Manufacturing

Specialist Manufacturing Accountants

Newsletter
Autumn 2015

www.hawsons.co.uk

Introduction

Welcome to our Autumn 2015 manufacturing newsletter.

So what's new in the manufacturing sector?

So far the picture has remained largely positive. Confidence is high amongst many in the sector, with increasing levels of investment (particularly in technology) and reported growth regionally, nationally and internationally. However, it is not all good news. Undoubtedly challenges remain within the sector and the growing skills shortage along with the uncertainty over the future of the Eurozone could both have major impacts.

In this issue we look at:

- Manufacturing outlook 2015/16 – challenges and opportunities
- Welcome news of Annual Investment Allowance certainty
- Skills shortage – the importance of retaining key employees
- High value residential property – big changes
- Auto enrolment seminars – be fine, not fined!
- Big dividend income changes – bad news for entrepreneurs?

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

INVESTORS IN PEOPLE

Manufacturing outlook 2015/16 – challenges and opportunities

Manufacturing remains one of the key sectors within the UK and I think it's fair to say we should be upbeat about the future. The picture remains largely positive and it is not particularly surprising that so many manufacturers across the UK are quite optimistic about the future, albeit if a little more tentative than six months ago.

Challenges – skills, finance, productivity and exporting

That increased hesitance in confidence is not surprising either. Today, in an environment which is changing faster than ever before we are seeing a vast array of challenges across the sector. Those of particular note are the shortage of highly skilled and qualified workers, difficulties in accessing finance – particularly for the SME manufacturers, falling productivity and the uncertainty over the future of the Eurozone which, in conjunction with a strong pound, is adversely impacting exporting.

Each challenge has a different impact within the sector as the day-to-day operations, processes and supply-chains vary considerably on specific individual business factors. They have all, however, contributed to the slower start to 2015 than initially anticipated.

Opportunities – innovation, technology and growth

Nevertheless, the manufacturing sector is still growing and it is encouraging to see that, despite a slowdown, manufacturers remain fairly confident and are looking towards the future. Innovation and R&D remain a key strategic focus for many manufacturers and there are significant opportunities here in terms of supply-chain efficiencies, customised manufacturing, cost-efficient production, improved environmental footprint and greater flexibility. We spoke about 3D printing in our previous newsletter and how that can aid the manufacturing process, and this is just one example of how technology can drive growth in the sector.

Running parallel to this, the Government has introduced a number of generous tax incentives to help UK manufacturers – multinationals and SMEs alike – to research, innovate and grow. Two big potential tax-saving opportunities here are R&D tax relief and the patent box, which are both widely available and very advantageous.

One of the key outcomes manufacturers will be striving for over the next 12 or so months will be to 'keep ahead of the game' and mitigate the complexity and financial costs of meeting ever-changing customer demands. Technology that continues to modernise manufacturing and bridge the gap between customer demands and cost-efficient supply will certainly remain high on the agenda.

Looking ahead

With the drama and uncertainty of the General Election (and subsequently the Summer Budget) behind us, we can now focus on the future of manufacturing. With innovation and technology set to drive the sector let's hope output continues on an upward trend.

Welcome news of Annual Investment Allowance certainty

The Chancellor announced in the Summer 2015 Budget that the Annual Investment Allowance (AIA) will be set permanently at £200,000 from 1 January 2016. He had previously said that this would be included in the Autumn Statement, but this earlier announcement provides welcome certainty for manufacturers across the UK.

What is Annual Investment Allowance?

The AIA provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business, up to an annual limit and is available to most businesses. This is certainly an attractive prospect for all manufacturers.

The AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. However, it was due to reduce to £25,000 after this date. Instead, the announcement was that the level of the maximum AIA will now be set permanently at £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

Where a business has a chargeable period which spans 1 January 2016 there are transitional rules for calculating the maximum AIA for that period which operate as on previous occasions when the AIA has dropped. There will be two important elements to the calculations:

1. A calculation which sets the maximum AIA available to a business in an accounting period which straddles 1 January 2016
2. A further calculation which limits the maximum AIA relief that will be available for expenditure incurred from 1 January 2016 to the end of that accounting period.

