

Manufacturing Insight

Winter 2019

Hawsons Chartered Accountants



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Introduction



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Welcome to our Manufacturing Winter Newsletter

Brexit and the resulting economic landscape gives rise to many uncertainties on the horizon. Despite this, many manufacturers are continuing to trade very strongly and are looking for opportunities in 2019.

The changes to the Annual Investment Allowance will undoubtedly increase capital spend on new Plant and Equipment over the next two years and this will bring with it some great opportunities for our local businesses.

Hawsons are specialist manufacturing and engineering accountants

Hawsons has a dedicated team of specialist manufacturing and engineering accountants in Sheffield, Doncaster and Northampton.

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 and engineering businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

For more information on our manufacturing and engineering expertise, including the services we offer, please visit: <https://www.hawsons.co.uk/manufacturing-engineering-accountants/>



Political Uncertainty sees manufacturing investment decline

Surveys show that Britain's manufacturers are no longer investing the amount they were in previous years in response to the growing political uncertainty and rising fears of the impact of global trade tensions.

The annual EEF/ Santander Investment Monitor shows that in the past 2 years, the proportion of turnover made by manufacturers investments did in fact increase on the back of a robust growth picture in the world economy.

However, the same cannot be said when looking into the future. Out of the companies that were surveyed, only 34% claimed to be planning to increase their investments in plant and machinery. This figure is a concern as it the lowest percentage seen in the 5-years of the survey running.

This lack of investment planning is particularly an issue for small companies- where a shocking 75% are holding off any investments in the next two years.

So why are companies no longer investing?

- 30% are blaming political uncertainty as a reason
- 36% are saying it is because of order book uncertainty
- 17% lack of clarity on Brexit

EEF says that the lack of investment will have a substantial impact on attempts to improve the UK's productivity performance because the opportunity costs of these lost investments are significant. It will likely widen the UK's capital gap even further with competitors who are not using any time dealing with the political and economic complexities of leaving the EU.

When looking at the uncertainty of Brexit, the EEF survey reveals which parts of companies' investment plans have been most impacted. The results were that 51% of companies have put on hold investment plans in plant and machinery until after the Brexit negotiations and 36% have stopped plans to invest in new and improved buildings.

Ms Lee Hopley, EEF chief economist, said: *"Our latest Investment Monitor puts into sharp focus the widening gap between the investment manufacturers know they need to make to capitalise on growth opportunities and to adopt productivity enhancing technologies and the hurdles they face in getting those decisions over the line. The upcoming Budget needs to take some bold steps to support companies in addressing this shortfall until the clouds of uncertainty start to lift."*



5 Manufacturing Trends for 2019

1- IoT (Internet of Things)

The manufacturing industry has been investing in Internet of Things for many years.. IoT is expected to increase significantly during 2019 with businesses adopting more connected machines and devices connected to central networks and the internet.

IoT is a network of devices and software which can access a central system or the internet. IoT allows for a more accessible and data-rich process. IoT is set to make large impact in the manufacturing industry during 2019 as many manufacturers will adopt this form of technology to help with production growth.

IoT will be used for facility management, production flow monitoring, inventory management and many more processes within the business. So, investing in IoT now will give manufacturers and businesses the chance to get ahead of their competition and ensure a secure future for the company.

2- Cyber security

With the growth in IoT, the issues surrounding cyber security will become more apparent in day-day business. Therefore, it is important that manufacturers who use connected technologies become more aware of how to prevent cyber-attacks. By spending time learning how best to secure their network, manufacturers can prevent any loss of revenue. To find out more on the dangers around cyber-security in the manufacturing industry, see our article '*Cyber threats are a growing concern for the manufacturing industry*'.

3-Augmented reality

Augmented reality is the process of overlaying digital graphics and images onto real-life objects through the view of your device camera. The reason why augmented reality will aid the manufacturing sector in 2019 is because it will help improve the methods of prototyping, testing, training and repairing. Because augmented reality allows for manufacturers to see and work on their product in a digital format- it will save money on manufacturing multiple prototypes It will also make training safer as manufacturers can see detailed parts of machinery without having to step onto the factory floor.

