

Temporary Reduction in VAT Rate for Hospitality, Accommodation and Admissions

Introduction

This cut in VAT from the standard rate of 20% to the reduced rate of 5% has effect for supplies made from 15 July 2020 to 12 January 2021 inclusive. HMRC's guidance on the change can be found in Revenue & Customs Brief 10(2020) and various documents and amended public notices linked to it.

The following supplies benefit from the reduction:

- Catering sector
 - o food and non-alcoholic beverages sold for on-premises consumption, for example, in restaurants, cafés and pubs
 - o hot takeaway food and hot takeaway non-alcoholic beverages
- Hotels, etc and holiday accommodation
 - o sleeping accommodation in hotels or similar establishments
 - o holiday accommodation
 - o pitch fees for caravans and tents, and associated facilities
- Admissions to cultural events and entertainment venues
 - o theatres and cinemas
 - o circuses, fairs and amusement parks
 - o museums and zoos
 - o concerts and exhibitions
 - o similar cultural events and facilities

Catering Sector

Food and drink sold for consumption on the premises are covered by the reduced rate, with the exception of alcoholic drinks, which remain standard-rated. Premises include the building in which the products are sold, along with any garden, outside area or immediately adjacent chairs and tables for exclusive use of the outlet or joint use with other nearby outlets.

Hot takeaway food is covered by the reduced rate, including hot takeaway drinks (as long as not alcoholic).

Cold takeaway food remains zero-rated, with the normal exceptions (crisps, ice cream, confectionery, chocolate-covered biscuits, salted nuts, etc), which remain standard-rated.

Cold takeaway drinks remain standard-rated, including fruit juices, bottled water, carbonated soft drinks, etc, with the exception of cold drinks made from tea, coffee, cocoa or milk (e.g. iced tea, iced coffee and milk shakes), which remain zero-rated.

Contract catering services remain standard-rated.

Hotels, Guest Houses, B&Bs, Etc

Overnight sleeping accommodation in any hotel or similar establishment is covered by the reduced rate.

After a continuous stay lasting 28 days, all subsequent charges benefit from the normal long-stay rules, where the VAT liability is further reduced (see VAT Notice 709/3, section 3).

Rooms hired out for the provision of catering in any hotel or similar establishment (whether or not the venue supplies that catering) are covered by the reduced rate. This makes both room hire and catering provided by a hotel for the same event subject to 5% VAT (excluding any alcoholic beverages served).

Wedding and event services, when supplied as a single package, remain standard-rated. Where there are separate supplies of room hire, overnight accommodation or catering (including the dining facilities), these elements will be eligible for the reduced rate.

Holiday Accommodation, Etc

The provision of accommodation advertised as suitable for holidaymakers, visitors or other short-term users is usually standard-rated but is covered by the reduced rate for the duration of the reduction. This will include most, if not all, Airbnb lettings in circumstances where the owner is or should be VAT-registered.

Camping and touring caravan pitches are covered by the reduced rate, along with any associated facilities.

Admission to Entertainment Venues, Cultural Attractions and Events

Cinema, circus, fair and amusement park admission charges come under the temporary reduced rate.

Admission charges for theatres, museums, zoos, concerts and exhibitions (art exhibitions, etc) and similar cultural events and facilities come under the temporary reduced rate (except where they already benefit from the cultural exemption, being run by a qualifying charity, in which case they remain exempt).

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Examples of similar attractions include planetariums, botanical gardens, studio tours and factory tours; this list is not intended to be exhaustive.

Live online events of a qualifying nature are covered, but different provisions altogether apply to the sale/download of pre-recorded events where the position may be affected by the location and/or status of the customer and the reduced rate will not apply.

Admissions to sporting events are specifically excluded from the temporary rate reduction.

Deposits, Advance Payments, Etc

Where deposits or advance payments have been received prior to the change, for services that are received during the period of reduction, VAT may be accounted for at 5%. That is to say, any VAT accounted for at 20% may be claimed back from HMRC and VAT at 5% accounted for instead, in respect of some or all such supplies. If a VAT invoice has been raised, a credit note and revised invoice must be issued to make this effective. This follows the general guidance on reductions to VAT rates, published in section 30.7 of VAT Notice 700.

Where deposits or advance payments are received or full VAT invoices raised during the reduction period, for eligible services which will be received by the customer after the end of the period, the reduced rate will apply. That is to say, normal tax points are effective and there are no anti-forestalling provisions.

Flat Rate Scheme

Revised FRS percentages apply from 15 July 2020 to 12 January 2021 as follows: for catering services including restaurants and takeaways, the rate is 4.5% (down from 12.5%); for hotels or accommodation, including holiday lettings, it is 0% (down from 10.5%); for public houses it is 1% (down from 6.5%). However, there is no reduction for any sector that covers admissions to places of interest, entertainment venues or events.

Many businesses whose turnover has historically been too high for the FRS may find that their anticipated taxable turnover in the next twelve months now renders them eligible to join the scheme, subject to the other conditions; these reduced percentages may make that option more attractive still for some.

The VAT Fraction

To arrive at the VAT included in the gross sum where VAT is 20%, the VAT fraction is of course 1/6. The equivalent for reduced-rated services is 1/21.

Tour Operators Margin Scheme

Some changes to the guidance on TOMS calculations have been made and are covered in VAT Notice 709/5. These will affect only TOMS activities in the UK and not overseas package holidays and tours.

Who Benefits?

There is some debate over who should retain the benefit of the reduced rate. Should it be the business or the consumer? The measure is intended to help businesses, but this can arise financially either as a result of paying less VAT to HMRC whilst maintaining the same prices or by attracting more custom by virtue of reducing prices. Some businesses may find that customers expect reduced prices (e.g. restaurants), whilst in some sectors the larger number of unregistered suppliers means that the same prices can be charged with a lesser VAT liability (e.g. holiday accommodation). Since payments received by 12 January 2021 crystallise the reduced rate, some businesses may wish to offer discounts where payment is made by the customer by that date for supplies to be enjoyed thereafter. Others may wish to issue full VAT invoices by then to keep future costs down for customers.

Conclusion

There are both complications and opportunities in these provisions, and businesses affected by them would do well to review them in enough detail to avoid the pitfalls and to turn them to advantage where possible.

For more information on these changes you can refer to HMRC's detailed guidance (<https://www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions>) or contact your local Whitley Stimpson office for guidance.

NB This document is designed for general guidance only and no responsibility can be taken by the writer for any action taken or not taken on the basis of the contents.