Leisure/Hospitality

Specialist Leisure & Hospitality Accountants

Newsletter
Summer 2017

www.hawsons.co.uk

Introduction

Welcome to our Summer 2017 leisure and hospitality newsletter.

Theresa May's snap General Election ended with a hung parliament, with the PM joining forces with Arlene Foster's Democratic Unionist Party (DUP), Brexit talks being underway and expected to last for two years, Britain's economy is holding up albeit facing an uncertain future. In this newsletter we take a look at the tax opportunities that are available to small business owners, a potential hospitality staff shortage after Brexit and how a fall in the pound is effecting tourism numbers in the UK.

In this issue, we look at:

- The Election result: What are the tax implications
- Fall in the pound boosts UK tourism numbers
- Potential hospitality staff shortage after Brexit
- Tax opportunities for small business owners
- CEO Fraud

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 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**

HLB International

The Election result: What are the tax implications

The general election has ended in a hung parliament – the Conservative party have the most seats but do not have an overall majority. Theresa May has announced that she will form a government with the support of the Democratic Unionist Party (DUP).

What does this potentially mean for tax? How will the election result affect you and your business?

Tax expert Craig Walker provides a recap of the key tax pledges made by the Conservatives and looks at how a hung parliament could hinder the Conservatives' ability to deliver on these pledges.

Hung parliament

If, as expected, the Conservative government remain in office, their loss of seats is likely to weaken their ability to implement the tax pledges made in their manifesto.

Passing law may need support from other parties, and this could require the Conservatives to amend or moderate a number of their proposed tax changes. We could even see some manifesto pledges dropped completely.

You may recall that a significant chunk of the 2017 Finance Bill had to be dropped due to the early general election, but there was an expectation that many of these changes would be introduced in a post-election Finance Bill. The election result puts into doubt whether some of these changes will in fact be passed.

Democratic Unionist Party (DUP)

The DUP and Conservatives appear to have similar views on tax. The DUP indicated in their manifesto that they would support Conservative proposals to increase the personal allowance. The parties also share a desire to reduce the rate of Corporation Tax – with the DUP proposing to reduce the rate to as low as 12.5%.

The DUP manifesto included a call to reduce VAT for businesses in the tourism sector. Northern Ireland has long argued that the UK tourism rate of 20% is extremely uncompetitive compared to Ireland's reduced rate of 9%. Currently Westminster controls UK-wide VAT policy but following Brexit it is thought that Northern Ireland will be free to claim a reduced tourism rate.

Below is a recap of the key tax pledges made by the Conservatives:

Income tax

- To increase the personal allowance to £12,500.
- To increase the threshold for the higher rate tax band to £50,000.

National insurance

- Remained silent on the issue of rises in national insurance but issued a statement of intent to lower tax/NIC.
- This followed the removal of the controversial proposal to raise self-employed national insurance contributions from the Spring Budget.

Corporation tax

- To reduce the current corporate tax rate of 19% to 17% by 2020.

Inheritance tax

- The current Conservative policy allows up to £850,000 in family property to be inherited by children without inheritance tax.

VAT

- Do not intend to raise the level of VAT.
- To introduce further measures to reduce online fraud in VAT.

The Election result: What are the tax implications

Other taxes

- No plans to reduce the rates of Stamp Duty Land Tax (SDLT).
- No assurances that Capital Gains Tax reliefs for entrepreneurs will remain in place.
- To introduce further incentives under the Enterprise Investment Scheme and Seed Enterprise Investment Scheme to help start-up businesses.
- To build upon existing tax arrangements for creative industries, including a creative industries tax credits scheme.

Making Tax Digital

- There is no evidence to indicate the Conservative party intend to abandon their plans for the controversial "Making Tax Digital" project.

Business rates

- A promise to review and reform the business rates system, such as by increasing the frequency of revaluations, exploring the possibility of self-assessment valuations and updating the system to appropriately deal with online shopping businesses.

Tax compliance

- To introduce tougher regulation of tax advisory firms.
- To take a more proactive approach to transparency and misuse of trusts.

In summary

It will be interesting to see to what extent the Conservative's tax proposals are implemented and how the UK tax system evolves. The economic consequences of Brexit are also likely to give the Chancellor much to think about and significantly influence UK tax policy.

In addition, we should remember that politicians do not always follow manifesto pledges (and have even been known to borrow ideas from the opposition!).

We will keep you updated.

Fall in the pound boosts UK tourism numbers

Since the EU referendum, the value of the pound has fallen, however one positive to come out of its decline is a boost in tourism numbers for the UK, with the UK enjoying record numbers of overseas visitors in the last year. In 2016 official figures show that there were 37.3m visits to the UK, is up by 3% on the previous year and the highest since records began back in 1961.

With the pound dropping to a three-decade low against the dollar after the Brexit result last June, a large increase in North American visitors to British Shores have been recorded. American's visiting the UK paid less for hotels whilst also getting more pounds when exchanging their holiday money.

In the final three months of 2016 - the run up to Christmas - North American visits were up by 15% compared with the same period the previous year, according to the Office for National Statistics (ONS). The rest of the EU has also enjoyed more visits to the UK, with the pound also down against the Euro. Visitors from the EU rose by 8% in the last three months in 2016.

