

Update: 15/7/2020

COVID-19: 5% VAT IN THE HOSPITALITY SECTOR

WHAT'S CHANGING?

To help businesses in the hospitality, holiday accommodation and attractions sector, the reduced rate of VAT (5%) will apply to:

- Supplies of food and **non-alcoholic drinks for consumption on premises** from restaurants, pubs, bars, cafes and similar premises in the UK.
- Supplies of **hot takeaway food and hot takeaway non-alcoholic drinks**. Please note the difference, i.e. takeaway crisps are still 20% VAT as is the sale of cold non-alcoholic drinks for takeaway. Cold Sandwiches are still 0%.
- Supplies of hotel and holiday accommodation and admission to certain attractions in the UK.
- charge fees for caravan pitches and associated facilities
- charge fees for tent pitches or camping facilities

Full details can be found here [HMRC Guidance](#).

WHO'S AFFECTED BY THE CHANGES?

These changes affect:

- Restaurants, pubs, bars, cafes and similar premises across the UK.
- Suppliers of accommodation and attractions in the UK.
- VAT registered businesses purchasing from the above suppliers.

WHEN ARE THE CHANGES HAPPENING?

The changes are temporary and will apply from 15 July 2020 to 12 January 2021.

SOME Q&A's

MY BUSINESS IS IN THE HOSPITALITY, HOLIDAY ACCOMMODATION AND ATTRACTIONS SECTOR, DOES THIS AFFECT BOTH MY SALES AND PURCHASES?

The changes affect any sales you make of the affected goods and services.

If you have suppliers who are also covered by these changes, your purchases from those suppliers may also be affected.

I RECEIVED A DEPOSIT IN JANUARY FOR SERVICES SUPPLIED DURING THE 5% VAT RATE PERIOD, HOW DO I ACCOUNT FOR THE VAT OF 20% CHARGED ORIGINALLY?

HMRC confirmed, with a specific reference to paras 30.7.4 to 30.9.2 of VAT Notice 700 a (hotel) deposit received before the rate change but where the stay takes place afterwards can be subject to 5% VAT but at the option of the business owner. So, table reservation fees etc can be redeclared at the 5% rate.

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WHAT IF I SUPPLY GOODS OR SERVICES TO THE HOSPITALITY, HOLIDAY ACCOMMODATION AND ATTRACTIONS SECTOR?

If you supply goods or services other than those outlined above under "what's changing?" above, then you will not be affected. If you do supply any of the goods or services outlined above, then you should ensure the VAT on these sales is amended and correctly accounted for.

The area of difficulty here is where you resell someone else's service as part of your package. The question, we think, is: Who are you selling that service to?

For instance, if you sell accommodation and charge a fee for it, who do you bill for the fee? If you bill the guest, then this will be 5% as you are billing the end user and your cost is ancillary to the sale (see below).

If you charge the accommodation owner, then this is an ancillary service to the accommodation provider and is not covered by the reduction.

So, accountancy fees, trades people, provision of cleaning etc if supplied to the business will remain at 20%. Membership fees and advertising is the same.

Selling attraction tickets and booking fees if charged to the customer alongside the sale to the consumer will be at the same rate of Vat as the product (i.e. 5% on hospitality, accommodation and food).

MIXED SUPPLIES

The guidance about VAT on admission charges (see later) helpfully gives two examples of supplies where more than one rate of VAT applies, usually 20% and 5%. This logic applies to all your sales of mixed supplies.

One of the examples confirms the admission fee for a brewery tour will be subject to 5% VAT, even if the fee includes some food and drink as part of the tour – ie the food and drink is 'incidental' to the tour. But if alcoholic drinking was the main priority, it would all be subject to 20% VAT.

Meal Deals will be interesting and we still await more clarity but the key wording is as follows: "It is the responsibility of each taxpayer to demonstrate that its supplies are eligible for the temporary reduced rate." This is an important sentence: it recognises that there will be grey areas but as long as a sensible and reasonable approach is adopted to each practical situation, HMRC will hopefully accept the calculations made by business owners to work out how much VAT is due. Mixed supplies are always a challenge.

Our view is that if the supply of a 20% product is incidental to a "meal deal" then you can probably use the 5% rate for the whole sale. i.e., a glass of wine with a 2-course meal would be incidental to the meal. **A bottle of wine with a bacon butty, would not be and would be 20% on it all.**

If I buy a gin and tonic, is that one supply at 20%, but a gin, with a separate bottle of tonic, is that two supplies, one at 20% the other at 5%?

Vat notice 701/14, says specifically: You must standard rate all your supplies of drinks containing alcohol.

So, if you want to save yourself a few pence, order your next mixer separate from your alcohol :-)

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RECLAIMING INPUT TAX AFTER A CHANGE IN TAX RATE OR LIABILITY

When reclaiming input tax following a change in the tax rate or tax liability, you must reclaim it at the rate charged by your supplier.

If	then you
you receive a VAT invoice on which tax has been charged at the old rate	can treat as input tax only the actual amount of VAT shown
the amount of tax is not separately shown (for example, if you receive a less detailed VAT invoice - see paragraph 16.6.1)	should work out your input tax by applying the VAT fraction which was appropriate at the tax point
you receive continuous supplies of services invoiced to cover a period up to one year ahead of the supply	should see paragraph 30.10

CONTINUOUS SUPPLIES OF GOODS AND SERVICES – HOW TO ACCOUNT FOR VAT

Normal tax point rules

The tax points for continuous supplies of goods or services (including the supply of goods on hire, lease or rental) are described in [paragraph 14.3](#) of this notice. Tax is normally chargeable at the rate in force at each tax point.

If you issue VAT invoices covering periods up to one year ahead, giving the amounts and dates when payments are due, they're no longer valid for any payments due after the change. Your customers cannot use these invoices to support claims for input tax.

