

# Taxation

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## VAT

**Council Directive [2006/112/EC](#) on the common system of value added tax, and successive amendments**

### Objective

To set up a common system of value added tax, which applies to the production and distribution of goods and services bought and sold for consumption within the European Union.

### Relevance for the hospitality industry

VAT rules have a direct effect on the competitiveness of the sector and on the level of employment. The VAT rates are directly influencing the final price of the hospitality services. The possibility for enterprises to deduct VAT incurred on accommodation and/or restaurant expenses is directly affecting the final price of hospitality services provided to such guests.

### State of progress

Adopted. This Directive consolidated a great number of VAT related legislation issued since 1967.

The Directive has already been amended several times since its adoption.

Accommodation services may benefit from a reduced rate in all Member States since 1992. Restaurant services are included on the list of goods and services to which all Member States may choose to apply a reduced VAT rate (Annex III of the Directive) since 1 June 2009 (Council Directive 2009/47/EC).

In December 2010, the European Commission issued a Green Paper on the future of VAT, and launched a public consultation on the matter. The envisaged revision of the VAT system may apply to most of the regulations of the current VAT rules, including the VAT rates structure. A Commission Communication on the way forward is expected to be issued end of 2011, based on the outcome of the public consultation.

Agreements on taxation issues require unanimity within the Council, even with the Lisbon Treaty. The European Parliament is only consulted.

### Content

Each Member State has to apply one standard VAT rate and may apply one or two reduced rates. The Directive sets minimum levels for the standard rate (15%, to be re-examined by the end of 2010) and the reduced VAT rate(s) (5%). As a general rule the standard VAT rate has to be applied. However, Annex III of the Directive lists the goods and services, which may benefit from a reduced rate. This general structure is complicated by numerous derogations granted to Member States.

As far as hospitality services are concerned, all Member States have the option to apply a standard or a reduced VAT rate to both accommodation and restaurant services. The decision to apply a reduced VAT rate to restaurant services may also cover the alcoholic and/or non-alcoholic beverages included in such services.

Currently a large majority of Member States apply a reduced VAT rate to accommodation services and around half of them apply such a rate to restaurant services.

With regard to the place of taxation of the supply of services, the Directive specifies that services connected with immovable property, including the provision of accommodation, shall be the place where the immovable property is located. The place of supply of restaurant and catering services shall be the place where the services are physically carried out.

The deductibility of VAT is also dealt with by this Directive. The text specifies the conditions for the deduction of VAT, including provisions on proportional deductions (when services are used for taxed and not taxed transactions), as well as provisions on restrictions on the right of deduction (e.g. luxuries, entertainment).

The Directive also includes rules in relation to VAT invoicing, inter alia laying down the conditions for the issue of invoices and listing the items which have to be mentioned on all invoices.

### **HOTREC position**

Reduced VAT rates are an essential instrument for a sustainable European tourism policy. Therefore it is absolutely vital that European legislation continue to allow all Member States to apply a reduced VAT rate for the provision of accommodation and restaurant services. HOTREC is inviting all Member States to allow their economy and their tourism industry to benefit from these options provided by the Directive.

HOTREC encourages all Member States to allow the full deductibility/refund of VAT incurred on travel expenses of business travellers.

*See also:*

[HOTREC reply](#) to the European Commission's Green Paper consultation (May 2011)

[HOTREC VAT brochure](#) "Reduced VAT rates: A must for a sustainable European hospitality industry" (May 2008)

### **Official references**

Council Directive [2006/112/EC](#) of 28 November 2006 on the common system of value added tax, O.J. L 347 of 11.12.2006

Council Directive [2008/8/EC](#) of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services, O.J. L 44 of 20.2.2008

Council Directive [2009/47/EC](#) of 5 May 2009 amending Directive 2006/112/EC as regards reduced rates of value added tax, O.J. L 116 of 9.5.2009

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