Transport/Logistics

Specialist Transport & Logistics Accountants

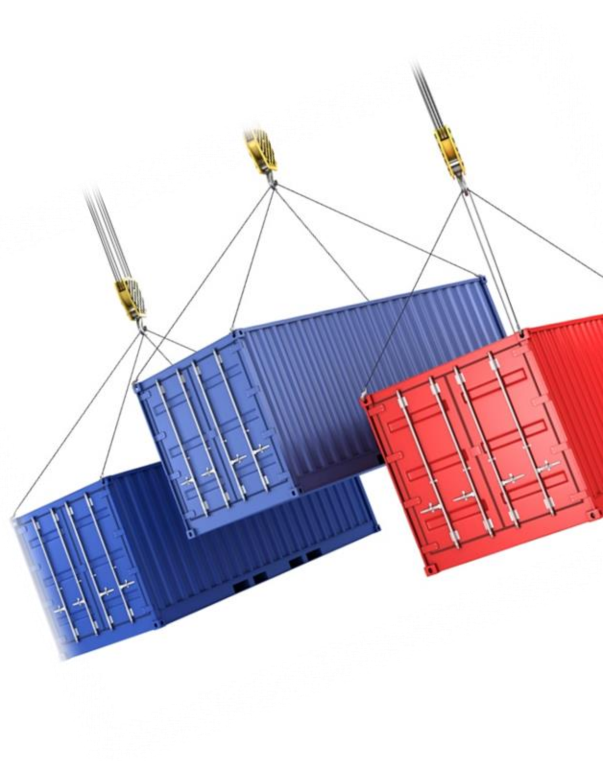
Newsletter
Winter 2017

www.hawsons.co.uk

Introduction

Welcome to our Winter 2017 transport and logistics newsletter.

In our last edition of this newsletter issued in the wake of the EU referendum result we talked about the uncertainty surrounding the economy in the light of Brexit. Seven months down the line, the Brexit fog still surrounds us and shows little sign of clearing anytime soon. In this issue, we focus on two areas that businesses can control and help themselves make clearer decisions – fleet finance, and how cloud based accounting software con help keep your trading information up to date. We also look at how good planning and communication can ease the pain of producing grant monitoring reports. As ever, Government activity keeps having its impact on the sector, and this issue includes an outline of the recent Autumn Statement and how it affects the Transport & Logistics sector. Alongside this we also consider how the forthcoming Making Tax Digital project will alter how we all interact with HMRC.



In this issue, we look at:

- Haulage fleet finance
- Making tax digital
- Avoiding 'Grant Gremlins'
- The benefits of Cloud accounting
- Autumn Statement

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 transport & logistics accountants

Hawsons has a dedicated team of specialist transport & logistics accountants in Sheffield, Doncaster and Northampton. We act for a large number of clients in this sector across our three offices, ranging from hauliers to international couriers, and understand the challenges firms in this dynamic sector face. Nearly every other commercial sector is reliant on the services transport & logistics businesses provide and, in many ways, this specialist sector is the linchpin for our country's economy. With our experience in the sector and dealing with transport & logistics firms on a regular basis we are able to develop a close understanding of your business and, through active year-round involvement, we can help you anticipate and deal with challenges quickly and effectively.

For more information on our transport & logistics expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/transport**

HLB International

Haulage fleet finance

How to finance a fleet of lorries is a big decision for all haulage businesses and there is a lot of advice floating around about how to finance vehicles. Tractor units cost money and the numbers are never small! The options available all have their good and bad points, which can serve to confuse the issue.

What are the options?

The four main options are as follows:

- Buy the lorry outright
- Finance lease
- Hire purchase
- Operating lease

What is the best option for your business will depend its particular circumstances, and the asset being acquired, but the aim is to achieve to lowest whole of life cost of utilising the vehicle.

For example, an outright purchase involves a larger initial outlay than the other three, but over the lifetime of a vehicle may require fewer funds overall. However, that outlay will soak up large amounts of cash that could be utilised elsewhere in the business. Alternatively, a hire purchase agreement may involve the lowest cost up front, but will attract interest charges over the term of the agreement.

There is no substitute for sitting down and outlining the cost and cash flow implications of each option to understand what those options will cost you, and when the cash is required.

