

## 5% rate for the hospitality and tourism industry and introduction of the “Eat out to help out” scheme

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## Introduction

This guide should be read by:

- Universities who provide eat-in or take-out food to students, staff and visitors, or accommodation;
- Student Unions who operate bars or catering outlets; and
- Subsidiaries of universities who provide catering and accommodation.

The Chancellor announced on 8 July 2020 that he is introducing a temporary reduced VAT rate of 5% to the supplies of accommodation, eat-in and takeaway food and entrance to attractions, to support the hospitality and tourism industry. He also announced the launch of the “Eat out to help out” scheme.

If you have any comments regarding this guidance please contact [andrea@bufdg.ac.uk](mailto:andrea@bufdg.ac.uk).

Guidance issued by HMRC regarding the introduction of a temporary reduced rate

An overview of the changes can be found in:

- [Guidance - VAT: reduced rate for hospitality, holiday accommodation and attractions](#)
- [Revenue and Customs Brief 10 \(2020\)](#).

The more detailed guidance can be found in:

- [Catering, takeaway food \(VAT Notice 709/1\)](#)
- [Hotels and holiday accommodation \(VAT Notice 709/3\)](#)
- [Tour Operators Margin Scheme \(VAT Notice 709/5\)](#)

(Tip: if you search on “temp” when reviewing these notices, it takes you to where the “temporary reduced rate references” have been added.)

There is a small amount of guidance in:

- [VAT on admission charges to attractions](#)
- [Food products \(VAT Notice 701/14\)](#), but most of this cross refers to Catering, takeaway food (VAT Notice 709/1).
- [Land and property \(VAT Notice 742\)](#), but most of this cross refers to Hotels and holiday accommodation (VAT Notice 709/3)

When will the 5% VAT rate apply from and to?

The reduced rate will be in place for 6 months, from **15 July 2020** until **12 January 2021**.

What catering supplies will the 5% temporary rate apply to?

The temporary reduced rate will apply to:

- hot and cold food and hot and cold non-alcoholic beverages for consumption **on** the premises at which they are supplied (for example, in a café or restaurant); and
- hot takeaway food and hot takeaway non-alcoholic beverages for consumption **off** the premises at which they are supplied.

The reduced rate relief applies to supplies of food and drink from **vending machines** in canteens and restaurant type areas.

