ADVICE FROM THE MANUFACTURING TEAM AT
ENSORS CHARTERED ACCOUNTANTS

JULY 2023

MANUFACTURING MATTERS

Green shoots of growth?

By **Chris Barrett** – Manufacturing Partner

Having listened to a number of economists over recent months, one consistent point is the ongoing unpredictability in reading the trade market. 2022 was dominated by the increase in energy costs due to the Russia-Ukraine conflict, supply-chain issues and the inability to fill job vacancies due to the labour shortage.

Continued overleaf

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Green shoots of growth? *continued*

Late 2022 into 2023 has then been focused on the cost of living, and the inflationary pressures being felt by businesses. Whilst the Bank of England has continued to attempt to curb inflation through persistent interest rate rises, this appears not to have yet dampened inflation to the government's target which is by the end of the calendar year – hence making it really difficult to know how 2023 will progress. Recession has been talked about for many months, but suggestions now appear that the UK will avoid a technical recession, which is welcome news for us all.

Further good news is that in the manufacturing sector whilst coping with these pressures, some subsectors have seen growth in the year to date, with strong order books and maintaining or rising prices to cope with inflation fuelled cost increases. Whether that growth has outstripped the cost increases will be interesting to understand in the coming months, and to see if this growth continues through to other subsectors.

To support the UK economy, in the Spring the government attempted to deliver a "budget for growth", to support continued capital investment, by following up on the cessation of the Super-Deduction allowance and bringing in Full Expensing on new and unused plant and machinery for 3 years until April 2026.

Jeremy Hunt also increased childcare support for working parents and scrapped pension lifetime allowance in an attempt to bring more people back into the workforce.

This will take time to work through, as some of the reliefs are not immediate, but it's clear that manufacturing businesses are still wrestling with labour and skills shortages, and these will continue to be a barrier for growth, therefore any changes to bring more individuals back on to the job market is necessary.

Brexit challenges still seem to remain, as the EU continues to be a major partner for both imports and exports to UK manufacturers.

The government attempts to develop new trade agreements elsewhere, such as Australia and New Zealand – however, it feels many manufacturing businesses are finding it difficult to predict how the remainder of 2023 will work through, which is no surprise given the highly uncertain environment around them. It would however be very welcoming to see manufacturing beginning to build up, as the UK seeks to move back into sustained growth.

Included within our current edition is our Corporate Tax Director, Ann Minson, outlining the changes following the Spring Budget in regards to R&D claims and the future of this relief, plus David Scrivener, our Corporate Finance Partner, in regards to "Building Up to Succession".

I hope you enjoy reading this edition and wish you all a successful year in 2023 and enjoyable summer.

