

FINANCE UPDATE

5th June 2024

09:00 - 10:30

AGENDA

▶ Welcome	Jane Pendlebury
▶ Industry update	Mark RA Edwards
▶ Audit and accounting update	Mark RA Edwards
▶ Top tips to manage tax risk	Natasha Patel
▶ CCO Update	Martin Jackson
▶ Employment Tax - Tips & Troncs and NMW	John Chaplin & Siobhan Waters
▶ Q&A	



A man and a woman are in a kitchen, both wearing aprons and eating from plates. The man is on the left, wearing glasses and a dark t-shirt, and the woman is on the right, wearing a black t-shirt. They are both smiling and looking at each other. The kitchen has various equipment like coffee grinders and stacks of bamboo steamers in the background.

INDUSTRY UPDATE

Mark RA Edwards
Audit Partner

Head of Leisure & Hospitality

IDEAS | PEOPLE | TRUST

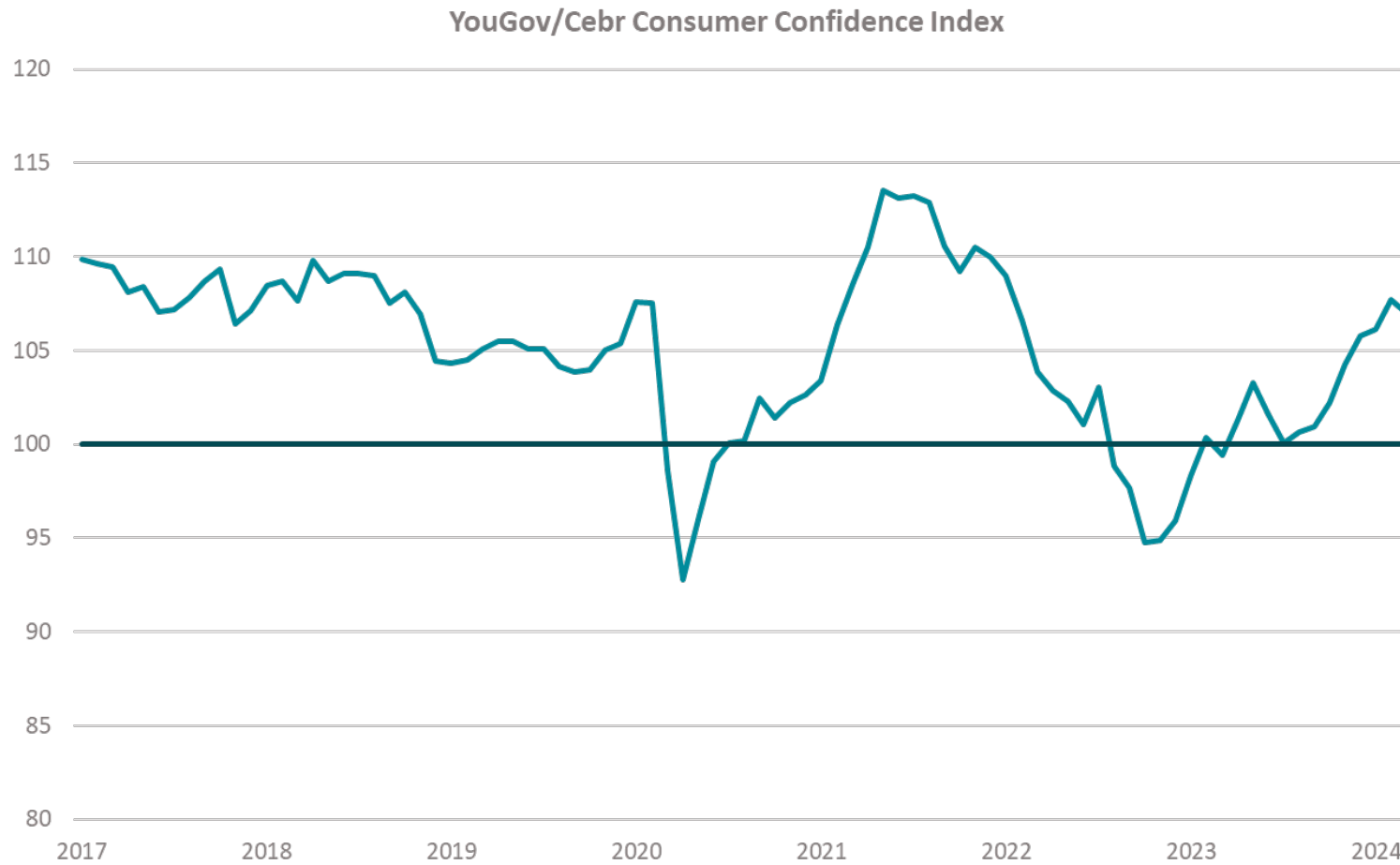


2023 VS 2024 CEBR ANALYSIS

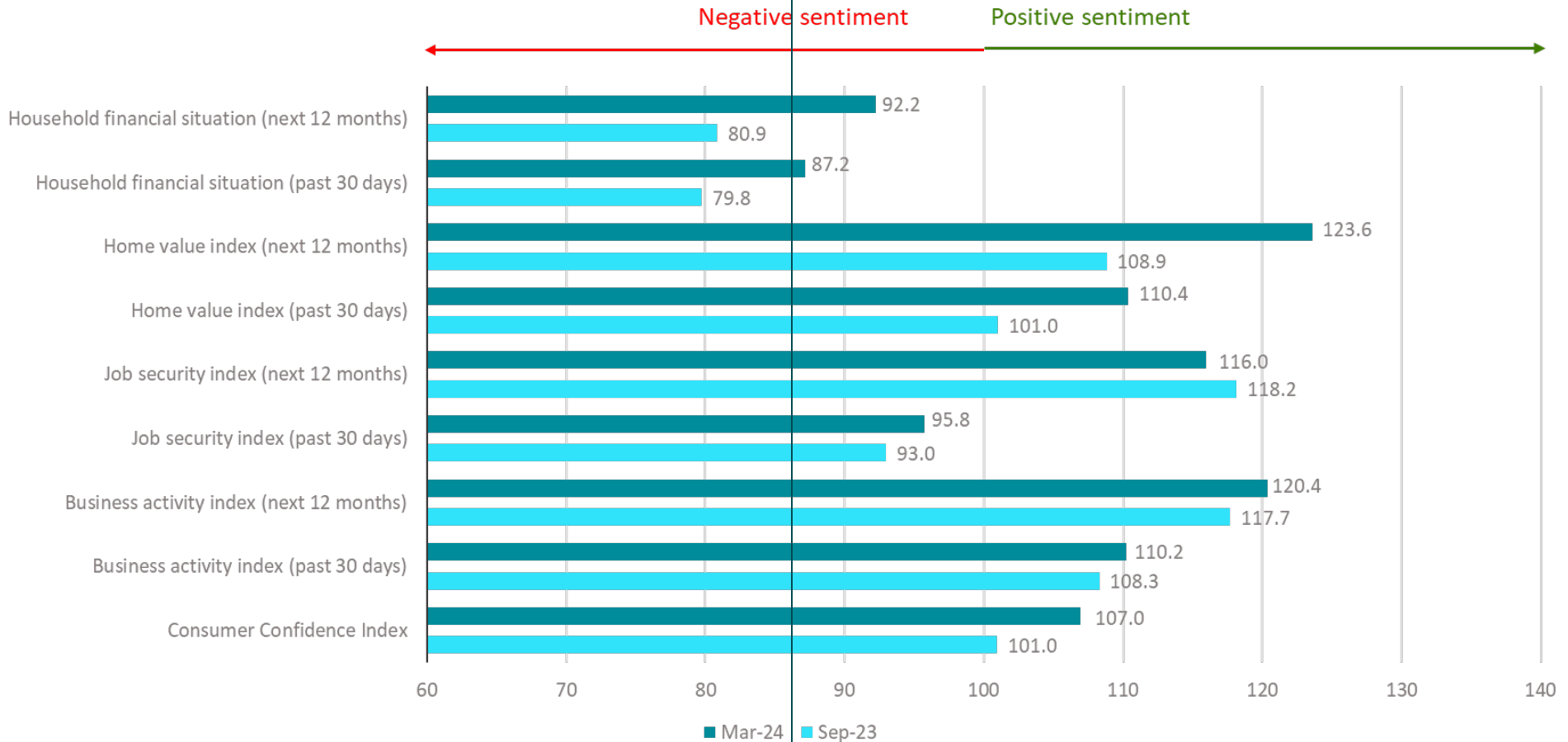
	2023
GDP growth	0.1%
Productivity growth	-0.6%
Consumption growth	0.2%
Unemployment rate	4.0%
Earnings growth	7.2%
CPI inflation	7.3%
Bank of England interest rate	4.7%

