House of Commons Library

By Francesco Masala,
Antony Seely
12 February 2024

VAT on tourism and hospitality services

Summary

commonslibrary.parliament.uk

Number 6812

Disclaimer

The Commons Library does not intend the information in our research publications and briefings to address the specific circumstances of any particular individual. We have published it to support the work of MPs. You should not rely upon it as legal or professional advice, or as a substitute for it. We do not accept any liability whatsoever for any errors, omissions or misstatements contained herein. You should consult a suitably qualified professional if you require specific advice or information. Read our briefing 'Legal help: where to go and how to pay' for further information about sources of legal advice and help. This information is provided subject to the conditions of the Open Parliament Licence.

Feedback

Every effort is made to ensure that the information contained in these publicly available briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Please note that authors are not always able to engage in discussions with members of the public who express opinions about the content of our research, although we will carefully consider and correct any factual errors.

You can read our feedback and complaints policy and our editorial policy at commonslibrary.parliament.uk. If you have general questions about the work of the House of Commons email hcenquiries@parliament.uk.

Contents

Summary

The campaign for VAT relief to support the tourist sector

There has been a long-running campaign by the tourism and hospitality sector for a lower rate of VAT to be set on services supplied to tourists. Proponents have argued that this would allow hotels, restaurants, pubs and visitor attractions to cut prices, boosting sales and employment in this sector, which in turn would generate growth in the wider economy.

The importance of EU VAT law prior to Brexit

European VAT law limits the discretion of any Member State to set lower VAT rates on individual goods and services. There has been dispensation for a lower rate on certain supplies associated with tourism: specifically, hotel accommodation, certain restaurant services, and some types of admission charge, including charges for entry to amusement parks. Several Member States have made use of this dispensation to charge lower rates of VAT – between 5% and 15% – on these supplies. However, in the past both Labour and Coalition Governments took the position that a reduced rate would not be well-targeted nor cost-effective. With the UK having left the EU, EU VAT law no longer represents an obstacle to setting VAT rates.

A temporary reduced rate as part of the Government's response to Covid-19

In July 2020 the then Chancellor, Rishi Sunak, announced a series of initiatives to boost job creation in the context of the Covid-19 pandemic, including a temporary 5% VAT rate on most tourist and hospitality-related activities. Initially it was anticipated that the 5% rate would apply to supplies made between 15 July 2020 and 12 January 2021. Subsequently the Government retained VAT relief for this sector for a further fourteen months – extending the 5% rate up to 30 September 2021, and then replacing it with a 12.5% rate until 31 March 2022.

Recent calls for an extension of this VAT relief

Since the end of the temporary VAT relief in March 2022 there have been some calls for a reduced rate of VAT to be made permanent. However, ministers have consistently opposed this.

In answer to a PQ in April 2022 the then Financial Secretary to the Treasury, Lucy Frazer, opposed an extension of this relief on the grounds that, “it is appropriate that as restrictions are lifted and demand for goods and services in these sectors increases, the temporary tax reliefs are first reduced, and then removed, in order to rebuild and strengthen the public finances.” In a second written answer at this time the Minister noted that requests for changes to the coverage of VAT “should be viewed in the context of over £50 billion of requests for relief from VAT received since the EU referendum. Such costs would have to be balanced by increased taxes elsewhere, increased borrowing, or reductions in Government spending.”

In answer to a PQ in January 2024 the Financial Secretary Nigel Huddleston reiterated that the Government had “no plans to reduce the rate of VAT paid by hospitality businesses.”

Further reading

The Library briefing Tourism: statistics and policy covers domestic and inbound tourism, their recovery following the pandemic, other challenges facing the sector, and government policy.

1 VAT: structure, rates, reliefs, revenues

VAT is charged on the supply of all goods and services made in the course of a business by a taxable person, unless they are specifically exempt. All businesses must register for VAT if their annual turnover of taxable goods and/or services is above a given threshold – which is currently £85,000.[1]

VAT is charged on the additional value of each transaction, and is collected at each stage of production and distribution. A business pays VAT on its purchases - known as input tax, and charges VAT on its sales - known as output tax, settling up with HM Revenue & Customs (HMRC) for the difference between the two. In the end the cost of the tax is borne by the final consumer.

Most VAT law is consolidated in the Value Added Tax Act (VATA) 1994, as amended. VAT is charged either at the standard rate of 20% or the zero rate, though there is limited use of a reduced rate of 5%.

Zero-rated supplies include: food; construction of new dwellings; domestic and international passenger transport; books, newspapers and magazines; children's clothing and footwear; water and sewerage services; drugs and medicines on prescription; and certain supplies to charities.

Supplies liable to VAT at the 5% reduced rate include: the supply of domestic fuel and power, the installation of energy saving materials, women's sanitary products, children's car seats and certain types of construction work.[2]

The exemption of goods and services from VAT should be distinguished from their being charged a zero rate. In the latter case these supplies are technically taxable and though no actual tax is paid on them, they still count as part of a business' taxable turnover. VAT charged on inputs relating to zero-rated activities can be reclaimed, unlike the VAT incurred by a business in the course of an exempt activity; in effect, a business making exempt supplies has to absorb the VAT charged to it by its suppliers. Categories of exempt supplies include land, insurance, finance, education, health and welfare.[3]

HMRC publish estimates of the costs of the principal tax reliefs, including the various zero and reduced VAT rates.[4]

1 HMRC, VAT thresholds, ret'd January 2024

2 For details see, HMRC, VAT rates on different goods and services, updated July 2022

3 Zero-rated supplies are set out in schedule 8 to VATA 1994. Reduced-rate supplies are set out in schedule 7A. Exempt supplies are set out in schedule 9.

4 See HMRC, Non-structural tax reliefs, updated January 2024

VAT was introduced in the UK on 1 April 1973 at two rates: a standard rate of 10%, and a zero rate on selected goods and services (such as food, books, children's clothing, and certain supplies for charities). The main changes to the VAT structure since the introduction of the tax are:

- The standard rate was cut to 8% on 29 July 1974.
- A higher rate on selected goods and services was introduced on 18 November 1974, set at 25%. Initially this was applied to petrol only; it was extended to a list of other supplies from 1 May 1975. The higher rate was cut to 12.5% from 12 April 1976.
- The standard rate was increased to 15% on 18 June 1979; at this time, the higher rate of VAT was abolished.
- The standard rate was increased to 17.5% from 1 April 1991.
- Domestic supplies of fuel and power were charged VAT at a reduced rate of 8% from 1 December 1993. This was cut to 5% from 1 September 1997.
- The standard rate was cut to 15% from 1 December 2008 to 31 December 2009, then set back at 17.5% on 1 January 2010.
- The standard rate was increased to 20% from 4 January 2011.[5]

Over the last 25 years there have been a number of changes to the coverage of the zero rate, affecting individual supplies.[6] In addition, since its introduction in September 1997, the coverage of the 5% reduced rate has been extended to a small number of other supplies, including the installation of energy-saving materials.[7]

Around half of household expenditure is subject to VAT at the standard rate of VAT. By contract around 3 per cent of expenditure is taxed at the 5% reduced rate.[8]

VAT is forecast to raise £173 billion in 2023/24. Only income tax and National Insurance contributions raise equivalent sums.[9]

Further statistics on VAT are collated on Gov.uk.

---

5 HM Treasury, Tax Benefit Reference Manual 2009/10 ed. (Commons Library Deposited paper 2009-1987) pp100-102. For details on the introduction of the new standard rate see: Commons Library research briefing CBP5620 VAT: the new 20% standard rate. This was last updated in September 2013.

6 For example, a zero rate on sanitary protection was introduced in January 2021. For details see Commons Library research briefing CBP1128, VAT on sanitary protection. This was last updated in August 2021.

7 In April 2022 a temporary zero rate was introduced on this supply, to last until April 2027. For details see, Commons Library research briefing CBP8602, VAT on solar panels and other energy-saving materials. This was last updated in June 2023.

8 Office for Budget Responsibility (OBR), Tax by Tax: VAT, updated April 2023

9 OBR, Economic and Fiscal Outlook, CP 944, November 2023 (Table A5). In 2023/22 income tax and NICs are forecast to raise £277 billion and £177 billion respectively

2 Cutting VAT rates: the role of EU VAT law prior to Brexit

2.1 VAT harmonisation across the EU

Prior to the UK leaving the EU, UK VAT law was based on EU VAT law. It has long been recognised that national sales taxes across EU need to interlock effectively for ensure the Single Market can function. The first steps toward harmonising the VAT systems of Member States were taken in the late 1960s. However, it was the sixth VAT directive (77/388/EEC), adopted on 17 May 1977, which marked a turning point in the development of EU VAT law – as governments agreed on common criteria for the VAT base in all Member States (ie, specifying those goods and services which could be exempted from tax).

Initially the sixth directive focused on the VAT base rather than VAT rates, though it had implications for the UK's zero rates. Article 28(2) allowed Member States to maintain "reduced rates and exemptions… which are in force on 31 December 1975 and which satisfy the conditions stated in the last indent of Article 17 of the second council directive of 11 April 1967." Article 17 refers only to exemptions maintained for "clearly defined social reasons and for the benefit of the final consumer." As a result the UK was allowed to maintain its zero rates, **provided** they satisfied these criteria.[10]

Of course, all Member States are governed by these directives on decisions they take on the coverage of VAT, and - under the terms of later amendments to the sixth directive - on decisions taken about their VAT rates. Though the UK and Ireland are the only countries to use zero rates very much, there is considerable variety in VAT rates across the EU.[11]

Agreement between Member States on harmonising the rates of VAT took much longer, but was reached in June 1991, and encompassed by directive 92/77/EEC, which came into effect on 1 January 1993.

In brief, all Member States:

- have had to apply a standard VAT rate of 15% or more from 1 January 1993.

[10] In June 1988 the European Court of Justice found that certain zero-rated supplies – including supplies of fuel and power to industry – did not meet these criteria. As a result the UK was required to standard-rate these supplies, which it did on 1 July 1990.

[11] see, European Commission, VAT rates applied in the Member States of the EU, (PDF) January 2021

- have had the option of applying one or two reduced rates, no lower than 5% to certain specified goods and services, as listed in Annex H of the directive.

- have been entitled to continue charging any lower rates, including zero rates, that had been in place on 1 January 1991 for the duration of the "transitional period", assuming these rates were in accordance with Community law.

In November 2006 the European Council of Finance Ministers (ECOFIN) adopted a new principal EC VAT directive (2006/112/EC), which revised or recast both the first and the sixth EC VAT directives, to reorganise the provisions and set them out in a clearer way.[12] The new directive made no change to EU or UK VAT law.[13]

The UK secured a special right to bring any of its zero rates into a reduced rate band, even if they were not in Annex H. However, the UK would not have been allowed to reintroduce a zero rate that had been in place on 1 January 1991 which it had then withdrawn. Naturally the focus has been on those aspects of the directive which directly affected the UK. Even so, it is worth noting one aspect of this agreement: no Member State was allowed to introduce a new zero rate.[14] In the absence of a new agreement, these 'transitional' arrangements regarding VAT rates could remain in place. Over following years this is what happened with only minor additions to the list of supplies which could be charged a reduced rate.[15] It should be noted that any amendment to these rules – as with any VAT directive – had to be agreed **unanimously** between the Member States.[16]

2.2 Reforms to EU-wide rules on VAT rates (2018-22)

In January 2018 the European Commission published proposals to overhaul the EU rules on VAT rates – as part of a series of measures to reform the EU VAT system – that would reverse this approach to setting VAT rates:

> In addition to a standard VAT rate of minimum 15%, Member States would … be able to put in place:

12 Council Directive 2006/112/EC of 28 November 2006 (OJ L 347, 11 December 2006). Annex H to the revoked sixth directive is now recast as Annex III to the new directive.

13 Details of the existing EU legal framework for VAT, including the text of the principal VAT directive, are on the European Commission's site.

14 There is limited provision for those countries whose standard rate was below 13% at 1 January 1991 to charge a rate below 5% on certain supplies

15 For details see, Commons Library research briefing CBP2683 VAT : European law on VAT rates. This was last updated in January 2019.

