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Britain’s Treasury Rejects Hospitality VAT Cut Over £11bn Annual Cost

Ministers said lowering the rate from 20% to 10% would strain public finances despite cross-party calls for help with rising costs

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Britain’s Treasury has rejected calls for a cut in value-added tax for hospitality businesses, saying the cost to public finances would be too high even as lawmakers from more than one party pressed for relief for pubs, restaurants and hotels.

During a Westminster Hall debate on Thursday, November 12, Financial Secretary to the Treasury James Murray said the government recognized that a lower VAT rate would help operators. But he said any change had to be judged against its price tag and against broader budget pressures.

Murray told lawmakers that HM Revenue & Customs estimates a cut in VAT on accommodation and food and beverage services from 20% to 10% would cost about £11bn a year. A reduction to 15% would cost about £5bn a year, and a 12.5% rate would cost about £8bn, he said.

He said the government accepts that affected hospitality businesses would benefit from a lower rate. At the same time, he argued that the wider economic gains from such a move would only partly offset the loss in tax revenue, leaving a large net cost for the state.

The debate reflected growing pressure from lawmakers who say many hospitality businesses are struggling with high operating costs and uneven competitive conditions. Tonia Antoniazzi, a Labour lawmaker who chairs the Northern Ireland Affairs Committee and the All-Party Parliamentary Beer Group, called for a four-year pilot in Northern Ireland that would reduce VAT to 10% on food, excluding alcohol, and on accommodation.

Antoniazzi argued that the gap between VAT rates in the United Kingdom and the Republic of Ireland was hurting businesses that operate near the border. Her proposal was framed as a targeted measure rather than a nationwide cut, with the aim of testing whether a lower rate could improve competitiveness in a region where operators face direct comparison with businesses across the Irish border.

Other lawmakers used the debate to argue that smaller venues need more focused support than larger chains. Labour lawmaker Brian Leishman said independent pubs were finding it hard to compete with larger operators that have stronger buying power and more room to absorb rising costs. Labour lawmaker Dr. Simon Opher also supported more targeted relief for smaller hospitality businesses, saying a broad VAT reduction could end up giving a disproportionate benefit to major chains.

Murray did not offer any new commitment on VAT, but he pointed to other measures the government says will support the sector. He said pubs in England will receive a 20% business rates reduction from April 2027. He also cited a two-year real-terms freeze for retail, hospitality and leisure properties in England and changes to small business rates relief thresholds.

According to the government’s estimate, those threshold changes will remove about 70,000 additional retail, hospitality and leisure businesses from paying rates. Murray presented those measures as a more affordable way to support operators than a broad VAT cut.

For the drinks trade, the decision means pubs, bars and restaurants will continue to operate under the current tax burden on much of their food and non-accommodation business, while alcohol remains outside the Northern Ireland pilot proposal raised in the debate. That could keep pressure on margins for venues that rely heavily on beer, wine and spirits sales, and may limit how much room some operators have to cut prices or invest in growth.

The debate ended without any further pledge from the Treasury to revisit the hospitality VAT rate.