

BOOST YOUR BUSINESS BOTTOM LINE AND REAP THE REWARDS

A GUIDE FOR BUSINESSES IN
THE HOSPITALITY AND
LEISURE SECTOR



Hospitality & Leisure
Sector Insights Report



MENZIES
BRIGHTER THINKING



FOREWORD

Growing any business can be a challenge, but when your business is in the hospitality and leisure sector, it is likely to require larger amounts of time and energy as well as substantial investment.

As any hospitality and leisure business owner will know, the costs involved in developing the business can be extremely daunting. There's the cost of buying and developing/renovating the property of course and then there are the costs associated with purchasing essential equipment, fit outs and on-going overheads. Just staying in the black from one month to the next can present a challenge.

Despite the considerable up-front investment that many business owners make to create and maintain their ventures, few realise that they could be getting more for their money by making the most of tax reliefs and capital allowances. The value of such claims can amount to significant sums of money and any rebates achieved or reductions in corporation tax liabilities can deliver a very welcome boost to the bottom line. So why aren't business owners making more claims?

The answer is simple. Many business owners wrongly believe that Research and Development (R&D) activity is something that only happens in a laboratory or an engineer's workshop and they miss the planning opportunities and ability to maximise claims under capital allowances.

To make the most of their investments, we recommend that all businesses in the hospitality and leisure sector seek advice at an early stage so they can start to capture the information needed to claim the full value of any reliefs and capital allowances that might be due to them.



Dave Gosling
Head of Hospitality & Leisure

R&D TAX CREDITS

THE UNTAPPED OPPORTUNITY

The UK Government launched the R&D tax credit scheme in 2000 in order to incentivise businesses investing in innovation by giving them a cash boost. Under the scheme, profit making SMEs can expect to recoup up to 46p of every £1 invested in qualifying activities and even those that make a loss can claim a tax refund of up to a third of the money they invest.

While claims have been increasing in recent years, many businesses are still missing out on R&D tax relief because they simply don't believe that the investments they are making would qualify for the scheme. Others are failing to claim as much as they could. In both cases, the problem appears to be a lack of understanding of the scheme and the types of business activity that meet HMRC's qualifying criteria.

Less than 1% of the R&D claims in 2014/2015 were made by accommodation and food businesses



Hospitality and leisure businesses are among those least likely to claim R&D tax credits. HMRC data reveals that less than 1% of claims for R&D tax relief received in 2014/2015 were submitted by 'accommodation and food' businesses. This seems disproportionately low considering these businesses are making a significant contribution to the UK economy; responsible for more than £43 million GVA per annum (Source: ONS Annual Business Survey 2014). This suggests that businesses in the sector are failing to make the most of their investments and limiting their growth potential as a result.

WHICH INVESTMENTS ARE ELIGIBLE FOR THE RELIEF?

According to the Government, the R&D tax credit scheme is looking to aid projects which ‘seek to achieve an advance in science or technology...through the resolution of scientific or technological uncertainties’. At first sight this definition could put some hospitality and leisure businesses off. However, in reality the wording is broad enough to encompass a wide range of activities and investments.

Businesses are usually aware that they can submit a claim for R&D tax credit where they have invested in bringing a brand new product or service to market. However, some are unaware that investments in less tangible solutions such as innovative software, algorithms or online processes can also qualify for the scheme. Even investments in relatively small scale enhancements to existing products or processes could be eligible for R&D tax relief if there is scientific or technological advance to the benefit of the end user.

To assist business owners in identifying investments that might qualify for the scheme, here's a guide:



New products or processes

Any investment in a brand new product or process could qualify for R&D tax credits.



Product or process refinements

Much innovation is iterative in nature and investments in relatively minor product enhancements could be eligible for R&D tax relief. For example, a recent claim was submitted by a restaurant that had developed an enhanced process to produce a cereal fortified with more vitamins and minerals than was previously possible.



Websites (related software) and software for internal or external use

Many businesses in the hospitality and leisure sector are investing in website and software development. Everything from customer friendly apps to online booking portals and systems that can help to reduce waste and drive efficiency. If the functionality of these developments is novel in some way, these investments could qualify for R&D tax relief. In some niche areas such as online gambling, where there is considerable on-going investment in website and software development, there may also be scope for creative sector tax relief.



Data management and analysis

If data is captured and managed well it can deliver valuable insights to the business and inform decision making. Investing in data management and analysis could qualify for R&D tax credits if the business can demonstrate that it has developed something unique that is not otherwise available in the marketplace.



Improving sustainability

Sustainability is a significant area of R&D investment for hotels and other hospitality and leisure businesses. Many businesses are looking for ways to reduce their carbon footprint and reduce their energy bills. For example, it may be possible to bring a claim for R&D tax credits for investment in apps to help the business to manage energy consumption or the construction of green energy centres which convert biomass into energy. In fact, any investments in technology or equipment that reduces waste, pollution or improves efficiency could qualify for the scheme.



