

## **Position Paper**

Brussels, 4 May 2026

# **Harmonising European passenger transport taxation**

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## Summary

To achieve European climate targets, the fiscal framework governing cross-border mobility requires immediate realignment. The current VAT rules heavily penalise international rail while systematically subsidising aviation. A holistic approach must correct the fundamental imbalances in both input and output taxation, modernise place of supply regulations, and remove artificial barriers to ticketing integration. This paper outlines initial views from railway sector for a practical, low-cost pathway for Member States to eliminate market distortions without enduring significant revenue losses. Furthermore, we urgently call for policy coherence: Member States are encouraged to leverage their flexibility in setting VAT rates for passenger transport to ensure fiscal neutrality and create a fair, level playing field between high-speed rail and more carbon-intensive modes of transport.

## 1. The economic baseline

The most severe market distortion lies in the baseline tax treatment of competing transport modes. International aviation enjoys a harmonised zero rate under Article 148 of the Directive on the common system of value added tax (VAT exemption with full input deduction rights), functioning as a systemic subsidy worth approximately €29 billion annually according to Transport & Environment. Furthermore, exemptions for major inputs (like fuel, provisioning, and repair) give international aviation a structural cost advantage that penalises rail.

In stark contrast, international rail faces a fragmented and punitive VAT landscape under Article 48. Some Member States apply VAT to international rail tickets, forcing operators to pass the VAT on to passengers as part of the ticket price. In a small number of Member States, output VAT continues to be levied on the domestic section of cross-border journeys, meaning that fractional taxation and compliance costs become embedded in the overall ticket price, thereby weakening the competitiveness of international rail even where a nominally favourable output VAT regime applies across the rest of the route.

The preliminary findings of the ongoing impact assessment, which constitutes the key evidence-based step for the European Commission's upcoming VAT package for transport and tourism, prove that harmonisation is highly affordable for Member States. According to the Commission's economic modelling, extending a zero-rate to interurban passenger rail transport would result in a VAT revenue reduction of just €34 million across the whole EU. This €34 million adjustment is negligible against the environmental and economic gains of shifting passengers from heavily subsidised aviation.

A harmonised 0% VAT rate (with full input deduction rights) should also apply where rail transport forms part of a genuinely cross-border multimodal journey (for example, rail-air or rail-sea combinations). Crucially, the scope of this application must be explicitly specified: a harmonised zero tax rate must also apply to domestic ground-based feeder transport, provided it is an integral part of a cross-border multimodal journey. Currently, multimodal journeys often consist of a domestic feeder transport followed by a cross-border flight. This results in unequal tax treatment: the purchase of a domestic feeder flight is typically tax-advantaged (zero tax rate with full input tax deduction), while the purchase of ground-based feeder transport leads to a severe cost burden. This burden occurs particularly because these ground-based segments are pulled into the application of margin taxation (TOMS), which strictly excludes input tax deduction. This has a highly negative impact on the B2B sector, as no input tax deduction is possible for the corporate customer. Therefore, extending the zero rate to domestic ground-based feeder transport in a multimodal chain is essential to ensure a level playing field between modes of transport. Excluding these rail segments from such multimodal chains would re-fragment VAT treatment within a single through-ticket (forcing operators to apply conflicting VAT regimes to different legs of the exact same journey). This would undermine efforts to create a level fiscal playing field between transport modes and disincentivise integrated, lower-carbon travel solutions. Expected positive effects of a mandatory harmonised 0% VAT rate (with full input deduction) for international rail would include, inter alia:

- Equal treatment with cross-border aviation and shipping, by extending an exemption with input deduction to rail-based international passenger transport.
- Easier development of interoperable, cross-border ticketing and reservation systems, since operators would no longer need to design complex VAT-systems and invoicing architectures for each leg and jurisdiction.

- A substantial reduction in administrative burdens for business customers entitled to input VAT deduction, who today often must obtain multiple VAT-compliant invoices from different railway undertakings for a single international journey, as each carrier invoices only for the portion of the transport performed on its national territory. These fragmented invoicing requirements create unnecessary bureaucracy and place the B2B rail sector at a competitive disadvantage compared to other transport modes. A uniform VAT exemption for cross-border passenger transport throughout the EU would eliminate these obstacles and ensure equal competitive conditions.

The mandatory application of a harmonised 0% VAT rate (with full input deduction) to international passenger rail would also remove fiscal obstacles to cross-border ticket integration and interoperability between transport modes. By eliminating the need for complex VAT apportionment and fragmented multi-carrier invoicing, such a framework would enable seamless through-ticketing solutions within the existing regulatory environment, without requiring additional regulatory intervention in the rail ticketing market.

