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Leisure & Hospitality

In this issue:

Hospitality spend decreases as consumers cut down on discretionary purchases

Making Tax Digital: Digital start dates and the reform of basis periods

Covid-19 impact on restaurant technology

Skills & employment could help hospitality sector realise its potential

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David Owens
Partner

Introduction

Welcome to our latest leisure & hospitality newsletter. The leisure and hospitality sector has faced many challenges over the last few years as the pandemic forced many businesses to close for long periods. Now the sector is facing inflation challenges as well as reducing numbers of customers due to the cost-of-living crisis reducing the amount of money consumers are willing to spend on discretionery purchases.

In this newsletter we discuss the following:

- Hospitality spend decreases as consumers cut down on discretionary purchases
- Making Tax Digital: Digital start dates and the reform of basis periods
- Covid-19 impact on restaurant technology
- Skills & employment could help hospitality sector realise its potential

We hope you enjoy this edition of our leisure & hospitality newsletter. As ever, please contact us if you have any questions.

David Owens
Partner

Hospitality spend decreases as consumers cut down on discretionary purchases

According to the latest figures from Barclaycard restaurant spend dropped by 12.2% in September. This is only expected to decrease more as the cost of living increases, discretionary purchases are expected to reduce. Year-on-year figures show that restaurant spend fell by 11.4% in August. Furthermore, spending in bars, pubs and clubs fell for the first time since March 2021 with a decrease of 0.4%.

People are looking to cut down on discretionary spending

This decrease in spending will come as no surprise as 53% of consumers are planning to reduce their discretionary spending to afford their increasing energy bills through the autumn and winter months.

More spending at home

The turn towards colder weather in September found more people wanting to spend more time at home. This has resulted in increased spending in at-home categories. For example, takeaway spending saw its highest increase of 10.1% since March 2022. In order to save money people, are choosing to spend more time at home playing board games (25%), streaming films and box sets (20% and playing video games (19%).

Conclusion

To conclude, this winter, consumers are now facing increased cost-of-living prices. This has resulted in consumers opting to reduce discretionary spending which will have a significant effect on the hospitality sector. Instead, consumers are opting to spend money on at-home entertainment.

Making Tax Digital: Digital start dates and the reform of basis periods

Making Tax Digital for income tax is being introduced on 6 April 2024. It will affect self-employed individuals and landlords with annual business or property income above £10,000. For general partnerships, the start date has been set at 6 April 2025. LLPs will join MTD later, but the date is not yet confirmed.

MTD for income tax requires individuals to keep accounting records in digital format and to submit tax returns using MTD-compliant software. MTD for income tax will require individuals to submit quarterly updates of their income and expenditure to HMRC, along with keeping digital records. A year-end declaration will also be required to be submitted following the end of the year using MTD-compliant software.

If you fall within the MTD for income tax rules you need to be aware of your 'digital start date' as this will determine when you are required to start following the MTD rules. Your digital start date for Making Tax Digital is dependent on when your business commenced.

The business commenced before 6 April 2023

If your business commenced before 6 April 2023 then your digital start date will be 6 April 2024.

The business commenced after 6 April 2023

If your business commences after 6 April 2023 then your digital start date will generally be the 6th April of Year 3 of trading unless the notice to file a tax return for Year 1 is given after 31 October in Year 2 in which case your digital start date will be 6th April of Year 4.

Changes to basis periods

For many years businesses have been taxed on the current-year basis such that for a given tax year you are taxed on the profits of the accounting period ending in that tax year.

However, in order to make the quarterly return process easier the government is changing the rules such that all businesses will be taxed on a fiscal year basis from 6 April 2024. It should be noted that the basis period reform will impact on general partnerships and LLP's even though they are not being bought into MTD until a later date.

This means that businesses will then be taxed on a fiscal year basis to either the 31st March/5th April. If your accounting period is already 31st March or 5th April then the transition to MTD is pretty straightforward.

Continued overleaf

Making Tax Digital: Digital start dates and the reform of basis periods (continued)

However, if your current accounting period does not end on 31st March or 5th April then the situation gets slightly more complex and there are some special rules which apply for the 2023/24 tax year ('the transitional year).

Where this is the case you have two options. The first is that you will have to align your accounting period with the tax year. Your second option is to carry out apportionments of two sets of accounts for the transitional year and each year thereafter.

For example, a business that prepares accounts to 31 December each year will be impacted as follows in the transitional year:

Instead of preparing accounts for the year to 31 December 2023 it could prepare accounts for the long period 1 January 2023 to 5 April 2024 and then to 5 April each year thereafter. This means an additional 96 days of profit would be taxed in 2023/24 ('the transitional profits'). However, brought forward overlap profits that arose in the opening years of trade can be relieved against the transitional profits. In addition, the rules also enable transitional profits after the deduction of overlap profits to be spread over 5 years but the trader can elect to be taxed on them sooner. Any untaxed transition profits are taxed automatically on cessation of the trade.