There are also non-financial considerations to bear in mind too.

Brand image is a big consideration and many hauliers aim to renew their fleet on a regular basis even if vehicles are in good working order. Leasing agreements, which may appear favourable from a cost perspective, may tie you in for longer than you'd like from a fleet renewal viewpoint.

If you elect to keep the vehicle after the initial hire purchase term, you may well find you've got an asset with few associated financing costs. However, on the other hand when the term of the agreement is over, there are often good deals to be had on exchanging that vehicle for a newer one.

The state of the cash flow of a haulage business can have a big impact on the financing decision. An outright right purchase may mean less cost in the long run, but is a big one off call on cash resources. The more manageable payment schedule of a hire purchase or finance lease under good terms may smooth the way for building a fleet while spreading the costs over the term of the lease.

The timing of the VAT payment for the lorry can also be key for cash flow. Both buying a lorry outright or via a hire purchase will trigger the entire VAT amount on the day of purchase. This is likely to be completely reclaimed, but there can be timing delays before this happens that can affect cash flow. With a finance lease the VAT is included in the monthly payments, and so is spread out over the term of the agreement.

The tax angle

It is also important to understand the tax relief implications and their timing under each option. With a hire purchase, finance lease, or buying the lorry outright, you are likely to attract greater initial tax reliefs due to 100% capital allowances in the first year (up to £200,000 currently). Again, it is important to look at the timing of purchases to take best advantage of these allowances. With an operating lease, tax relief is spread over the period of the lease.

Conclusion

With the range of options available to hauliers, and the various issues to consider there is no hard and fast rule that works in all cases. There is also no substitute for sitting down with your accountant and planning the timing and method of acquiring new vehicles within the context of your business and its particular characteristics.

Making tax digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient. The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information

In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018.

By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

Avoiding ‘Grant Gremlins’

Grant audits and examinations can be highly technical, specialised, and subject to very detailed reporting requirements and specified work programmes. Below we highlight 6 practical points to help you avoid those ‘Grant Gremlins’ that can cause hold ups in reporting back to issuing bodies, or worse still, lead to grant monies being clawed back.

1. Consider your contract

It is imperative you read over the agreement thoroughly, including any annexes to establish the following:

- Criteria for claiming expenditure - Usually there is specific guidance as to what expenditure can or cannot be claimed under the agreement. Understanding this at an early stage can help avoid errors or reclaims, once monitoring reports are put together.
- Reporting requirements - The grant terms should also stipulate what type of examination is required by the issuing body – this will have a bearing on the likely costs of the examination as the level of detail required will vary from grant to grant. The terms will also outline deadlines by which any reports should be submitted to the issuing body, and the form of that report.

2. Engage early with your examiner

It is important to sit down with whoever is to carry out the audit or examination. This will make sure that three things happen, these are:

- To help hit deadlines
- To control the cost of the examination
- And finally, to identify the information that will be required for the exercise.

At Hawsons, we will always go through these steps as it will determine the efficiency and effectiveness of the audit.

3. Agree assignment timelines

As mentioned already, grant issuing bodies have deadlines for reports to be submitted to them. Failure to comply with these can cause monies to be clawed back, or hinder future applications for funding. Therefore, adhering to these deadlines is crucial. Having milestones and target dates for the provision of information by the grantee to the examiner helps with hitting these deadlines, and keeps the cost of the examination under control. We understand that at times, more pressing issues within an organisation can detract from the priority given to dealing with grant audits, and that some flexibility is sometimes required in the process. However, having target times in place at least gives an initial focus to the exercise.

