Manufacturing

Specialist Manufacturing Accountants

Newsletter
Spring 2017

www.hawsons.co.uk

Introduction

Welcome to our Spring 2017 manufacturing newsletter.

The 29th March 2017 marks the day that Article 50 was triggered. Britain's manufacturers face an anxious two-year wait to see what the future holds for them. Throughout the negotiation process, we will keep you up to date with all the latest news. In this issue, we take a look at all the key details arising from the Spring Budget, as well as discussing the advances in technology on the robotic front and many other topics.

In this issue, we look at:

- Renewable energy
- UK workers at risk as AI and robotic tech advances
- Spring Budget
- Making Tax Digital: Post-Budget update
- Apprenticeship Levy launches
- Car-Tax-Trophe for new car buyers!
- Hawsons Wealth Management seminar: Pensions Continue to Evolve

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

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Hawsons are specialist manufacturing accountants

Hawsons has a dedicated team of specialist manufacturing accountants. Our specialist team offers a wide range of services which are tailored to meet your individual needs. Our understanding of the issues faced by the manufacturing businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

Our specialist team acts for a large number of manufacturing organisations across each of our Sheffield, Doncaster and Northampton offices. For more information on our manufacturing expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/manufacturing**

HLB International

Renewable energy

Anaerobic Digestion (AD): Biogas

Renewables have grown rapidly in the last 10 years, mainly because of public financial support. However, the cost to the Exchequer has seen support levels cut over the past few years. Actual renewable energy was 8.3% in 2015 compared to a target of 15% in 2020.

AD is the natural process of digestion of organic material in an oxygen free environment by micro-organism. The process is usually based on waste products but any non-woody organic matter can be used. It is similar to composting but is normally in sealed containers to exclude air on which the biogas is dependent. Animal slurry is the focus but a low biogas yield is produced and poultry litter gives 2-4 X biogas output of pig slurry. In Europe, crops are often used and maize silage has a high-energy yield – 10 X that of slurry. Others include food waste and supermarket waste.

Consistency and reliability in quality and quantity is vital to the process. AD produces biogas which is:

- 40% carbon dioxide
- 60% methane
- and a digestate (soil improver)

Biogas is used in a combined heat and power generator and electricity is exported. Heat aids the process but can be sold if there is a local market. Biogas can be cleaned – remove CO2 to produce bio methane (natural gas).

Value of AD:

- Electricity – generation tariff FIT

  – export tariff under FIT or the market value of electricity

- Heat – need local market to take advantage of this
- Gate fees – for waste coming in
- Digestate – fertiliser value

The sector is still in its infancy so data available on returns is low while potential system costs are £3,000 to £3,500 per KW power output.

- Typical 400-500 KW plant capital cost can be £1.5 – £2m
- Depreciation normally over 15 years
- Bank typically give 10 year loans

There are specialist companies who build and provide access to finance e.g. Qila Energy. A 450 KW plant may need 2 acres of land and planning approval requires it to be a suitable distance from residential dwellings. A high capacity electricity connection should ideally be close as a distance of over 700m can impact on economics of a scheme.

- A heat consumer needs to be 500-600 metres away;
- There are significant planning issues and;
- Good economies of scale potentially exist

Contacts in the sector are:

- Renewable Energy Association: 020 7925 3570 or www.r-e-a.net
- Anaerobic Digestion & Biogas Association: 0845 292 0874 or www.abdiogas.co.uk
- Qila Energy: QilaEnergy.com

Changes to renewable energy

On 14th December 2016, the Government published its renewable heat incentive consultation response, with changes coming into force in Spring 2017. Tariff for biomethane and biogas will be increased by 38% and 33%. New sustainability criteria will be introduced, requiring that 50% of all biogas must be generated by waste or residue sources. Hence the use of maize or grass silage will be limited.

Tariff bandings for biomass installations will be removed – all capacities will receive the same rate. Offgen say there is a 12-month queue of projects waiting for full or pre-accreditation. The secretary of State retains the power to close schemes under the Budget cap mechanism at short notice. The risk of digression remains (automatic cuts to tariffs when uptake exceeds certain limits).

