

# Travel Agent's Margin Scheme

## Part 10C Chapter 1

This document should be read in conjunction with section 88 of the VAT Consolidation Act 2010 (as amended) and regulation 32 of the VAT Regulations 2010.

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## Introduction

This guidance contains information in respect of the travel agent's margin scheme.

The travel agent's margin scheme provides for the taxation, from 1 January 2010, of margin scheme services supplied by tour operators and travel agents, acting as principals (referred to in the EU VAT Directive<sup>1</sup> and in this guidance as "travel agents"). Margin scheme services include services such as transport, accommodation, tour guides, etc. bought-in by a travel agent from third parties, which are then sold by the travel agent as a package to a traveller. In this scheme, unlike the normal VAT system, VAT is accounted for based on the travel agent's margin rather than the full consideration the travel agent receives for the supply.

### 1. Travel agent's margin scheme

#### 1.1. What is the benefit of this scheme?

This is an EU scheme that enables a travel agent to account for VAT in one Member State on all the travel services that he or she has supplied. Without such a scheme, a travel agent would be obliged to register and account for tax in each Member State where the services are supplied. The place of supply of margin scheme services is the place where the travel agent has established his or her business or has a fixed establishment from which he or she supplies those services. For travel agents established in Ireland the place of supply of their margin scheme services is Ireland, even though the travel itself may involve places outside Ireland.

#### 1.2. Services that are included in the travel agent's margin scheme

Margin scheme services are defined as bought-in services supplied by a travel agent to a traveller. They consist only of services which are for the direct benefit of the traveller and usually include services such as accommodation, flights, tours, etc. The scheme applies whether a number of these services are packaged together, or one such service is bought in and supplied in isolation by a travel agent. A supply of margin scheme services is treated as a single supply in respect of a journey.

#### 1.3. Who is covered by the scheme in Ireland?

The Irish scheme applies to travel agents (acting as principal) or undisclosed agents established in Ireland who supply travel packages to travellers. Other Irish businesses may come within the terms of the scheme when they add accommodation or passenger transport into a package, for example –

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<sup>1</sup> Council Directive 2006/112/EC

- organisers of sporting events, training courses, incentive travel or conference organisers;
- hotels buying in additional services for their guests and selling them on, such as transport, etc.

However, any business, other than a travel agent's business, that supplies only incidental or once-off supplies of margin scheme services can account for the VAT on those supplies under the normal VAT rules and is not obliged to apply the margin scheme to them.

#### 1.4. Travel Agent acting as principal

A travel agent acting as principal is a taxable person who buys and sells travel services in the course of his or her business activity and includes tour operators.

#### 1.5. Travel Agent acting as an undisclosed agent

A travel agent acting in his or her own name but who is in fact acting on behalf of another supplier is a travel agent acting as an undisclosed agent. There is deemed to be a supply of the bought-in services to and from that undisclosed agent. Consequently, the undisclosed agent is treated in the same way as a principal and is deemed to have bought-in the services for the benefit of the traveller. Such an undisclosed agent will come within the scope of the travel agent's margin scheme.

#### 1.6. Who is not included in the scheme?

The scheme does not apply to supplies of travel services arranged by a travel agent acting as an intermediary or disclosed agent. (See Part 2 for more information in relation to intermediary services).

#### 1.7. Is the scheme compulsory?

Travel agents and undisclosed agents who are making margin scheme supplies must account for VAT on those supplies using the travel agent's margin scheme. Where these businesses are established in Ireland, they should contact their local Revenue branch to register for VAT and account for the VAT here on all their margin scheme services. The normal VAT registration thresholds for small businesses apply. Where the annual turnover of a business supplying services is not likely to exceed €37,500, there is no obligation to register and account for VAT. However, such a business can elect to do so.

#### 1.8. What does 'traveller' mean?

A traveller is not defined in the legislation and so has its ordinary meaning. A traveller is the person who uses the accommodation, flight etc. whether in a private capacity or for business.

## 1.9. What is the travel agent's margin?

The travel agent's margin is defined in the legislation as the difference between the total consideration that the travel agent is entitled to receive for the supply of margin scheme services less the cost of the bought-in services used in those margin scheme services. The travel agent's VAT liability is calculated by reference to this margin.

