

Foreword

This notice cancels and replaces Notice 709/3 (January 2002). Details of changes to the previous version can be found in paragraph 1.2 of this notice.

1. Introduction

1.1 What is this notice about?

This notice explains how supplies by hotels, inns, boarding houses and similar establishments should be treated for VAT purposes - see sections 2 to 4.

It also explains how supplies of holiday accommodation, including caravans and camping facilities, should be treated - see sections 5 and 6.

Deposits, cancellations and other charges associated with the supply of hotel and holiday accommodation are covered in section 7.

1.2 What's changed?

The notice has been revised and updates 1 and 2 to the previous version have been incorporated within the body of the notice.

1.3 Who should read it?

Anyone who makes supplies of accommodation or other services in the hotel and holiday sector.

1.4 What law does this notice cover?

This notice covers the following areas of the VAT Act 1994:

- Paragraph (d) to Item 1, Group 1, Schedule 9 (exclusion from land exemption for accommodation in hotels, inns, boarding houses and similar establishments)
- Paragraph (e) to Item 1, Group 1, Schedule 9 (exclusion from land exemption for holiday accommodation), and
- Paragraph 9 of Schedule 6 (reduced valuation rule for stays of over 28 days in hotels etc.)

2. Hotels, inns, boarding houses and similar establishments

2.1 What are hotels, inns, boarding houses and similar establishments?

Establishment type	Description
Hotels, inns and boarding houses	<p>Commercial establishments providing lodging (furnished sleeping accommodation) and possibly meals and other facilities such as laundry services, communal TV/rest rooms and telephone services for guests and visitors.</p> <p>An establishment does not have to provide food or other facilities to be regarded as a hotel, inn or boarding house.</p>
Similar establishments	<p>Establishments with similar characteristics to hotels, inns and boarding houses; and any premises, in which furnished sleeping accommodation is provided, that are used by or held out as being suitable for use by visitors or travellers (but not if such use is only occasional).</p> <p>This includes</p> <ul style="list-style-type: none">• motels• guesthouses• bed and breakfast establishments• private residential clubs• hostels, and• serviced flats (other than those for permanent residential use)

2.2 VAT liability of accommodation

The supply of:

- sleeping accommodation, including bathrooms, living rooms and suites,
- accommodation used for the supply of catering (see paragraph 4.1), and
- rooms provided with sleeping accommodation

in a hotel, inn, boarding house, or similar establishment is **standard-rated**.

If you provide furnished sleeping accommodation for long stay guests, please see section 3.

See section 4 for information about other types of supplies made by hotels, inns, boarding houses and similar establishments, such as conference facilities and wedding packages.

3. The reduced value rule for long stay guests

3.1 What is the reduced value rule?

This rule allows the charge for sleeping accommodation to be relieved from VAT when a guest stays for over 28 consecutive days. However, the supply of accommodation does not become exempt from VAT, it is still taxable and the normal input tax rules apply. See Notice 700/15 The Ins and outs of VAT.

3.2 How does it work?

You need to establish that you are providing accommodation in a hotel, inn, boarding house or similar establishment. The reduced value rule does not apply to holiday accommodation, see sections 5 and 6.

If a guest stays in your establishment for a continuous period of more than 28 days, then from the 29th day of the stay you should charge VAT only on that part of the payment that is **not** for accommodation.

If you make an **inclusive** charge for bed and board you must apportion it reasonably and charge VAT on the full amount that is not for the accommodation. When you do this, you must calculate the amount of your charge that is for meals, drinks and other services, and also treat at least 20% of the remainder as being for facilities. However, if the true value of the facilities is more than this, you must charge VAT on the true amount.

The examples in the Annex show you how to work out the reduced value of your supply.

3.3 Who does the rule apply to?

The reduced value rule applies to individuals who stay with you for more than 28 days in a hotel, inn or any similar establishment (either alone, or together with one or more other individuals who stay otherwise than at their own expense).

The rule does not apply to bookings by companies where the accommodation is used by a succession of short-term occupants, and each stay is less than 29 days at a time. For example, it does not apply where airlines make block bookings of hotel accommodation for crew stopovers. However, where the supply is made to someone other than the individual who will be using the accommodation, but the stay by the individual is for more than 28 days, then the rule will apply. This often occurs where the supply of accommodation for homeless people is made to a local authority. In such cases the reduced value applies from the 29th day of each individual's stay.

A guest's stay must be continuous to qualify for the reduced value rule. For example, if a guest stays for three weeks every month, you must always charge them VAT in full. If another guest stays for five weeks, leaves for a week, and returns to stay for five more weeks, the reduced value rule applies only to the fifth week of each separate stay.