Feed in tariff support mechanism scheduled to end in 2019.

UK workers at risk as AI and robotic tech advances

Millions of UK workers - mainly those who work in retail and wholesale - are at risk from breakthroughs in AI and robotics, a recent report finds.

In the next 15 years, 10 million or more UK workers could be at risk of being replaced by robots as the automation of routine tasks gathers pace

AI (Artificial Intelligence) is becoming more advanced as the years go by, and in a recent report by a consultancy firm, it was found that as many as 30% of UK jobs could be under threat - so much so, that in some sectors half of all jobs could go.

Although the findings did state that automation could result in a boost in productivity, as well as creating fresh job opportunities, there is a concern in the report that certain measures need to be taken in order to avoid inequality as a result of robotics being used for low-skilled jobs.

The report says that 2.25 million jobs were at high risk in wholesale and retailing - the sector that employs the most people in the UK - and 1.2 million were under threat in the manufacturing sector, 1.1 million in administrative and support services and 950,000 in transport and storage.

There were two sectors identified in the report as the least likely to be affected, and these are education and health and social care. This is because those tasks are seen as hard to automate.

The report suggested that 35% of "male jobs" were identified as being at a higher risk than "female jobs", that stands in at 26%. This is down to the findings indicating that female jobs required a higher level of education and social skills, whereas men were more likely to work in manufacturing and transportation.

A key UK weakness over the past decade has been our productivity levels, so by boosting this and in turn generating more wealth, any more advances in robotics should create additional jobs in less automatable parts of the economy as this extra wealth is spent or invested, according to an expert.

The expert said that although technically possible to replace a worker with a robot, this may not mean it is economically viable to do so. This would depend on the cost and productivity of the robots compared with that of their human counterparts.

Spring Budget 2017

The Chancellor Philip Hammond presented the last Spring Budget on Wednesday 8 March 2017. In his speech, the Chancellor was keen to point out that he wanted the tax system to be fair, particularly in relation to the distinction between employed and self-employed individuals. In this article, we look at how the Chancellor's Spring Budget impacts the manufacturing sector.

Main Budget tax proposals:

Our summary concentrates on the tax measures which include:

- increases to the Class 4 National Insurance rates – Update 15/03/17 – Chancellor withdraws plans to increase NI.
- a reduction in the Dividend Allowance
- changes to the timing of Making Tax Digital for smaller businesses.

Previously announced measures include:

- increases to the personal allowance and basic rate band (a decreased band for Scottish residents)
- the introduction of the Apprenticeship Levy
- changes to corporation tax loss relief
- the introduction of an additional inheritance tax residence nil rate band
- changes for non-UK domiciled individuals.

Main Budget announcements (Manufacturing specific)

- Originally raised NIC rates - but this was later withdrawn by the Chancellor
- Those under the VAT threshold have an extra year (until 2019) to prepare for Making Tax Digital (MTD)
- Introduction of T-Level technical education routes
- Talent Funding programme to fund additional PhD places
- Simpler administration for R&D tax credits
- Dividend allowance will be reduced from £5,000 to £2,000 from April 2018

Manufacturing 2017 Budget Impact

Little to report amid economic uncertainty

Although there is little to report, no news could be good news for the sector, in a period of economic uncertainty. There are a few details that do affect the manufacturing sector though, such as the delay to the Making Tax Digital project (MTD). The main reason many businesses are anxious for the introduction of MTD is because of the quarterly reporting system - requiring businesses to file, effectively, five tax returns. HMRC haven't released much detail about this project so there is still a lot of uncertainty surrounding MTD, along with the extra burden of filing even more tax returns. However, the delay of an extra year (for those under the VAT threshold) is welcome news as we prepare for what is undoubtedly a huge change to the way we conduct tax returns.