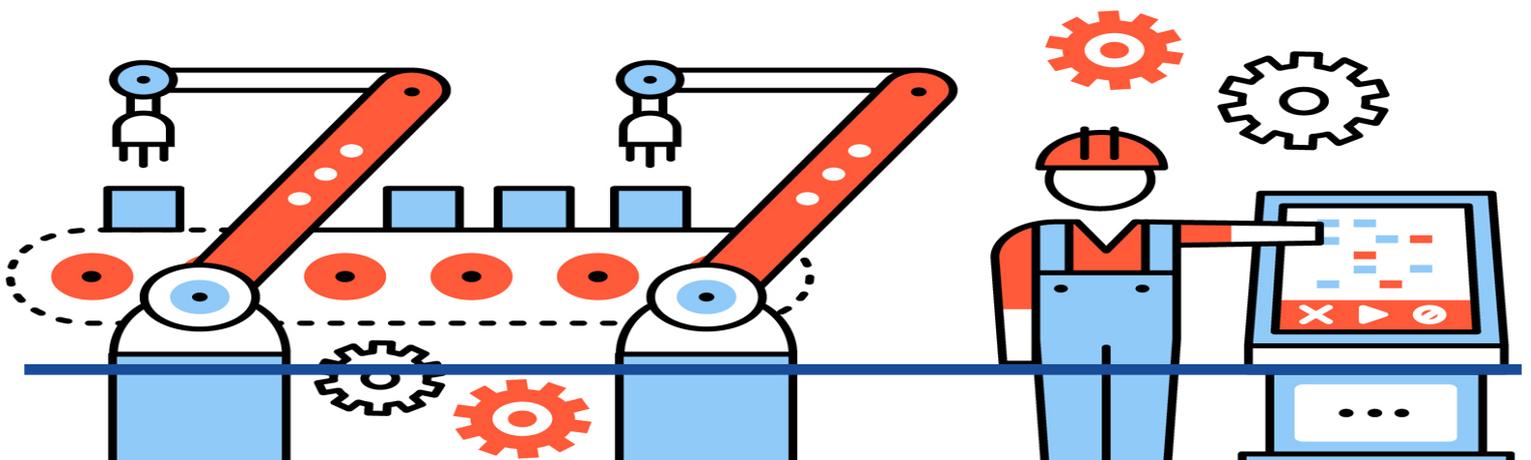
4-Blockchain

Over the past few years, cryptocurrency and bitcoin value has drastically increased. The technology behind cryptocurrency is called blockchain. The way blockchain works is that it sends information to thousands of computers which helps reduce the threat of hackers being able to access the one main system. If all your information is distributed in thousands of different places, there is a significantly less threat of you losing all your information at once.

Block chain will allow manufacturing businesses to quickly, securely and cost effectively send and receive payments to and from suppliers, customer and other companies.

5-Collaboration

In 2019 it is predicted that more manufacturing companies will adopt collaborative systems and hardware to close to gap between employees and machines. Manufacturers are developing robots and machine interfaces that are able to work with employees. This will help speed up production time, reduce cost and improve the quality of the products.



Cyber threats are a growing concern for the manufacturing industry

The manufacturing industry is paying out around £2.12 billion a year to combat the growing threat of data breaches and system outages. This figure comes from research conducted by a new security testing platform called AVORD. They found that 89% of manufacturers have seen a rise in the number of data breaches over the past five years.

The rise in data breaches is being blamed on the fast-growing cost of security testing in the UK with many manufacturers now being charged as much as double the daily rate for consultancies to conduct tests on their critical assets. The manufacturing sector is therefore demanding change with 77% of business agreeing that the cost of security testing is too expensive.

40% of manufacturers have battled an online security breach over the past year. The results of this can be costly for a business with them having to pay out large fines as well the breach potentially leading to a loss of business. Over the past 12 months, the impact of these security breaches has led to 85% of those businesses paying costly fines and 78% of them losing customers.

Cyber threats are continuing to evolve and change. At least one in five business have reported an increase of between 11% and 20 % over the past five years; while more than half reported up to an 10% increase in data breaches.

Almost all of the breaches included in these figures were at least partially due to issues concerning the security testing process.

Brian Harrison, founder and CEO of AVORD, commented: *"Quite simply, security testing has become too expensive for many UK businesses. Companies are struggling to cope with the ever-increasing threats impacting on their attempts to secure systems at current costs. Unless something changes, businesses will be forced to cut corners, and this will inevitably mean there are more data breaches and system outages."*





HMRC reminder to employees to claim their tax deductible expenses

HMRC is reminding employees that they may be able to claim a tax rebate on their work related expenses. HMRC estimate that millions of employees, particularly those working in the service industry, could be entitled to a tax refund. Workers, including manufacturers, nurses, hairdressers, construction workers and those working in retail and food sectors, may be able to claim tax rebates.

Individuals in these types of roles sometimes have to pay for work-related expenses including car mileage, replacing or repairing small tools, or maintaining branded uniforms.

Where these types of expenses are incurred, employees may be entitled to claim a tax refund. HMRC is advising individuals to go directly to [GOV.UK](https://www.gov.uk) to check if they can claim extra cash back. HMRC advise taxpayers to log in to their Personal Tax Account to claim their tax relief online and that approved claims should be refunded within three weeks.

