



# Temporary reduced VAT rate FAQs

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**In an effort to boost the UK hospitality and leisure sector, the UK government has introduced a temporary VAT cut for certain sales in the sector. From 15 July 2020 to 12 January 2021, the reduced rate of UK VAT will apply to catering, takeaway hot food and drink sales, accommodation charges and admission to certain events. This document outlines the new rules and some common questions.**

## Overview of the rules

The 5% reduced VAT rate will temporarily apply to certain sales within:

- Catering and takeaway food
- Hotel and holiday accommodation
- Admission to events

It will apply from Wednesday 15 July 2020 to Wednesday 12 January 2021. In terms of what it includes, we note the following:

### i. Catering and takeaway food

- All food and drinks (excluding alcoholic drinks) sold for eat in (i.e. consumption on the seller's premises).
- Hot food and hot drinks (excluding alcoholic drinks) sold for takeaway.

The VAT liability for takeaway cold food and cold drinks will remain unchanged. Compulsory service charges are also not included within the relief.

Alcoholic drinks are those which are subject to excise duty. Broadly, this means any drink with alcohol strength 1.2%ABR.

### ii. Accommodation

- Sleeping accommodation including hotels, holiday rentals, pitch fees for caravans, tents and associated facilities.

### iii. Events admission

- Admission to attractions including theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and

similar cultural events and facilities (that are not subject to the cultural exemption).

- Factory and studio tours are also included.
- Online events or performances can qualify for the VAT relief provided the event is live and meets the criteria.
- Admission to sporting events is specifically excluded and so remains subject to VAT at 20%.

## Common questions

### Q - What is the correct VAT rate of a package with more than one element?

The correct VAT rate depends on whether there is a 'single' or 'multiple' supplies for VAT purposes.

If the package is a single supply, the VAT liability will follow that of the predominant element. If the package is made up of multiple supplies, the price will need to be apportioned to each element and VAT charged accordingly.

For example, a package of wedding services which includes catering which is provided in house as a separate supply, may be considered as a multiple supply which could mean the catering is subject to the temporary reduced rate.

The method used to apportion the price needs to be fair and reasonable. Typically businesses use the retail or the cost prices of each element.

## Common questions (continued)

### **Q – Are additional supplements, such as ‘late checkout’ and upgrades eligible for the reduced rate?**

Additional supplements can be eligible for the reduced rate when they are extensions of an existing sale. For example a seat upgrade at a theatre or payment for a late checkout at a hotel.

The reduced rate would not, however, apply to other services provided, such as laundry or babysitting at a hotel.

### **Q – What is considered an ‘alcoholic beverage’ which is not eligible for the temporary reduced rate?**

Drinks with a strength of 1.2% ABV (alcohol by volume) and above are subject to excise duty, and are considered ‘alcoholic beverages’ for VAT purposes

Beverages below 1.2% ABV in strength therefore qualify for the reduced rate when sold in the course of catering for on-premises consumption.

### **Q – How should promotions be treated for VAT purposes during the temporary reduced rate period?**

Promotions will still be subject to the same VAT rules as before. However, as businesses will now be selling products with different VAT rates, they cannot simply apply VAT at the standard-rate for all goods/services.

A basic principal of VAT is that it should be charged where there is any payment for goods or services. Where a business offers promotions, it needs to work out what payment is being received and ensure VAT is charged accordingly.

Where a “free” item is offered as part of a promotion, it is likely that the customer is paying for the “free” item as part of a wider package. If an item is truly free, there are still rules that can require VAT to be declared.

### **Q – How should reservation payments be treated if the reservation was made prior to 15 July for use before 12 January 2021, and similarly for reservation payments made during the temporary reduced rate period for use after 12 January 2021?**

For reservations made before 15 July 2020, which are used during the period of the temporary reduced rate, businesses can choose to charge VAT at the new rate. If you have already issued a VAT invoice showing the old rate of tax and wish to make use of this option, you must issue a credit note to customers within 45 days of the VAT rate change (i.e. before 28 August 2020) showing the reduced VAT rate.

For bookings where the relevant supply is taking place after 12 January 2021, VAT can be charged at the reduced rate if payment is taken or an invoice is issued in the reduced VAT rate period. We are not currently aware of any potential anti-forestalling rules that HMRC may apply in this respect.

The same rules apply for accommodation reservations and admissions or ticket purchases.

### **Q – Admission to certain attractions are eligible for the reduced rate. What does ‘admission’ include?**

The reduced rate is applicable to admission to certain attractions (that is, the right to enter a place or to join an institution or organisation) and any goods included in this admission fee which are incidental to admission. Incidental goods are those provided for better use and enjoyment of admission (such as a leaflet or programme) but are not a separate aim in themselves.

For example, if an art gallery holds an exhibition and customers receive a drink as part of the admission fee, it could potentially be a single supply and will benefit from the reduced rate. However, if the provision of the drink is considered a distinct and separate supply for VAT purposes, it would not qualify.

## Contact us

For more information about how KPMG can support you with the implementation of the temporary reduced VAT rate, please contact your usual KPMG contact or one of our leisure specialists.



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