Introduction of T-Level technical education routes

The Chancellor announced in his first and last Spring Budget a new T-level system. This is intended to put technical education courses on an equal footing with academic courses. This new system will increase the number of hours' students train by 50% and replace the current 13,000 qualifications with 15. In order to pay for the new system, the Chancellor announced an extra £500m a year and the changes are expected to come into effect from 2019. This is certainly welcome news to the sector, and Chris Hill, Manufacturing Specialist at Hawsons, commented: "The introduction of the T-levels is good news for the sector, especially at a time when there is a skill shortage threatening to put growth at risk and the economic uncertainty that currently surrounds Britain. Although it won't solve the issues that currently face the sector, it's certainly a start." Coupled with the T-levels is the Talent Funding programme, aimed to fund additional PhD places and many of these places will be within STEM disciplines.

R&D Tax Review

There are two types of tax reliefs for eligible R&D expenditure. Under one of these, qualifying companies can claim a taxable credit of 11% in relation to eligible R&D expenditure. This is known as the Research and Development Expenditure Credit (RDEC). To further support investment, the government will make administrative changes to the RDEC to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among small and medium-sized enterprises.

Dividends

The Dividend Allowance will be reduced from £5,000 to £2,000 from April 2018. The aim of this is to decrease to the tax difference between the self-employed and those working through a company. The government expect that even with the reduction in the Dividend Allowance to £2,000, 80% of 'general investors' will pay no tax on their dividend income. However, the reduction in the allowance will affect family company shareholders who take dividends in excess of the £2,000 limit. The cost of the restriction in the allowance for basic rate taxpayers will be £225 increasing to £975 for higher rate taxpayers and £1,143 for additional rate taxpayers.

Making Tax Digital: Post-Budget update

What is Making Tax Digital?

MTD is the biggest shake-up of the personal tax system in 20 years and will fundamentally change the way taxpayers report to HM Revenue & Customs (HMRC) and keep their business records. Taxpayers will be required to keep records digitally and update HMRC more frequently than is currently the case. The roll out of MTD will commence in April 2018.

The general principles of MTD

The government has decided how the general principles of MTD will operate. Draft legislation has been issued on some aspects and more will be published in Finance Bill 2017.

Under MTD, businesses, self-employed people and landlords will be required to:

- maintain their records digitally, through software or apps
- report summary information to HMRC on a quarterly basis through their 'digital tax accounts' ("DTAs")
- make an 'End of Year' declaration through their DTAs.

DTAs are online areas where a business can see its tax details and interact with HMRC digitally.

Exemptions

Businesses, self-employed people and landlords with turnovers under £10,000 are exempt from these requirements. There will also be a very limited exemption for businesses or people who "cannot engage digitally".

Changes announced in the Budget

The Chancellor announced a one year deferral (to April 2019) from the mandating of MTD for unincorporated businesses and landlords with turnovers below the VAT threshold (currently £85,000). For the self-employed and landlords that have turnovers in excess of the VAT threshold, the commencement date will continue to be from the start of accounting periods which begin after 5 April 2018.

Lords call for delay

The House of Lords Select Committee on Economic Affairs, Finance Bill Sub-Committee (FBSC), have been looking at the potential impact of the MTD proposals. The FBSC have now published a critical report ("The Draft Finance Bill 2017: Making Tax Digital for Business") calling for a far more cautious approach by the government to the roll out of MTD. The committee has recommended delaying the introduction of the scheme to 2020 to allow for a full pilot.

The report concludes that the roll-out of the scheme is being rushed, imposing unnecessary burdens on small businesses and landlords, and will yield little benefit to the government. The Lords' committee recognised the unprecedented technological and logistical challenges that would be faced by the small businesses that do not currently maintain digital records or interact with HMRC on a frequent basis. The committee are also concerned that the government's estimate of the 'tax gap' saving is fragile and not based on adequate evidence.

New penalty regime

HMRC are set to introduce a new regime for late submission penalties and late payment sanctions under MTD. HMRC have now opened a consultation on how the new penalty regime should operate. The consultation paper sets out three possible models for late submission penalties and provides an update on late payment penalty interest. The proposals have been developed with the new MTD obligations in mind but the consultation also explores the suitability of the sanctions for other regular submission obligations. The consultation also provides an update on late payment penalty interest as a sanction for late payment of income tax, corporation tax and VAT.