	2024
GDP growth	1.0%
Productivity growth	0.5%
Consumption growth	0.7%
Unemployment rate	4.2%
Earnings growth	5.9%
CPI inflation	2.4%
Bank of England interest rate	5.1%

CONSUMER CONFIDENCE - CEBR ANALYSIS

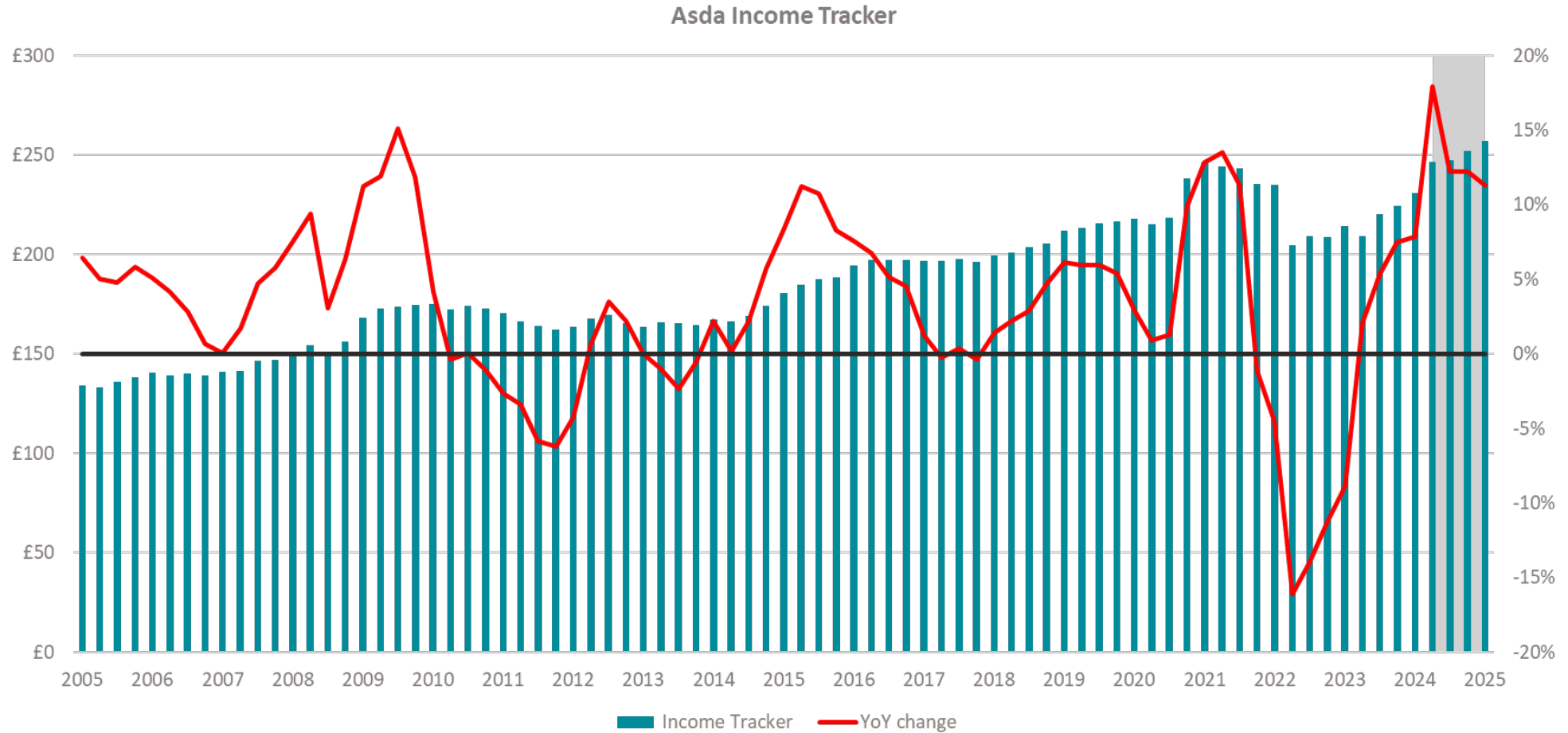


CONFIDENCE INDICATORS - CEBR ANALYSIS



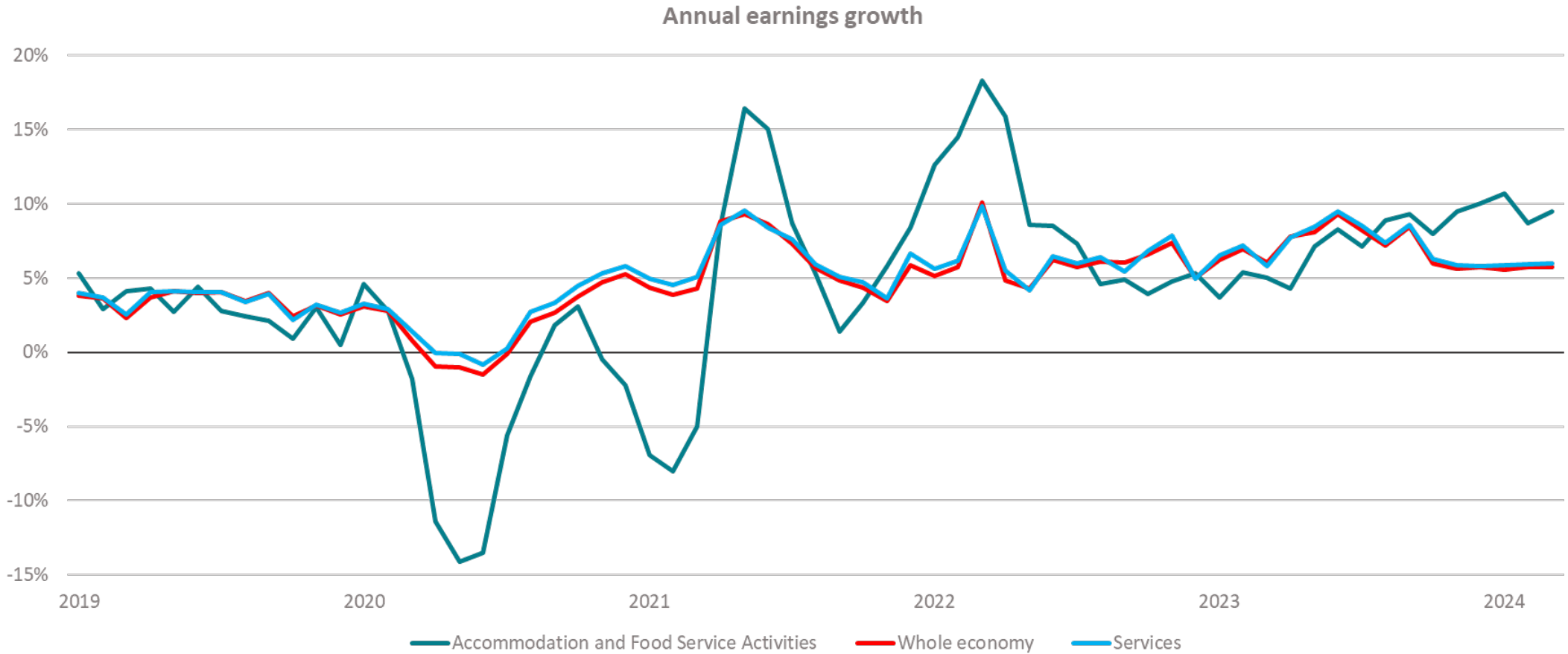
Source: YouGov/Cebr Consumer Confidence Index

