

Reigniting the economy

Implications of the 5% VAT rate on the hospitality industry



On Wednesday 8th July, Chancellor Rishi Sunak unveiled a host of new measures to help businesses and individuals emerge from the COVID-19 lockdown, forming part of an emergency plan to get Britain's economy moving again.

One of the main measures announced was the reduction of the rate of VAT for the hospitality sector, temporarily cut from 20% to 5%. HMRC have since provided further clarification relating to the implications of this temporary change, and how it will affect the hospitality sector.

This information is now available online which you can access by clicking [here](#) but we have provided an outline of these changes, although it is important to note there will be areas which are likely to require further clarification.

The changes cover 15 July 2020 to 12 January 2021. Although this is a targeted measure, it should apply across many businesses which provide catering, food or accommodation (even where that is not their primary business). The "Eat Out to Help Out" changes apply to Mondays to Wednesdays in August 2020.

HOSPITALITY

If you supply food and non-alcoholic beverages for consumption on your premises the 5% rate will apply. This will cover restaurants, bars, cafes etc but will include any establishment which sells

food on its premises with HMRC setting out the following:

- Hot and cold food hot and cold non-alcoholic beverages for consumption on the premises on which they are supplied
- Hot takeaway food and hot takeaway non-alcoholic beverages for consumption off the premises on which they are supplied

Example

A café has takeaway menu from which you order a ham sandwich, a bottle of lager and a coffee to take out.

The sandwich is zero-rated as it is classed as cold takeaway food so therefore no change there; there is no VAT relief for the lager as it is an alcoholic product, so it is still subject to 20% VAT but the coffee does qualify from the VAT cut to 5%.

HOTELS, HOLIDAY ACCOMMODATION ETC

The 5% rate will apply to the following businesses that supply:

- Sleeping accommodation in a hotel or similar establishment e.g. bed and breakfast
- Holiday accommodation
- Caravan pitches and associated facilities
- Tent pitches or camping facilities

Reigniting the economy

Implications of the 5% VAT rate on the hospitality industry



ATTRACTIONS

HMRC have clarified what qualifies as an 'attraction'. This applies to businesses that charge VAT at 20% on admission fees and includes:

- Shows
- Theatres
- Circuses
- Fairs
- Amusement parks
- Concerts
- Museums
- Zoos
- Cinemas
- Exhibitions
- Similar cultural events and facilities

Examples of where the reduced rate of 5% may apply could be attractions such as a planetarium, botanical gardens, studio tours, factory tours. The temporary reduced rate **does not** apply to admission to sporting events, however.

TAX POINTS AND VAT ACCOUNTING

2011 was the last time there were changes to the standard rate of VAT. What became clear following that was the impact on systems and commercial processes, rate transition issues and staff training for VAT accounting purposes, as well as other tax implications.

These need to be considered particularly when considering which VAT rate will apply in certain

circumstances e.g. holiday accommodation where the stay straddles the rate change.

EAT OUT TO HELP OUT

The Eat Out to Help Out Scheme to offers a discount to diners all day, every Monday, Tuesday and Wednesday from 3 to 31 August 2020.

The offer is a 50% discount, up to a maximum of £10 per person, for food or non-alcoholic drinks to eat or drink in. There is no limit to the number of times customers can use the offer during the period of the scheme, and the 50% portion can be reclaimed from the government

Key dates are for this scheme are:

- **13 July** - Registration opens- online using your Government Gateway ID and password
- **3 August** – A Monday – the first date that you can offer the discount
- **7 August** - Start of reimbursement claims (allow 7 days from date of registration to date of claiming reimbursement) which will be paid within 5 working days of the claim
- **30 September** – Service closes

FOR MORE INFORMATION, OR TO SPEAK TO ONE OF OUR EXPERTS, VISIT WWW.SMITHCOOPER.CO.UK