4. Common queries

Whilst the work required on individual grants can be very bespoke, there are common themes that appear and common items of expenditure that require examining:

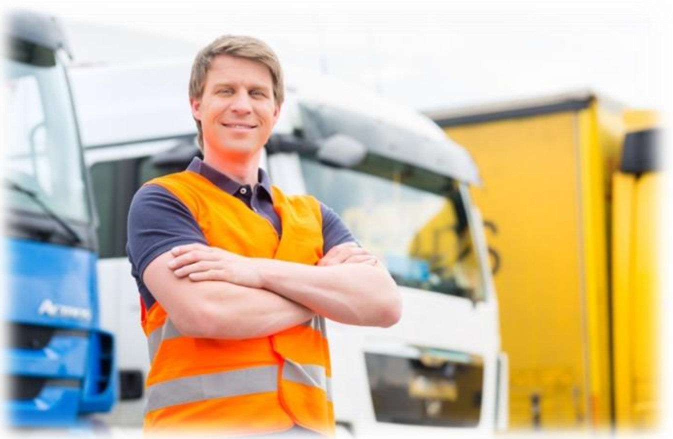
- Payroll costs – more often than not, the auditor will need to look at the component parts of personnel costs, so a review of payroll records, time records, and employment contracts are common.
- Direct third party costs – reviews of invoices, authorisation processes for expenditure, and tendering exercises are also frequent features of grant audits.
- Indirect third party costs – where indirect costs are eligible under a grant agreement, the auditor should be looking at the calculations of how these have been allocated to a project and the justifications for inclusion, so having these available is going to help the audit process.
- Evidence of payment – often grants relate to levels of expenditure defrayed in a period, so having evidence of funds being paid out is crucial.

Avoiding 'Grant Gremlins' continued…

5. Communication at completion

Once the main body of the work is complete, an efficient, effective completion and feedback process can help bring the exercise to a timely close with an accurate and agreed report being submitted to the issuing body. Whenever we act as examiner on a grant we agree the following with you:

- The form of the report – making sure that it complies with the requirements of the issuing body;
- The findings that the report contains – these have to be accurately reported, but we do not want nasty surprise for our clients, so these are agreed with you ahead of submission.
- Final submission – making sure that this is done on time, and in the manner required by the issuing body.



6. Action on errors

- They can happen – Inevitably, errors in claims can occur, but this is not the end of the world.
- They should be reported – whilst we have a professional duty to report errors in accordance with the guidelines of the grant, the way in which this is done should be agreed before the report is submitted.
- They can be adjusted – often claims that have been submitted can be adjusted for errors discovered during the monitoring process.

At Hawsons, we have a depth of experience of dealing with grant audits and examinations in the transport sector. We always aim to take a proactive and organised approach to our work in this area to ensure that the grant recipient meets their reporting requirements, in an efficient and cost effective manner.

What is Cloud accounting and what are the benefits?

Cloud accounting is the use of accounting software where your data and software is stored on the cloud rather than your hard drive. It can be accessed remotely from any device that has internet access, much like your internet banking. As your business grows, one of the key questions you will ask yourself is: "how can I prioritise my time?" and rightly so, with not having enough hours in the day is one of the key challenges many small business owners face. This is where Cloud accounting can help your business. Here are just a few ways where our online client accounting software can help your business:

Prioritise your time – online accounting brings new working practices. Bank fees that automate the postings into the software from entries on your electronic bank statement, the emailing of pictures of receipts on to your system and the scanning of supplier invoices all reduce the time in data inputting.

IT Services – The Cloud service providers deal with much of the IT maintenance such as the backing up of your data, installing software updates and this in turn reduces the need for on premise servers.

Flexibility – In today's environment, people are mobile working outside of their office hours and away from their office locations, usually on mobiles or tablets or other devices. It is also essential that you can securely access business software and data as and when needed, wherever in the world that may be.

Moving to the Cloud couldn't be simpler, working on the Cloud will give you the opportunity to reduce the amount of time you spend on tedious and time consuming administrative tasks, allowing you to concentrate on what you do best which is running and growing your business. After all, you started a business to run a business, not to be an accountant or a book-keeper. With Cloud accounting, you can do just that.

Our Cloud Accounting services

We will work with you to find out which Cloud accounting software best suits your needs. We work with a range of the leading traditional and Cloud accounting software providers:

- Xero
- Sage One
- QuickBooks

We will help you move to your new software and make the data transfer as automated as possible. Next, we will provide you with training on your cloud accounting software so you know how to use it efficiently and get the benefits as quickly as possible.

Ongoing Cloud accounting services

Once you are up and running we are available to help at any time answering any questions you may have. With your permission, we can log into the software at the same time as you and even take control of your screen to help you with any questions you may have.

How secure is the Cloud?

