Manufacturing

Specialist Manufacturing Accountants

Newsletter
Summer 2016

www.hawsons.co.uk

Introduction

Welcome to our Summer 2016 manufacturing newsletter.

For many, the first half of 2016 has raised more questions than it has answered. Brexit, in particular, has created an air of uncertainty and no one really knows what's coming next or what it could all mean in the long term. In our latest manufacturing newsletter we therefore focus on the key challenges facing UK manufacturers, including Brexit, the new apprenticeship levy, auto enrolment and the new data protection rules.

In this issue we look at:

- The apprenticeship levy for large manufacturers
- Brexit: tax implications as the UK votes to leave the EU
- UK manufacturing challenges in 2016
- Hawsons launch new exit planning service
- Beware auto enrolment fines – Swindon Town case
- £17m training fund for the Sheffield City Region
- R&D tax relief – the perfect time to claim

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

The apprenticeship levy for large manufacturers

In April 2017 the way the government funds apprenticeships in England is changing, with the introduction of the new apprenticeship levy. The government first announced the new apprenticeship levy in the 2015 Autumn Statement, but has since provided details on how the levy will work. This is an extremely important issue for large manufacturers in the UK.

How will the apprenticeship levy work?

Starting 1 April 2017, the apprenticeship levy will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against the levy, so only employers with a wage bill in excess of £3m will be affected. All employers operating in the UK with a wage bill of over £3m will therefore need to pay the new 0.5% levy, regardless of whether or not apprentices are employed. It is expected that 2% of UK companies will have to pay the levy.

What is the levy allowance?

As mentioned above, all employers will receive a £15,000 apprenticeship levy allowance. This allowance will operate on a monthly basis (£1,250 a month) and will accumulate throughout the year. Your allowance can also be carried forward if it is not fully used in one month so, for example, if your levy charge in month A is £800 you will not pay the levy and your allowance in month B will be £1,700. If your levy charge in month C is £800 you will again not pay the levy and your allowance in month C will be £2,150, and so on.

What about connected companies and groups?

Based on the additional details the government has now published, there appear to be wider consequences for connected companies and groups than initially expected. The government has confirmed that: "where a group of employers are connected they will only be able to use one £15,000 allowance" to offset against the levy. The group can elect which of the connected companies receives the £15,000 allowance. This is similar to the employment allowance connected persons' rule.

The government has also announced that it intends to introduce an amendment to the Finance Bill 2016 for the £15,000 levy allowance for connected companies. The amendment will mean that if a company is part of a group of connected employers, the group must decide what proportion of the levy allowance each employer in the group will be entitled to. This decision to split the allowance must be taken at the beginning of the tax year and will be fixed for that tax year.

It was initially drafted that the allowance could not be split between connected companies, meaning that many smaller groups would have had to pay the 0.5% levy. This amendment is therefore a positive announcement for smaller groups. Larger groups of connected companies, however, will still likely be caught by the apprenticeship levy….even those connected companies that have paybills below £3m when the group total paybill exceeds £3m.

How we can help

As you can see, the new apprenticeship levy brings some detailed and complex rulings, particularly for connected companies and could have wider consequences than originally thought. Whilst the apprenticeship levy will not start until 2017 and the draft legislation is subject to change (the government's guidance says further details on the apprenticeship levy will be released in June, October and December this year) we recommend that all organisations begin to examine if and how the new rules will affect them now. The team at Hawsons can guide you as you consider the impact that the new apprenticeship levy may have on your business. Our experienced employment tax specialists and in-house payroll team can assist your business with preparing for the new levy, including preparing your payroll system, dealing with associated payroll administration, financial modelling and advising you on way of potentially mitigating the impact of the new costs. For more information, please do get in touch with your local office specialist.

Brexit: tax implications as the UK votes to leave

From the argument over selling bendy bananas to the threat of an emergency Budget, the EU referendum campaign has undoubtedly had its share of the headlines over the past couple of months.

The biggest headline now though is of course that the UK has voted to leave the EU.

So what happens next? Will the Brexit vote result in a complete overhaul of UK tax as we know it? The purpose of this short article is to briefly explore some of the potential tax implications of the UK's decision to leave the EU. It is important to stress that the impact of Brexit on UK taxes is extremely difficult to predict at this stage, since many questions remain unanswered.

