

INSIGHTS FROM THE BDO GAMING, HOSPITALITY & LEISURE PRACTICE

5 Focus Areas Every Hotel Should Examine Amid Industry Headwinds

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The global pandemic has significantly impacted demand for hotels due to drastic shifts in travel for business and pleasure. Hotels that rely on revenue from conventions and corporate meetings, as well as from food and beverage services, have been hit particularly hard. Facing a shifting landscape, hotel operators must navigate several challenges on the road ahead. BDO has identified five key focus areas for you to examine when adapting operations to achieve long-term success.

1. STAFFING SHORTAGES AND WORKFORCE STRATEGY

Following pandemic-related furloughs and layoffs, many hotels are grappling with labor shortages as guests return to their properties. Though this problem is preferable to low occupancy, hiring for housekeeping, front desk, dining service and other roles has proved especially challenging. Job seekers' priorities may have changed, such as health concerns, childcare issues, competitive offers or other factors.

To address the staffing shortage, it is important to [assess the compensation and benefits](#) you offer compared to the local market, as a competitive package will help with recruitment. For example, more companies are offering unlimited paid time off, backup childcare and assistance with student loan debt, which can help boost employee recruitment, retention and engagement.

It may make sense to explore flexible staffing models to maximize resources and productivity in line with demand. Outsourcing specific tasks to vendors — such as housekeeping, [IT](#) or [human resources](#) — and automating certain administrative processes can also help address staffing issues.

2. TAX LIABILITY

It is crucial that you know your hotel's [total tax liability](#) — a continuous calculation of all the taxes you owe at any given time. As a result of industry headwinds, there are some unique tax considerations to keep in mind when determining tax liability, including:

- ▶ **Employee Retention Credit (ERC):** The ERC under the 2020 CARES Act is designed to encourage employers to keep workers on their payroll. It is a refundable payroll tax credit for a portion of wages and qualified healthcare expenses. Even if you received a Paycheck Protection Program (PPP) loan and were previously ineligible to benefit from the ERC, [you may now retroactively qualify](#) for the credit. Importantly, the ERC eligibility requirements include a gross receipts test through which employers must be able to demonstrate a significant reduction in revenue to qualify for the credit. Additionally, the company size threshold (full-time employee count) is pivotal in terms of how much credit you can receive, and your employee count could be impacted by contracts with third parties, such as a hotel management company. Small employers are eligible for the ERC on all wages paid, and large employers are eligible for the ERC on wages and healthcare paid to employees who are not working. You may want to review the activities of your workforce, for example, for payments made outside payroll (e.g., healthcare) or for instances in which employees reported to work and had no work to perform. These scenarios could result in a greater amount of ERC claimed.



► **Carrybacks and carryforwards:** The CARES Act also changed the tax treatment of [net operating losses \(NOLs\)](#) for corporations and individuals. NOLs occur when a tax deduction exceeds taxable income within a given tax period. An NOL may be used to reduce total tax liability. The CARES Act allows a five-year carryback for NOLs in a taxable year between 2018 and 2020, and the carryforward period is indefinite for NOLs remaining after the carryback period. This is also important for owners and managers who are reporting related losses on their individual tax returns.

► **Personal property taxes:** Personal property is defined as any movable property not attached to a building. Though personal property tax criteria vary by state, in a business, all movable assets are considered personal property. The pandemic may have reduced the value of your assets (e.g., restaurant equipment and fixtures) at an accelerated rate. Other assets may have been rendered obsolete by new technology. You may also have “ghost assets” that were disposed of in previous years. It is important to understand the intricacies of tax rules in your jurisdiction and to be aware of these changes to your assets when preparing to file personal property taxes.

► **Real property taxes:** As tax rates increase to balance state and local budgets, you may be owed a tax base reduction. [Consider communicating with the assessors who evaluate your real property tax.](#) Some jurisdictions

may have reduced taxable value, so it could be beneficial to methodically review the entire portfolio for changes to your tax base. An assessor’s initial tax base reduction may not be adequate, as the offered amount may not accurately reflect the decline in the hotels’ fair market value. Consider challenging the reduction if it does not reflect the decline in value. Also, keep in mind any deferred maintenance and other capital expenditures that could apply to support a reduction in fair market value.

