

Your Guide to VAT - Hospitality Sector

Disclaimer

The information contained in this guide has been extracted from HMRC VAT online guidance and produced in summary form for general awareness.

Specific VAT issues should always be confirmed with an accountant.

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Current rate and duration

On 8 July 2020 a reduced rate of 5% VAT was introduced for:

- The hospitality sector
- Hotel and holiday accommodation
- Admissions to certain attractions

However, from 1 April 2022, the normal VAT rules apply and VAT should now be charged at the standard rate of 12.5%.

Why is it beneficial to register for VAT?

It can sometimes be beneficial to register for VAT for a business. This is because you can claim back the VAT on your expenses, reducing the amount of VAT you need to pay to HMRC.

If you are still using goods purchased from before your registration, you can include these in your initial VAT return.

There is also a certain credibility to a business with a VAT registration number. It says to customers that you are a genuine business with a professional image. It may also inadvertently give customers the impression that your business is bigger than it actually is. Some of the schemes in place such as the flat rate scheme can help to maintain a regular VAT amount for cashflow and make record keeping more simple, so these are worth investigating before you register.

When to register for UK VAT

You should register when your taxable turnover exceeds £85,000 over the last 12 months (this is not your accounting financial year, this is the proceeding 12 months from when you think you have reached the threshold).

You have 30 days after the end of the month when you went over the threshold to register.

If you expect your taxable turnover to be more than £85,000 in the next 30 days, you have to register by the end of that 30 day period.

If you trade overseas, including in the EU, there may also be specific VAT registration requirements in the UK and in those countries you trade with.

Once you have registered for VAT, you usually submit a VAT Return to HM Revenue and Customs (HMRC) every 3 months.

Claiming back VAT from before your registration

You may be able to reclaim VAT paid on goods or services bought before you registered for VAT if the purchases were made within:

- 4 years for goods you still have
- 6 months for services

What is taxable turnover for a furnished holiday let?

Taxable turnover is the total value of sales a business makes that is subject to tax after VAT exempt amounts are removed.

Zero rated sales are included.

If you are deducted commission and receive a 'net' amount from your booking agent, you would need to include this commission element when working out your taxable turnover.

Working example:

If your customer pays £1,000 to rent a furnished holiday let for one week to a booking agent, then the taxable turnover to the business is £1,000, even if you only receive £900 from the booking agent as they have deducted their fees of 10% before paying you. (This assumes the property is let on a short term basis and is furnished sleeping accommodation held for visitors.)

VAT on holiday accommodation, caravans and camping facilities

There are separate rules for 'short stay' and 'long stay' guests:

- 'Long stay' is 28 or more consecutive days and should be accounted for under the reduced value rule.
- Accommodation for 'short stay' (27 days or less) is standard rated or at the reduced rate 15/07/20 to 30/09/21.

Accommodation used for catering is standard rated or at the reduced rate 15/07/20 to 30/09/21.

Accommodation that is not for the purpose of catering such as a conference is exempt, if you have not opted to tax.

Other supplies of accommodation such as hiring a room or the letting of shops, are generally exempt unless you have opted to tax.

Where a meeting room is supplied, together with meals and overnight accommodation in return for an inclusive charge, each element is treated as a separate supply. The catering and the overnight accommodation is taxable (and will benefit from the temporary reduced rate), while the supply of the meeting room is exempt unless you have made an option to tax.

VAT on weddings

If you supply a package of wedding services (for example, use of rooms for a ceremony, wedding breakfast and evening party), this is a single standard-rated supply, regardless of whether the catering is supplied by you or someone else.

VAT on holiday homes

Accommodation advertised or held out as suitable for holiday or leisure use is always treated as holiday accommodation. There may be a restriction under which occupation of the property throughout the year is not permitted, but this will not always be the case.

If you specifically provide holiday accommodation in the form of a motorhome, your supply will qualify for the temporary reduced rate.

If you supply holiday accommodation, or a site for such accommodation, you must account for VAT at either the standard rate (or the temporary reduced rate) on any charges that you make regardless of the length of occupation or description of the charges.

There are exceptions:

- Sales of leases of holiday accommodation
- Sales of holiday accommodation property that is not new
- Supply of site for holiday accommodation
- Off season letting
- Time shares.

See HMRC guidance for details of these exemptions.

VAT on camping and caravans

If you provide a pitch for a tent or holiday accommodation in a tent your supply is standard rated or temporarily reduced rated. The supply of any associated facilities is also temporarily reduced rated in the relevant period if part of a single supply.

If you provide holiday accommodation in any type of caravan already sited on a pitch, your supply is standard rated or temporarily reduced rated.

For VAT purposes, the term 'caravan' includes mobile homes, park homes, touring caravans and static caravans.

How do I account for deposits?

Most deposits serve as advance payments, and you must account for VAT in the return period in which you receive the payment.

If you retain a deposit for a booking which your customer fails to take up, VAT remains due.

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