16 The Treaty base for all proposals to harmonise excise duties and turnover taxes is Article 113, which requires unanimity.

> - two separate reduced rates of between 5% and the standard rate chosen by the Member State;
> - one exemption from VAT (or 'zero rate');
> - one reduced rate set at between 0% and the reduced rates.
>
> The current, complex list of goods and services to which reduced rates can be applied would be abolished and replaced by a new list of products (such as weapons, alcoholic beverages, gambling and tobacco) to which the standard rate of 15% or above would always be applied.
>
> To safeguard public revenues, Member States will also have to ensure that the weighted average VAT rate is at least 12%. The new regime also means that all goods currently enjoying rates different from the standard rate can continue to do so.[17]

Following extended negotiations in December 2021 European Finance Ministers agreed a series of changes to these rules:

> Current EU rules on VAT rates are almost thirty years old and were in urgent need of modernisation given the evolution of the overall VAT rules over the years. That is why the Commission proposed in 2018 to reform VAT rates.
>
> Today's agreement will ensure that EU VAT rules are fully aligned with the EU's common policy priorities. Today's announcement will address these issues by:
>
> - **Updating the list of goods and services (Annex III to the VAT Directive) to which all Member States can apply reduced VAT rates.** New products and services added to the list include those that protect public health, are good for the environment and support the digital transition. Once the rules come into force, Member States will for the first time also be able to exempt from VAT certain listed goods and services considered to cover basic needs.
> - **Removing the possibility by 2030 for Member States to apply reduced rates and exemptions** to goods and services deemed detrimental to the environment and to the EU's climate change objectives.
> - **Making derogations and exemptions for specific goods and services**, currently in place for historical reasons in certain Member States **available to all countries** to ensure equal treatment and avoid distortions of competition. However, existing derogations that are not justified by public policy objectives other than those in support of EU's climate action will need to end by 2032.[18]

17 European Commission press notice, VAT: More flexibility on VAT rates, less red tape for small businesses, 18 January 2018. Full details are on the Commission's site. At the time HM Treasury noted "previous discussions on VAT rates have shown that Member States hold a wide range of views and therefore, swift progress [...] is unlikely" (Proposal for a Council Directive amending Directive 2006/112/EC – explanatory memorandum, (PDF) 8 February 2018 para 32).

18 European Commission press notice, New rules on VAT rates offer Member States more flexibility while supporting the EU's green, digital and public health priorities, 7 December 2021. See also, Questions and Answers: Agreement on new rules governing VAT rates, 7 December 2021.

Legislation to introduce the new rules was agreed in April 2022.[19]

2.3 The UK's departure from the EU (2018-21)

Over this period the significance of EU VAT law for the UK has receded with the UK's exit from the EU.

In November 2018 the UK concluded the draft Withdrawal Agreement with the EU. This provided for a transition period, also described as the 'implementation period', to bridge the period between the date of the UK's exit from the EU, initially set for 29 March 2019, and the entry into force of the new, yet to be negotiated, UK-EU partnership arrangements. The transition would run until the end of December 2020, with the possibility of extension for up to two years. During this period the UK would continue to apply EU law, with a few exceptions, as if it were a Member State, though the UK would have no institutional representation and no role in decision-making.[20]

Agreement was also reached on the Political Declaration, which aimed to set the scope and terms for the UK's future relationship with the EU.[21] The Declaration said nothing specific about VAT, though it included a commitment to open and fair competition between the UK and the EU, that would include relevant tax matters; as the Government underlined, this would **not** "fetter sovereign discretion on tax, including in relation to setting direct or indirect tax rates."[22]

Writing to the European Scrutiny Committee the then Treasury Minister Mel Stride confirmed "the Withdrawal Agreement sets out that during the Implementation Period, the UK will no longer be a Member State of the EU, but market access will continue on current terms. Accordingly, common rules will remain in place until the end of the Implementation Period, meaning businesses will be able to trade on the same terms for the duration of this `period." The Minister went on to note that the Political Declaration "reiterates the competition between the UK and the EU must be open and fair, and that there should be provisions covering tax matters", though "the precise nature of these provisions will be a matter for future negotiation."[23]

Prime Minister Theresa May's continued failure over the following months to obtain Parliamentary approval for the Withdrawal Agreement led, in turn, to her resignation in May 2019, the resumption of talks with the EU by Boris

---

19 Council Directive 2022/542, 5 April 2022

20 see, Commons Library research briefing CBP8453, The UK's EU Withdrawal Agreement. This was last updated in July 2019.

21 see, Commons Library research briefing CBP8454, The Political Declaration on the Framework for Future EU-UK Relations. This was last updated in November 2018.

22 HMG, Explainer for the Political Declaration setting out the framework for the future relationship between the UK and the EU, (PDF) November 2018 para 85.

23 Letter from Financial Secretary to EU Scrutiny Committee, "EU legislative proposals on VAT", (PDF) , 5 December 2018

Johnson's Government, and the conclusion of an updated Withdrawal Agreement and Political Declaration – although these made no significant changes with regard to this specific issue.[24] Following the 2019 General Election, Parliament approved the revised Withdrawal Agreement,[25] and the UK left the EU on 31 January 2020.[26]

On 24 December 2020 the UK and EU announced the conclusion of the Trade and Cooperation Agreement (TCA), to be implemented before the transition period on 31 December 2020.[27] The TCA sets out provisions to maintain a level planning field between the UK and the EU for open and fair competition and sustainable development, and this includes commitments to uphold global standards on tax transparency and fighting tax avoidance,[28] but as the Government underlined at the time "there are no provisions constraining our domestic tax regime or tax rates."[29]

One consequence of the UK's exit has been that the Government has been able to cut the rate of VAT on women's sanitary protection to zero. The then Chancellor Rishi Sunak had announced in the 2020 Budget that the 5% rate, would be scrapped as soon as the transition period ended,[30] and, in turn, this new zero rate came into force from 1 January 2021.[31]

Finally, on 27 February 2023, Prime Minister Rishi Sunak announced to the Commons that a deal had been reached between the UK and the EU on changes to the Northern Ireland protocol.[32] The agreement is called the 'Windsor Framework'. The UK Government laid out the proposed changes to the protocol in a command paper. A specific provision in the Framework ensures that "Northern Ireland will benefit from the same VAT and alcohol taxes as apply in the rest of the United Kingdom."[33]

24 see, Commons Library research briefing CBP8713, The October 2019 EU UK Withdrawal Agreement. This was last updated in October 2019

25 Brexit next steps: Ratifying the EU Withdrawal Agreement, Commons Library Insight, 23 January 2020

26 Commons Library research briefing CBP7960 Brexit timeline: events leading to the UK's exit from the European Union gives a narrative of these events. This was last updated in January 2021.

27 For details see, Commons Library research briefing CBP9106 The UK-EU Trade and Cooperation Agreement: summary and implementation. This was last updated on 30 December 2020.

28 specifically, Articles 5.1-3 of Title XI to Part Two of the Agreement (PDF). See also, European Commission, Questions & Answers: EU-UK Trade and Cooperation Agreement, 24 December 2020 ("How will you ensure that taxation isn't used as a means to distort competition?").

29 HMG, UK-EU Trade and Cooperation Agreement: summary, (PDF) December 2020 para 90

30 HC Deb 11 March 2020 c284

31 HM Treasury press notice, Tampon tax abolished from today, 1 January 2021. As noted above, Commons Library briefing CBP1128 VAT on sanitary protection has more details.

32 For details see, Commons Library research briefing CBP9736, Northern Ireland Protocol: The Windsor Framework. This was updated on 21 March 2023.

33 HMG, The Windsor Framework: A new way forward (PDF), GOV.UK, February 2023, pp13- 14

3 The campaign to cut VAT on tourism (2008 to 2015)

3.1 The use of reduced VAT rates in EU Member States

As noted, under EU VAT law Member States have had the option, should they wish, to introduce a reduced rate of VAT on certain specified supplies. This list has been set out in Annex III to the principal EC VAT directive (2006/112/EC). Three items on this list are of particular importance to the campaign there has been for a VAT cut on tourism:

- Item 7: admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities.
- Item 12 : accommodation provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites.
- Item 12a : restaurant and catering services, it being possible to exclude the supply of (alcoholic and/or non-alcoholic) beverages.

Some Member States have taken advantage of this dispensation to charge a lower rate of VAT on some or all of these supplies.[34]

In July 2011 the Irish Government announced a new 9% VAT rate to apply to admissions, accommodation, restaurant services and some other supplies, all of which had previously been charged VAT at 13.5%. The Government anticipated that the 9% rate would be a temporary stimulus, to last until 31 December 2013, though the 9% rate was initially extended beyond this date.

It is worth noting that in its 2019 Budget the Irish Government announced the rate would return to 13.5% from 1 January 2019, though newspapers and sports facilities would continue to be charged VAT at 9%.[35]

34 For details see, VAT rates applied in the Member States of the EU, January 2021 (Table II, pp4-5). The Commission has discontinued this publication, though details of VAT rates in individual Member States is available at: European Commission, Taxation Information and Communication.

35 Government of Ireland, Budget 2019: Tax Policy Changes, October 2018 p5. The Irish revenue authorities publish details of the VAT rate structure on its site. At present the standard rate of VAT in Ireland is 23%. Ret'd January 2024.

In 2013 the Irish Finance Ministry published some analysis of the introduction of the 9% rate. This suggested that the degree to which traders passed on the VAT cut in lower prices varied between sectors, but that it was "likely that the VAT rate reduction on some of the categories acted as a temporary employment stimulus, either through direct pass through or by enabling the retention or expansion of labour demand without offsetting reductions in firm margins."[36]

3.2 The industry's campaign for a reduced VAT rate

In 2008 the British Hospitality Association (BHA) published some analysis that it had commissioned which suggested cutting VAT on visitor accommodation and attractions would raise £600m a year, and create 23,000 new jobs.[37] The Irish Government's decision to introduce a 9% rate generated more interest in the campaign: 17 Members signed an Early Day Motion in June 2011 citing Ireland's 9% rate and arguing that the UK should introduce this type of targeted VAT reduction.[38]

When the BHA's work was first published, the Labour Government took the view that the case for a reduced rate on these supplies was unconvincing:

> **Mr. Liddell-Grainger**: To ask the Chancellor of the Exchequer whether his Department has made an assessment of the likely effect on the economy of applying a reduced rate of value added tax to visitor attractions, accommodation and restaurants.
>
> **Mr. Timms**: No such assessment has been made. VAT is a broad-based tax on consumer expenditure and reliefs from it have always been strictly limited. Where reduced rates are available, these are applied only where they provide the most well-targeted and cost-effective support for the Government's policy objectives, compared to other measures.[39]

Subsequently, in answer to a PQ in 2011, the then Exchequer Secretary David Gauke (Conservative) suggested that the BHA's analysis was flawed:

> **Mr Sanders**: To ask the Chancellor of the Exchequer what assessment he has made of the British Hospitality Association's proposals for the tax regime for the hospitality sector.

---

36 Brendan O'Connor, Measuring the Impact of the Jobs Initiative: Was the VAT Reduction Passed On and Were Jobs Created?, (PDF) Department of Finance (Economics Division), September 2013

37 G.Wason and M.Nevin, The impact of lower VAT rates on UK visitor attractions and accommodation, British Association of Leisure Parks, Piers and Attractions/British Hospitality Association, February 2008. The report was the subject of an Early Day Motion (EDM 2209 of 2008-09, 2 November 2009) – which 36 Members signed.