► **Remote work nexus considerations:** Some operations may have been modified to a remote work environment, which can have [complex tax implications for the business.](#) In most U.S. states, a business with a single remote employee — even if working only temporarily from another state — creates a physical, taxable presence or nexus for the employer. Many states provided temporary nexus safe harbors during the pandemic, but those are expiring or have already expired. Where the safe harbors are still in effect, you may be able to use this time to mitigate year-end surprises. A review of employment taxes (i.e., state withholding taxes) and [equity compensation](#) should confirm that the temporary remote worker rules for tax reporting and payroll withholding have been properly considered.

Gaining a firm grasp on your total tax liability will help you plan effectively, allocate your budget, maintain compliance and remain agile in a shifting industry landscape.

3. DATA PROTECTION AND PRIVACY BY DESIGN

Privacy is a key issue for hotels, and that applies to your data too. Guests increasingly expect the customization and convenience enabled by digital and automated processes, which in turn rely on customer data. For example, many hotels now offer guests contactless check-in and checkout, which can be linked to rewards programs for tracking and convenience as well. Customer data can also be used to craft personalized offers that help drive sales and encourage loyalty at scale. It is critical to ensure there are robust security and data protection measures in place to safeguard that customer data.

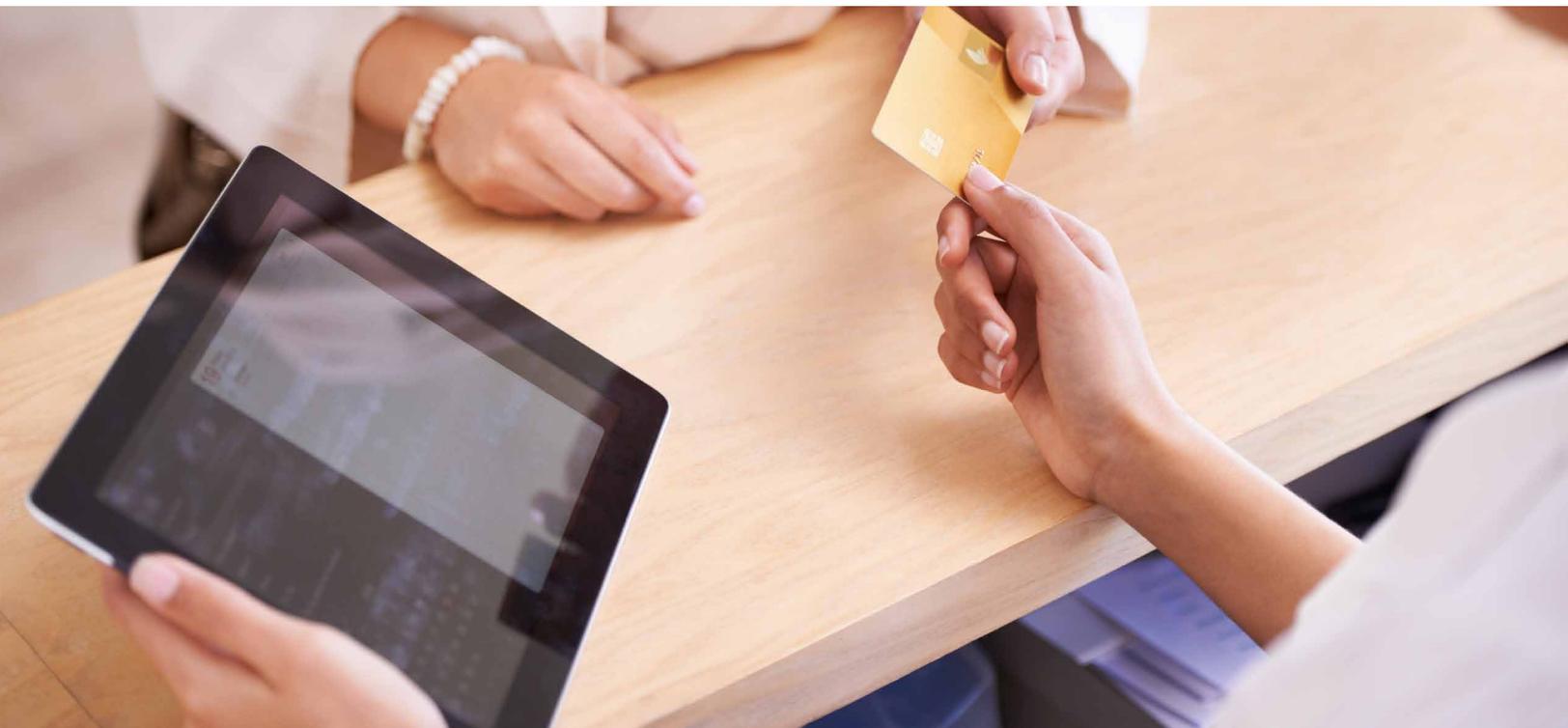
Data privacy laws vary considerably by jurisdiction. Just within the U.S., there is a patchwork of varying state and federal privacy laws. Hotel operators need to have a detailed understanding of the applicable requirements for each jurisdiction they operate within and implement data governance and data protection processes accordingly. Failure to adhere to data privacy regulations can result in substantial fines and other regulatory actions, in addition to the potential for reputational harm.