VAT

The EU has certainly had a significant influence on the UK tax system, perhaps most notably with regard to VAT. VAT is essentially an EU driven tax and leaving the EU could result in significant changes to this area of tax. Whilst the UK may no longer be obliged to have a VAT system once post-exit terms have been agreed, it is fairly safe to assume that VAT will not be abolished given its contribution to the Treasury. The UK will, however be free to decide which goods or services are eligible for reduced rates or exemptions. Freedom from strict EU VAT rules could, for example, allow the government to remove the 5% VAT charge on domestic fuel that is currently required by the EU – a change proposed by the Vote Leave campaign during the referendum.

Even if no amendments are made to VAT law in the UK, there could be changes in how HMRC applies VAT legislation because interpretations of the VAT rules would no longer be bound by decisions made by the European Court of Justice. It is unclear at this stage how the VAT treatment of the UK's trade with the EU will be affected – this will depend on the terms the UK is able to negotiate post-exit. It may be that trade could continue in much the same way as before if the UK is able to obtain access to the single market, or alternatively UK exporters may be subject to EU import VAT and Customs duties.

The Brexit is likely to create winners and losers for both businesses and consumers.

Other taxes

A total overhaul of UK taxes is unlikely to happen because of Brexit alone. A large proportion of the UK's taxes are entirely domestic in nature, and the Brexit by itself won't directly change any of these. There may be small changes to the Gift Aid rules, which could affect UK taxpayers who wish to donate to EU-based charities. At present, UK taxpayers can make donations to EU charities and benefit from UK Gift Aid tax relief, however this approach could be changed post exit.

It will be interesting to see how the UK's existing commitment to international tax agreements will be affected, both in terms of corporate tax and increased transparency.

In summary

The UK tax system will probably remain largely unchanged following Brexit. The most significant changes are predicted to revolve about VAT, but most of these changes are expected to be gradually implemented and will emerge over time, as the UK negotiates post-exit terms. We will keep you updated. The real, practical tax implications of the UK's decision to leave the EU will vary from business to business. For more information, please contact your local office specialist.

UK manufacturing challenges in 2016

This article summarises some of the key challenges facing the manufacturers in 2016, including the air of uncertainty created by Brexit.

Brexit and exchange rates

It is difficult to predict what may happen over the coming months and years following the UK's vote to leave the European Union – a lot of questions remain unanswered. Many manufacturers will be rightly concerned about any negative impacts to the UK economy that Brexit will bring and how that will in turn impact their business. The post-referendum exchange rate volatility (which may continue for a prolonged period) has had a varied impact across the UK manufacturing sector; the top line is that imported raw materials and components have largely become more expensive, whereas exports have become cheaper and more attractive to potential buyers. In the short to medium term the weakening of the pound has provided exporters will some much needed relief, but no one really knows what's coming next or what it could all mean in the long term. Exiting the EU will likely bring both opportunities and challenges for manufacturers - much of this, however, will depend on the terms that the government is able to negotiate post-exit.

The skills gap

In short, the UK is simply not creating enough engineers and, as we have spoken about before, this is one of, if not the, biggest threat to the manufacturing sector today. Over the coming months and years, it will be even more important for manufacturing businesses to form relationships and work closely with local schools and universities, as well as the government. This is of course already happening. The introduction of the apprenticeship levy (from April 2017), whilst bringing an additional payroll costs for large employers, is also a positive development in this area. Apprenticeships are very important and, with an ageing workforce, manufacturers must look to the next generation to recruit people for the future – for tomorrow's business.

Cyber security and data protection

A recent report from the manufacturers' association, EEF, found that UK manufacturers need to step-up their planning for cyber security. The headline finding from the report was that almost half of manufacturers have failed to increase their investment in cyber security in the past 2 years. Among small manufacturers, this figure rises to 56%. With manufacturing businesses increasingly adopting technology and with data continuing to play a progressively critical role in manufacturing, the risks that businesses in this sector face are changing at a rapid pace. Manufacturing businesses will inevitably find themselves more vulnerable to cyber breaches and intellectual property crime and infringement in the years to come, and need to be prepared for such attacks. With the new EU General Data Protection Regulation (GDPR) finally released, in April 2016, manufacturing businesses will need to start planning ahead and preparing for the changes. In the short term, given the timing of the UK's exit from the EU, UK businesses will be required to adhere – at least for a few months in 2018 – to the new rules, which apply from May 2018. In the longer term, although it is unclear whether EU GDPR rules will still apply in the UK (much will depend on post-exit negotiations), it is likely that any new UK data protection standards would have to be equivalent to the EU's GDPR framework. Manufacturers will therefore still need to prepare for and start to comply with the new EU GDPR data protection rules, before the regulation comes into law in 2018. As the new rules bring greater power to authorities, data protection errors will now be far more expensive – both financially and through loss of reputation – than ever before. Find out more about the new rules at www.hawsons.co.uk/new-eu-gdpr-rules

