



Hospitality businesses – VAT reduction and Eat Out to Help Out

The Chancellor's Summer Statement on 8 July announced measures intended to support businesses affected by the enforced closures and social distancing measures necessitated by the COVID-19 pandemic. In order to protect jobs in the hospitality and tourism sectors the government has:

- extended the services to which the 5% reduced rate of VAT can be applied
- introduced the Eat Out to Help Out scheme.

Guidance has now been published by HMRC on these measures and we set out the main points below.

VAT reduction - which supplies can be reduced-rated?

From 15 July 2020 until 12 January 2021 certain supplies of hospitality, accommodation and admission to attractions will be subject to VAT at 5%.

Hospitality

- Supplies of food and non-alcoholic drinks for consumption on the same premises on which they were supplied. Generally speaking, this would mean a meal eaten in a restaurant or a cup of tea in a café. VAT Notice 709/1 – Catering and Takeaway Food, defines 'premises' as 'the areas occupied by the food retailer or, any area set aside for the consumption of food by the food retailers' customers, whether or not the area may also be used by the customers of other food retailers'.
- Hot takeaway food (cold takeaway food is already zero-rated, but note that sales of confectionery remain standard-rated).
- Hot takeaway drinks (cold takeaway soft drinks remain standard-rated).

Accommodation

- The provision of sleeping accommodation in hotels, inns, boarding houses and similar establishments.
- The grant of a license to occupy holiday accommodation.
- Charges for seasonal pitches for caravans - including supplies of facilities provided in relation to the occupation of the pitches.
- Charges for pitches for tents and camping facilities.

Notice 709/3 – Hotels and Holiday Accommodation defines 'hotels, inns and boarding houses' as:

'Commercial establishments providing lodging (furnished sleeping accommodation) and possibly meals and other facilities such as laundry services, communal TV or rest rooms and phone services for guests and visitors.'

An establishment does not have to provide food or other facilities to be regarded as a hotel, inn or boarding house'.

And 'similar establishments' as:



'Establishments with similar characteristics to hotels, inns and boarding houses, and any premises, in which furnished sleeping accommodation is provided, that are used by or held out as being suitable for use by visitors or travellers (but not if such use is only occasional).

This includes motels, guesthouses, bed and breakfast establishments, private residential clubs, hostels, and serviced flats (other than those for permanent residential use)'.

Attractions

The temporary reduced rating also applies to businesses that make supplies of admissions that are currently taxable at the standard rate. Examples are amusement parks, museums and zoos. Admission fees to sporting events are specifically excluded from the reduced rating.

HMRC has published guidance for this sector: 'VAT on Admission Charges to Attractions': bit.ly/3ffyABw.

Issues arising from the temporary reduced rating

Will there be price reductions?

It's hard to predict if the VAT reduction will be reflected in reduced consumer prices, because the measure was presented as a way of helping the sector, not the consumer. It is for the business to decide whether to maintain or reduce current prices.

Flat rate scheme

HMRC's guidance on the temporary reduced rating advises that certain flat rate scheme percentages have been reduced in line with the temporary reduced rate of VAT. However, at the time of writing, the flat rate scheme trade sector percentages in VAT Notice 733 – The Flat Rate Scheme for Small Businesses have not been reduced.

Transitional measures

There may be situations where a supply takes place on or after 15 July 2020, but payment is received or an invoice is issued before this date. If the normal tax point rules are followed, the date of the payment or invoice would become the tax point date for the supply, meaning it would be subject to VAT at 20%. In cases when there is a change of VAT rate, it is possible to use the special provisions in the VAT Act 1994 that allow the supplier to treat the date of supply as the tax point, making the supply reduced-rated.

HMRC guidance

HMRC guidance has been updated to reflect the changes in services subject to the reduced rate (with the exception of the Flat Rate Scheme). Links to the guidance are here:

VAT Notice 709/1 – Catering and Takeaway Food: bit.ly/38DKVNC.

VAT Notice 709/3 – Hotels and Holiday Accommodation: bit.ly/3ei6RPi

VAT Notice 733 – The Flat Rate Scheme for Small Businesses: bit.ly/2CSJyP2



The Notices state the date they have last been updated.

Eat Out to Help Out Scheme

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 month of August 2020 across the UK. Participating establishments will be fully reimbursed for the 50% discount.

Businesses can register for the scheme now and registrations will close on 31 August. Businesses can register if the establishment:

- sells food for consumption on the premises
- provides its own dining area or shares a dining area with another establishment for eat-in meals
- was registered as a food business with the relevant local authority on or before 7 July 2020.

Businesses cannot register:

- an establishment that only offers takeaway food or drink
- catering services for private functions
- a hotel that provides room service only
- dining services (such as packaged dinner cruises)
- mobile food vans or trailers.

Businesses should wait until they are registered before offering discounts to customers and discounts cannot be offered before 3 August 2020.

When registering for the scheme, it is expected that businesses will offer it during the whole of their opening hours on all the eligible days that the business is open and on all qualifying sales of food or drink.

Other points

For the purposes of this scheme, the term 'on premises' means any area set aside for the consumption of food or non-alcoholic drink by that establishment's customers, whether or not that area may also be used by the customers of other establishments.

Putting a table and chairs on the pavement outside a take-away or mobile van will not qualify. Establishments with only informal outside seating in an area that does not belong to the establishment and/or is not shared with other establishments, will not be eligible to participate in the scheme.

Businesses cannot apply the scheme discount to food and drink that is sold as part of a private party, event or function. However, businesses can apply the discount to food and drink sold in the normal course of the restaurant business.



If a customer only orders a non-alcoholic drink, the scheme discount applies.

Detailed records

For each day the business is using the scheme, records must be kept of:

- the total number of people who have used the scheme in the establishment
- total value of transactions under the scheme
- total amount of discounts given
- If businesses are using the scheme for more than one establishment, records must be kept for each.

Making a claim for reimbursement

Claims cannot be made yet. The service to claim reimbursements will be available on 7 August 2020 and the service will close on 30 September 2020.

Any money received through the scheme will be treated as taxable income.

HMRC guidance and registration for the scheme

The latest guidance will be found here bit.ly/3edB9D0

Details on the registration process are here bit.ly/2ZV9gun. We cannot apply on your behalf but the process is relatively straightforward.

How we can help

Whenever there is a VAT rate change to goods or services, there can be difficulties in determining whether a supply qualifies for the change in VAT rate. Please contact us if you would like our opinion on a particular transaction. We are also available to help you in managing the appropriate records that should be retained particularly with the correct treatment of supplies in transitioning from the standard rate to the reduced rate. Whilst we cannot apply on your behalf for the Eat Out to Help Out scheme, we are here to provide you with any help you require in implementing and managing the records required for the scheme.