DISCRETIONARY INCOME TRACKER - CEBR ANALYSIS



Source: ONS, Cebr analysis

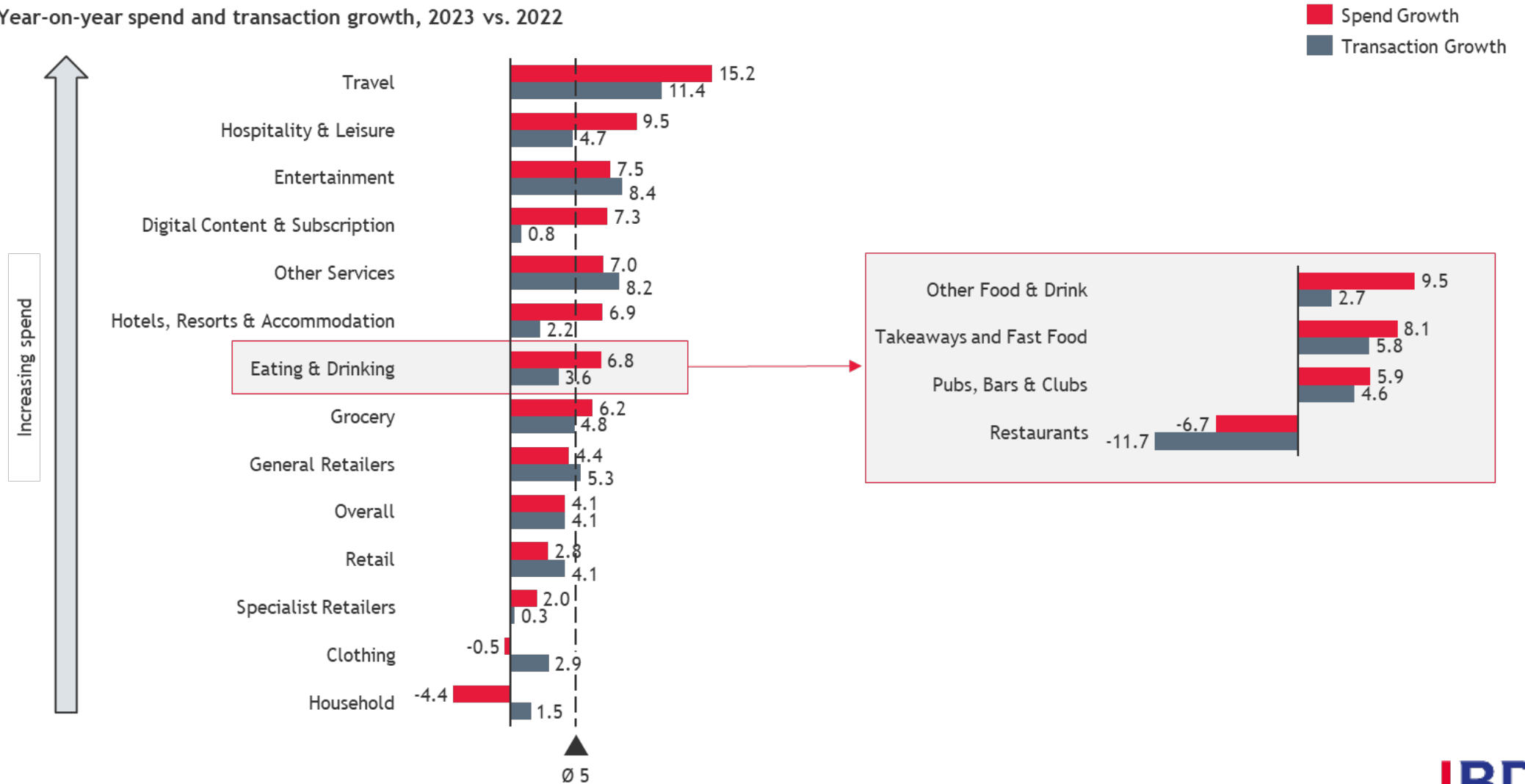
PAY GROWTH IN HOSPITALITY - CEBR ANALYSIS



Source: ONS, Cebr analysis

SPEND ACTIVITY 2023 VS 2022

Year-on-year spend and transaction growth, 2023 vs. 2022



Source: Barclaycard, BDO research and analysis

CAUTIOUS OPTIMISM FOR 2024

Net Spend Intention, April 2024

Q: "Looking ahead, how do you anticipate your spending to change in the next 6 months?" (n: 1,005)

Categories		2023 Q1 - Net Spend Intention (%)	2024 Q1 - Net Spend Intention (%)	Year-on-year Change (ppt. change)
Retail	Apparel	-17	3	20
	Sports & Outdoors	-16	0	16
	Big Ticket Items	-23	-9	14
	Electricals & Tech	-18	-6	12
	Beauty & Personal Care	-13	-3	10
	Petcare	6	4	-2
	Child & babycare	-1	-4	-3
Leisure	Travel	-5	17	22
	Leisure activities	-23	-2	21
	Dining Out	-21	-3	18
	Drinking out	-21	-10	11




JUST

A woman with dark hair tied back, wearing a black t-shirt and a grey apron, is standing in a kitchen. She is looking down at a laptop on a counter. The kitchen is dimly lit with warm lights, and various kitchen items like a coffee machine and a blender are visible in the background.