However, a guest's departure is not seen to end their stay provided the guest:

- is a long-term resident and leaves for an occasional weekend or holiday,
- is a student who leaves during the vacation but returns to the same accommodation for the following term, or
- pays a retaining fee (see paragraph 7.4).

In these cases the time away is ignored and you only have to charge VAT in full for the first 28 days of the overall stay.

It does not matter whether the guest returns to the same room or not.

For examples of how to calculate the reduced VAT value for accommodation exceeding 28 days, see the Annex.

4. Accommodation supplied for catering and other supplies

4.1 Accommodation used for catering

If you provide accommodation in a room within a hotel, inn, boarding house or similar establishment for the purpose of catering, your supply is standard-rated whatever the length of let. This is the case regardless of whether the catering supplied by you or by another person. See also Notice 709/1 Catering and take-away food.

If you supply a room that is not for the purpose of a supply of catering such as for a conference, your supply is exempt, provided you have not opted to tax. See Notice 742A Opting to tax land and buildings.

4.2 Accommodation and catering supplied to employees

If you supply your employees with accommodation or food and drink, in your establishment and they pay for it, the payments are treated as including VAT and you must account for it on your VAT return. You must also do this if you make deductions from your employees' gross wages for supplies of accommodation and catering and these supplies are not provided for in your employees' contracts of employment.

No VAT is due if your employees pay nothing and either there is no deduction from their wages or a deduction from the gross wages is provided for in a contract of employment.

4.3 Other accommodation and services

Other supplies of accommodation such as hiring a room for a meeting, or letting of shops and display cases are generally exempt, but you may choose to standard-rate them by opting to tax, see Notice 742A Opting to tax land and buildings.

If you make an exempt supply such as providing a room for a meeting or a conference and you provide minimal refreshments such as tea, coffee and biscuits, the room and the incidental catering will be treated as a single exempt supply. But, if you serve substantial refreshments such as a meal or buffet, the catering should be treated as a separate supply and you must account for VAT based on the normal charges you would make for such catering.

Where a meeting room is supplied, together with meal(s) and overnight accommodation in return for an inclusive charge, each element is treated as a separate supply. The catering and the overnight accommodation is taxable, while the supply of the meeting room is exempt unless you have made an option to tax.

Any additional goods or services which are separately charged for are standard rated (for example, catering, car parking, use of equipment and licensed bars).

4.4 Wedding packages

If you supply a package of wedding services (including, for example, use of rooms for a ceremony, wedding breakfast and evening party), this is a single standard rated supply, regardless of whether the catering is supplied by you or someone else.

4.5 The sale or letting of an entire hotel, inn, boarding house or similar establishment

If you grant a long lease in a hotel premises to someone else who will operate it as a hotel business, your supply is exempt, unless you have opted to tax.

The freehold sale of a hotel building is also exempt (subject to the option to tax), unless you make the sale less than three years after the building was completed, in which case, it is standard rated.

For information about opting to tax, see Notice 742A Opting to tax land and buildings.

If you are a hotel operator and you sell your business and its assets, you should consider whether the sale meets the conditions for being treated as a VAT free transfer of a business as a going concern. See Notice 700/9 Transfer of a business as a going concern.

5. Holiday homes

5.1 What is holiday accommodation?

Holiday accommodation includes, but is not restricted to, any house, flat, chalet, villa, beach hut, tent, caravan, or houseboat. Accommodation advertised or held out as suitable for holiday or leisure use is always treated as holiday accommodation. There may be a restriction under which occupation of the property throughout the year is not permitted, but this will not always be the case.

Residential accommodation that happens to be situated at a holiday resort is not necessarily holiday accommodation. For details of how to treat off-season letting see paragraph 5.6.

Accommodation in hotels, inns, boarding houses and similar establishments is not 'holiday accommodation' for VAT purposes. You should see sections 2 - 4 for guidance on how VAT applies to such establishments.

5.2 How is VAT normally accounted for?

If you supply holiday accommodation, or a site for such accommodation, you must account for VAT at the standard rate on any charges that you make regardless of the length of occupation or description of the charges.

There are exceptions to this which are explained below.

5.3 Sales and leases of holiday accommodation

If you sell or lease **new** holiday accommodation, your supply is standard rated. You must account for VAT on the initial charge, and on any periodic charges such as ground rents and service charges.

A property is considered to be **new** for three years from the date on which a certificate of practical completion is issued, or it is first fully occupied, whichever is the earlier.

Standard rated VAT also applies to the first sale or long lease of a building (or part of building) designed in a dwelling if the building is a **new** building and the grantee is

- not entitled to reside in the accommodation throughout the year,
- prevented from residing in the accommodation throughout the year by the terms of a covenant, statutory planning permission or similar restriction, or
- prevented from using the accommodation as his principle private residence by the terms of a covenant, statutory planning permission or similar restriction.

