

Tour operator margin scheme (Lecture B1314 – 12.06 minutes)

Introduction

The Tour Operator Margin Scheme (TOMS) applies to businesses that buy in and resell transport, accommodation etc without material alteration, selling them on as a package.

VAT Notice 709/5 provides full details of how the scheme operates. Here we provide you with an overview of how the scheme works.

How it works

This is a mandatory scheme whereby businesses must account for output tax on their margin relating to bought in supplies. There is no input tax recovery on their bought in supplies but other input tax relating to accountancy fees, property costs, telephone, advertising etc. is recoverable.

In 2020 the EU margin was standard rated meaning that 1/6 VAT was due on EU margins. The non-EU margin was zero rated. However, leaving the EU has meant that from 1 January 2021, VAT on travel outside the UK is now all zero rated.

Example

A holiday is sold for £3,000 with total bought in costs of that holiday being:

	£
Flights	800
Accommodation including VAT	1,500
Airport transfers including VAT	100
Total costs	2,400

The margin on the holiday is £600 (3,000 – 2,400).

If the holiday was:

- in the UK, the output VAT is £100 (£600 x 1/6);
- outside the UK, the margin is zero rated.

The actual mechanics

The actual TOMS calculations are performed for the accounting year and include holidays with departure dates that occurred in that year.

Provisional output tax payments are made throughout the year, which are based on last year's standard rated margin percentage.

At the end of the year, provisional payment amounts are deducted from the annual TOMS calculation, with the difference in output tax accounted for in the first VAT return ending after the accounting year.

In order to give them the longest time to prepare their annual TOMS calculations, businesses usually align their VAT quarters with their accounting year end.

Example 2 – year to 31 March 2022

A tour operator sells holidays in the year totalling £900,000.

The cost of bought in supplies are:

	£
UK holidays (VAT inclusive)	200,000
Non-UK holidays (VAT inclusive)	620,000
Total cost of bought in supplies	820,000

The margin for the year is £80,000 (900,000 – 820,000) and the UK margin is calculated as £19,512 (80,000 x 200,000/820,000).

Output VAT payable is £3,252 (£19,512/6).

If we assume provisional payments were £2,700, VAT due is £552 (£3,252 – 2,700) which will be accounted for on the VAT return to 30 June 2022.

Provisional percentage for year to 31 March 2023

The provisional percentage for year to 31 March 2023 is calculated using last year's UK margin of £19,512 divided last year's total sales of £900,000 times 100. This gives as 2.168%.

If total sales in the quarter to 30 June 2022 are £300,000, the provisional output VAT payable to HMRC would be £1,084 (£300,000 x 2.168% x 1/6).

TOMS supplies

Certain supplies will always fall within TOMS when bought in and resold without material alteration. These are:

- Accommodation;
- Passenger transport;
- Hire of means of transport;
- Trips or excursions;
- Services of tour guides;
- Use of special lounges at airports.

Other supplies can fall within TOMS when provided with the services above. These include catering, admission tickets and sports facilities.

Who uses TOMS?

TOMS can apply within any business. So for example, a client might have normal activity with a small element of TOMS supplies. In this situation, we would have normal VAT accounting as well as TOMS within the VAT calculation.

Created from the seminar presented by Dean Wootten.