Retail Sector

Specialist Retail Accountants

Newsletter
Winter 2017

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Introduction

Welcome to our Winter 2017 retail newsletter.

In the wake of the EU referendum, and with Article 50 still yet to be triggered, there are still many questions that need answering within the retail sector. In this issue, we look at the reasons why BHS failed as well as what the Autumn Statement means for the retail sector. This issue also looks at how contactless payments are fast becoming an easier, more popular way to pay and how the Making Tax Digital plans may affect you.

In this issue, we look at:

- Why did BHS fail? Lessons for UK retailers
- Making Tax Digital
- Rising wage costs for employers
- Contactless payments
- Autumn Statement

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

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Hawsons are specialist retail accountants

Hawsons has a dedicated team of specialist retail, wholesale and e-commerce accountants in Sheffield, Doncaster and Northampton. Our specialist team offers a wide range of services which are tailored to meet your individual needs. Our understanding of the issues faced by businesses in this dynamic sector means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

We can help in these areas through improving stock control, purchase re-ordering and reconciliation procedures. For retailers we have in-depth knowledge and experience of the sector from single sites to multi-channel retailers covering retail shops, e-commerce shops and many other sites such as Amazon, eBay, Shopify and Play.com. For more information on our retail expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/retail**

HLB International

Why did BHS fail? Lessons for UK retailers

It has been a busy few for the retail sector – the EU referendum, the introduction of the new National Living Wage and the collapse of two of the UK's high street brands, BHS and Austin Reed. Each brings its own challenges, but the decline of BHS has been a particular worry.

The BHS collapse

The closure of Woolworths still rings loud in the memory of many UK retailers following its closure in 2009. Now, BHS – founded in 1928 and once seen as a stalwart of the British high street – has also collapsed after years of struggling to adapt to changing customer demands, increased competition and rising costs.

Why did BHS fail?

This is the highest profile retail collapse since Woolworths and retailers should be paying close attention to what happened and where it all went wrong for BHS. There were a number of factors that lead to the decline of BHS; rather than one reason alone, including lack of brand clarity, changing consumer demands, increased competition from supermarkets and online retailers, under-investment, expensive long term leases and huge pension burdens.

What is the biggest lesson retailers will learn?

Like Woolworths, BHS failed to maintain relevancy and adapt to changing customer demands. Without maintaining relevancy, customers began to lose trust and association with the brand. The model became stale – a clear example of how not to be a retailer in the 21st century.

The retail sector is an incredibly tough trading environment and brands cannot stand still. The biggest lesson that retailers can learn from the failure of BHS is that they should continually strive to ensure that they stay focused on giving customers what they want and adapt to changing needs and demands. Essentially, if retailers want to sustain their custom then they need to have flexible business models. The future of retail is all about meeting customer demands and improving the overall customer experience including the provision of a relevant online offering. The collapse of BHS once again highlights the very real implications of failing to do so.

Are there always financial warnings?

This really does depend.

In any organisation where money is being handled there will be factors that impact on the financial wellbeing of the organisation that can be controlled by management, and those that can't be controlled. By having good systems of financial management, control and forecasting in place you would like to think that there will be indicators of financial trouble at an early stage.

It is interesting to note that the most significant negative financial headlines relate to an underfunded pension liability and dividends extracted from the company a decade ago. In more recent times, the company was sold for £1 which in itself was a financial warning. No one should have been surprised by the demise of BHS. Perhaps more focus should be placed by commentators on the challenging operating conditions that such retail outlets now face rather than the inadequacies of former owners.

What does the future hold for retailers?

In the short term, the disappearance of BHS could have a knock-on effect on many neighbouring retailers, particularly those smaller retailers who have relied on it for its high-street footfall. This potentially comes as a double whammy for high street retailers as recent research shows average footfall has declined to its lowest point in two years.

The economic uncertainty in the lead-up to and following the EU referendum has undoubtedly adversely impacted consumer activity, particularly as many individuals start to consider when and how they may be affected by the UK's exit from the EU.