HOSPA

AUDIT & ACCOUNTING UPDATE

Mark RA Edwards
Audit Partner

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AGENDA

IFRS developments

- ▶ Overview of IFRS 18
- ▶ Other IFRS developments

FRS developments

- ▶ Overview of amendments to FRS 102
- ▶ FRS 102- Lease accounting

Other updates

- ▶ UK Sustainability Disclosure Reporting Framework

IFRS DEVELOPMENTS

IFRS 18 Presentation and Disclosure of financial statements

OVERVIEW



Effective Date

Annual reporting periods beginning on or after 1 January 2027



Transition

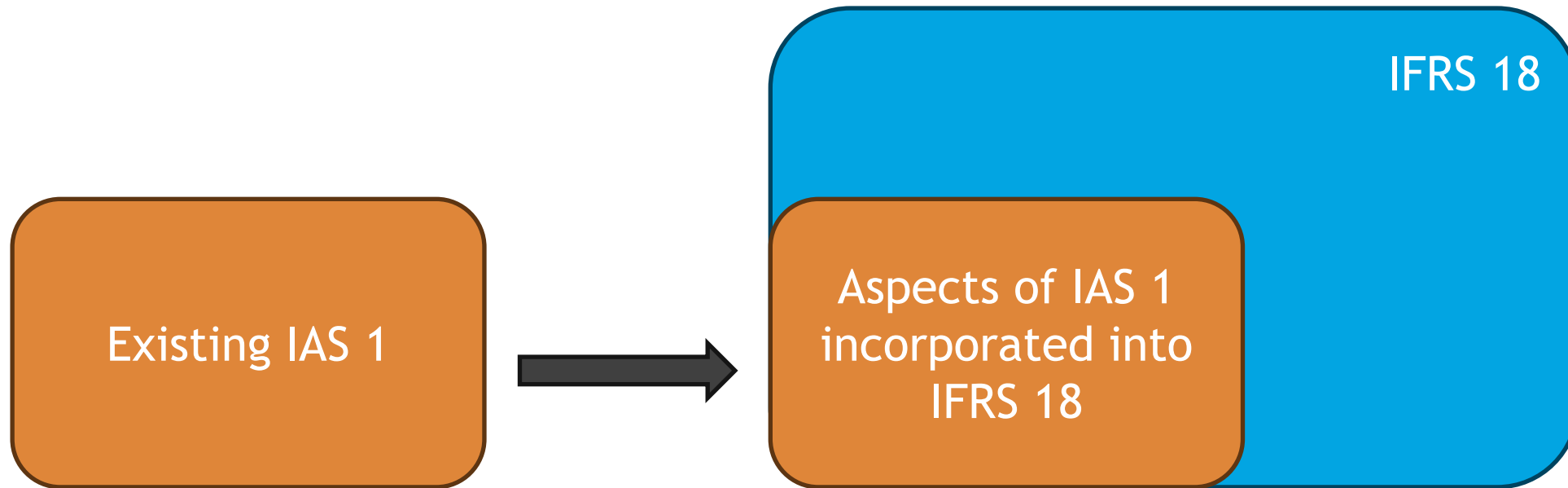
Restatement of comparative information required i.e 1 January 2026

Accounting impact

IFRS 18 will have a significant effect on how entities present their financial statements with emphasis on reporting of financial performance. The areas that will be significantly affected include categorisation and sub-totals in the statement of profit or loss, aggregation/disaggregation and labelling of information, and disclosure of management-defined performance measures

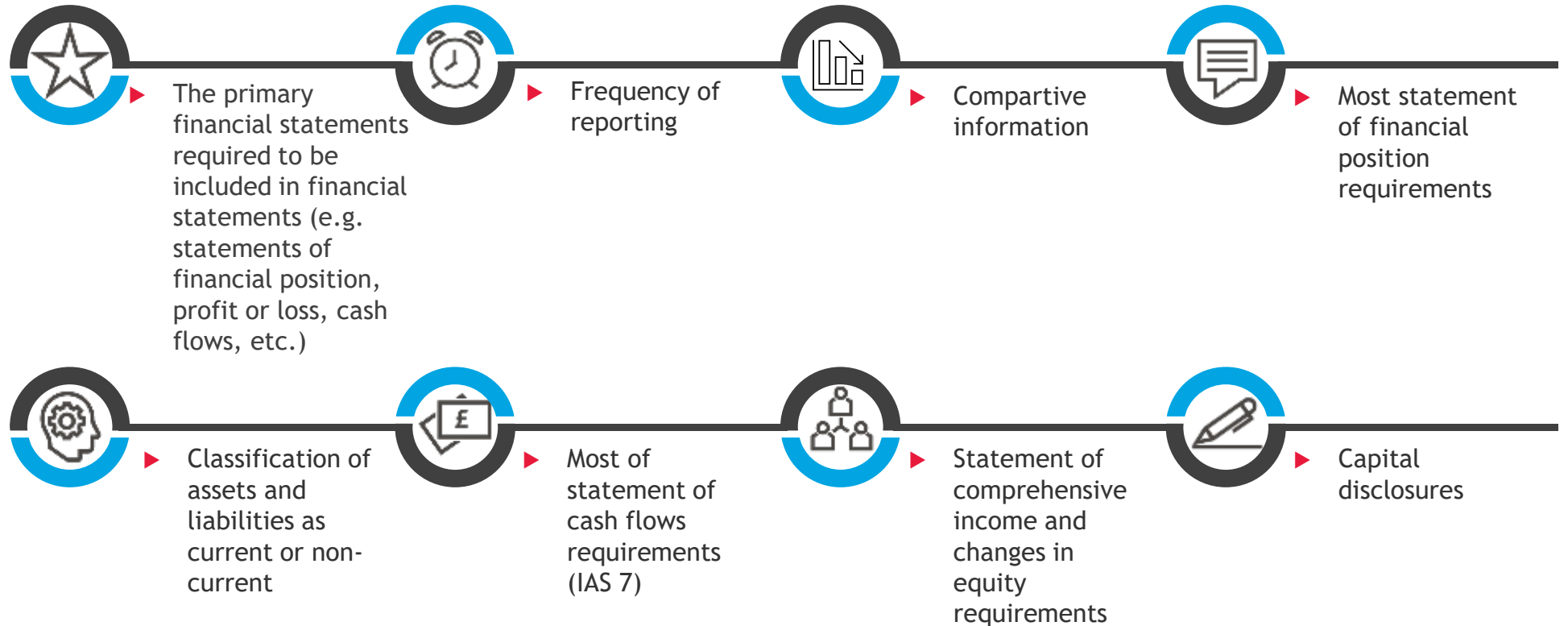
[Read more
IFRB 2024/04](#)

REQUIREMENTS



TOPICS FROM IAS 1 THAT ARE 'BROUGHT FORWARD'

The following is a summary of topics in IAS 1 that are 'brought forward' into IFRS 18 without significant changes:



AREAS OF SIGNIFICANT CHANGE FROM IAS 1 VS IFRS 18



Categories in the statement of profit or loss



Line items and sub totals in the statement of profit or loss



Labelling, aggregation and disaggregation



Statement of cash flows: operating cash flows, and classification of interest and dividend cash flows



Management-defined performance measures


EXAMPLE STATEMENT OF PROFIT OR LOSS

A simple illustration of these requirements is presented below for an entity without specified main business activities (i.e. the entity does not invest in assets or provide financing to customers as a main business activity):


<u>Line item / sub-total</u>	<u>Amount in currency units (CU)</u>	<u>Classification of income and expenses</u>	<u>Explanation</u>
Revenue	1,000	Operating	'Cost of sales' line item must include inventories expensed (IAS 2).
Cost of sales	(400)		
Gross profit	600		IFRS 18 does not mandate the presentation of a 'gross profit' sub-total, however, IFRS 18 does not preclude this approach.
Salaries and benefits	(100)	Operating	
Operating profit	500		New mandatory sub-total: the sub-total of all income and expense classified as operating.
Share of profit from associates	25	Investing	Income or expense related to the application of the equity method are never classified as operating, which may be a change in practice for some entities.
Profit before financing and income tax	525		New mandatory sub-total: the sub-total of operating profit or loss and all income and expenses classified as investing.
Interest expense on bank loans	(50)	Financing	Expense classified as financing.
Profit before income tax and discontinued operations	475		Sub-total already required by IAS 1 / IFRS 5.
Income tax expense	(100)	Income tax	
Profit from continuing operations	375		Sub-total already required by IAS 1.
Profit from discontinued operations	10	Discontinued operations	Sub-total already required by IAS 1 / IFRS 5.
Profit	385		Total already required by IAS 1.

