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VAT Rules Applicable to the Travel and Tourism Sectors

Business & Science Poland position

The European Commission, through DG TAXUD (Unit C1- Value Added Tax), is carrying out an evaluation and impact assessment of the VAT rules applicable to the travel and tourism sectors. This process will support a legislative proposal planned for the fourth quarter of 2026 and covers two interlinked areas under the VAT Directive ([Directive 2006/112/EC](#)):

- (1) the special VAT scheme for travel agents; and
- (2) the VAT rules on passenger transport

The initiative aims to ensure a more uniform application of VAT rules across Member States, establish fair and balanced taxation between transport modes, and simplify compliance for operators and travellers.

This position paper of Business & Science Poland focuses primarily on the VAT treatment of passenger transport, which is of direct relevance to the competitiveness and administrative efficiency of Europe's transport sector.

We welcome the European Commission's initiative to review and modernise the VAT framework for travel and tourism. The organisation supports the objective of simplifying VAT provisions in a way that enhances legal certainty and competitiveness, while underlining that harmonisation alone cannot deliver a genuine level playing field given the substantial asymmetries in fiscal, environmental and regulatory obligations between transport modes. We consider the following to be of importance:

1. Preserve the 0 % VAT Rate on International Air Transport in Line with Global Practice
2. Avoid additional fiscal burdens that would duplicate or compound existing environmental obligations under ETS and ReFuelEU Aviation.
3. Simplify administrative procedures and harmonise compliance requirements to reduce costs and ensure proportionality, particularly for smaller operators.
4. Simplify VAT Reporting and Place-of-Supply Rules.
5. Clarify VAT treatment for multimodal journeys.
6. Coordinate VAT reform with international mechanisms such as ICAO's CORSIA to prevent carbon leakage and ensure globally consistent decarbonisation efforts.

The following pages elaborate on these recommendations in detail, using analysis and experience of transport sector pressures.

1. Preserve the 0 % VAT Rate on International Air Transport in Line with Global Practice

Extending Value Added Tax (VAT) to international air transport would have significant economic and legal consequences. While domestic air services within the EU are already subject to VAT in several Member States, international passenger transport is currently subject to a 0 % VAT rate, in line with long-standing international practice and the provisions of Article 148 of the EU VAT Directive. The International Civil Aviation Organization (ICAO) discourages the taxation of international aviation beyond cost-related charges, as set out in ICAO Doc 8632 and reflected in the principles of the Chicago Convention. Introducing VAT on international air services would therefore risk conflicting with established international norms and bilateral air-service agreements. Economically, such a measure would increase ticket prices, reduce passenger demand, and undermine the competitiveness of EU carriers and hub airports already facing substantial costs under the ETS and ReFuelEU frameworks. The resulting shift of passenger flows to non-EU hubs would weaken Europe's connectivity and diminish its role in global aviation networks.

2. Cumulative Regulatory Burdens and Competitive Neutrality

European airlines operate under increasingly stringent environmental and fiscal regimes. Obligations under the EU Emissions Trading System (ETS) and the ReFuelEU Aviation Regulation already impose significant costs. Between 2019 and 2025, ETS-related costs are projected to rise from roughly EUR 900 million to EUR 5-6 billion as free allowances are phased out. At the same time, Sustainable Aviation Fuel (SAF) remains three to four times more expensive than conventional jet fuel, while its availability in Europe is still limited. The addition of VAT on international tickets would further compound these costs, placing EU carriers at a structural disadvantage compared to competitors outside the European Economic Area. Such cumulative burdens risk distorting competition, discouraging investment, and undermining the long-term viability of the EU's aviation sector.