38 EDM 1972 of 2010-12, 22 June 2011

39 HC Deb 1 December 2009 c605W

> **Mr Gauke**: Assessments of the impact of the BHA proposals predict a loss in revenue to the Exchequer of well in excess of £1 billion in the first year alone. The BHA argues that a reduction in VAT on tourism would pay for itself over time and increase growth and employment.
>
> Their case does not take account of the impact of such a cut on the economy as a whole, or the significant additional taxation or borrowing needed to fund the cut. Higher interest rates and falling international confidence would undermine the recovery and have an adverse impact on families and small businesses, including businesses in the tourism sector. [40]

Similarly, when asked about the Irish Government's 9% rate at Treasury Questions in September that year, Mr Gauke said, "we will of course keep all taxes under review, but we have to bear in mind the state of the public finances, our limited room for manoeuvre and concerns about adding complexity to our VAT system."[41]

In September 2012 the BHA, in association with other trade bodies and tourist businesses, launched a new campaign for a VAT cut,[42] underpinned by further research which suggested that over 10 years "the loss of fiscal income from the cut in VAT will more than be made good by additional income tax receipts, savings in social security payments, and an increase in profits, corporation tax payments and tax on dividends."[43] In a series of FAQs published on its site at the time the Campaign argued that a reduced rate would have five impacts:

> A reduced rate of VAT would:
>
> 1. Generate higher levels of employment, with increased wage levels and training. These benefits would occur throughout the age and socio-economic spectrum and throughout the UK.
>
> 2. Increase additional tax receipts as a result of this additional employment with consequential savings on social security payments.
>
> 3. Increase profits, corporation tax payments and shareholder dividends.
>
> 4. Lead to further investment in the industry, improving overall quality and therefore further improving the UK's competitiveness.
>
> 5. Feed through to higher expenditure in other sectors of the economy, which in turn will generate further tax receipts – the 'tourism multiplier'. Every additional £1 of tourism expenditure generates 70p of extra expenditure in other sectors of the economy.[44]

[40] HC Deb 28 November 2011 cc717-8W

[41] HC Deb 6 September 2011 c159

[42] Cut Tourism VAT Campaign press notice, Parliamentary launch for Campaign for Reduced Tourism VAT, 4 December 2012

[43] Cut Tourism VAT Campaign, The Impact of Reduced VAT Rates on British Visitor Accommodation, Attractions and the Wider Economy, December 2012 para 11. See also, Cut Tourism VAT Campaign, Campaign Factsheet, October 2013.

[44] Cut VAT on Tourism Campaign, FAQs, undated (ret'd May 2018)

The Campaign's FAQs also addressed the concern that cutting the rate of VAT would boost operators' profits, rather than 'feed through' into lower prices:

> **Doesn't reducing VAT just mean that operators will make more profits?**
>
> In a survey of BHA members in January 2012, over 95 per cent of over 200 respondents said that if a five per cent VAT rate was achieved some or all of it would be passed on. 82 per cent said they would invest more in their product/facilities, 67 per cent would employ more people, 57 per cent would invest more in training and just under half (48 per cent) would increase staff wages.
>
> Competition within the sector eventually compels operators to lower prices. [A study commissioned by the European Commission from a consultancy, Copenhagen Economics, published in 2007] analysed six case studies where a VAT rate reduction had occurred. The report concluded that: '…there is little doubt that permanently lowering the VAT rate on particular goods (or services) sooner or later will lead to a reduction in the price of the goods more or less corresponding to the monetary equivalent of the lower VAT rate … In economics jargon, there will be a strong tendency towards full pass-through.'
>
> ('Pass through' here means that the full impact of the reduction in VAT is reflected in lower prices equivalent to the reduction in VAT.)
>
> Similarly, there is little doubt, according to Copenhagen Economics, that the price cuts that result from a permanent lowering of VAT rate will lead to increased consumption and consequently to increased production and employment. Such increases will occur more rapidly and be more significant in sectors with high price elasticity, strong competition and labour-intensive sectors. Tourism displays all three of these characteristics. It can typically take two to three years for this full effect to be realised.[45]

3.3 Commentary on the potential impact of cutting VAT rates

As noted above, as part of their case for a lower VAT rate the Cut VAT on Tourism Campaign cited some analysis of the impact from cutting VAT rates published by the European Commission. This work had been commissioned with a view to concluding the vexed and protracted negotiations between Member States over the future of the EU VAT rules. However, the report, which identified a number of sectors where there was a strong case for extending lower VAT rates – including 'some parts of the hospitality sector' – did not lead to a consensus for reform. Indeed Member States have only approved relatively minor amendments to these rules in recent years.

The report by Copenhagen Economics concluded that, "there is a strong general argument for having uniform VAT rates in the European Union. Uniform rates is a superior instrument to maintain a high degree of economic

[45] Cut VAT on Tourism Campaign, FAQs, undated (ret'd May 2018). Subsequently the BHA was in merged into the trade body, UKHospitality, which has a similar campaign.

efficiency, to minimise otherwise substantial compliance costs and to smooth the functioning of the internal market." That said, "there are real and valid economic arguments for extending lower VAT rates to some very specific sectors in member states characterised by specific economic structures" – and recommended extending reduced VAT rates to "sectors whose services are easily substituted for do-it-yourself or underground work, e.g. locally supplied services and some parts of the hospitality sector."[46]

In its response to the report, the Commission raised some concerns about the use of reduced rates, notably those for tourist services, as there was the risk to creating distortions in the Single Market:

> From a job creation point of view, there is a theoretical but not an empirical argument for extending reduced VAT rates to sectors employing many low skill workers in order to boost low skill demand, e.g. hotels, restaurants and locally supplied services. However, there may be a case for a limited, supplementary role via carefully targeted reductions in the context of grander labour market reform.
>
> The theoretical argument is that reduced VAT rates, by boosting demand for such services, stimulate demand for low skill workers, and push up their wages such that employment becomes a more attractive option than unemployment. However, simulations indicate that the overall impact on demand for low skill workers is unimpressive because differences in low skill employment between industries are limited.
>
> From an Internal Market point of view, reduced VAT rates may have some limited implications, in particular through tourism. Services provided by restaurants and hotels are mainly directed at domestic consumption, but may also affect distribution of tourism between Member States and may have a non-negligible impact in border regions. Possible distortion as regards restaurant and hotel services is likely to be different in magnitude across Member States (stronger for smaller and/or tourist oriented areas) and the degree of possible substitution of holiday destinations plays an important role. As far as the business consumption of these services is concerned, the rules on VAT deductibility may also impact on the functioning of the internal market.[47]

Member States were invited to respond to this study; the UK made its submission in May 2008, and the European Scrutiny Committee reprinted the introduction of this document. In this, the Labour Government made the case for using reduced VAT rates to address certain social policy objectives:

> Reduced VAT rates benefit consumers by reducing the price of certain essential goods and services. They can also reflect consensus among citizens within a Member State, such as the UK, that VAT should be chargeable on such essentials at the lowest rate possible ... VAT can also be effective when combined with other (economic and non-economic) measures and incentives, as a means of providing cost-effective, targeted support for social policy

[46] Copenhagen Economics, Study on reduced VAT applied to goods and services in the Member States of the European Union (PDF), European Commission, 21 June 2007 pp 3-4

[47] European Commission, Communication on VAT reduced rates – Frequently Asked Questions MEMO/07/277, 5 July 2007

> objectives, and as an immediate and effective means of increasing citizen access to 'merit' goods [...]
>
> Reduced VAT rates can also address externalities. The consumption of goods with environmental benefits, such as energy-saving materials and the most energy-efficient electrical appliances, has a positive externality ... VAT reductions have certain advantages when compared with alternative instruments such as direct subsidies or incentives. Using VAT reductions minimises burdens, administration and other inconveniences for both consumer and retailer, which should maximise take-up and benefit. By reducing the retail prices available to all customers, VAT reduced rates work in a transparent and effective way at the point of transaction.[48]

At this time the case **against** the use of reduced VAT rates was made by a paper, prepared as part of the 'Mirrlees Review' of the UK tax system commissioned by the Institute for Fiscal Studies (IFS). The authors argued that, "differential commodity taxation is a very blunt instrument for the pursuit of equity objectives, with the zero-rating of food and children's clothing in the UK being a classic example":

> Take food, for example. It is indeed the case that the less well-off spend a higher **proportion** of their income on food than do the better off. But this is not in itself a good reason—even on distributional grounds, leaving the need to raise revenue aside—for subjecting it to a differentially low rate of tax. This is for two reasons.
>
> First, looking only at a snapshot of spending and income patterns in the population at any moment may be misleading given the variability of income over a lifetime: those with low incomes now may be the young or elderly who will be, or have been, amongst the high income groups at other times. Put differently, a commodity tax looks regressive when assessed relative to current incomes in part because those with high incomes tend to have high savings, and so appear to escape the tax—but they will face it when they come to spend those savings.
>
> One way to address these issues is to relate food spending not to income in any period but to total spending, since the latter may be a better reflection of household's perceptions of their own long-run spending ability. Doing so, as Kay and Davis (1985)[49] show for items zero-rated in the U.K.—and as subsequent studies have shown for a range of taxes on particular commodities—tends to greatly dampen the apparent distributional case for tailoring commodity taxation to consumption patterns.
>
> The second reason [...] is that even if the better off spend a smaller proportion of their current income on such items as food than do the less well-off, they are likely to spend a smaller absolute amount on them. If there were no other way of transferring resources to the poorest, setting a low tax rate on these items might be sensible policy. But it is unlikely to be so when, as in the U.K., there are a range of other instruments [...] that could be targeted more directly upon them [...]

48 European Scrutiny Committee, Twenty third report, 23 May 2008, HC16-xxiii of 2007-08 pp87-8

49 Kay, John A. and Evan Davis (1985), "Extending the VAT base," Fiscal Studies, Vol. 6, pp.1-16.

> Kay and Davis (1985) and Hemming and Kay (1981)[50] provided early illustrations of this point for the U.K., the latter showing for example that the distributional impact of eliminating zero-rating could be very largely offset by cutting the standard rate of income tax and increasing the tax threshold. We revisit this simple but crucial insight, using more recent data, [in a later section of the paper, not reproduced here] and show that it has lost no force over the years.[51]

The authors concluded that abolishing zero and reduced rates would "cut compliance and administration costs for business and government, interfere less with people's spending decisions, and raise enough revenue both to improve the living standards of poorer families and to cut other taxes by £11 billion." Commenting on the report, the then director of the IFS, Robert Chote, said, "the authors make a powerful case on efficiency, fairness and practical grounds for moving to a uniform rate of VAT, rather than the complex mix of full, zero and reduced rates and exemptions we have at the moment", before noting, "the main obstacle to such a reform appears to be a lack of political leadership, which is perhaps understandable when the public focus on individual elements of the tax system rather than on the whole."[52]

In the event there was little consensus between Member States for a major reform of these rules. In March 2009 European Finance Ministers agreed to some minor changes to the list of supplies that may be charged a reduced rate. Indeed it was at this time that "restaurant and catering services" were added to this list.[53]

3.4 Debate in Parliament

Turing back to the case made in the UK for cutting VAT on tourism, in May 2013 22 Members signed an EDM supporting the campaign, and argued that a reduced VAT rate would "encourage growth in the wider economy, support job creation and generate investment in local businesses",[54] while the Coalition Government reiterated its opposition to such a reform in answer to PQs.[55]

---

50 Hemming, Richard, and John A. Kay, 1981, "The United Kingdom," pp. 75-89 in Henry J. Aaron (ed) The Value-Added Tax: Lessons from Europe (Washington DC: Brookings Institution).

51 Ian Crawford, Michael Keen & Stephen Smith, Value-Added Tax and Excises, Institute for Fiscal Studies, July 2008 pp 9-10.

52 IFS press notice, Simplify VAT to cut costs, raise revenue and help the poor, says study prepared for the Mirrlees Review, 31 July 2008. The final report of the review also made the case for removing nearly all zero and reduced rates. See, Stuart Adam and others, The Mirrlees Review: Tax By Design, September 2011 (specifically, Chapter 9: Broadening the VAT base (PDF).

