

Restaurants, Pubs and Inns



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Some Industry specific areas of advice from our experience

VAT: Below or above the limit? Flat Rate Scheme often increases the bottom line, make sure you come out of the scheme before you sell though.

If accommodation is provided, Special Capital Gains Tax treatment, up to £40,000 per owner lettings relief over and above normal relief for owners occupation of business premises.

VAT should not be accounted for on tips, and beware of them costing employer's NI if fully passed on via payroll.

There can be annual tax/NI savings to be had by operating the trade from within a limited company but with the premises being owned personally.

Is the ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

Staff and owner's meals and accommodation, is this treated correctly for tax purposes?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Wills: are they tax efficient particularly as regards the business?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?

Are controls over and reconciliation of cash sales adequate to guard against theft and rebuff challenges of completeness from HMRC?

Industry Background

The popularity of dining out has increased over the last two or three decades, coinciding with greater affluence and growing interest in leisure activities and food in general. Market research suggests that, for many consumers, dining out at a restaurant or pub is no longer an occasional treat but increasingly a way of life.

Specialist market researchers Key Note estimate that around 30% of meals in the UK are currently eaten outside the home with pubs being the most popular venue benefiting from improvements in pub food quality, value for money service and more varied menus. An increasing number of pub restaurants have also begun to offer table service.

The following factors have contributed to a rise in demand for dining out:

- Increases in leisure time and disposable income
- Greater interest in food and TV "foodie" programmes
- A rise in the number of young and old who eat out as an alternative to cooking for themselves
- Greater numbers of working women, who are more likely to eat out as an alternative to cooking an evening meal
- A decline in culinary skills among younger people
- Changing consumer preferences and a broadening of the national palette, creating demand for a greater variety of eating places and meal options
- A decline in the formality traditionally associated with eating out
- A trend towards healthier eating, leading to healthier menu options being offered in many outlets.
- The emergence and rise of themed family-friendly pubs and restaurants
- Strong demand for restaurants that offer authentic ethnic and world cuisine
- A trend towards all day dining and an increase in the number of outlets offering breakfast menus

A significant percentage of consumers eat out on a very regular basis. Around 11% of the population visits a restaurant in the evening 2-3 times per month or more frequently, while a further 3% dine out in the evening once a week or more often. As a result, some restaurateurs and publicans may find that a fairly large percentage of turnover is accounted for by a relatively small group of regular customers.



Some Industry specific areas of advice from our experience (cont'd)

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven by CO2 emissions. It can now even make sense for a company to provide low emission cars to non-employee family members such as children!



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

A number of consumer surveys carried out following the implementation of smoking bans across the UK found that many consumers - up to one in three - said they dine out more often as a direct result of the bans.

Many restaurants and eating places in the UK are single outlet, privately owned concerns, often run by a couple or family. According to ONS figures (UK Business: Activity, size and Location), 79% of all VAT registered restaurants and eating places turn over less than £250,000 while 37% turn over less than £100,000. The great majority of pubs now serve food and the industry regards this as important to the long term survival of particular public houses due to the general downward trend in alcohol consumption outside the home



Financial Performance

In the face of continuing competition from other leisure-based outlets, many pubs have diversified into other activities and extended their customer base by:

- Introducing entertainments such as quiz nights, music nights and so on
- Changing the image of the pub to attract families, women or younger people
- Introducing snacks as well as meals and designer coffees
- Offering function facilities for events like weddings and christenings
- Promoting special occasions such as Mother's Day and Valentine's Day
- Advertising screenings of sporting events
- Stocking premium products such as nitro keg beers, bottled lagers and ready-to-drink cocktails
- Increasing the opportunities for ancillary income from gaming machines, pool tables, vending machines and so on
- Offering overnight accommodation
- The introduction of UK-wide smoking bans prompted many pubs to provide covered outdoor shelters, equipped with heaters, TV screens, pool tables and dining facilities.

Key Performance Indicators

Performance in this sector will generally be expressed in terms of the gross profit percentage rate achieved. For accommodation an additional means of measuring the performance is to examine the average occupancy levels achieved throughout the year.

Because of the smaller discounts on purchases generally available to the tied trade, the tied tenant is likely to achieve lower overall gross profit rates.

The nature of the business and of the food, drink and any accommodation or other income lines such as gaming machines will have a direct bearing on the overall gross profit rate achieved. For example, a location that generates significant income from the accommodation will have a relatively high overall gross profit rate as the direct cost of sales constitutes a lower percentage of turnover. It is therefore important to establish the gross profit percentage rate for wet sales and dry sales separately and to split out income from accommodation.

It is an arithmetical fact that the higher the gross profit percentage that can be achieved the less turnover is needed to cover overheads and also a reasonable level of profit.

Ask us how your gross profit percentages compare with the norm for your type of activities.

Ask about our own award winning “tax tools” software including “business profitability analyst” based on key driver information.



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Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including restaurants, pubs and inns. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.