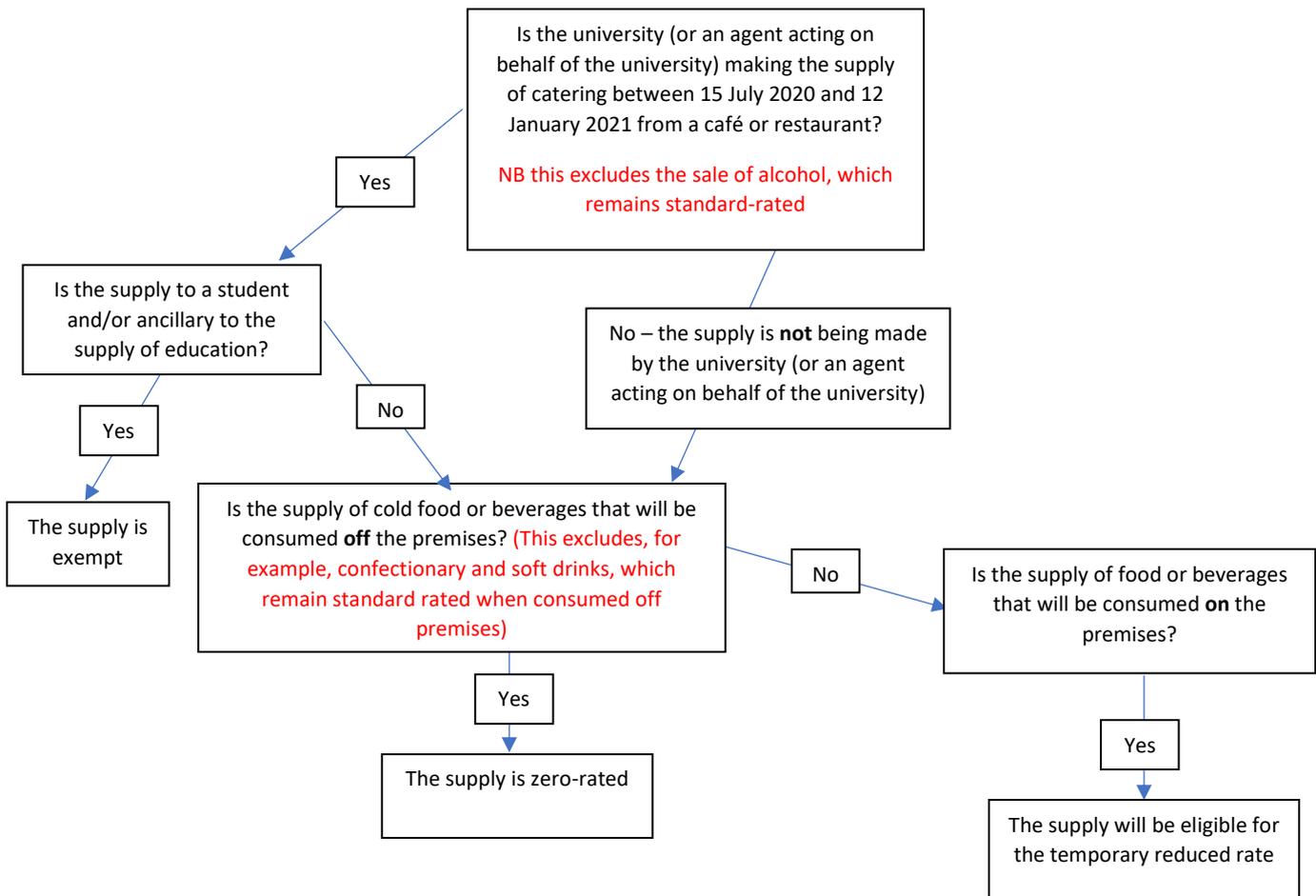
The reduced rate relief **will not** apply to:

- alcoholic drinks (nor it would seem mixers supplied with an alcoholic drink);
- the sale of standard rated food items (e.g. confectionery, crisps, bottled water and soft drinks) when purchased for consumption off premises; and

- catering services.

Supplies that are “ancillary” to the supply of education (such as student catering) are not affected by these changes.

This flowchart illustrates the treatment of supplies of catering from cafes and restaurants, etc on campus:



## Where is clarification needed?

If catering services are provided and not consumed on the same premises, then it appears that these do not qualify for the temporary reduced rate. So, what about the provision of conference facilities and catering?

At the moment the guidance is ambiguous. Premises from a catering perspective are categorised as bars, restaurants and cafes and from an accommodation perspective as hotels, boarding houses and similar. So where you have these facilities and catering is provided and consumed on premises it appears that the reduced rate will apply. However, Paragraph 4.3 of [Hotels and holiday accommodation \(VAT Notice 709/3\)](#) states:

*Where a meeting room is supplied, together with meals and overnight accommodation in return for an inclusive charge, each element is treated as a separate supply. **The catering and the overnight accommodation is taxable (and will benefit from the temporary reduced rate), while the supply of the meeting room is exempt unless you have made an option to tax.***

**But** then it goes onto say that:

*Any additional goods or services which are separately charged for are standard-rated (for example, **catering**, car parking, use of equipment and licensed bars).*

Paragraph 2.2.2 of [Catering, takeaway food \(VAT Notice 709/1\)](#) states:

*However, if you are supplying the food or drink under a contract, for example to cater for an event, you are making a supply of catering and all your supplies will be standard-rated (**unless the catering is supplied on-premises, in which case it will benefit from the temporary reduced rate**).*

Clarification will be needed on this area.

