Transport/Logistics

Specialist Transport & Logistics Accountants

Newsletter
Autumn 2015

www.hawsons.co.uk

Introduction

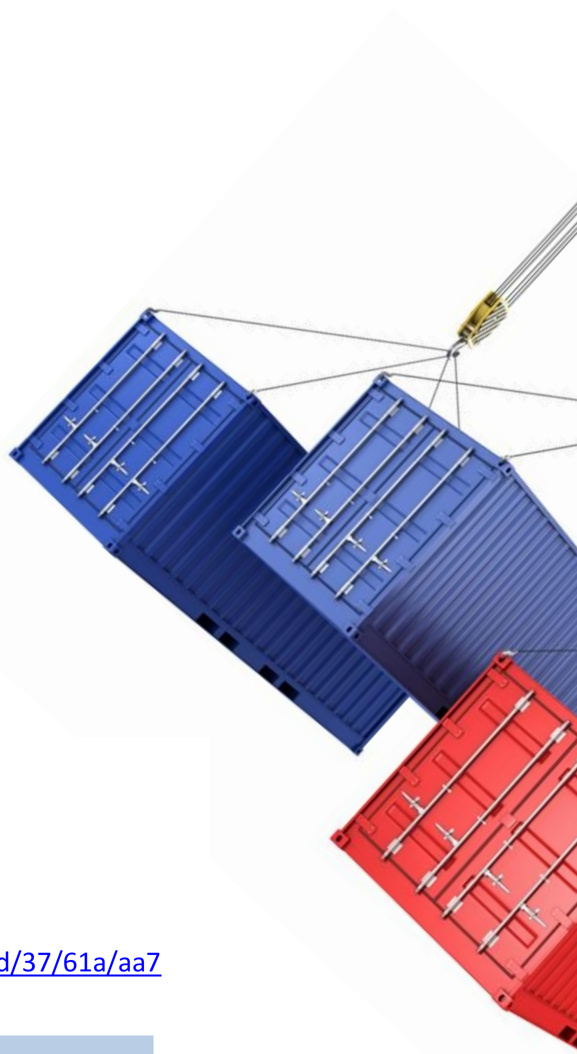
Welcome to our Autumn 2015 Transport & Logistics newsletter.

It is with cautious optimism that we bring you are latest sector newsletter for this dynamic and evolving sector. Although the General Election is now behind us, there have been some big recent announcements that continue to shape the future of transport & logistics.

In this issue we look at:

- What does the future hold in the transport & logistics sector?
- Electrification U-turn impact on the rail sector
- AIA certainty – good news for the sector?
- The impact of the National Living Wage
- Where are the drivers of the future?
- Big dividend income changes – what it really means

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 involved, 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**

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INVESTORS IN PEOPLE

What does the future hold in the transport & logistics sector?

The transport & logistics sector is key to both the long and short-term health of our economy. Transport & logistics firms are vital to the nation's global and domestic competitiveness and its connectivity with the rest of the world.

David Wells, Chief Executive of the Freight Transport Association (FTA) recently warned the government - "ignore the needs of logistics at your peril" - in the FTA's 2015 report. The report highlighted that "from the factory floor, to the kitchen table, it is logistics that will deliver sustainable growth" in our economy.

The full report presented a somewhat cautious outlook for the sector, hinting at a decrease in the pace of growth for many transport & logistics firms on the backdrop of a slower global economic recovery. That being said, the domestic economic landscape for the sector does give some grounds for optimism.

> Paul Wormald, Transport & Logistics Partner at Hawsons, notes: "There are undoubtedly both challenges and opportunities for everyone involved in the sector, but the picture is largely positive. Transport & logistics is a sector which is evolving at a rate of change it has not before experienced, particularly with major investments in the modernisation of existing infrastructure and the growing importance of technology. Of course firms are likely to be cautious on the following a General Election and a Summer Budget which introduced a new National Living Wage, and with a forthcoming Autumn Statement next month, but there is also cause for optimism and opportunities for growth."

Oil prices and their impact on the sector

The low level of oil prices and associated check on UK fuel duty is welcome news, particularly for this heavily oil-dependent sector. The impact of lower oil prices on the UK economy as a whole, driven by the transport & logistic sector, should also see reductions in business costs and lead to increases in business activity.

The growing need for infrastructure redevelopments

The needs for infrastructure improvement in the UK were also highlighted in the FTA report, with the UK languishing in 27th place globally for the quality of its overall infrastructure. Although there are currently major government projects ongoing and in the pipeline to improve the nation's transport infrastructure, including significant investments in the road, rail and airport networks, the FTA report (which was published before the 2015 election) was prophetic in commenting that the government needed to actually deliver major projects rather than just promising them. The uncertainty surrounding the rail electrification, although seemingly now back on, is just one example of where the government has not committed to a major transport & logistics project.

Where are the drivers and workers of the future?

As well as infrastructure capacity, skills and people remain one of the greatest challenges for many businesses involved in the sector. Driver shortfalls in the haulage sector are particularly worrying, but the tightening labour market across the sector as a whole is putting increased pressure on firms. Attracting and retaining key employers is not an easy solution and it needs to be driven by action from both employers and the government. Increased challenges in the employment market are a heavy burden for firms to face, and one that impacts future planning, exit strategies and existing costs. In particular, the shortage of highly skilled and qualified workers is, in turn, putting upward pressure on rates. This, in conjunction to recent increases in National Minimum Wage and the introduction of the new National Living Wage, will see input costs rise for many transport & logistics firms. These rising costs are perhaps the biggest challenge for many, particularly smaller firms who may see a slowdown in growth.

Looking forward

Overall, there is a mixed picture of optimism and caution for the transport & logistics sector in 2015 and moving forward into 2016. There are some significant challenges for all parties to handle, particularly that of increasing costs, but also opportunities through government projects and low oil prices.