Yorkshire was one of the biggest beneficiaries from the increase in tourism, as it enjoyed a record 476,000 visits from overseas during the three months after the referendum, a 12% increase on the same period a year before. VisitBritain, the national tourism agency, has suggested that 2017 could follow a similar pattern with a strong year for tourism with flight bookings up by 16% from February to April.

At the end of January, the UK was 14% more affordable to visitors from the US and 10% more affordable for those living in the China, compared with a year earlier, according to VisitBritain.

Scott Sanderson, Partner at Hawsons, commented: "The UK continues to have a lot to offer to overseas visitors and the additional numbers of tourists seeking to maximise on the weak sterling vales are a welcomed boost to the UK economy. On a local level, it is pleasing to see that Yorkshire has enjoyed a record year of overseas visitors, enhanced by last year's Tour de France grand depart being staged in the region."

Potential hospitality staff shortage after Brexit

One of the key arguments during the Brexit vote was the belief to tighten up immigration and be more selective about who the UK allows in to live here. However, there is a chance this could have backfired, with senior figures in the sector warning of a potential staff recruitment shortage of 60,000 or more.

An analysis by the British Hospitality Association (BHA) suggests that if immigration is more controlled, the likes of hotels, bars, and restaurants could face a big problem is recruiting the staff they need.

The hospitality sector is Britain's fourth largest industry, and with a recruitment problem that big, some chains could struggle. It is hoped the Government will step in if any serious recruitment issues should arise.

Scott Sanderson, Partner at Hawsons, commented: "As we've just said, this sector is Britain's fourth largest, and while the bigger businesses might be able to get around the issue of recruitment, the smaller companies may struggle. I hope this area will be solved before problems begin to arise, if they arise. It must be stressed that Brexit is unknown to many of us and we still don't know what is going to happen."

The report goes on to suggest that this sector will be the hardest hit from immigration restrictions than any other sector in Britain.

There is possibly some scope, however, with the sector maybe having to look at older staff to help the potential staff shortage. The pensionable age is rising, so the older generation need work in this climate, according to the report. While more scope could be found in reducing labour force requirements (should the need arise), with the world now moving towards automation. The hospitality sector is the sector that is told robots will assume the position of one in three jobs.

Training programmes and apprenticeships are also available for businesses to look at if they find themselves in a bit of a recruitment problem.

Scott Sanderson said: "While it does need to be stressed that Brexit is still a walk into the unknown, and the contents of this article may not prove true, it is still a worrying concept that these hardworking businesses may struggle due to staffing shortages. While I am sure the Government will work to get Britain the best deal, there is every chance it may not be the best for everyone, so I do hope the hospitality sector is high on the agenda, with it being the fourth largest sector in the UK."

Tax opportunities for small business owners

There are many tax opportunities available for small business owners, as well continually falling corporation tax rates. In this article, we take a look at some of the opportunities available to you.

Falling corporation tax rates

Corporation tax rates were once again cut by the Chancellor in the 2016 Budget, which has seen the main rate fall to 19% in this year and 17% in 2020. The corporation tax rate currently stands at 19% and is at its lowest point for over 20 years, falling from a much higher 28% just six years.

A falling corporation tax rate brings many opportunities for small business owners and will likely have a knock-on effect on inward investment, staff recruitment, staff retention plans and business confidence.

Annual Investment Allowance

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 – this is still a generous figure. The AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015, but it was suggested that it may reduce back to £25,000 after this date.

Who can claim AIA?

The AIA provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business, up to an annual limit and is available to most businesses. Some of the examples of where you can claim the AIA on include lifts and escalators, electrical systems, office equipment, machinery, furniture and vans and lorries.

Caution

You will need to be very careful of timings in order to maximise your AIA.

R&D tax relief

The government is fully supporting innovation and R&D tax relief is now a very attractive and widely available relief. Latest figures released by HMRC show that more SMEs are now claiming more R&D tax relief than ever before, but there are still thousands of projects being overlooked. The government have also recently introduced measures to make it even easier for small businesses to claim R&D tax relief.

How does R&D tax relief work?

R&D tax relief is available to both small businesses and large companies, with the small business rates being particularly generous. Small businesses obtain 'super-deduction' equal to 130% of expenditure on labour and materials whilst large companies obtain a tax credit of 11%.

Case study

Over the past few years we have worked with many businesses in successful claiming R&D tax relief, amounting to hundreds of thousands of pounds.

An important point to remember is that to claim this relief, you don't have to work in a lab or wear a white coat. We have submitted successful claims for IT & Software businesses, Food & Beverage businesses, as well as the more obvious Healthcare & Medical, Manufacturing and Engineering businesses. Whether you're developing a new product, service or process or materially improving an existing one, it may be worth speaking with Hawsons today.

CEO Fraud

CEO Fraud is nasty and it can ruin both businesses and careers. More than 22,000 organisations across the world have been victims of CEO Fraud with losses estimated at more than £3 billion. In this article, we look at what CEO Fraud is and the techniques that can be used to help prevent it from happening to you.

