

# LEISURE & TOURISM REVIEW



## Fraud in **Hotels** and the **Hospitality** Sector

All businesses face the rising risk of fraud, with a recent study identifying that one in two business suffered a loss due to fraud in the previous two years. The hospitality sector, including hotels, is no exception. In fact, because the sector typically has high staff turnover and cash takings, the risk of fraud is magnified. Industry press has reported that staff turnover in the hospitality industry is 30%, twice the UK average.

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# Fraud in Hotels and the Hospitality Sector

continued

Fraud can be perpetrated by your guests, suppliers or staff. The spectre of cyber fraud and data theft is also a growing area of risk.

Fraud by guests tends to involve the use of stolen credit cards or theft of the hotel property.

## Fraud by suppliers can include:

- Fixed or cartel pricing;
- Bribes to employees;
- Unauthorised use of assets;
- Non-disclosure of conflicts of interest;
- Food fraud or the substitution for inferior products.

## Fraud by staff can include:

- Falsified references or fraudulent CVs;
- Payroll fraud including failure to remove ex-employees, fraudulent sick claims or forged overtime;
- Theft of business assets including stock or cash takings;
- Forged expense claims;
- Misstated financial results possibly to inflate bonuses;
- Favouring suppliers who offer inducements.

And typically, if fraud goes unchecked, the perpetrator will get greedier, so what starts as “petty” theft can quickly escalate into significant sums.

## So how can you prevent fraud taking place or detect if it has occurred?

- Segregate duties across all operational aspects of a business including payroll, purchasing, sales and accounts;
- Conduct regular inventory and stocks checks including random unscheduled checks;
- Carry out reconciliations and follow up differences (even the small ones);
- Implement physical controls and IT security;
- Put a formal process in place to support ‘whistle blowing’;
- Have regular internal audit checks. These can be carried out by an external audit firm if you don’t have the skills in house;
- Train your managers.

In an office setting, the typical employee fraudster is, sadly, the “loyal” and “hard working” employee who has worked for the business for many years and is trusted. Whereas the nature of the hospitality industry gives the opportunity for a higher level of fraud to be perpetrated by other types of employee compared to office environments. This is partly due to the long operating hours giving more junior, or new to the role employees, the opportune environment to carry out thefts.

If fraud is suspected, we recommend prompt investigation by an independent party who can work alongside your HR function to ensure that evidence is collected and documented in a way which aids presentation in Court.

For more information on how to investigate internal fraud, please contact a member of our Forensics team.

# Ensors sponsor Hotel of the Year at the Norfolk & Suffolk Tourism Awards

As Spring approaches, and British Summer Time hours draw near, it was fantastic to once again be sponsoring Hotel of the Year at the Norfolk & Suffolk Tourism Awards and enjoy the Awards evening with the finalists at The Hangar, Milsoms.



The Hotel of the Year award seeks to recognise both small and large serviced accommodation businesses. In particular, it highlights those that provide a truly memorable guest experience and can demonstrate excellence across every aspect of the business including customer service and attention to detail; ensuring that each guest is made to feel like an individual.

We continue to be very proud, and surprised, at the quality of nominees received each year. It just shows how strong our region is for this sector. However, it did make the decision to narrow down the finalists very challenging, but each were well deserved.

However, there could only be one winner and our congratulations goes to Bedford Lodge Hotel, the quality of their product was excellent, along with their service and level of customer satisfaction.

I also wish to congratulate Barnham Broom, Ufford Park and Norfolk Mead for their excellent result in making the final listing.

We are already looking forward to sponsor the Hotel of the Year award in 2021.

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# Capital Allowances on Hotel Purchases

Buying a property is recognised as being one of the most stressful things a person can do in their lives, and this is all the more true when purchasing a commercial building such as a hotel or inn. Whilst in the midst of price negotiations, arranging surveys and trying to secure funding, it can be all too easy to lose sight of valuable tax reliefs that could be within your grasp...