### **Example 1 – Travel agent sells an EU holiday to a traveller**

- Sale price of holiday package to traveller = €5,000
- Cost of accommodation €3,000 + cost of flights €1,700 = €4,700
- Travel agent's margin = € 300
- All the figures are VAT inclusive

## 1.10. Purchases of bought-in services in foreign currencies

To calculate the margin in the case where the bought-in services are invoiced to the travel agent in foreign (non-euro denomination) currencies, the travel agent should convert the foreign price into euro in accordance with the normal VAT rules (see Revenue information on VAT on services).

## 1.11 What is the VAT liability on the travel agent's margin?

The formula for calculating the VAT on the travel agent's margin scheme is as follows:

$$M \times R / 100 + R$$

**where:**

**M** is the travel agent's margin and **R** is the standard rate of VAT.

### **Example 2 - Travel agent sells an EU holiday to a traveller**

- Sale price of holiday package to traveller = €5,000
- Cost of accommodation €3,000 + cost of flights €1,700 = €4,700
- Travel agent's margin = € 300
- VAT liability is €300 x 23 / 123 = € 56.10

There is no VAT liability if the bought-in services are performed outside the EU.

## 1.12. Deductibility

It should be noted that, under any margin scheme, there is no right to deductibility on the bought-in goods or services sold to the customer. Therefore, a travel agent cannot deduct any Irish or EU VAT charged on the purchase of bought-in services

which are used to make supplies of margin scheme services. The suppliers of those services will account for the tax on those services in the relevant Member State in the normal way. They will issue VAT invoices to the travel agent, but the travel agent is not entitled to deduct the VAT shown on those invoices. The travel agent can deduct VAT incurred on his or her overheads relating to the supply of margin scheme services, subject to the normal rules.

### 1.13. When does VAT become payable?

VAT due under the margin scheme is payable according to the normal VAT rules (see information on [Accounting for VAT](#) on the Revenue website). Under these rules VAT is due in respect of prepayments at the time when the payment is received.

#### **Example 3 - Travel agent sells an EU holiday to a traveller**

- Total consideration for a travel package = €5,000
- Total cost of bought-in services = €4,700
- Total travel agent's margin = €300
- Deposit (one fifth of margin) paid in March 2010 = €1,000
- Margin on deposit (i.e. one fifth of total margin\*) = € 60
- VAT included in this margin is  $(60 \times 23 / 123) = €11.22$
- The travel agent must include this in the March/April VAT return
- Balance paid in May 2010 = €4,000
- Margin on balance (i.e. four fifths of total margin\*) = €240
- VAT included in this margin is  $(€240 \times 23 / 123) = €44.88$
- The travel agent must include this in the May/June VAT return

\*This is one possible way of identifying the margin on a deposit at the time the deposit is paid, but simplified accounting arrangements may be used as an alternative.

### 1.14. Simplified Accounting

Travel agents who have difficulty identifying the margin in relation to deposits received may use simplified accounting arrangements as an alternative. In that case, the travel agent will account for VAT on an estimated basis in each taxable period during the year and will do an annual review at the end of each accounting year, with an appropriate annual adjustment if necessary. Regulations have been enacted to provide for two simplified accounting options and the travel agent can choose whichever option best suits his or her business.

A travel agent who chooses to use simplified accounting arrangements is obliged at the start of the accounting year to create and maintain a record called a "margin scheme record". This record should contain details of the option chosen, and all details relating to the estimates and adjustments made by the travel agent in the operation of the simplified accounting arrangements. The travel agent cannot change his or her chosen option without the consent of the Revenue Commissioners.

Any such change can take effect only from the start of the travel agent's accounting year.

#### 1.14.1 Simplified Accounting – Option 1

The travel agent -

- at the start of the accounting year estimates his or her percentage margin for each journey beginning during the accounting year;
- applies that percentage margin to the consideration received in each taxable period in order to calculate the travel agent's margin;
- calculates the tax included in that margin using a formula.

#### **Example 4 – simplified accounting option 1**

- Estimated percentage margin for the year = 6%
- Consideration received in taxable period = €200,000
- Margin equals €200,000 x 6% = €12,000
- VAT included in margin (€12,000 x 23 / 123) = €2,243.90
- This VAT is included in the tax return for that period

The estimated percentage margin can be based on the pricing structure for the current accounting year. Where appropriate, the travel agent can subdivide that margin on a regional, seasonal, or other identifiable basis. If the travel agent wishes to use any other method, he or she should contact the Revenue branch that normally deals with his or her tax affairs. Details of whichever method is used to arrive at the estimated percentage margin, including the basis for arriving at that margin and any subdivision of that margin, must be entered in the margin scheme record.

