

Preparing for a VAT rate cut

In a measure to encourage people to support the beleaguered leisure, tourism and hospitality sector including charities that have a hospitality element, the Chancellor Rishi Sunak has announced a temporary VAT rate of 5% which will apply to food and non-alcoholic drinks from restaurants, pubs, bars, cafés and to hot take-away food. The measure will also apply to supplies of accommodation and admission to attractions across the UK, including charities who host hospitality elements such as cafes. The reduced rate will be introduced with effect from Wednesday 15th July and will continue until January 12th 2021.

This is a welcome move for this sector which has been badly hit by lockdown restrictions. There are however difficulties with targeted VAT rate cuts in terms of creating anomalies, unfair competition and compliance issues – just getting it right and not falling foul of HMRC’s VAT penalty regime. We highlight below some practical steps that business and charities can take immediately to prepare.

The last VAT rate cut back in 2008 was brought in very quickly and caused major implementation issues for all types of businesses. It should be noted that this was the first time a VAT rate cut was used as part of a fiscal stimulus solution and if you have experience of this last time round you will agree that being prepared will be important for a stress free implementation.

“Preparing for such a big change at such short notice will be a major challenge for some businesses. For example, a pub will need to distinguish the VAT rates between non-alcoholic and alcoholic drinks for the first time.”

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During August participating restaurants will also be able to discount meals from Monday to Wednesday and then reclaim up to £10 per person from the government. The VAT treatment of the government’s contribution is still to be announced, but we anticipate that this will be treated as part payment for the meal and therefore liable to VAT at the new 5% rate. This could create an accounting challenge, particularly if payments are delayed.

VAT rate change checklist

Software changes. Can you do this in-house and set up new tax codes or do you need a software provider upgrade? Contact them now and get project management time booked in.

Prepare in-house invoice templates so that changes can be made to allow a new VAT rate to be charged. This can take up more time than expected and internal resources will be needed to implement this.

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Book marketing campaigns to coincide with the VAT rate cut. Do you have post Coronavirus campaigns in the pipeline? If so, bear this VAT rate change in mind.

If you have already taken deposits – you can choose to use the lower rate if the sale takes place after the change. The option to use the 'basic tax point' is going to be valuable for some attractions who have made advanced ticket sales. A difficulty is whether to pass on the benefit of the rate reduction to the customer. Failure to do so may create bad publicity, but cash strapped businesses may need to retain some of the benefit for themselves.

For prices in menus or on displays – stickers are a quick fix to match the item or a VAT discount can be offered at the point of sale at the till.

“A reduction in the VAT rate will benefit hotels, pubs and tourist attractions in the UK, encouraging travellers to holiday at home. Tour operators offering holidays in the UK, will want to see their suppliers passing on the VAT cut.”

Our latest Summer Economic VAT Update Webinar is now available to view below:




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