Your average hotel or inn is usually laden with equipment embedded into the property, such as toilets, lifts, electrical wiring, heating and air conditioning systems. This equipment is known as “fixtures” and could account for up to 45% of the total purchase price. Tax relief on this amount could therefore lead to significant savings, but in order to claim Capital Allowances on fixtures, there are strict conditions that must be met.

Broadly, there are two important requirements to be satisfied:

1. The previous owner(s) of the building must have elected for the fixtures to be included in their capital allowance pools; and
2. You and the seller must agree the value of the fixtures in a joint s198 election. If you cannot agree, it is possible to ask the Tax Tribunal to determine the value.

If these conditions are not met, you will not be entitled to claim any capital allowances on fixtures within the property.

Furthermore, HMRC can ask for evidence that the conditions have been met. As a result, when buying a second-hand commercial property, it is vital that the contract for sale includes confirmation of the fixtures on which you have claimed capital allowances, and the s198 election should be among the legal documents that are signed on completion.

In addition to capital allowances on fixtures, relief may also be available on the cost of the hotel or inn itself. The Structures and Buildings Allowances (SBA) was introduced on 29 October 2018 with immediate effect and applies to both Income and Corporation Tax.

The SBA is an annual tax allowance of 2% of qualifying costs over a 50-year period (anticipated to increase to 3% in this year’s Budget), and is available on capital costs of purchase, construction or renovation of eligible structures and buildings, including hotels and inns. The SBA must be claimed each year against taxable profit/loss, otherwise it is lost.

The SBA only can be claimed when the property is first brought into use. To claim SBA, the actual amount of qualifying expenditure needs to be identified, otherwise the SBA is £nil; estimates are not permitted. It is therefore important to capture the qualifying costs up front for each property for which a claim is to be made.

The SBA claim must be supported by a written allowance statement, which includes the date of the earliest contract, qualifying costs and the date the property is brought into use. This statement should be maintained for each qualifying asset throughout its 50 year SBA period.

As you can see, it is important that capital allowances are high on the agenda at the very start of the purchase process, otherwise you may miss out on potentially very valuable tax relief.

If you need any help with this, Ensors is here to assist.

# MEET THE TEAM



**Katie Varney**  
CORPORATE  
TAX PARTNER

01284 722315  
katie.varney@ensors.co.uk



**Chris Barrett**  
CORPORATE SERVICES  
PARTNER

01284 722340  
chris.barrett@ensors.co.uk



**Robert Leggett**  
CORPORATE  
TAX PARTNER

01473 220022  
robert.leggett@ensors.co.uk



**James Francis**  
CORPORATE SERVICES  
PARTNER

01480 417800  
james.francis@ensors.co.uk



**Simon Martin**  
CORPORATE FINANCE &  
FORENSICS DIRECTOR

01473 220060  
simon.martin@ensors.co.uk



**Amy Haines**  
PAYROLL MANAGER

01284 722314  
amy.haines@ensors.co.uk

*“Ensors have been our auditors, advisors and business confidantes over the past years. They are very approachable any time of the day, whether to obtain advice or just to clarify taxation/ technical accounting queries. In addition to their audit work we have engaged them on a number of adhoc projects involving Capital Allowances and payroll amongst others, which have helped us to move our business forwards. Their manner is always professional and courteous. I am very happy to have Robert and the team working with us, and look forward to many more years of this working partnership.”*

Grahame Tinnion, Managing Director  
T A Hotel Collection Ltd

## Services offered by **Ensors**

- Accounts preparation and audit services for the hospitality business
- Payroll processing and advice on the taxation of employee benefits, tips and National Minimum Wage implications
- Dealing with tax compliance obligations, preparing tax returns and advising on tax deductions
- Tax advice on property and business purchases, including Capital Allowances and SDLT
- Preparation of cash flow projections, sourcing finance and assistance with cash management controls
- Internal fraud investigation and forensic services

## Ensors – Award Winners



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