



# Join the room boom

Your children have left home and their bedrooms are surplus to requirements. **Andrew Don** finds that becoming a genuine 'inn' for tourists can offer a lucrative add-on income stream

**T**he Clothiers Arms, a Stroud, Gloucestershire, freehouse, lets seven rooms for between £45 and £80 nightly, reaping about £40,000 profit annually, based on 60% occupancy mid-week and 80% at weekends – a useful add-on to the core business.

Landlord Harry Counsell says knock-on trade from residents buying lunch, dinner and drinks further enhances profitability.

It, therefore, does not take pub-quiz champion of the year to deduce that idle rooms are bad business.

Counsell says that a licensee making a couple of rooms suitable for rental should budget for an outlay of about £10,000 – depending on the proposed rental – including compliance with health and safety requirements and expenditure on

furnishings and appliances.

“In the middle of nowhere, in a nice rural location with a view, you can get £150 a night, but if you're on a main road, maybe £50, so you wouldn't want to put in 40-inch plasma tellies,” he says.

## £10,000

the amount licensees should budget to get rooms ready for rental

## £150

the nightly income that pubs in an attractive, rural location with a view could receive

### Tax implications

A publican looking to let for the first time needs to carefully consider and understand the tax implications.

Gerald Atwell, tax partner at Thompson Taraz, the fund management, business advisory and chartered accountancy services firm, says three main issues to examine are direct tax – income tax or corporation tax; indirect tax – VAT; and the capital gains tax (CGT) implication on eventual sale.

CGT could be as low as 10% for anyone qualifying for Entrepreneurs' Relief and as high as 28% for higher-rate taxpayers.

Importantly, the CGT private residence exemption, which applies to rooms occupied by an owner above a pub will no longer apply to those converted for letting.

Atwell, who has advised his ►

neighbours on saving the Ivy House in Nunhead, south London, through use of the Enterprise Investment Scheme, says income from rooms let on a daily bed and breakfast (B&B) basis will be treated as business income like everything else the pub sells and will, therefore, be subject to the standard rate of VAT at 20%.

He explains that, for the purpose of corporation tax or income tax, expenditure on repairs can be deducted but not on improvements and alterations, although a capital allowance might be claimable. "Ideally you are looking to classify as much as possible as repairs because you can deduct it as you go along."

### Health and safety

Anyone looking to rent out three or more rooms must comply with the Regulatory Reform (Fire Safety) Order 2005 and the Health and Safety at Work Etc Act 1974.

Chris Green, partner in legal firm Weightmans' regulatory team, says: "The duty to manage fire safety rests wholly on the owner and they can't rely on the opinion of the fire service or the old fire certificate, which was

issued by the fire service until 2006."

Green says even if just one or two rooms are being let, it is advisable to follow the guidelines in both pieces of legislation to mitigate risk.

"One of the key issues is means of escape in the event of a fire, identifying fire hazards and an evacuation procedure," he says, although Counsell points out that "if you run a pub you'd identify those anyway".

The same applies to PAT (portable appliance testing) equipment, Counsell says.

Green adds that all hazards in each room should be considered to ensure precautions are taken. "Keep corridors clear and fire-resistant seals and strips must be fitted to each door to stop the spread of fire and smoke, with signage where needed."

Furniture should be fire-retardant, windows should not be capable of being opened wide enough for children to fall from and rooms must be well-lit to avoid risk of slipping – deploy non-slip mats if needed.

Precautions should be taken against exposure to legionella bacteria which can occur in hot and cold water systems.

Karen Neald, a property litigation solicitor at Weightmans, adds that gas fittings and flues must be maintained in a safe condition under the Gas Safety (Installation and Use) Regulations.

### Blowing your own trumpet

When everything is in place you are going to have to let people know you have rooms available.

Sticking a sign outside advertising rooms to let will only capture the likes of walkers who are passing and have not pre-booked anyway.

Counsell's advice is to contact



**We used to do ads with *Yellow Pages* and a local tourist guide but they didn't generate anything**



# 80%

the proportion of room inquiries made online for the Clothiers Arms in Stroud

# 15%

the proportion that originate from passing trade



**Window of opportunity: promoting your rooms online should attract plenty of interest**

tourist bodies and promote the rooms on websites, in B&B online directories and search facilities.

He adds: "About 80% of our inquiries come from the internet, 15% from passing trade, and the rest is repeat business."

Counsell frowns on conventional print advertising. "We used to do ads with *Yellow Pages* and the local Cotswolds tourist guide, but none of it generated anything. Most promotion is via the internet," he says.

# 20%

the standard rate of VAT that applies to income from rooms let on a B&B basis