

hospitality update

A hospitality sector publication brought to you by Moore and Smalley Chartered Accountants and Business Advisors

News from the VAT desk



THE hotel and leisure industry attracts more than its fair share of attention from HM Revenue and Customs (HMRC), largely because VAT is charged to members of the public who cannot claim it back. In addition, the VAT position on land, property and construction transactions is often complex, and VAT is often wrongly charged or erroneously claimed back.

There are many areas of developing VAT law within the industry and we only have space to outline a handful here but please do get in touch if you have any other VAT queries.

Hotels

VAT on separate room and garden hire charges for civil weddings

We are seeing a concerted push by HMRC to assess hotels for VAT on separate room and garden hire for wedding ceremonies. These should generally be exempt from VAT, unless an option to tax is in place. However, HMRC take the view that VAT is chargeable if something other than room hire is included in the price (eg flowers, seat covers etc) or the room is supplied as part of a hospitality package. Care should therefore be applied to the wording of contracts and invoices.

VAT on cancellation fees, forfeit deposits, and guaranteed room reservations

HMRC accepts that cancellation charges are not subject to VAT provided nothing is supplied in return for them. In the case of deposits, VAT is chargeable, but if the deposit is forfeit due to a cancellation, no VAT is due, and the hotel can recover any VAT paid over to HMRC. This is subject to the condition that nothing has been supplied by the hotel in return for the deposit. HMRC take a very strict view on this following a case where it was decided that VAT is due on guaranteed room reservations even if the room is not used.

VAT on conferences, rooms and meals

Some parts of 24 hour conference delegate rates are not chargeable to VAT, such as room hire. It is therefore necessary to clearly distinguish these tariffs from other fully VATable items.

Bed and breakfast and self catering holiday accommodation

VAT on the alteration of buildings for self catering holiday accommodation

VAT on alterations can be due at 0 per cent,

5 per cent or 17.5 per cent, depending on the planning permission given and any listed building consents. Significant VAT savings can be made by building in VAT savings at the design stage, rather than trying to recover VAT after the event. Clear building plans/drawings and certified costs can often save VAT for expensive items.

VAT on separate unregistered bed and breakfast/other leisure businesses

There is a growing trend for HMRC to investigate farmhouse bed and breakfast and holiday cottage businesses where these are run as separate businesses and are not included as part of the farm's VAT registration. HMRC invariably argues that the two businesses should be registered as one, often basing its view on the way that the B&B or cottages are marketed. Care is therefore needed in the wording of websites etc. HMRC will no doubt investigate other examples of leisure businesses that can be linked to VAT registered businesses.

And finally:

Please do consider a fee protection scheme to cover the costs of HMRC enquiries and investigations. These costs can be substantial where HMRC make prolonged and in depth enquiries. Whilst fee protection does not cover the tax or the penalties, there is anecdotal evidence to suggest that HMRC take a less aggressive stance on penalties when they know that the client has the resources to challenge any penalties, by virtue of the fee protection scheme.

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Sector rolls up its sleeves

CUMBRIA'S tourism sector is ready to fight "tooth and nail" to make 2010 a successful year.

That was the defiant message from hoteliers and tourism chiefs when they met in Kendal to discuss how the region must bounce back from last November's floods and capitalise on the 'staycation' phenomenon of 2009.

Representatives from some of the region's leading hotels met with bosses from Cumbria Tourism and the Northwest Regional Development Agency (NWDA), as well as professional advisors at a special roundtable discussion hosted by Moore and Smalley.

Ian Stephens, chief executive of Cumbria Tourism, said the sector had every reason to be optimistic and should look to maximise opportunities to promote the Cumbria and Lake District brand.

He said: "Despite recent events there are many favourable factors for making the Lake District and Cumbria a very desirable destination for the UK holiday market, and all the indicators we use in terms of web bookings and other forecasts are showing that 2010 can be just as good as the first three quarters of 2009.

"The Lake District brand is a powerful one and I think there is a tremendous opportunity for hotels to continue to re-sell and refresh their proposition around this brand. We seem to be holding up our room occupancy better in the Lake District than a lot of other areas and that's because of this fantastic leisure product that we have."

Colin Johnson, corporate services director at Moore and Smalley, and head of the firm's specialist leisure and tourism team, said: "It's clear that most tourism businesses are optimistic and are prepared to fight tooth and nail to make 2010 a success by being innovative with their product and pricing."

Together, Cumbria Tourism and the Lakes Hospitality Association (LHA) have championed a special promotion offering a Sunday hotel stay for just £9.95. Various hotels have participated in the special offer which is aimed at promoting the region's "open for business" message and bringing in visitors from across the UK during the off-season.

Colin Monk, owner of The Howbeck and Windermere Suites, and a committee member of the LHA, said his members were largely optimistic about the year ahead despite the events of late 2009. He said the businesses that had performed best over the last 12 months were the ones that had invested in their product.

He said: "It's not just the experience from a service point of view, but the quality of fixtures, fittings, and how you present yourself on the internet. Those hotels that do invest will reap the benefits and those that rest on their laurels will suffer."

