ERA position paper on the VAT package for travel and tourism

Background

On 24 July 2025, the European Commission launched the second phase of the consultation a related to the VAT package for travel and tourism. The feedback was open until 16 October 2025 via the EU 'Have Your Say' portal. The assessment aims to evaluate the need for a VAT package for travel agents and passenger transport. The initiative aims to target among other objectives: unfair competitions from non EU-travel agents, the lack of harmonisation in Member States and, the difference in VAT treatment across transport modes. The adoption of the proposal is planned in Q4 of 2026.

About ERA

The European Regions Airline Association (ERA) represents a diverse membership of over 50 airlines and more than 150 associate members, including manufacturers, airports, suppliers and aviation service providers from across the aviation sector. At the heart of ERA's mission is regional connectivity with our member airlines playing a crucial role in linking Europe's regions. These connections support social and territorial equality and cohesion and drive economic growth through tourism, investment, business development and job creation.

Current situation

While VAT is currently applicable for tickets on domestic flights in all Member States at varying rates with a few exceptions, it is not applicable to international flights and most of intra-EU flights. Article 148 of the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax exempts international air passengers transport from a VAT. Moreover, as Member States were granted derogations from the 1977 Sixth VAT Directive in their accession treaties and in Articles 388–390 of the VAT Directive, a zero-rate also applies to international and intra-EU flights. The zero-rate allows airlines to reclaim the input VAT paid on goods and services they purchase to carry out their business.

ERA's position

ERA's concerns are related to imposing VAT on intra-EU flights and international flights. ERA opposes to restricting the scope of the exemption under Article 148 of the VAT Directive related to international flights and to the abolition of existing derogations granted to Member States. **The Association is in favour of the baseline scenario for assessing the policy options by leaving the rules unchanged.**

It has been recognised that air transport was different from other businesses due to its operations with great mobility across a multiplicity of jurisdictions and airspaces[1]. International air transport and related services are provided to the consumer outside any taxing jurisdiction. The continuous enforcement of the exemption for international flights is applied due to the difficulty to tax those services. This difficulty stems from the divergent definitions adopted by Member States regarding the "place of taxable fulfilment," and, more specifically, from the differing criteria used to determine where the tax is to be levied. Moreover, unlike other transport operators, airlines function in a liberalized market with minimal subsidies and largely self-funded infrastructure. **Any modification to the existing system taxation system would impose considerable administrative burdens** and undermine the EU's wider efforts to cut red tape and streamline compliance for businesses.

Introducing VAT rate on intra-EU and international flights would create more costs for EU airlines and lead to an unfair competition vis-à-vis third countries. **Even a small VAT rate on domestic or regional fairs could increase**

[1] Value Added Taxes (VAT) & Sales Taxes, IATA (https://www.iata.org/en/programs/airline-distribution/taxation/vat--sales-taxes/)

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ticket prices, reduce demand, and in consequence reduce the affordability of regional travel indirectly leading to reduced connectivity.

The argument according to which imposing an EU VAT on air transport would lead to harmonisation is also refutable. The EU does not benefit from exclusive competences regarding taxation, it is a shared competence between the EU and Member States. Therefore, **the new regime would lead to a variety of different levels of VAT and the new VAT rules would apply on top of already existing forms of taxes in the different Member States at national level.** Complying with double taxation regimes will also raise costs and could lead to the suppression of links with the Member States who already apply taxes. Therefore, **some routes could be withdrawn leading to reduced accessibility to some of the regions and declined regional cohesion.** Furthermore, Article 113 of the TFEU provides that "provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation" should be adopted by the Council by unanimity. Therefore, although the EU has powers to tax under Article 311 TFEU, Member States are the ones taking the final decision. For this reason, **imposing new EU rules could also lead to more fragmentation and less predictability, as Member States could choose their own levels of VAT**.

Adding a VAT on air passenger transport will not automatically lead to address the environmental impact of the industry. In fact, taxing aviation does not automatically lead to lower emissions. **There is no guarantee that national revenues from a VAT on aviation will be reinvested in the decarbonisation of the aviation sector.**

Finally, when tabling its Proposal for a Directive amending Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community, **the European Commission opted to introduce a new market-based instrument at Community level over other financial measures such as taxes or charges.** Moreover, back in 2008, former EC's Head of Unit for Internal Market, Air Transport Agreements and Multilateral Relations Olivier Onidi expected for all ticket taxes to be removed after the adoption of the EU ETS[2].

ERA strongly opposes any proposal to restrict or abolish existing derogations and calls on policymakers. It firmly believes that maintaining the current VAT exemptions is essential to preserving a fair, competitive, and connected European aviation market. Aviation operates across multiple jurisdictions and airspaces, making VAT enforcement both technically complex and economically counterproductive. Imposing VAT on intra-EU and international flights would not only raise costs and reduce connectivity but also distort competition with third-country carriers, undermine regional cohesion, and add unnecessary administrative burdens on airlines. Moreover, taxation alone does not guarantee any meaningful environmental benefit, as there is no assurance that revenues would be reinvested in aviation decarbonisation.

[2] Greenair, EC official says environmental charges imposed by EU States should be repealed once ETS kicks in, https://www.archives.greenairnews.com/www.greenaironline.com/news176d.html?viewStory=149