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Manufacturing Insight

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Chris Hill Senior Partner



Introduction

Welcome to our latest manufacturing newsletter.

In this edition, we consider how inflationary pressures are causing manufacturers to raise the price of their products, whilst also discussing additional challenges manufacturers are likely to face in 2022. Furthermore, we also explain the governments 'Made in the UK, Sold to the World' plan and how this will benefit manufacturers. Finally, we discuss what the new postponed VAT accounting system is.

We hope you enjoy the contents of this newsletter and ,as ever, if you have any questions please do not hesitate to ask.



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UK Manufacturers Plan to Raise Prices Over the Next three Months

Introduction

The CBI has recently conducted a survey of 224 UK manufacturers where 80% revealed that they are going to increase the prices of their products within the next three months.

What factors are causing manufacturers to increase prices?

The main factor causing manufacturers to increase the prices of their products is due to inflationary pressures, as the consumer price inflation increased by 5.5% in January which is the highest since 1992. The Bank of England has recently predicted that inflation will peak at around the 7.25% in April when energy bills are set to increase by more than half. Furthermore, increases to the UK's National Living Wage and the National Minimum Wage from April will increase the cost of producing manufactured goods. Therefore, the majority (80%) of UK manufacturers are planning to pass on this cost to consumers in order to maintain profit margins.

Some economists are calling for the Chancellor to use his Spring Budget in March as an opportunity to commit to increasing investment incentives to help manufacturers cope with inflationary pressures.

Manufacturing orders remain strong

Orders for manufacturers continued to be strong in February as demand for UK manufactured goods remained healthy globally. Global demand for manufactured goods increased by 20% during the pandemic compared to pre-pandemic levels. This increase in demand has had an effect on the price of raw materials increasing in international markets. CBI's survey showed that the net balance of factories reporting rising orders decreased in February compared to January at +20% and +24% respectively. Although this was the lowest reading in the last four months the CBI has said that this is still well above the long-running average of the survey.

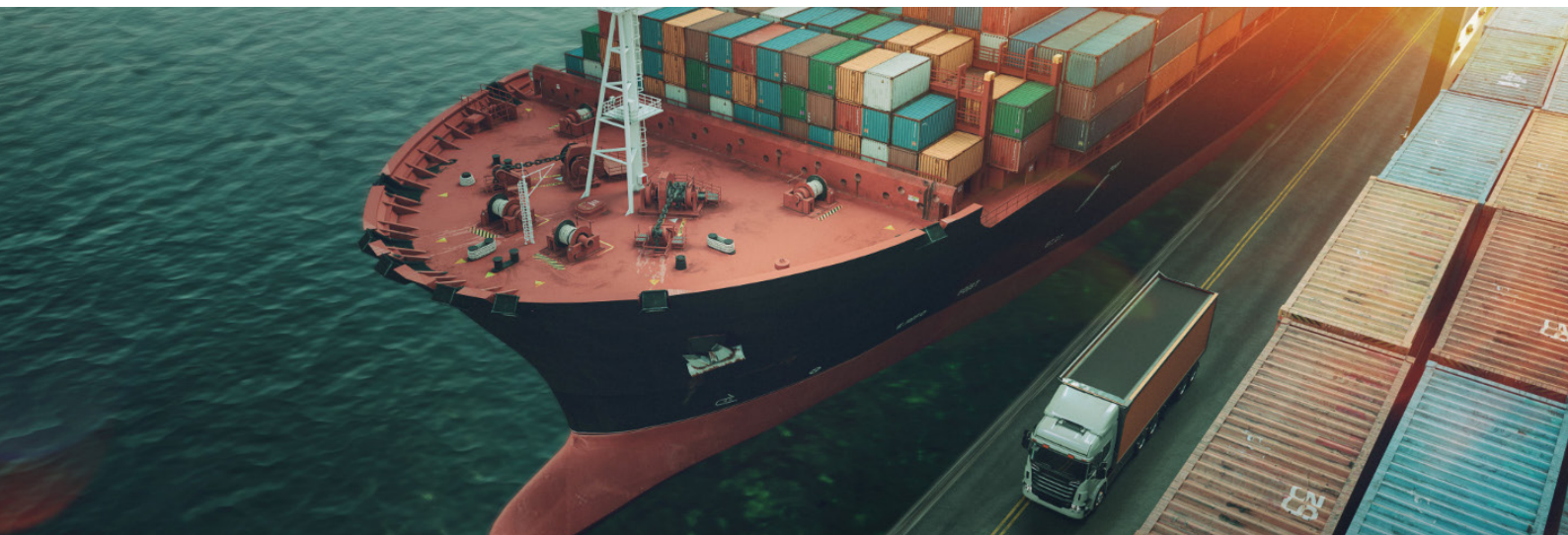
Conclusion

Despite orders remaining strong for UK manufacturers, inflationary pressures and increasing staff wages are having a profound effect on profitability. The majority of manufacturers (80%) are finding themselves increasing the cost of their goods to consumers in order to maintain profit margins.



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Government Announces Plan to Almost Double UK Exports

The government has recently launched its 'Made in the UK, Sold to the World' plan.

What is the aim of the plan?

The aim of this plan is to almost double UK exports around the world to £1 trillion per year. Last year the UK exported £600 billion in goods overseas. However, it is reported that only one in ten GB businesses currently export abroad. The UK government wants to support exporting as research conducted in 2016 found that exports support 6.5 million UK jobs and businesses that export pay higher wages. In addition, businesses that export goods are found to be 21% more productive on average. The announcement of this plan comes after Boris Johnson said he would transform the UK into a 'high wage, high skill, high productivity economy' at the Conservative Party conference in October.