53 With effect from 1 June 2009, under Directive 2009/47/EC of 5 May 2009.

54 EDM 78 of 2013/14, 14 May 2013 see also EDM40 of 2014/15, 4 June 2014; EDM102 of 2014/15, 16 June 2014; "Cut hotel VAT to halt Ukip's seaside surge, Osborne told", Financial Times, 20 October 2014

55 For example, HC Deb 12 March 2013 c140W; HC Deb 8 October 2013 c161W

Several Members made the case for a lower rate of VAT in a Westminster Hall debate in February 2014. The debate was initiated by Margaret Ritchie (SDLP) who summarised the case as follows:

> As a labour-intensive industry, the tourism sector is a leading employer. In particular, it offers younger people entry-level jobs at the start of their careers, and more than 44% of people employed in the sector are less than 30 years old. We face a youth unemployment crisis, with more than one in four young people out of work, and the Government's lack of support for the tourism sector is clearly impairing job creation. A cut in the rate of VAT would create demand, which would spur job creation and go some way towards reducing youth unemployment. In Ireland, the VAT cut for tourism has produced an extra 10,000 jobs in just over a year. A prominent report on the subject published by Deloitte produced evidence that a similar tourist VAT cut in the UK would create some 80,000 jobs.[56]

Although most Members who spoke on this occasion argued for a cut in VAT, Shabana Mahmood, then Shadow Exchequer Secretary, said that the Opposition could not make a commitment to do this as "an incoming Labour Government in 2015 will inherit a difficult financial situation." In turn the then Exchequer Secretary David Gauke reiterated the Government's position:

> The Cut Tourism VAT […] campaign's analysis assumes that the revenue shortfall associated with a VAT cut should be met by increasing Government borrowing, but the latest figures from the Office for National Statistics suggest that reducing VAT to 5% for all catering services provided by restaurants, pubs, cafes and canteens would cost the Exchequer between £9 billion and £10 billion a year. Cutting VAT to 5% for accommodation would cost the Exchequer an estimated £2 billion a year […]
>
> The conclusion that we reached, therefore, which I announced in Parliament last year, is that a VAT cut would not produce sufficient economic growth to outweigh the revenue shortfall. I have not seen any new evidence since then that has led me to revisit that conclusion, so, at present, the Government have no plans to introduce a VAT cut for the sector […]
>
> A more targeted VAT cut, on a regional basis, is not possible under EU VAT law, because a single rate of VAT for a particular good or service must apply throughout a member state. A reduced rate for Northern Ireland is not possible, and it is also not possible to distinguish between tourists, locals and people on business who use a restaurant or hotel. However, I reassure hon. Members that we recognise the importance of the tourism industry and remain committed to a wide range of measures to support the sector.[57]

The issue was the subject of a second Westminster Hall debate in March 2015. Mark Williams (Liberal Democrat), who led the debate, noted that the UK was one of only three Member States without a lower rate of VAT to encourage tourism:

> As the Minister is aware […] differential rates of VAT can be introduced due to EU legislation, and all but three countries in the EU have a reduced rate of VAT on the tourism sector. Only the UK, Denmark—which has no reduced rates for

[56] HC Deb 11 February 2014 c192WH

[57] HC Deb 11 February 2014 c212WH; cc213-4WH

> goods or services—and Slovakia have not reduced rates. Lithuania used to have no reduced rate, but in January, they lowered their rate of VAT on hotel accommodation to 9%.
>
> Looking at the Irish experience […] according to the review of the policy in Eire by the Irish Government, who cut tourism VAT in 2011, they have seen employment increase by 20,000 people directly in the tourism sector. Operators have passed VAT reductions down to customers and as a result, we have seen a sustained growth in tourists and earnings, meaning that what was a temporary measure is now to become a permanent one.[58]

Shabana Mahmood (Labour) reiterated that the Opposition could not commit “a VAT cut of the nature called by the campaign”:

> We return to the fact that if we cut VAT in that way, the most recent Office for National Statistics data from 2012 suggest an annual cost to the Exchequer of £11 billion to £12 billion. Those sums would have to be found elsewhere, and we as an incoming Labour Government would not be in a position to make that choice […] it is in everybody’s interests to ensure that the sector grows, thrives and continues to provide the jobs necessary for UK plc … [and] there are other policy levers that can be pulled, without the cost implications that a VAT cut on tourism would entail, which would still be of real benefit to the sector.[59]

Similarly the then Financial Secretary David Gauke cited the substantial cost to cutting VAT, and suggested that the fact other countries had lower VAT rates was not sufficient proof that this would be an effective form of subsidy:

> This Government are yet to find any conclusive evidence of a causal link between VAT rates and tourism activity. Comparisons with other countries tend not to take into account the significant VAT reliefs that the UK already provides for cultural attractions and public transport, nor the other tourist taxes that other member states choose to levy […]
>
> The case has been made that in the Republic of Ireland there has been an increase in the number of tourists in recent years, since there was a reduction of VAT on the tourism sector there. However, we have seen a very similar increase in the number of tourists in the United Kingdom. So, we should not jump to the conclusion that there is necessarily a causal link […]
>
> The latest figures from the Office for National Statistics suggest that reducing the rate of VAT to 5% for catering services, such as the supply of meals, snacks and drinks sold by restaurants, pubs, cafés and canteens, would cost the Exchequer £10 billion per year. Similarly, a cut in VAT to 5% for accommodation would have an estimated cost of around £2 billion a year […]
>
> I do not have to remind hon. Members that those costs would have to be met either by increasing other taxes, which may well have an adverse effect on growth and jobs elsewhere in the economy, or by increasing borrowing. That would risk raising interest rates, which would undermine our hard-won recovery and would have an adverse impact on families and small businesses.[60]

---

58 HC Deb 17 March 2015 cc222-3WH

59 as above c237WH

60 as above cc239-40WH

4 Subsequent debate on the case for a VAT cut (2015 to 2020)

4.1 Further debate in Parliament

Over the next five years Members continued to raise the case for a VAT cut for the tourist and hospitality sector,[61] while the Government reiterated its opposition to doing this,[62] often citing the comments made by the then Financial Secretary in the Westminster Hall debate mentioned above.[63]

Following the outcome of the EU referendum in June 2016 and the Government's commitment for the UK to leave the EU, many commentators noted that outside the EU, the UK would no longer be constrained by this body of law, and many stakeholders have made the case for lower VAT rates on individual goods and services without the Government making any specific commitments in this area.[64] Moreover, substantial reductions in VAT following Brexit seem highly unlikely, as noted in the Tax Journal at this time:

> Realistically […] given the tax revenues that VAT generates for the UK (roughly a fifth of UK tax revenue), there is little practical likelihood that VAT will be abolished by the UK following Brexit. It is not even the case that it would be necessary to take significant legislative steps to preserve VAT in the UK, given that the EU VAT rules have been mainly implemented by UK legislation.
>
> In the longer term, a UK-only VAT system, freed from the constraints of compliance with EU, might begin to diverge from the VAT system in place today. UK governments would have greater flexibility to use changes to the VAT system to further political objectives (eg, by widening zero-rate, exemption rules or the use of lower rates.)[65]

In June 2017 the Conservative Party reached a Confidence and Supply Agreement with the Democratic Unionist Party, following the General Election in which the Conservatives were returned as the largest party in the Commons but without a working majority.[66] Alongside the Confidence and Supply Agreement the Government published a note on the extra financial support to be given to Northern Ireland which noted, "a detailed consultative report will

61 20 Members signed an EDM calling for a cut in VAT tabled in October 2015 (EDM 533 of 2015-16, 19 October 2015).
62 For example, PQ31959, 30 March 2016
63 For example, PQ20409, 16 January 2016
64 For example, PQHL2763, 10 December 2016
65 "Brexit: the tax issues at stake", Tax Journal, 17 June 2016
66 For details see, Commons Library briefing paper CBP8103, The 2017-19 Government at Westminster: Governing as a minority. This was last updated in March 2020.

be commissioned into the impact of VAT and APD on tourism in Northern Ireland to recommend how best to build upon the growing success of that sector."[67]

4.2 The Government's call for evidence on VAT and APD in Northern Ireland

In addition to VAT, the UK tourist industry has had a long campaign over the impact of air passenger duty (APD), the tax charged on passenger flights from UK airports.[68] Notably the tax is not charged on **long haul** flights from Northern Ireland airports.[69]

In July 2011 the Northern Ireland Affairs Committee had recommended that the tax should be abolished for flights both to and from airports in Northern Ireland, because of competition from airports in the Republic and the threat this posed to one particular transatlantic route.[70] In September that year the Coalition Government announced that the rate of APD on direct long-haul flights from airports in Northern Ireland would be cut to the short-haul rate, and that it would consult on devolving aspects of APD.[71] In February 2012 the Government confirmed that provision in the upcoming Finance Bill would devolve APD to the Northern Ireland Assembly,[72] and in autumn 2012 the Northern Ireland Executive introduced legislation to abolish APD on direct long haul flights from 1 January 2013.[73] Notably the Irish Government abolished Ireland's version of APD – the 'Air Travel Tax' – the next year.[74]

In March 2017 the Northern Ireland Affairs Committee recommended that the Government consider scrapping APD on all flights using Northern Ireland airports, and introducing a lower rate of VAT on tourist services just in Northern Ireland. In the latter case, the Committee argued that Brexit presented an opportunity for the introduction of regional variations in VAT rates – something that is contrary to the current EU VAT rules:

> Subject to the forthcoming negotiations with the EU, [leaving the EU] potentially opens the door to the implementation of a lower rate of tourism VAT in Northern Ireland, without necessitating a more expensive reduction in

---

67 Prime Minister's Office, UK government financial support for Northern Ireland , 26 June 2017

68 For further details see, Commons Library research briefing CBP5094 Air passenger duty : recent debates & reform. This was last updated in August 2021.

69 Duty rates are set out in, HMRC, Rates for Air Passenger Duty, updated April 2023

70 Second report: Air Passenger Duty, HC 1227, 8 July 2011 paras 5, 18-19

71 HM Treasury press notice 107/11, 27 September 2011

72 HC Deb 21 February 2012 c71WS. Provision to this effect was made by s190 & schedule 23 of Finance Act 2012. Consequential changes were made by Order (SI 2012/3017).

73 Under the Air Passenger Duty (Setting of Rate) Act (Northern Ireland) 2012. Details on the scrutiny of this legislation by the Assembly is on its site.

74 Revenue Ireland, Revenue eBrief 178/20, September 2020

> other parts of the country which do not share the same competitive pressures.[75]

The Committee also recommended that there should be further analysis on the potential cost of cutting VAT on tourism:

> There is no consensus between industry and government on the true cost or benefit of reducing tourism VAT across the UK. Industry groups are accused of using out of date figures and making unverifiable assumptions, while the Treasury is criticised for focusing too closely on the direct tax cost, and placing insufficient emphasis on the indirect benefits. It is clear further analysis is required from the Government, Executive and tourism industry to build greater consensus around the true cost, or benefit, to the Exchequer of reducing tourism VAT.[76]

The Committee's report was published just before the 2017 General Election, and in a short response published in November, the then Financial Secretary Mel Stride noted the Government would "look again at the impact of VAT and APD […] in line with the […] Confidence and Supply agreement."[77]

In his Budget statement to the House on 22 November 2017 the then Chancellor Philip Hammond confirmed the Government's plans to "review the effect of VAT and air passenger duty on tourism in Northern Ireland, reporting at next year's Budget."[78] The consultation was launched on 13 March 2018; the deadline for responses was 5 June 2018.[79] Three extracts from the consultation are reproduced below.

