Leisure/Hospitality

Specialist Leisure & Hospitality Accountants

Newsletter
Winter 2015

www.hawsons.co.uk

Introduction

Welcome to our Winter 2015 leisure and hospitality newsletter.

The recent Summer Budget has somewhat slowed down the growth and profitability of many UK pubs, restaurants and hotels, particularly with the announcement of the new National Living Wage to come in from April 2016. The new Living Wage, in conjunction with rising input costs and continued watchful consumer spending, leaves an uncertain future for many.

With the crucial Christmas period just around the corner and the Autumn Statement details recently announced, we look at what's changing in this dynamic and evolving sector.

In this issue we look at:

- Autumn Statement leisure and hospitality review
- Good news as Annual Investment Allowance certainty is given
- Becoming more energy efficient in the leisure and hospitality sector
- Don't ignore Enterprise Investment Schemes
- Pubs and restaurants: what does the future hold?
- Forthcoming PAYE changes

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

Scott Sanderson
Partner

E: ss@hawsons.co.uk
T: 0114 266 7141
M: 07824379502
Twitter: @Hawsons

Hawsons are specialist leisure and hospitality accountants

Hawsons has a dedicated team of specialist leisure and hospitality 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.

For more information on our leisure and hospitality expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/leisure**

Autumn Statement leisure & hospitality review

Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen two Budgets, which have both brought big changes to the leisure and hospitality sector – most notably the new National Living Wage - firms were perhaps understandably tentative about what this year's Autumn Statement might bring. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes may mean for the leisure and hospitality sector.

In summary (general):

- Tax credit cuts scrapped all together
- £12bn in targeted welfare savings to be delivered in full
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%
- Increased devolution with 26 new or expanded Enterprise Zones announced
- Transport (37%), environment (15%) and energy (22%) departments all face funding cuts

In summary (leisure and hospitality specific):

- Extension of small business rate relief for one more year
- No news on retail business rate relief
- New £40m Discover England Fund
- Significant investments in UK transport links
- Bigger businesses hit by the new apprenticeship levy
- No acceleration of the new National Living Wage

Autumn Statement leisure and hospitality impact

Scott Sanderson, Partner at Hawsons, commented: "This year's Autumn Statement didn't bring much in the way of change for pubs, restaurants and hotels…it was fairly uneventful, which will come as a relief to many. That being said, there are a few key announcements that will have an impact on the leisure and hospitality sector."

"This was an Autumn Statement which brought some good news to the smaller business, and that includes those in the leisure and hospitality sector. The extension of the small business rate of relief for another year and the change to the apprenticeship levy, which will see only the biggest employers face increased costs, were positive announcements. The sector is already facing increasing tight margins ahead of the new National Living Wage, implemented in April 2016."

Ahead of the Statement there were also suggestions that the introduction of the new National Living Wage could be accelerated, but that was not the case. A planned increase in the minimum pension contributions was also delayed.

Martin Couchman OBE Deputy Chief Executive British Hospitality Association said: "The introduction of the NLW from April 2016 will have a major impact on hospitality businesses' finances so we are pleased to see a slight softening of costs through the decision to delay increases in auto enrolment pension contributions by 6 months from autumn 2017 and again in autumn 2018."

Other issues and boosts to the sector

"One of the most welcome announcements from the Autumn Statement for the sector was the new £40m fund to boost tourism and increase the number of visitors to the UK. Tourism plays a vital part in the growing success and long-term sustainability of the UK's leisure and hospitality sector; this continued investment is undoubtedly good news."

Scott added: "The ongoing substantial investments in the UK's transport infrastructure also brings welcome news for the leisure and hospitality sector. Whether it brings in new customers or improving supply-chain efficiencies, better connectivity and transportation links can have a big impact on pubs, restaurants and hotels. Despite the funding cuts for the Department for Transport, the Chancellor pledged that capital funding of transport projects will increase by 50% by 2020, which is really encouraging."

Good news as Annual Investment Allowance certainty is given

The Chancellor announced in the Summer 2015 Budget that the Annual Investment Allowance (AIA) will be set permanently at £200,000 from 1 January 2016. George Osbourne This announcement provides welcome certainty for leisure and hospitality operators across the UK who are considering funding new developments or refurbishing existing facilities.

Could AIA provide a generous tax saving on the cost of hotels/restaurants/pubs?

The AIA provides a 100% deduction for the cost of fixtures/fittings as well as most plant and machinery purchased by care operators, up to an annual limit and is available to all businesses. This is certainly an attractive prospect for hotels, restaurants and pubs, particularly as items such as lighting, electrical systems and lifts may all now qualify for AIA – reducing your tax bills!

The AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. However, it was due to reduce to £25,000 after this date. Instead, the announcement was that the level of the maximum AIA will now be set permanently at £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

Where your chargeable period spans 1 January 2016 there are transitional rules for calculating the maximum AIA for that period which operate as on previous occasions when the AIA has dropped. There will be two important elements to the calculations:

1. A calculation which sets the maximum AIA available to a business in an accounting period which straddles 1 January 2016
2. A further calculation which limits the maximum AIA relief that will be available for expenditure incurred from 1 January 2016 to the end of that accounting period.

It is the second figure that could catch you out, as demonstrated by the following example. If a company has a 31 March year end then the maximum AIA in the accounting periods to 31 March 2016 will be:

• 9 months to December 2015 (three quarters of £500,000)	£375,000
• 3 months from January 2016 (one quarter of £200,000)	£50,000
• Total annual AIA using first calculation	£425,000

This is still a generous figure. However, if expenditure is incurred between 1 January and 31 March 2016 the maximum amount of relief for will only be £50,000. This is because of the restrictive nature of the second calculation. Alternatively, the business could defer its expenditure until after 31 March 2016. In the accounting period to 31 March 2017, AIA will be £200,000. However, tax relief will have been deferred for a full year. With the significant costs involved in refurbishing facilities and funding new redevelopments in the leisure and hospitality sector, this announcement could provide welcome relief to operators throughout the UK.

Are you thinking of investing? For more information please contact your local office specialist.

Becoming more energy efficient in the leisure and hospitality sector

There are numerous opportunities for operators within the leisure and hospitality sector to reduce costs by becoming more energy efficient and more waste efficient. In this article we look at how firms could reduce their energy bills, how much it might cost and why it is becoming increasingly more important.

Operators are wasting thousands every year

Energy prices have continued on an upward trend in recent years; many operators know that they are spending too much on heating, lighting and other utilities. Food waste is also a big, but often overlooked cost. Did you know that on average a restaurant wastes 22 tonnes of food every year? When you consider the additional tax costs through disposing that waste, the business could be spending as much as £2,000 extra on landfill tax. The standard rate of landfill tax a business has to pay is £82.60 per tonne. There's big savings to be made.

Q&A with Martin Wilmott, Partner at Hawsons

Do many operators recognise how much they could save through becoming more efficient?

"Unlike a lot of businesses that shut down at the end of a working day, pubs and restaurants and, in particular, hotels, often need to work round the clock. Additionally, operators are understandably cautious about implementing energy efficient practices that may impact on a guest's experience. That doesn't mean efficiency practices can't exist though, as more and more operators are finding out."

"In a sector where profit margins are already generally quite low – and with the fast approaching National Living Wage and rising utility costs – operators are recognising that this is more important than ever before. Although energy costs may only be a small percentage of a hospitality firm's turnover, it is a cost that can be reduced, and reducing it can make a big different to the bottom line."

What non-financial benefits might a firm see?

"Of course the financial, cost-saving aspects of implementing efficiency practices are critically important. But, they aren't they only benefits a firm might see. Becoming more energy efficient could help improve the firm's reputation and help to bring in new guests. This is something we have seen time and time again, particular with the leisure & hospitality sector becoming increasingly more competitive."

Where can firms become more efficient?

"Heating, lighting, refrigeration, water and food wastage are just some of the key areas where pubs, restaurants and hotels can become more efficient."

What examples are there of firms becoming more efficient?

"Simple things like LED lighting should really not be overlooked. You might be surprised to see such relatively minor solutions generate big savings, particular over a number of years. Other solutions such as better insulation of baths or function rooms can bring much greater savings in a shorter space of time. Raising awareness and implementing small rules like turning off lights and closing refrigerator doors can also make a big difference. Definitely get your staff involved."

How expensive are efficiency solutions?

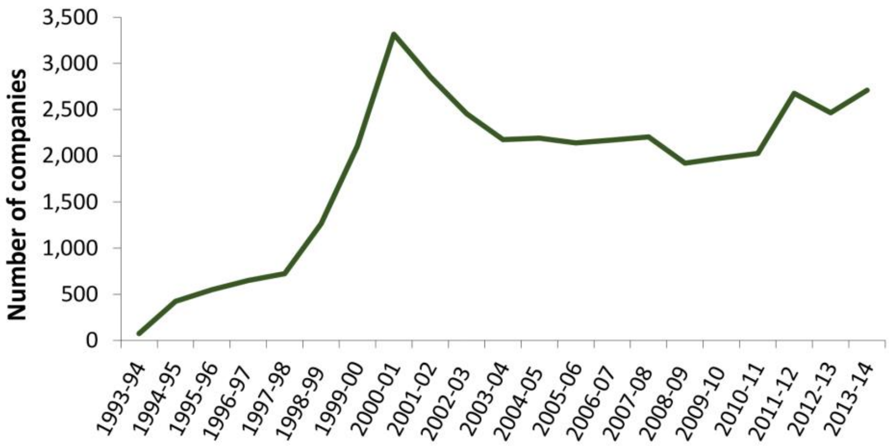
"That really depends. LED lighting might cost a few hundred pounds (depending on the size of your firm) to implement, whereas eco-smart shower devices, biomass boilers or solar panels will cost a lot more. I would add to that, however, by saying that most energy solutions have to be seen as long-term investments. Energy efficiency projects may have high initial costs - depending on the level of implementation a firm is thinking about - but deliver lasting savings."