## What accommodation supplies will the 5% rate apply to?

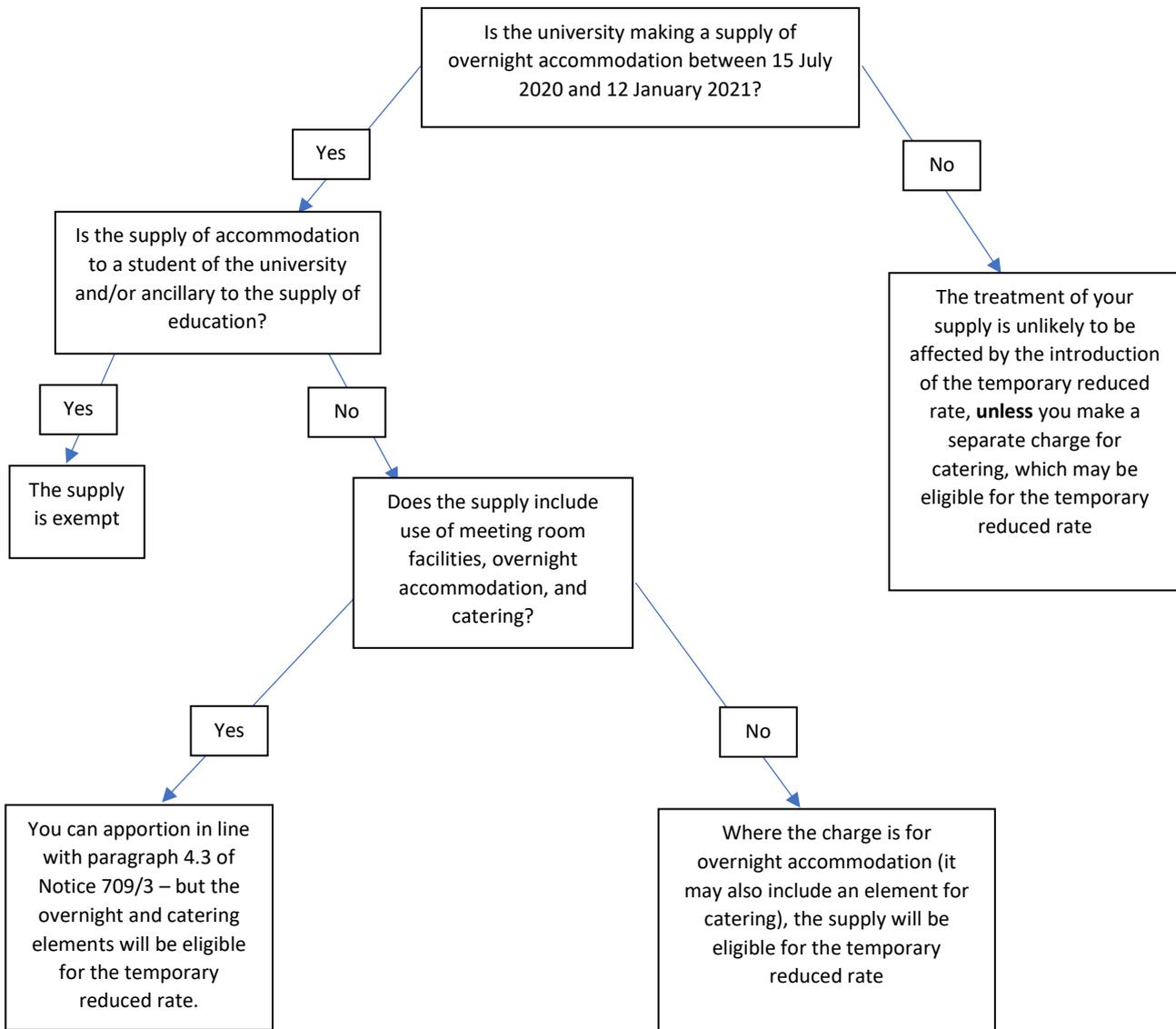
The temporary reduced rate will apply to:

- provision of sleeping accommodation in hotels and similar establishments;
- seasonal pitches for caravans and pitches for tents and camping facilities

So where, for example, a university lets out its student accommodation for a purpose that is not ancillary to education, the temporary reduced rate will apply.