You must issue fresh VAT invoices for the payments due after the change, showing tax chargeable at the new rate. Fresh VAT invoices issued in these circumstances must refer to and cancel that part of the original VAT invoice which has been superseded. On receipt, your customers must adjust their input tax record accordingly.

30.9.2 Using the special provisions

Where a continuous supply spans a change in the tax rate or liability, you may, if you wish, account for tax at the old rate on that part of the supply made before the change, even though the tax point would occur after the change (for example, where a payment is received in arrears of the supply).

Conversely, you may, if you wish, account for tax at the new rate on that part of the supply made after the change, even though the normal tax point occurred earlier (for example, where a payment is received in advance of the supply).

In each case, you should account for tax on the basis of the value of the goods actually supplied or services actually performed, before or after, the change as appropriate. If this procedure reduces the liability to tax of a supply for which a VAT invoice has already been issued at a higher rate, you must issue a credit note in accordance with [paragraph 30.7.5](#).

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Facilities provided by clubs and associations

In most cases, the tax point for the supply of facilities by a club or association in return for a member's subscription is the time when the subscription is received or a VAT invoice is issued, whichever happens first.

The association must account for tax on the goods or services at the rate in force at the tax point. But, if payment is accepted in instalments, or separate invoices are issued, the association should follow the procedure in [paragraph 30.9](#).

WEDDING PACKAGES

If you supply a package of wedding services (including, for example, use of rooms for a ceremony, wedding breakfast and evening party), this is a single standard-rated supply, regardless of whether the catering is supplied by you or someone else.

Between the 15 July 2020 and 12 January 2021, if the catering is provided in house as a separate supply, it may benefit from the temporary reduced rate subject to the rules on single and multiple supplies. Check the relevant guidance on single and multiple supplies.

SERVICE CHARGES

Any service charge you make is standard-rated.

TIPS

Any tips that are given voluntarily over and above the total charge you receive are outside the scope of VAT. Any compulsory charges are liable to VAT at the same rate as the principal supply.

BOOKING FEES

Booking fees are treated in the same way as a deposit as to when the VAT is declared (i.e. when received)

If you're an agent who arranges a supply on behalf of someone else, you must account for VAT on any booking fees you charge whether or not the booking is taken up - Vat Notice 709/3 says. It does not currently make clear at what rate. Again, we refer back to who you are charging as the safest option – the guest, it is 5%, the accommodation provider – 20% (so long as the charge is incidental to the supply).

THE INITIAL ANNOUNCEMENT FROM GOVERNMENT WAS HERE:

<https://www.gov.uk/government/publications/revenue-and-customs-brief-10-2020-temporary-reduced-rate-of-vat-for-hospitality-holiday-accommodation-and-attractions/guidance-on-the-temporary-reduced-rate-of-vat-for-hospitality-holiday-accommodation-and-attractions>

It refers that the announcement is for :

“Organisations that make supplies of hospitality, hotel and holiday accommodation and admission to certain attractions, and their advisers”

We do not believe that it means that the 5% applies to advisors, merely that the announcement is for the attention of advisors.

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ATTRACTIONS

The temporary reduced rate does not apply to admission to [sporting events](#) (click to see their own rules).

This temporary reduced rate only applies to admission fees. https://www.gov.uk/guidance/vat-on-admission-charges-to-attractions?utm_source=b70c8e4c-efcb-4e66-a3aa-6dbc482ad5f6&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

However, where goods are part of the admission fee and are incidental to the main supply, the whole supply is eligible for the temporary reduced rate.

The list where the 5% rate applies on admission fees is bigger than might be expected: shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions, similar cultural events and facilities.

Note – admission to some facilities is already exempt from VAT under the cultural exemption, mainly relevant to public bodies and not-for-profit organisations. The exemption takes priority over the 5% rate. VATA1994, Sch 9, Group 13.

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SOFTWARE SUPPLIERS NOTES ON CHANGING VAT RATES CAN BE FOUND HERE:

- Xero <https://www.xero.com/blog/2020/07/xero-ready-for-uk-vat-change/?escape=true>
- QuickBooks Gave up looking . . . sure it is there somewhere . . .
- Sage <https://my.sage.co.uk/public/help.aspx#/customer/support/vatchange/category>
- Spreadsheets **Remember to manually change the calculations. The fraction for 5% is 1/21**

Remember that you must stop using spreadsheets by 31 March 2021 to calculate your VAT. Speak to us about using Xero – Xero have given us a package to train you on the switch over FOC!

FLAT RATE VAT CHANGES

Catering services including restaurants and takeaways before 14 July 2020 and after 12 January 2021	12.5
Catering services including restaurants and takeaways after 15 July 2020	4.5
Hotel or accommodation before 14 July 2020 and after 12 January 2021	10.5
Hotel or accommodation after 15 July 2020	0
Pubs before 14 July 2020 and after 12 January 2021	6.5
Pubs after 15 July 2020	1

This guidance can be accessed using the following links:

- [VAT: reduced rate for hospitality, holiday accommodation and attractions](#)
- [Catering, takeaway food \(VAT Notice 709/1\)](#)
- [Hotels and holiday accommodation \(VAT Notice 709/3\)](#)
- [Food products \(VAT Notice 701/14\)](#)
- [Tour Operators Margin Scheme \(VAT Notice 709/5\)](#)
- [Land and property \(VAT Notice 742\)](#)

There is also guidance available for the [Eat Out to Help Out Scheme](#) which highlights that VAT will be based on the full amount of the customer’s bill. This is on the basis that the Eat Out to Help Out Scheme is a form of payment towards the meal and the value of the meal is unchanged. The payments received by the business will be taxable on the same basis.

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