It is the second figure that can catch a business out, as demonstrated by the following example.

If a company has a 31 March year end then the maximum AIA in the accounting periods to 31 March 2016 will be:

- 9 months to December 2015 (three quarters of £500,000) £375,000
- 3 months from January 2016 (one quarter of £200,000) £50,000
- Total annual AIA using first calculation £425,000

This is still a generous figure. However, if expenditure is incurred between 1 January and 31 March 2016 the maximum amount of relief for will only be £50,000. This is because of the restrictive nature of the second calculation. Alternatively, the business could defer its expenditure until after 31 March 2016. In the accounting period to 31 March 2017, AIA will be £200,000. However, tax relief will have been deferred for a full year.

For more information please contact your local office specialist.

Skills shortage - the importance of retaining key employees

Arguably one of the biggest challenges facing many manufacturers is the shortage of qualified, highly-skilled employees.

With a shortage already building, a recent report published by the Government office for Science forecast that there will be thousands of jobs to fill in the years up to 2020 as people retire or leave manufacturing. Many manufacturers are combating the looming skills shortage through increased training opportunities and apprenticeships, and making promising progress. However, it is essential manufacturing business owners also do their upmost to retain, encourage and support key employees already employed within their business. In this article, we look at why employee bonus schemes are widely used across the sector and how they could help retention.

Employee bonus schemes – a way to retain key employees?

Productivity and output bonus schemes: Productivity and output bonus schemes are frequently used in manufacturing. For example, 'piece work' – a scheme where employees are paid according to the number of pieces or units they produce. In these types of bonus schemes the benefits may extend beyond employee satisfaction and lead, potentially, to good productivity and good customer service.

Quality bonus schemes: Quality bonus schemes are also frequently used within in the manufacturing sector. One of the key reasons for this is that it is much easier to measure 'quality' e.g. using the number of defects found in a specific period of time.

Employee share incentives: There are also a number of share incentives that you may wish to use. The use of employee share schemes and share based payments can be a cost effective and tax efficient form of remuneration, particularly for senior management.

Important considerations

Although employee bonus schemes and share incentives can help to foster strong working relationships, in regards to retaining and incentivising staff, it is also important to also consider the potential disadvantages that they may have on your business. For example, over time employees may come to expect a bonus, seeing it as the norm rather than as an incentive. There are also possible consequences if the scheme fails to achieve the changes or actions it was intended or if the scheme is too onerous to implement.

It is therefore crucial that any employee bonus scheme is carefully considered, with a forward-thinking approach. It is advised that you seek advice on the suitability, implementation and any possible tax implications of employee bonus schemes as soon as possible.

For more information please contact your local office specialist.

High value residential property - big changes

Annual Tax on Enveloped Dwellings

In July, at the annual HLB International Audit & Tax Conference in Amsterdam, Peter Kennan, Tax Partner at Hawsons, spoke to member firms about the current real estate developments in the UK from a tax perspective. That presentation is now summarised here.

There have been some big changes recently, including Stamp Duty Land Tax (SDLT), the Annual Tax on Enveloped Dwellings (ATED) and ATED in relation to Capital Gains Tax (CGT); all of which have led to many with high value residential properties questioning: **am I structured in the most tax-efficient manner?**

ATED is payable by companies that own UK residential property (a dwelling) valued above a certain amount, as the below table shows. This tax is payable each year and is paid through a self-assessment system.

The impact will be north of the capital

ATED is not a new tax. It was first introduced from 1 April 2013 and affected companies that owned residential property with a value of over £2m. This is all changing and it is crucial you do not get caught out.

At first, ATED only really caught London properties, but with the properties valued between £1m - £2m now included from April 2015 (and with properties valued between £500,000 - £1m to be included from April 2016), the tax has been given a much wider scope and will affect many more companies north of the capital. As well as its scope, the annual chargeable amounts for ATED have also increased significantly from April 2015, by 50% above the usual yearly increase in line with the Customer Prices Index (CPI).

