



Value Added Tax: cost or opportunity for the hotel industry?

While the continuation of the 9% rate of VAT on hotel accommodation is welcome a prudent hotelier should regularly review his interaction with VAT to identify potential opportunities.

Providing hotel rooms to non-Irish corporate customers

A corporate customer based in the EU (not in Ireland) has booked a large number of rooms in your hotel. Your accounts department issues an invoice to the customer with 9% VAT on the room rate. The customer emails you to enquire if VAT should be charged as they are based in the EU and are registered for VAT.

Should Irish VAT be charged to an EU business customer? Generally, services provided to VAT registered businesses in other EU member states (business to business supplies) are outside the scope of Irish VAT (effectively subject to 0% Irish VAT). This is on the basis that the place of supply of the service is deemed to be where the recipient is VAT registered. However, services in relation to immovable property, such as hotel accommodation, are deemed to be supplied where the property is located. Therefore, provided your hotel is located in Ireland, the supplier will be subject to Irish VAT at 9%, irrespective of the customer being VAT registered in another EU member state.

VAT on deposits

Some hoteliers are unaware of when VAT should be accounted for on deposits – i.e. when the deposit is received or when the service is provided? Where a deposit or payment on account or other payment is received by a hotel

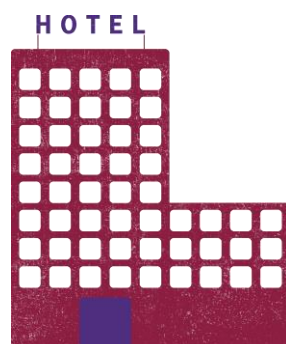
before the hotel has made or completed a supply of goods or services, a supply is deemed to have taken place at the time of the receipt of the payment to the value of such payment. VAT is chargeable on that deposit or payment. Where a deposit is retained by a hotel in the event of cancellation of the whole transaction by the customer, the hotel may reduce his or her liability for the period in which the deposit is forfeited by an amount equal to the VAT amount accounted for on the deposit.

There are a number of **conditions that need to be satisfied in** order for this to apply:

- the supply does not take place because the customer has cancelled it;
- the cancellation is recorded as such in the books and records of the supplier;
- the deposit is not refunded to the customer; and
- no other consideration, benefit or supply is provided to the customer by any person in lieu of that amount.

Where a hotel retains a deposit in the event of cancellation of the whole transaction by the customer, the hotel may reduce its liability by an amount equal to the amount accounted for on the deposit. In these circumstances the hotel is required to issue to the customer a document which is to be treated as a credit note.

Where the customer is a VAT registered person



and was entitled to a credit for the VAT charged on the deposit, then he or she is required to adjust his or her VAT liability by the amount on the document.

VAT on vouchers

Again, some hoteliers are uncertain about when VAT is payable on vouchers – is it at the time of the sale of the voucher or when the service is actually provided to the customer? The basic rule in relation to vouchers is that a supply is not considered to have taken place for VAT purposes at the time the voucher is purchased but rather VAT arises at the time the voucher is redeemed. Therefore, any VAT liability does not arise until the service (i.e. food/meal) is provided by the hotel.

VAT on food, drink and ancillary services

Hoteliers charging the wrong VAT rate can accumulate significant VAT liabilities over a short period of time. There are currently five VAT rates in Ireland – 23%, 13.5%, 9%, 0% and exempt. In Revenue audits, one of the standard checks is to review VAT rates of less than 23% to ascertain whether these should have been charged at a higher rate. All food provided as part of a hotel meal is liable to VAT at 9%. Alcohol, bottled waters, soft drinks and vegetable juices are liable to VAT at 23%, while fruit juices are liable to VAT at 9%. Where a hotel organises a dinner dance (to include a meal) any receipts are liable to VAT at 23%.

However, if there are separate charges for entry and the meal and the payment for the meal is not a pre-condition for entry into the dance, the meal is liable to VAT at 9% and the admission charge is liable to VAT at 23%. Receipts from customers in relation to telephone calls and movie rentals are subject to VAT at 23% whilst beauty treatments are generally subject to VAT at 13.5%. Receipts from the sale of newspapers, gym memberships and golf green fees are all subject to VAT at 9%.

VAT on service charges

The Revenue Commissioners previously provided a concession to the hotel industry whereby if service charges were included on a bill

and all of the service charge was distributed to staff such service charges were exempt from VAT. A number of years ago, Revenue withdrew this concession and therefore any service charges included on a customer's bill are liable to VAT at 9%. Tips made by customers and not included on a bill are outside the scope of VAT.

Contact us

As outlined above, if a hotel charges the **incorrect VAT rate** on the supply of its services a **substantial liability may arise** during a Revenue Audit. In addition, Revenue will seek interest and penalties on such underpayments. Therefore, VAT rates used by hoteliers should be reviewed regularly. Should you have any queries with respect to any of the VAT issues raised above then do not hesitate to contact us.

Contact

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