The VAT landscape under Article 48 creates administrative burdens for business travellers since taxable business travellers will have to recover input VAT in other jurisdictions in case of cross-border travel by rail. Refunding foreign input VAT is always associated with administrative challenges.

## **2. Overcoming administrative barriers**

Under Article 48 of the current directive, the place of supply for passenger transport is determined in proportion to distance travelled within each Member State (distance-based principle). This approach is systemically coherent, as it reflects where the economic value of cross-border transport is actually created.

For the railway sector, this system functions very well in practice. The VAT allocation based on distance travelled corresponds to the revenue-sharing mechanism under the CIV Uniform Rules, in particular Article 61 CIV, so VAT law and transport law operate in a coherent and aligned manner. Revenue is allocated according to the kilometres actually travelled, and this logic is mirrored in the VAT treatment. Railway undertakings also use integrated IT systems for distance-based tracking and settlement, meaning that the distance principle does not generate structural compliance deficits in the rail sector and does not hinder the expansion of cross-border rail networks.

In cross-border bus transport, however – particularly for small and medium-sized enterprises – the situation is different. Here, the distance-based principle, in combination with divergent national VAT rates, heterogeneous reporting obligations and non-harmonised documentation requirements, produces significant administrative burdens. For smaller operators, registration and compliance obligations in multiple Member States can amount to a genuine barrier to market entry and expansion.

From an economic perspective, a harmonised 0% VAT rate for international land-based passenger transport would most effectively remove current competitive distortions vis-à-vis zero-rated aviation, while simultaneously reducing the practical relevance of complex distance-based rules. If such harmonisation has not yet been achieved, targeted and proportionate simplification measures should be explored, with a clear sectoral differentiation.

For the railway sector, there is no need to amend the place-of-supply rule. A shift to a departure-based or arrival-based model would break the existing coherence between VAT

law and transport law without delivering genuine simplification. VAT allocation would become detached from the transport-law revenue distribution, creating additional alignment and allocation issues and effectively abolishing the current legal unity between civil law and tax law.

There is no need to adjust the place of supply for the railway sector. The route principle under Article 48 of the VAT Directive is consistent with the system and aligns with the revenue allocation under Article 61 of the CIV. A switch to a place-of-departure (Option 2a) or place-of-arrival (Option 2b) principle would disrupt this coherence and require extensive adjustments to central IT systems (particularly in sales, fare calculation, revenue sharing, and clearing, as well as systems for generating VAT-compliant customer invoices for input tax purposes). This would entail significant costs without providing a corresponding simplification benefit. Furthermore, existing through-ticket structures and integrated cross-border offerings could be adversely affected, as the VAT treatment would no longer be consistently linked to the actual transport service provided along the route. As a result, such a system change would create additional complexity and place an unnecessary burden on the rail industry without improving cross-border interoperability.

For small and medium-sized bus operators, by contrast, an optional, EU-harmonised simplification regime could be envisaged that:

- maintains the distance-based principle,
- relies on nationally defined average values per passenger-kilometre,
- uses digital distance-tracking tools (e.g. GPS-based systems),
- enables central electronic reporting in line with the ViDA digitalisation agenda, and
- replaces foreign VAT registration requirements.

The One-Stop Shop mechanism would in this context remain only a procedural simplification. On its own, it would not eliminate substantive differences in VAT rates, exemptions or national documentation standards and would therefore offer limited relief, particularly for bus SMEs.

A departure-based model would be systemically coherent only if combined with a harmonised EU-wide 0% VAT rate for international land-based passenger transport. Without such harmonisation, it would risk fiscal shifts between Member States, increased burdens for operators that are not responsible for the entire route, and additional competitive distortions, including for transit countries.

### **3. The disproportionate burden of on-board services**

One difficult issue is how to tax on-board bistros and catering services. Running a moving restaurant that crosses several borders creates complicated rules under Article 57, which taxes the service based on where the trip starts within the EU. In reality, the effort needed to record and check these small bistro sales across different countries costs much more than the tax revenue they bring in. Making these on-board services exempt or taxed at zero would be an easy, low-cost way for Member States to simplify administration.

### **4. TOMS**

The current scope of application of the special scheme for travel agents (TOMS) raises systemic concerns when applied to pure passenger transport services. Addressing the proposed definitional clarifications in the ongoing impact assessment, the scheme was originally designed as an administrative simplification for traditional travel packages,

where different tourism-related components – in particular transport and accommodation – are combined into a single package, and its purpose is to make complex bundles of services with multiple places of supply administratively manageable for tour operators.