#### 1.14.2 Simplified Accounting – Option 2

The travel agent who opts for this simplified accounting arrangement must account for tax due in a taxable period in respect of margin scheme services that were supplied in that taxable period. The tax due is based on a best estimate of the margin of each journey that begins during that taxable period. This option is used where the travel agent is in a position to identify the relevant costs of the bought-in services at the time when the journey begins, but some of those costs may be subject to change at a later stage.

The travel agent calculates for each journey the best estimate of his or her travel agent's margin by subtracting the estimated cost of supplies as calculated on the basis of the date of departure from the consideration receivable for that journey.

**Example 5 – simplified accounting option 2**

- Deposit received in June for journey beginning on 31 July = €1,000
- No VAT liability arises in May/June period
- Balance received in July = €4,000
- Estimated margin (based on best estimate as at 31 July) = €300
- VAT included in margin ( $€300 \times 23 / 123$ ) = €56.10
- This VAT is included in the July/August VAT return

**1.14.3 Annual Review**

The travel agent who accounts for VAT based on option 1 or 2 of the simplified accounting arrangements is obliged to carry out a review at the end of the accounting year. The review involves firstly calculating the travel agent's margin in respect of the supply of margin scheme services for journeys beginning in the accounting year in question, secondly calculating the VAT included in that margin and finally comparing this amount of VAT with the VAT already accounted for based on option 1 or 2 in respect of the supply of margin scheme services for journeys beginning in that accounting year. If there is a discrepancy, the necessary adjustments must be made.

**Example 6 – Annual review for travel agent using Option 1**

Position at end of accounting year before the review:

- Estimated percentage margin = 6%
- Total consideration received for journeys beginning in 2011 = €3,000,000
- Margin equals  $€3,000,000 \times 6\% = €180,000$
- VAT included in margin ( $€180,000 \times 23 / 123$ ) = €33,659
- VAT accounted for at the time consideration received

Outcome from examination of actual trading:

- Total consideration for a travel package = €3,000,000
- Total cost of bought-in services = €2,850,000
- Total travel agent's margin = €150,000
- VAT included in the margin ( $€150,000 \times 23/123$ ) = €28,049

Adjustment required

- VAT accounted for at the time consideration received = €33,659
- VAT liability from examination of actual trading = €28,049
- Adjustment required = €5,610

The VAT included in the travel agent's margin as determined by the annual review is less than the VAT accounted for based on the estimated percentage margin, so the travel agent includes €5,610 as input credit in the VAT return.



**Example 7 – Annual review for travel agent using Option 1**

Position at end of accounting year before the review:

- Estimated percentage margin = 5%
- Total consideration received for journeys beginning in 2011 = €3,000,000
- Margin equals €3,000,000 x 5% = €150,000
- VAT included in margin ( $€150,000 \times 23 / 123$ ) = €28,049
- VAT accounted for at the time consideration received

Outcome from examination of actual trading:

- Total consideration for a travel package = €3,000,000
- Total cost of bought-in services = €2,820,000
- Total travel agent's margin = €180,000
- VAT included in the margin ( $€180,000 \times 23/123$ ) = €33,659

Adjustment required

- VAT accounted for at the time consideration received = €28,049
- VAT liability from examination of actual trading = €33,659
- Adjustment required = €5,610

The VAT included in the travel agent's margin as determined by the annual review is greater than the VAT accounted for based on the estimated margin, so the travel agent has a VAT liability of €5,610 and must include this in the VAT return.

**Example 8 – Annual review for travel agent using Option 2**

Position at end of accounting year before the review:

- Total consideration received for journeys beginning in 2011 = €3,000,000
- Margin (based on best estimate at date of departure) = €180,000
- VAT included in margin ( $€180,000 \times 23 / 123$ ) = €33,659
- VAT accounted for at the time consideration received

Outcome from examination of actual trading:

- Total consideration for a travel package = €3,000,000
- Total cost of bought-in services = €2,850,000
- Total travel agent's margin = €150,000
- VAT included in the margin ( $€180,000 \times 23/123$ ) = €28,049

Adjustment required

- VAT accounted for at the time consideration received = €33,659
- VAT liability from examination of actual trading = €28,049
- Adjustment required = €5,610

The VAT included in the travel agent's margin as determined by the annual review is less than the VAT accounted for based on the estimated percentage margin, so the travel agent includes €5,610 as input credit in the VAT return.

