheme. Thus, ECTAA has always favored the apportionment of the margin and the possibility to apply the reduced VAT rate to the portions of the margin which relate to services eligible to apply the reduced VAT rate. Either this should be included in annex III or this possibility should be introduced in articles 306-310 of the VAT Directive.

Finally, ECTAA is in favor of the **inclusion of all environmentally friendly goods, energy efficient and energy saving goods** into annex III ([question n° 12](#)).

We trust that these comments will be useful and remain at your disposal for any additional information you may require.

With best regards,

Michel de Blust
Secretary General