Charles Kavazy, Director of IT Services at Hawsons says: "It depends. Of course, that's not a very helpful answer, but much depends on many factors including your attitude to risk, the nature of your data and the strength of the security including the processes carried out by the company hosting your data. Some people argue that storing your data on the Cloud can be more secure than storing it on your desktop or an on-site server. The level of physical and electronic security that Cloud service providers offer may be higher, depending on the risk involved, and the duplicated continuous backup processes of Cloud providers are probably going to be better than most businesses would implement."

Wherever you store your data, there are always security issues, as Charles adds: "Most Cloud computing providers take great measures to ensure your data is safe, including backup power supplies, firewalls, data encryption software and regular, third-party security audits. They can also protect your data against floods and fires by having multiple servers in different locations."

Charles summarises: "The Cloud service providers take great care to protect your data, but ultimately each business needs to consider its attitude to risk, the data being stored and the implications of a security breach. If you decide the benefits of the Cloud outweigh the risks and you are happy to accept the risk, then you need to ensure you choose your Cloud provider carefully and implement robust procedures to mitigate the risk of problems. For example, controlling access rights, regular password changes and training your staff on security risks."

Autumn Statement

Philip Hammond delivered his Autumn Statement on Wednesday 23rd November 2016. His speech set out both tax and economic measures the government will implement. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for the Transport and Logistics sector.

In Summary (general):

- The government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament
- Reduction of the Money Purchase Annual Allowance
- Review of ways to build on research and development tax relief
- Tax and National Insurance advantages of salary sacrifice schemes to be removed
- Anti-avoidance measures for the VAT Flat Rate Scheme
- Autumn Budgets commencing in autumn 2017.
- In addition, the Chancellor announced the following pay and welfare measures:
- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017
- Universal Credit taper rate to be cut from 65% to 63% from April 2017.

In the March Budget the government announced various proposals, many of which have been subject to consultation with interested parties. Some of these proposals are summarised here. Draft legislation relating to many of these areas will be published on 5 December and some of the details may change as a result.

In summary (transport and logistics specific)

- Growth to slow and inflation to rise in next two years
- Fuel duty frozen at 57.95p per litre of fuel sold
- £390m to be invested in low-emission vehicles
- Money invested in low emission vehicles will free up money for more EV chargers
- 100% of first-year capital allowance on the installation of EV charging
- £1.1bn to be invested in local transport networks in England
- Further £220m to address local traffic pinch points
- £390m to be invested in development of transport technology of the future
- £23bn National Productivity Investment Fund to be spent between 2017/18 and 2021/22
- £3bn of that Fund being earmarked for transport related projects
- National Living Wage set to increase from £7.20 to £7.50 per hour from April 2017
- Corporation Tax to fall to 17% from April 2020

Autumn Statement Transport and Logistics Impact

Growth to slow and inflation to rise

Paul Wormald, Partner at Hawsons, commented: “The outlook for growth to slow and inflation to rise in the next two years is not great news for a sector that prospers when demand for goods is high and where profit margins can already be tight, although the announcement to freeze fuel duty provided a little comfort for road transport businesses. The general increase in the level of the National Living Wage of 30p per hour is likely to impact payroll costs for many businesses along with a hike in Insurance Premium Tax.”
“The announcement of a £23bn National Productivity Investment Fund to be spent between 2017/18 and 2021/22 will also affect the sector with £3bn being earmarked for transport related projects. Whether the headlines of 80% of the strategic road network being resurfaced and promises of the largest investment in the railway since Victorian times will be delivered remains to be seen.”

“A sum of £390m has been pledged to develop the transport technology of the future centering around a changing infrastructure for electric vehicles, support for low emission taxis and buses, and the development of alternative fuels for HGVs and aircraft. On the taxation front, the government has committed to cutting the rate of Corporation Tax to 17% by 2020 and for those businesses looking at investing in electric vehicles, there is a new 100% first year allowance on the cost of installing electric charge points.”

“Overall, a mixed picture for the sector. The pledges of investment in the transport infrastructure is welcomed, but more importantly they must be delivered. Inevitably, there will be some upward pressure on costs for businesses in this sector which, coupled with a potential slowing of demand in the wider economy, will provide challenges for the sector.”

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