In these circumstances, the supply is treated as a supply of 'holiday accommodation' even if the accommodation would not otherwise be regarded as holiday accommodation.

5.4 What if the accommodation is not new?

The sale of holiday accommodation that is no longer new is exempt.

The lease of holiday accommodation that is no longer new is exempt to the extent that the payment is in the form of a premium. However, any periodic charges, such as ground rent and service charges, are standard-rated.

If you are in the business of providing holiday accommodation and you transfer the business and assets to another party, you should consider whether the sale meets the conditions for being treated as a VAT free transfer of a business as a going concern - see Notice 700/9 Transfer of a business as a going concern.

5.5 Supply of site for holiday accommodation

If you make a supply under a **tenancy, lease or licence agreement** under which the grantee is or has been permitted to erect and occupy holiday accommodation, you must account for VAT at the standard rate.

If you sell the **freehold interest** in a site for the erection of holiday accommodation (and the site is merely bare land), your supply is exempt unless you have opted to tax - see Notice 742A Opting to tax land and buildings.

5.6 Off-season letting

If you let your holiday accommodation during the off-season, you should treat your supply as exempt from VAT provided:

- it is let as residential accommodation,
- it is let for more than 28 days, and
- holiday trade in the area is clearly seasonal.

You should keep a copy of your tenancy agreement or similar evidence that you have to show that your accommodation was occupied for residential purposes only. In such cases the whole of the let, including the first 28 days should be treated as an exempt supply.

The holiday season normally lasts from Easter to the end of September, although some areas, such as London and Edinburgh, receive substantial numbers of visitors/tourists at all times throughout the year and are therefore not regarded as having a seasonal holiday trade.

5.7 Time-share and other multi-ownership schemes

The supply of a timeshare in **holiday accommodation** (defined in paragraph 5.1) is:

- **standard rated** if the building is new (see paragraph 5.3), and
- **exempt** if the building is not new (the grant is made more than three years after construction is completed). However, exemption only applies to the extent that the grant is made for a consideration in the form of a premium. Rent, service charges and management fees received after the initial lump sum are standard rated. You may be able to treat some of the components of the periodic charge as disbursements, for example insurance and rates. But you must meet the conditions of a disbursement before you can do this for VAT purposes. For more information, see Notice 700 The VAT Guide.

The supply of a timeshare in a **hotel, inn, boarding house or similar establishment** (defined in paragraph 2.1) is standard rated regardless of how old the building is.

If you operate a holiday 'points' club under which members of a club purchase points which can be exchanged for holiday or hotel accommodation, you are making a standard rated supply at the time at which the points are converted into the right to occupy UK holiday or hotel accommodation. If points are converted into the right to occupy accommodation situated outside the UK, your supply is outside the scope of UK VAT.

5.8 Is there a reduced value rule for holiday accommodation?

No.

6. Camping and caravans

6.1 Camping

If you provide a pitch for a tent or holiday accommodation (see paragraph 5.1) in a tent, your supply is standard-rated. The supply of any associated facilities is also standard-rated.

There is no reduced value rule (see section 3) for tents or pitches for tents.

6.2 Caravans (including mobile homes, park homes and static caravans)

If you provide holiday accommodation (see paragraph 5.1) in any type of caravan already sited on a pitch, your supply is standard-rated. For VAT purposes, the term 'caravan' includes mobile homes, park homes, touring caravans and static caravans.

There is no reduced value rule (see section 3) for accommodation in caravans.

The sale or long lease of a caravan is zero rated if the caravan exceeds certain size limits.

See Notice 701/20 Caravans and houseboats for further information about caravans.

7. Deposits, cancellation and other charges

7.1 Deposits

Most deposits serve as advanced payments, and you must account for VAT in the return period in which you receive the payment. If you have to refund a deposit, you can reclaim any VAT you have accounted for in your next return.

7.2 Cancellation charges

Normally, if you make a cancellation charge to a guest who cancels a booking, VAT is not due, because it is compensation. This includes amounts debited from credit cards using details provided at the time of the booking. Where the cancellation charge takes the form of a retained deposit, you can reclaim any VAT already accounted for as an adjustment to your next return.

But this does not apply to guaranteed rooms which you are obliged to hold for a customer for an agreed period. Any fee charged where the room remains available to the customer is consideration for a supply and is subject to VAT.

Where you arrange or provide any guarantee or insurance against your guest having to pay cancellation charges, the charge you make for this may be exempt, if you hold a “block insurance policy”. You should consult Notice 701/36, Insurance, paragraph 2.5, Insurance transactions effected by holders of block policies.