The consultation closes on 11 June 2017.

How do I prepare for Making Tax Digital?

Over the coming weeks and months, we will provide further guidance on what MTD will mean for your business and explain the practical steps you should take to ensure a smooth transition to MTD.

If your business does not already keep digital records, you should consider doing so now so you can start to familiarise yourself with the software.

If you wish to discuss the implications of MTD for you and your business, please get in touch with your usual Hawsons contact.

Apprenticeship Levy launches

The new Apprenticeship Levy will be launched in April 2017. We look at what this is and who will be affected by the government's new levy.

What is the Apprenticeship Levy?

First of all, only employers with a wage bill of over £3m will be affected by the Apprenticeship Levy. The levy will be set at a rate 0.5% of an employer's pay bill, but each employer will receive an allowance of £15,000 to offset against the levy.

Any employer with a wage bill of £3m or higher must adhere to the new rules, whether apprentices are employed or not.

The good news is that it is expected that only 2% of UK businesses will be affected by this new scheme.

All sectors

The new apprenticeship levy will apply to all sectors – including the charity sector who will not be exempt from adhering to this new scheme.

How is this levy paid?

The levy will be paid through the PAYE system alongside tax and National Insurance Contributions.

Apprenticeship funding

Any employer that is too small to fund the levy – roughly around 98% of those in England – will be eligible to receive 90% of training costs funded by the UK government. Along with this, employers and training providers that take on young apprentices aged 16 to 18 can claim extra support worth £2,000 per trainee.

Employers with fewer than 50 employees on their books can claim 100% of their training costs to be funded by the government if they take on apprentices or young care leavers. As well as this, there are to be 15 funding bands – with the caps ranging from £1,500 to £27,000 and, as previously stated, the plans will be launched in April 2017. The funding system will not be launched until a month later.

Employers that pay the levy

The new 'digital apprenticeship service account' will be the platform for employers to access government funding for apprenticeships to pay for the training. This service will also assist employers in finding training providers in order to deliver a successful apprenticeship programme.

This only applies to businesses in England; as separate arrangements will be made in regards to Scotland, Wales and Northern Ireland.

Employers that do not pay the levy

From May 2017, when the new funding system is launched, employers can use the registers on the digital apprenticeship service to choose the type of training they wish the apprentice to receive, the training provider and an assessment organisation.

Employers that do not pay the levy will not need to use the digital apprenticeship service in order to pay for apprenticeship training and assessment until at least 2018.

Full steam ahead

The British Retail Consortium had called for a delay to the introduction of the Apprenticeship Levy until at least 2018 which, according to its Chief Executive, Helen Dickinson, would "allow more time to design a truly viable system that delivers high quality training."

The manufacturers' organisation EEF had acknowledged that an increase in funding for topics such as maths, science and engineering would be a welcome change, but also warned that there should be a delay in the levy's introduction.

Despite the calls to delay the introduction of the levy, it will go ahead as planned from April 2017

Car-Tax-Trophe for new car buyers!

The way Vehicle Excise Duty (car tax) is calculated is changing. These changes are going to have a significant impact on all new car buyers and care will need to be taken to avoid potentially hefty tax charges. Below are details of the new rules affecting all new cars from 1st April 2017.

New Vehicle Excise Duties

From 1st April 2017

New Vehicle Excise Duties (VED) rules come into force for new cars registered after 1st April 2017. These tax changes mean that all new car buyers will face a significant increase in their car tax in the first year of registration, depending on CO2 emissions. Whilst currently low emission cars are exempt, the new VED system will only be free for vehicles with no emissions i.e electric and hydrogen cars. There is also a new five-year supplement to pay for cars costing more than £40,000 which will be £310 per annum. Buyers of smaller, more economical cars will face the largest increases in duty as they have previously benefited from the old regime favouring low emission cars.

Why change?

Manufacturers have slashed CO2 emissions resulting in less tax revenues for the Exchequer. It is estimated that a quarter of new cars pay no road tax as CO2 emissions are below 100 g/km.