SOME PRACTICAL CONSIDERATIONS


While IFRS 18 does not change any recognition or measurement requirements in IFRS Accounting Standards, it may still have effects on systems and processes.




Financial reporting systems may not be designed to appropriately 'tag' and categorise income and expenses into the categories required by IFRS 18.




The requirement to categorise income and expenses into categories may change how systems and process's function



Groups may have entities with multiple main business activities, which change at the consolidated level.



Entities will need to review how they aggregate, disaggregate and label information based on the revised requirements of IFRS 18.



Entities will need to identify MPMs and determine which (if any) are within the scope of IFRS 18's disclosure requirements.

OTHER IFRS DEVELOPMENTS

OTHER IFRS DEVELOPMENTS Q2 2024



IFRS 19 SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

This new voluntary IFRS was issued by the IASB on 9 May 2024 and aims to simplify reporting systems and processes for companies reducing the costs of preparing eligible subsidiaries' financial statements.

Effective date 1 January 2027- early application permitted



EXPOSURE DRAFT ON AMENDMENTS TO IFRS 9 AND IFRS 7

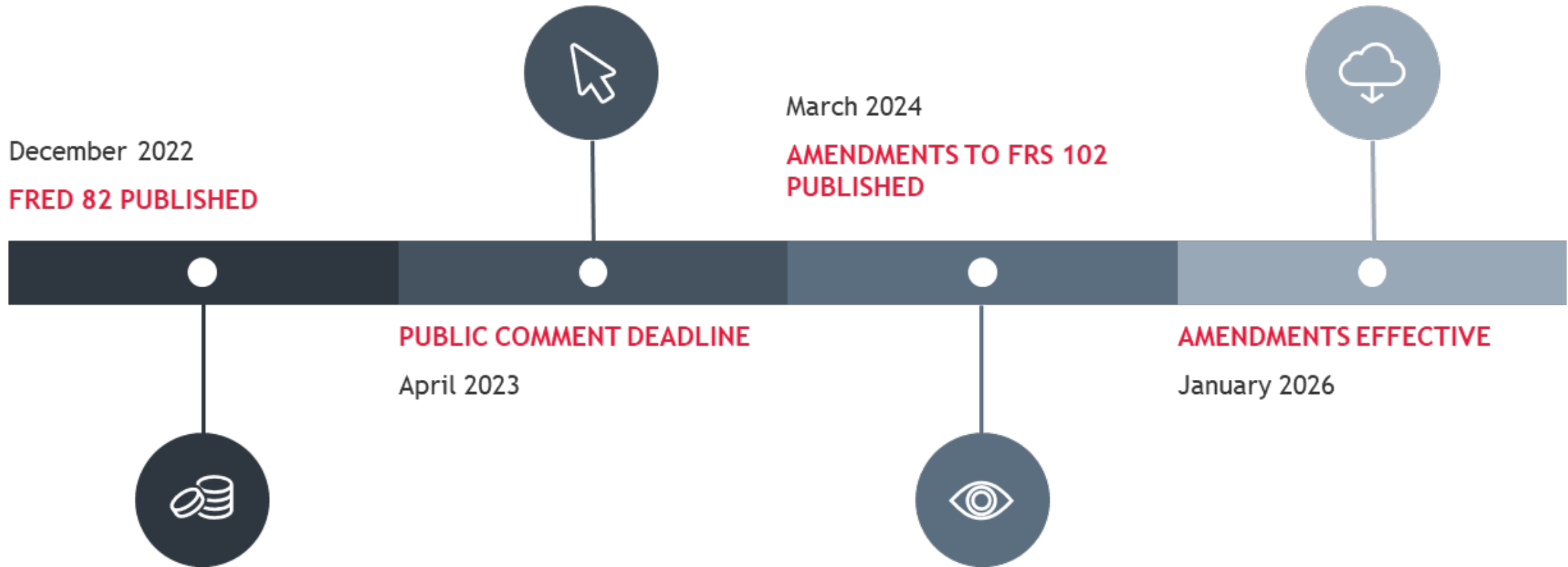
The IASB published an exposure draft on amendments to IFRS 9 and IFRS 7 on contracts for renewable energy

The Exposure Draft is open for comments until 7 August 2024

FRS DEVELOPMENTS

AN OVERVIEW OF AMENDMENTS TO FRS 102

PROJECT MILESTONES



OVERVIEW

New revenue
recognition based
on IFRS 15

New model of
lease accounting
based on IFRS 16

Various
incremental
improvement and
clarifications

FRS 102- LEASE ACCOUNTING

LEASES

Scope

- ▶ Leases of certain assets not in scope
- ▶ May be applied to leases of some intangible assets
- ▶ The lease definition is the new on/off balance sheet test

Recognition

- ▶ Lessees - Most leases recognised on balance sheet with narrow exemptions for the lessee
- ▶ Lessors - Classify leases as either 'operating' or 'finance' leases