"There are also potentially significant tax savings available that must be taken into account. Items such as lighting and electrical systems now both qualify for Annual Investment Allowance, reducing your tax bills! I would stress, however, that the qualifying conditions can sometimes be quite tightly defined. You should always take advice in this area."

For more information please contact Martin on maw@hawsons.co.uk or 01302 367 262 or contact your local office specialist.

Don’t ignore Enterprise Investment Schemes

The Enterprise Investment Scheme (EIS) is now over 20 years old. This is quite a remarkable achievement for a tax break. A change in government often results in the demise of one tax break and the invention of a ‘new and better’ tax relief. There have been amendments to EIS over the years but it still attempts to help smaller trading companies raise finance by offering a range of tax reliefs to investors who purchase new full-risk ordinary shares in those companies.



The chart shows the number of companies raising funds in the first 20 years of the scheme. The peak in 2000 reflects the dot-com boom. In 2013/14, 2,710 companies raised a total of £1,457 million of funds under the EIS.

Chart Source: HMRC - EIS and SEIS Statistics July 2015

What are the tax breaks?

Two of the key tax breaks are:

- Income tax relief - investors may be given income tax relief at 30% on their investments of up to £1,000,000 a year
- CGT exemption - gains on the disposal of EIS shares are exempt.

For many investors who are new to a company, these reliefs may be the key additional incentives to invest. The income tax relief enhances the effective dividend yield that is anticipated from the investment. The CGT exemption removes gains from a charge to tax, without limit, on shares that have qualified for income tax relief. Therefore companies wanting to raise finance for a new venture should consider whether the EIS scheme could apply to them. New companies can also consider the junior sister of EIS, the Seed Enterprise Investment Scheme (SEIS). Neither of these tax breaks will be available if the person is ‘connected’ to the company. For example an individual will be connected with the company if he controls more than 30% of the ordinary share capital of the company.

If, however, a number of individuals are setting up a new venture, an EIS or SEIS scheme could provide the tax breaks for any of the individuals who hold less than 30% of the shares. Where funds needed to establish the new venture are relatively small, the business owners may consider it is not worth while incurring time and costs to set up an EIS or SEIS scheme. The income tax relief on a small investment may not be considered to be worth the effort. But they should not forget the power of the CGT exemption. Consider the recent tax case of the unfortunate Mr Ames.

Example of the skydiver

Mr Ames was a skydiver. He realised that the risks and costs of the sport, together with the British weather, limited the growth of his sport in the UK. He had the idea of teaming up with a small number of other individuals to provide the first UK indoor skydiving simulator. The company applied for share subscriptions to fall within EIS, HMRC agreed and the company issued Mr Ames with the relevant form for him to submit to HMRC. He did not complete the form because, although he had paid £50,000 for his shares in 2005, his income was below the personal allowance for that year and the preceding year.

The company prospered and Mr Ames was able to sell his shares for £333,200 in 2011. When he submitted his tax return for the disposal he submitted the EIS form. HMRC accepted that all relevant EIS conditions had been met and said that, had Mr Ames made a claim for EIS income tax relief, no CGT would have been payable on the disposal of the shares. However Mr Ames had not made a claim and was no longer within the time limit. So the capital gain of £283,200 was taxable rather than tax free. The tax tribunal agreed with HMRC.

Please do contact us if this is an area of interest. We can help to guide you through the implementation of a scheme which is suitable your circumstances.

Pubs and restaurants: what does the future hold?

Although many pubs and restaurants are in better financial shape than they were following the economic downturn in 2008, the sector is still facing a number of tough challenges. In this article we look at some of the key issues facing the sector and what the future might hold for pubs and restaurants across the UK.

Cost increases

High energy prices, back-to-back increases in the National Minimum Wage, the introduction of the new National Living Wage and rising ingredients costs are putting increasing financial pressures on already tight margins. The introduction of the compulsory Living Wage will undoubtedly have a considerable impact on many pubs and restaurants. The sector will be one of the hardest hit when the new rate comes into force from April 2016. That, along with high energy prices are rising food costs are forcing pub and restaurant owners to reconsider their menu pricing.

