

VAT: Reduced Rate for Hospitality, Holiday Accommodation and Attractions

Information

Guidance

COVID-19

Support

Dec'20

The Government has introduced a temporary cut in the VAT rate from the standard 20% to 5% for holiday accommodation, catering and admission to attractions. The relief covers supplies made between 15 July 2020 to 31 March 2021 across the UK, providing support to businesses negatively affected by the coronavirus pandemic.

The reduced VAT rate will cover the following supplies:

- + Hot and cold food and hot and cold non-alcoholic beverages sold for on-premises consumption;
- + Hot takeaway food and hot non-alcoholic beverages sold for consumption off the premises;
- + Sleeping accommodation provided in a hotel or similar;
- + Holiday home accommodation;
- + Accommodation in houseboats;
- + Hire of boats such as cruisers provided they are suitable for holiday accommodation and are held out for hire in this way. This does not include day boat hire, or boats hired for purposes other than holiday accommodation.
- + Hire of motorhomes provided they are suitable for holiday accommodation and are held out for hire in this way;
- + Pitch fees for caravans, tents and supplies of associated facilities; and
- + Admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events (that do not already benefit from the existing cultural exemption).

It should be noted that the reduced rate does not include alcoholic drinks of any kind.

Businesses using the Flat Rate Scheme

Businesses in these sectors that use the flat-rate scheme should be aware that certain percentages have been reduced in line with the introduction of the temporary reduced rate of VAT.

- + The flat rate percentage for hotel or holiday accommodation has been reduced from 10.5% to 0%;
- + The flat rate percentage for catering including restaurants and takeaways has been reduced from 12.5% to 4.5%; and
- + The flat rate percentage for pubs has been reduced from 6.5% to 1%.

Further details on the Flat Rate Scheme can be found here:



Points for your business to consider:

- + The income streams that will need to change;
 - + What your pricing policy will be;
 - + Your message to customers; and
 - + Any practical steps you will need to take, for example changes to your financial systems, price lists, menus, website etc.
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Do I have to pass the VAT savings on to my customers?

No, you can pass on all of the VAT savings, some of them or none at all. Your decision should be informed by any existing contracts or agreements in place with customers that detail how you deal with VAT, for example any terms and conditions that state fees will take account of any VAT changes.

Factors to take into consideration:

- + Where any agreement with the customers states a VAT-inclusive price, it is likely you can choose whether to pass on the VAT saving from using the basic tax point (the point where the holiday is taken, see further details below);
 - + If tax invoices have been issued, where VAT is stated as a separate amount, then you will be required to issue a credit note reducing the VAT charged from 20% to 5%;
 - + Your customer will expect you to refund this credit to them and you will receive the credit for this on your next VAT return (after you have posted the VAT credit note into your accounts);
 - + If you have not issued a tax invoice, there is no requirement to issue a credit note, however you are still entitled to make an adjustment on your next VAT return in respect of the VAT that has been overpaid at 20% and is due at 5%; and
 - + Due to the prominent media coverage, many customers may think they will also benefit from the VAT reduction when booking a holiday or purchasing food and drink.
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What about VAT already accounted for on invoices issued or payment received?

For invoices issued or payments received before 15 July 2020 for a service after 15 July 2020, you should have already accounted for VAT at 20%. How to adjust this depends on the documentation issued for the deposit.

Example:

- + A payment received on 21 January 2020 for a week's holiday to be taken on 6 March 2021;
- + In the absence of a tax invoice, the actual tax point is 21 January 2020 whilst HMRC will regard the basic tax point as 6 March 2021;
- + If a tax invoice is issued, the actual tax point is the date of the tax invoice; and
- + In this example, the business would have accounted for VAT at 20% on 21 January 2020 and now has the choice to do nothing or apply the 5% VAT rate and reduce the original amount in its current VAT records.

For services that span the rate change period, businesses will be able to account for VAT at the 5% rate on the part that takes place between 15 July 2020 and 31 March 2021;

The part that takes place before 15 July 2020 will still be subject to 20% VAT.

Changes for sales from restaurants, cafes and bars

- + If VAT is accounted for by identifying relevant supplies at point of sale, you will need to apply the new VAT rate to these relevant sales between 15 July 2020 and 31 March 2021;
- + Changes may be required to tills and/or VAT accounting software to ensure that you account for VAT correctly; and
- + If the VAT savings are to be passed onto customers, businesses should re-calculate VAT inclusive prices to reflect the reduction in VAT.

Making changes within your accounting software

Depending on the accounting software your businesses uses, the process required for applying the VAT cut should be relatively straightforward.

Xero

- + The reduced 5% VAT rate is already available in Xero;
- + All businesses need to do is select the appropriate VAT rate for affected supplies from 15 July 2020; and
- + To save time on setting up the 5% rates for every transaction, Xero also enables you to set up default rates.

Further details on the Xero process for the VAT change can be found here: [>](#)

Sage

- + There is already a 5% VAT rate in Accounting called Lower Rate and, in most cases, you just need to change affected transactions from Standard to Lower Rate.

Further details on areas affected, what the changes are and when they need to be made can be found here: [>](#)

QuickBooks

QuickBooks already has the Reduced rate of 5% included, but you may need to make the VAT rate active.

Further details on how to activate the tax rate in QuickBooks can be found here: [>](#)

At M+A Partners, we are here to help and support you as you navigate through the government's coronavirus support payment measures during these challenging times. If you need help then please get in touch.



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