Transport and Logistics Insight

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Hawsons Chartered Accountants

In this issue:

-Freight Transport Report: 2019

- How will Brexit affect the rail sector

- Top 10 errors at VAT inspections.

Introduction

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Welcome to our Transport and Logistics Newsletter

Welcome to our first Transport & Logistics sector newsletter of 2019.

In our last edition we looked at how Brexit may affect the haulage sector. In this issue, we switch our attention to the rail sector and give a summary of the Rail Industry Association's synopsis of the challenges they see Brexit posing for the rail industry.

The Government Office for Science released a report in early February looking at the current state of play of Freight Transport in the UK which included a spot of crystal ball gazing as to how freight transport may look in the future. We give an overview of the report and how this may fuel research and development tax credit claims in the sector.

1 April saw the commencement of Making Tax Digital for VAT. We looked at the challenges of this in earlier issues, and with a new method of delivering information to HMRC, the likelihood of errors creeping into returns will almost certainly increase. Our VAT expert, Tony Nickson gives an outline of the top ten errors encountered during VAT inspections.

As ever, please get in touch with us if any of these subjects affect your business – we are always happy to help.

Hawsons are specialist transport and logistics accountants

Hawsons has a dedicated team of specialist transport and 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 this dynamic sector faces.

Nearly every other commercial sector is reliant on the services transport and logistic businesses provide and, in many ways, this specialist sector is the linchpin for our country's economy. With our experience in the transport and logistics sector we are able to develop a close understanding of your business and, through active year round involvement, we can help you anticipate and deal with challenges quickly and effectively.

For more information on transport and logistics expertise, including the services we offer and our experience, please visit: www.hawsons.co.uk/transport-logistics-accountants

Freight Transport Report: 2019

On 12 February the Government Office for Science released a report looking at the UK Freight Transport System.

The objective of this study was to provide an evidence based review of the current landscape of the freight transport system in the UK and to provide some views on how this system may develop over the next decade.

The report looked at a wide range of areas of the sector including the following:

- What is freight transport and who are the key stakeholders in the sector?
- What affects freight transport demand?
- Who provides freight transport services?
- The strategic freight infrastructure network
- What is the future of freight?

Whilst the main focus of the study was to provide a synopsis of the current state of the sector, it is the last section of the report that potentially is of the most use to those involved in lifting freight and their suppliers.

The key challenges for the freight sector in the next 10 years were identified as:

- How can the freight transport system become more cost effective and add to the overall productiveness of the economy?
- How can the freight transport system improve in terms of its impact on local air quality and emissions?
- How can the use of network infrastructure be made more efficient with a view to reducing congestion?
- How will the freight transport system need to adapt to the changing trading relationship with the EU?
- How can the planning system cater for the future needs of the freight transport system?
- How can the freight transport system best adapt to changes in consumer demand, manufacturing practices and technology whilst providing a reasonably stable environment for the private sector?

A continued desire to reduce the emissions of environmental pollutants both from road and rail transport featured large in the report's observations. Trends and measures envisaged include regulating access to urban areas by the most polluting freight vehicles, greater use of ultra low emissions vehicles such as electric vehicles, the development of 'edge of town' freight consolidation centres to facilitate transfer of goods to a lower polluting form of transport for final delivery in urban areas, the phasing out of diesel only traction on the railways by 2040, and the use of shore based electrical supplies for shipping whilst sat in port as opposed to diesel generated electric.

It was also observed that whilst there may a be a greater take up of Light Goods Vehicles powered by alternative fuel sources for short distance freight flows, current technology prevented this from being a viable proposition for longer haul freight.

The changing dynamics of how consumers purchase goods is also envisaged to have an impact on the sector with the continued rise of e-commerce. This is anticipated to see a reduction in private car journeys to retail outlets and this being substituted by more 'white van' deliveries. This will also have an effect on the average freight unit size which is expected to reduce. Distribution centres may need to invest heavily in automated picking and packing procedures to respond to these changes.

The anecdotal trend to reshore manufacturing away from relatively low cost locations such as China is also noted which along with a possible increase in protectionism is anticipated to shorten supply chains in coming years.

For road haulage, the possible advent of 'platoons' of HGVs travelling along strategic corridors is highlighted which, without technological development may be restricted to the motorway network.

Overall the next decade could see the emergence of a very different freight transport system to the one we see today.

The full report can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/777781/fom_understanding_freight_transport_system.pdf

Paul Wormald, partner at Hawsons commented *"the government have produced a very thorough review of the Freight Transport System. Whilst the bulk of the report looks at the current and historic landscape, the really interesting points are held within their view of the future. This gives a valuable insight into where government policy may be heading which can help businesses in this sector plan for the future.*

It is good that the government recognises the need to provide a stable environment for what is a private sector dominated area, but they need to back that up with policies that encourage investment and innovation to allow businesses to respond to the challenges of the future.

