

BREXIT – Tour Operators Margin Scheme (TOMS)

Factsheet

What is TOMS?

Under the TOMS businesses which buy in and resell travel services (e.g. hotel accommodation, flights, etc.) account for VAT using a margin scheme. In summary, these businesses do not recover VAT incurred on their cost of sale and, instead, account for VAT on their margin according to the member state in which they are established.

What happens now?

Thus, a UK travel company accounts for UK VAT on the margin made on EU travel and the margin made on non-EU travel is zero rated. Although it is widely disliked, the scheme greatly simplifies VAT accounting for tour operators and holiday companies.

What do we think will happen?

HMRC's guidance (which has not been updated since 2019) is that after the transition period (1st January 2021), from a UK perspective, the TOMS will still apply and that:

- UK tour operators should continue to apply the margin scheme calculation;
- the margin made on UK travel will be standard rated; and
- the margin made on all non-UK travel will be zero rated (i.e. EU travel will be taxed in the same way that non-EU travel is at the moment).

However, the correct VAT treatment from an EU perspective is far from clear. The rules are not fully harmonised, there are variations in the way EU member states treat non-EU travel companies and there are variations in the services which are and are not covered by the TOMS. Potentially, UK tour operators may be required to register in some or all of the member states where they sell travel services.

However, in practice, most EU member states do not assess non-EU tour operators who are selling holidays in their countries for VAT. In some cases this may be because, in the member state's view, the TOMS applies to all tour operators whether they are EU or non-EU (a view not shared by the EU Commission). But it may also be because, from a pragmatic perspective, pursuing overseas businesses for VAT is costly and could deter travel companies from selling holidays in that country. Member states may be prepared to forgo the VAT due on the sale of a holiday because the VAT charged by the local travel providers, like hotels, etc. cannot be recovered as input tax and they collect tax on the revenue generated by tourists when they visit.

The EU VAT rules which will apply to UK tour operators selling travel in the EU are thus unclear at the moment and such businesses need to monitor the situation closely.

You can contact us on: 01604 678470 / 01933 312950

