

EXPLANATORY MEMORANDUM TO
THE VALUE ADDED TAX (REDUCED RATE) (HOSPITALITY AND TOURISM)
(CORONAVIRUS) ORDER 2020

2020 No. 728

1. Introduction

- 1.1 This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC), where relevant on behalf of HM Treasury, and is laid before the House of Commons by Command of Her Majesty.
- 1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Purpose of the instrument

- 2.1 This instrument introduces a temporary Value Added Tax (VAT) relief for certain supplies relating to hospitality, holiday accommodation and admission to certain types of attractions (“relevant supplies”). The relief is in the form of a reduced rate of 5% for all relevant supplies for a temporary period starting on 15 July 2020 and ending on 12 January 2021. The intention is to support employment in the tourism and hospitality sector to help businesses to recover from the economic impacts of the coronavirus pandemic.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

- 3.1 The 21-day rule, which by convention requires that a statutory instrument should generally be laid at least 21 days before it is due to come into force, is breached on this occasion. The reason for the breach is the urgent nature of the matter and the necessity to bring the tax relief into effect at the earliest opportunity. It is a temporary tax relief that supports the reopening of businesses at a time when they have been impacted by forced closures and will still need to comply with social distancing measures.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

- 3.2 As the instrument is subject to the negative resolution procedure, there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage.

4. Extent and Territorial Application

- 4.1 The territorial extent of this instrument is the whole of the United Kingdom.
- 4.2 The territorial application of this instrument is the whole of the United Kingdom.

5. European Convention on Human Rights

- 5.1 The Financial Secretary to the Treasury, the Rt Hon Jesse Norman MP, has made the following statement regarding Human Rights:

“In my view the provisions of the Value Added Tax (Reduced Rate) (Hospitality and Tourism) (Coronavirus) Order 2020 are compatible with the Convention rights.”

6. Legislative Context

- 6.1 Section 29A of the Value Added Tax Act 1994 (VATA) provides that the supplies of goods or services described in Schedule 7A to VATA shall be subject to a reduced rate of VAT of 5%.
- 6.2 Section 29A(3) of VATA confers a power on the Treasury to vary Schedule 7A by adding to, deleting from or varying the description of the supplies that are specified in it. Schedule 7A is divided into a number of Groups containing a description of the supplies attracting the reduced rate relief within different categories of business activity.
- 6.3 This instrument adds three new categories in the form of new Groups 14 to 16 which specify the relevant supplies.
- 6.4 The instrument also makes changes to regulation 55K of the Value Added Tax Regulations 1995 (SI 1995/2518) to make consequential changes to some of the percentage rates that apply under the VAT Flat-Rate Scheme, which simplifies VAT calculations for small businesses. These changes are also time-limited to match the period during which the relief will be in place.

7. Policy background

What is being done and why?

- 7.1 This temporary relief is being introduced to support employment and the reopening of businesses in the hospitality, accommodation and tourism sectors which, for the period that it is in place, will only be required to charge and account for VAT at the reduced rate on the specified supplies.
- 7.2 For the hospitality sector, the relief will cover all supplies made of hot and cold food and hot and cold non-alcoholic beverages consumed on premises in restaurants, cafes, pubs and similar establishments. It will also cover supplies of hot takeaway food and hot takeaway non-alcoholic beverages for consumption off the premises. Supplies of cold takeaway food and cold takeaway beverages for consumption off the premises remain subject to the current rules i.e. the items are zero rated for VAT purposes, unless they fall under one of the excepted items in Group 1 of Schedule 8 to VATA, in which case they are standard rated.
- 7.3 For the accommodation sector, the relief applies to the provision of sleeping accommodation in hotels and similar establishments, the grant of a licence to occupy holiday accommodation (which is defined in Note (13) to Group 1 of Schedule 9 to VATA), as well as pitch fees for caravan parks and tents and associated facilities.
- 7.4 The relief also covers admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions, and similar cultural events and facilities. Where such supplies made by businesses are also eligible for the existing cultural exemption (in Group 13 of Schedule 9 to VATA), the exemption takes precedence.
- 7.5 The instrument also makes consequential changes to the percentage rates at which businesses in the affected sectors who are eligible for the VAT Flat-Rate Scheme account for and pay VAT, to ensure that they benefit from the reduced rate.

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to the United Kingdom's withdrawal from the European Union.

9. Consolidation

9.1 This instrument makes amendments to Schedule 7A to VATA and there are no plans to consolidate the legislation at this time.

10. Consultation outcome

10.1 As the Government has decided to implement this as an emergency measure to support the reopening of businesses, it has not been possible to consult in the time available.

11. Guidance

11.1 Guidance was published on 9 July 2020 and can be found at <https://www.gov.uk/guidance/vat-reduced-rate-for-hospitality-holiday-accommodation-and-attractions>.

12. Impact

12.1 The impact on business, charities or voluntary bodies is expected to be a significant benefit for more than 100,000 businesses by substantially reducing the VAT they are required to charge and account for to HMRC. This temporary relief is being introduced as an urgent response to support the reopening of businesses. One-off costs will include familiarisation with the changes and include changes to IT systems and/or menus to alter prices. There are not expected to be any ongoing costs. There is no, or no significant impact, on charities or voluntary bodies.

12.2 There is no, or no significant, impact on the public sector.

12.3 A Tax Information and Impact Note covering this instrument will be published on the website at <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.

12.4 The measure is expected to positively impact a large number of individuals by lowering the VAT charged on hospitality, holiday accommodation and admission to certain types of attractions.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses. Small businesses that make the supplies included within the relief will substantially benefit, either by increased business as a result of reducing their prices or by increased profits. One-off costs will include familiarisation with the changes as well as some changes to IT systems to alter prices. There are not expected to be any ongoing costs

13.2 To minimise the impact of the requirements on small businesses (employing up to 50 people), the government will ensure that there is sufficient guidance available for businesses to make the changes and benefit from the tax relief.

13.3 The basis for the final decision on what action to take to assist small businesses is that the measures introduced by this instrument will benefit such businesses and public guidance will enable them to be aware of and apply the tax relief.

14. Monitoring & review

14.1 It is a temporary measure intended to relieve businesses from some of the burden of VAT for a limited period. The relief will come to an end on 12 January 2021.

14.2 The instrument does not include a statutory review clause because it relates to tax and therefore meets the requirements of the exemption set out in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015 because the power by which this instrument is made is being exercised so as to make or amend provisions imposing, abolishing, or varying any tax, duty, levy, or other charge or provisions in connection with such provisions.

15. Contact

15.1 HMRC email: HMRC can be contacted at VATtourismandhospitality@hmrc.gov.uk with any queries regarding this instrument.

15.2 Ian Broadhurst, Deputy Director VAT Reliefs, Deductions and Financial Services, Indirect Tax Directorate, at HMRC can confirm that this Explanatory Memorandum meets the required standard.

15.3 The Rt Hon Jesse Norman MP, Financial Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.