

UK temporary VAT rate cut for the hospitality and tourism sectors

Introduction

The UK has implemented a temporary VAT rate cut for the hospitality and tourism sectors in a bid to boost economic recovery in two of the worst hit areas following the coronavirus crisis.

For the period 15 July 2020 to 12 January 2021, VAT will be reduced from 20% to 5% on the following:

- food and non-alcoholic drinks for consumption on the premises, e.g. at a restaurant, café or pub
- hot takeaway food and hot takeaway non-alcoholic drinks
- hotel and holiday accommodation, including caravan and tent pitches and associated facilities and services
- admission to certain attractions where the supplies are currently standard rated.

Businesses need to implement the necessary changes to billing and ERP systems to ensure that the 5% VAT rate is correctly accounted for and declared to HMRC on these supplies.

Issues to consider

The measure does not include alcoholic drinks which continue to be subject to 20% VAT. It is therefore important that supplies within the scope of the reduction are correctly identified. Special care will be needed in determining the VAT applicable to any meal deal offers that include alcoholic drinks.

In the case of admission charges to attractions, the 5% rate will also apply to any incidental supplies included in the admission charge.

Businesses that operate VAT schemes, including the flat rate scheme and the Tour Operators Margin Scheme, should make sure their VAT calculations are amended for the temporary reduced rate of VAT.

If there are instances where payments are received or invoices issued before 15 July 2020 for supplies that take place on or after 15 July 2020, then businesses need to decide whether to take advantage of HMRC's vat rate change special provisions.

What businesses need to be doing now

Businesses should now take the following actions:

- Identify all products and services within the scope of the VAT rate change
- Implement changes needed to accounting, billing and check-out systems to enable the charging and reporting of the new 5% VAT rate with effect rate from 15 July 2020
- Businesses that issue tax invoices should ensure the invoice format is updated to reflect the new rate from 15 July 2020
- Restaurants and bars should ensure the new reduced rate is only applied to food and non-alcoholic drinks
- Menus, admission fees and websites should be updated to reflect price changes
- Businesses should also remember to plan for the return to the 20% standard VAT rate from 12 January 2021.

For further information, please contact us on: