

Preparing for a VAT rate cut

In a measure to encourage people to support the beleaguered leisure, tourism and hospitality sector, 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. 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 a business 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.”

During August participating restaurants will also be able to discount meals from Monday to

About Us

MHA Moore and Smalley is a leading independent provider of accounting, business advisory and wealth management services. We have offices in Preston, Blackpool, East Midlands, Kendal, Lancaster, Liverpool, Manchester and Southport, with 300 partners and staff providing trusted advice to clients across the UK. We are also part of a global network of firms, helping clients with international trade matters

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.

Now, for tomorrow

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:




Contact Us




Jonathan Main
Indirect Tax Partner

E: jonathan.main@mooreandsmalley.co.uk
T: 07760 166802

mooreandsmalley.co.uk

 @MooreandSmalley

 Offices in: Preston, Blackpool, East Midlands, Kendal, Kirkby Lonsdale, Lancaster, Liverpool, Manchester and Southport

Moore and Smalley LLP is a limited liability partnership that is registered in England and Wales under registration number OC313995 whose registered office is Richard House, 9 Winckley Square, Preston, Lancashire, PR1 3HP. The term “partner” indicates a member of the LLP who is not in partnership for the purposes of the Partnership Act 1990 and a list of members is available from the registered office. The LLP trades as MHA Moore and Smalley and is registered to carry on audit work in the UK by The Institute of Chartered Accountants in England and Wales and is authorised and regulated by the Financial Conduct Authority. Moore and Smalley LLP trading as MHA Moore and Smalley is a member of MHA, an independent member of Baker Tilly International Limited, the members of which are separate and independent legal entities. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity, and each describes itself as such. Moore and Smalley LLP is not Baker Tilly International’s agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International’s behalf. None of Baker Tilly International, Moore and Smalley LLP, nor any of the other member firms of Baker Tilly International has any liability for each other’s acts or omissions. Arrandco Investments Limited is the registered owner of the UK trade mark for the name Baker Tilly. The associated logo is used under licence from Baker Tilly International Limited.

Moore and Smalley C.A. Limited is a limited company that is registered in England and Wales under company number 5373155. Its directors are Deborah Wood FCA and Christine Wilson FCA and its registered office is Richard House, 9 Winckley Square, Preston, Lancashire, PR1 3HP. Moore and Smalley C.A. Limited is a wholly owned subsidiary of Moore and Smalley LLP and trades as MHA Moore and Smalley.

Moore and Smalley LLP (Blackpool) is a member of AISMA, Association of Independent Specialist Medical Accountants.

Moore and Smalley C.A. Limited (Nottingham) is a member of AISMA, Association of Independent Specialist Medical Accountants.

Now, for tomorrow

An independent member of
bakertilly
INTERNATIONAL