

Newsletter

# The Engine

Issue 3

Keeping You Up To Date With  
Manufacturing & Engineering News

January 2019

[www.mha-uk.co.uk](http://www.mha-uk.co.uk)



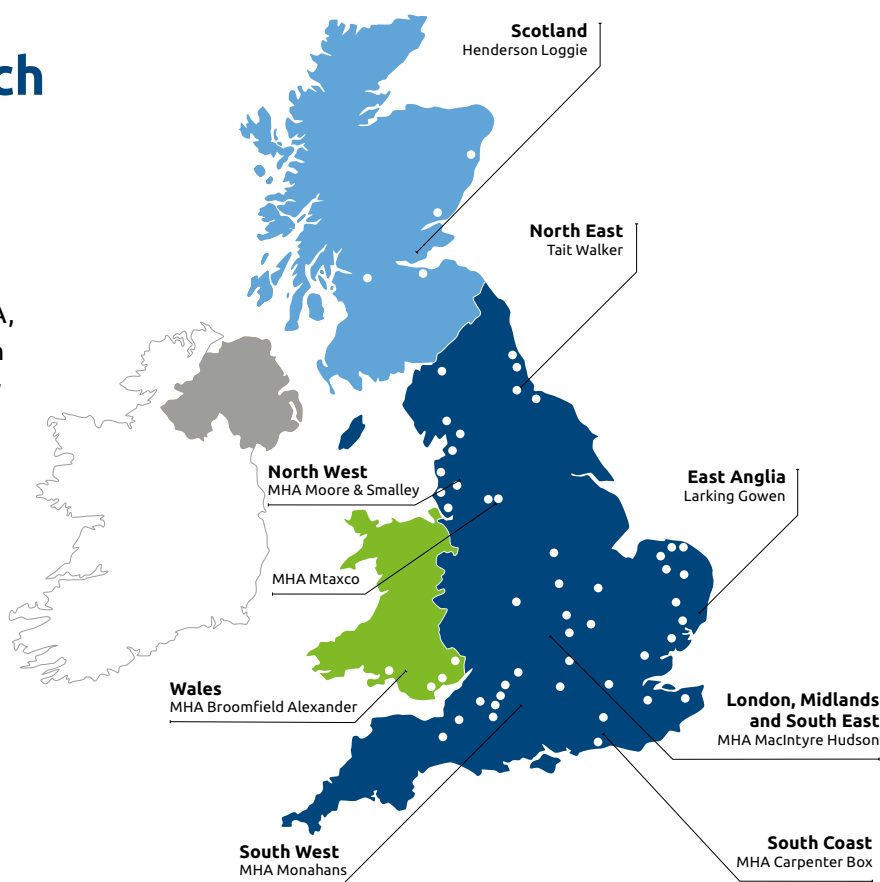
# About Us



MHA members are progressive and respected accountancy and business advisory firms with offices in over 50 locations across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. As well as advising businesses across the whole of the UK, MHA members, through membership of [Baker Tilly International](#), also help UK businesses who are looking to trade globally (and global businesses looking to trade in the UK). Through Baker Tilly International, MHA members can source 'in country' advice through a network of trusted advisors across 147 countries worldwide.

## Our Sector Approach

MHA allows clients to benefit from in depth sector knowledge in addition to specialist accountancy services and expert business advice. Manufacturing and engineering is a key sector for MHA, and we are committed to assisting both our clients and the sector as a whole by promoting manufacturing and engineering in all of its forms throughout the UK.



## Baker Tilly International



## Global Reach



**US\$3.2bn**  
Combined revenues



**147**  
Territories



**126**  
Member firms



# Foreword

Welcome to the third edition of The Engine, MHA's Manufacturing & Engineering Newsletter.

At MHA, we're passionate about UK manufacturing and engineering. MHA members act for thousands of businesses across the country, including OEMs, those in the supply chain, as well as engineering companies and tech businesses.

As we head towards the post Brexit world, we think it's more important than ever to champion our UK sector, which is why we look to share best practice right across our client base. As well as delivering accounts, audit and tax solutions, we also support skills initiatives, run forums and hold seminars, all aimed at helping our clients in the sector to do better.

Along with others such as Lloyds Bank, Innovate UK, the High Value Manufacturing Catapult and Autodesk, we're a member of the Future of British Manufacturing Initiative (FOBMI).

