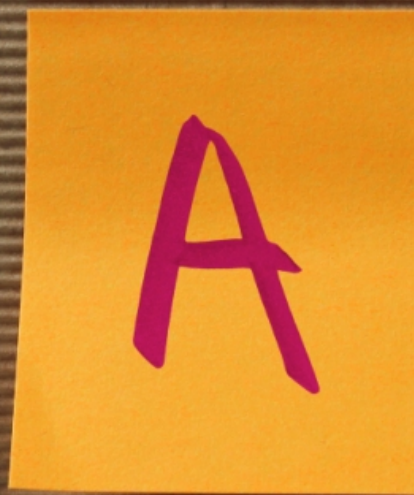


VAT Rate Cut



Chiene+Tait

CHARTERED ACCOUNTANTS

UK VAT Rate Cut Details

The Chancellor Rishi Sunak has announced a temporary 5% VAT rate which will come into effect from 15 July to 12 January 2021. The main areas which will be affected are:

- Sales of Food and non-alcoholic drink in restaurants, pubs, bars, cafes and similar premises;
- Hot takeaway food and non-alcoholic beverages;
- Sleeping accommodation in hotels, B&B and similar accommodation including holiday accommodation, pitch fees for caravans and tents and associated facilities; and;
- Admissions to tourist attractions such as theatres, concerts, amusement parks etc.

The changes are not limited and will impact on any businesses or organisation that provide food or drink, accommodation, or are considered a tourist attraction. From 15 July 2020, a rate of 5% VAT will apply to the following income:

Sector	Working Example	Not included (and still subject to 20% VAT)
Sales of food and drink	All food and non-alcoholic drinks in restaurants, pubs, cafes etc. including hot takeaway food and non-alcoholic beverages.	Alcoholic drinks
Hotel, B&B, Holiday Lettings, Caravan Parks	Sleeping accommodation in hotels and similar including holiday accommodation, pitch fees for caravans and tents and associated facilities.	No exemptions
Tourist attractions	<p>Admissions to tourist attractions including theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities.</p> <p>If an admission fee is charged to view an online live performance (not a pre-recorded event), this may be eligible for the temporary reduced rate of VAT. This depends on the circumstances in each case and is subject to the fee not already being covered by the cultural exemption.</p>	<p>Where admission to these attractions is covered by the existing cultural exemption, the exemption will take precedence.</p> <p>The temporary reduced rate does not apply to admission to sporting events.</p> <p>This temporary reduced rate only applies to admission fees. However, where goods are part of the admission fee and are incidental to the main supply, the whole supply is eligible for the temporary reduced rate.</p>

Main Issues

1 Tax Points

Affected businesses must start charging the reduced rate of 5% from 15 July 2020. This means all takings, supplies made and subsequent invoices issued on or after 15 July 2020 until 12 January 2021 must be charged at the 5% rate.

2 VAT Inclusive Amount

If you calculate your VAT due on gross takings, the VAT fraction to establish the new 5% rate is 1/21.

3 Deposits

Where payment or a deposit has been received before 15 July 2020 but the goods or services are supplied after the VAT rate change, the business can choose to charge and account for VAT at the new 5% rate on goods removed or services performed on or after 15 July 2020 even though a payment has been received or a VAT invoice issued before that date.

If the business has already issued a VAT invoice showing the 20% rate of VAT, this must be corrected by issuing a credit note for the initial transaction. The rate of VAT to be used for refunds/credit notes is the one that was in force at the time of the original supply.

4 Supply made before the rate change but invoiced issued after

In cases where the supply has been made before 15 July 2020, but the invoice is issued afterwards the general tax point rules will apply, as follows.

A basic tax point is created for:

- Goods when the goods are sent or collected by the customer or made available to the customer;
 - Services when the services are performed or completed.
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The basic tax point is overridden if an actual tax point is created, that is:

- If before the basic tax point you issue a VAT invoice or receive payment for the goods/service – the tax point will be the date of the VAT invoice or the date when payment is received, whichever happens first.
- If you issue a VAT invoice up to 14 days after the basic tax point, then the tax point is the date the invoice is issued.

For this scenario, the new rate will apply if an invoice is issued on or after 15 July 2020, and the service or goods were supplied up to 14 days before 15 July 2020. Otherwise the standard rate of 20% will apply to the supply.

5 VAT Returns

If your VAT return includes invoices issued at both the old and new rate of VAT, and is due to be submitted after the new rate is introduced you will need to account for VAT at both rates, so at 20% before 15 July 2020, and 5% thereafter as charged on your sales invoices.

6 Passing on the VAT savings

The reduction of the VAT rate is designed to boost the economy, encourage consumer spending and help businesses. Businesses therefore have the choice whether to cut prices and pass the discount onto the customer or retain the profits by maintaining the higher prices (i.e. there is no requirement to pass the discount in VAT onto the consumer). We recommend that businesses take advice from a commercial and reputational perspective.

7 VAT Schemes

Cash accounting – if using the cash accounting scheme a business accounts for VAT at the point payment is received, however the general tax point rules apply. VAT will only be due at the new rate for supplies made after 15 July 2020.

Flat rate scheme – If you are a small business and use the Flat Rate Scheme to simplify your VAT calculations you should be aware that certain percentages have been reduced in line with the introduction of the temporary reduced rate of VAT. Some businesses might decide that leaving the scheme will be more beneficial.

Retail scheme – The new rate will apply to takings received on or after 15 July 2020. Some businesses that use the retail scheme may need to apportion their takings and apply the standard rate and the reduced rate, where the change spans a VAT period. It will be important that the VAT rate for affected supplies is updated on till systems.

Payment on account – the rate change will not affect payments of account. However, if your business' VAT liability is expected to decrease by 20% or more you can write to HMRC and request reduced payments.

Annual accounting – HMRC will not change any instalment unless you expect your VAT liability to decrease (or indeed increase) significantly over the course of the year. HMRC can be contacted if you consider this will be the case.

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Guidance

Full links to HMRC's guidance can be found here:

<https://www.gov.uk/government/publications/revenue-and-customs-brief-10-2020-temporary-reduced-rate-of-vat-for-hospitality-holiday-accommodation-and-attractions/guidance-on-the-temporary-reduced-rate-of-vat-for-hospitality-holiday-accommodation-and-attractions>

<https://www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions>

<https://www.gov.uk/guidance/vat-on-admission-charges-to-attractions>

All HMRC VAT Notices for the respective sectors have also been updated to reflect the changes announced:

- Catering, takeaway food (VAT Notice 709/1)
- Food products (VAT Notice 701/14)
- Hotels and holiday accommodation (VAT Notice 709/3)
- Tour Operators Margin Scheme (VAT Notice 709/5)
- Land and property (VAT Notice 742)

Eat out to help out

A further measure "Eat Out to Help Out" was announced to encourage people to eat out. This 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. Participating establishments will be fully reimbursed for the 50% discount.

Businesses that wish to participate in this scheme will be required to register with HMRC. Businesses can still register for the Eat Out to Help Out Scheme if they have utilised other schemes available from the Government. Provided the business submitted its application to the relevant local authority on or before 7 July 2020, the business will be eligible for the scheme.

The Government has confirmed that business owners offering this discount will have to account for VAT on the whole value of eat-in meals, so this should be factored into businesses processing for VAT return purposes.

Full details on this scheme can be found here – <https://www.gov.uk/government/publications/get-more-information-about-the-eat-out-to-help-out-scheme/get-more-information-about-the-eat-out-to-help-out-scheme>

If you wish to discuss the impact of the VAT rate cut on you please contact our Director of VAT & Indirect Tax, Iain Masterton .

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