3D printing

There is a lot of excitement about the potential of 3D printing technology across many industry sectors and hospitality and leisure is no exception. In the world of food processing, it is now possible to print food, such as cakes and bakery products. Investment in 3D-printing technology for a novel process application could qualify for R&D tax relief.



Using new or existing materials in a novel way

Investing in novel ways to use new or existing materials could qualify for the scheme. This could include a hotel investing in glass structures that help to conserve energy or a golf course adapting existing technologies to turn grass clippings into energy.



Designing or developing bespoke structures

Investing in any bespoke structure, such as a green energy centre, could potentially qualify for the scheme.



Carrying out work on listed buildings

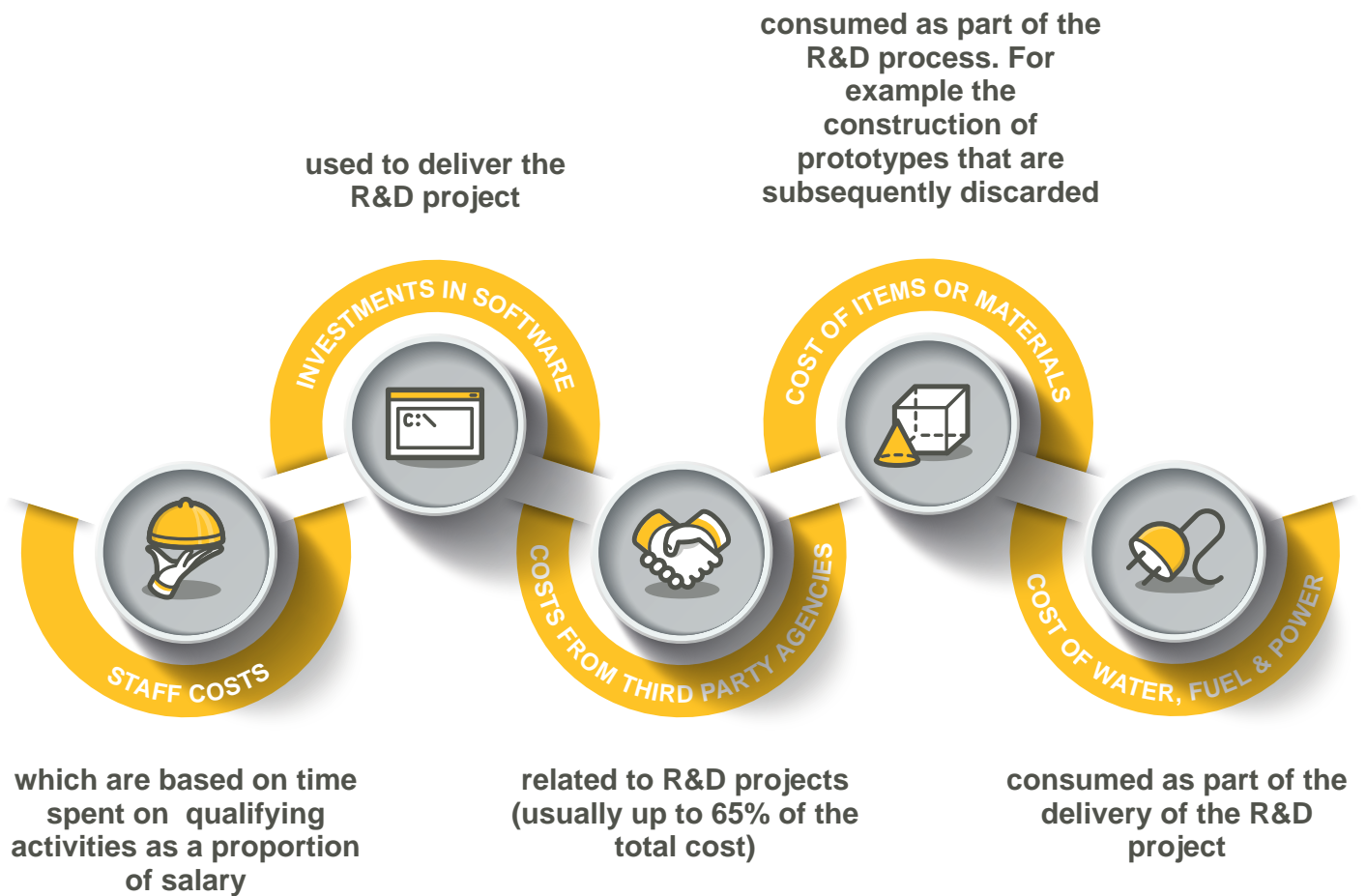
Investing in specific techniques and processes that are helping to preserve listed buildings could qualify for R&D tax credits.



Design processes or construction techniques

Any bespoke design process and construction technique could qualify for the scheme.

The types of investments that might qualify for R&D tax relief include the following:



HOW MUCH IS A CLAIM WORTH?

For profit making companies that incur R&D cost of £100,000, they can expect to receive a total reduction in tax of up to £46,000, whereas loss making companies can claim a corporation tax refund of up to £33,350.