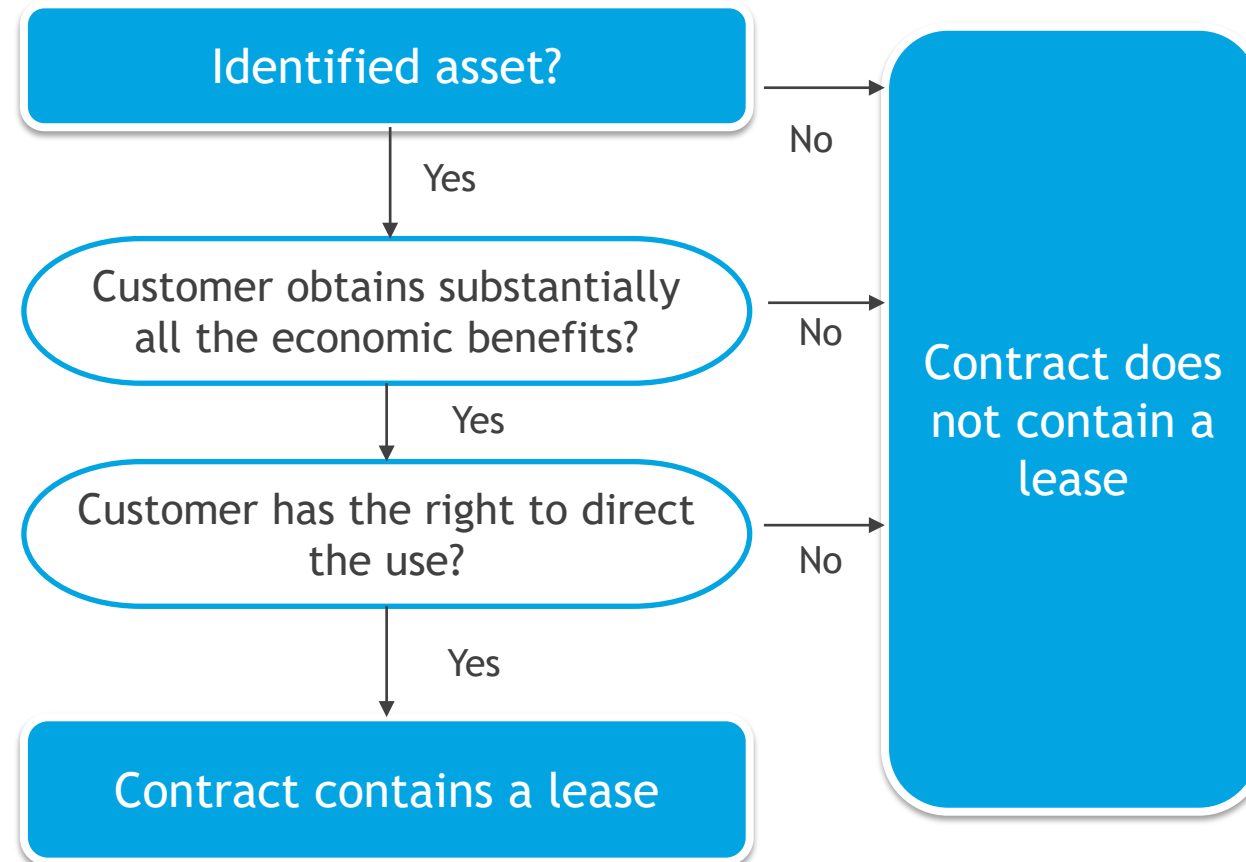
IASB

- ▶ Optional simplifications from IFRS 16

Transition

- ▶ No restatement of comparatives required.
- ▶ Permitted to use carrying amounts for group reporting under IFRS 16 as opening balances.
- ▶ If not applying the group exemption, asset recognised is equal to the liability on transition. Any cumulative effect of initially applying the standard is recorded as an adjustment to opening retained earnings.

LEASE DEFINITION - LESSEE AND LESSOR



RECOGNITION EXEMPTIONS- LESSEE

Short term and low value leases

Aligned with
IFRS

Short-term leases

- ▶ Lease terms is 12 months or less
- ▶ No purchase option
- ▶ Factor in lessee options to terminate or extend lease if exercise is reasonably certain
- ▶ Apply consistently by class of underlying asset

Low value leases

- ▶ Assess based on value of an equivalent new asset
- ▶ Not judged by reference to materiality
- ▶ Made on a lease-by-lease basis
- ▶ The lessee can benefit from the use of the asset on its own or together with other resources readily available to the lessee
- ▶ Underlying asset is not highly dependent/interrelated to other assets

LEASE COMPONENTS



General guidance

- ▶ If a contract contains a lease, then a company accounts for each separate lease component, separately from non-lease components
- ▶ For example, a real estate lease may include common area maintenance services provided by the lessor - e.g. cleaning services, maintenance of a central heating plant, common area repairs etc.

Practical expedient

- ▶ A lessee may elect, by class of underlying asset, not to separate non-lease components from lease components.
- ▶ A lessee shall not apply this practical expedient if one of the components of the contract is a derivative.

Practical expedient

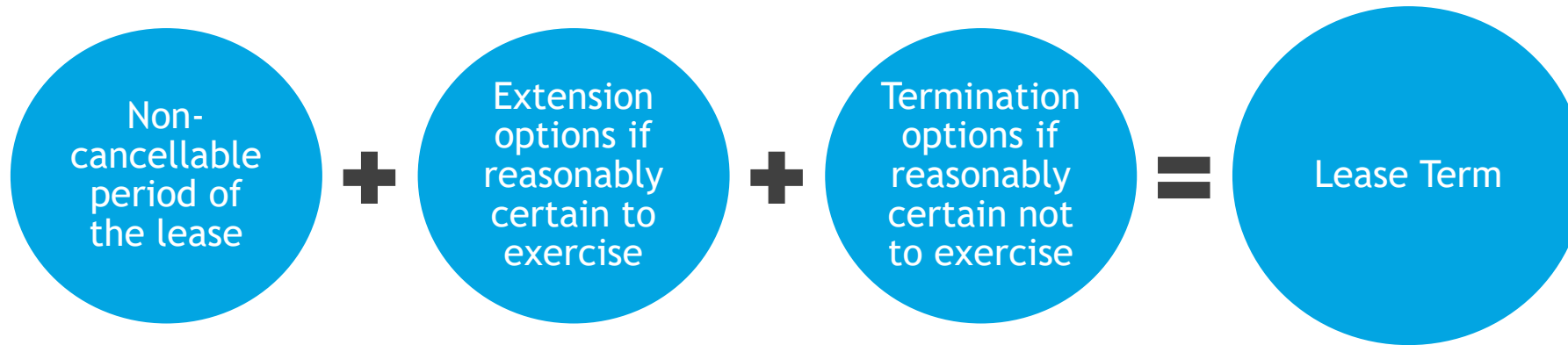
- ▶ When at least half of the total consideration for a contract that is, or contains, a lease is allocated to a single lease component, a lessee may elect, on a lease-by-lease basis, not to separate lease components from each other.

Aligned with
IFRS

Simplification
from IFRS

DETERMINING THE LEASE TERM - LESSEE AND LESSOR

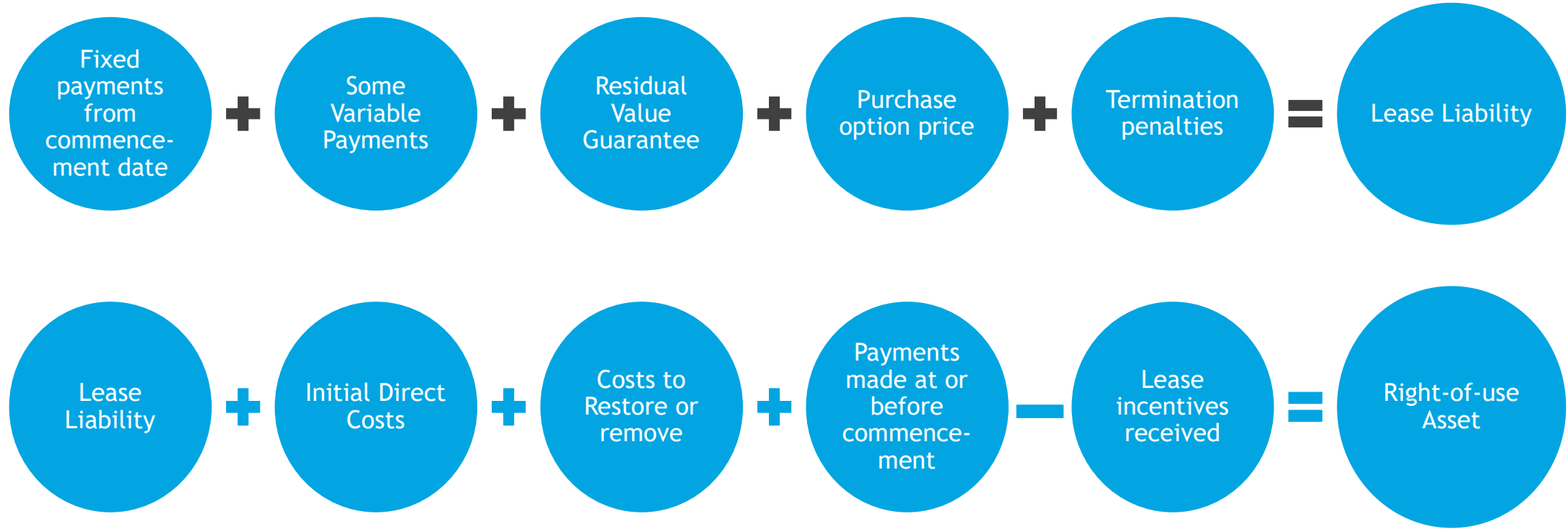
Aligned with
IFRS



The lease term begins at the commencement date (i.e. the date on which the lessor makes the underlying asset(s) available for use by the lessee) and includes any rent-free or reduced rent periods provided to the lessee by the lessor.