Financial Secretary to the Treasury, Mel Stride MP, said: "We know what a difference tax relief can make to hard-working customers, especially at this time of year. HMRC is keen to make sure customers get all the relief they're entitled to, by using the online service. Tax relief isn't available for all employment expenses, so the online Check If You Can Claim tool is very helpful – then if your claim is approved, your full tax relief will be paid directly into your bank account"

The majority of claims are for repairing or replacing tools and branded uniforms, professional subscriptions and mileage. Healthcare workers, people working in food and retail, and those in the construction industry are among the top professions to claim from HMRC.

HMRC is advising that taxpayers may be able to claim tax relief on the cost of:

- repairing or replacing small tools needed to do their job (for example, scissors or an electric drill)
- cleaning, repairing or replacing specialist clothing (for example, a branded uniform or safety boots)
- business mileage (not commuting)
- travel and overnight expenses
- professional fees and subscriptions.

Lords call for a delay to Making Tax Digital for VAT until 2020

The House of Lords Economic Affairs Committee have issued a scathing report on HMRC's Making Tax Digital ("MTD" for VAT program. The committee have voiced disappointment that on many issues raised by the committee in their 2017 report HMRC had taken "no meaningful action". The MTD for VAT program is due to be introduced in April 2019.

The 2017 report had suggested that the tax gap claimed by HMRC was "guesswork", the proposed timetable was "too tight" and that HMRC had underestimated the difficulties and costs faced by the "considerable number of people with limited digital skills or inadequate broadband access".

The tax gap

The committee found issue with the government's estimates that MTD will result in an increase in tax revenue of just over £1bn by 2020-23. They believe the benefits are overstated and highlighted that "reducing errors could reduce tax revenue as well as increase it".

The costs for taxpayers

Businesses using older software "face the cost of upgrading purely to meet MTD requirements". The committee criticised HMRC for believing that businesses would realise administrative savings that would outweigh any costs incurred in the transition to MTD. HMRC believe the average transition cost will be £109. However, this figure has been challenged by witnesses who appeared before the committee who suggested the average cost could be anywhere between £300 and £2,000.

The timetable

The committee said that HMRC "is alone in its confidence that all one million businesses will be ready for MTD for VAT in April 2019". They believe HMRC have "underestimated the time for research, planning, training and system changes that some businesses will need".

The committee continue to allege that HMRC are more motivated by the possibility of increased revenue for the government instead of the need for greater efficiency. The report suggests that the government should defer the introduction of mandatory MTD by a minimum of one year but encourage businesses to join voluntarily. They believe that HMRC should wait until at least April 2022 before they roll out MTD to any other taxes.

Communicating with businesses

The committee found that HMRC had communicated primarily with software providers, agent representative bodies and agents. They accuse HMRC of neglecting to inform taxpayers "until they were invited to join the pilot". Last month HMRC informed the committee that it was 'significantly increasing its communications activity' but the committee felt that with just five months until the introduction it was "too late to begin an effective communications campaign".

The pilot

Although HMRC extended their pilot to 600,000 businesses in October 2018, the committee said "there is too little time before 1 April 2019 to make up lost ground and respond to implementation issues identified by taxpayers". There will be "no pause to allow the lessons learned in the pilot to be evaluated, particularly from the perspective of taxpayer readiness, and changes made before it is mandatory for most taxpayers". They highlighted that the reliability and performance of "HMRC's systems are still unproven at scale".

Deferred for some

The committee criticised the deferral extended by HMRC on the grounds that it was given mainly to other public sector bodies and a selection of small organisations with the most complicated tax affairs rather than “to the smaller businesses for whom implementation will be most burdensome and who have the fewest resources to devote to implementation”.

Reaction

An HMRC spokesperson responded to this report, saying: “We are disappointed that the committee’s report does not reflect HMRC’s wide and significant engagement on MTD over the last three years, nor the changes made as a result for small businesses.”

Craig Walker, Senior Tax Manager at Hawsons commented “Despite this scathing report, HMRC have given no indication that the introduction of MTD for VAT will be delayed and therefore businesses should ensure they are ready for the new regime”.

The full report can be read here:

<https://publications.parliament.uk/pa/ld201719/ldselect/ldconaf/229/229.pdf>

How can Hawsons help?

We can help you to review your current VAT record keeping arrangements and identify the changes that will be necessary to comply with the requirements of MTD.

If you wish to discuss the implications of MTD for you and your business, please get in touch with your usual Hawsons contact, or our VAT consultant Tony Nickson who would be happy to advice on VAT issues more generally.

You are welcome to attend one of our FREE workshops that are running every month by signing up here: <https://www.hawsons.co.uk/making-tax-digital-workshops/>



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What do I need to do?

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Anything else?

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