



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Neil Garratt AM
Chairman of the Economy Committee
City Hall
Kamal Chunchie Way
London
E16 1Z

10 June 2022

Dear Neil,

Thank you for your letter of 11 March to the Chancellor of the Exchequer enclosing correspondence about an extension of VAT relief to the hospitality and tourism sectors. I am replying as Minister responsible for the UK tax system. I am sorry for the delay.

You asked for the reduced rate of VAT to be extended for the hospitality and tourism industries to until March 2023. As you may know, 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 temporary reduced rate of VAT (5 per cent) for the tourism and hospitality sector until 30 September 2021. On 1 October 2021, a new reduced rate of 12.5 per cent was introduced for these goods and services to ease affected businesses back to the standard rate of 20 per cent. This new rate ended on 31 March 2022.

The Government has been clear that these were temporary measures designed to support the cash flow and viability of sectors that have been severely affected by COVID-19. It is appropriate that the temporary tax reliefs are first reduced and then removed in order to rebuild and strengthen the public finances.

VAT raised £130 billion in 2019-20 and is an important source of funding for vital public services such as health, education, and defence. This relief will cost over £8 billion and applying the same relief for a longer period would come at a very significant further cost.

The Government is aware that the hospitality and tourism sectors have been among the worst affected by COVID-19 and have helped these sectors recover as lockdown restrictions were lifted.

The sector benefited from:

- protection from eviction if they are behind on rent on their premises, thanks to the moratorium in place until 25 March 2022. Further information can be found at: www.gov.uk/government/news/eviction-protection-extended-for-businesses-most_in_need; and

- one-off cash grants of up to £6,000 to support eligible businesses in the hospitality and leisure sectors, totaling nearly £700 million. These were generous grants and are the same size as the monthly cash grants it provided to hospitality businesses when they were fully closed earlier this year - whereas now they can continue to trade. Illustratively, these grants mean that the rent of 95 per cent of all small businesses premises in the hospitality, leisure, and accommodation sectors is fully covered, and will benefit around 200,000 properties in total.

At Autumn Budget 2021, the Government provided further assistance to the hospitality and tourism sectors by announcing a new temporary business rate relief worth almost £1.7 billion for eligible retail, hospitality, and leisure businesses in England to support local high streets as they adapt to wider economic changes.

Eligible properties will receive up to 50 per cent off their rates bill in 2022-23, subject to a £110,000 cash cap per business. This means over 90 per cent of retail, hospitality, and leisure businesses will receive at least a 50 per cent reduction in their business rates bills in 2022-23 when taken together with Small Business Rates Relief. The hospitality sector will also benefit from:

- the Recovery Loan Scheme, which is in place until June 2022, meaning businesses will continue to benefit from Government-guaranteed finance - providing a 70 per cent guarantee to lenders so they can continue to support small and medium sized businesses as they recover and grow following the disruption of the pandemic; and
- over £100 million new discretionary funding to local authorities (LAs) to support other impacted businesses, particularly those in the supply chain of impacted businesses. This is on top of the £250 million that LAs have available to distribute at their discretion. Please pass on my thanks to your constituents for making me aware of their concerns.

Thank you for making me aware of your concerns.

Yours sincerely,

A handwritten signature in black ink that reads "Lucy Frazer". The signature is written in a cursive, flowing style.

THE RT HON LUCY FRAZER QC MP