In the long term, like many other UK sectors, the retail sector is likely to be virtually unrecognisable from that of 20 years ago. Online trading and the digital era in retail is showing no signs of slowing down and it is up to individual retailers to make sure they are prepared for what lies ahead.

How we can help

If your retail business is in financial distress or you are looking at ways to maximise profitability we recommend that you seek sound and proactive financial advice. The team at Hawsons can guide you through a number of things you may be considering, such as reducing borrowings, adjusting staffing levels, selling property, incorporating, improving stock control, financial modelling and advising you on ways of potentially mitigating the impact of increased costs.

Making Tax Digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient. The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information

In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018.

By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

National Minimum Wage rises

National Minimum Wage

The government announced increases to the National Minimum Wage which came into effect on 1 October 2016, after accepting recommendations for the new rates from the Low Pay Commission (LPC).

The main National Minimum Wage rate (for 21- 24 year olds) has risen by 3.7% from £6.70 to £6.95 per hour, as the table below shows.

	Current rate	Rate from 1 October
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The table below shows the historic wage increases for the National Minimum Wage:

Year	21 and over	18-20	Under 18	Apprentice
2015	£6.70	£5.30	£3.87	£3.30
2014	£6.50	£5.13	£3.79	£2.73
2013	£6.31	£5.03	£3.72	£2.68

The National Living Wage

From 1 April 2016, following the introduction of the new National Living Wage, all workers aged 25 and over are legally entitled to at least £7.20 per hour. This was, however, until the Chancellor delivered his Autumn Statement, where he announced that the National Living will increase by a further 30p from April 2017 to £7.50 per hour. The National Living Wage rates are set to increase gradually alongside rises in the National Minimum Wage, and is projected to rise to more than £9 per hour in 2020.

A four-step checklist for employers following the announcements is:

1. **Know the correct rate of pay (including the National Living Wage)**
2. **Find out which staff are eligible for which rates**
3. **Update the company payroll**
4. **Communicate the changes to staff as soon as possible**

Moving forward – more compliance for employers

National Minimum Wage and National Living Wage rates will now change every April, as opposed to every October and April respectively.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, and the imminent increase of the NLW, this will see the fifth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll to Hawsons.

Contactless payments

Contactless payment cards were introduced to the UK in 2007 and initially, the public were reluctant to accept them. Fast forward almost 10 years and one in every five card payments people make is contactless. It was in 2016 when contactless cards really started to gain popularity and this is shown when the first six months of spending in 2016 (£9.27bn) surpassed the amount of spending for the whole of 2015 (£7.75bn).

In June of this year, payments made using contactless cards accounted for 18% of total UK spending. According to industry data and taking into account the current growth rate, growth will have most likely surpassed 20% at this present time. This is in stark contrast to October last year when the figure was at just 10%

When contactless card payments were first introduced, it remained largely in just coffee shops and sandwich chains, but with the surge in popularity has moved way beyond that.

Although contactless payments are seen as a more convenient (and easier) way to pay, there are many people who still worry about falling victim to fraud. The worry stems from the fact that you don't need a pin to make any payments, so if a potential fraudster manages to get hold of someone's card, all they need to do is place the card on to a card reading machine and they could potentially steal your details and pay for goods.

However, fraud on contactless devices remains relatively low with £2.8m of losses in 2015 which is equivalent to just 3.6p in every £100 spent using contactless cards.

Maximum spend limit increased

The maximum spend for a contactless payment was £20. However, this rose on the 1st September last year to £30. This was viewed as an important move because data showed that the average spend in Supermarkets was worth just over £25 so, with the maximum spend increasing, it encouraged the big retailers to get more involved.

However, it is surprising to know that the average amount of money spent per transaction is still below £10 with October last year recording an average of £7.72 and £8.60 recorded in May and June this year. Other countries such as Australia and Canada have a maximum limit of $100 (£57) and $100 (£58) respectively, although there are no current plans to increase the maximum limit here in the UK.