FOBMI is a collaboration between leading UK industry organisations focused on increasing the competitive advantage of UK Design and Manufacturing companies, by removing the barriers to true productivity and innovation.

Do get in touch if you think we can help your business in any way.

## What's Inside:

- **Capital Allowances**
- **Authorised Economic Provider Scheme**
- **The Gatsby Benchmarks**

## THOUGHT LEADERSHIP

Nationally, we produce an annual respected Manufacturing & Engineering Survey Report which has become a barometer of how the sector is faring and how it thinks it will do in the future. The report looks at financial considerations, business confidence, innovation, employment, exporting and future considerations and will be launched in February 2019. View last year's report for a flavour of what to expect:



<http://mha-uk.co.uk/annual-mha-manufacturing-engineering-report-201718/>





# Capital Allowances



## The rate of tax relief for Capital Allowances can be as much as **100%**

Capital allowances provide tax relief across a wide range of capital expenditure. Despite the relief being very valuable, many businesses are missing out by failing to identify and maximise claims to which they are entitled.

Relief for the capital expenditure is given as a deduction against the business' profits. The rate of the tax relief depends on the nature of the asset purchased, the type of business activity being carried on, and when the expenditure is incurred.

The rate of tax relief can be as much as 100%, effectively providing a full write-off of the cost against taxable profits in the year of purchase. Where 100% relief is not available, writing-down allowances are provided instead. These too give relief on the full cost of the capital expenditure, but relief is spread over a number of years. Currently, writing down allowances can be given at rates of 18% and 8%.

Capital allowances are flexible in approach and it is not necessary to have to claim the relief. Provided care is taken to follow the rules, it is possible to pick and choose what to claim, and in some situations, when to claim. This can be very useful from a tax-planning perspective.

## Capital Expenditure

Capital allowances are evolving all the time, with relief being provided across a wide range of assets. For most businesses, allowances are typically available on plant and machinery and also fixtures within buildings.

To claim these allowances, you must be carrying out a qualifying activity and incurring qualifying expenditure. 'Qualifying activity' encompasses all taxable activities other than passive investment. That means capital allowances can be claimed by the self-employed, partnerships, companies, and furnished holiday let landlords. 'Qualifying expenditure' is spending on the majority of plant and machinery used for the purposes of the trade, and fixtures contained within the business premises. Certain assets such as goodwill are specifically excluded.

Examples of assets that can qualify for capital allowances are computers, office furniture, machinery, tools, kitchens, heating, lighting, carpets, ventilation systems, vans, motor vehicles, and many more. Capital expenditure incurred on qualifying costs is added to one of three pools, with allowances given at the pool level rather than separately for each individual asset. The three pools, together with the rate of relief they attract, are:

1. General Pool: 18% writing down allowance
2. Special rate Pool: 8% writing down allowance (6% from April 2019)
3. Single Asset Pool: 18% or 8% (6% from April 2019) depending on the asset

Most plant and machinery expenditure incurred on assets used exclusively for the business are included within the general pool. The main exception is cars with a CO<sub>2</sub> emissions figure exceeding 110g/km – these enter the special rate pool.

Single asset pools are intended for assets used within unincorporated businesses, where there is both business and private use. Here the capital allowances are reduced proportionately to reflect the private use.

Finally, elections can be made to treat particular assets, or in some cases groups of similar assets purchased at the same time, as entering their own single asset pool. These are known as short-life asset elections and can be advantageous for assets that have a low useful economic life within minimal disposal value.



## First Year Allowances allow a 100% deduction against in-year profits

### Annual Investment Allowance

The annual investment allowance (AIA) is the most versatile and generous capital allowance, providing 100% tax relief in the year of purchase. It is available on qualifying expenditure incurred on both new plant and machinery, and fixtures within buildings, but specifically excludes cars.

The AIA was set at £200,000, but will increase to £1m from 1 January 2019. Where a chargeable accounting period straddles the increase in the AIA, the total amount available will be time apportioned, but with relief restricted depending on the timing of the additions. This is important for tax planning purposes.

