

Hotel spas – maximising tax relief

The hotel spa industry in the UK continues to be a profitable and valuable one. With hotel spas generating greater annual revenues than day spas, it is often the case that a hotel's spa facilities are now the primary attraction for guests.

In fact, it could be argued that as the 'hotel and spa package' becomes more popular amongst guests, the inclusion of a spa is no longer a luxury, but rather a standard amenity expected from a hotel stay.

So how does a company which is installing a spa, updating its spa amenities or buying a hotel with a spa maximise the available tax relief?

The initial capital expenditure required in order to build a spa can often be quite high, so taking advantage of capital allowances can be an extremely valuable way of reducing the company's tax liabilities, and thereby the overall cost.

What are capital allowances?

For tax purposes, capital expenditure is not usually deductible in the year in which it is incurred, whilst depreciation is also disallowable. Instead, businesses may obtain relief on qualifying assets in the form of capital allowances – the tax equivalent of depreciation. If claims are properly made, considerable tax savings can be gained.

Items typically found in a spa which qualify for capital allowances include:

- Swimming pool;
- Jacuzzi / Hot tub;
- Any water features used throughout the spa for function or ambience;

- Sauna and steam room;
- Mirrors and murals;
- Moveable partitioning used to create treatment rooms;
- Massage tables;
- Sound and music equipment;
- Lounge furniture;
- Relaxation room furniture such as reclining chairs and water beds;
- Gym facilities;
- Cleaning equipment;
- Changing room furniture and shower facilities;
- Water heating and air ventilation systems;
- Electrical and lighting systems;
- CRM (customer relationship management) computer software;
- Pumps and purifiers;
- Other items contributing to general ambience.

This list is not exhaustive.

A 100% allowance is available in a year of expenditure where the capital expenditure is incurred on certain energy saving and environmentally beneficial assets, such as energy efficient boiler equipment or lighting, high speed hand dryers etc.

“Capital expenditure on items that contribute to the atmosphere of a spa are also likely to qualify for capital allowances.”

What relief can be obtained?

Other than the 100% allowances mentioned before, relief is generally available as a 'writing down allowance' at either 18% or 8% per annum. It is therefore vital to ensure items are correctly categorised to maximise claims.

In addition, the Annual Investment Allowance (AIA) enables businesses to obtain 100% relief for expenditure that qualifies for capital allowances of up to:

- £200,000 from 1 January 2016;
- £500,000 on or after 1 April 2014 and before 31 December 2015.

The AIA enables businesses to obtain full, up-front relief on capital expenditure that would otherwise obtain tax relief on a reducing balance basis over a prolonged period.

Capital allowances on purchasing a hotel with a spa

The capital allowance position on a hotel acquisition can be very complex, and significant benefits can be lost if tax specialists are not involved as early as possible – preferably before 'heads of terms' are drafted.

Businesses within the hotels and leisure sector are abundant in qualifying items of plant and machinery. However, many businesses pay too much tax because they underestimate the proportion of their capital expenditure which qualifies for capital allowances. In comparison to other commercial property, the hotels and leisure sector has specific trade related plant that are not easily identifiable, and often requires a specialist to segregate and quantify these items.

We have a wealth of expertise in this sector, and combine both tax and surveying skills to help identify and claim for missed opportunities with a view to maximising allowances on current expenditure. In addition, it may be possible to review historical expenditure, and make a full increased allowance claim in a current year tax return.

Vincent Wood
Partner – Head of Hotels & Leisure
vincent.wood@moorestephens.com

Moore Stephens LLP
150 Aldersgate Street, London EC1A 4AB
T +44 (0)20 7334 9191
www.moorestephens.co.uk