Any commission you receive from a person permitted to carry on an insurance business under Section 2 of the Insurance Companies Act 1982 is exempt.

7.3 Booking fees

Booking fees are treated in the same way as a deposit, (see paragraph 7.1).

If you are an agent who arranges a supply on behalf of someone else you must account for VAT on any booking fees you charge whether or not the booking is taken up.

7.4 Retention fees

Retention fees are paid to reserve accommodation for future use and are standard-rated. However, a retention fee paid for a period of absence after the first 28 days of a stay may benefit from the reduced value rule (see paragraph 3.3).

If the fee is no more than the amount of your charge that you treat as being for accommodation under the reduced value rule, no VAT is due on the fee. If the fee is more than that amount you must apportion the fee between accommodation and facilities (see paragraph 3.2).

7.5 Service charges

Any service charge you make is standard-rated.

7.6 Tips

Any tips that are given voluntarily over and above the total charge you receive are outside the scope of VAT. Any compulsory charges are liable to VAT at the same rate as the principal supply.

Annex

Examples of how to calculate the reduced VAT value for accommodation exceeding 28 days.

The weekly terms for accommodation, facilities and meals in a boarding house are £120.00, that is, £100.00 plus £20.00 VAT at a rate of 20%, of which £48.00 represents the tax-inclusive charge for meals. (For the purpose of these examples the proportion for meals has been taken to be 40% but this will not always be so.)

VAT is chargeable on the full amount for the first 28 days and on the reduced value thereafter. After the first 28 days of occupation the reduced VAT value may be calculated in one of the following ways.

(a) If your charges are shown as VAT-exclusive the amount of VAT you should charge each week is calculated as follows:

Details	£	VAT (£)
Total VAT exclusive charge	100.00	
Less VAT exclusive charge for meals	40.00	8.00
Total	60.00	
VAT exclusive value of facilities (20% of £60)	12.00	2.40
(20% minimum)		
Total VAT due		10.40

The weekly charge from the 29th day is £100.00 + £10.40 VAT.

The weekly charge before the 29th day is £100.00 + £20.00 VAT.

(b) If your charges are shown as VAT-inclusive and the total amount charged to the guest is reduced after the first 28 days to take account of the reduced element of VAT, the weekly rate of VAT is the same as in (a) but the calculation is as follows:

Details	£	VAT (£)
Total VAT inclusive charge	120.00	
VAT inclusive charge for meals	48.00	8.00
Balance for facilities and accommodation	72.00	
VAT included (1/6 of £72.00)	12.00	
Balance (exclusive of VAT)	60.00	
VAT exclusive value of facilities (20% of £60.00)	12.00	2.40
(20% minimum)		
Total Vat due		10.40

The weekly charge from the 29th day is £100.00 + £10.40 VAT.

The weekly charge before the 29th day is £100.00 + £20.00 VAT.

Whichever method you use, you **must** include the full VAT-exclusive amount of your charges in Box 6 of your VAT return, even though VAT is due only on the reduced value. This is because the part of the total charge that is for accommodation continues to be for a standard-rated supply, even though its value for the purpose of calculating VAT due becomes nil after the first 28 days.

The full VAT exclusive amount is included in your turnover for VAT registration purposes.

Your rights and obligations

Your Charter explains what you can expect from us and what we can expect from you. For more information go to [Your Charter](#).

Do you have any comments or suggestions?

If you have any comments or suggestions to make about this notice, please write to:

HM Revenue & Customs
VAT Liability Team
Room 3/34
100 Parliament Street
London SW1A 2BQ
Please note this address is not for general enquiries.

For your general enquiries please phone our Helpline **0845 010 9000**.

Putting things right

If you are not satisfied with our service, please let the person dealing with your affairs know what is wrong. We will work as quickly as possible to put things right and settle your complaint. If you are still unhappy, ask for your complaint to be referred to the Complaints Manager.

For more information about our complaints procedures go to hmrc.gov.uk and under quick links select Complaints.

How we use your information

HM Revenue & Customs is a Data Controller under the Data Protection Act 1998. We hold information for the purposes specified in our notification to the Information Commissioner, including the assessment and collection of tax and duties, the payment of benefits and the prevention and detection of crime, and may use this information for any of them.

We may get information about you from others, or we may give information to them. If we do, it will only be as the law permits to:

- check the accuracy of information

- prevent or detect crime
- protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you, as well as by others, such as other government departments or agencies and overseas tax and customs authorities. We will not give information to anyone outside HM Revenue & Customs unless the law permits us to do so. For more information go to **hmrc.gov.uk** and look for Data Protection Act within the Search facility.