Product development and innovation

Today's manufacturing sector is a fast paced and consumer driven market, which is why product development, research and innovation and becoming increasingly important. Britain historic strengths in innovation and design, particularly in the manufacturing sector, will therefore continue to be very important in terms of driving future growth and maximising profitability. A number of things are likely to happen over the next few years as the sector evolves, including a bigger focus on 3D printing, automation and data analysis. Whilst there are clear benefits of these technologies, they also bring challenges such as the potential cost of initial set-up and the possible problems that mass customisation, for example, may bring. It will be interesting to see how many manufacturers adopt a greater technology-driven approach in the coming years and how that influences customer demand and buying patterns. In our experience, innovation in the manufacturing sector is essential if a firm wishes to take advantage of some of the more profitable opportunities in an exciting but challenging market. The manufacturing is going through a period of significant change and in 2030, 2040 or 2050 the sector will look very different from today. Manufacturing will be virtually unrecognisable from that of 20 years ago.

Hawsons launch new exit planning service

Hawsons are pleased to announce the launch of a new exit planning service. The service is aimed at owner managed businesses looking to realise the maximum value of their business as they exit the business in the next 5 years. It puts a structure to the advice and guidance that we have been providing to clients through our corporate finance function.

Pete Wilmer, Corporate Finance Partner at Hawsons, said: "Our expert exit planning service is designed for businesses of all types and sizes to help them ensure their business is ready for sale, at the best possible value."

"The advantage of our successful exit planning methodology is that it looks at the full spectrum of business functions – from processes, to marketing and intellectual property – to add real value to the business. Sometimes the true value of a business lies with an individual, rather than the business itself, and this is where we can work closely with business owners to set out a proactive plan to lower the risk for the prospective buyer and, in turn, increase the value of the business."

"Typically, selling a business is a once in a lifetime transaction – one shot to get it right – and, whilst the majority of business owners recognise that exit planning is an essential part of any business, it can be quite a daunting task. Our exit planning service is all about executing a plan over a period of time, looking at finances in advance and preparing the business for sale."

As part of our new exit planning service we are also launching a business attractiveness test. The test uses a series of tools to see if there are any areas that could improve the value of your business. Find more information and take the test at www.hawsons.co.uk/exit-planning

Beware auto enrolment fines – Swindon Town

On the back of The Pensions Regulator fining Swindon Town Football Company £22,900 after it failed to put eligible workers into a pension scheme, this article is a worthwhile reminder of auto enrolment fines. Regardless of the size of your business, non-compliance could mean an initial £400 fine, with the possibility of further escalating fines. Escalating auto enrolment fines are daily penalties that are imposed in addition to the initial £400 fixed penalty and could be as much as £50 per employee.

Example: Your business has 10 employees and you miss your staging date. Your auto enrolment fines could be:

- £400 fixed penalty
- £50 x 10 = £500 per day escalating fines

By delaying your staging date by just one week you could face auto enrolment fines of £3,500.

Free auto enrolment workshops

If your business does not satisfy the rules i.e. have a pension scheme in place, have a system to record the relevant information, or you miss your staging date, The Pensions Regulator will send you a statutory notice. In the last quarter of 2015 The Pensions Regulator issued more than 2,500 statutory notices to businesses, over 1,000 fixed penalty notices and 24 escalating penalties.

We recommend that you start talking to your pension adviser as soon as possible to build a timescale and agenda to make sure it all falls in to place. We would welcome the opportunity to work with you and your business and would like to invite you to attend one of our free, no-obligation auto enrolment workshops. We have been running these 2 hour long workshops across each of our three offices in Sheffield, Doncaster and Northampton for the last 12 months, with around 70 small business owners attending so far.