The temporary reduced rate will also apply to the overnight accommodation and catering elements of packages that include meeting room facilities (see paragraph 4.3 of VAT Notice 709/3), such as delegate day rate packages. Please remember though that such packages may be exempt as supplies that are ancillary to the supply of education.

This flowchart illustrates the treatment of supplies of overnight accommodation by the university:



## What admission charges will the 5% rate apply to?

There is not much guidance on this change. HMRC have advised that where the standard rate currently applies to admissions, the reduced rate will apply and give the following examples:

- shows
- theatres
- circuses
- fairs
- amusement parks
- concerts
- museums
- zoos
- cinemas
- exhibitions
- similar cultural events and facilities

The reduced rate **may** apply to:

- a planetarium
- botanical gardens
- studio tours
- factory tours

It does not apply to admission to sporting events or sporting facilities, such as gyms.

## What issues do universities and subsidiaries need to consider in relation to the catering and accommodation temporary reduced rate?

Sales via tills, or other cash/card sales

- Consider if the university is going to change the price of food, non-alcoholic drinks and accommodation rates and pass the savings onto consumers OR charge the current price and take the benefit of the VAT saving;
- Depending on what is decided, till systems, price lists shown on premises or on the internet may need to be updated;
- Look at the VAT rates that tills or point of sales (“POS”) equipment have programmed into them. Catering outlets and accommodation facilities may have only processed exempt, zero and standard rated sales, so the 5% rate may have to be added;
- Consider if tills or POS equipment will need to be updated to apply the reduced VAT rate to eligible supplies. For example, if the till system drives the VAT charged based on a product file,

then it will need to be updated to show the 5% instead of the 20% rate, effective from 15 July 2020;

- Remember that any changes are going to have to be reversed in 6 months-time, so consider if there is an ability within the system to apply the reduced rate only for a set period;
- Where the university has contracted-out its catering, check that the 5% rate has been applied correctly to supplies that the contracted-out caterer has made on behalf of the university from 15 July 2020 and that this rate is reflected in that paperwork that is provided to the university;
- If a customer requests a VAT receipt, provided that supply is less than £250 the university can provide a less detailed tax invoice. HMRC's guidance on this can be found in paragraph 5.4 of [Public Notice 700/21](#). The key point is that supplies subject to VAT at 0%, 5% and 20% rates will need to be shown separately;
- Where accommodation charges are not invoiced, for example they may be booked on-line or over the phone and receipts emailed out, the university will need to update the system so that supplies of accommodation made for 15 July 2020 onwards reflect the reduced VAT rate;
- Careful consideration needs to be given to meal deals that include alcohol (e.g. pay £10 for a pint and pizza) and how the tills process these, given that two VAT rates will apply to the supply made; and
- If you sell and accept vouchers in your establishments, care needs to be taken as to when VAT should be accounted for on the sale of the voucher and the VAT liability of the goods or services that the vouchers are being used to purchase.

What needs to be considered when uploading income that has not been invoiced into the Finance system?

- If cash/card receipts are automatically uploaded via an interface with the till or POS, check that the correct VAT rate has been applied for sales made from 15 July 2020 onwards;
- If the university calculates the VAT liability outside the till system (for example, within a spreadsheet), check that the correct **VAT fraction of 1/21** is being for income received from 15 July 2020 onwards; and
- Sometimes uploads only happen every few days, but check that the university can separate its Daily Gross Takings figure for a cut-over at midnight from Tuesday 14 July to Wednesday 15 July.
- Careful consideration needs to be given to meal deals (e.g. pay £10 for a pint and pizza) as these will need to be apportioned between the 5% and 20% rates.

Supplies that will be invoiced between 15 July 2020 and 12 January 2021

- The university's finance systems will probably already have a 5% rate set-up (given that universities buy-in supplies at the 5% rate);
- Check that the sales invoicing system can apply the 5% rate and that sales invoice templates include the 5% rate ;

- Where the finance system drives the VAT liability of supplies that are invoiced, it will need to be updated to temporarily amend eligible supplies from the standard to reduced rate; and
- If payment is received or a tax invoice raised **before** 12 January 2021 for a supply that will be made on or after 12 January 2021, the university can still account for VAT at 5%, as the earlier of the date that payment is received or an invoice issued will establish the “normal” tax point rules.

