

16 July 2020

Temporary reduced rate of VAT for hospitality, holiday accommodation and attractions

5% Reduced Rate

In response to the economic difficulties caused by the coronavirus (COVID-19) pandemic, HMRC has announced a reduction in the rate of VAT to 5%, affecting hospitality, holiday accommodation and attractions. The reduced rate covers the period from 15 July 2020 to 12 January 2021.

Scope of the Reduction

The temporary 5% rate of VAT will apply to the following supplies:

- food and non-alcoholic drinks sold for on-premises consumption, e.g. in cafes and bars
- hot takeaway food and hot takeaway non-alcoholic beverages
- sleeping accommodation in hotels or similar establishments
- holiday accommodation, pitch fees for caravans and tents, and associated facilities
- admission to attractions (not already eligible for the cultural VAT exemption) such as:
 - theatres
 - fairs
 - concerts
 - museums
 - zoos
 - cinemas
 - exhibitions
 - similar cultural events and facilities

Where admission to these attractions is covered by the existing cultural exemption, the exemption will take precedence.

How should councils respond?

The reduction in the VAT rate is obligatory, and councils with income from affected sources will need to make amendments to their accounting processes.

Accounting packages will already have an option to charge VAT at the 5% rate, and councils should adjust their VAT coding for sales to utilise this. Councils that use spreadsheets may need to alter spreadsheet formulae to ensure that the correct rate of VAT is applied.

There is no obligation for councils to reduce their charges for affected supplies. A council can choose to leave prices the same, with VAT included at a 5% rate rather than 20% (calculated by multiplying the gross price by the 5% VAT fraction 1/21). Alternatively, councils may simply reduce the VAT amount and pass the saving on to the customer. This is a decision for each council, we are not recommending a particular approach.

Guidance

HMRC has issued the following guidance:

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

<https://www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions>

<https://www.gov.uk/guidance/vat-on-admission-charges-to-attractions>

HMRC has also updated its VAT Notices as follows:

VAT Notice 701/14 Food products and VAT <https://www.gov.uk/guidance/food-products-and-vat-notice-70114>

VAT Notice 709/1 Catering, takeaway food <https://www.gov.uk/guidance/catering-takeaway-food-and-vat-notice-7091>

VAT Notice 709/3 Hotels and holiday accommodation <https://www.gov.uk/guidance/hotels-holiday-accommodation-and-vat-notice-7093>

Disclaimer

This guidance is issued to assist in finding and understanding the relevant legislation and guidance. It is not a statement of law, nor does it account for individual circumstances. The Parkinson Partnership LLP accepts no liability for any loss arising from situations where councils or their employees have not followed the law and HMRC guidance.