### **Example 9 – Annual review for travel agent using Option 2**

Position at end of accounting year before the review:

- Total consideration received for journeys beginning in 2011 = €3,000,000
- Margin (based on best estimate at date of departure) = €150,000
- VAT included in margin ( $€150,000 \times 23 / 123$ ) = €28,049
- VAT accounted for at the time consideration received

Outcome from examination of actual trading:

- Total consideration for a travel package = €3,000,000
- Total cost of bought-in services = €2,820,000
- Total travel agent's margin = €180,000
- VAT included in the margin ( $€180,000 \times 23/123$ ) = €33,659

Adjustment required

- VAT accounted for at the time consideration received = €28,049
- VAT liability from examination of actual trading = €33,659
- Adjustment required = €5,610

The VAT included in the travel agent's margin as determined by the annual review is greater than the VAT accounted for based on the estimated margin, so the travel agent has a VAT liability of €5,610 and must include this in the VAT return.

#### **1.14.4 Taxable period in which any adjustment is required to be made**

Revenue recognise that it may be difficult for travel agents to calculate their actual margin and make adjustments in time for the VAT return that is due in the taxable period immediately following the accounting year. Consequently, Revenue are prepared to accept that any adjustments that are required to be made may be made in the VAT return for any of the three taxable periods immediately following the end of the accounting year. Prior agreement need not be sought from Revenue to exercise this option. However, if the adjustment is not made in the VAT return for any of those three periods, Revenue will treat any outstanding liability as proper to the first of the three periods for the purposes of calculating any interest or penalties due.

### 1.15. Wholesale supplies

The Irish Travel Agent's Margin Scheme does not apply to supplies by a travel agent to another business for onward sale to a traveller (wholesale supplies). Wholesale supplies of travel services are taxed under normal VAT rules and the travel agent is treated as making separate supplies of accommodation, flights, etc.

Following the decision of the Court of Justice of the European Union on 26 September 2013, any business that wishes to include wholesale supplies within the travel agent's margin scheme may do so.

#### **Example – 10**

- Irish travel agent (principal) buys in and sells on, 2 weeks' accommodation in Killarney and a train ticket from Dublin to Killarney, to a German travel agent (principal) for a single consideration.
- The German travel agent sells the accommodation and ticket to a traveller in Germany.
- The Irish travel agent's transaction is a multiple supply of Irish accommodation and passenger transport services. The place of supply of these services is where the underlying services are supplied – in this case, Ireland, as both the accommodation and travel take place in Ireland.
- The Irish travel agent accounts for VAT on accommodation at the reduced rate. The train ticket is an exempt passenger transport service. The consideration is apportioned accordingly.
- The German travel agent will be required to account for VAT on his or her margin under the margin scheme in Germany.

#### **Example – 11**

- Irish travel agent (principal) buys in and sells on, 2 weeks' accommodation in Galway and a train ticket from Shannon to Galway to an American travel agent (principal).
- The American travel agent sells the package to a traveller in the US.
- The Irish travel agent's transaction is a multiple supply of Irish accommodation and passenger transport services. The place of supply of these services is Ireland.
- The Irish travel agent accounts for VAT on accommodation at the reduced rate. The train ticket is an exempt passenger transport service. The consideration is apportioned accordingly.

### 1.16. In-house supplies

In-house supplies are services supplied from the travel agent's own resources. These supplies are not subject to the travel agent's margin scheme as they are not bought in by the travel agent. These services are taxed under the normal VAT rules. If a supply of a travel package includes both in-house and bought-in services, then the

travel agent must apportion the consideration received for that travel package between the two types of service. The travel agent establishes the value of the margin scheme services in the package by reducing the total consideration received from the traveller by an amount equal to the open market value of the in-house services. The value of the margin scheme services is then accounted for under the travel agent's margin scheme and the value of the in-house services is accounted for under the normal VAT rules.

