

Leigh Christou

VAT Rate Change from 1 October 2021

The 5% rate has been in place since 15 July 2020, and applies to most supplies made by cafes, restaurants, pubs, hotels, members clubs, caravans parks, tourist attractions such as zoos and many others. It excludes alcoholic drinks.

This 5% rate will increase to 12.5% on 1 October 2021. The 12.5% rate will subsequently rise to the standard 20% rate on 1 April 2022.

However, hospitality businesses taking advance payments before October can charge 5% VAT rather than 12.5%; a saving for their customers and a boost for their sales.

No anti-forestalling legislation

With all of the recent rate changes, the government has not applied any anti-forestalling legislation. In other words, **if a business receives an advance payment before 1 October for a supply being made on or after this date, it will still be 5% VAT based on the payment date.** Normal tax point rules are applied, usually based on the invoice or payment date, whichever comes first.

HMRC also confirmed last year that the absence of anti-forestalling legislation was intended to help the hospitality industry i.e., advance payments will give important working capital to cash-stretched businesses. This makes sense.

Planning opportunity

If you have hospitality clients who sell their goods and services on a VAT inclusive basis, then encouraging customers to pay before 1 October will directly increase the bottom-line profit of their business.

Summary

The new 12.5% VAT rate is still six weeks away, so you have got time to pay in advance for post-October supplies.

Suppliers have a marketing opportunity to boost cash receipts, sales and profits.

Should you have any queries, please do not hesitate to contact us

Leofric House, Binley Road
Coventry, CV3 1JN
Tel: +44 (0)24 7625 1333
Fax: +44 (024) 7625 1777

Euston House, 12 Euston Place
Leamington Spa, CV32 4BN
Tel: +44 (0)1926 88 88 65
www.leigh-christou.co.uk

For Information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore, no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.

Leigh Christou Ltd are registered as auditors in the UK and regulated for a range of investment business activities in the United Kingdom by the Association of Chartered Certified Accountants.