



## **CORONAVIRUS COVID-19 – TEMPORARY VAT REDUCTION (HOSPITALITY + TOURISM)**

### **BACKGROUND**

Although many hospitality, accommodation and attractions businesses have already received significant government support through the CJRS scheme, business rates holidays and loan guarantee schemes etc., the Government has now taken a further step to continue to provide ongoing support to businesses in these sectors (***as well as protect the large number of jobs within these sectors***).

Therefore, the main element of last week's announcement by the Government, was the introduction of a temporary reduction in the rate of VAT chargeable on the services of businesses providing:

1. Hospitality
2. hotel and holiday accommodation, as well as
3. admissions to certain attractions

which will apply to businesses which include **pubs, restaurants, cafés, bars, hotels, guest houses, caravan parks, public attractions etc**

This temporary reduction in the VAT rate from the standard rate of 20% to the new reduced rate of 5% will apply on a temporary basis from **15<sup>th</sup> July 2020 through to 12 January 2021**.

### **SERVICES SUBJECT TO THE TEMPORARY VAT REDUCTION**

The types of services that will benefit from the temporary 5% reduced rate of VAT include:

- food and **non-alcoholic** beverages sold for on-premises consumption e.g. restaurants, cafes and pubs
- hot takeaway food and hot takeaway non-alcoholic beverages
- sleeping accommodation provided in a hotel or similar establishment
- certain supplies made of holiday accommodation
- fees charged for caravan pitches and associated facilities
- fees charged for tent pitches or camping facilities
- admissions to the following attractions that are not already eligible for the cultural VAT exemption such as:
  - theatres
  - circuses
  - fairs
  - amusement parks
  - concerts
  - museums
  - zoos
  - cinemas
  - exhibitions
  - similar cultural events and facilities

**PLEASE NOTE** - However, if the fee charged for admission is currently VAT exempt, then it will remain exempt and the reduced rate will not apply..

## PRACTICAL ISSUES FOR BUSINESS/BUSINESS OWNERS

1. The reduction in the VAT rate does **NOT** apply to all businesses in the UK, but is restricted to businesses within the hospitality and tourism sectors only
2. While there may be a benefit due to the reduction in VAT for consumers, our expectation is that it will mainly provide a 'double' benefit to the business(es) themselves e.g. through stimulating the economy and business activity more generally, but also as businesses do not pass the reduction onto consumers in the form of price reductions e.g. **prices remain constant however the VAT element is only 5% and not 20%**
3. The announcement was made only days before the changes take effect, and while no doubt very welcome, there is a distinct lack of time available to prepare ahead of the VAT changes. i.e. **from 15<sup>th</sup> July 2020**
4. Point of Sale systems as well as accountancy software will need to be updated to ensure that the correct VAT rate on sales transactions are captured from **15<sup>th</sup> July 2020 (until 12<sup>th</sup> January 2021)**
5. Business owners need to consider how, and if, the reduction in VAT should impact existing prices and business margins, and then decide on any additional changes required within the business.
6. A business may need to take special care and/or provide further training to staff, to ensure that they are aware of the additional VAT rates that may be applicable to it's sales activity to avoid errors e.g. VAT rates applicable to - **alcoholic drinks (20%), eat in food (5%), hot takeaway (5%) and cold takeaway (0%)**

## OTHER ISSUES

- There will need to be consideration of whether any pending orders or deposits made by Customers (or to Suppliers), may need to be reviewed and/or managed differently where they may cross the **'before'** and **'after'** date(s).
- As this change in VAT rates will be occurring in the middle of most, if not all, VAT return periods, extra care will need to be taken when completing the VAT returns affected
- Businesses that are operating outside of the **'standard'** VAT scheme, such as on a **'cash'** or **'flat rate'** scheme, will need to be aware of the impact of changes that may be applicable to these VAT schemes



## **ADDITIONAL HMRC GUIDANCE**

HMRC has provided additional detailed guidance for businesses in the hospitality and tourism sectors which will be impacted by the temporary reduction in VAT, and these notices are listed below:

- **Food and drink - Pubs, cafes, restaurants:**
  - *VAT Notice 701/14 Food products and VAT*
  - *VAT Notice 709/1 Catering & Takeaway food*
  
- **Overnight accommodation:**
  - *VAT Notice 709/3 Hotels and holiday accommodation*
  
- **Tourist attractions:**
  - *'VAT on admission charges to attractions'*
  
- **Other related Issues:**
  - *Revenue and Customs Brief 10/2020*