

Budget 2021 key VAT announcements in the Budget.

Introduction of a new reduced rate for hospitality, holiday accommodation and attractions

A temporary reduced rate of 5% VAT was introduced, from 15 July 2020, in relation to certain supplies of:

- hospitality.
- hotel accommodation.
- holiday accommodation; and
- admission to visitor attractions.

The reduced rate was due to end on 31 March 2021. That period is to be extended until 30 September 2021 when it will be replaced by a new reduced rate of 12.5%, for six months, to assist in the transition back to the standard rate of VAT.

The new reduced rate will apply in the period from 1 October 2021 to 31 March 2022.

The scope of the relief will remain unchanged.

Legislating for the VAT deferral new payment scheme and deterrent

As part of the Government's support during Covid-19, businesses were given the option to defer their VAT payments due between 20 March and 30 June 2020.

The new payment scheme has been available since February and allows businesses with deferred VAT to spread their payments over a series of up to 11 equal monthly instalments on an interest-free basis from March 2021.

Businesses can also pay the full deferred amount by 31 March 2021 or contact HMRC to arrange an alternative way of paying.

The Government intends to bring forward provisions in the Finance Bill to:

- enable the continued operation of the scheme; and
- introduce a penalty for late payment of deferred VAT.

New penalty

If businesses have not paid in full, opted into the new payment scheme, or made an alternative arrangement to pay the deferred VAT by 30 June 2021, a penalty of 5% of the deferred VAT that is outstanding will become chargeable.

The normal default surcharge approach will not apply to deferred VAT.



VAT thresholds maintained for two years from 1 April 2022

The VAT registration and deregistration thresholds are to be maintained at current levels for two years from 1 April 2022.

The taxable turnover threshold which determines whether a person must be registered for VAT will remain at £85,000 until 31 March 2024.

The taxable turnover threshold which determines whether a person may apply for deregistration will remain at £83,000 until 31 March 2024.

Extension of MTD for VAT to all VAT registered businesses from 1 April 2022

The scope of Making Tax Digital for VAT is to be extended to all VAT registered businesses with effect from 1 April 2022.

From their first VAT period after 1 April 2022, those businesses with a taxable turnover below the VAT registration threshold and who have not previously been required to operate MTD will have to:

- keep their VAT records digitally; and
- submit their VAT return information through MTD compatible software.