For example, hotels that process personal data of individuals in the European Union or California must comply with the [General Data Protection Regulation \(GDPR\)](#) or [California Consumer Privacy Act \(CCPA\)](#), respectively. Keep in mind that, in certain jurisdictions, privacy obligations may apply not only to your customers' personal data, but also to employee, vendor, investor and other third-party personal data as well. Hotels that collect and use biometric data (e.g., facial recognition, fingerprint scans, et al.) also need to keep up with the array of existing and emerging legislation for that technology. And more hotels are evaluating the use of blockchain, but that may present new hurdles for privacy compliance.

Because many hotel chains operate in multiple U.S. states and foreign countries, such businesses can consider a [privacy-by-design approach](#) that uses data protection as the default setting in processes for collecting, storing and using personal data. This user-centric approach increases transparency and helps protect personal data across the full lifecycle. As cyberattacks have grown in number and sophistication, hotels are high-value targets because they store large volumes of sensitive and insightful personal data. Privacy by design helps mitigate the risk of a breach and [increase resilience](#).

Robust data protection practices include the following:

- ▶ **Mature data governance:** Understand what data you collect, where you store it, how you use it, who has access to it and for how long it is kept. You should also track all third-party recipients and service providers with access to your systems and data and assess their privacy and security capabilities. Disclose relevant policies with external notices for customers and other stakeholders.
- ▶ **Risk assessments:** Conducting privacy impact assessments (PIAs) and other risk assessments can help identify gaps and highlight privacy risks across the organization and for specific initiatives.
- ▶ **Training and awareness:** All staff should receive routine and role-based training on data privacy and cybersecurity practices, including how to identify and avoid phishing scams and other common cyber incidents.
- ▶ **Testing and monitoring:** Conduct routine testing of security measures and implement continuous 24/7/365 systems monitoring to protect your systems and data assets.



4. SUSTAINABILITY AND ESG

Hotels have long realized the benefits of sustainability for reducing costs and conserving resources, and they have communicated those practices to their customers — for example, by encouraging guests to reuse towels and conserve water, minimizing single-use bottles for toiletries, and using sensors to control lights and temperature. As environmental, social and governance (ESG) issues take on growing importance for companies, the requirements, reputational incentives and business benefits of ESG practices are increasing.

While ESG metrics and reporting frameworks vary, it is important to set corporate-level benchmarks. If you are not currently doing so, now is the time to begin capturing ESG data and ensuring data integrity through internal audits. Set goals for your organization on climate change, social impact, governance and diversity, equity and inclusion (DEI).