HOW TO MAKE A CLAIM

MAKING A CLAIM INVOLVES 4 SIMPLE STEPS



1

Do you have a claim?

This isn't always easy to answer. When assessing whether your business might have a claim, it can help to consider what challenges have been overcome and how this was achieved. Meeting with a specialist R&D tax adviser to discuss your business can help to clarify matters.

2

Prepare a R&D report

Once prepared with the help of your tax adviser, the R&D tax report should be attached to your Corporation Tax return and submitted to HMRC at the same time. The R&D tax report is made up of two parts. The first part states the nature of the R&D projects undertaken by the business, why it qualifies and how technological and other uncertainties have been addressed. The second part is a summary of all costs related to the project including staff costs; contractor or agency costs; costs related to water, fuel and power; software-related costs and the cost of any consumables, such as materials used to make prototypes.

3

Submit the claim

Once submitted along with the company's Corporation Tax return, HMRC will normally respond within 28 working days. Most businesses will receive a tax rebate or notification of a reduction in the Corporation Tax liability within this time. Occasionally, HMRC will query the claim but any queries will normally be raised within the 28 day window.

4

Plan for next year's claim

Having received their first tax rebate, businesses see the value of putting in place systems that will help them to capture information about how much they are spending on R&D activities as they go. Such systems can significantly reduce the time spent on compiling R&D reports and ensure future claims are maximised.

MORE ABOUT ALLOWANCES FOR CAPITAL EXPENDITURE

Businesses are required to pay corporation tax on their profits. In order to grow, however, businesses need to invest in capital assets, which can significantly affect their cash flow. To compensate for this, HMRC allows businesses to claim capital allowances on certain qualifying expenditure. Once secured, businesses can deduct the value of any capital allowances from their profits before calculating their tax liability.

Capital allowances can be claimed for money spent on certain construction costs where buildings are being built or where they are being refurbished or fitted out. It is important that all costs are carefully analysed by a tax professional to maximise any claim. The timing of the claim is also important to ensure that first year allowances are not lost.

Only a small number of businesses consider capital allowances when planning developments, however changing materials or equipment used, can help to increase a claim and reduce your corporation tax liability further.

The majority of claims will attract tax relief of either 18% or 8% on the expenditure incurred, however businesses also need to consider and maximise first year allowances. There have been a number of changes to first year allowances, but these currently allow businesses to claim 100% of expenditure up to £200,000 in an accounting period.

Where a business has invested in plant and machinery that is energy efficient or otherwise benefits the environment, it may be possible to claim enhanced capital allowances, which are also calculated based on 100% of the capital investment. Strict rules apply to which types of investment qualify for these allowances and businesses should seek advice, prior to incurring the cost.

CASE STUDY

UNIVERSAL MARINA GETS AN UNEXPECTED CASH BOOST

When a family owned marina approached Menzies about its growth plans, the business was looking for a firm of business advisers that could provide on-going support in addition to all the usual services such as the preparation of annual reports and accounts.

Based in Hampshire on the banks of the River Hamble, John Willment Marine Ltd was planning a major scale redevelopment of its site known as Universal Marina in a bid to attract more business and boost profits. Following a restructure of the business in 2007, managing director, Avia Willment, commenced a major redevelopment of the marina and site which continues today. The redevelopment work included a new 251 berth marina, new commercial buildings, a restaurant, yacht care facilities and the introduction of a beauty treatment and spa centre.

To assist berth holders, the management team decided to create a new web based portal so owners could track boat movements and repairs more easily and stay informed about on-site events and promotions.

John Willment Marine found that the investment was eligible for a R&D tax relief claim and also following a detailed review of capital expenditure, the business made two claims totalling significant amounts for capital allowances.



We knew there was significant potential to redevelop the site and attract more business and were delighted to secure the finance necessary to fund our investment plans. What we didn't realise immediately was that a significant chunk of this investment could be leveraged to help reduce our tax liability. Menzies helped us to make the most of our investments and secure maximum value for the business.

Avia Willment

Managing Director, John Willment Marine Ltd



HOW CAN MENZIES HELP?

Menzies specialist team have the skills and expertise to:

- **Discuss and review projects undertaken and advise on which ones would qualify for R&D tax credits.**

As well as reviewing projects, we will review the costs incurred and ensure that claims are maximised. Our findings will be summarised in a report which will be submitted to HMRC.

- **Review your capital expenditure and calculate the value of expenditure on which allowances can be claimed.**

By splitting these allowances between the various allowances available, this ensures that claims are maximised. Again, we will prepare report for submission to HMRC. We can also assist prior to the commencement of projects to ensure materials are used that will allow claims to be maximised.

HOW ELSE CAN WE HELP?

- Corporate finance – advice and support
- Stamp duty planning and other property-related tax advice
- VAT planning and advice
- Bespoke outsourced services such as management accounting and KPI reporting
- Employer solutions including payroll management
- Annual reports and accounts
- Shareholder investment tax relief (where relevant)

WHO TO CONTACT



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