NEWS FROM THE LEISURE AND TOURISM TEAM AT
ENSORS CHARTERED ACCOUNTANTS

JULY/AUGUST 2021

LEISURE & TOURISM REVIEW

A New Dawn

By **Chris Barrett** – Partner

Following the last 16 months of dealing with the COVID-19 pandemic, it has been without doubt our leisure, hospitality and tourism sector which has suffered the most as pub, restaurants, hotels and leisure centres were forced to close. International travel was stopped in its tracks and weddings, parties and other large functions were delayed or cancelled. But as we begin to wrestle back control of this virus and, as I am writing this, we stand on the brink of Step 4 being unveiled in England, a new dawn begins.

Continued overleaf ➤

A New Dawn *continued*

With international travel still remaining difficult for a number of locations, it seems likely many more UK staycations will take place this year and therefore support trade across the hospitality sector. But with some new working and trading practices coming into play, it is likely to be a different setup to pre COVID times. Whilst the government has attempted to offer support to the sector through grants and furlough scheme and as these support tools begin to unwind over the coming months, it will undoubtedly be a testing time for many leisure businesses for the foreseeable future.

Speaking to businesses and hearing of their stories of adaptation and hard work to make a success during the periods of unlocking over the year, we are certainly keen to stand and support this region.

That is why we are delighted to be sponsoring Large Hotel of the Year at the East of England Tourism Awards 2021. These awards are part of the Visit England Awards and the winners of each category will go on to the National Awards as a nominee. Applications are now open with the winner being confirmed at a presentation evening in early 2022.

With businesses beginning to open up fully, the importance of avoiding issues such as overtrading become extremely important. In this newsletter Mark Upton, our Business Recovery Partner, discusses this topic and reviews the importance of forecasting and managing cash flow.

The Chancellor's Budget announcement in March outlined a number of measures designed to both spark investment but also support those businesses most in need. Ensors Corporate Tax Partner, Katie Varney, considers one of the most recent tax legislation changes arising from the Budget. The extension to the rules surrounding the carry back of trading losses.

Having watched businesses in this sector suffer so much recently, we certainly look forward to supporting you as you begin to get back on your feet and come out fighting.

We, in the meantime, wish you all the best as you begin the road back to recovery.

Extended Loss Carry Back

By **Katie Varney** – Corporate Tax Partner

At this year's Budget, the Chancellor announced several measures designed to aid businesses that have been adversely affected by the Coronavirus pandemic. One such measure that is likely to be particularly helpful to the leisure and tourism sector, which has been hardest hit, is the extension to the rules surrounding the carry back of trading losses.

Under the existing rules, businesses can normally only carry back trading losses against profits of the preceding year. The temporary extended loss carry back allows both companies and unincorporated businesses to carry back remaining losses to the preceding three periods.

For Corporation Tax, the extended relief applies where the loss is made in a period ending between 1 April 2020 and 31 March 2021, or between 1 April 2021 and 31 March 2022. Whilst for Income Tax, the extended relief applies where the loss is reportable in either the 2020/21 or 2021/22 tax years.

A £2m cap applies in respect of losses arising in each of those two periods, and losses must be used against the earliest years first. This is slightly unfortunate, as where both periods are loss making, one will often find that the earlier loss-making period has used up all of the profits that might otherwise be available for the later losses.

For eligible unincorporated businesses, an extended carry back claim will almost certainly be the right thing to do in order to claim a refund as soon as possible. However, for companies, we must bear in mind the 2023 increase in Corporation Tax rates that was also announced at the Budget. In this case, some companies may find that by carrying the loss forward, rather than using the carry back rules, they will relieve the loss at 25% rather than 19%, receiving a bigger refund.

What is right for one business may not be right for another, and the decision will depend on individual circumstances, including the immediate need for cash and exactly when a return to profitability is forecast.

For groups of companies, the £2m cap applies across the whole group, and the nominated company will need to submit an allocation statement to HMRC. However, a £200,000 de minimus threshold allows each company to claim up to that amount without being subject to the group cap or the allocation statement.

A claim will normally need to wait for the completion of the tax return for the loss-making period. However, in cases where the loss can be proven to be large enough (for example, using management accounts), a claim up to the de minimus amount can be made at an earlier point in time.

For tailored help and advice relevant to your business's circumstances, please contact Katie Varney, Ensors Corporate Tax Partner, at **katie.varney@ensors.co.uk**

Clearly the COVID-19 Pandemic has caused significant issues for the hospitality, leisure and tourism industry and whilst there are the embers of a return to normality as restrictions are eased, the sector has many challenges remaining.

Navigating your way safely out of COVID

By **Mark Upton** – Business Recovery Partner

The furlough scheme and other government financial support has assisted many businesses, but the furlough scheme is now tapering off and will currently finish at the end of September and much of the financial support (for example CBILs) will start to have to be repaid. Many businesses will have been able to defer rent payments and HMRC liabilities, but commercial landlords will now start seeking terms for repayment and HMRC will certainly be looking to recover debt at the earliest opportunity.

Many businesses are therefore facing an increasing debt burden together with additional costs coming into businesses. Couple that with issues around Brexit, the ability to recruit staff and the potential reluctance of people to completely return to pre-pandemic behaviour, and it could mean that the hospitality, leisure and tourism industry is facing significant challenges moving forward despite the easing of restrictions.

There are three key factors that will assist businesses in navigating the potential pitfalls ahead and these are:

- CASH MANAGEMENT
- GOOD FINANCIAL INFORMATION
- COMMUNICATION

CASH MANAGEMENT

It is essential for any business to manage its cash adequately and this is particularly the case when there are competing pressures on cash resources. Businesses will need to make an assessment and prioritise how they use their cash and ensure that they have enough working capital at their disposal as trading activity hopefully starts to increase. It is very often the case that, as businesses emerge from a period of recession, that overtrading becomes an issue and businesses very quickly run out of cash.

GOOD FINANCIAL INFORMATION

This is fundamental in protecting against overtrading, uncontrolled and increasing debt, and simply running out of cash. The regular production of management accounts, or having financial information readily available and under control, will assist in identifying when potential short falls in cash are going to arise. This will mean that steps can be taken to alleviate the problems in advance. It will, of course, also assist in identifying opportunities, and when additional investment might be possible.

COMMUNICATION

This is absolutely key if any business is facing financial distress with perhaps the inability to pay creditors. The most common example of this is running up against HMRC debt. It is vital that in these circumstances the mounting debt is not ignored and that there is engagement with HMRC in order to formulate a repayment plan. HMRC have recently clearly stated that they recognise that businesses may have accumulated debt during the pandemic, but they have also stated that they will not hesitate to take action against businesses that have ignored the issue and not sought to engage with them in relation to the debt. Communication with HMRC and all other stakeholders in times of distress is therefore vital.

For a confidential and free initial discussion around any of the issues discussed here please contact: Mark Upton,
Ensors Business Recovery Partner,
at **mark.upton@ensors.co.uk**

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

Mark Upton
BUSINESS ADVISORY
PARTNER

01223 428328
mark.upton@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

David Scrivener
CORPORATE FINANCE
PARTNER

01473 220081
david.scrivener@ensors.co.uk

Amy Haines
PAYROLL MANAGER

01284 722314
amy.haines@ensors.co.uk

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- Payroll processing and advice on the taxation of employee benefits, tips and National Minimum Wage implications
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- Preparation of cash flow projections, sourcing finance and assistance with cash management controls
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