The following services may be regarded as "in-house" supplies:

- Accommodation services provided in a hotel owned by the travel agent, or leased for the entire season on a full commercial risk basis by the travel agent;
- Flights provided in an aircraft owned by the travel agent, or in aircraft leased on a full commercial risk basis for an entire season;
- Cruises in a vessel owned by the travel agent or in a vessel chartered by the travel agent for a period of two years or more.

### 1.17. The open market value of in-house supplies

The open market value of in-house services is the VAT-inclusive amount which the travel agent charges for the supply of those services. This value will be readily available in cases where, for example, the travel agent also supplies those services to customers, but not as part of a package.

#### **Example – 12**

- Total consideration for a travel package = €5,000
- Less the VAT-inclusive price charged for accommodation in travel agent's own hotel (when not part of a package) = €500
- Amount of the consideration relating to margin scheme services = €4,500
- Amount of the consideration relating to in-house services = €500

Where the open market value of the in-house supplies is not available then the total consideration should be apportioned to correctly reflect the ratio which the value of the margin scheme services bears to the total consideration. This value is subtracted from the amount of the consideration to arrive at the VAT-inclusive value of the in-house services. The travel agent may use any method which correctly reflects the ratios, for example, a cost-based method. If a travel agent is unsure how to correctly apportion the consideration, he or she should agree a method with the local Revenue branch.

### 1.18. How to work out the VAT liability for a package containing both margin scheme supplies and in-house supplies

The VAT liability relating to a package containing both margin scheme supplies and in-house supplies must be calculated by reference to VAT on the margin for the margin scheme services and VAT on the consideration for the in-house services.

**Example – 13**

- Total consideration for a travel package = €5,000
  - Less Open market value of “in-house” service (accommodation in hotel) = €500
  - Amount of the consideration relating to margin scheme services = €4,500
- Calculation of the VAT in respect of the travel package:

**Margin Scheme services**

- Consideration for margin scheme services = €4,500
- Cost of bought-in services in the margin scheme services = €4,140
- Margin = €360
- VAT included in the margin:  $(€360 \times 23/123) = €67.32$  “in-house” service
- Assume the "in-house" service is supplied in Ireland, e.g. accommodation, taxable at the reduced rate 13.5%
- Total consideration for the in-house supply = € 500
- VAT attributable to the in-house supply  $(€500 \times 13.5/113.5) = €59.47$
- VAT attributable to margin scheme services = €67.32
- VAT attributable to in-house supply = €59.47
- The total VAT attributable to the package is therefore = €126.79

Where the 'in-house' service consists of hotel accommodation in, say, Spain the 'inhouse' service is taxable in Spain and the travel agent is obliged to register in Spain.

In this case the total VAT payable to the Irish Revenue in respect of the package is €67.32. It should be noted however that if the travel agent buys in other services from a Spanish provider, those bought-in services are dealt with in the Irish travel agent's margin scheme rather than under the Spanish registration.

**1.19. Travel insurance within a package holiday**

If insurance is bought-in and included in a travel package, then this service is also in the margin scheme. However, if the travel agent is simply acting as an intermediary between the insurance company and the traveller in relation to the supply of that service, the intermediary's commission in respect of the insurance service is exempt.

Details of the contracts entered into will normally determine whether the travel agent is acting as a principal or as an intermediary.

**1.20. Travel packages where bought-in services are performed outside the EU**

The zero rate applies to travel packages where the total package consists of bought-in services performed outside the EU. When a travel package involves bought-in services performed both inside and outside the EU, the margin scheme services will include some services taxable at the zero rate. To account for this type of journey

within the travel agent's margin scheme, it is necessary to apportion the travel agent's margin.

In these cases, the travel agent should apportion the margin according to the following formula:

**F x G/H** where:

**F** is the total travel agent's margin in respect of the margin scheme supply.

**G** is the cost of the goods and services used in that margin scheme supply that are performed outside the EU.

**H** is the total cost of the bought-in services used in making that margin scheme supply.

This formula calculates the proportion of the margin applicable to travel outside the EU and this portion of the margin is zero-rated. The remainder of the margin is taxable at the standard rate.

