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# VAT Alert

## Chancellor announces introduction of reduced rate of VAT of 5% for hospitality and tourism sectors

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### Summary

The Chancellor of the Exchequer, Rishi Sunak has, today, announced a temporary application of the reduced rate of VAT of 5% for supplies of goods and services in the hospitality sector. This change will come into operation with effect from 15 July 2020 until 12 January 2021.

Recognising the stimulus that the introduction of the reduced rate will have on the sector, the Chancellor has cut the rate to encourage customers to return to the hospitality market. Pubs, restaurants and hotels will welcome this announcement as they all return to more normal trading after the three-month shutdown caused by the global pandemic.

From an accounting point of view, businesses in the sector will need to review their accounting systems. These will need to be updated to reflect the change in the VAT rate and affected businesses will need to familiarise themselves with the 'time-of-supply' or tax-point rules.

### Reduced rate of VAT of 5% to apply until January 2021 for supplies in the hospitality and tourism sectors

In a move that was not wholly unexpected, the Chancellor of the Exchequer, Rishi Sunak, has, today, announced a temporary introduction of the reduced rate of VAT at 5% for the hospitality and tourism sectors. The Chancellor has also announced an 'eat out to help out' scheme to boost the restaurant sector during the month of August.

The announcement to introduce the reduced rate follows on the heels of other EU Member States (Germany and Austria for example) which have also announced temporary cuts to VAT rates. It is hoped that such a move will bolster the UK's post-pandemic flagging economy by stimulating consumer demand and spending in the tourism and hospitality sectors.

The Chancellor's announcement introduces the reduced rate of 5% for affected supplies of goods and services. This will come into force with effect from Wednesday 15<sup>th</sup> July 2020 and will apply to supplies of food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises across the UK taking place during the period to 12 January 2021. There will also be a similar temporary VAT cut for supplies of accommodation and admission to attractions. HMRC is to publish further guidelines on these measures shortly.

The 'eat out to help out' scheme will entitle every diner to a 50% discount of up to £10 per head on their meal, at any participating restaurant, café, pub or other eligible food service establishment. The discount can be used unlimited times and will be valid Monday to Wednesday on any eat-in meal (including on non-alcoholic drinks) for the entire month of August 2020 across the UK. It is not clear whether the 50% contribution to be paid by the Government will be regarded as a grant (and outside the scope of VAT) or whether it will be viewed as part payment of the price and subject to VAT. Hopefully, HMRC will provide clarity on this point in due course.

All businesses in the hospitality and tourism sectors (pubs, clubs, restaurants, cinemas, attractions and hotels etc) will be affected by these changes and will need to understand the impact on VAT accounting systems, invoicing and tax-points (time-of supply). The majority of business affected by this announcement are at the retail end of the market and will be able to apply the new VAT rate immediately. For businesses that issue invoices, the reduction in the standard rate creates a number of issues, not least, the question of timing for issuing invoices etc. Generally, a tax point occurs where goods are made available to a customer or a service is performed. This is known as the basic tax point. However, in normal circumstances, if a VAT invoice is issued within 14 days of the basic tax point, the date of the invoice becomes the actual tax-point for the supply.

Businesses may be asked by their VAT averse customers to delay invoicing until after the VAT rate has changed. Care is needed to ensure that the issue of an invoice is not delayed for more than 14 days after the basic tax point as this will mean that the 14 day rule is breached and the tax-point for the supply will revert back to the basic tax point. If the basic tax point was prior to the change in rate VAT will need to be accounted for at the old rate.

On the other side of the coin, businesses that are VAT averse should check their VAT invoices to ensure that their suppliers have calculated the VAT at the appropriate rate.

Any change to the VAT rate will require changes to accounting system software and may well require businesses to consult with their software providers. It may simply require the creation of a different VAT code for the new rate but businesses need to find out now how to implement these changes.

Grant Thornton has a national team of VAT specialists that can advise businesses in relation to these changes. Should you need any help, please make contact with your usual Grant Thornton advisor or speak to one of the contacts listed below.

### Contact

**Karen Robb**

T +44 (0)20 772 82556  
E karen.robb@uk.gt.com

**Nick Warner**

T +44 20 7728 3085  
E nick.warner@uk.gt.com

**Alex Baulf**

T +44 (0)207 728 2863  
E alex.baulf@uk.gt.com

**Daniel Sherwood**

T +44 (0)122 322 5616  
E daniel.sherwood@uk.gt.com

**Nick Garside**

T +44 (0) 20 7865 2331  
E nick.garside@uk.gt.com

**Paul Wilson**

T +44 (0)161 953 6462  
E paul.m.wilson@uk.gt.com

**Claire Hamlin**

T +44 (0)161 953 6397  
E claire.a.hamlin@uk.gt.com

**Morgan Montgomery**

T +44 (0)121 232 5126  
E morgan.montgomery@uk.gt.com

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