First, respondents were asked for views on the importance of several features of VAT for the tourist sector:

> In the UK, the standard rate of VAT therefore applies to many tourism related activities, such as hotel accommodation and restaurant meals.
>
> While the government is aware of concerns that applying the standard rate of VAT to these activities may put UK tourism at a disadvantage, the UK VAT system has several features that may benefit the tourism industry, including:
>
> - the highest VAT registration threshold in the EU and the OECD, meaning many small businesses providing goods and services to tourists across the UK do not have to charge VAT at all
>
> - several wide-ranging zero-rates of VAT, including for certain foodstuffs, public transport, books and magazines

75 Northern Ireland Affairs Committee, Second report: Promoting the tourism industry in Northern Ireland through the tax system, HC 50 (PDF) 20 March 2018 para 50
76 as above para 84-5
77 Northern Ireland Affairs Committee, Government Response to the Committee's Second Report of Session 2016–17, (PDF) 7 November 2017
78 HC Deb 22 November 2017 c1052; Autumn Budget 2017, HC 587 (PDF) November 2017 para 4.89
79 HMT, VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence, (PDF) March 2018

- an exemption on admission to cultural attractions managed by public bodies or not-for-profit organisations, this includes museums, galleries, art exhibitions and zoos
- a VAT refund scheme for museums and galleries, allowing national and university museums and galleries to claim back VAT incurred on most goods and services purchased in order to grant free rights of admission to their collections
- the Tour Operators Margin Scheme (TOMS), which simplifies VAT accounting on travel supplies so businesses do not have to register and account for tax in each Member State where the services and goods are enjoyed
- The government wants to understand whether these features of the VAT system significantly benefit tourism in Northern Ireland.[80]

Second, the paper asked for views on the impact of three tax changes affecting the industry: the abolition of long-haul APD in Northern Ireland, as well as the Irish Government's introduction of the 9% VAT rate, and scrappage of Air Travel Tax:

> The power to set the APD rates on direct long-haul flights departing Northern Ireland was devolved to the Northern Ireland Assembly and from 1 January 2013 the rates were set at £0. Currently, there are very few long-haul flights departing Northern Ireland. The government is interested to explore why, given a £0 tax rate, airline operators have not invested more long-haul services in Northern Ireland …
>
> Ireland temporarily reduced the rate of VAT on several tourism related activities from 13.5% to 9% in May 2011, as part of a package intended to support the tourism industry …
>
> In 2016, overseas tourist visits to Ireland and overseas tourist spend rose by 9%, while in Northern Ireland overseas tourist visits and overseas visitor spend rose by 12% and 13% respectively. However, Indecon's 2017 report, 'Impact of the VAT reduction on Irish Tourism and Tourism Employment', found that perceived value for money has significantly improved in Ireland following VAT reductions. In 2016, positive views outnumbered negative by 7:1. This shift towards 'good/very good' value for money was seen by tourists from various locations, including the US, the UK and mainland Europe.
>
> The government is interested in how changes to the VAT rate and the abolition of Air Travel Tax in Ireland have impacted the demand for tourism there and in Northern Ireland. Equally, it is interested in the impact other countries have seen after changing their tax treatment of tourism related activities.[81]

Third, it asked about the potential impacts of cutting VAT, and the extent to which tax cuts would lead to lower prices – the level of 'pass through':

[80] as above para 2.28-30

[81] as above para 3.10. 3.12, 3.14-6

Modelling in the Cut Tourism VAT campaign's February 2017 report, 'Full fiscal and employment impact of reduced VAT on visitor accommodation and visitor attractions in the UK', assumes a pass-through level of 75%.

Similarly, the 2013 Deloitte report for Fáilte Ireland, 'Analysis of the Impact of the VAT Reduction on Irish Tourism and Employment', found that following the VAT rate reduction from 13.5% to 9% in Ireland in May 2011, pass through to prices was around 50%, and that this was 'readily apparent in all sectors with the exception of the accommodation sector where the evidence is inconclusive.'

Some evidence from international experiences outlined below suggests that the likely pass through level following VAT changes has been more modest. The impact and efficiency of reduced VAT rates aimed at supporting labour-intensive activities has previously been reviewed following changes in Finland, Sweden and France.

- in Finland, 2013 research by the VATT Institute for Economic Research considering the VAT rate reduction for restaurants in 2010 from 22% to 13% was found to have resulted in limited pass-through to prices and to have had no significant impact on restaurants' turnover and wage bill
- in Sweden, the National Institute of Economic Research found that a cut in 2012 for VAT on restaurants and catering services from 25% to 12% had a modest positive impact on employment in the sector, but the impact on economy-wide employment was estimated to be very small, and the efficiency of the measure was considered questionable given the revenue foregone
- in France, the Conseil des Prélèvements Obligatoires (Council of Mandatory Contributions) (CPO) evaluated the 2009 cut in VAT on restaurants from 19.6% to 5.5% and estimated that although this had raised employment, the cost per new job was very high when compared with other policy measures. The CPO also noted that the VAT cut had had little effect on prices, and had made the tax system more regressive
- The level of pass-through following tax changes directly affects the benefits experienced by consumers. Therefore, the government is interested in further evidence on the likely level of pass-through in Northern Ireland.[82]

Finally, as noted, the document underlined that responses to the consultation would "inform future policy development but the government has made no firm decisions about the issues set out in this document."[83]

82 as above para 5.9-12

83 as above para 1.8

4.3 The Government's response to its call for evidence

The Chancellor presented the Government's 2018 Budget on 29 October. In his Budget speech Philip Hammond noted that the Government had "agreed to the establishment of a working group to progress plans for short-haul air passenger duty devolution."[84] The Budget report stated that with the publication of the Government's response to the call for evidence, there would be "no changes to the VAT or APD regimes in Northern Ireland at this time." In addition the technical working group mentioned by the Chancellor would "consider the practical and legal challenges to changing short-haul APD in Northern Ireland."[85]

The Government's response to the call for evidence provided a summary of the views that had been submitted:

> Many respondents to the call for evidence argued in favour of cuts to the rate of VAT applied to accommodation and attractions in Northern Ireland. Others proposed cuts to the rate of VAT applied to food and beverage services, in addition to the aforementioned tax cuts. It was also argued that the rate of short-haul APD should be reduced in Northern Ireland, to help to support the tourism industry.
>
> Fewer representations were made in support of cuts across the UK as a whole, however those in favour argued that the cost of tax reductions would be offset in the longer term by industry growth.
>
> Much of the evidence presented focused on competition between the tourism industries of Northern Ireland and Ireland. Tourism is argued to be extremely price sensitive in terms of consumer decision making. Ireland maintains a 9% reduced rate of VAT on tourism related services, including accommodation and restaurants. The Irish government announced on 8 October that from 1 January 2019 the VAT rate on tourism related services will rise to 13.5%. The UK maintains a standard rate of VAT of 20% which applies to most goods and services. Respondents felt this created a distortion of competition across the border, particularly as prices are normally advertised as VAT inclusive. Furthermore, the rate of APD is claimed to deter international short-haul visitors, although evidence presented suggested short-haul travellers are less price sensitive.
>
> This is set within the context of a Northern Ireland economy currently dominated by domestic tourism and seeking to expand within the international market. Tourism Ireland advertises Northern Ireland and Ireland internationally. This is claimed to inadvertently cast a spotlight on price differences between the two markets.
>
> However, marketing of the all-island economy is also argued to have certain advantages, with tourism in Northern Ireland benefitting from visitors to

84 HC Deb 29 October 2018 c665

85 Budget 2018, HC 1629 (PDF) October 2018 para 4.113

> Ireland. There are also a number of features of the existing tax regime that already support the tourism industry.
>
> The UK has the highest VAT registration threshold in the EU and Organisation for Economic Co-operation and Development (OECD). The threshold is significantly higher for businesses that provide services than the comparable rate in Ireland, benefitting many in the tourism industry. The government also maintains a zero rate of VAT on passenger transport services and exemptions are available for cultural institutions such as art galleries and museums.
>
> In addition, in 2012, the UK government devolved the power to set direct long-haul APD rates to the Northern Ireland Executive, and the Executive subsequently set these at zero with the intention of supporting the long-haul market in Northern Ireland. While the government recognises the difficulties that may arise from a higher rate of tax in Northern Ireland, the industry's growth demonstrates its success.
>
> VAT and APD are important sources of revenue for the Exchequer, raising £125 billion and £3.4 billion in 2017-18 respectively. This money is used to fund the government's spending priorities such as health, education and defence and any loss of revenue must be balanced by increased borrowing, reduced public spending or increased taxation elsewhere. The existence of multiple VAT rates on the same territory would also likely lead to additional administrative burdens for taxpayers and businesses.
>
> This evidence must also be considered within the existing legislative framework and, in the absence of an Executive in Northern Ireland, there is currently no scope for further devolution of any tax, including APD, in Northern Ireland. In addition, it is not possible to introduce differential VAT rates within a single VAT territory under EU law.[86]

It went on to confirm that in the light of these legal and fiscal considerations, the Government would not make any changes to either VAT or APD, but would "continue to analyse the evidence and receive representations on VAT and APD policy in order to keep these issues under close review":

> This is a complex area affecting important sources of revenue for the Exchequer. The arguments set out in this call for evidence have highlighted these complexities and the government will take them into consideration in future policy development.[87]

As noted, in October 2018 the Irish Government announced the rate of VAT on tourist-related activities would return to 13.5% from 1 January 2019.[88] In his Budget statement Finance Minister Pascal Donohoe set out the case for this change as follows:

> A Government's decision to provide stimulus to the economy is often an easy one to make and in the case of the tourism sector in 2011, the application of a reduced 9 per cent VAT rate was justified. Judging when it is appropriate to withdraw stimulus measures is always more challenging. I gave a commitment

86 HM Treasury, VAT, Air Passenger Duty and tourism in Northern Ireland : summary of responses, (PDF) October 2018 pp2-3.

87 as above p3. See also, PQ HL1993, 10 March 2020, PQ13070, 11 February 2020, PQ186977, 6 November 2018.

88 Government of Ireland, Budget 2019: Tax Policy Changes, October 2018 p5

> in last year's Finance Bill to undertake an economic analysis of the 9 per cent rate. The review found that the reduced rate has done its job. I believe that, in a new economic reality where the economy is strong, growth is broadly balanced and full employment is within sight, it is appropriate to increase the rate of VAT in the tourism sector to 13.5 per cent from January 2019.[89]

89 Government of Ireland, Budget 2019: Financial Statement, 9 October 2018 p12

5 Covid-19 and a temporary reduced VAT rate (2020 to 2024)

5.1 A Plan for Jobs (July 2020)

At Budget 2020 on 11 March the then Chancellor, Rishi Sunak, announced a series of initiatives to support businesses affected by the Covid-19 pandemic, including business rates relief for hospitality and leisure businesses.[90]

At the time the Chancellor did not mention the VAT treatment of services supplied to tourists, although in subsequent weeks there was some debate as to the case for a temporary cut in the standard rate of VAT,[91] or for a VAT rate cut focused on the tourism sector.

Writing in the Financial Times the paper's economics editor Chris Giles argued that this would a fiscal stimulus "to ensure the survival of the sector most affected by coronavirus as it returns slowly back to normality", and meet three general tests for any fiscal measure to boost demand: that it should be timely, targeted and temporary, "if its end was initially timed to coincide with the removal of restrictions on operations."[92]

The case for cutting VAT was examined in a briefing note published at the time by Richard Blundell, Peter Levell and Helen Miller at the Institute for Fiscal Studies. In this the authors summarised the way that VAT cuts may boost spending:

> Temporary VAT cuts stimulate consumer purchases by reducing the post-tax prices individuals pay for goods and services. This in turn increases consumers' purchases of goods through two channels.
>
> - Firstly, there is an **income** effect. Put simply, by reducing consumers' bills, a VAT cut puts money in their pockets. To the extent consumers use these funds to make additional purchases, this stimulates spending and economic activity. They may of course also save any windfall or use it to pay down debts.
>
> - Secondly, there is a **substitution** effect. Households have an incentive to bring forward purchases to take advantage of lower prices when the VAT cut is in effect. This leads to a temporary boost to demand.

90 Budget 2020, HC 121 (PDF), March 2020 para 1.100

91 For example, Edward Troup, "Cutting VAT—hydroxychloroquine for a Covid-ravaged economy", Prospect, 25 June 2020

92 "Tourism sector needs a short-term VAT cut", Financial Times, 21 June 2020. See also PQ55663, 11 June 2020

> We would expect this effect to be particularly large for spending on durable goods such as cars or TVs, or other non-perishable goods that consumers can stock-up on.