Taxation measures such as the increase in the annual investment allowance and the research and development tax credit scheme need to be retained and extended so that issues such as the use of alternative fuels, development of new working practices, and investment in new plant and equipment can be realised.

At Hawsons we help our clients in this sector by utilising these valuable tax measures to their best effect"

How will Brexit affect the rail supply sector?

The rail supply sector is a significant contributor to the UK economy worth around £36 billion each year to our national P&L account.

With around 600,000 people being employed in the sector, a tax yield to the Treasury in the region of £11billion a year, and generating an estimated £800 million per annum in exports it is a key part of what we do as a nation.

On top of this, the rail network is a crucial part of our national infrastructure. It facilitates the movements of goods and people around the UK (and to /from the continent via the Channel Tunnel), and despite the operating issues that manifested themselves last May, the ability to do this in an efficient and timely basis is key to the country's economic prospects.

The current uncertain picture surrounding Brexit raises some key challenges and opportunities for the rail supply sector which were highlighted in an interesting recent article by Damian Testa of the Rail Industry Association published in Rail Magazine recently The main points raised are outlined below:

Challenges:

Smooth cross border trade must continue.

The rail sector is a key customer and supplier to many other industrial sectors both within and outside of the EU. It is crucial that access to these markets is maintained in a post Brexit landscape. Additionally, it is important that any new Customs requirements are as user friendly as possible following withdrawal from the EU Customs Union to keep the administrative and cost burdens on business within the sector to a minimum.

Access to a skilled workforce must be maintained

Around 20% of the workforce within the rail sector are of wider EU origin. The potential loss of these workers, along with an already ageing worker profile in the sector could see a skills gap emerge leading to delays and cancellation of projects, and cost increases associated with a scarcer supply of skilled labour.

There needs to be measures put in place to attract and train more UK workers for the sector.

Clear and consistent application of railway standards must be kept.

The technical standards applied throughout the rail sector are EU based standards. This allows products made in the UK to be used throughout the EU – A great aid for exports, economies of scale in the production and delivery process, and overall competitiveness of the sector.

These could all be threatened if the UK stopped recognising these EU based standards post Brexit.

In addition, if EU based standards were dropped and UK became an island of non-standardisation it could prove to be a disincentive to investment from overseas as manufacturers may need to establish separate product lines solely for the UK market.

The Government's current proposal to no longer have a formal relationship with the European Rail Agency is of concern to the sector as the ability to influence the development of international operating standards is seen as key to maintaining access to global rail markets.

Opportunities

The role of trade agreements post Brexit

The ability for businesses with the rail supply sector to trade and operate within European and wider international markets on a competitive basis is crucial to the future health of the sector.

The prospect of the UK being able to take control of its own trade policies and agreements gives an opportunity for the UK Government to enter into dialogue with key overseas markets so that agreements can be reached as early as possible.

Call for action

Clarity in these areas ASAP

Uncertainty acts as a check to business confidence and investment plans. Therefore early clarity in these keys areas of challenge and opportunity is required so that the rail supply sector can continue and grow its already valuable contribution to the wider UK economy.

The full article can be found in Issue 868 of Rail Magazine.

Paul Wormald, partner at Hawsons Chartered Accountants commented: "*The current uncertainty surrounding what the post- Brexit landscape looks like is a concern for businesses generally. Damian's article brings into focus the key challenges and opportunities for the rail supply sector. Based on feedback from the RIA's members, it highlights what is keeping those running businesses in this sector awake at night.*"

Top 10 Errors at VAT Inspections

VAT inspections used to be a fairly regular occurrence for VAT registered business owners and were often viewed as a terrifying and potentially costly experience. Whilst the regularity of VAT inspections has decreased significantly over the past 5 to 10 years, due to a more targeted and risk based approach by HMRC, the experience remains one that most businesses dread. However, this shouldn't be the case provided the business has made every effort to be VAT compliant and has maintained its financial records in line with legislative requirements.

Having said this, even the most diligent business operator can make a mistake in their accounting records which might result in a VAT officer issuing an assessment for under paid or over claimed VAT following a routine VAT inspection. The most common errors which might result in an assessment are outlined here, though this list is not exhaustive!

1. VAT on fuel

Many businesses reclaim VAT on fuel purchased by directors or partners and employees of the business, but make the mistake of not restricting the VAT claimed to fuel used exclusively for business purposes. HMRC allow VAT to be claimed on fuel used by the business, but will expect to see detailed mileage records to support these claims or, where this is too onerous to maintain, expect the business to pay a corresponding scale charge as output tax, to account for the private use element of the fuel purchased.

