

VAT:

HOSPITALITY SECTOR CHANGE OF RATE ISSUES



HOSPITALITY
& LEISURE

As part of the government's response to Covid they announced a reduced rate of VAT for the hospitality sector which included hotels and tourist attractions. The rate is changing from 5% to 12.5 % on the 1st October. So what are the pitfalls or issues for businesses affected by the rate change?

1 ANTI-FORESTALLING

Unlike other change of rate announcements, there are no special anti-forestalling measures in place. This means that the rate applied to a service is based on the tax point of the supply. Tax points are created by advance payments such as deposits as well as the issuing of an invoice. So a business that takes a deposit before the change of rate but with the actual supply being after the date then VAT needs only be accounted for at the 5% rate on the deposit amount. This would also apply to any payments received in full before the change of rate even if the booking is for after the rate change.

2 HOTEL ROOM LET OVER 28 DAYS

As many hotels know if a room is let for a continuous period of 28 days or more then the VAT can be calculated after day 28 based a percentage of the total costs (at least 20%) which is deemed to be attributable to the additional services (cleaning, servicing the room etc.). Hotels need to revise the VAT amount of the invoice to reflect the change of VAT rate from 5% to 12.5%.

3 CANCELLATION FEES

If a hotel charges a cancellation fee for a guest then the cancellation fee is not liable to VAT. Be aware that HMRC will not accept an amount initially charged as a deposit being "renamed" and then seen as a cancellation fee.

4 POTENTIAL REFUNDS

All businesses want to ensure that they account for VAT correctly but if as a business you have not, it is always better to disclose the issue to HMRC. It could be possible that as a result of not applying any or some of the above correctly you could have overpaid VAT and be due a refund.



Menzies have a very experienced VAT team who would be happy to discuss these or other VAT issues. You can contact a member of the team on: advice@menzies.co.uk