Now is the time to think ahead and plan strategically if you have, or are thinking about having, company-owned property. The changes are likely to have a significant impact on how you structure your ownership or whether you have property at all, and need to be considered on a case-by-case basis. We recommend you take advice as soon as possible on this matter.

Property value	2014/15	2015/16
£500,000 - £1m	n/a	n/a
£1m - £2m	n/a	£7,000
£2m - £5m	£15,400	£23,350
£5m - £10m	£35,900	£54,450
£10m - £20m	£71,850	£109,050
£20m +	£143,750	£218,200

Auto enrolment seminars – be fine, not fined!

The law on workplace pensions has changed, but there are still many cloudy areas surrounding the regulation, particularly eligible employees and employer duties. We would therefore like to invite you to one of our seminars on preparing for auto enrolment, by Erica Dietsch, Independent Financial Adviser at Hawsons Wealth Management Limited.

Does my existing scheme meet minimum criteria?

Are there enough schemes left for me?

If you have any questions regarding auto enrolment, including those mentioned above, then please come to one of our free seminars in September and October – Sheffield (29th September) – Doncaster (1st October) – Northampton (8th October).

The seminars will provide an overview of auto enrolment and employer duties, covering who the new law applies to and what you need to do as an employer. You will also have the opportunity to ask our Hawsons Wealth Management Limited experts any additional questions. For more information and free registration, please visit:

www.hawsons.co.uk/auto-enrolment-seminar

Big dividend income changes – bad news for entrepreneurs?

The Chancellor, George Osborne, announced in the Summer 2015 Budget a shake-up in the way dividend income is taxed from April 2016. As the announcement has added to the complexity of the current dividend system the reaction has been, unsurprisingly, one of confusion over how the new tax will work in practice. In this article we answer the questions you have been asking.

How will the new tax work?

Following the announcement, all taxpayers will have, when the new tax comes into effect, a tax-free dividend allowance of £5,000 a year. The first £5,000 of dividend income in each tax year will be tax-free, and dividend income above this allowance will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate taxpayers. This will replace the current system, where those receiving dividends benefit from a tax credit. The tax credit means that basic-rate taxpayers are currently taxed at 0%, higher-rate taxpayers at 25% and additional-rate taxpayers at 30.6%. The changes are highlighted in the table below:

	2015/16	2016/17
Basic-rate taxpayer	0%	7.5%
Higher-rate taxpayer	25%	32.5%
Additional-rate taxpayer	30.6%	38.1%

It is also worth noting that the allowance will not completely exempt £5,000 of dividend from tax. Although no tax will be charged on the first £5,000 of dividend income, it will still count towards total income in determining which tax band applies to any additional dividends.

Will everyone be worse off under the new regime?

No. While it's true that the new system will see many pay more, a new £5,000 allowance for all taxpayers and the removal of tax credits will create both winners and losers. The biggest losers may be those basic-rate taxpayers who receive more than £5,000 in dividends a year, large-scale investors and business owners who currently mix their remuneration between salary, bonus and dividend. The winners, on the other hand, will be small-scale investors who receive less than £5,000 dividends in a tax year and higher-rate taxpayers who have a dividend income below £21,667. We have provided some examples at: www.hawsons.co.uk/dividend-income

I am an owner-manager of my own company. How does this affect my remuneration and profit extraction planning?

Many people in this position are paid a small salary by the company and receive further income by way of dividend. These changes will significantly reduce the tax advantage of taking dividends rather than salary, but for most people it is still likely to be more efficient. Other factors may also be relevant, so this may be a good time to review the planning and timing of extracting income from your company.

What should I do now?

As the new tax rules bring challenges to many, they also bring opportunities – tax planning opportunities – and it is crucial you carefully consider your options in regards to ISAs, pensions, VCTs and how you structure your overall income.

- Review investments after proper investment advice to maximise the use of the £5,000 exemption.
- Review dividend policy in your owner-managed business with us well before April 2016.
- Consider moving shares around the family to maximise the use of the £5,000 exemption.
- Possibly advance dividends to before the rule change in April 2016 if necessary.

For more information please contact your local office specialist.

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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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