For example:

A company with an accounting period ended on 31 March 2019 will have a total AIA available for the year of £400,000:

Period 1 April 2018 to 31 December 2018:  $£200,000 \times 9/12 = £150,000$

Period 1 January 2019 to 31 March 2019:  $£1m \times 3/12 = £250,000$

However, the AIA available on capital expenditure incurred before 1 January 2019 will be restricted to £200,000 as this was the rate in force at that time. It may then be preferable to delay expenditure until on or after 1 January 2019.

Once the AIA has been used, or if a decision is taken to make only a partial claim, any balance of the qualifying expenditure will attract writing down allowances at the appropriate general pool or special rate pool rate.

It is not mandatory to claim the AIA allowance, and it will not always be beneficial to do so. Claims can be tailored to help preserve personal allowances or where there aren't enough profits to utilise the allowance. You can also choose not to claim the AIA where the asset is going to be disposed of in the near future and claiming the AIA would trigger a balancing charge in the future.

Like the AIA, first year allowances (FYAs) allow a 100% deduction against in-year profits. Currently, they are only available for certain types of assets, including low-emission new cars, new vehicle electric charge points, new zero-emission goods vehicles, certain new energy-saving and water-efficient equipment, and certain new gas refuelling equipment.

Cars do not attract the AIA, so the only way to secure a 100% capital allowance for a car is to buy a new low-emission car. Where expenditure is incurred on or after 1 April 2018, a low-emission car is one with CO2 emissions of less than 50g/km. The figure was 75g/km for expenditure incurred between 1 April 2015 and 31 March 2018.

FYAs are only available for a new car. Second-hand cars don't qualify, even if the CO2 emissions are below the threshold.

From April 2020 the FYA available on energy-saving and water-efficient equipment will be abolished. If investment on these types of assets is planned for the future, it could be advantageous to bring that capital investment forward to access the FYA and accelerate the relief.

### How we can Help

Our approach is based on being able to provide a fully integrated service consisting of:

- Accounting advice to ensure the accounting treatment optimises the relief;
- Tax advice to identify and capture the optimal basis of tax relief;
- Surveying of assets to identify the maximum qualifying expenditure;
- Tax compliance services to ensure that claims are processed accurately and are progressed by HMRC as quickly as possible;
- Entitlement reviews;
- Transaction advice - understanding pooling and fixtures requirements.

### GET IN TOUCH

If you have any questions or if you would like to discuss Capital Allowances with us in more detail, please get in contact with us on 0207 429 4147.







# Authorised Economic Operator Scheme



**The Authorised Economic Operator Scheme** can help companies wishing to demonstrate the integrity and speed of their supply chain

There has always been economic pressure on certain sectors of the British and World economies to proactively respond to change, whether that be refinements to manufacturing processes, streamlining logistics operations or wholesale diversification.

Brexit is one more economic imperative which, depending on the evolving negotiations, may put further pressure on the logistics sector to be resilient, innovative and flexible.

In 1474, Gebrüder Weiss was founded and up until the early 19th century delivered letters and goods over the Alps to Milan and was the formative logistics company and today remains the oldest courier service in the world. Of slightly younger vintage is the oldest US trucking company, Jones Motor Group which was founded in 1894. Both companies are still operating successfully, having diversified and studied innovative ways of remaining in business in a changing world.

Brexit may mean that to address the common challenges the logistics sector face, to assure and secure their 'just-in-time supply chain', companies will need to evaluate what works for them and the most cost-effective solutions, ahead of a yet unknown customs environment. Key elements of international trade in goods, and on which the customs declarations are based (essential for the calculation of customs duties), are the tariff classification of the goods, their origin and their value.

One important factor emerging from the UK's various proposed new customs arrangements and which has a significant impact if 'no deal' is struck; companies will have to be readily able to assist to prove the origin and routing of items they carry, to satisfy customs authorities of the correct 'rules of origin' on behalf of customers. Hence, efficient processes that track and secure the items will be a major factor post EU exit.

A customs tool such as the Authorised Economic Operator (AEO) Scheme may be considered by companies wishing to demonstrate the integrity and speed of their supply chain and benefit from the proposed improved frictionless movements from many global fiscal authorities. HMRC considers UK applications for AEO status. The authorisation process tests the applicant's tax and customs compliance, commercial and transport record-keeping standards, financial solvency and practical standards of competence within the scope of their business activity. The authorisation process takes up to 120 days to finalise.

AEO certification provides a reassuring 'kite mark' to potential and existing customers, that the company is sufficiently skilled and knowledgeable in customs and supply chain issues to keep their items moving, whether this is across the USA or over the Alps.