> These two forces boost output through a multiplier effect. Greater purchases during the period of the VAT cut leads to more work for those producing that output, and in turn higher employment and earnings, which in turns leads to greater spending, and so on. This would be especially valuable at a time when unemployment is relatively high and much of the workforce remains on furlough.[93]

They went on to note that “past success does not necessarily make it an appropriate tool for the current crisis”:

> There are a number of reasons why a temporary VAT cut may be less effective in the current crisis. A key consideration is how much of the forgone revenue from the VAT cut leads to more purchases (and therefore output) and how much is saved, or spent on imports in a way that does not boost short-term UK output and employment.[94]

The authors observed that one potential advantage of this type of targeted VAT cut is that it would be “more likely to encourage purchases of goods and services provided by firms in the UK, avoiding a situation where stimulus spending ‘leaks’ abroad through higher spending on imports (for example imported consumer durables)”:

> These sectors are also more likely to report having reduced prices in recent weeks, suggesting deficient demand and a greater chance they will pass price reductions through to consumers.[95]

> A significant disadvantage is that gains from such a targeted stimulus would be likely to go to higher-income households, who spend a larger share of their income on such goods and services in normal times, and who are much more likely to save – rather than spend - any additional funds. The income effect associated with this kind of targeted cut would therefore likely be small. Since these goods are less easy to ‘stock up on’, the substitution effect may be smaller too.[96]

On 8 July 2020 the Chancellor announced a series of measures to boost job creation, including a temporary 5% VAT rate on most tourist and hospitality-related activities:

> At the moment, VAT on hospitality and tourism is charged at 20%, so I have decided, for the next six months, to cut VAT on food, accommodation and

---

93 Richard Blundell, Peter Levell and Helen Miller, A temporary VAT cut could help stimulate the economy, but only if timed correctly, IFS Briefing note 26 June 2020

94 as above

95 For instance, 12.1% and 7.9% of businesses in the accommodation and food service, and arts, entertainment and recreation sectors respectively reported reducing prices in the last two weeks of May (just 1.8% and 2.2% of firms in these two sectors reported increasing prices). See results from ONS, (2020), ‘Coronavirus and the latest indicators for the UK economy and society’, 18 June 2020.

96 Richard Blundell, Peter Levell and Helen Miller, A temporary VAT cut could help stimulate the economy, but only if timed correctly, IFS Briefing note 26 June 2020

> attractions. Eat-in or hot takeaway food from restaurants, cafés and pubs; accommodation in hotels, B&Bs, campsites and caravan sites; attractions like cinemas, theme parks and zoos—all these and more will see VAT reduced, from next Wednesday until 12 January, from 20% to 5%. This is a £4 billion catalyst for the hospitality and tourism sectors, benefiting over 150,000 businesses and consumers everywhere—all helping to protect 2.4 million jobs.[97]

The Government's case for this VAT cut, and for a new voucher scheme – 'Eat Out to Help Out' – to support the restaurant trade[98], was set out in a policy document published alongside the Chancellor's statement:

> Protecting Jobs
>
> **2.22** The hospitality sector plays a vital role in UK life. Pubs, restaurants, cafés, and bars are mainstays of the nation's high streets, and bring community, entertainment and great food and drink to millions, while the accommodation sector ensures that visitors can enjoy the sights, experiences and attractions the country has to offer.
>
> **2.23** These sectors are amongst the highest employing sectors across the UK, with over 2.4 million workers in hospitality, accommodation and attractions, equivalent to 8% of the entire UK workforce.[99] They have also been among the hardest hit by the pandemic and necessary restrictions.
>
> **2.24** Although many hospitality, accommodation and attractions businesses have received significant government support through the job retention scheme, business rates holidays and lending guarantees, the nature of their businesses means that the lockdown has taken a heavy toll and many firms still face great challenges.
>
> **2.25** Workers in the hospitality sector are disproportionately young, with fewer qualifications, and therefore more likely to be unemployed for a long time if they lose their jobs. Workers in hospitality are also more likely to be female or from a Black, Asian and minority ethnic background relative to the overall workforce.[100] Supporting these sectors is therefore crucial to the government's objective of preventing labour market scarring and ensuring opportunities for all.
>
> **2.26** Hospitality and tourism also play a vital role in local economies across the UK, in particular for Scotland, Wales and several regions of England. From Cornwall and Devon to Snowdonia and the Causeway Coast, from Cumbria and the Norfolk Broads to the Highlands and Islands, local communities and economies depend on visitors and these industries to support hardworking business owners and staff.
>
> **2.27** The government and devolved administrations have worked closely with businesses to develop guidelines to keep staff and customers safe. These guidelines include advice to businesses to take steps such as frequent cleaning, making sure risk assessments explicitly take into account COVID-19,

97 HC Deb 8 July 2020 c977

98 see, Commons Library research briefing CDP8978 Eat Out to Help Out Scheme, 22 December 2020; and, Commons Library research briefing CDP9111, Hospitality industry and Covid-19, 12 May 2022.

99 ONS Business Register and Employment Survey (BRES) 2018

100 ONS Annual Population Survey 2019, ONS Labour Force Survey 2020

> and keeping temporary records of customers and visitors to support contact tracing.
>
> **2.28** As restrictions begin to be eased to make it possible for more businesses up and down the country to re-open, business owners have worked hard to implement the guidelines, taking appropriate precautions to protect their staff and customers. If businesses and customers follow the guidelines, this will allow people to start to return to normality in a safe way.
>
> **2.29** As the next step towards recovery, the best way to secure jobs in these sectors is to support demand for these businesses, giving them confidence to reopen. The Plan for Jobs announces targeted measures to encourage people to return to their normal habits and make the most of reopening within these sectors in order to support businesses and protect jobs in England, Scotland, Wales and Northern Ireland, all of which will benefit from this support.
>
> Policy Measures
>
> **2.30 Eat Out to Help Out** – In order to support around 130,000 businesses and to help protect the jobs of their 1.8 million employees,[101] the government will introduce the Eat Out to Help Out scheme to encourage people to return to eating out. This will entitle every diner to a 50% discount of up to £10 per head on their meal, at any participating restaurant, café, pub or other eligible food service establishment. The discount can be used unlimited times and will be valid Monday to Wednesday on any eat-in meal (including on non-alcoholic drinks) for the entire month of August 2020 across the UK. Participating establishments will be fully reimbursed for the 50% discount.
>
> **2.31 Temporary VAT cut for food and non-alcoholic drinks** – From 15 July 2020 to 12 January 2021, to support businesses and jobs in the hospitality sector, the reduced (5%) rate of VAT will apply to supplies of food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises across the UK. Further guidance on the scope of this relief will be published by HMRC in the coming days.
>
> **2.32 Temporary VAT cut for accommodation and attractions** – From 15 July 2020 to 12 January 2021, to support businesses and jobs, the reduced (5%) rate of VAT will apply to supplies of accommodation and admission to attractions across the UK. Further guidance on the scope of this relief will be published by HMRC in the coming days.[102]

At the time the Government estimated that the temporary reduced VAT rate would cost £4.1 billion (although this estimate has been revised significantly since then, as discussed below).[103] By comparison the Eat Out to Help Out scheme was forecast to cost 0.5 billion,[104] and a temporary cut in Stamp Duty

---

101 ONS Non-financial business economy, UK and regional (Annual Business Survey): 2018 revised results (Food and Beverage Service Activities – Groups 561, 563 and Class 5629)

102 HM Treasury, A Plan for Jobs, CP261 (PDF) July 2020 pp10-11

103 as above p7 (Table 1)

104 The scheme closed on 31 August. It was estimated to have cost £800m (OBR, Economic and Fiscal Outlook, CP 318, November 2020 para A.12).

Land Tax on house purchases, another initiative as part of the Chancellor's Plan for Jobs, was forecast to cost £3.8 billion.[105]

Details of the scope of the new 5% rate were set out in HMRC guidance:

> The following supplies will benefit from the temporary 5% reduced rate of VAT:
>
> - food and non-alcoholic beverages sold for on-premises consumption, for example, in restaurants, cafes and pubs
> - hot takeaway food and hot takeaway non-alcoholic beverages
> - sleeping accommodation in hotels or similar establishments, holiday accommodation, pitch fees for caravans and tents, and associated facilities
> - admissions to the following attractions that are not already eligible for the cultural VAT exemption such as: theatres; circuses; fairs; amusement parks; concerts; museums; zoos; cinemas; exhibitions; similar cultural events and facilities.
>
> Where admission to these attractions is covered by the existing cultural exemption, the exemption will take precedence.[106]

Statutory provision for the temporary 5% rate was made via secondary legislation (Statutory Instrument 2020/728).[107]

Prior to the House rising for the summer recess there was relatively little mention of the VAT cut.[108] Following his statement, on 15 July the Chancellor gave evidence to the Treasury Select Committee with Dan York-Smith (Director of Strategy, Planning and Budget, HM Treasury) about the Government's most recent package of measures, and Felicity Buchan (Conservative) asked him about the Government's case for crafting the VAT cut this way:

> **Felicity Buchan**: Moving on to the changes to VAT, is there a risk that those changes do not pass through to the consumer and the £4.1 billion earmarked for the cost to VAT effectively just becomes an extra grant for those sectors?
>
> **Rishi Sunak**: Felicity, I am not going to be able to sit here and direct the pricing of every single business in the country. That would not be right or appropriate. Businesses have been doing a difficult job throughout this crisis, and they have responded well when things have been asked of them. We

105 For details see, Commons Library research briefing CBP7050 Stamp Duty Land Tax on residential property: government policy up to 2021, 14 June 2023 (section 6).

106 HMRC, Guidance on the temporary reduced rate of VAT for hospitality, holiday accommodation and attractions: HMRC Brief 10(2020), 9 July 2020

107 See also, HMRC, Information on the reduced rate of VAT for hospitality, holiday accommodation, and attractions: tax information & impact note, 15 July 2020

108 In answer to two linked PQs about the coverage of the 5% rate, the Financial Secretary confirmed that "Ice cream served for consumption on the premises in ice cream parlours or other food establishments will benefit from the reduced rate" PQ74760, 23 July 2020. Subsequently the Minister ruled out extending the 5% rate to wine and spirits sales (PQ150941, 11 February 2021).

> do know that last time around, when we had a generalised VAT cut in 2008-09, about four out of five businesses passed that VAT cut on to consumers. I was out today getting my lunch, and that was certainly the case, and I know lots of companies are making a feature of that. It will obviously be a decision for individual companies to make.
>
> I think the important thing is, whether the benefit slightly flows to consumers or to the businesses, or some mix of that, all of that is helpful for safeguarding jobs. That is what this is about. There are 2.4 million people who work in these sectors, and about 150,000 businesses. That benefit will flow through in different ways, but it will fundamentally make it more likely that we can safeguard more of those jobs. That is what this is about.
>
> **Felicity Buchan**: The changes to VAT are due to end on 12 January. Is there an argument that that is exactly when you need to encourage people to go out to restaurants and bars? They may already be doing so in the run-up to Christmas, in November and December; is in January that businesses and consumers will need the stimulus.
>
> **Rishi Sunak**: That is a fair point. We obviously cannot do this forever; it is very expensive. The question is whether we should wait until then, or act now. Given the situation—we are just coming out of lockdown, these businesses have been closed, and people are not used to going out and about—we thought the time to act was now. By coincidence, or whatever you want to call it, there are about four or five other countries that have done something similar. I think they are Belgium, Austria, Cyprus—I am trying to remember the others.
>
> **Dan York-Smith**: Germany.
>
> **Rishi Sunak**: Yes. There are four or five that have done targeted VAT cuts in these sectors.
>
> **Dan York-Smith**: Norway.
>
> **Rishi Sunak**: And Norway. Almost all of them end in October, December and January, actually. They have all done similar timeframes of support. This industry has just opened up and has been through a really tough time. This is when it needs our help.
>
> **Felicity Buchan**: We have heard from a number of pubs that they are concerned that alcoholic drinks are not part of the VAT reduction. What was your thinking there?
>
> **Rishi Sunak**: I think it was probably just the obvious one. There is a public health imperative alongside it as well. It is fairly common. From memory, both Ireland and France have excluded alcoholic drinks from similar measures that they have taken, and I think Germany actually excluded non-alcoholic drinks as well. I do not think it is uncommon. We want to be mindful of the public health side of things as well.[109]

Over this period the Treasury Committee had an ongoing inquiry on the economic impact of Covid-19, and as part of this in September 2020 published

