

# hotels update



Summer 2008

## RIDING THE CREDIT CRUNCH

It has been in all the papers and on every news channel for months now, but what does the credit crunch mean to you and your business?

The hotel sector is different to a lot of industries as a large proportion of custom comes from private individuals and falls within the "luxury" purchase category. So what happens if people do decide to stay at home instead of taking that short stay? Judith Dugdale from the Blackpool office has a few ideas.

Judith says 'Hotels across all areas of the country have seen major increases in some of their costs, in particular their gas and electric supplies. This has meant that the cost to open the doors have increased at a time when revenue could also fall leaving many in the industry with poor results.'

### Cutting back

It is important to make sure that in a period where revenue is falling, all non value adding costs are removed. For example if you are in the mid value market, do your guests really expect a porter to carry their bags to their rooms? In addition to this, could you outsource areas such as Payroll and HR? In many cases an admin wage could be replaced by a much smaller fee. Wages are the highest cost within a hotel and it is the right time to assess if you have the optimum level of staffing. Cutting back on unnecessary numbers will be key to riding out the credit crunch. It is important to remember that it may not be necessary to lose a whole

person, but instead a number of staff members could reduce their hours.

Have you looked at alternative suppliers? Not only can you save on this years cost, but you can quite often negotiate better deals going forward. This not just limited to the big costs such as gas but should also be applied to stationery and food suppliers. Are your staff incentivised to save money? By introducing a bonus scheme based on a chef improving his margin you can improve the bottom line figure.

Advertising is a large cost for many hotels. It is important to try and gauge how successful each area of advertising is. For example how many hits on your website come from a particular search engine? If it is not contributing to revenue then cut this cost out.

### Bucking the trend

Its not all doom and gloom though. The hotel industry will survive and there will be people who prosper through this time. In order to improve your chances of being one of the successful hotels start thinking now about who your core customers are and how you can continue to attract them over the next year. Its all too simple just to drop prices in order to try and keep occupancy levels up but this could be a false economy. Remember that if occupancy levels remain the same but room rates

fall you will still require the same amount of staff and facilities and therefore profit will fall.

If you review your situation and come to conclusion that you will see a dip in occupancy then it may be the right time to refurbish rooms within the hotel. It is always difficult trying to get rooms refurbished at the "off peak" times, and by refurbishing the rooms during the economic down turn you will hopefully reap the rewards when the economy takes an upturn.

By investing in IT systems now you may be able to speed up processes, including book keeping and therefore reduce wage costs long term, and update your facilities for guests. More and more hotels are offering WIFI and other IT facilities and in a time of reducing customer numbers you need to make sure you offer the core facilities expected by your target consumer.

Finally, now is the time to check you know what you want to do and if your finances will allow. Ring your bank manager and discuss your options and make sure you have their support. It is always better to be proactive and hit problems head on instead of sticking your head in the sand and hoping that everything will be ok.

# HOTEL

# The Abolition of Hotels Allowances



**In the 2007 budget, the chancellor Gordon Brown announced that as part of a reform to the capital allowances system, Hotel Allowances would be abolished by 2011.**

Allowances would start to be phased out from 2008/2009. This decision is set to have a significant impact on the tax liabilities of hotel owners as the reductions in annual writing down allowances begin to take place.

The Chancellor also announced that from 20 March 2007, balancing adjustments arising on the sale of industrial buildings and hotels would also be abolished. **This is likely to have an effect on the capital value of hotels.**

Although this is not a new development it is worthwhile revisiting the major effects of these reforms as they begin to take effect.

## Background

Hotel Allowances were created in the 1970's when the government extended the scope of Industrial Buildings Allowances. Hotels of a permanent nature with over 10 letting bedrooms were able to claim an annual writing down allowance of 4% per annum over a 25 year period on building costs which did not qualify as plant.

Upon the sale of a qualifying hotel, a balancing adjustment would be calculated by comparing the selling price of the asset to the unclaimed hotel allowances. Where the proceeds exceed the balance of the unclaimed allowances the excess (up to the initial value of the allowances) is charged to tax and where the unclaimed allowances exceed the proceeds a tax deduction arises, this is known as a balancing adjustment. The new owner would then inherit the unclaimed allowances (after allowing for any balancing adjustment) from the old

owner and would spread these over the remainder of the initial 25 year term. It was therefore common that hotel allowances being claimed by the second or subsequent owners of a qualifying hotel were significantly in excess of 4%.

From the 2008/2009 tax year, the rate of Hotels Allowance will reduce by one percentage point each year until it is fully phased out. In the case of second hand hotels, the rate of claim reduces by 25% each year on a straight line basis. The following table illustrates this point:

Year	Full IBA	Second hand buildings
2007/2008	4%	Full Fraction
2008/2009	3%	Fraction x 3/4
2009/2010	2%	Fraction x 1/2
2010/2011	1%	Fraction x 1/4
2011/2012	Nil	Nil

## Implications

The reduction in allowances that are available will lead to a higher tax charges which will either lead to a reduction in retained profits unless the cost is passed onto guests by increasing room rates.