Banks and retailers

Although HSBC supply contactless debit cards, they don't supply contactless credit cards and the reason is unknown. Similarly, Nationwide have more than five million debit cards that support contactless payments, but also do not supply contactless credit cards. However, they will be offering contactless credit cards to its customer base anytime now.

Supermarkets have also embraced the technology, with big chain Tesco adopting contactless payment machines which makes paying much more convenient for a lot of consumers. This is in contrast to John Lewis, however, who says they are not planning on using the technology in any of its 46 locations because the average value of transactions exceeds the maximum spend of £30. Although its Waitrose stores did launch the technology back in 2012.

Demographics

Data issued by both Barclaycard and Nationwide have differing opinions, with Barclaycard saying that the contactless cards are most popular with the over 60's and have now surpassed the 18 to 25-year-olds. However, data published by Nationwide suggests something a little different, by saying over 55's are "the most wary" when it comes to making payments with contactless cards.

Only 45% of over 55's have taken up the new technology compared to the 25 to 34 year olds, whose number stands at 70% for the total amount of take-up. Almost four in 10 of all card transactions under £30 in London are made by contactless cards, which makes it the leading city in the country in terms of contactless payments, according to Barclaycard. Meanwhile, just over half of all Brits now use contactless cards.

Summary

Pete Wilmer, Partner at Hawsons, had this to say: "With contactless payments becoming more and more popular, consumers will increasingly expect the ability to pay using contactless technology. Contactless can enhance the customer experience by making transactions simpler and quicker, this can also bring efficiencies to the retailer. So, whilst not offering contactless is unlikely to mean lost sales for the retailer at present, this may not always be the case."

Autumn Statement

Philip Hammond delivered his Autumn Statement on Wednesday 23rd November 2016. His speech set out both tax and economic measures the government will implement. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for the retail sector.

In Summary (general):

- the government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament.
- reduction of the Money Purchase Annual Allowance from £10,000 to £4,000.
- Insurance Premium Tax to rise from 10% to 12% from June 2017.
- tax and National Insurance advantages of salary sacrifice schemes to be removed.
- anti-avoidance measures for the VAT Flat Rate Scheme.

In addition, the Chancellor announced the following pay and welfare measures:

- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017.
- Universal Credit taper rate to be cut from 65% to 63% from April 2017.

In the March Budget the government announced various proposals, many of which have been subject to consultation with interested parties. Draft legislation relating to many of these areas will be published on 5 December and some of the details may change as a result.

In summary (retail specific)

- National Living Wage set to increase by 30p to £7.50 per hour from April 2017.
- Corporation Tax to fall to 17% by 2020.
- Benefits offered by the Salary Sacrifice Scheme are to be restricted from April 2017.
- £6.7bn package to reduce business rates.
- £400m investment to help small business finance.
- Productivity Investment Fund worth up to £23bn.

Autumn Statement Retail Impact

National Minimum Wage to rise

Pete Wilmer, retail specialist and Partner at Hawsons, had this to say: "This year, the Chancellor announced a couple of things that will directly affect the retail sector. The first being the restrictions on tax-free benefits for the Salary Sacrifice Scheme, this will impact retailers who use this scheme to attract and retain employees. Therefore, companies will have to make a decision between keeping the schemes and offsetting the cost themselves, or remove the schemes completely and risk upsetting key employees."

"The National Living Wage is also set to be increased by 30p to £7.50 per hour from April 2017. This wasn't unexpected, but some retailers may struggle to implement the new Living Wage."

"On a more positive note, a Productivity Investment Fund worth up to £23bn to focus on innovation and infrastructure is definitely good news for the sector, as is the £6.7bn package to reduce business rates and the £400m investment to help small business finance."

"Overall, a mixed reaction to the Autumn Statement, with potential issues arising from the restrictions on the Salary Sacrifice Scheme and the increase to the National Living Wage. However, some good news with the Productivity Investment Fund, reduction in business rates and the investment to help small business finance."

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