3. Administrative and Compliance Simplification

The existing VAT framework for passenger transport places a disproportionate administrative burden on operators active in several Member States. The obligation to obtain VAT registration and conduct monthly settlements at multiple airports generates substantial compliance costs estimated at around EUR 6 000 per Member State of operation annually. The "place of supply" rule, which requires apportionment of VAT according to the distance travelled, further complicates financial reporting and

creates inefficiencies in accounting systems. These requirements are particularly demanding for regional and smaller air carriers, where compliance costs are often disproportionate to the revenue generated. These asymmetries contribute to broader competitive imbalances across transport modes. The combination of regulatory, fiscal, and administrative pressures risks weakening the competitiveness of EU carriers compared with both non-European hubs and other transport sectors. A revised VAT framework should therefore prioritise simplification of reporting to lower costs and maintain the global competitiveness of the EU aviation market.

4. Simplified VAT Reporting and Place-of-Supply Rules

The current provisions, which require operators to apportion VAT according to the distance travelled in each Member State, are difficult to apply in practice and may hinder the functioning of transport companies on foreign markets. A desirable direction of reform would be to redefine the place of supply rules and explore the introduction of a simplified, OSS-like (One Stop Shop) procedure that would allow transport operators to submit a single EU-wide VAT declaration through their national tax administration. Differences in VAT treatment between transport modes create unequal competitive conditions and should be eliminated by applying a 0 % VAT rate across all intra-EU passenger transport services, regardless of mode. Differentiating VAT rates based on environmental impact is not considered effective, as such measures would increase complexity without achieving their intended policy outcomes.

5. Multimodal Journeys

Following the long-established practice, the VAT framework must guarantee that international air journeys sold under a single booking are subject to a 0% VAT rate, irrespective of whether the individual legs are operated by air or rail. Explicitly recognising rail legs as part of a single international service (single ticket) would encourage the use of rail as a feeder, making multimodal travel more attractive to passengers. By ensuring that the VAT treatment of rail legs mirrors that of flight segments, this approach would support the EU's objective of shifting travel from air to rail where feasible, while reducing carbon emissions and congestion at hubs. Regardless of whether any segment is operated by an airline or a rail operator, and provided it forms part of an international journey, the ticket for the entire journey should be subject to a zero VAT rate.

6. Mitigate the Risk of Carbon Leakage Through Global Coordination

The revision of the VAT framework should take into account the global nature of aviation and ensure that EU measures do not inadvertently contribute to carbon leakage or the diversion of traffic outside the Single Market. Excessive fiscal or regulatory burdens applied unilaterally at EU level risk shifting passenger flows, and consequently associated emissions, to third-country hubs that are not subject to comparable obligations. This would undermine both the competitiveness of EU carriers and the

environmental effectiveness of the EU's decarbonisation agenda. To prevent such outcomes, any reform of the VAT rules should remain consistent with international mechanisms such as ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and pursue a coordinated, globally aligned approach to emission reduction and taxation in the sector.

7. Summary

The forthcoming reform of the VAT rules applicable to the travel and tourism sectors should reinforce legal certainty, fiscal coherence and competitiveness across the EU transport market. In passenger transport, maintaining the 0 % VAT rate for international services remains justified on both technical and legal grounds, reflecting long-standing international norms under ICAO and the Chicago Convention. Extending VAT to international air travel would risk undermining Europe's hub connectivity, distorting competition with non-EU carriers and conflicting with existing international agreements. At the same time, the cumulative impact of environmental and fiscal instruments such as the EU ETS and ReFuelEU already imposes substantial cost pressures on EU carriers, warranting a cautious approach to any additional taxation. The simplification of VAT compliance procedures, including the possible introduction of an OSS-like single reporting mechanism, is essential to reduce administrative burdens, particularly for smaller operators active across several Member States. Moreover, ensuring that all legs of international journeys sold under a single booking are subject to a 0% VAT rate, regardless of whether they are operated by air or rail, is necessary to incentivise multimodal travel. Finally, the reform should remain consistent with international mechanisms such as ICAO's CORSIA, avoiding carbon leakage and safeguarding a global level playing field. Overall, the revision of the VAT framework should prioritise coherence, proportionality and competitiveness, to ensure fiscal policy supports rather than constrains the EU's transport and climate objectives

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