

# VAT Update: Temporary reduced rate of VAT at 5% on hospitality supplies, hotel accommodation and admissions to attractions

---

Updated 17/03/21

## UPDATE MARCH 2021

Following the budget on 3 March 2021, the government announced that the temporary reduced rate of VAT of 5% will be extended until 30 September 2021, having previously been extended to 31 March 2021. To help businesses manage the transition back to the standard 20% rate, a 12.5% rate will apply for the six months to 31 March 2022.

## INTRODUCTION

The Chancellor's Summer Statement on 8 July announced new VAT measures to support the UK in its recovery from the Coronavirus pandemic by introducing a temporary 5% reduced rate of VAT for certain supplies of hospitality, hotel and holiday accommodation and admissions to certain attractions.

The VAT cut applies from 15 July 2020 to 31 March 2021 (having been extended from 12 January 2021) and affects the following supplies:

- Hospitality catering supplies:
  - o Food and non-alcoholic beverages sold for on-premises consumption (e.g. in restaurants, cafes and pubs);
  - o Hot takeaway food and drink;
- Holiday accommodation:
  - o Sleeping accommodation in hotels, inns, boarding houses and similar;
  - o Grant of a licence to occupy holiday accommodation;
  - o Charges for seasonal pitches for caravans and pitches for tents, together with associated camping facilities when provided as part of a single supply;
- Admissions to attractions:
  - o Theatres, circuses, fairs, amusement parks;
  - o Concerts, cinemas, exhibitions;
  - o Museums, zoos and similar;

It is up to businesses whether they retain this VAT saving or pass some or all of it on to consumers.

## HOSPITALITY CATERING SUPPLIES

The changes affect any supply of food or drink (excluding alcoholic beverages) for consumption **on the premises from**

**which they are served**, as well as any supply of **hot food or drink** for consumption off those premises. Businesses are normally required to charge VAT at the standard rate of 20% on such supplies but from 15 July 2020 until 31 March 2021, this is reduced to 5%.

## SUPPLIES NOT AFFECTED BY THE MEASURES

- Cold takeaway food;
- Alcoholic beverages remain standard-rated (on premises or takeaway);
- Hot takeaway alcoholic drinks (e.g. mulled wine) remain standard-rated;

## MULTIPLE SUPPLIES

If a single price is charged, e.g. for a meal and an alcoholic drink, the single price needs apportioning between the element which is subject to 20% VAT (the alcoholic drink) and the element subject to 5% VAT (the meal). The appropriate amount of VAT is then added to each element.

## FLAT RATE SCHEME

HMRC have updated the flat rate percentage for pubs from 6.5% to 1% and for restaurants from 12.5% to 4.5% for the relevant period 15 July 2020 to 12 January 2021. At the time of writing this had not been extended to 31 March 2021.

## HOTELS AND HOLIDAY ACCOMMODATION

The changes affect supplies of sleeping accommodation in hotels, B&B's, campsites and caravan sites which are normally subject to VAT at 20%. Between 15 July 2020 and 31 March 2021 such supplies benefit from the temporarily reduced rate of 5%.

## ADVANCE BOOKINGS AND DEPOSITS

If a business has taken payment before 15 July 2020 in respect of stays taking place between 15 July 2020 and 31 March 2021, and has therefore charged VAT at 20%, it is permissible to issue a credit note and repay to the customer the difference between the VAT due at the normal rate and the reduced rate. Application of this is at the business's discretion.

## DEPOSITS TAKEN DURING THE QUALIFYING PERIOD

Where an advance payment or deposit is received between 15 July 2020 and 31 March 2021 the payment is subject to VAT at the 5% rate, even if the stay takes place after 31 March 2021.

## LONG STAY GUESTS

Where a supply is made of sleeping accommodation for a guest staying for over 28 consecutive days, the supply is exempt from the 29th day. The temporarily reduced rate applies in respect of the first 28 days, but from the 29th day, the accommodation element is entirely relieved from VAT.

## WEDDING PACKAGES

Wedding packages are subject to VAT at 20%. A wedding package is usually made up of the supply of the premises where the wedding or reception takes place, together with associated services such as catering, flowers and music. Where catering is an element of the package it is not eligible for the temporary reduced rate as it is supplied with other services.

A separate supply of catering for a wedding, by a caterer not providing any other services, is expected to benefit from the temporary reduced rate provided it is made on the premises where the reception takes place and the supply is made by the caterer directly to the customer. Catering which is sub-contracted does not benefit from the temporary reduced rate.

## MEETING AND EVENT AREAS FOR OPTED PROPERTIES

The charge for rooms hired for meetings or conferences with catering (i.e. meal and buffet) needs to be split out between the room hire element and the catering, since the catering is subject to the temporary 5% rate. If the property is 'opted to tax' the room hire element remains subject to 20% VAT, otherwise it remains VAT exempt. Rooms hired for meetings or conferences with no or minimal refreshments within an opted property still attract VAT at 20% on the whole charge or are VAT exempt in the absence of an option.

## FLAT RATE SCHEME

HMRC have updated the flat rate percentage for hotels and similar establishments from 10.5% to 0% for the relevant period 15 July 2020 to 12 January 2021. At the time of writing this had not been extended to 31 March 2021.

## ADMISSIONS TO ATTRACTIONS

The changes affect any supplies of admissions that are normally taxable at the standard rate including shows, theatres, circuses,

fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities.

The changes also apply to incidental supplies included with the admission fee, e.g. a brochure, tour guide.

## SUPPLIES NOT AFFECTED BY THE MEASURES

- Admission to sporting events;
- Admissions that are normally exempt from VAT under the existing cultural exemption (e.g. admissions by a charity or public body);

## LIVE PERFORMANCES ONLINE

If an admission fee is charged to view a live performance shown online, for example a live performance of a musical or a play, this may be eligible for the temporary reduced rate of VAT. This assumes the place of supply is in the UK; consideration should be given to the place of supply for digital services, as UK VAT may not be chargeable in the first instance.

## EAT OUT TO HELP OUT SCHEME

The "Eat Out to Help Out" scheme has been introduced by the government to incentivise customers to eat out in restaurants by giving them a discount of up to £10 per person which the restaurant can then claim back from the government.

At participating establishments the scheme provides a discount of 50% on food and non-alcoholic drinks, subject to a cap of £10 per person if the customers eat or drink in. It can be used every Monday, Tuesday and Wednesday between 3 and 31 August and can be used multiple times and in conjunction with other offers and discounts.

## SUPPLIES EXCLUDED:

- Alcoholic drinks;
- Service charges;
- Takeaway food and drink;

## VAT CONSIDERATIONS

VAT must continue to be charged on the full amount of the pre-discount customer's bill, not on the discounted amount payable by the customer.

The information contained in this document is for information only. It is not a substitute for taking professional advice. In no event will Dixon Wilson accept liability to any person for any decision made or action taken in reliance on information contained in this document or from any linked website.

This firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide.

The services described in this document may include investment services of this kind.

Dixon Wilson  
22 Chancery Lane  
London  
WC2A 1LS

T: +44 (0)20 7680 8100  
F: +44 (0)20 7680 8101  
DX: 51 LDE

[www.dixonwilson.com](http://www.dixonwilson.com)  
[dw@dixonwilson.co.uk](mailto:dw@dixonwilson.co.uk)