

Is property tax on your menu?

The vast majority of businesses owning or operating restaurants, bars and hotels – i.e. the wider hospitality sector – are over-paying on their tax bills. *Alun Oliver*, managing director of E³ Consulting, advises on how to ensure you are not lining the Inland Revenue's pocket unnecessarily

Billions of pounds are wasted every year while HM Revenue & Customs reaps the rewards of hard-working leisure operators. A recent survey conducted by E³ Consulting found that the majority of businesses are failing to optimise their capital allowances tax relief. While 43% reported that they (or their accountants) had claimed capital allowances on recent project expenditure, we found that nearly 90% of their reviews identified additional tax saving allowances.

Understandably, property tax may not immediately spring to mind when buying or selling a restaurant, pub, hotel or bar, or when building or fitting out a new venue. Time, money and energy are readily invested in the design concept, getting the right construction contractor, sourcing various 'unique' assets to create the right ambience and creating an inspiring menu – yet seemingly little thought, if any, is given to getting the right property tax advice up front.



Do not delay, claim today

The timely involvement of property taxation consultants can make a significant difference to the deal structure, yield additional value or avoid expensive mistakes, especially following the complex changes to the capital allowances and VAT regime in recent years.

Furthermore, June's Emergency Budget tinkered with property taxation and so the rates of capital allowances will be reducing in April 2012. Do not wait until then to claim for current or even historic property expenditure as a delayed claim will be subject to the proposed lower rates and you will lose out financially.

What to claim on

The main types of allowances that are relevant to the hospitality sector are:

- **Plant & Machinery Allowances (PMAs)**
Including expenditure on catering equipment, bar fixtures, furniture, fire alarms, IT & Data and welfare installations
- **Integral Feature Allowances (IFAs)**
Including heating, ventilation & air conditioning, hot & cold water, lifts, and most electrical costs (other than those that are PMAs).

Additionally, on new building works there are some energy-efficient or water-saving assets that may attract 100% tax relief as Enhanced Capital Allowances and these can result in thousands of pounds of accelerated savings.

From April 2012, however, the current plant and machinery allowance rate is to be reduced from 20% per annum to 18% and IFAs will reduce from 10% p.a. to 8%. There are also Annual Investment Allowance (AIAs) – currently available at 100% on the first £100,000 of qualifying expenditure – which are to reduce and will only be available on the first £25,000 from April 2012.

Hotel bonus

Hotels with 10 or more guest rooms are eligible for Hotel Allowances (HAs), which can give rise to tax relief on the balance of construction or purchase costs. However these allowances are also being phased out and will disappear altogether after 31 March 2011.

Speculate to accumulate

E³ Consulting works with a variety of hospitality establishments throughout the UK to identify and deliver additional tax savings. One recent project, a refurbishment of a former nightclub to create



Aruba Bar & Restaurant near Bournemouth's Pier, resulted in allowances for the client of more than £1.1m.

One of our current undertakings involves a portfolio of London restaurants where we were brought in to the project by the client's accountants to review some £15m of capital expenditure. To date we have identified additional tax savings from unclaimed capital allowances of over £1m.

Don't forget the property taxation consultant

E³'s expertise comes from an in-depth knowledge of taxation legislation, as well as understanding the practical aspects of construction, cost management, building technology and valuation. Property Taxation is a very specialist area, which complements that of accountants, solicitors and surveyors. As with most advisors, the involvement of property taxation consultants in a new project is most effective from the outset.

The due diligence undertaken by property taxation consultants deals with areas seldom fully covered by other professionals. The benefit to leisure and hospitality clients is that they are fully informed of the true commercial impact and so better able to make robust investment decisions.

We come across companies on a daily basis that are either not utilising capital allowances properly or are blissfully unaware they even exist. In over 80% of the cases we review, we can identify enhanced tax savings, often worth large sums of money. It's not unusual for us to enhance the tax savings achieved by 'non-specialists' by about 20% or more.

Benefit from the past

Whatever the level of property assets within a restaurant transaction – and no matter how long ago it completed – E³'s team can typically generate very significant tax savings. Tax relief can be claimed for current and historic projects, in fact there is no time limit on how far back you can claim. Even if the acquired business had claimed in the past, there is still often scope to make further tax savings. For one client, we reduced their tax liability by more than 25% after assessing their purchase from 14 years earlier.

E³ Consulting



E³ Consulting is a specialist property taxation consultancy and has its main office at Town Quay, Southampton SO14 2AQ to complement its presence in Manchester and London.

The company's managing director, Alun Oliver MCIM MBA FRICS, is a recognised expert in the field of property tax including capital allowances, land remediation tax relief and landfill tax exemption and regularly speaks at property tax conferences throughout the UK.

FREE healthcheck



E³ Consulting offers an initial free, no obligation healthcheck review to operators, owners and investors.

The healthcheck enables E³ to evaluate the property expenditure (whether historic, current or future) and so determine whether tax savings can be enhanced.

The company's fee structures, once it has been instructed, are typically contingent on the allowances achieved.

For more information phone **0845 230 6450**, or email healthcheck@e3consulting.co.uk or visit www.e3consulting.co.uk



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