

# VAT rate change in hospitality and tourism sectors



## Food, drink and accommodation supplies to be subject to a reduced VAT rate of 5% to drive the economy

The Chancellor has announced that a reduced rate of VAT at 5% will apply to certain supplies of food, drink, accommodation and attractions in the hospitality and tourism sectors, effective from Wednesday 15 July 2020. Importantly, alcoholic drinks are excluded from the VAT rate reduction and will continue to attract VAT at 20%. The applicable VAT rate will return to 20% from 12 January 2021.

There are a number of issues that business need to consider when implementing a VAT rate change. Businesses need to be ready to respond to issues such as:

- systems and software changes including Point of Sale till systems;
- changes to the pricing of products;
- bookkeeping adjustments;
- decisions around timing of sales and invoicing;
- transactions which span the VAT rate change
- specific VAT accounting changes such as flat rate schemes and adjusting payments on account;

The VAT rate change could lead to potential cashflow issues for some businesses that are required to pay out 20% VAT on purchases leading up to the date of change in the rate, while only collecting VAT only at the new lower rate of 5% from their customers. We recommend businesses review cash flows and particularly the timing of purchases and sales. The Government may introduce anti-forestalling legislation to ensure that businesses are not able to use artificial arrangements to advance sales and purchases to take advantage of the reduced VAT rate on goods or services.

The last VAT rate was cut was in 2008, and this was across the board rather than industry specific. However, many businesses faced significant challenges at that time regarding the timing and correct implementation of the changes. We understand that every business is different, and are able to use our knowledge and experience of working with clients to advise and implement solutions appropriate for your business today and for the future. We can help you to obtain the full advantage of the cut in the VAT rate.

### For more information, please contact:

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#### Important information

Tax legislation is that prevailing at the time, is subject to change without notice and depends on individual circumstances. Clients should always seek appropriate tax advice from their financial adviser before making financial decisions.

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