Track ESG progress across the organization and communicate progress to customers, investors and applicable agencies. Specifically, you can spotlight sustainability measures to guests on your website and Wi-Fi portal. Overall, ESG initiatives are not only a point of pride, they may also be a deciding factor for customers or investors comparing your hotel against competitors.

5. RISK MITIGATION AND PREPAREDNESS

The experiences of 2020 and 2021 have underlined the critical importance of risk mitigation and preparedness. Every hotel should conduct scenario planning as part of the risk management program. It is also vital to have documented plans in place for [business continuity and crisis response](#), along with a crisis communication team that has clear roles and responsibilities. Those plans should be reviewed and updated on a recurring basis. Enabling agile responsiveness to risk will help build resilience so the business can adapt effectively.

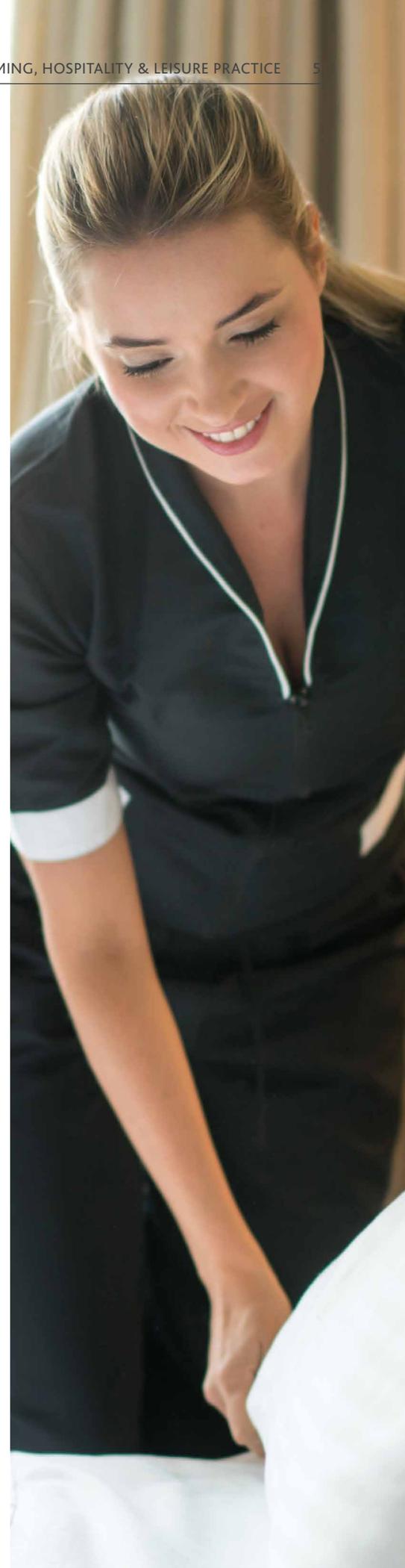
Specifically, climate risk has taken on increased importance for brick-and-mortar businesses. Hotels should prepare for all potential events that could impact them, including hurricanes, tornadoes, flooding, wildfires, high winds and more. A weather event could cause utility outages, supply chain disruptions, workforce shortages or other issues — and bear in mind that remote employees could be affected too.

Business continuity and crisis response plans can help mitigate the impacts of a disaster. Such plans should consider conditions unique to each location and specific priorities for recovery. Hotels should also review their insurance policies on a regular basis and take steps to [bolster claims preparedness](#) following any incident, including by communicating with stakeholders, maintaining contemporaneous documentation and establishing milestones for claim recovery.

NEW SUCCESS ON THE HORIZON

The road to recovery will still have obstacles, and some types of properties may face stiffer challenges than others. A [recent BDO analysis](#) indicates that hotels can recoup 75% of pre-pandemic revenue by 2022, but a full recovery may take until 2024. That is why it is critical for hotels to take a proactive approach on issues related to workforce, tax, data protection, ESG and risk to remain competitive and pave the way for future growth.

To help understand the challenges and opportunities for your business, [contact BDO's dedicated Gaming, Hospitality & Leisure practice](#).





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