#### **Example - 14**

A travel package consisting of a flight from Dublin to Paris, 3 nights' accommodation in Paris, a flight from Paris to Ankara, 11 nights' accommodation in Ankara and a flight from Ankara to Dublin;

- Total consideration for a travel package = €5,000
- Less costs = €4,700
- Amount of the consideration relating to margin scheme services = €300

#### **Apportionment of the total margin:**

- Total cost relating to non-EU travel = €3,220
- Proportion of the total margin relating to travel outside the EU ( $€300 \times €3,220/€4,700$ ) = €205.53
- This proportion of the margin is zero-rated.
- Proportion of the total margin relating to EU travel ( $€300 - €205.53$ ) = €94.47
- VAT included in that proportion of the margin ( $€94.47 \times 23/123$ ) = €17.67

### **1.21. Treatment of cruises**

Where a cruise takes place both inside and outside the EU the travel agent's margin is required to be apportioned. The apportionment can be based on the number of days spent within the EU and the number of days spent outside the EU. For these purposes, days on which the vessel leaves a non-EU port until it arrives in an EU port

are regarded as outside the EU, and days on which the vessel leaves an EU port until it arrives in a non-EU port are regarded as within the EU.

## 2. Intermediary services

The services of a travel agent who is acting as an agent and not acting as a principal do not come within the scope of the travel agent's margin scheme. Such a travel agent does not buy in goods and services for the direct benefit of the traveller and sell them to the traveller. The travel agent who is not acting as a principal, supplies intermediary services between the traveller and the supplier. In this guidance, such a travel agent is referred to as an 'intermediary'. An Irish intermediary supplying passenger transport or accommodation services is taxable on his or her commission for those services.

The place where the commission charged by an intermediary is taxable is determined by EU law.

### 2.1 Place of supply (place of taxation) of intermediary services

#### 2.1.1 An intermediary acting on behalf of a travel agent (taxable person)

If an intermediary acting in the name and on behalf of a travel agent (acting as a principal) takes part in the supply of a travel package to a traveller, the place of supply of the intermediary service is the place where the travel agent is subject to the margin scheme. If the intermediary and the travel agent are established in different Member States, the VAT on the intermediary's service is to be accounted for by that travel agent in the Member State where the travel agent is established (reverse charge procedure). The intermediary will not be liable for that VAT.

#### **Example - 1**

An Irish intermediary acts on behalf of an Irish travel agent (principal) who supplies a Spanish holiday to a customer;

- Irish travel agent purchases Spanish accommodation and other services and puts them together as a package.
- Travel agent sells the package to the customer through an Irish intermediary.
- The Irish margin scheme applies to the supply by the travel agent to the customer.
- Intermediary charges the Irish travel agent a commission plus VAT.
- Place of supply of intermediary's services is Ireland (i.e. where the principal is established).
- Intermediary accounts for VAT on the commission in Ireland.

**Example - 2**

An Irish intermediary acts on behalf of a French travel agent (principal) who supplies a Spanish holiday to a customer;

- French travel agent purchases Spanish accommodation and other services and puts them together as a package.
- Travel agent sells the package to the customer through an Irish intermediary.
- French margin scheme applies to the supply by the travel agent to the customer.
- Intermediary charges the French travel agent a commission.
- Place of supply of intermediary's services is France.
- French travel agent accounts for VAT in France on intermediary's commission (reverse charge procedure).

**Example – 3**

An Irish intermediary acts on behalf of an Irish travel agent (principal) who supplies a US holiday to a customer.

- Irish travel agent purchases US accommodation and other services and puts them together as a package.
- Travel agent sells the package to the customer through an Irish intermediary.
- Irish margin scheme applies to the supply by the travel agent to the customer. However, as the bought-in services for the direct benefit of the traveller are performed outside the EU, the rate of VAT on the margin is 0%.
- Intermediary charges the Irish travel agent a commission plus VAT (at the standard rate).
- Place of supply of the intermediary's services is Ireland (i.e. where the principal is established).
- Intermediary accounts for VAT on the commission in Ireland.

The Irish travel agent is entitled to exercise a right to deductibility in respect of the VAT on the intermediary services, as this is an overhead, not a service bought in for the direct benefit of the traveller.

**Example - 4**

An Irish intermediary acts on behalf of a US travel agent (principal) who supplies a US holiday to a customer;

- US travel agent purchases US accommodation and other services and puts them together as a package.
- Travel agent sells the package to the customer through an Irish intermediary.
- Place of supply of the travel agent is outside EU and outside the scope of VAT.
- Intermediary charges the US travel agent a commission.
- Place of supply of the intermediary's services is US and outside the scope of VAT.