2. VAT on Motor Cars

Similar to the treatment of fuel, HMRC will disallow VAT recovery on the purchase of a car for use in the business, unless it can be demonstrated that the car is used exclusively for business purposes e.g. a driving school car or a taxi. In some cases, a business may purchase a car as a pool car, for use by all employees. VAT can only be reclaimed where it can be demonstrated that the strict conditions around pool cars are met, primarily that the car remains at the business premises overnight and is not allocated to one individual.

Another common error is where 100% of the VAT charged on cars leased for business use is recovered as input tax. Only 50% of the VAT charged on cars leased for business use is recoverable; this is often stated on the supplier's invoice but may still be overlooked by business users.

3. Not charging VAT on non-standard supplies

Businesses are usually good at charging VAT correctly on their core business supplies. However, as soon as something slightly out of the ordinary, or less regular, occurs then these supplies can often be overlooked. In many cases businesses might believe VAT does not apply. Examples included inter-company management charges, supplies made to staff, barter transactions (where no money changes hands) and recharges of costs to third parties.

4. Receipt of reverse charge services

Today's business place is often worldwide, with UK businesses receiving supplies of services from suppliers based overseas. More often than not, invoices received from overseas businesses will not include a charge to UK VAT.

Subject to limited exceptions, this is correct and UK VAT should instead be accounted for on the value of those supplies by the UK business recipient of the services under the reverse charge procedure.

Many businesses make the mistake of thinking that because no VAT was charged on the supply, this should be treated as a zero rated purchase. However, the output tax that would be due, had the supply be received from a UK supplier, should be declared by the recipient on the same VAT return as the corresponding input tax would be claimed. For many businesses this accounting procedure will have no net impact on their VAT return, but for businesses that are partially exempt, correctly recording receipt of reverse charge services can result in an input tax restriction.

5. Recovering VAT on entertainment

HMRC have always looked closely at business entertainment to ensure that input tax is not claimed in relation to this expense. Many businesses do not appreciate that taking a client, or potential client, to lunch is considered business entertaining, with many arguing that it is simply a marketing opportunity. However, any form of entertainment remains blocked from input tax recovery and some business owners continue to be caught out.

6. Aged Creditors

Many businesses are familiar with the bad debt rules as they apply to output tax paid to HMRC i.e. where output tax has been accounted for on a supply made and no payment received from the customer after 6 months, the business can claim back this output tax from HMRC on the basis that the supply has become a bad debt. However, the majority fail to consider the flip side of this rule which requires the business to repay input tax to HMRC that has been recovered on invoices received from suppliers, but where payment to the supplier remains outstanding after 6 months.

7. Import VAT

Import VAT can be recovered by businesses subject to receipt of official documentation from HMRC to evidence the import, known as the C79 certificate, which is normally received approximately 3 weeks after the month end in which the goods were received in the UK. Many businesses make the mistake of reclaiming import VAT on receipt of invoices from shipping agents, which is only a VAT invoice for the purpose of the agents' own charges and not the import VAT.

8. Failing to account for VAT on deposits

Often businesses will take deposits from customers when accepting an order for goods or services, but fail to account for VAT on these payments until the balancing payment has been received. This is incorrect, as receipt of payment, in full or in part, creates a tax point for VAT purposes and VAT is due at the date payment is received, unless this is preceded by the issue of a tax invoice.

9. Reclaiming input tax without supporting invoices

In order to recover VAT incurred on expenses, a VAT registered business is required to retain evidence to support the expenditure in the form of a valid VAT invoice. Where no such evidence is retained, HMRC can refuse to refund the VAT claimed, or clawback VAT where it has already been claimed on a past VAT return. Where a business has mislaid a VAT invoice prior to a VAT inspection and cannot obtain a copy, in some instances HMRC may accept alternative evidence to support an input tax claim, such as bank statements showing the payments made to a supplier. However, HMRC prefer to see a VAT invoice and therefore businesses should ensure their record keeping processes are robust and complete.

10. VAT claimed on non-vatable items

Finally, once registered for VAT many businesses make the mistake of assuming that VAT is chargeable on everything and therefore assume that all business expenses include VAT. A common mistake is therefore recovery of VAT on air fares, train fares and taxis. Passenger transport is zero rated as are most taxi fares that will be incurred, though in some cases taxi fares will be subject to VAT, where invoices are received from a taxi firm.

Tony Nickson is a VAT Consultant at the firm. He provides practical VAT advice to a wide range of clients in numerous business sectors and advises on matters relating to sole proprietors, partnerships and corporate bodies on all VAT issues including exporting, importing or providing goods/services within the UK.

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What do I need to do?

Just fill in your details to confirm that you still want to receive our updates, events and newsletters. It only takes a minute, and will mean you stay in touch with us: **http://www.hawsons.co.uk/newsletter/**

Anything else?

Not at all! Although....you can follow us on social media to stay even more up to date with everything that we're up to here at Hawsons.

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