How will this benefit businesses?

The 12-point strategy will enable businesses to access the tools they need to benefit from the free trade deals and increase the number of goods exported from the UK. This will open new opportunities for

small businesses across the UK.

The 12-point strategy includes:

An Export Support Service: An exporting helpline on selling goods and services.

The UK Tradeshow Programme: Designed to help businesses promote their products outside of London and the South East.

Export Academy: The academy will invite business owners and managers to business events to help them with the challenges of first-time exporting.

The European Regional Development Fund: This fund will support 7,500 SMEs in England to export and internationalise.

To find out more about the plan please [read the full government publication here](#)

UK Manufacturers Positive About 2022 Despite Challenges

A recent industry survey has shown that many UK manufacturers are optimistic that productivity and business conditions will improve in 2022. Despite the fact that many UK manufacturers will be facing many challenges such as:

- Retaining staff
- Inflation
- Rising input costs
- New importing and exporting rules regarding Brexit

The industry survey conducted by trade body Make UK and PwC found that 73% of UK manufacturers believe that conditions for the manufacturing sector would improve in 2022. Furthermore, 78% foresaw at least a moderate increase in productivity. It is important to note that the survey was carried out in November 2021. So ahead of the latest Omicron variant.

Despite UK manufacturers having a positive outlook for 2022, there are still many challenges the sector will face over the coming year.

Challenges for UK manufacturers in 2022

Recruitment

One of the main challenges UK manufacturers will face in 2022 is retaining and recruiting staff with key skills and talent. In the current climate, this seems to be a challenge for most industries. A recent survey of HR leaders across a variety of business sectors has found that 77% of employers are struggling with recruiting and retaining employees. The most common reasons for employees leaving their roles were because they found better pay at another firm (76%) and a perceived lack of career opportunities at their current organisation (64%). With unemployment rates currently low, the power has swayed towards employees as companies now look to make improvements such as flexible and remote working to make their organisation more appealing to potential employees.

Continued overleaf...

UK Manufacturers Positive About 2022 Despite Challenges (continued)

Overseas demand affected

Due to the new strict rules that came into force on 1 January 2022, the process of importing and exporting goods is now slower, more expensive, and less flexible. In addition to this, UK manufacturers believe that logistics issues and the uncertain situation regarding pandemic and possible restrictions have damaged export demand. International orders for British-made manufactured goods are down for the fourth month in a row. This decrease in demand overseas will be a concern for manufacturers over the coming year.

Supply chain issues

Importing goods from other countries will also be a challenge for UK manufacturers as new rules now mean that importers must make a full declaration on goods entering the UK from the EU or other countries. Traders can no longer delay this for 175 days. Furthermore, there will now be additional costs of around £300-£400 for importing each consignment into the UK. Therefore, manufacturers will need to rethink how they import goods cost-efficiently.

Despite these challenges, Make UK forecast growth of 3.3% for the manufacturing sector in 2022.



What is Postponed VAT Accounting System?

The Postponed VAT Accounting (PIVA) system for imported goods was introduced on 1 January 2021 and allows VAT registered businesses to declare and, subject to the normal rules, reclaim import VAT on the same VAT return. This avoids VAT being paid to HMRC on import and the business having to reclaim through its VAT return, often months later, and so assists with cashflow.

Under the flat rate scheme (FRS), VAT cannot be recovered on goods purchased or imported for resale, as an allowance for input tax is inbuilt in the flat rate percentages used to calculate the VAT payable.

If PIVA is not used a business will pay import VAT when goods arrive in the UK. Flat Rate Scheme traders cannot recover this VAT (unless they acquire capital goods items over the £2000 threshold).

Currently, when the PIVA system is used, HMRC guidance for FRS states: 'You must add the value of the imported goods to the total of all your supplies, before you do the scheme calculation'. Whilst this guidance is not very clear, the 'value' is understood to be the net value of the goods.

This means that the total value of imported goods should be included in the Flat Rate turnover in box 6. The VAT paid on the imported goods would be determined using the appropriate Flat Rate percentage and included within the box 1 figure.

Post-June 2022 (Revenue and Customs Brief 03 2022).

Businesses must adopt the new guidance for VAT Return periods that start on or after 1 June 2022. The correct treatment under the legislation excludes the value of imported goods from the Flat Rate Scheme calculation completely.

The full amount of import VAT should be added to box 1 only after the flat rate calculations have been completed. This means that businesses using the FRS will then pay the same amount of import VAT regardless of what type of business they are. (Vat notice 733 section 6.5 refers).

There will be no requirement to include any value in box 6 relating to the PIVA transaction.

Any amounts that may have been due to HMRC, had the correct treatment been in place, for periods starting before 1 June 2022 will not be collected and businesses will not be penalised in relation to those amounts. In these circumstances, businesses do not need to amend previously declared returns.



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Our manufacturing experts

Hawsons has a dedicated team of specialist manufacturing 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 manufacturing businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

Manufacturing, like engineering, remains one of the key sectors within the UK, and today many manufacturers, small and large, are upbeat about the future of the sector. In recent years the sector has become increasingly innovative, diverse and forward-thinking, with a strong focus on the research and development of new technologies. Productivity, fierce global competition and the growing skills shortage, however, remain key challenges that many manufacturers are facing.



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