It should be noted that the Irish intermediary is entitled to exercise a right to deductibility in respect of overheads in supplying this service.

**Example - 5**

A US intermediary acts on behalf of an Irish travel agent (principal) who supplies an Irish holiday to a customer;

- Irish travel agent purchases Irish accommodation and other services and puts them together as a package.
- Travel agent sells the package to the customer through a US intermediary.
- Irish margin scheme applies to the supply by the travel agent to the customer.
- Intermediary charges the Irish travel agent a commission.
- Place of supply of the intermediary's services is Ireland.
- Irish travel agent accounts for VAT on intermediary's commission (reverse charge procedure).

The Irish travel agent is entitled to exercise a right to deductibility in respect of the VAT on the intermediary services, as this is an overhead, not a service bought in for the direct benefit of the traveller.

**Example – 6**

A US intermediary acts on behalf of a US travel agent (principal) who supplies an Irish holiday to a customer;

- US travel agent purchases Irish accommodation and other services and puts them together as a package.
- Travel agent sells the package to the customer through a US intermediary.
- US intermediary charges the travel agent a commission.
- Place of supply of both travel agent and intermediary is the US and no VAT applies. However, travel agent is not entitled to claim a refund of VAT on the Irish accommodation and other services in the package.

**2.1.2. An intermediary acting on behalf of a business customer (taxable person)**

Where an intermediary is engaged by a business customer to arrange for the provision of services on behalf of that business customer, and is paid a fee by the business customer, the place of supply of the intermediary's services is the place where the business customer is established. If the business customer is in a different Member State from the intermediary, the business customer will account for the VAT involved under the reverse charge procedure.

**Example – 7**

An Irish business customer engages an Irish intermediary to arrange accommodation and other services in Ireland;

- Business customer purchases Irish accommodation and other services through an intermediary.
- Irish intermediary arranges for reservations, tickets and possibly payments to the providers of the accommodation and other services.
- Intermediary charges the customer a fee plus VAT.
- Place of supply of intermediary's services is Ireland (i.e. place where the business customer is established).
- Intermediary accounts for VAT in Ireland.

**Example – 8**

A German business customer engages an Irish intermediary to arrange accommodation and other services in Ireland;

- Business customer purchases Irish accommodation and other services through an intermediary.
- Irish intermediary arranges for reservations, tickets and possibly payments to the providers of the accommodation and other services.
- Intermediary charges the customer a fee.
- Place of supply of intermediary's services is Germany (i.e. place where the business customer is established).
- German business customer accounts for VAT in Germany on intermediary's fee (reverse charge procedure).

**Example – 9**

An Irish business customer engages a Spanish intermediary to arrange accommodation and other services in Spain;

- Business customer purchases Spanish accommodation and other services through an intermediary.
- Spanish intermediary arranges for reservations, tickets and possibly payments to the providers of the accommodation and other services.
- Intermediary charges the customer a fee.
- Place of supply of intermediary's services is Ireland (i.e. place where the business customer is established).
- Irish business customer accounts for VAT in Ireland on intermediary's fee (reverse charge procedure).

**2.1.3. An intermediary acting on behalf of a non-taxable person**

As from 1 January 2010, where an intermediary provides a service to a traveller while acting in the name and on behalf of that traveller, the place of supply of the intermediary service is the place where the underlying transaction is supplied according to the VAT Directive.<sup>2</sup> The Irish intermediary is required to register and

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<sup>2</sup> Council Directive 2006/112/EC

account for VAT in each Member State where the intermediary is asked to arrange a service for the customer. If a customer requires services to be arranged in 2 or 3 Member States in respect of one journey, for example, the intermediary is obliged to apportion the VAT on the fee and account accordingly on each portion of that fee in each Member State.

The underlying transaction is the supply of a service such as accommodation or passenger transport to the customer not the supply of intermediary services. In the following cases the place of supply of the intermediary service is the place where the accommodation or the passenger transport is supplied. The place of supply of accommodation is the location of the property concerned, while the place of supply of passenger transport is where the transport takes place.

#### **Example – 10**

An Irish intermediary acts on behalf of an Irish non-taxable customer and arranges accommodation for that customer in a Spanish hotel. Irish intermediary charges the Irish customer a commission.

- Place of supply of the underlying service (accommodation) is Spain.
- The Irish intermediary is required to account for VAT in Spain on the commission charge.

