

VALUE ADDED TRAVEL

Quarterly VAT news for the travel and events sectors

March 2020



Sadly, in these turbulent and uncertain times, one subject dominates and below is a summary of the government's important recent announcement of the deferment of VAT payments and time to pay tax due. I have also included a detailed summary of the rules on the VAT treatment of cancellations.

Brief updates on other issues are also covered below.

If you would like to discuss any of the points covered, or indeed any other VAT issue, please do feel free to contact me. My contact detail is set out overleaf.

Previous editions of this newsletter are available [here](#).

Deferment of VAT payments and time to pay

HMRC have just announced a very welcome new policy to defer VAT payments. The (fairly brief) detail published by HMRC can be found [here](#). HMRC's guidance note is being updated regularly.

VAT payments due – from UK businesses of any size – in the period from 20 March to 30 June will be deferred. This applies to payments which would ordinarily be due with a VAT return. The deferment is automatic: no application should be made – HMRC will simply not expect the amount shown as due to be paid.

VAT deferred in this way should be paid by the end of the 2020/21 tax year.

VAT returns should still be submitted in the normal way. Repayments shown as due on a return will still be repaid, subject no doubt to HMRC's normal verification procedures.

It may well be that the deferment is extended beyond 30 June.

The HMRC guidance makes it clear that the deferment is only available for UK businesses.

It is not clear if this deferment arrangement applies only to payments due in this period or whether it will also be applied to payments due for earlier VAT returns which are overdue. It does seem clear, however, that the deferment is not intended for amounts due by way of HMRC assessment for past underpayments including a taxpayer's voluntary error correction. In such circumstances, taxpayers can seek time to pay. This involves discussion with HMRC to seek agreement on whether, and how, a tax amount might be paid over a period. HMRC's general information on time to pay can be accessed [here](#). However, more relevantly, where COVID-19 is the reason for the inability to pay, HMRC ask that contact be made to a dedicated helpline on 0800 0159 559.

Cancellations

In these difficult times, it is worth remembering how HMRC's interpretation of the rules on the payment of VAT in the event of a cancellation changed last year. Please see the December 2018, March 2019, June 2019 and September 2019 editions of Value Added Travel for detail of the changes to the cancellation rules.

You will remember that HMRC continued to expect VAT to be paid on deposits and other advance payments upon receipt (assuming that the supply contemplated was a taxable supply). However, whereas previously they had accepted that the output tax declared could later be recovered if the service contemplated was cancelled, with effect from 1 March 2019 HMRC's new policy was that the VAT could not be adjusted unless the deposit etc was repaid to the customer. As a result, forfeited deposits etc for cancelled hotel bookings, amongst others, became subject to VAT.

Initially, HMRC required the same new treatment to be applied by tour operators. However, they relented on this point for those tour operators accounting for VAT within TOMS and using the date of departure tax point (which is the vast majority).

As a result, lost deposits and other forms of cancellation charge for holidays and other forms of travel included in TOMS are not subject to VAT (unless the departure tax point is not being used – in which case you may consider changing).

Tour packages sold on a wholesale basis are normally not subject to UK VAT and, where this is the case, no VAT is due on any amounts received or retained when the tour is cancelled. UK VAT incurred on the costs of a cancelled tour remains recoverable. Please remember that cancellation costs charged by hotels, restaurants etc are now likely to be subject to VAT so you should ensure you receive a VAT invoice, where appropriate, and recover the VAT.

The wholesale supply of standalone accommodation, catering etc is subject to the (relatively) new HMRC policy on cancellations – if you have not opted to include the supplies in TOMS. VAT is due therefore on lost deposits etc for cancelled UK accommodation-only supplies and similar, unless the amounts involved are refunded to the client. Again, it is important to ensure that you recover the VAT charged by the hotels etc on any cancellation fees due to them.

Many events agencies use a combination of TOMS and “normal” VAT accounting. To the extent that a cancelled event falls within TOMS, no VAT should be due (again if the departure tax point is in use). To the extent an event falls outside TOMS, a common treatment is to

charge VAT if the client is a UK business and charge no VAT to a non-UK business. Forfeited deposits etc for events organised for non-UK clients are therefore not usually subject to VAT. VAT may well be due on such amounts for an event (no matter where it was to be held) being organised for a UK client. Most clients should be able to recover any such VAT chargeable.

A detailed analysis of the effect of the cancellation rules on different scenarios encountered throughout the travel sectors is beyond this short newsletter but please do contact me if you would like to discuss your circumstances in detail.

Brexit

There has still been no announcement from HMRC on what the TOMS replacement rules will be. It has been suggested, of course, that the current crisis may mean an extension to the transitional period. We'll have to wait to see.

TOMS evaluation

The launch of the Commission's public consultation on the operation of the TOMS evaluation is due this month. Please see, in particular, the December 2019 edition of this newsletter for more detail on what the Commission is planning.

At the time of writing, however (24 March), this launch has not happened and it seems quite possible, in the current crisis, that the Commission will delay this consultation. I will let you all know as soon as there is any development in this area.

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