

Charity Catering – VAT and more

For those charities that run their own catering facilities - for example community cafes, bars in community centres, or bars/cafes/restaurants linked to museums, historic properties or arts venues - the Chancellor announced some very important new measures, including a change in the rate of VAT effective from 15 July 2020 and an important discount scheme in August.

Although not specifically aimed at charities, these changes could be very helpful for charities and other third sector organisations involved in catering activities. But there are some subtle issues to consider.

The comments below – other than point 3 – also apply to cafes etc run by any organisation, not just charities - so they include trading subsidiaries of charities, CICs etc. (Even if your organisation has a catering facility which you are not yet able to re-open it is worth planning ahead to take advantage of these changes. In particular you will need to open by August if you wish to use the promotional discount scheme - see point 4.)

1. VAT on most Catering Sales Reduced to 5% until 12 Jan 2021

To help the hospitality sector get back on its feet, the Chancellor announced a reduction in the rate of VAT to 5% (instead of 20%) for six months on most catering sales from Wednesday 15 July 2020 until Tuesday 12 January 2021.

Of course this is only directly relevant if your charity or subsidiary is VAT registered - but even if your turnover is currently below the VAT threshold (£85,000 turnover) it could alter the arguments about registering voluntarily, especially if you are looking to buy significant amounts of kitchen equipment, crockery, glassware etc, or paying for work on the premises, on which you would have to pay 20% VAT. (Do get in touch for details.)

The reduction to 5% applies to all food and soft drinks for consumption *on the premises* but it does *not* apply to sales of alcoholic drinks which remain at 20%.

The 5% rate also applies to sales of *takeaway hot food and non-alcoholic hot drinks* (e.g. coffees). Most cold food sold for takeaway remains at 0% VAT (subject to existing rules on certain items such as crisps, chocolate biscuits, confectionary, ice cream, soft drinks which remain standard rated at 20% VAT if sold for takeaway).

For details see the updated version of HMRC VAT Notice 709/1: www.gov.uk/guidance/catering-takeaway-food-and-vat-notice-7091.

Great care is therefore needed to ensure the right level of VAT is charged on each item, as most VAT-registered catering outlets that also do takeaway will have sales at 0%, 5% and 20%.

(Incidentally this also leads to the slightly strange situation where some food and drink will be cheaper if consumed on the premises rather than when purchased for takeaway.)

2. Examples of the Impact on Pricing

It is up to the business or charity selling the product to decide whether to reduce prices to reflect the 5% VAT (in the hope of attracting more customers) or whether to use the lower rate of VAT to keep more of the sale price and thus get a better contribution to overheads.

Example - Question: Cups of coffee are normally sold for £2.40 (i.e. £2 plus 40p VAT at 20%). What should the price be with VAT at 5%?

Here are three possible answers:

- A1: Keep the same base price of £2 excl VAT, so the retail price will be reduced to £2.10 (i.e. £2 plus 10p VAT @ 5%) - so the customers saves 30p *OR*
- A2: Keep the same retail price of £2.40 so the base price will become £2.29 (i.e. £2.29 plus 11p VAT at 5% = £2.40) - so the charity or business running the venue gets to keep £2.29 from the sale (rather than £2 as before) so you get a extra 29p towards your overheads *OR*

A3: You could do something in between - e.g. sell coffees at a retail price of £2.20 (£2.10 excl VAT plus 10p VAT @ 5%) - so that's a 20p saving to the customer AND an extra 10p for your overheads.

Note: To work out the VAT exclusive price of an item subject to 5% VAT, divide the VAT inclusive price by 1.05. So, for example, £2.40 incl VAT / 1.05 = £2.29 excl VAT.

3. Impact on Charity Fundraising Events that include Catering

Whilst most fundraising dinners etc are on hold it is likely that charities will re-start such events in the coming months.

The key issue to remember is that even if the charity is VAT registered, ticket sales for charity fundraising events are *VAT Exempt* (provided the normal conditions are met). This means you don't add VAT on to the ticket price – but you can't reclaim any input VAT on the costs of the event.

It follows that the ticket price for a fundraising event isn't directly affected by the VAT change explained above. *But* if you are using a hotel or restaurant to provide the meal, they will now only need to charge the charity 5% VAT rather than 20% as in the past.

So in general it should be possible to negotiate lower prices than before for the catering costs, which would allow the charity to make more profit on the event, thus making it more worthwhile. (However, if the event is already planned check the agreement carefully with the venue to see if prices are VAT inclusive or VAT exclusive. (If you have agreed a fixed VAT inclusive price for the catering it will be like case A2 above – what you pay for the catering will remain unchanged but the venue will be able to make a bit more towards their overheads and there will be no direct benefit to the charity.)

4. 'Eat Out To Help Out' Scheme

On a separate note, charity-run cafes etc which provide food may want to register for the Government's "Eat out to help out scheme".

During the month of August 2020, customers having food or drink on a Mon/Tue/Wed are eligible for a 50% discount on their meals (up to £10) which will be reimbursed by HMRC. Virtually any eat-in restaurant or cafe registered with their local authority as a food service business is eligible - see www.gov.uk/guidance/register-your-establishment-for-the-eat-out-to-help-out-scheme

Please note that the discount does not include alcoholic drinks (nor does it apply on service charges). So to get the full £10 discount customers would need to spend at least £20/head on food and soft drinks. (But even if they only spend £5/head excl alcohol they would still be able to get a £2.50/head discount.)

Customers don't necessarily have to have a meal: so long as food is available: even if customers only have soft drinks or teas/coffees the scheme can be used. The discount is repaid by the HMRC as a grant to the business, but it has to be treated as normal VAT-inclusive revenue if the venue is VAT registered – so a discount of £10 incl 5% VAT to the customer generates a grant of £10 incl 5% VAT.

But bear in mind that the scheme can only be used on the 13 days in August 2020 that fall on a Mon-Wed.

We also suggest charities may also wish to be cautious about how the promotional materials are used - the idea of the scheme is to help out cafe and restaurant businesses and people may think the "help out" term means that *all* venues offering the scheme are somehow helping charities: that is *not* the case. So charity venues may want to add something on the lines "*By eating here and claiming the discount you are helping to generate funds for the xxx charity, as the Government will reimburse us.*"

5. Accommodation

For those charities running residential accommodation where VAT is charged, it is worth noting that the 5% VAT rate applies to accommodation sales, as well as to food and drink sales where applicable - see VAT notice 709/3 (updated) at www.gov.uk/guidance/hotels-holiday-accommodation-and-vat-notice-7093.

This Bulletin is prepared primarily for charities and professional advisers who belong to the *Kubernes Charity Advice Service* – but may be used by others on an "as is" basis. Legal, tax and other policy issues are reported only in summary form and are not a full statement of the law. *Although this document is copyright, it may be freely forwarded or reproduced provided the source is acknowledged.*

- If your organisation or firm belongs to the *Kubernes Charity Advice Service* (KCAS) and you have any queries on the points mentioned – including issues for your own charity – please contact us at the special e-mail address for this purpose (see covering e-mail). There is no charge for responding to reasonable queries if you belong to the KCAS.
- If you are not currently in KCAS it is possible to register online (see www.kubernes.uk/advice-service) and then queries can be raised immediately subject to the terms of the scheme. For other enquires, please e-mail info@kubernes.uk.