#### **Example – 11**

A French intermediary acts on behalf of a French non-taxable customer and arranges accommodation for that customer in an Irish hotel.

- French intermediary charges the French customer a commission.
- Place of supply of the underlying service (accommodation) is Ireland.
- French intermediary is required to register and account for VAT in Ireland on the commission.

When passenger transport takes place within a single Member State, the place of supply is obvious. When passenger transport takes place between Member States, the place of supply is proportionate to the distances covered. Flights from Ireland are regarded as taking place outside Ireland. Passenger transport that takes place outside Ireland is outside the scope of Irish VAT. In the following examples the obligations regarding Irish VAT are outlined.

#### **Example – 12**

An Irish intermediary acts on behalf of a non-taxable customer and arranges flights within Ireland for that Irish customer.

- Irish intermediary charges the customer a commission.
- Place of supply of the underlying services (passenger transport) is Ireland.
- Irish intermediary accounts for VAT on the commission in Ireland.

**Example – 13**

An Irish intermediary acts on behalf of a non-taxable customer and arranges return flights from Ireland to France for that Irish customer.

- Irish intermediary charges the customer a commission.
- Place of supply of underlying service (passenger transport) is outside Ireland.
- Irish intermediary is required to register and account for VAT on the commission in the appropriate Member States. The amount of VAT due for each Member State is calculated by proportioning out the distances travelled in each Member State during the journey.
- The Irish intermediary should check with the relevant tax authorities regarding their VAT obligations outside Ireland.

2.1.4. An intermediary acting on behalf of a supplier (taxable person) makes a supply to a non-taxable customer and receives both commission and a fee as payment.

Where an intermediary acting on behalf of a supplier takes part in a B2C service but is paid by both the supplier (by way of commission) and the non-taxable customer (by way of a fee), this is considered as two transactions, each of which is taxed according to the rules outlined above. One transaction is the supply of intermediary services between the supplier and the intermediary. The place of supply of that transaction is where the taxable customer (supplier) is established. The other transaction is between the intermediary and the non-taxable customer. The place of supply for this service is the place where the underlying transaction is supplied (i.e. the accommodation, the transport, etc.).

**Example – 14**

An Irish intermediary arranges accommodation in a French hotel for a non-taxable customer and charges a fee while at the same time receiving commission from the French hotelier. The transaction between the Irish intermediary and the French hotelier;

- Irish intermediary acts on behalf of the French hotelier, receiving commission for his or her intermediary services.
- The intermediary books accommodation on behalf of the non-taxable customer.
- The place of supply of this service is where the hotelier is established.
- The French hotelier is required to account for VAT on that commission in France. (reverse charge procedure)

The transaction between the Irish intermediary and the non-taxable customer;

- Irish intermediary acts on behalf of the non-taxable customer receiving a fee for arranging the same accommodation as mentioned above.
- The intermediary arranges the accommodation for the non-taxable customer.

- The place of supply of this service is the place where the underlying transaction is supplied.
- The underlying transaction is the supply between the supplier and the customer, in other words the accommodation in a French hotel.
- The intermediary is required to register and account for VAT on that fee in France (where the accommodation is supplied).

## 2.2 Self-billing by the principal who uses the services of an intermediary

Revenue information on VAT records and invoicing sets out the rules relating to the issue of invoices in the operation of the VAT system. Although the normal rule is for a VAT invoice to be issued by the supplier, there are circumstances in which the business which receives a taxable service will issue the appropriate invoice instead of the supplier as a self billing.

This is referred to as a settlement voucher in the VAT information on invoicing. This method of issuing VAT invoices is frequently used when a large supplier buys in services from several smaller suppliers. The large supplier takes on the responsibility for the invoicing on behalf of all the suppliers of services to him or her. Where an intermediary supplies services to a travel agent (e.g. a tour operator or travel agent, acting as principal) the travel agent may issue the required VAT invoice provided –

- there is prior agreement between the intermediary and the travel agent that the travel agent may draw up and issue the invoice,
- all conditions relating to the content or issue of the invoice are met by the travel agent, and
- agreed procedures are in place for the acceptance by the intermediary of the validity of the invoice.

An invoice issued under these arrangements is regarded as having been issued when the intermediary accepts it in accordance with the agreed procedures referred to above. Self-billing can also apply to credit notes and debit notes.