Consumer spending and competition

Will increased menu pricing turn away already price-mindful consumers? There has certainly been an upturn in consumer confidence on the backdrop of economic uncertainty; this year consumer confidence has been at its strongest since 2008. Of course, the sector has been boosted by a number of major sporting events over the past two years, including the Rugby World Cup in England and Wales, the Commonwealth Games in Glasgow, the Tour de France in Yorkshire and, further afield, in Brazil with the Football World Cup. The European Championships in France are just around the corner too. These events provide fantastic opportunities to pubs and restaurants, particularly on traditionally low occupancy nights.

Competition is at an all-time high in the 2015 hospitality sector. The growth of the internet has made it much easier for start-ups to gain traction in the market, through reduced tooling costs and more efficient sales and marketing. This is making price competition even more important.

Embracing technology

Almost every sector is going through a technological revolution, and the hospitality sector is no different. From a marketing and sales viewpoint, a pub or restaurant's website and social media platform is becoming increasing important. For example, the number of reservations being made online is seeing year-on-year growth. From an operational viewpoint, firms within the sector are continuing to embrace technology to improve productivity and reduce input costs. For example, many firms are using new green technologies to become more energy efficient.

What might the future hold for pubs and restaurants?

Scott Sanderson, Partner at Hawsons, commented: "It is perhaps understandable that both pub and restaurant owners are tentative about what the future may hold. After continued recovery growth following the recession and subsequent reduction in consumer spending the sector has been performing well over the last 12 to 18 months. The casual dining market, in particular, has seen enormous growth. Increased consumer spending is also expected to carry on as the economy continues to improve. However, with the introduction of the new National Living Wage and other input costs contusing on an upward trend, the sector is facing a different kind of challenge."

"Consumer confident is growing, but average spend per meal is down; value menu pricing is critical. Profit margins are likely to be squeezed even further over the coming months as costs rise, but operators are rightly cautious about raising prices. Embracing technology and focusing on improving both energy and food wastage efficiencies , as well as cost-effective sales and marketing, will be therefore likely be a key focus throughout 2016. The role of technology is becoming ever-more important for pubs and restaurants. Even simple things like providing free WIFI can make a big difference. There are certainly big challenges ahead but, for many, the picture remains quite positive."

For more information please contact Scott on ss@hawsons.co.uk or 0114 266 7141 or contact your local office specialist.

Are you aware of forthcoming PAYE changes?

The introduction of the National Living Wage

The government has announced the introduction of a new National Living Wage (NLW) for working people aged 25 years and above from April 2016. Initially the NLW is set at £7.20, which is 50p above the current National Minimum Wage (NMW). The NLW is set to rise to over £9 an hour by 2020.

Changes in Employment Allowance

The government has also announced that Employment Allowance will rise from £2,000 to £3,000 from April 2016. The Employment Allowance gives businesses a reduction in the employer National Insurance they pay, so this is a welcome announcement. As this increase in Employment Allowance is focussed on businesses and charities that support employment, companies where the director is the sole employee will no longer be able to claim the Employment Allowance. This change in claiming Employment Allowance also comes into force from April 2016.

Forthcoming Scottish rate of income tax

From April 2016 the Scottish Parliament will have responsibility for a Scottish rate of income tax. From this date the Scottish rate will be charged on the non-savings income of Scottish residents. As such, from April next year it is likely that Scottish taxpayers will pay a different rate of income tax to the rate paid by the rest of the UK. The rate of Scottish income tax has not yet been finalised and it is expected that the Scottish Finance Minister will announce the thresholds and rates later this year.

Regardless of where the employer is based, all payrolls must operate the Scottish rates of income tax for Scottish residents. This means that businesses across the rest of the UK could have to apply Scottish rates of income tax in their PAYE.

Abolition of Employers' NI contributions for apprentices

From April 2016 employers of apprentices who are under 25 will no longer be required to pay employer NI contributions on earnings up to the Upper Earnings Limit. This will produce savings for all employers of apprentices. If this applies to you then please let us know.

Running a payroll properly is often a time-consuming and resource-demanding job, requiring awareness of constantly changing HMRC requirements and detailed legislation, as well as meeting strict deadlines. Additionally, with the recent onset of auto enrolment and compulsory workplace pension schemes, the increasing compliance obligation on employers makes now a good time to consider outsourcing your payroll. **If you are considering outsourcing your payroll please visit www.hawsons.co.uk/payroll to find out how we can help and to request a free quote.**

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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

Your local specialist:

Sheffield

Scott Sanderson
Partner
0114 266 7141
ss@hawsons.co.uk

Doncaster

Martin Wilmott
Partner
01302 367 262
maw@hawsons.co.uk

Northampton

Richard Burkimsher
Partner
01604 645 600
richardburkimsher@hawsons.com

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