Transport/Logistics

Specialist Transport & Logistics Accountants

Newsletter
Summer 2016

www.hawsons.co.uk

Introduction

Welcome to our Summer 2016 transport and logistics newsletter.

The transport and logistics sector is evolving at a fast pace and, with Brexit now confirmed, no one really knows what's coming next or what it could all mean in the long term. In this newsletter we look at some of the key tax issues that will impact the sector, the ongoing implementation of auto enrolment and review the key challenges facing the transport and logistics firms in 2016.

In this issue we look at:

- Logistics Report 2016 – shifts and changes
- Apprenticeship levy for large operators
- Challenges for transport and logistics firms in 2016
- Hawsons launch new exit planning service
- Beware auto enrolment fines – Swindon Town case
- A route through the haulage tax minefield

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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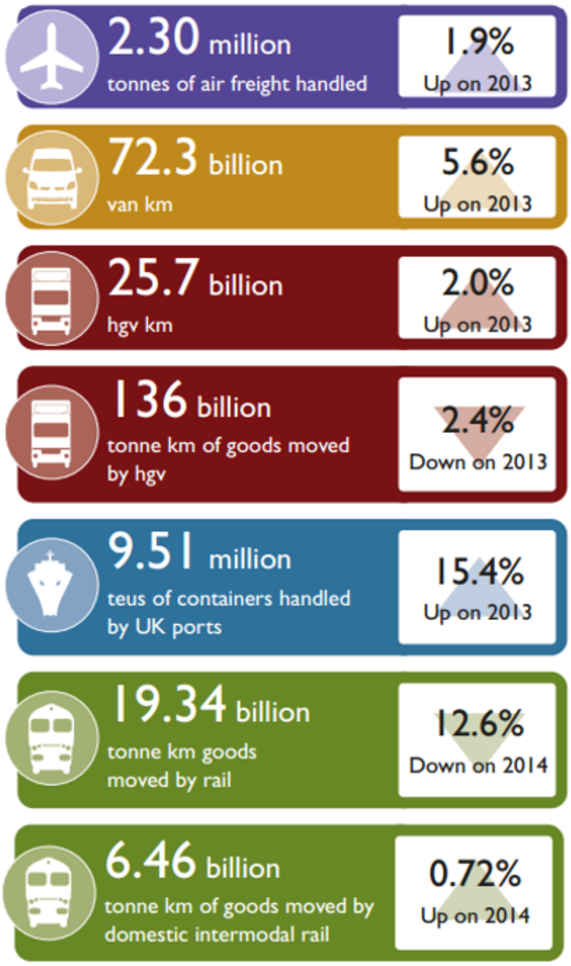
INVESTORS IN PEOPLE

Logistics Report 2016 – shifts and changes

The long-awaited FTA Logistics Report 2016 has now been published. The FTA Logistics Report is published each year, providing detailed analysis of the key events, trends and news in the sector over the previous 12 months.

David Wells, Chief Executive of the FTA, said: “This year’s report highlights the contradiction inherent in the UK economy; on the one hand we are doing well, with increased consumer confidence driving up the demand for goods and services but, on the other hand, we would be foolish to ignore the significant economic headwinds that are building, especially with regards to the emerging economies.”



Source: FTA Logistics Report 2016

Logistics activity – cautiously optimistic

As the graphic on the left-hand side highlights air freight, vans and HGVs saw an increase in activity in 2015, whilst rail freight saw a significant decrease. Those retail and the related distribution and haulage operators saw the biggest increases in activity in 2015, particularly as online sales continued on an upward trend. Incidentally, over 370,000 new vans were registered in 2015 – 60% more than in 1994, highlighting the need and demand for that particular logistics sector. Unsurprisingly, with the growth of online sales showing no signs of slowing down, those were the firms that were the most optimistic about the year to come. On the other hand, as the decline in steel production continues and coal-burning power plants begin to be phased out, rail freight operators are likely to be very tentative about the remainder of 2016.

Logistics costs – not much change

The FTA Logistics Report also included the annual the FTA Logistics Industry Survey – which had 340 respondents – and found that input costs in 2015 saw moderate increases (compared to 2014), with the exception of fuel costs. Wage rates were the input cost that saw the biggest increase in 2015. As well as general salary rises, increases in the National Minimum Wage in October 2014 and again in October 2015, as well as the continued implementation of auto enrolment, impacted a high number of operators. Other costs, such as maintenance and insurance, also saw small increases. Of the logistics input costs that decreased, the continued freeze in fuel duty and the significant falls in the price of a barrel of oil in 2015 helped to reduce the impact of fuel price volatility.

Top three actions for the government to take

Responses to the FTA Logistics Industry survey also provided the top three actions they would like the government to take:

- Invest in road improvements
- Recognise the essential role of logistics in the economy
- Cut fuel duty

Other key findings

- The number of fatal accidents per billion lorry miles fell by 3.5% - a figure which is 43% lower than a decade ago
- A stronger economy is leading to increased demand for logistics
- The skills shortage remains a major issue for logistics – average age of lorry driver has increased from 45.3 to 48 since 2001
- There continues to be a fundamental change in the way we shop and the way we move goods (more sales online)

The apprenticeship levy for large businesses

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 transport and logistics businesses 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 an 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.