Recognising the need to consider and realign a company's day to day customs operations may be a key part of planning for the future, not just from 29 March 2019 or up to 31 December 2020, but well beyond these dates.

## GET IN TOUCH

**For further information regarding our customs duty service line, including AEO status, please get in contact with us on 0207 429 4147.**



# The Great Gatsby



Almost every business is facing the difficulty of **recruiting** the skilled people they need to grow and prosper

If you're expecting to read an exposition on F Scott Fitzgerald's 1925 novel, you had best skip the rest of the article (but we'd rather you didn't!). The context here is around the Gatsby Benchmarks which may prove to be the turning point in careers guidance that many employers have long hoped for.

At or near the top of the worry list for almost every business is the difficulty they face in recruiting the skilled people they need to grow and prosper. Business owners and business managers have for decades been saying that they either can't find people with the right skills, or they can't even find the young people to train in those skills. The result? Great careers go begging and business growth (and even business survival) is called into question.

Part of that skills shortage can be attributed to the scarceness of good careers advice available in secondary schools. To say the problem runs across the board would be unfair, but up until recently, provision has been patchy, with no central resource to drive consistency or raise standards. The lack of a connection between subject choice as a means to following a career needs much more work.

## The Gatsby Benchmarks

In December 2017, the Department for Education released a new career guidance strategy which puts the Gatsby Career Benchmarks front and centre.

The eight Gatsby benchmarks for good career guidance are:

1. A stable careers programme
2. Learning from career and labour market information
3. Addressing the needs of each pupil
4. Linking curriculum learning to careers
5. Encounters with employers and employees
6. Experiences of workplaces
7. Encounters with further and higher education
8. Personal guidance

Every school is now being required to begin using the Gatsby benchmarks. Since September 2018, schools have been required by law to publish details of their careers programmes, as well as having a named "careers leader" to oversee the process.

By the end of 2020, schools will be required to offer each pupil at least seven "meaningful encounters" with employers during their school career. In fact, by the end of 2020, schools must meet all eight benchmarks.

## What Employers Should do

For industry, the priority has to be around connecting with schools, Sixth Forms and FE Colleges to influence the careers debate and help teachers, to understand the opportunities that exist for their students.

Some teachers have no experience outside of the classroom, so reaching out, offering visits or having the opportunity to put a stand up at a careers fair can go a long way. The schools will be striving to meet their Gatsby obligations, so hopefully the process of engagement will be a lot simpler than it has been so far. By engaging, we can help our schools to link their curriculums to careers before GCSE choices are made, which should help to improve the available talent feeding through to the work place with the kind of educational attainment the industry needs.

For more information on careers guidance and the Gatsby system visit <https://www.careersandenterprise.co.uk/>

## GET IN TOUCH

If you have any questions or if you would like to discuss this with us in more detail, please get in contact with us on 0207 429 4147.

# About MHA

## MHA Member Firms

MHA is a UK wide association of progressive and respected accountancy and business advisory firms. Each MHA member firm offers a broad range of services including accountancy, tax and corporate finance, as well as sector specialisms.

We are the UK member of the international network, Baker Tilly International. Through our membership of Baker Tilly International we are able to provide premier accounting, assurance, tax and specialist business advice worldwide, drawing on internationally recognised industry and service line experts in 147 countries.

## National Manufacturing Events

Our member firms regularly host regional manufacturing and engineering events, to view our current events, please visit:

<http://mha-uk.co.uk/events-publications/>

This page is updated on a weekly basis, so make sure to check back regularly to ensure you don't miss any.

 Collectively we have over  
**50** offices across  
the UK

## Follow Us

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 MHA National Accounting  
Association

## Services

- Compliance: audit compliance, accounting and financial reporting. Our audits reassure stakeholders and identify risk.
- Taxation: particularly around international tax, employment issues, R&D Tax Credits, Patent Box, Capital Allowances and tax mitigation.
- Business planning and support.
- Accessing public and private funding.
- Maximising the efficiency of your supply chain: reducing costs and improving margins.
- Mergers & Acquisitions: We have advised on many engineering transactions, including a number of cleantech investments.
- Due diligence ahead of funding and grant applications
- Risk management: We advise on both governance issues in order to best attract investment and on minimising fraud and corruption risk.