Where, however, only passenger transport services are bundled – for example in the context of cooperation between several railway undertakings, within agency models, or via digital platforms that sell pure rail, bus or coach combinations – it is doubtful whether application of the margin scheme still corresponds to its original rationale. This is especially true for domestic travel. In such cases, TOMS risks capturing stand-alone transport combinations that should instead be governed by the general VAT rules for passenger transport.

We urge the Commission to use the proposed definitional clarifications to explicitly state that "Single-item" supplies of passenger transport, as well as multi-carrier bundles consisting purely of transport, do not constitute a "Travel facility" under TOMS.

From the perspective of railway undertakings and other transport operators, applying TOMS to pure passenger transport gives rise to several disadvantages:

- Input VAT relating to the underlying transport services is not deductible under the margin scheme.
- VAT is applied to the margin at the standard rate, even where the underlying passenger transport service benefits from a reduced rate or exemption at national level.
- This can result in a higher effective tax burden, ultimately reflected in higher consumer prices and reduced competitiveness of rail and other sustainable modes.
- In cooperative distribution models between transport undertakings, additional allocation, documentation and settlement complexities arise.
- TOMS is mandatory in a B2C context, but not in a B2B context. In high-volume ticketing environments it is often difficult to assess the buyer's status for VAT purposes, i.e. is it a taxable person or a non-taxable person buying the ticket.
- Business customers are not entitled to deduct VAT embedded in the margin, creating a structural competitive disadvantage in B2B contexts compared with directly supplied transport services.
- In high-volume ticketing and invoicing environments, it is practically difficult to distinguish consistently between supplies subject to standard VAT rules and those falling under the margin scheme.

There is therefore a significant risk that applying TOMS to pure passenger transport combinations does not lead to simplification, but rather to price distortions, additional administrative burdens – particularly for sustainable modes such as cross-border rail and non-deductible input VAT for business travel. Against this background, it would be appropriate for the initiative to clarify that stand-alone passenger transport services – even if commercially bundled, sold via digital platforms, or offered within cooperative frameworks – should, as a rule, fall under the general VAT rules applicable to passenger transport and not under the margin scheme. Definitions should explicitly distinguish transport from holiday packages, making clear that platforms bundling only rail, bus or coach services are subject to standard VAT rules and excluded from TOMS, which aligns with the need to narrow the scope of TOMS to prevent competitive distortions.

Independently of the scope of TOMS, the broader structural question of competitive neutrality remains. A harmonised EU-wide 0% VAT rate (with full input deduction rights) for international passenger rail would effectively address existing competitive disadvantages vis-à-vis undertaxed aviation, while at the same time reducing the practical

relevance of complex margin-scheme and distance-apportionment rules. As an alternative or complementary option, consideration could also be given to making TOMS optional for B2C relations – as it already is in B2B – so that operators can choose the regime that genuinely delivers simplification instead of being forced into a framework that may increase both their tax burden and their administrative costs as well as giving raise to non-deductible input VAT for taxable business travellers.

## **5. Harmonised EU interpretation of ancillary services to passenger transport**

The rail sector calls for a harmonised EU interpretation of ancillary services directly linked to passenger transport, in line with the CIV Uniform Rules (Annex A to COTIF) and international tariff law.

A uniform clarification across Member States is essential to ensure legal certainty as to which services qualify as ancillary to the main service of passenger transport and therefore share its VAT treatment. Without such clarification, differing national interpretations may lead to inconsistent taxation and disputes with local tax authorities.

According to Article 12 of the CIV Uniform Rules, the carriage of hand luggage, animals, registered luggage and vehicles forms part of the passenger transport contract. These items are therefore to be regarded as ancillary services from a VAT perspective, provided that they have no independent purpose for the passenger and are supplied in direct connection with the passenger transport as defined in Article 12 CIV and the General Conditions of Carriage.

A harmonised EU definition would promote legal certainty, ensure uniform VAT treatment across Member States and facilitate digital invoicing and reporting consistency in the context of the upcoming VAT in the Digital Age (ViDA) framework.

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### **About CER**

The Community of European Railway and Infrastructure Companies (CER) brings together railway undertakings, their national associations as well as infrastructure managers and vehicle leasing companies. The diverse and comprehensive membership made up of long-established bodies, new entrants and both private and public enterprises, covers the large majority of the rail infrastructure network, rail freight business and rail passenger operations in EU, EFTA and EU accession countries. CER represents the interests of its members towards EU policy makers and transport stakeholders, advocating rail as the backbone of a resilient, competitive, and sustainable transport system in Europe. For more information, visit [www.cer.be](http://www.cer.be) or follow us on social media.

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