# VAT on room hire – an update

**Indirect Tax**

01 May 2016

CIOT provides an update on the VAT treatment of the hire of rooms

We raised with HMRC the issue of room hire and, in particular, room hire for weddings and similar events some while ago. Here is an update.

## The basics

Room hire is usually exempt from VAT unless the hirer has opted to tax. However, it can be subsumed into another supply in some circumstances. It would then follow the VAT treatment of the composite supply. We were advised by several members of situations in which HMRC had treated room hire as a taxable supply simply because other services were supplied with it.

We wrote to HMRC challenging this treatment, noting there were several ways in which the provision of room hire and other things could be treated for VAT purposes depending on the facts and circumstances. For example, other supplies may be regarded as ancillary to the main supply of letting of property (such as furniture supplied in a furnished letting), thus the principle supply of room hire remains the letting of property. The other things may be a separate supply made by the person letting the property, with each supply having its own VAT treatment. Thus it is not the case that every package of supplies involving room hire and other things must be a composite supply of something other than an exempt letting of land.

HMRC had also argued that the letting of property must largely be a passive supply. However, we pointed out that the case law on which it relied for that view does not say it must be passive, only that it is 'normally passive' (*Stichting Goed Wonen and Staatssecretaris van Financiën*, at para 52).

## HMRC's response

HMRC wrote to us agreeing that each case needs to be considered on its merits: that is, the essential nature of the transaction(s) must be determined.

## Our latest response

We replied to HMRC suggesting that the main problem may lie not in points of principle, on which we seem to agree, but in their application. We suggested that the problem may lie in the wording of Revenue and Customs Manual VATLP11800 and that, accordingly, this should be amended to clarify the position so that that the right approach is adopted in practice.

## VATLP11800 – our observations

We observed that the wording appears to assume that a package that includes the hire of a room for a wedding can be categorised as a ‘wedding package’ and as such is a standard-rated supply. It further suggests that the primary aim of the couple is to have a reception (catering) rather than to be married in the ‘right’ setting.

We suggested that this was simplistic: for example, a couple who wanted to be married in the chapel of a stately home and then hold the reception (with catering) at the same venue were meeting two objectives – to be married in an appropriate setting and later to have a celebration.

We have offered to work with HMRC to provide wording that emphasises the need to observe the VAT principles involved and not to simply tax by reference to a convenient label.