

MHA Hospitality and Tourism Newsletter

Issue 1



The Summer Budget was not all good news for the Tourism and Hospitality industry. A number of businesses have voiced concerns regarding the rise of the National living wage and how it will impact their business. With a large proportion of employees in the industry on minimum wage there are concerns that this will push up prices and could cause job cuts and reduced investments, resulting in understaffed establishments and lower standards.

National Living Wage

A new national living wage for over-25s of £7.20 will be introduced from April 2016 and will rise to £9 by 2020. This compares to a minimum wage of £6.50 at present.

The National Minimum Wage will continue for younger workers.

There were a number of other key announcements:

Corporation Tax

Another bonus is the cutting of corporation tax from 20% to 19% in 2017 and to 18% in 2020 – although clearly we'll have to wait and see what the net result to companies is once the National Living Wage is fully implemented in 2020, and employers are paying a mandatory minimum hourly rate of above £9. The changes to the taxation of dividends will affect a number of business owners who draw their remuneration as dividends from companies as it is cheaper than paying a salary, but we will not know more until we have run the numbers. Either way these new measures will close the tax gap between dividends and salary.

Personal allowance

The raising of the personal allowance to £12,500 by the end of this Parliament, and the raising of the higher rate threshold to £43,000 per annum from April 2016, means 130,000 less people will find themselves paying tax at the higher rate – again, welcome news for many who may consider themselves “comfortably off” but by no means wealthy.

Annual Investment

The Chancellor is setting the annual investment allowance permanently at £200,000 from January 2016 – meaning that companies can deduct the full value of certain equipment and machinery from their profits before tax is calculated, rather than having to settle for tax relief over several years.

Pensions

A Green Paper is planned, which will look at our pension system in its entirety – and could be a game-changer in terms of how we plan for later life. It could also sound the death knell for tax relief on pensions altogether. It's quite feasible that we could shift from the current employer/employee model with tax relief for contributions, to one very similar to the current ISA system instead.

The raising of the employers national insurance allowance to £3,000 means that an employer could take on three people on the National Living Wage before they start having to pay employers' NI contributions.



Hospitality and Tourism Survey

Earlier this year we conducted a survey to examine the key factors now affecting the hospitality sector in the UK.

The survey results for 2015 point strongly towards growing business confidence and is encouraging for the development of the hospitality industry.

We surveyed a national sample of over 100 Directors, Owner-managers and Chief Executives in the guest house, hotel, restaurant and pubs sectors. They were asked to share their observations and concerns about the industry in the past 12 months and their expectations for the next 12 months.

Employment

One third (33%) of respondents to the survey still employ workers on zero hours contracts, only slightly lower than the 37% recorded last year. The amount of zero hour contract staff who are working 21+ hours has halved since last year to 34%.

Booking Capability

This years results indicates that 26% of operators in the hotel and bed and breakfast sector are still unable to take online bookings.

This is despite the fact that 50% of respondents to the annual survey report a year-on-year increase in online bookings and the fact that there has been a 16% increase in the ability to take online bookings direct.

Overall the survey findings report a brighter outlook for the tourism and leisure sectors in the UK.

64% of respondents reported an increase in profits over the past 12 months, representing a rising trend in domestic trading conditions, with 59% saying that they expect to see an increase over the next 12 months.

Green Policies

The percentage of companies who have green policies in place has dropped to 65%, down from 82% last year and over 41% remain unaware that tax reliefs are available for introduction of such policies.

This decrease in those with green policies suggests increased financial pressure and yet at the same time there appears to be a distinct lack of awareness of the tax reliefs available, which suggests that more publicity is needed to encourage eco-friendly investment.





Tips in the Catering and Hospitality Sector

Income from tips often forms a large part of the income of restaurant and bar staff but it is the employer who runs the risk of settling unpaid liabilities and penalties if tax (and national insurance contributions) are not properly accounted for.

Below is a summary of the main points that employers in the sector need to be aware of.

Income tax

All tips received in whatever form are taxable income subject to income tax. Tips are only tax-free if no one tells HMRC about them but that's tax evasion and illegal.

PAYE on tips

PAYE is accountable on all tips except in one situation. That is where a customer pays a tip to an employee directly, or leaves it on the table, and the employee collects it, with no involvement of the employer. The tax will usually be collected by an adjustment to the employee's PAYE code.

Tips are often pooled and distributed by the employer or a designated member of staff, known as the troncmaster. If distributed by the employer or the employer is involved in the allocation of the tips, the employer is responsible for operating PAYE.

If distributed by the troncmaster he or she is responsible for deducting PAYE (but not NIC) and for paying it to HMRC. If an arrangement is a tronc then a business is obliged to disclose it to HMRC. If it doesn't, then the business will be held responsible by HMRC for the tax on those tips plus interest and penalties.

The employer must also notify the appointment (or replacement) of the troncmaster to HMRC. A tronc is defined as an organised arrangement for tips to be shared among employees by a person who is not the principal employer.

