

What taxes will my hospitality business pay?

Every business pays taxes in many different ways. In this guide we take a look at the taxes that apply to all businesses and some that just apply to the hospitality business. We'll also look at any differences between sole traders/partnerships and limited companies.



The Hospitality Business specialists

What is VAT? Value Added Tax is one of the main taxes that you'll be paying as a business. Fortunately the basics of [VAT](#) are very simple.

A VAT registered business should pay 20% of their gross income. However any VAT they've already paid when buying goods/services is deducted from that bill. E.G. In the first quarter of the year your business took £96,000. So the bill is £16,000, but you already paid £12,000 in VAT when buying things so your bill to pay is $£16,000 - £12,000 = £4,000$ due.

How does it work? You must **register for VAT** if your total taxable turnover exceeds £85,000 or you know that it will within 30 days. You can also register voluntarily. This applies to **a new business**, but if you are taking on running the business from someone else, and bought any fixtures and fittings, stock etc, then you are [trading as a going concern](#) and so must register immediately for VAT. This is the case with most pubs for example. When we take on a new client, we will work out the situation and register for VAT on your behalf if necessary.

What is flat rate VAT? If your turnover is over £85k but under £150k then the flat [rate scheme](#) may work for you. This is mainly if you don't buy much so isn't right for most hospitality businesses who spend a lot on food and drinks. The idea is that you pay VAT as a set percentage which is less than the standard 20%, and don't claim anything back.

How often do I pay this? VAT is usually paid on a quarterly basis. At the end of a quarter, we produce a VAT return and submit it. The return must be submitted and the bill paid to HMRC by one month and seven days after the end of the quarter. So if the quarter ended in August. Then we would compile all the revenue and invoices for June, July and August for that quarter. The submission and payment would then need to be in by 7th October at the latest.

Tax on your profits

Sole Trader

Tax on profits As mentioned in our guide to [trading as a sole trader or limited company](#), a sole trader's earnings and the business's profits are one and the same.

Any profit your business makes as a sole trader is taxed as your own personal income. This is then added to any other income you have (from property rental for example)

This is done through your self assessment (more on this in our guide "[What about my own income and taxes?](#)") Essentially though, self assessment replaces paying taxes through your employer when you were employed. You pay these income taxes on a personal tax return submitted annually.

Limited company

Tax on profits works differently for a limited company. The limited company is a separate entity to the directors as individuals. So, the company profits are taxed *not* the individual. This is [corporation tax](#). Corporation tax is currently charged at a rate of 19%.

One of the benefits of being limited is that if you made a loss last year, you can offset that loss against this year's profits, thereby reducing your profits before tax is calculated. There are other aspects that could affect your corporation tax bill. The figure your tax is based on will be:

NET profit + depreciation + expenses not allowable for tax – annual investment allowance

([annual investment allowance](#) is 100% tax relief on assets acquired for the use of the business.

Machine Gaming Duty

Machine Gaming Duty (MGD) is a specific tax paid on gaming machines also known as AWP (Amusement With Prizes) often found in pubs and bars. You do not pay normal VAT on this income, but instead pay MGD (machine income for pool tables, jukeboxes etc, is taxed as normal through VAT as there is no prize element.

How much is the tax? This depends on the type of machines you have:

	Machine Type	Cost to play	Prize	Rate you pay
<i>If your machine offers different prizes, the tax rate is set to the highest of those.</i>	Type 1 - lower rate	20 pence or less	£10 or less	5%
	Type 2 - standard rate	21 pence to £5	£11 or more	20%
	All others - higher rate	More than £5	Any	25%

Who pays? You as the business operator is liable for paying the MGD. In cases where you are on a tenancy agreement through the pub company, the pub company may well get a share of the income but *you* still need to register for, and pay the MGD.

This isn't as unfair as it sounds though. The machine company will empty the machines regularly and will calculate the amount owed as MGD, they then leave you your share of the income *plus* an additional amount, this is the total MGD owing and you then pay that to HMRC.

Employment costs

As an employer, there are also taxes involved that you must pay. We go into more detail on our guide [“What do I need to do when employing staff?”](#)

Further support ...

As specialists in business services to the hospitality sector, Roslyns can help every step of the way. Just click or prod your way to knowledge!

What taxes will my hospitality business pay?

How can I pay less tax?

What about my own income and taxes?

What do I need to do when employing staff?

Is stocktaking important in a hospitality business?

I've another question about hospitality business?

Links to the official government advice

[Setting up as a sole trader](#)

[Setting up a limited company](#)

[Business taxes](#)

[Personal Taxes](#)

[Employer taxes](#)

Please note: These guides are based on the 2020/21 tax year and are intended to outline the basic aspects of the topics addressed. Please take advice based on your specific situation and business. Contact us on support@roslyns.co.uk