Electrification U-turn impact on the rail sector

Electrification and modernisation plans re-commenced

On, off, on…

Just weeks after the General Election, the rail sector was dealt a devastating blow when the government ‘paused’ promised upgrades to major rail lines in the Midlands and the North of England. There were serious concerns over the future of inward investment and business confidence following the pause.

Peter Kennan, a Partner at Hawsons, who also Chairs Sheffield Chamber of Commerce Transport Forum, appeared on BBC and ITV news programmes back in June to express the disappointment felt by Sheffield City Region businesses following the announcement.

Major delays as new completion dates announced

However, the good news is that Network Rail is set to restart electrification of train lines and move forward with their plans. Secretary of State for Transport, Patrick Mcloughlin, has reversed his June suspension and has now pressed for urgency on these two important electrification schemes. This could mean wires across the Pennines by 2020, and wires reaching Sheffield from London by 2023. This is somewhat behind the original proposed completion dates of 2019, but is good news nevertheless. There is also good news for the Midlands as electrification of the line north of Bedford to Kettering and Corby will now be completed by 2019.

Speaking to the Sheffield Star about the announcement of the recommencement Peter Kennan said “We are delighted to welcome the news that the electrification of the Midland Mainline will resume and we will hopefully have electric trains from Sheffield to London by 2023.”

“A modern, efficient and environmentally friendly rail service to London is a key objective for our city business region. While noting some of the comments made following the announcement, work has to progress in stages from the present limit of electrification in Bedford, and Sheffield is at the extremity of the line. It is actually a big relief that the whole line will be electrified in due course and we feel the delay, although regrettable, is understandable.”

Electrification and the impact on business

Paul Wormald, Transport & Logistics Partner, said: “Whilst this recommencement is welcome news, the lack of detailed costing and implementation plans remains a concern, particularly in the light of delays and cost overruns on current electrification projects. One hopes that the Department for Transport and National Rail follow-up and deliver these projects which are absolutely critical for business growth in the Midlands and North of England.”

“Further plans for electrification and investment in modernisation will bring both opportunities and challenges for businesses involved in the rail industry, and across the Sheffield City Region and Midlands as a whole. For now, the long-term impact of such considerable changes is unknown, but it is essential that firms involved in the rail sector understand, and plan for, the likely business implications.”

AIA certainty – good news for those investing in new developments

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. George Osbourne had previously said that this would be included in the Autumn Statement, but this early announcement provides welcome certainty for firms operating in the transport & logistics sector.

Could AIA provide a generous tax saving on the cost of vehicles and new equipment?

The AIA provides a 100% deduction for the cost of fixtures/fittings as well as most plant and machinery purchased by transport companies, up to an annual limit and is available to all businesses.

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 your chargeable period 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 could catch you 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. With the significant costs involved in funding new redevelopments and purchase new equipment in the transport & logistics sector, this announcement could provide welcome relief to operators throughout the UK.

Are you thinking of investing? For more information please contact your local office specialist.

The impact of the National Living Wage

The recent Summer Budget 2015 was hit and miss for the smaller transport & logistics businesses for a number of reasons. One of those reasons was the National Living Wage (NLW) – a new measure the government introduced for working people aged 25 years and above. The NLW is effectively another higher age band of the National Minimum Wage (NMW). Initially the NLW is set at 70p above the current NMW, although this will fall to 50p when the NMW increase comes into effect in October 2015. Further increases are to be recommended by the Low Pay Commission in order to achieve the government's objective of reaching 60% of median earnings by 2020. This means that NLW increases will be independent of the NWM wage increases for each age band that are made annual in October.

The impact on small transport & logistics businesses

	Current hourly rate	Hourly rate from October 2015	Hourly rate from April 2016
National Minimum Wage: Apprentice	£2.73	£3.30	£3.30
National Minimum Wage: Under 18	£3.79	£3.87	£3.87
National Minimum Wage: 18 to 20	£5.13	£5.30	£5.30
National Minimum Wage: 21 and over	£6.50	£6.70	£6.70
National Living Wage	n/a	n/a	£7.20

For more information please contact your local office specialist.

Where are the drivers of the future for transport & logistics firms?

Just 2% of all HGV drivers are under 25

It is fair to say that over the last few years there has been a shortage in the number of young drivers entering the transport & logistics sector. A report published earlier this year found that just 2% of all HGV drivers are under the age of 25, with nearly 60% over 45. The report also found, staggeringly, that there are marginally more managing directors within the transport & logistics sector who fall within the under 25 age bracket than there are drivers who do.

David Owens, Transport & Logistics Partner at Hawsons, notes: "There is a real concern among many transport & logistics companies as their ageing workforces approach retirement age, or will do in the next 5 to 10 years."

"There is very much a driver shortage – particularly young drivers – and that is leading to an ageing workforce. The fact that just 2% of all HGV drivers are under 25 is an extremely striking and worrying statistic. There are simply not enough younger people entering the sector. Transport & logistics firms are the linchpin of the UK economy…and drivers are at the heart of those businesses. So where are the drivers of the future going to come from?"

"The solution to undoubtedly one of the biggest challenges many in the sector are facing is not an easy one. There are a number of strategies that individual companies (and the government) can introduce, but there also needs to be an overall sector push to motivate new, young and enthusiastic drivers to enter the sector. This is an issue that all companies across the sector need to address before the problem becomes insurmountable."

"The shortage of qualified drivers is also, in turn, putting upward pressure on rates and wages. This, in conjunction with recent increases in the National Minimum Wage and the introduction of the new National Living Wage, will likely see costs rise for many hauliers."

Big dividend income changes – what is really means for business owners

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. As a business owner, how will the changes impact you?

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 care 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.

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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