Alternatively, the business could keep 31 December for the purposes of preparing accounts and apportion figures from two sets of accounts to arrive at the assessable profits for each year However, this would still require an additional 96 days of profit to be recognised in the 2023/24 transitional year. Therefore, for the 2023/24 tax year total assessable profits would be based on the whole of the profits for the year ended 31 December 2023 together with 96/366ths of the profits for the year ended 31 December 2024. As above, overlap profits can be deducted and then any transitional profits remaining can be spread over 5 years.

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Latest News

Covid-19 impact on restaurant technology

In the fast-paced and competitive world of the restaurant industry, restaurant operators need to ensure that their operations are as efficient and customer-friendly as possible. Therefore, it is imperative that the latest restaurant technology trends are adopted by the industry. Some of the latest restaurant technology trends include:

- Handheld ordering devices
- Kitchen management tools
- Self-order kiosks
- Digital menus
- Order and pay at the table (point of sale systems)

Why is it important for the restaurant industry to integrate restaurant technology?

As restaurant technology trends continue to develop, customers become more demanding which increases their expectations of delivering excellent service. Consumers now expect a quicker, more efficient and more automated service from restaurants. Integrating the latest restaurant technology trends significantly improves a restaurant's ability to deliver the excellent service expected from customers. Therefore, restaurants that fail to integrate technology into their business may struggle to operate as efficiently and profitably as their rivals in the restaurant industry. Implementing technology into your restaurant can help improve the efficiency of delivery, accounting, stock management, marketing, payments, business analytics and point-of-sale systems which could help give you a competitive advantage over your rivals. There are many technology providers out there for restaurants to work with.

Covid-19 stimulates change

The Covid-19 pandemic has undoubtedly stimulated change in the hospitality sector as a whole. The largest strategic shift that we have seen in the restaurant industry is the integration of offering takeaway and delivery services as well as ordering and paying via your mobile device at your table.

Continued overleaf

Covid-19 impact on restaurant technology (continued)

Delivery

During the pandemic, offering delivery was a lifeline to many restaurants that were forced to close for a substantial amount of time. This is a highly competitive market and can be a logistical challenge to set up. Some restaurants have made the decision to continue with their delivery service even when they were allowed to open up their restaurant. This is because many restaurants had to invest a significant amount in technology to set up a delivery service. In addition, continuing with a delivery service provides restaurants with the opportunity for further revenue and profit streams.

Order and pay at the table

The restaurant industry has bounced back from the pandemic to a certain degree. However, tough economic conditions are having an effect on productivity and profitability with rising inflation and staff shortages being the main issues. Implementing the latest restaurant technology could alleviate some of these issues to an extent. For example, when restaurants were finally allowed to reopen again, many restaurants decided to implement ordering and paying at the table via an app to reduce contact between servers and diners. Most restaurants that implemented this technology have decided to continue with this as it will help reduce the need for front-of-house staff and will improve profitability.

Conclusion

To conclude, the pandemic has had a significant effect on the restaurant experience consumers now expect. We have found that the importance of implementing technology in restaurants is extremely important in helping deliver a quicker, more efficient and more automated service. During the pandemic, many restaurants started to introduce a delivery service and order-at-table service which consumers now expect when they go to a restaurant.

Skills & employment could help hospitality realise its potential

The trade body, UKHospitality has said that implementing an employment and skills strategy would help the sector realise its true potential.

Hospitality vacancies are falling

Recent statistics from the Office of National Statistics (ONS) showed that vacancies in food service activities and accommodation decreased by 15,000 in the third quarter of this year (July – September 2022). It is important to note in the previous quarter (April – June 2022) that there was a record 173,000 vacancies.

Recruitment issues in hospitality are preventing growth

Despite the fact that vacancies have decreased in the last quarter, this was from record levels. Experts in the hospitality industry have said that the amount of vacancies in the sector is preventing its ability to grow. However, steps have been taken to help attract new employees into hospitality such as increased wages, better training, flexible working and more development opportunities. Although all of these employee experience improvements have been implemented, it is going to be extremely difficult for the hospitality sector to continue reducing its vacancy numbers. The current employment rate is historically low at 3.5% in August 2022 (the lowest level since 1974). In addition to this, statisticians have found that the number of economically inactive working-age adults in the UK is also increasing. This means that there is a smaller pool of people looking for employment in the UK. Such low unemployment levels is increasing the competitiveness between sectors in terms of recruitment. This is making it more difficult for the hospitality sector to attract more employees.

Conclusion

To conclude, UK hospitality vacancies have decreased from a record level in the third quarter of 2022. However, vacancies in the sector are still very high which is reventing the hospitality's sector ability to grow. Furthermore, an extremely low unemployment rate in the UK is making it even more difficult for the hospitality sector to recruit due to a smaller pool of people looking for work.

Get in touch

Our experts

Hawsons has a dedicated team of specialist leisure and hospitality accountants in Sheffield, Doncaster and Northampton.

As the sector continues to become ever more challenging, with changes in fierce global, nation and regional competition leading to unrelenting pressures to maintain margins, it is more crucial than ever to seek sound and proactive advice.

At Hawsons our dedicated team of specialist hotel, pub and restaurant accountants offer professionals advice and guidance that is tailored to their individual needs and requirements, providing a full range of proactive services.

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