What is CEO fraud?

CEO Fraud involves convincing somebody in your business to make what they think are legitimate payments but which are actually paid to fraudsters. The scam is often carried out by compromising business email accounts through the use of techniques such as social engineering or computer intrusion.

It's not just email accounts that can be compromised, the criminals are also known to tap into phone numbers. This process involves the criminals obtaining the phone number of a CEO, and sending a text message to the CFO (Chief Financial Officer) which appears to come from the CEO. The message asks the CFO to make a bank transfer. To make it more realistic, these cyber-criminals often wait until the CEO is away on business and the unlucky recipient of the text message is oblivious to the fact it's not a legitimate request. In addition, the criminals will often ask the recipient not to contact them as they "are in an important meeting" and "it needs paying promptly".

While you may think it's just the larger businesses which are targeted, smaller businesses are just as likely to be hit – the criminals don't discriminate, everyone is a target.

While it is probably impossible to predict which business will be attacked and when, it is useful and interesting to understand some of the methods they often use.

The methods

- **Phishing**: These are emails sent in large numbers to numerous accounts simultaneously in order to "phish" sensitive information by posing as legitimate sources. These emails are getting much more sophisticated – gone are the days of poorly worded emails that were obviously fake. These emails often have logos, are well-written and look like they could be from a bank, credit card provider, law enforcement or government agencies, delivery companies etc. While many people won't use the bank or service provider the email is claiming to be from, due to the sheer numbers that they send them out to, it has a certain percentage of hit rate. The criminals are smart and may change the spelling of words which can easily catch you out. For example, an email from webfiling@companieshousewebfilling.co.uk seems legitimate, doesn't it? Unfortunately, this is NOT from Companies House. Notice the spelling of webfiling at the start of the address and webfilling at the end.

- **Spear Phishing**: These attacks are emails which usually only go to one person or a small group of people at the most. They are much more focused and the cyber-criminals have often done their homework on the target by gathering data from social media sites in order to fool the unfortunate target. Usually some form of personalisation is included such as the person's name or client's name.

- **Executive "Whaling"**: This one can be very sophisticated. The criminals have detailed knowledge of who they are targeting and the business they are attacking. They target the top executives and administrators to draw money from accounts or to steal confidential information.

- **Social Engineering**: This is the psychological manipulation to trick people into giving away sensitive information or providing access to funds. All of the previous methods are aspects of social engineering. The act of social engineering might include mining social media sites such as Facebook and LinkedIn. These sites provide a wealth of information about a company and individuals, such as names of staff, contact numbers and emails addresses.

Unfortunately, these scams have a fairly high success rate. The Verizon 2016 Data Breach Investigations Report revealed that 30% of recipients open these phishing emails and thus provide an open gateway for malware to infect their systems and the possibility of CEO Fraud.

CEO Fraud

Prevention

The majority of the following steps must link together to form part of an effective prevention plan forming 'layers of defence'.

- **Training**: While all the steps below will help, if a member of staff isn't properly trained a breach could be inevitable. Make sure all staff are aware of the things to look out for when opening emails and provide general security awareness training. Is the email sender legitimate? Always be sceptical and hover over links to see if they're going where they say they are going. Beware slight changes in company names (r and n together to imitate an m). Another tell-tale sign is emails requiring urgent action.

- **Technical controls**: Email filtering is an example of this. If you don't have a filter you need one. If you do have one you need to make sure you understand its features to get the most out of them and also accept that mail filtering won't always prevent phishing emails coming through. Two factor authentication is a good way of making it harder for the criminals to steal sensitive information, such as sending a code to your mobile phone.

- **Simulated Phishing**: This should be accompanied with the training. It is the process wherein staff are sent emails purposefully to see which staff are at risk and who needs more training.

- **Identifying high-risk job roles**: High-risk roles include accounting, payroll / HR and IT staff. It is recommended to impose more safeguards in these areas such as having layers of authorisation before, for example, a payment to an account can be completed. It is important to assess all high-risk staff to see how exposed they are.

- **Security policy**: While every company should have a security policy, it does sometimes slip under the radar when there are more important things to deal with. But in this day and age when cyber-attacks are frequent, it should be on your to-do list. It should be reviewed regularly for gaps and should be published somewhere that all staff can find. It should include things such as staff not opening attachments or clicking on links from unknown sources, password management policy (not reusing work passwords on other sites or machines), don't use USB sticks on office computers as well as much more security diligence.

- **Procedures**: IT should have security measures in place to block sites known for their spread of ransomware. All software security patches and virus signature files should be kept up-to-date, conduct penetration tests on Wi-Fi to determine how easy it is to gain entry, ensuring backups are actually working as well as much more.

- **Cyber-risk planning**: This is no longer just a technical problem or just an IT problem. This should be managed from the very top (the CEO) so they are aware of the company's cyber risks and how they can manage those risks. CEO Fraud should certainly be included in the risk management assessment.

CEO Fraud and cyber-attacks in general are more frequent now than they ever were. It is wise to review your procedures and put the appropriate controls in place to stop it from happening to you. It could save you a lot of money.

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Summer 2017

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