[109] Treasury Committee, Oral evidence: Economic Impact of Coronavirus, HC271, 15 July 2020 Qs 871-3

a report on the medium-term challenges for the public finances.[110] In this the Committee discussed the effectiveness of the Chancellor's Plan for Jobs, including the VAT cut on hospitality and leisure. An extract is reproduced below:

> In 2008–09, the then Government cut VAT to stimulate consumption post-Recession. This may give some indications on how effective the current cut in VAT will be. The Chancellor at that time, Lord Darling has been one of the most vocal advocates for a general cut in VAT during the present crisis.[111] Professor Hamish Low of Oxford University told us his research indicated that back in 2008–09 there was likely to be "a pretty high pass-through" of the VAT cut into increased spending, suggesting that the cut to VAT was effective at boosting consumption. A paper co-authored by Professor Low in 2008 estimated an increase of around 1 per cent in retail sales as a result of the UK Government lowering its standard VAT rate by 2.5 percentage points (from 17.5% to 15%) for a period of 13 months.[112]
>
> However, Professor Low also pointed out that today supply constraints put in place by social distancing meant that the VAT cut on hospitality would have a more limited impact on boosting demand: "If supply is at 50 per cent with social distancing, we are not going to need to see any or much of a demand bounce-back to meet that 50 per cent capacity. That is the real issue with the hospitality sector. I completely agree it is important we get people back to restaurants, but the extent to which we need them to be back is not actually that much if we are running at 50 per cent capacity."
>
> He also argued that temporary VAT cuts worked to increase spending largely through a substitution effect which meant that people chose to bring purchases forward. This substitution impact might be more limited in the hospitality and tourism sector compared to the durable goods sector for instance, which would be affected by a general VAT cut.
>
> Professor Low explained: "Durable spending is really one of the main ways you would expect to see VAT cuts working, because it is durable goods where you spend the money now, but you get the benefit in the future, whereas with other sorts of spending, you can see it is much less amenable to storage or it is much less amenable to getting the benefits today and then still feeling the benefits tomorrow. That number of one for one has been driven for a large chunk, or to some extent, by the durable spending. However this is less effective in the hospitality and tourism sector."
>
> Rt Hon. Lord Macpherson of Earl's Court largely agreed with this analysis but pointed out some advantages of the VAT cut being targeted at the hospitality and tourism sector: the domestic content of the hospitality industry being "very high", and it needing a "kickstart". In contrast, a VAT cut in durable goods which were mainly imported might just benefit foreign companies as opposed to domestic businesses.
>
> Overall, Lord Macpherson thought that the package "was relatively small", as "the VAT measure will pump in much less demand than a generalised VAT

110 Treasury Committee press notice, Chancellor should "carefully consider" targeted extensions to Job Retention Scheme, urges Treasury Committee, 11 September 2020

111 "Former chancellor Alistair Darling calls for emergency VAT cut", Guardian, 22 June 2020

112 Richard Blundell, Peter Levell and Helen Miller, A temporary VAT cut could help stimulate the economy, but only if timed correctly, IFS Briefing Note, July 2020

> decrease". However, he pointed out that it was " targeted" which meant that it was not going to give rise to "overheating". He concluded it was a "quite a sensible, targeted measure". [113]

In its overview of these initiatives the Committee concluded, "the Chancellor was right to begin stimulating consumption at the time of the Chancellor's Plan for Jobs, especially in the hospitality and tourism sector, to ensure these businesses, often reliant on summer months, did not start cutting jobs":

> However the Eat Out to Help Out Scheme has now ended and the continued VAT cut on hospitality and leisure may not be enough to encourage consumers to continue to spend as the threat of the virus continues and they face rising job insecurity. The Chancellor needs to consider whether additional measures to stimulate consumption are warranted at the next fiscal event.[114]

5.2 Winter Economic Plan (September 2020)

On 24 September 2020 the Chancellor published a second series of measures to support the economy, and as part of this announced that the temporary 5% rate would be extended to 31 March 2021.[115] Alongside the Chancellor's statement, further details were given in a Treasury document, which confirmed this extension:

> **2.7 Extending the temporary VAT reduced rate for hospitality and tourism** – To continue supporting the cashflow and viability of over 150,000 UK businesses[116] and to protect 2.4 million jobs,[117] the government is extending the temporary reduced rate of VAT (5%) from 12 January to 31 March 2021. This will continue to apply to supplies of food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises, supplies of accommodation and admission to attractions across the UK.[118]

Statutory provision to extend the 5% rate was made by Order.[119]

In November 2020 the OBR published its latest economic forecasts, and as part of this, estimated that the 5% VAT rate would cost **£2.5 billion** in total.[120] As noted above, initially the Treasury had estimated that the Exchequer cost of the reduced rate would be £4.1 billion.[121]

---

113 Treasury Committee, Economic impact of coronavirus: the challenges of recovery, HC 271, 11 September 2020 paras 34-38

114 as above para 42

115 HMT press notice, Chancellor outlines Winter Economy Plan, 24 September 2020

116 Annual Business Survey, ONS 2018. 2: ONS 2017 "Cultural activities" 3: ONS 2017 "Cultural activities"

117 Annual Business Survey, ONS 2018

118 HM Treasury, Winter Economic Plan, CP297 (PDF) September 2020 para 2.7

119 SI 2020/1413. see also, HMRC, VAT: reduced rate for hospitality, holiday accommodation and attractions, updated 3 December 2020

120 OBR, Economic and Fiscal Outlook, CP318 (PDF) November 2020 para A.12. see also, PQ149333, 9 February 2021.

121 HM Treasury, A Plan for Jobs, CP261 (PDF) July 2020 p7 (Table 1)

Most of the coverage of the Chancellor's Winter Economic Plan focused on his announcement of a new job support scheme to follow the withdrawal of the Government's Job Retention Scheme, although in their report on the Chancellor's plan, the Resolution Foundation briefly discussed the extension of the 5% VAT rate:

> Businesses benefiting from [the 5% rate] have the choice over how much of the tax cut to pass to customers. If they do pass some or all on, then the cut in post-tax prices should encourage greater activity in these areas. If they do not pass on some of the tax cut, then the VAT cut is effectively improving firms' balance sheets. Given the Treasury's aim is to support businesses in these badly-affected sectors, the Government is probably fairly relaxed about the split between these two effects […]
>
> Assuming the cost-per-month of the extension through to 31 March is the same as the initial six months – and we should recognise that spending in all these areas will be affected by households' perceptions about the risks of catching Covid-19, as well as the public health restrictions in place in early 2021 – then the new extension will cost between £1.1 and £1.8 billion [in light of the OBR and Treasury estimates that the initial VAT cut would cost £2.5 or £4.1 billion.][122]

Following the Chancellor's statement there was relatively little debate about the 5% rate, although there was speculation that the Chancellor might extend it further in the next Budget.[123] At Treasury Questions on 1 December James Sunderland asked the then Economic Secretary, John Glen, "Is the Treasury willing to extend the VAT cut to the hospitality, leisure and personal care sectors, and will it perhaps encourage businesses to pass on that VAT saving to consumers?" In response he said:

> The temporary reduced rate of VAT was introduced on 15 July to support the cash flow and viability of more than 150,000 businesses and protect 2.4 million jobs in the hospitality and tourism sectors, and it will run now until 31 March next year. This obviously comes at a considerable cost to the Exchequer, and while we keep all taxes under review, there are no plans to extend it further. Although the Government want businesses to pass on the benefit to customers if they can, obviously decisions on prices are ultimately for businesses rather than the Government.[124]

In answer to a PQ on 12 February 2021 the then Financial Secretary Jesse Norman simply said, "the Government keeps all taxes under review, and any future decisions on tax policy will be made at Budget."[125]

---

122 Torsten Bell et al., The Winter (Economy Plan) is coming, Resolution Foundation, 25 September 2020 pp12-13. See also, "Crisis forces Sunak to walk a tightrope", Financial Times, 24 September 2020

123 In the event the Autumn Budget was delayed to 3 March 2021 following the Chancellor making a third statement on the economy on 5 November, and presenting the Government's Spending Review on 25 November (Written Statement HCWS679, 17 December 2020).

124 HC Deb 1 December 2020 c146

125 PQ149353, 12 February 2021. See also, PQ145179, 2 February 2021.

5.3 Spring Budget 2021 (March 2021)

In his 2021 Budget on 3 March the then Chancellor Rishi Sunak announced that the 5% rate would be extended to 30 September 2020, and then replaced with a 12.5% rate, to remain in effect until 31 March 2022.[126] Updated guidance on the scope of the reduced rate was published at this time,[127] and details of the change to be made to the law were set out in HMRC's tax information note:

> Detailed proposal
>
> Operative date
>
> The initial reduced rate of 5% has had effect from 15 July 2020. The subsequent 12.5% reduced rate will have effect from 1 October 2021 until 31 March 2022. At this point the standard rate will apply.
>
> Current law
>
> Previously the standard rate of VAT applied to most goods and services supplied by the tourism and hospitality sectors. However, groups 14, 15 and 16 were introduced into Schedule 7A of the Value Added Tax Act (VATA) 1994 when the temporary reduced rate came in to force which results in the following supplies attracting the reduced rate of 5%:
>
> - Hospitality: supplies in the course of catering including supplies of hot and cold food and drink to be consumed on the premises and supplies of hot takeaway food and drink to be consumed off the premises
> - Accommodation: the provision of hotel and holiday accommodation, pitch fees for caravan parks and tents and related facilities
> - Attractions: admission to attractions not covered by the cultural exemption (see below)
>
> Group 1, Schedule 8 to the VATA applies a zero rate to a large range of supplies of food sold in the UK, including a large range of cold takeaway food. It also applies a zero rate to a limited number of drinks but expressly excludes alcoholic beverages.
>
> Groups 1 and 13 of Schedule 9 VATA applies an exemption from VAT to the following supplies respectively:
>
> - most grants of an interest in, or a right to occupy, land excluding hotel and holiday accommodation and pitch fees for caravans and tents
> - admission charges to museums, galleries, art exhibitions, zoos and theatrical, musical or choreographic performances of a cultural

126 HC Deb 3 March 2021 c254. See also, Budget 2021, HC 1226 (PDF) March 2021 para 2.46; HMT, Overview of tax legislation & rates, March 2021 para 1.40

127 HMRC, VAT: reduced rate for hospitality, holiday accommodation and attractions, updated 23 December 2022; and, Temporary reduced rate of VAT : HMRC Brief 2(2021), 3 March 2021.

> nature, when supplied by a public body or an eligible body (as defined)
>
> The previous measure also amended regulation 55K of the VAT Regulations 1995 to ensure that businesses in these sectors that use the flat-rate scheme will also be able to benefit from the reduced rate for the period that it applies.
>
> Proposed revisions
>
> The temporary 5% reduced rate will be extended until 30 September 2021. The 12.5% reduced rate will then come in to force on 30 September 2021 until March 2022. Regulation 55K of the VAT Regulations 1995 will also be amended when the 12.5% reduced rate is introduced to ensure that businesses in these sectors that use the flat-rate scheme will also be able to proportionately benefit from this rate for the period that it applies.
>
> It is intended that this legislation will be included in Finance Bill 2021. The extent and application will be the whole of the United Kingdom.[128]

At the time it was estimated that the extension of this VAT relief would cost a further £4.7 billion in 2021/22.[129]

Commentary on the Budget focused on other measures, although the extension of VAT relief was clearly welcomed by the industry.[130] There was some criticism from the pubs sector that the scope of the reduced rate had not been amended, to include the sale of alcoholic drinks.[131]

As noted, statutory provision for the 5% rate to apply up to 31 March was made by secondary legislation (SI 2020/728 & SI 2020/1413). The Government included provision to extend the 5% rate to the end of the September, and to replace it with the temporary 12.5% rate in the Finance Bill introduced after the 2021 Budget.[132]

These clauses were among the selection chosen for debate by the Committee of the Whole House, on 20 April 2021. On this occasion the then Financial Secretary to the Treasury, Jesse Norman, introduced these provisions:

> Clauses 92 and 93 ensure that businesses will continue to be supported by the temporary VAT relief for the hospitality and tourism sectors. The relief was introduced as an urgent response to the economic challenges faced by businesses in sectors severely affected by covid-19 restrictions. Together, these clauses will ensure that the relief continues to support the cashflow and viability of around 150,000 businesses, as well as the continued employment of more than 2.4 million people.[133]

---

128 HMRC, Introduction of a new reduced rate of VAT for hospitality, holiday accommodation and attractions, 3 March 2021. For some commentary on the implications for businesses see, "Fourth rate", Taxation, 26 August 2021.

