

Proposed German hidden tax irks tour operators

- A Monitor Desk Report

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Germany and tour operators appear to be on a collision course if the country implements a new tax next year, one that industry leaders say could wreak "unprecedented havoc" on foreign markets.

The European Tour Operators Association (ETOA) says that German authorities have confirmed that its twice-deferred decision to apply a value-added tax (VAT) to all foreign sales of Germany vacations by non-EU companies will go into effect on Jan. 1, two years after its originally scheduled 2021 start.

According to ETOA CEO Tom Jenkins, tax rates will vary and depend on how vacation packages are sourced but could be as high as 9% or as low as 2%. Jenkins said the tax is anticipated to be levied on nearly every aspect of selling vacations and travel services to Germany and that especially for small travel businesses and travel advisors, it could pose a financial and administrative burden.

"Tax will be levied on travel advisor commissions, marketing and sales, bonding and insurance overheads, website, purchasing and head office costs; all of these are paid for out of the margin," Jenkins said. "It is a sales tax explicitly aimed at services delivered in another country."

The tax ruling would also require companies based outside of the EU to register with Germany to buy and sell German tourism products and to file a tax return.

Jenkins said the taxes levied against non-EU travel businesses could end up being passed on to the consumer in the form of higher prices, making travel to Germany

much more expensive for non-EU travelers who buy vacation packages and services.

"This is not just a taxation on the export of services -- it targets the process by which Germany has been sold as a destination for generations," Jenkins said in a statement provided to Travel Weekly, calling the VAT an extension of a tax on a margin that is already added in the U.S.

Currently, non-EU companies selling travel to Germany are exempt from paying VAT under TOMS, or the Tour Operators Margin Scheme. Rather than register and account for VAT in the destination where services were carried out, under TOMS, non-EU companies paid taxes on the margins where the sale was made and the business was established.

The new rule would compel businesses to pay taxes twice: once in the country where they are based when they've made a sale on vacation products to Germany and again on the travel eventually carried out in Germany.

"The situation is as ridiculous as it is unacceptable," said Terry Dale, CEO of the U.S. Tour Operators Association. "My members pay tens of millions of dollars in German tax on the services they buy in Germany. Why should they pay tax on their American activities? And why are they making the process of selling Germany both costly and toxic?"

How will the tax be collected?

Adding to the uncertainty around the rule, Germany has yet to establish a way to monitor and enforce the rule or compel the tens of thousands of non-EU travel entities and agencies selling vacations to Germany to comply and pay the taxes. So far, what that process will look like has not been made clear to the travel companies that do business in Germany.

"Do the Germans have the bigger bureaucratic capacity to cope with what they're doing?" Jenkins asked. "There are 31,000 travel agents in China, 10,000 in Japan, 80,000 in the U.S."

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With only five months to come up with a compliance scheme as well as a system to enforce penalties for noncompliance, plus disseminate some kind of official public notice to the many foreign tour operators to whom the taxes apply, travel industry leaders say it appears that Germany is undertaking a task that could generate more problems than the revenue it hopes to collect is worth.

They also said the tax could make Germany more expensive for non-EU companies and that it may prompt some to take their business elsewhere in Europe. However, Jenkins is concerned that if the tax is implemented, it could set a precedent and other EU countries "will be lining up to do the same."

"This is a savage attack on an export industry, and they have made no attempt to explain, justify or even draw attention to their intentions," Jenkins said. "What is shocking is the silence emanating from Germany on this matter. Those of us who sell Germany, who export their services, deserve better than this."

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