Challenges for transport/logistics firms in 2016

Employing more than 1.8 million people across the UK and servicing nearly every other commercial sector, transport and logistics firms continue to be very important to the nation's growth. Confidence remains cautiously optimistic with continuing government support and significant investments in the UK's road and rail infrastructure; however, operators remain acutely aware of the challenges ahead. This article summarises some of the key challenges facing the transport and logistics sector today and, as you will see, there is a really close relationship between the opportunities and the threats in this evolving sector.

Changing customer demands

As more and more sales are made online (more than 20% of non-food retail spending occurs online in the UK, according to a recent British Retail Consortium report) there is an increasing demand for vans to service home delivery. A greater focus in selling online leaves retailers with a challenge: how do they actually put goods in the hands of the customer? This has implications for the way in which transport and logistics firms structure their fleets and is making some re-think their models. Today's transport and logistics customers demand even greater flexibility and this presents opportunities for the sector to increase activity over the year ahead. It is certainly no surprise that retail and the related distribution and haulage sectors were the most optimistic about the year to come, as highlighted in the FTA's Logistics Report 2016.

Cyber security and data protection

Advances in technology and improvements of online networks across the transport and logistics sector are creating some very exciting opportunities, reducing costs and improving speed and operational efficiency. Additionally, in the not too distant future, with significant advances in technology and software, driverless trucks and flying drones delivering products and supplying distribution networks could be a real possibility. Whilst these are great for consumers (and operators), inevitably, with a greater reliance on technology the issue of cyber security is not going away, and attacks are becoming more sophisticated. Cyber security is absolutely relevant to transport and logistics firms and, as with physical threats, cyber threats need to be taken very seriously.

With the new EU General Data Protection Regulation (GDPR) finally released, in April 2016, 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. Transport and logistics businesses 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. Find out more about the new rules at www.hawsons.co.uk/new-eu-gdpr-rules

Skills shortage

In short, the UK is not attracting enough drivers and engineers to the sector and, as we have spoken about before, this is one of, if not the, biggest threat to transport and logistics firms today. Many other sectors are experiencing skills shortage, including manufacturing and technology, but the transport and logistics sector has been particularly affected. The introduction of the apprenticeship levy (from April 2017), whilst bringing an additional payroll costs for large employers, is a positive development in this area. Much is being done to bridge the skills gap in the sector, but with no immediate remedy in sight and the age profile of the sector continuing on an upward trend, the skills gap may well continue to hamper economic growth.

Find more information on the skills shortage at www.hawsons.co.uk/drivers-of-the-future-for-transport-logistics-firms

Wage rate increases and low profit margins

Although the sector will not be one of the hardest hit following the introduction of the new National Living Wage and yearly increases in the National Minimum Wage, transport and logistics firms work with a number of suppliers who do employ large numbers of staff working on the National Minimum Wage, so the impact could well be indirectly passed onto increases in supplier prices in the coming years and months. The new apprenticeship levy, which we focus on in another article in this newsletter, also brings a new substantial payroll cost for larger operators from April 2017. Even despite the price of oil falling, rises in wage rates means that the transport and logistics sector remains largely unchanged, and is still very much a low margin activity.

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

A route through the haulage tax minefield

There have been some recent changes in the employment tax landscape affecting the road haulage industry and keeping the right side of the pitfalls could prove trickier than negotiating the M25 on a Friday afternoon.

The key areas of risk for hauliers centre around the following:

- Engaging self employed drivers
- Expense claims for drivers engaged via umbrella companies
- Engaging drivers via personal service companies
- Meal and sleeper cab allowances

Self employed drivers

Drivers have often been engaged on a self employed basis by haulage firms be it on a short term basis or a long term one, but unless that driver holds an operating licence and is carrying on their own haulage business, they are incapable of being considered as self-employed. Where drivers have been provided by agencies on a temporary basis it was common for the agencies to engage the drivers on a self employed basis. However, since 2014, if those workers are working under "supervision, control, or direction" either by the agency, or the end client, then they will need to have PAYE and NI deducted from the payments that they receive from the agency.

Umbrella companies

Prior to April 2016 it was possible for an umbrella company worker to claim travel and subsistence expenditure. However, the Finance Bill of 2016 removed this opportunity where the worker was under the direction, supervision and control of the end client.

Personal Service Companies

As a result of the changes highlighted above, there was an increase in the number of drivers using a Personal Service Company through which to deliver their services. Again there are risks attached to this approach.

It is important to make sure that the contractual arrangements demonstrate that the contract is between the PSC and the haulage firm and that this is then borne out in practice. Where it can be established that all the instruction and direction is given by the haulage firm to the individual personally, then there is an increased risk that the arrangement could be challenged by HMRC.

IR35 will apply where the arrangement demonstrates the hallmarks of employment, both within the contract and in practice. This is an area that HMRC are looking at in some depth and there are some tribunal cases proceeding.

Where there is a loss of income tax, this is generally the problem of the engager rather than the drivers themselves, so care is needed by those firms hiring drivers.

Meal and Sleeper Cab allowances

Where a driver was paid a sleeper cab allowance, this used to be tax free subject to the payment being in line with an agreed rate and the claimant driver being away from their normal base. Employers can in some circumstances reimburse the costs of an employee's travel free of tax and NI. These can include meals paid for on a qualifying business journey. In April 2016, employers no longer need to report allowable expenses on a P11d or obtain a dispensation from HMRC.

In conclusion there is plenty of scope for problems to arise in these areas, and it could be a good idea to review of your arrangements.

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Find out more about how Hawsons can help your transport or logistics firm.

Please call your local office or visit:

www.hawsons.co.uk/transport

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