The new changes in detail

Cars registered after 1st April 2017 will pay a one-off tax charge for the first year under a revised CO2 based band system. From the second year onwards, the CO2 scale becomes irrelevant as there will be two flat rates. A zero rate for zero emission vehicles and a flat rate of £140 for other cars. Cars costing over £40,000 will pay the £140 from year two plus £310 for the first 5 years, meaning a total of £450 pa. After five years, they revert back to the £140 flat rate. A £40,000 plus car with zero emissions will pay the £310 expensive car supplement. As part of the changes, alternative fuel vehicles e.g. hybrids, bi-ethanol and liquid petroleum gas will benefit from £10 lower rates for the first 5 years.

The VED tax bands from April 2017 are as follows:

Emissions (g/km of CO2)	First year rate	Standard rate
0	£0	£0
1-50	£10	£140
51-75	£25	£140
76-90	£100	£140
91-100	£120	£140
101-110	£140	£140
111-130	£160	£140
131-150	£200	£140
151-170	£500	£140
171-190	£800	£140
191-225	£1,200	£140
226-225	£1,700	£140
Over 225	£2,000	£140

Cars above £40,000 pay £310 annual supplement for five years.

Cars registered before 1st April 2017

Existing VED bands will remain in place so that these cars continue to pay the current VED rates even after the new bands come into force.

Car-Tax-Trophe continued...

Current (pre-April 2017) vehicle VED tax bands:

VED Band	Emissions (g/km of CO2)	Annual rate	First year rate
A	Up to 100 g/km	£0	£0
B	101-110 g/km	£20	£0
C	111-120 g/km	£30	£0
D	121-130 g/km	£110	£0
E	131-140 g/km	£130	£130
F	141-150 g/km	£145	£145
G	151-165 g/km	£185	£185
H	166-175 g/km	£210	£300
I	176-185 g/km	£230	£355
J	186-200 g/km	£270	£500
K	201-225 g/km	£295	£650
L	226-255 g/km	£500	£885
M	Over 255 g/km	£515	£1,120

Road tax refunds when you sell your car

Any remaining road tax is refunded to the seller and the buyer has to re-tax the car. The tax refunds should be sent automatically when the DVLA receives notification that the car has been sold. Sellers must inform the DVLA of the change of ownership immediately and fines for not doing so are £1,000.

Conclusion

With the news that only cars with zero emissions costing less than £40,000 will qualify for the new £nil rate tax band, it's clear that the government is keen to put pressure on manufacturers to provide more vehicles within this bracket. This is another step on the road towards the Transport Ministers goal for all cars and vans to be zero emissions by 2050.

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Hawsons Wealth Management Presents
Pensions Continue to Evolve

Hawsons would be delighted if you could join us for a seminar where Nigel Smith, Director of Hawsons Wealth Management Limited, will talk you through the ongoing changes in the pensions world.

As a qualified pensions specialist, he will provide details of the favourable tax benefits currently available with pensions, looking at:

- **Funding options**
- **Income requirements**
- **Flexible retirement options**
- **Death benefits**
- **Inheritance tax consequences**

During this seminar, Nigel will explore all these areas and inform you how our Wealth Management team can help.

Following Nigel, Erica Dietsch, Independent Financial Advisor at Hawsons Wealth Management Limited, will look at investment opportunities that may be suitable to provide income in a tax efficient manner. She will consider the following:

- **Investment bonds**
- **Offshore solutions and how they are taxed**
- **ISAs, Unit trusts & Investment trusts**

Sheffield

- **Tuesday 16th May 2017**
- **Tapton Hall, Shore Lane, Sheffield, S10 3BU**

Doncaster

- **Friday 19th May 2017**
- **The Portland Suite, Doncaster Racecourse, Leger Way, Doncaster, DN2 6BB**

Northampton

- **Thursday 25th May 2017**
- **Sunley Conference Centre, The University of Northampton, Park Campus, Boughton Green Road, Northampton, NN2 7AL**

Programme (for all venues)

- **Registration and refreshments: From 7:45am**
- **Presentation: 8:15am**
- **Finish: 9:30am**

To register for this event, please click here.

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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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