## Contact Us

If you require any further information or advice regarding these topics, then please feel free to contact your local MHA member firm contact.

 **0207 429 4147**

 **[www.mha-uk.co.uk](http://www.mha-uk.co.uk)**



# MHA Member Firm Offices

## Henderson Loggie

www.hlca.co.uk  
Dundee (Head office)  
The Vision Building  
20 Greenmarket  
Dundee, DD1 4QB  
Tel: 01382 200 055

**Additional offices:** Aberdeen, Edinburgh & Glasgow

## Larking Gowen

www.larking-gowen.co.uk  
Norwich (Head office)  
King Street House  
15 Upper King Street  
Norwich, NR3 1RB  
Tel: 01603 624 181

**Additional offices:** Colchester, Cromer, Dereham, Diss, Fakenham, Holt & Ipswich

## MHA Broomfield Alexander

www.broomfield.co.uk  
Cardiff (Head office)  
Ty Derw  
Lime Tree Court  
Cardiff Gate International Business Park  
Cardiff, CF23 8AB  
Tel: 02920 549 939

**Additional offices:** Monmouth, Newport & Swansea

## MHA Carpenter Box

www.carpenterbox.com  
Worthing (Head office)  
Amelia House  
Crescent Road  
Worthing, BN11 1QR  
Tel: 01903 234 094

**Additional offices:** Gatwick

## MHA MacIntyre Hudson

www.macintyreHUDSON.co.uk  
London  
New Bridge Street House  
30-34 New Bridge Street  
London, EC4V 6BJ  
Tel: 020 7429 4100

**Additional offices:** Bedford, Birmingham, Canterbury, Chelmsford, High Wycombe, Leicester, Maidstone, Milton Keynes, Northampton, Peterborough & Reading

## MHA Monahans

www.monahans.co.uk  
Swindon (Head office)  
38-42 Newport Street  
Swindon  
Wilts, SN1 3DR  
Tel: 01793 818 300

**Additional offices:** Bath, Chippenham, Frome, Glastonbury, Melksham, Taunton & Trowbridge

## MHA Moore & Smalley

www.mooreandsmalley.co.uk  
Preston (Head Office)  
Richard House  
9 Winckley Square  
Preston  
Lancashire  
PR1 3HP  
Tel: 01772 821 021

**Additional offices:** Blackpool, East Midlands, Kendal, Kirkby Lonsdale, Lancaster, Liverpool, Manchester & Southport

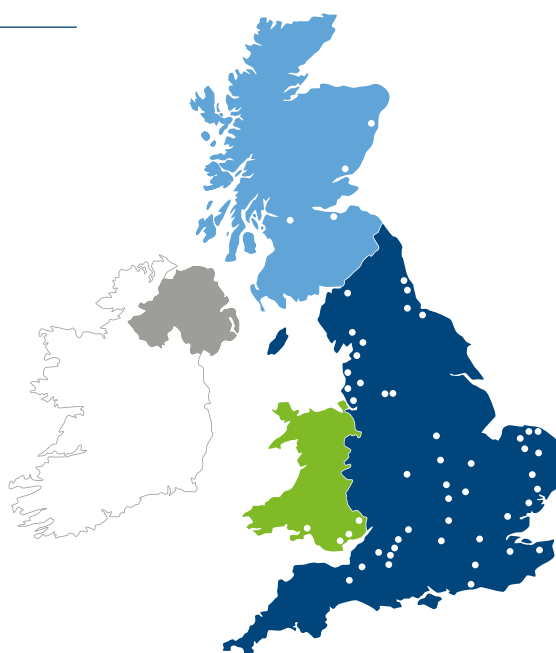
## MHA Mtaxco

www.mtaxco.com  
Manchester (Head Office)  
Peter House  
Oxford Street  
Manchester, M1 5AN  
Tel: + 44 (0) 7760 166 802

## Tait Walker

www.taitwalker.co.uk  
Newcastle (Head office)  
Bulman House  
Regent Centre  
Gosforth  
Newcastle Upon Tyne, NE3 3LS  
Tel: 0191 285 0321

**Additional offices:** Carlisle, Durham, Northumberland & Tees Valley



To find out more about the accountancy and business advisory services MHA can offer, please contact +44 (0) 207 429 4147.

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