Jane Randall, head of visitor economy for the NWDA, said: "The attractions sector has performed well throughout the whole region and the camping, caravan and self-catering side of things is also doing very well. A

recent business confidence monitor carried out by Visit England showed that over 50 per cent are confident they will do the same level of business as last year and around 25 per cent believe they will do more business than last year."

Simon Berry, managing director of English Lakes Hotels, said that the relatively weak pound was helping to boost domestic visitors and visitors from overseas. He reported an increase in visitors from Northern Europe, North America, Australia and New Zealand.

Peter Jackson, of Heart of the Lakes, which offers self-catering holiday cottages, said forward bookings for self-catering accommodation are already up on last year and that this was a good barometer of what would happen generally in the tourism sector over the next 12 months.

The event was also attended by Joe Longmuir of Langdale Leisure, Tim Rumney of the Castle Green Hotel, Barney Cunliffe of Gilpin Lodge, and Alison Kinder commercial property partner at Oglethorpe, Sturton and Gillibrand Solicitors.

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Regional focus: The Bay



TOURISM can be defined as 'The temporary short-term movement of people to destinations outside the places where they normally live and work and their activities during the stay at these destinations.'

It is perceived to be a discretionary spend but the visitor economy is vital for us all.

It's not about holidaymakers, it is business people, relatives, friends, students, parents and residents. We are all consumers and we all benefit.

There are many misconceptions about tourism. Business owners are not involved in a part-time hobby; they are serious-minded professionals dedicated to providing a superior service in return for a profit. They cater for visitors and residents, create wealth, provide employment and make this a better place to live in and enjoy.

Roger Carter, chair of Bay Tourism Association, shares his thoughts:

"According to latest available figures £270 million is a conservative estimate of the money generated annually by local tourism and trickling down directly or indirectly to the Bay area.

"Bay Tourism Association represents all strands of tourism-related businesses. Accommodation, catering, retail, media, transport, the arts, attractions, destinations and services. Almost all lie within the private sector but not exclusively, for example Lancaster Castle, markets and museum services.

"Founded 22 years ago as the Lancaster and District Tourism Association by a group of hoteliers and restaurateurs we have now moved on and, after a review of business activities and rebranding, relaunched as the Bay Tourism Association in December 2009.

"We recently absorbed the responsibilities of the BRAVE (Bay Regional Alliance for Visitor Economy) and in March 2010 completed a merger with the Morecambe Hoteliers Association to provide a one-stop contact point for all aspects of local tourism.

"The association exists primarily to represent the interest of its members and to promote, develop and support tourism and the visitor economy in North Lancashire as a whole and specifically in Lancaster, Morecambe, Carnforth and the Lune Valley.

"Praying for good weather and waiting for a better infrastructure is not an option."

"There is a need for investment in tourism but it's not just about money, it's about enthusiasm and professionalism. By investing in tourism, marketing and customer service training for example and with management input and substantial financial support from Lancashire and Blackpool Tourist Board we are able to move forward and build a brighter future."

Judith Dugdale, Moore and Smalley director, looks after many hospitality and leisure businesses in the Bay area. At a presentation to the Bay Tourism Association in April 2010 she gave her top tips on how to maximise profitability and minimise tax. At the meeting she urged businesses to keep a close eye on costs.

Judith said: "Hotel and guest house owners need to regularly review their overheads, especially utility bills and insurance premiums, in order to get the best deals. Rates on business premises have risen recently but if business owners feel that the recent rates hike has been unfair, they do have a right of appeal.

"Of course, the biggest cost to any hospitality business is staff. Rotas need to be planned effectively and evaluated on a regular basis to avoid paying staff to stand around. Several of my clients have noticed a trend towards later check-out times and they found that simply asking chambermaids to start an hour later was one way to reduce their wage bill.

"Finally, I agree with Roger Carter's view on investment; guests are looking for quality accommodation at reasonable prices. In my experience hoteliers who have a programme of regular refurbishment and facility improvement see occupancy levels and profits increase."

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Green light for tax savings

If you are planning investment in your property then it's worth finding out more about the Enhanced Capital Allowances (ECA) scheme that provides businesses with enhanced tax relief for investment in equipment that meets published energy-saving criteria.

There are three ECA schemes which provide enhanced tax relief for spending on equipment that has environmental benefits:

- Energy-saving plant and machinery
- Water conservation plant and machinery
- Low carbon dioxide emission cars

100 per cent first-year ECAs allow the full cost of an investment in designated energy-saving plant and machinery to be written off against the taxable profits of the period in which the investment is made.

You can normally spend up to £100,000 in a year and get 100 per cent tax relief via the annual investment allowance (the £100,000 limit was increased from £50,000 in the recent Budget). After that the general rate of capital allowances for spending on plant and machinery is 20 per cent a year on the reducing balance basis,

so investing in the right eco-friendly equipment can generate huge savings, presenting a welcome cashflow boost and shortened payback period.

For example, say you bought a biomass boiler for £5,000 you could save up to £2,000 in tax in your first year. If you purchased a conventional boiler for the same price, the saving would only be £400 if you had used up the £50,000 annual investment allowance on other equipment.

ECAs could become even more important in the future as the new Chancellor is reported to favour scrapping the annual investment allowance to fund a cut in company tax rates.

Contact us if you wish to find out how you can benefit from Enhanced Capital Allowances. Saving the planet need not cost the earth.

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