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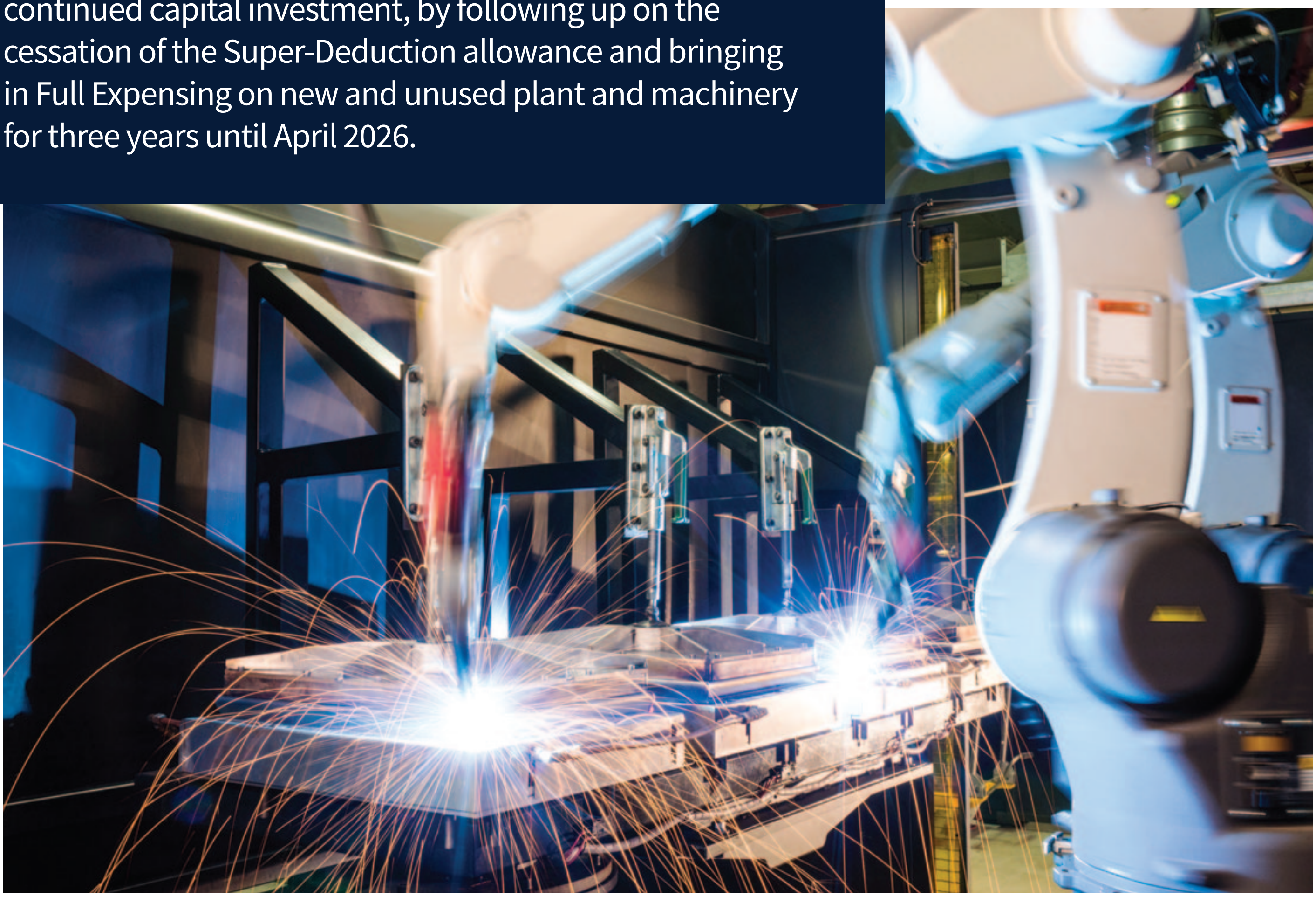


R&D Tax Relief

WHAT DOES THE FUTURE HOLD?

By **Ann Minson** – Innovation Tax Director

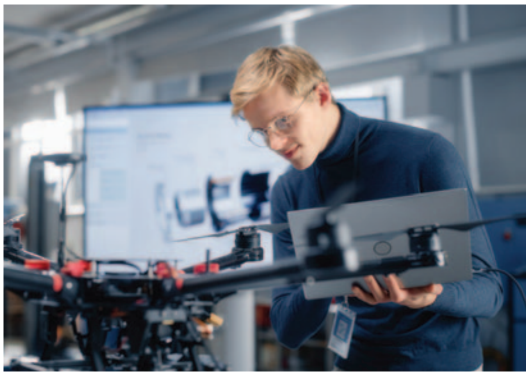
The last two years have been turbulent ones in the world of Research & Development tax relief. HMRC's increased scrutiny of claims continues, so that we are seeing more enquiries into claims than we had over the previous five years, and there have been a series of negative reports in the press. Combined with a reduced rate of relief for SME claimants, does this mean that R&D tax relief has had its day?

The answer, you will be relieved to hear, is a resounding "no." It is true that claimants need to be diligent in identifying their eligible R&D projects, and care must be taken to ensure that only qualifying costs are claimed. However, the message from the 2023 Budget is that the Government still sees R&D tax relief as a vital tool in strengthening the UK economy, by supporting innovative companies. Genuine claimants should still take advantage of the relief available. On the other hand, overdue steps are being taken to counter fraudulent abuse of the R&D tax reliefs.

Combating R&D claim fraud

Specifically, two new compliance requirements have been introduced with that intention. Firstly, for accounting periods beginning on or after 1 April 2023, companies intending to claim R&D tax relief for the first time, (or who have not claimed in the previous three years) must notify HMRC of their intention to claim within six months of the end of their accounting period. If the notification deadline is missed, no claim will be permitted, so it will be vital for these companies to consider their eligibility much sooner than was previously the case. The Government's hope is that this will rein in the activities of the less scrupulous providers of R&D claim support.