In a market where the value of property has increased significantly over recent years, the abolition of balancing charges may initially seem to be a positive step for an owner looking to sell a hotel. However, the reductions in allowances available to the purchaser are likely to be reflected in the selling price.

## Other Changes to Capital Allowance Rates

From 2008/2009 there are other changes to the rates of capital allowances available which will impact the sector:

- The allowance for pooled plant and machinery will fall from 25% to 20%. However, a 100% investment allowance may be available for the first £50,000 of expenditure.
- 100% first year allowances for approved energy and water efficient equipment will remain in place.
- Capital allowances for long life assets will increase from 6% to 10% per annum.
- Capital allowances on certain fixtures that are integral to the building will reduce from 25% to 10% per annum.

The changes to the capital allowances regime seem to be particularly severe to the hotel sector, both in terms of profitability and capital value. However with careful use of the new annual investment allowance, 100% tax relief can now be secured on some or all the expenditure on hotel fixtures. If you require advice in this area please contact a member of our team, all contact information is set out on the back page of this newsletter.

**Colin Johnson, Associate Director, Kendal Office.**

# What does the new-look immigration system hold in store for the hospitality sector?



The government has recently completed a thorough overhaul of UK immigration. The new regime saw the introduction of a new code of practice on employment checks and a new system of penalties and fines for offending businesses which came into effect in February 2008.

The employment checks are structured around the two-list system (A and B) as with the current rules. If a person has the permanent right to stay in the UK, they should be able to produce a document from list A and no further checks will be required. If a person has limited leave to remain in the UK then evidence will need to be provided against list B. List B persons will need to be checked once every 12 months thereafter.

If a business has been found to have employed an illegal worker, whether intentionally or not, it will face civil penalties of up to £10,000 per illegal worker. Employers that knowingly employ illegal workers may incur unlimited criminal fines and/or a prison sentence of up to 2 years.

## Checking Immigration Status – employer's checklist

1. Ensure that all prospective employees are made aware that they will be required to provide evidence of their right to work in the UK, before they commence employment. Make any offer of employment conditional of such evidence being provided.
2. Check documents in relation to all recruits, regardless of their apparent immigration status or racial or ethnic background. A Code of Practice has been produced for employers on the avoidance of unlawful discrimination in employment practice while seeking to prevent illegal work

3. Do not allow recruits to begin work before documentary evidence of their right to work in the UK has been produced and checked.
4. Ensure that the documents provided are from list A or list B. Prospective employees are required to provide either one original document or two original documents in defined combinations. The lists of acceptable documents are set out in the Summary guidance for employers – prevention of illegal working – immigration, Asylum and Nationality Act 2006 and the Comprehensive guidance for employers on preventing illegal working.
5. Ensure that the documents produced are originals.
6. Carry out document checks and take copies in accordance with the procedures set out in the guidance. Copies of documents should be kept securely for the duration of employment and for a further two years once employment has ended.
7. Repeat document checks every 12 months for list B employees.
8. Ensure staff responsible for recruitment are fully trained.

**Detailed guidance is available from**  
**[www.bia.homeoffice.gov.uk](http://www.bia.homeoffice.gov.uk)**

**Tina Clayton, Employer Services Manager**

# MOORE AND SMALLEY REVEAL NEW LOOK TOURIST TEAM

Moore and Smalley has created a dedicated tourism team to offer strategic and development advice for the thousands of the region's hotels that are facing one of the most competitive years ever.

Judith Dugdale, corporate senior manager at Moore and Smalley, is heading the newly established team that will provide a specialist benchmarking service that averages general business expenditures such as wages, numbers of staff on duty and room rates for a particular area in order to ensure that clients, old and new, are not pricing themselves under or out of the market.

The five-strong team will also offer advice including general accounting, tax, PAYE management, VAT returns and management accounting services.

Judith said: "We've always had a strong presence in the tourist industry and decided to formalise our service with a specific brand.

"In the current climate it is important for tourism businesses, especially hoteliers, to streamline their costs as more often than not it is luxuries like holidays that are put on hold by consumers until the following year, or even the year after that.

"Our aim is to ensure that clients' profits continue to rise and the benchmarking service will play a key role in this."

Working alongside Judith are hospitality industry accountancy specialists; Martin Haigh, Cheryl Fynney, Emma Coupe and Michael Faulkner.

Michael Faulkner has a particular expertise in VAT compliance and his main role within the team is to conduct dummy VAT inspections on the team's clients in order to rectify issues before the real event.

Judith added: "The creation of the team will ensure that clients, old and new, will have access to a wealth of shared knowledge and experience.

"The UK tourism industry has been hit by competitive foreign travel and this year it faces an added battle with challenging consumer spending conditions. Businesses must be proactive if they are to survive."

The tourism team currently advises a number of large hotels throughout the region and in the Midlands. Most recently the team has advised on two hotel deals worth £2.8 million and the £850,000 development of the Mode Hotel in St Annes.



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