129 Budget 2021, HC 1226, March 2021 p41 (Table 4.1 – item 5)

130 "Budget 2021: Relief extended for businesses on rates and VAT", BBC News, 4 March 2021

131 "UK pub bosses 'disappointed' by budget help for hospitality industry", Guardian, 3 March 2021

132 These provisions now form sections 92-3 of the Finance Act 2021.

133 HC Deb 20 April 2021 c940

The Minister went on to oppose an amendment and a new clause tabled by the SNP:

> Amendment 64 seeks to remove the flexibility in the legislation that would allow for changes in the duration of the relief. … It is important that the clauses allow for flexibility in what is, after all, still a rapidly changing environment. I therefore urge Members not to support—indeed, to reject—this amendment.
>
> New clause 16 would require a review of the impact on investment of extending the 5% rate of VAT to the end of September, versus the year end, across the United Kingdom. This is technically not possible, because some of the required data does not exist.[134]

Speaking for the Opposition, Pat McFadden said “no one would yet say that we were out of the woods or that there was not still a need to support key sectors of the economy for some time yet. That is why it is right to continue the measures in clauses 92 and 93.”[135]

For the SNP Peter Grant set out the case for the amendment and new clause:

> It is impossible that we will be back to normal by the end of September, and it is therefore completely irrational for the Government to arbitrarily decide that the 5% VAT rate should end on 30 September, but that is exactly what they have decided. The SNP did, in fact, table an amendment seeking to extend that date to 31 December, but that amendment was deemed to be outside the scope of this Bill …
>
> In new clause 16, we are asking for the Chancellor to report back to Parliament on the impacts that the 5% VAT rate has had, and—very importantly—to compare that with what would have happened if it had been extended, as we have asked. We know what the 5% VAT rate is supposed to achieve, supporting businesses in those sectors, so the Government should have no qualms about assessing whether or not they have achieved that. Nor should they have any qualms about having their decision compared on an empirical basis with alternatives that have been put forward by other MPs …
>
> Amendment 64 asks for a minor, but important, change to the wording of clause 93, dealing with the temporary 12.5% VAT rate. Clearly, as I said earlier, we would have preferred that to remain at 5%, but the Government have rejected that proposal and gone for a 12.5% rate until 31 March 2022, presumably with the full 20% rate coming in after that date.
>
> Clause 93, as currently worded, would allow the Treasury by regulation to bring that date forward, so that the tourism and hospitality sector would go back to paying the full 20% VAT rate sooner than the date that this House has agreed. That is not acceptable. Our amendment would allow the March 2022 deadline to be extended if we found—as we may well find—that the sector was taking longer than expected to recover.[136]

---

134 as above c940

135 as above c942

136 as above cc945-6

Neither the amendment nor the new clause were put to a vote, and these clauses were agreed by the House as proposed by the Government, without amendment.

Following this there was relatively little comment on the impact of the temporary reduced rate.

In September 2021 the Treasury published a progress update on the Government's Plan for Jobs, which – as noted above – was launched in July 2020.[137] However, the report did not discuss the reduced VAT rate. The next month the Chancellor presented his Autumn Budget and Spending Review 2021 to the House, but there was mention of the reduced rate either in his Budget statement or in the Budget report which accompanied it.[138]

In its Economic and Fiscal Outlook, published alongside the Budget, the OBR noted that it had revised a number of its costings of individual pandemic-related support measures, including the reduced VAT rate:

> The **cost of the temporary cut to VAT for the hospitality, accommodation and attractions sectors has been revised up by £0.6 billion for 2021-22**, due primarily to incorporating the latest economic data, which show a significant increase in activity in these sectors relative to the assumptions made in our March forecast.[139]

This would put the total cost of this measure at £5.3 billion in 2021/22.[140]

In answer to a PQ following the Autumn 2021 Budget the then Financial Secretary, Lucy Frazer, ruled out any further extension of this relief:

> **Ian Murray** : To ask the Chancellor of the Exchequer, what assessment he has made of the (a) effectiveness of the reduction in VAT for the hospitality sector and (b) potential merits of extending that reduction.
>
> **Lucy Frazer** : The temporary reduced rate of VAT was introduced on 15 July 2020 to support the cash flow and viability of around 150,000 businesses and protect over 2.4 million jobs in the hospitality and tourism sectors. As announced at Spring Budget 2021, the Government extended the 5% temporary reduced rate of VAT for the tourism and hospitality sectors until the end of September. On 1 October 2021, a new reduced rate of 12.5% was introduced for these goods and services to help ease affected businesses back to the standard rate. This new rate will end on 31 March 2022.
>
> All taxes are kept under review, but there are no plans to extend the 12.5% reduced rate of VAT. This relief has previously been costed at over £7 billion, but the latest forecast means it may now cost over £8 billion. The Government has been clear that this relief is a temporary measure designed to support sectors that have been severely affected by COVID-19. It is appropriate that as restrictions are lifted and demand for goods and services in these sectors

137 HMT, Plan for Jobs: Progress Update, 13 September 2021

138 HC Deb 27 October 2021 cc273-287

139 OBR, Economic and Fiscal Outlook, CP545, October 2021 para A40

140 As noted, in the Spring 2021 Budget it was estimated that the extension of this VAT relief would cost a further £4.7 billion in 2021/22: Budget 2021, HC 1226 (PDF) March 2021 p41 (Table 2.1 – item 5)

> increases, the temporary tax reliefs are first reduced and then removed in order to rebuild and strengthen the public finances.[141]

In October 2021 UK Hospitality launched a campaign for the 12.5% VAT rate to be retained[142] although without any indication on the part of ministers that the Government would adopt this proposal.[143] In 2022 the Digital, Culture, Media and Sport Committee completed an inquiry – Promoting Britain abroad – and UK Hospitality reiterated their call for this VAT relief when their chief executive, Kate Nicholls, gave evidence on 8 March.[144] The Committee published its final report in October 2022 but it did not mention this issue.[145] Further to this an e-petition for this relief was launched last year, and closed in March 2022 with just under 6,000 signatures,[146] while an EDM tabled at the time UK Hospitality launched their campaign was signed by 16 Members.[147] However, ministers continued to oppose any extension of VAT relief.[148]

By contrast, as part of its response to the Covid-19 pandemic in November 2020 the Irish Government announced a temporary VAT cut on 'hospitality and tourism related services' - from its 'first' reduced rate of 13.5% rate to its 'second' reduced rate of 9%. Initially the 9% rate was to end at the end of 31 December,[149] but was extended a number of times, until the 13.5% rate was reintroduced on 1 September 2023.[150]

5.4 Further debate on the case of VAT relief (2023-24)

Following the end of the temporary rate in March 2022, there have been some calls for introducing further VAT reductions or subsidies for the tourist and hospitality sector. Ministers have reiterated that the Government has no plans to do so.[151] The Financial Secretary Nigel Huddleston set out the Government's position in a written answer in January 2024:

141 PQ71315, 15 November 2021. See also, PQ HL1851, 19 July 2021
142 Hospitality press notice, #VATsEnough: New campaign calls for Chancellor to 'lock in' low VAT permanently to boost hospitality, 7 October 2021
143 "UK hospitality sector intensifies calls for permanent VAT reduction", Financial Times, 12 January 2022; UK Hospitality, Comment on the latest ONS labour market figures, 15 March 2022
144 DCMS Committee, Oral evidence: Promoting Britain Abroad, HC 856 (PDF) 8 March 2022, Q166
145 DCMS Committee, Promoting Britain abroad, HC 156 (PDF), 24 October 2022
146 Extend the VAT at 12.5% permanently with the creation of a new 12.5% Tourism Tax, UK Government and Parliament Petitions, 7 March 2022
147 EDM 525 of 2021-22, 18 October 2021
148 PQ153880 & PQ154500, 26 April 2022. See also, PQ151117, 19 April 2022; PQ127593, 2 March 2022; PQ113097, 4 February 2022; PQ109255, 26 January 2022. See also PQ HL7508, 7 April 2022, on the support given the sector in the **absence** of any VAT relief extension.
149 Department of Finance press notice, Minister Donohoe announces Tourism and Hospitality VAT Rate to move to 9% on Sunday, 30 October 2020
150 KPMG press notice, VAT rate for the hospitality sector reverts to 13.5%, 31 August 2023
151 For example, PQ108457, 19 December 2022; PQ187517, 12 June 2023; PQ3284, 27 November 2023

> **Virginia Crosbie** : To ask the Chancellor of the Exchequer, what steps he is taking to support the hospitality industry; and if he will make an assessment of the potential merits of reducing VAT for that industry.
>
> **Nigel Huddleston** : At Autumn Statement 2023, the Government announced a package of business rates changes and tax cuts, including extending the Retail, Hospitality and Leisure relief scheme at 75 per cent, up to a cash cap of £110,000 per business for 2024-2025. This is tax cut worth almost £2.4 billion for around 230,000 properties.
>
> VAT is the UK's third largest tax forecast to raise £173 billion in 2023/24, helping to fund key spending priorities such as important public services, including the NHS, education and defence. The previous VAT relief for tourism and hospitality cost over £8 billion and reintroducing it would come at a significant further cost.
>
> While there are no plans to reduce the rate of VAT paid by hospitality businesses, the Government keeps all taxes under review.[152]

The issue was the subject of a debate in Westminster Hall on 31 January, initiated by Alyn Smith (SNP). On this occasion Mr Smith made the case for the rate of VAT on food, soft drinks and alcohol to be cut to 5%, on the grounds that it would be “a clean and immediately effective way of supporting those businesses’ bottom line”:

> It would be directly linked to turnover, so if a business is not doing much business, it will not get that much benefit, and if it is, it will. It would not require any complex architecture or bureaucracy and would not need much to administer. It would be an effective way to boost growth and help these businesses survive.[153]

Several other MPs spoke in favour of reducing VAT on tourism and hospitality services,[154] though in his speech the Shadow Financial Secretary, James Murray, focused on the case for reforming business rates.[155] In response to the debate the Financial Secretary Nigel Huddleston argued that “one of the biggest challenges of all requests for VAT relief is whether it will be passed on”:

> There is not a 100% fantastic record of that happening in the hospitality and tourism sector or across the board, for understandable reasons. Cash flow was key during the pandemic, so not everybody was able to pass on the VAT reductions. When it comes to future requests for VAT reductions, we must be absolutely confident that they will be passed on, and that applies to multiple sectors.[156]

The Minister went on to note that he could not make any commitments in advance of the next Budget, though “the view and opinion of the hospitality

152 PQ8616, 11 January 2024. See also, PQ12738, 9 February 2024

153 HC Deb 31 January 2024 c302WH

154 For example, Steve Double (Conservative) (c305WH), Rachel Maskell (Lab/Co-op) (c307WH), Anthony Mangall (Conservative) (c308WH), Tim Farron (Lib Dem) (c309WH), Tobias Ellwood (Conservative) (c312WH), Priti Patel (Conservative) (c314WH), and John Nicolson (SNP) (cc315-6WH).

155 HC Deb 31 January 2024 cc317-9WH

156 HC Deb 31 January 2024 c320WH

sector, especially as embodied by talented people such as Kate Nicholls at UKHospitality, and many others right across the UK, is valued”:

> The Treasury keep tax policy under review all the time—that is a mantra, but it is true. The message I want to get across to colleagues today is that this will not be an easy choice. I understand the asks and we understand the impact, and there are various points of modelling, but it would not be an easy option.[157]

[157] HC Deb 31 January 2024 c320WH, c323WH