Sometimes employees agree informally amongst themselves to share tips and/or to give a proportion to kitchen staff. In these situations the arrangements are not usually organised and as such may not count as troncs in which case no-one has to operate PAYE if the employer is not involved at all. In these cases it is the employee's responsibility to notify HMRC of the tips received.

National Insurance (NIC)

NIC's won't be due only in the following circumstances:

- where the tips are not paid (directly or indirectly) by the employer to the employee and they do not represent money previously received by the employer from the customer; or.
- where the tips are not allocated among the employees, directly or indirectly, by the employer.

Where NIC is payable, it is the responsibility of the employer, not the troncmaster, to account for it to HMRC.

Where the employer decides to distribute tips through their payroll alongside other remuneration the income would form part of normal income and would therefore be subject to deduction of NIC as well as PAYE.

To avoid NIC deductions the troncmaster must be independent from the business ownership and free from influence on how tips must be distributed. If they can find someone who is not management who is willing to be the troncmaster, restaurants, bars and hotels often help to set up a tronc system to avoid NIC deductions on the tips.



National minimum wage (NMW)

Employees have a statutory right to the NMW, irrespective of any agreement made between the employee and the employer.

For NMW purposes, employers are not permitted to take account of tips, service charges and cover charges paid by customers.

Vat on tips and service charges

Tips are not subject to VAT.

Certain service charges are also outside the scope of VAT. The position depends on whether the customer has a genuine option over whether to pay the charge. This applies even where the service charge appears on the bill.

The important factor is the wording on the menu, which creates the contract between the customer and the restaurant. If it is clear that a service charge will be added, VAT is due. But where the service charge is described as optional, no VAT is due as the customer has a genuine option as to whether to pay the service charge. This is the case even if it is added to the bill without asking the customer.

The distribution of service charges to staff has no effect on the VAT position. Where VAT is due, it should be deducted before payments are made to staff.

This article is only intended to provide an overview of a complicated and high risk area and it is essential to consult with one of our tax experts if you have any concerns in relation to this subject.

About MHA

MHA is a fast growing UK association of 8 like minded progressive and respected accountancy and business advisory firms. The 49 nationwide offices allow MHA to balance the national access and capability the association offers with the local insight and perspective that individual member firms offer their clients. MHA is able to assist with their clients' needs wherever they are in the UK as well as globally through our membership to Baker Tilly International.

MHA works with a wide range of companies in the Hospitality sector. Clients are able to benefit from in depth sector knowledge in addition to specialist accountancy services and expert business advice.

MHA locations



Broomfield & Alexander

www.broomfield.co.uk

Cardiff (**Head office**)
Ty Derw
Lime Tree Court
Cardiff Gate Business Park
Cardiff, CF23 8AB
Tel: 02920 549939
Fax: 02920 739430
Additional offices: Newport & Swansea

Carpenter Box

www.carpenterbox.com

Worthing (**Head office**)
Amelia House
Crescent Road
Worthing, BN11 1QR
T: 01903 234 094
Additional offices: Gatwick

Henderson Loggie

www.hlca.co.uk

Dundee (**Head office**)
The Vision Building
20 Greenmarket
Dundee
DD1 4QB
Tel 01382 200 055
Fax 01383 221 240
Additional offices: Aberdeen, Edinburgh & Glasgow

Larking Gowen

www.larking-gowen.co.uk

Norwich (**Head office**)
King Street House
15 Upper King Street
Norwich
NR3 1RB
Tel: 01603 624181
Fax: 01603 667800
norwich@larking-gowen.co.uk
Additional offices: Bungay, Colchester, Cromer, Dereham, Diss, Fakenham, Holt & Ipswich

MHA MacIntyre Hudson

www.macintyrehudson.co.uk

London City
New Bridge Street House
30-34 New Bridge Street
London EC4V 6BJ
T: +44 (0)20 7429 4100
F: +44 (0)20 7248 8939
E: londoninfo@mhllp.co.uk
Additional Offices: Bedford, Birmingham, Canterbury, Chelmsford, Folkestone, High Wycombe, Leicester, North London, Maidstone, Milton Keynes, Northampton, Peterborough & Reading.

Moore and Smalley

www.mooreandsmalley.co.uk

Preston (**Head Office**)
Richard House,
9 Winckley Square,
Preston,
Lancashire, PR1 3HP
T: 01772 821021
F: 01772 259441
Additional offices: Blackpool, Kendal, Kirby Lonsdale, Lancaster, Nottingham, & Southport

Monahans

www.monahans.co.uk

Swindon (**Head office**)
38-42 Newport Street
Swindon
Wilts
SN1 3DR
Tel (01793) 818300
Fax (01793) 818301
Additional offices: Bath, Chippenham, Frome, Glastonbury & Trowbridge

Tait Walker

www.taitwalker.co.uk

Newcastle (**Head office**)
Bulman House . Regent Centre
Gosforth . Newcastle Upon
Tyne . NE3 3LS
Tel 0191 285 0321
Fax 0191 284 9117
Additional offices: Tees Valley & Northumberland