INITIAL MEASUREMENT - LESSEE

Initial measurement of lease liability and right of use asset



INITIAL MEASUREMENT - LESSEE

Lease payments

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IFRS

Variable payments that depend on an index or a rate

- ▶ Include in the initial measurement of the lease using the index or rate as the commencement date.
- ▶ Remeasure lease in the period of the rate or index changes.

In-substance fixed payments

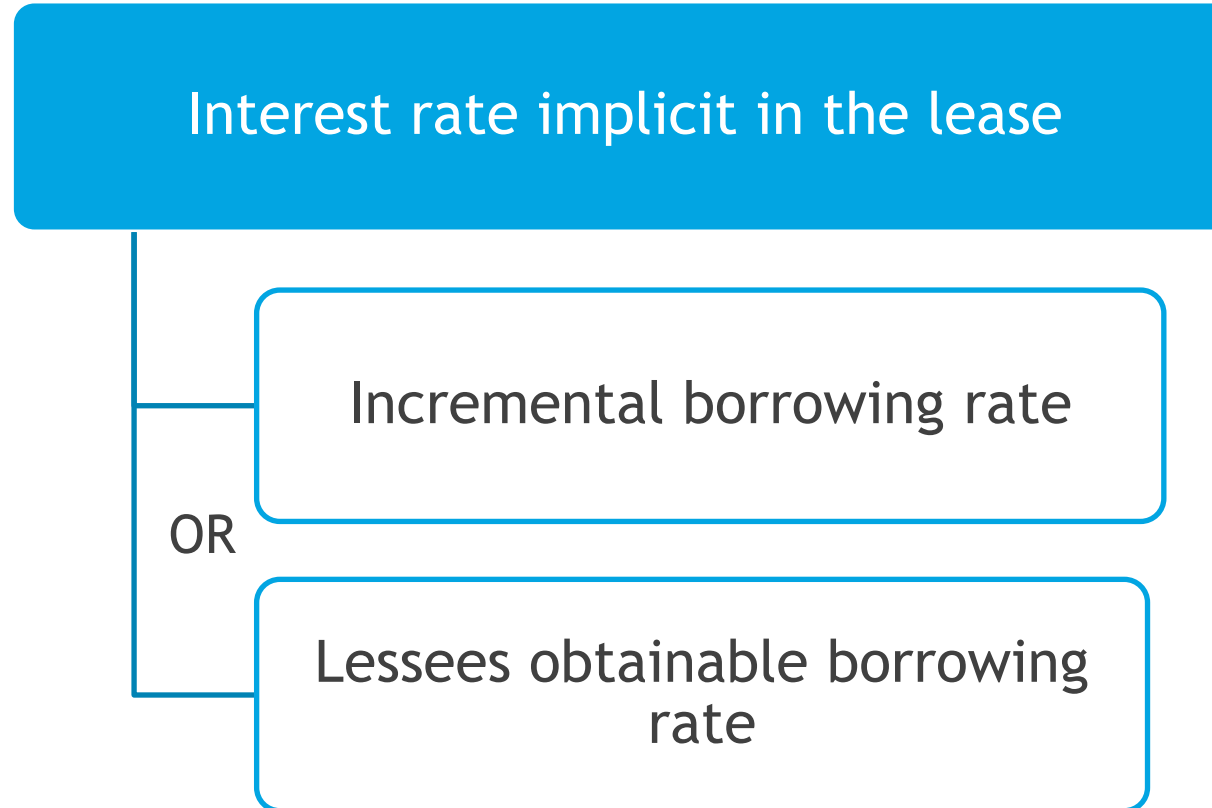
- ▶ Include in the initial measurement of the lease.
- ▶ Remeasure the lease in the period in-substance fixed payments are changed or are resolved

In-substance fixed payments

- ▶ Do not include in the initial measurement of the lease.
- ▶ Recognize in profit or loss (or in the carrying value of another asset as required by another standard) when the event or condition that triggers the payments occur

INITIAL MEASUREMENT - LESSEE

Discount rate



PRESENTATION OF LEASES

Aligned with
IFRS

Statement of Financial Position

- Right-of-use asset: present in its own line item or combine with property plant and equipment, with separate disclosure
- Lease liabilities: present separately or include with other liabilities and disclose which line item they have been included

Statement of Comprehensive Income

- Interest expense with other finance costs
- Amortisation of right-of-use assets

Statement of Cash Flows

- Cash payments for lease liabilities as financing activities.
- Cash payments for interest in accordance with requirements for interest paid.
- Short-term, low-value and variable lease payments within operating activities.

COMMERCIAL CONSIDERATIONS

- ▶ Taxation
- ▶ Dividends
- ▶ Profit-related contracts
- ▶ Communication
- ▶ Debt covenant compliance
- ▶ Consequences of renegotiating lease contracts



OTHER UPDATES

UK SUSTAINABILITY DISCLOSURE REPORTING FRAMEWORK

The UK Government announced in May 2024 the establishment of two committees, an independent Technical Advisory Committee (TAC) and a Policy and Implementation Committee (PIC), that will assist with the assessment and endorsement of IFRS S1 and IFRS S2 as issued by the IASB and any resulting UK sustainability reporting standards.



The Government aims to make the UK-endorsed ISSB standards available in Q1 2025.



BDO NEWSLETTER

Corporate Reporting Spotlight

Our latest offering is a quarterly publication that focuses on corporate reporting issues that are of immediate relevance.

By participating in this call, you will receive the latest edition of the Corporate Reporting Spotlight publication and the webinar recording in the follow-up email.

To receive this newsletter quarterly, please ensure you are signed up to our mailing list [here: Financial Reporting Webinar Series | Audit and Assurance - BDO](#)



CORPORATE REPORTING SPOTLIGHT



March 2024 Edition

Welcome to the Corporate Reporting Spotlight newsletter, which will provide the latest updates, news and insights and enable you to navigate the complex world of corporate reporting. Whether you are an individual or part of a team, we will help you to stay up to date and make informed decisions.

MANAGING TAX RISK

NATASHA PATEL
Tax Director

WHAT WE ARE SEEING IN THE SECTOR

- ▶ Transaction activity picking up in the CM sector in Q2 (largely restaurants, bars and retail)
 - Due Diligence - higher level of tax risk
 - International expansion - advice on corporate set up, supply chain, transfer pricing, repatriation
- ▶ Rationalisation and simplification of group structures - trade and asset transfers or site closures
- ▶ Capital allowances - more enquiry letters now super deduction has come to an end
- ▶ Pillar 2 is becoming more of a focus and complex!
- ▶ Changes to non dom regime has also created debate and questions

CHANGES TO NON-UK DOMICILE REGIME - APRIL 2025

- **What's changing?**
 - ▶ Current remittance basis regime is being overhauled and replaced with new "FIG" (foreign income and gains) regime.
 - ▶ No longer a remittance charge and there is exemption from UK tax on FIG in first 4 years of residency
 - ▶ After 4 years, all FIG will be subject to UK tax
 - ▶ Impact of general election - Labour confirmed will take more radical approach
- **Isn't this just about a few wealthy foreign individuals?**
 - ▶ Yes but
- **What is the impact for an employer**
 - ▶ We don't anticipate this having a significant impact
 - ▶ Do you have internationally mobile employees?
 - ▶ Do you have a global mobility tax policy/remote worker policies?
- **What should we be doing now and what are we seeing?**
 - ▶ All non doms (employees or shareholders) should review their position without delay

PILLAR 2

In UK - For accounting periods starting on or after 1 January 2024

- **Who is impacted?**

- ▶ MNEs with annual consolidated revenues of at least €750 million in at least two out of the prior four accounting periods. The rules apply for accounting periods beginning on or after 31 December 2023.
- ▶ These rules effectively introduce a 'top up' tax for companies whose effective tax rate (ETR) is lower than 15%. There is a large degree of complexity in determining a company's ETR under these rules and various adjustments will be required to accounting balances, including deferred tax.
- ▶ Certain safe harbours are available that should reduce the administrative burden of applying the rules, which are generally based on the Country by Country Reporting data (and not accounting data).

