

# The EU VAT threat

Following recent VAT changes in the European Union, inflight caterers may now have to charge on their sales. Alexa Boyce reports



As part of a wholesale reorganisation of the EU VAT system, in-flight catering services may now face the requirement to charge VAT on sales in each country of

departure. Previously on-board consumption, unlike sales of gifts, had escaped the clutches of VAT jurisdictions.

While implementation of this requirement will be patchy, in-flight caterers need to remain aware, given the disproportionate risk of fines and damage to reputation.

## EU tax reform designed to stem VAT fraud

From January 1 2010 there is a new regime for the accounting of VAT on services within the EU. The 'VAT Package' has been introduced to help reduce the bureaucracy European companies face when trading across borders, and improve the efficacy of the Single Market. The reform will also help to reduce the ballooning problem of VAT fraud which is costing Europe billions of Euros per annum.

The principle change is that services are to be accounted for in the place of consumption, and not in the place provided as was previously the case. However, it has also left open the possibility that caterers will now have to account for VAT on in-flight sales whereas previously they were exempt.

Many airlines and in-flight retailers have already been complying with similar rules for the sale of take-off goods. Compliance has been patchy as IT systems have often not been able to support the detailed informational requirements. In some cases, this has meant airlines have stopped providing inflight retail on return legs of journeys for fear of not being able to satisfy VAT charging and reporting obligations.

In order to remain compliant, airlines and in-flight caterers will now have to ensure they have systems in place to account for in-flight sales



of catering as well as goods and gifts, from every airport of departure. For example, for a flight to Paris from Munich, German VAT will have to be paid on a coffee and a sandwich on the outbound flight and French VAT paid on the return flight.

## Multiple VAT registrations and reporting obligations

In countries where this is enforced, there will be a requirement to VAT register as a 'non-resident trader', and comply with the local VAT code. This includes charging passengers with the appropriate VAT rate for each leg. Caterers will then have to submit monthly or quarterly VAT filings to the relevant tax office and pay over any VAT due.

There are many hurdles to this compliance process, including varying exchange rate rules, VAT rates and invoicing requirements. The risk of fines for not following the local rules vary, but can run into double or more of the VAT due in countries such as Italy.

For retailers, the big problem has always been IT back-up. Many retailers have simply not had the necessary software to adequately capture and

separate sales on the outward and return flights, much less apply the correct VAT rates. This represents a big potential burden on the industry. In the past, this has actually prevented some flights being able to offer gifts (and now paid-for catering) on return legs.

## Implementation will be erratic

As is often the case with European VAT legislation, the interpretation and implementation will be patchy. Some countries, such as the UK, view forcing all caterers to VAT register as draconian, given the low values involved. This means continuing to treat the supplies as provision of goods to benefit from the exemption provided for goods consumed on board the aircraft. However, others, such as Germany, are requiring VAT registrations for both legs.

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