Secondly, all claims submitted after 31 July 2023 must be registered with HMRC using a new online reporting tool. This requires the company, or its advisor to disclose details of the projects undertaken, why they are considered to be qualifying R&D and an analysis of the costs on a project-by-project basis. The disclosure must name the individual in the company with responsibility for the claim and also any professional advisors used. If a claim is submitted without first filing the online notification, it will not be processed. While this may sound onerous, the level of detail should be similar to that which most companies include in their R&D reports already. It should also ensure that HMRC has sufficient details to review claims and so reduce the number of post-submission enquiries once the system has bedded in.



Other changes

In a welcome move, the proposed restriction on companies' ability to claim for the costs of subcontractors and other workers outside the UK has been deferred until 1 April 2024. This should allow HMRC to provide more guidance on how the new rules are expected to operate in practice, in particular around the complex question of how to apply the exemption for R&D that cannot practically be undertaken in the UK.

Looking further ahead, the days of a two-tier approach to R&D tax relief are numbered. HM Treasury has consulted on combining our two current schemes into a single scheme based on the R&D Expenditure Credit rules. The intention is to simplify the process for claimants, with the aim of increasing the scheme's impact on the economy. It is to be hoped that the changes, which could be introduced as soon as 1 April 2024, remove some of the complexities that currently trip up companies carrying out R&D as part of customer contracts. However, details of the new single scheme are yet to be released so it is too soon to say whether it will benefit all claimants.

This may be a period of change for R&D tax relief, and it has never been more important to use trusted and experienced professional advisors. However, that should not stop companies from making claims where they meet the requirements.

Building up to Succession

By **David Scrivener** – Corporate Finance Partner

Building a business has many parallels with completing a manufacturing project.

To get started you need the right materials, reliable people, and a clear plan. For it to be a commercial success, you should also consider other key factors like timing, location, and demand.

Once the business has been built, and the owner-manager has grown it over a period of time, there will come a point when it is appropriate to consider the next stage: succession planning. This can take many forms: handing it over to the next generation in a family business, an MBO by a management team, or a sale to a third party.

Selling to a third party, whether a trade buyer or a financial investor, requires careful planning and preparation.

Making the business fit for sale requires some finishing touches. A buyer of a company will be interested in the core elements of the business. What does the business do well? Why should they buy it? Where will the buyer be able to unlock value?

A strong system of controls gives confidence over the financial results presented and reduces the risk of historical errors. Regular financial reporting provides an up-to-date picture of the business's performance. It also demonstrates that the existing leadership has a finger on the pulse.

Forward-looking financial information helps to paint a more complete picture of the business that the buyer is considering. Knowing where a business expects to be is often the key to assessing its value.

A strong management team also gives a buyer confidence in a business. This is something that cannot be scrambled together ahead of a planned business sale. Instead, it requires time and effort to foster talent within a team of dedicated managers and directors, who can run the business and allow the founders to focus on more strategic goals.

Buyers will usually also be interested in understanding the customer base of a business. Are there written contracts and business terms? What percentage of the work is repeat business? What is the split of revenue by customer, geographic region or product type?

All of the above helps to simplify the due diligence process, giving the buyer the tools that they need to assess a business acquisition opportunity. From a seller's perspective, this confidence in the business from the buyer, helps to unlock additional value in the sale.

It is never too early to start preparing for succession. Whilst this doesn't have to involve a detailed plan, it is worth considering how prepared the business is in each of the aforementioned areas.

If you are considering a sale, or looking at another form of succession, start speaking to your advisers early. Our experienced Corporate Finance team will welcome a conversation about the areas you can build upon, to put your business in the best possible position ahead of a future sale.

Meet the team

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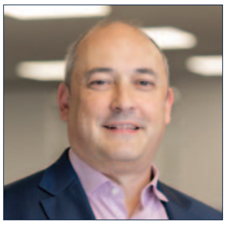

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“Kalsec is an ingredient supplier for the food and beverage industry and have worked with Ensors for the last 20 years. We have found their service and advice professional and efficient, particularly valuing how Ensors know our business and people. We are a private and sustainable business operating in complex financial environments. In recent years, our European trading activities have increased, and we now work under several European jurisdictions. Ensors have provided comprehensive advice on several key areas such as corporation tax planning, joint venture incorporation and VAT compliance. As a thriving UK-based international business with strong capital investment and robust future growth planned, we firmly believe Ensors’ continuous support as the independent and dependable financial adviser and auditor plays an important part in our ongoing success.”

James Smith – Managing Director, Kalsec Europe Ltd

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