- **What are we seeing**

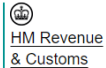
- ▶ MNE groups parented overseas not addressing local UK requirements at group level
- ▶ Safe harbour testing needs to be done on "qualifying" CbC Report - not always the case
- ▶ Disclosure requirements are required for FY23 accounts where group is within Pillar 2

CCO UPDATE

MARTIN JACKSON
Tax Director

CORPORATE CRIMINAL OFFENCES

HMRC ACTIVITY



FOI release

Number of live Corporate Criminal Offences investigations

Updated 5 February 2024

As at 1 January 2024:

- HMRC currently has 11 live CCO investigations - no charging decisions have yet been made
- a further 24 live opportunities are currently under review - to date we have reviewed and rejected an additional 94 opportunities
- these investigations and opportunities span 10 different business sectors and sit across all HMRC customer groups - sectors include software providers, labour provision, accountancy and legal services and transport
- we've always been clear that these numbers will go up and down as part of the normal criminal investigation process - not every opportunity will lead to an investigation and not every investigation will lead to a charge
- in some cases, following investigation we have been satisfied with explanations provided and have not established deliberate facilitation - but those investigations have found other tax and regulatory offences that are being pursued
- as we've always said, investigations are not the sole measure of success – the legislation was introduced to drive behavioural change and for organisations to put in place preventative procedures that reduced the opportunity for facilitation to occur in the first instance

HMRC - Common questions

1. How did XXXX decide to approach their risk assessment to deal with their obligations under CCO legislation?
2. What steps did XXXX take in order to identify your organisation's associated persons?
3. What steps does XXXX take in order to identify risks?
4. How frequently does XXXX review their CCO risk assessment and update their risk register? Also, who within XXXX is responsible for doing this, and what is their position within the organisation?
5. What mandatory training has XXXX provided to all of your existing members of staff and also any subsequent new members of staff about CCO and the legislation?
6. What happens if the mandatory training is not completed by a member of staff?



XXXXXX
Customer Compliance Manager
Large Business Scotland & Northern Ireland
1 Atlantic Square, Glasgow, G2 8LA
Tel XXXX XXXX / Mob XXXX XXXXX
XXXX@hmrc.gov.uk

HMRC - Specific review of client's CCO position

Monitoring & Review:

Following your initial CCO review and risk assessment completed in 2017/18, I note no further review of CCO, your risk register or procedures was conducted until 2023.

As highlighted in BDO's summary document, regular monitoring and review of your CCO risk assessment and risk register must take place, ensuring you follow up on any issues / recommendations identified from the review.

Whilst I do not consider a period lapse of 5 years between 2018 and 2023 as being 'regular' in terms of this process, I can see from BDO's document that they have recommended you conduct such a review at least every 2 years going forward.

This is more in line with my expectations for this obligation. Can you confirm you will be dealing with the future monitoring and reviewing of your CCO procedures, risk register and general obligations at least every 2 years going forward please, or sooner should you identify any instances where you would be required to self-report a failure to prevent the facilitation of tax evasion?

CORPORATE CRIMINAL OFFENCES

COMMERCIAL IMPACT

BUSINESS AS USUAL

- ▶ We are seeing consideration of CCO Risk being 'Business As Usual'
- ▶ Expect CCO clauses in Supplier contracts, Warranties and Indemnities and other contractual terms
- ▶ Also, in the M&A world, we are seeing CCO clauses included in deal documentation and forming part of transaction due diligence


Warning tax evasion policy can foil M&A deal at 'eleventh hour'



By **Rachel Mortimer**

Inadequate compliance with the taxman's rules on preventing tax evasion can foil an M&A deal "at the eleventh hour", a business advisory firm has warned.

Accountancy and business advisory firm BDO said it had witnessed firms addressing the risk of corporate criminal offences as "business as usual", warning non-compliance could stop an acquisition or merger in its tracks.

A man and a woman are in a kitchen, both wearing aprons and eating from plates. The man is on the left, looking towards the woman on the right. They are both smiling and appear to be enjoying their meal. The kitchen is modern and well-lit, with various kitchen items visible in the background.

EMPLOYMENT TAX UPDATE

JOHN CHAPLIN
Employment Tax Partner

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NEW RULES ON TIPPING NOW FROM 1ST OCTOBER

- ▶ From 1 October 2024, the Employment (Allocation of Tips) Act 2023 will require employers to ensure that workers receive the full tip from a customer.
- ▶ Following public consultation, the Department of Business & Trade released the final draft Code of Practice on 22 April 2024 to support the new legislation to promote fairness and transparency
- ▶ Not just Tronc schemes affected
- ▶ New rules re
 - admin charges
 - multiple site
 - payment dates
 - agency workers
 - record keeping
 - employee requests for information

A man and a woman are in a kitchen, both wearing aprons and eating from plates. The man is on the left, and the woman is on the right. They are both smiling and looking at each other. The kitchen has various appliances and ingredients visible in the background.

NATIONAL MINIMUM WAGE

Siobhan Waters
Tax Manager

New National Minimum Wage Rates & Updates



New Rates from 1st April 2024

Apprentice	Under 18	18 - 20	21 & Over	Accommodation Offset
£6.40	£6.40	£8.60	£11.44	£9.99

Who this applies to

- New rates apply from the next pay reference period - HMRC may now be following up
- Highest ever increase to National Living Wage and applies to anyone over age 21, previously 23

What to look out for

- What counts as National Minimum Wage pay - avoiding under payments
- What counts as working time - focus from HMRC on excess hours for salaried hours work
- Ensuring policies, processes and controls are up to date, utilised and understood

How we are supporting clients

- Helping clients understand the full impact - compliance is not only about rate of pay
- Reviewing current compliance levels
- Advice on how to rectify historic issues and put processes in place to maintain compliance.

HMRC National Minimum Wage Activity Update



HMRC continue to expand geographical targeting - 11 locations across the UK. North-East employers are set to be targeted next - not sector specific



Sector targeting - Accommodation letters issued but expect follow ups with enquiries



Letters are being issued to workers to raise awareness



HMRC no longer only focusing on lower paid workers - consider risk in Head Office Roles - excess hours across a year can result in underpayments in final month!



Q&A



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OUR SPEAKERS

Today's panel

HOSPA

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**JANE
PENDLEBURY**

HOSPA Chief
Executive



**MARK RA
EDWARDS**

Partner
Audit



**NATASHA
PATEL**

Director
Tax



**MARTIN
JACKSON**

Director
Tax



**JOHN
CHAPLIN**

Partner
Employment Tax



**SIOBHAN
WATERS**

Manager
Employment Tax