#### Supplies that have been invoiced before 15 July 2020

- Where the university has partially or fully invoiced for an accommodation booking and/or a supply of catering that will take place between 15 July 2020 and 12 January 2021, and charged VAT at 20%, consider if it is going to credit the difference between the 5% and 20% VAT that has been charged in accordance [with para 30.7.4 and 30.7.5 of Notice 700](#); and
- Any VAT refund that the university receives **MUST** be passed onto the customer (so will in reduce the gross amount that they pay) and the university has 45 days from the change of VAT rate to raise the credit note.

For example, if you have raised an invoice for £100 plus £20 VAT before 15 July 2020 for a supply that will take place between 15 July 2020 and 12 January 2021 and is eligible for the 5% rate, you could credit £15 of the VAT, so that the amount that the customer pays is £100 plus £5 VAT.

#### Other considerations on the income side

- Check that the VAT return workings (again often in spreadsheets) reflect the correct VAT rate and or VAT fraction;
- If quotations are provided (for example, for future bookings of accommodation) check if the systems that calculate the quotes need updating (some quote on a net “plus VAT” basis rather than quoting an actual VAT figure);
- Check that Terms and Conditions have been drafted on a “plus VAT” basis rather than quoting an actual VAT rate; and
- Where the university have internal training materials, handbooks, seat notes, etc., these will need to be reviewed and updated to reflect this change.

#### Points to consider with regard to expenditure

- Purchase Orders -
  - Purchase ordering systems may need to be updated to reflect the temporary reduced rate that will apply to, for example, UK hotel bookings;
  - Care will need to be taken in relation to bookings that are made before 12 January 2021 but apply to accommodation provided after 12 January 2021, when the rate that will apply has gone back up to 20%;

- Processing of purchase invoices -
  - Any staff that process, authorise or pay purchase invoices will need to be aware of the rate change;
  - Where invoices are matched against a Purchase Order and automatically processed, consider if these will “error” if the VAT on the invoice is lower than on the order value; and
  - Some systems “suggest” a VAT figure when purchase invoices are processed, staff will need to monitor this and ensure that the correct VAT figure is entered into the Finance system
- Check that the correct VAT liability has been applied to a supply – as we have seen with the introduction of the zero-rating of e-publications, the transitional period creates its own issues, as suppliers systems are updated with the new rate and questions arise over the tax points of supplies.

## Eat out to Help Out Scheme

[HMRC have issued guidance](#) on how to register a restaurant or establishment for the Eat Out to Help Out Scheme and [more examples of how it will operate](#). Registration opens on 13 July 2020.

The Eat Out to Help Out Scheme can be used:

- all day, every Monday, Tuesday and Wednesday from 3 to 31 August 2020;
- to offer a 50% discount, up to a maximum of £10 per person, to diners for food or non-alcoholic drinks to eat or drink in; and
- to claim the money back from the government.

An establishment can be registered if it:

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

There are restrictions, such as the scheme cannot be used for takeaway food and for private function catering.

VAT should still be accounted based on the value of the supply made. Be careful not to account for VAT again when any reimbursement is received from HMRC. So for example,

	<u>Gross</u> <u>Amount</u>	<u>Net</u> <u>Amount</u>	<u>VAT</u> <u>Amount</u>
4 meals @ 17.50	70.00	66.67	3.33
4 non-alcoholic drinks at £5	20.00	19.05	0.95
2 alcoholic drinks at £5 each	10.00	8.33	1.67
Discretionary tip	10.00	10.00	-
<b>Total bill</b>	<b>110.00</b>	<b>104.05</b>	<b>5.95</b>
Amount that Eat out to Help out discount can be applied to	90.00		
Uncapped discount to customers (50% of 90)	45.00		
Capped discount (£10 per diner)	- 40.00	- 40.00	-
<b>Bill after discount is applied</b>	<b>70.00</b>	<b>64.05</b>	<b>5.95</b>

It will be crucial for business to have a strong audit trail to support the claim for the discount from HMRC.