We have now added additional dates for August and September across our three offices. We expect these sessions to be extremely popular and spaces are limited to 5 per workshop. We recommend you book your place early: www.hawsons.co.uk/workshops

£17m training fund for the Sheffield City Region

Do you know about the new Skills Bank for the Sheffield City Region? The Skills Bank is a government/LEP initiative aimed at workforce training and development in the Sheffield City Region. It is a £17m fund – new for 2016 – comprising of funding from the European Social Fund and Growth Funding.

What is the Skills Bank?

The Skills Bank is an exciting new service which invests in skills and expertise to drive business growth, and will run from Spring 2016 until March 2018 to help local businesses develop skills and grow.

The Skills Bank is a facility to help improve the skills base of the workforce in the Sheffield City Region, whilst also changing the way the skills system operates – placing the purchasing power for skills in the hands of employers. The £17m support will be used to either fully fund or partially fund the training and development needs of local employers.

The employer (i.e. you) may be eligible for funding, but will still likely be required to make a cash contribution towards the cost of training. The employer's cost of the training and development will depend upon the number of learners, the duration of course, the method of delivery and the course content.

The Skills Bank is an opportunity for employers in the Sheffield City Region, comprising of nine local authority areas: Barnsley, Bassetlaw, Bolsover, Chesterfield, Derbyshire Dales, Doncaster, North East Derbyshire, Rotherham and Sheffield.

What does the Skills Bank mean for employers?

The Skills Bank will support employers who have training and development needs in the Sheffield City Region.

The process of the Skills Bank works as follows:

- Identify what training and development you need to grow your business;
- You can do this by completing the "skills assessment" on the Skills Bank's website;
- Visit the Skills Bank's "online marketplace" to find the training courses that suit your needs;
- There are over 1200 courses already available;
- If you are unable to find a course for your needs, the Skills Bank will help you find a solution;
- The solution could mean a new course option becomes available, depending on demand;
- Consider how, where and when you want your training delivered;
- You will work with the Skills Bank to build a "skills deal" for your business;
- This will involve agreeing your Skills Bank funding, your own costs and your training provider;
- Complete your training and development with your training partner;
- Submit feedback and a review on the learning that has taken place.

This is an exciting opportunity for all employers in the local region, particularly for those who have very specialised training and development needs, which may not be cost-effective to provide in-house.

Can the Skills Bank support your business?

A new website has been launched for the Skills Bank in the Sheffield City Region. Please take the time to visit the website to understand how the Skills Bank can support your business and check whether you are eligible for a skills deal.

You can quickly complete the "eligibility checker" and register your business for training opportunities.

Find more information at www.sheffieldcityregionskillsbank.co.uk

Sheffield City Region SKILLS BANK

R&D tax relief – the perfect time to claim

Research and Development (R&D) Tax Relief can provide additional tax deductions and enhanced cash flow for companies that develop new products, processes or services. Although widely available, R&D claims are often overlooked, and many companies that would be eligible to make a claim fail to do so.

To encourage more companies to claim R&D Tax Relief, HMRC recently introduced Advance Assurance.

This is a new initiative which enables small companies to seek HMRC's prior opinion on whether the R&D they are carrying out, or are planning to carry out, will qualify for R&D Tax Relief. With this added assurance from HMRC, combined with recent increases in the rates of relief available, there has never been a better time to make a claim.

The tax saving generated from a claim can be significant.

For example, a company incurring £100k of costs on qualifying R&D activity could save up to £26k in corporation tax. Alternatively, if the company is loss making, it may be possible to surrender the loss for a cash repayment, of up to £33.3k for every £100k of expenditure. This could significantly improve cash flow for new companies and provide much needed investment for the business.

What is Advanced Assurance?

Advance Assurance is a voluntary scheme focused on first time claimant smaller companies.

In order to access Advance Assurance, the company must:

- not have claimed R&D tax credits before;
- have an annual turnover of £2 million or less, and;
- have less than 50 employees.

Successful applicants will have assurance from HMRC that their first three years of R&D tax relief claims will be accepted.

If you're planning to carry out R&D at a future date, Advance Assurance can still be applied for. HMRC will contact you after you've submitted your first claim to check that the R&D undertaken matches the details supplied in the Advance Assurance application.

How we can help

We have extensive experience of dealing with R&D Tax Relief claims, and can apply for Advance Assurance on your behalf as a first step in preparing a successful claim. If you would like to discuss your eligibility for claiming R&D tax relief and how you could obtain certainty through using the Advance Assurance scheme please get in touch with us.

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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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Find out more about how Hawsons can help your business.

Please call your local office or visit:

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