JONES HARRIS
CHARTERED ACCOUNTANTS

Top Tips for Manufacturers and Engineers

Tax efficiency – Business decisions should always be taken to maximise the benefit to the company rather than to minimise tax, but it clearly makes sense to implement those decisions in the most tax effective way possible in law. For manufacturers and engineers, there are a number of tax issues worth investigating.

R&D tax relief – HMRC notes that "R&D is a Corporation Tax relief that may reduce your company's tax bill." In essence, it is designed to reward companies that invest in research and technical innovation to develop new products and services. Qualifying companies can claim tax relief of up to 33% on the day-to-day running costs associated with a business-related innovation. These might include staff (and pension contributions), materials, energy, software, specialist expertise and other costs. The scheme works in two ways, depending on whether you run a large business or an SME. A good accountant will be able to submit a fully-evidenced claim on your behalf.

Patent Box – HMRC states: "The Patent Box enables companies to apply a lower rate of Corporation Tax to profits earned from its patented inventions." To be eligible, companies must opt into the Patent Box tax regime; they must also be liable to pay Corporation Tax and must make a profit from exploiting patented inventions. The reduced rate of tax payable on associated profits is 10%. (This applies only to profits earned after 1st April 2013.)

Embedded capital allowances – If you plan to acquire a property - e.g. as part of an expansion or relocation - it's sensible to take maximum advantage of embedded capital allowances. These apply to fixtures and fittings that are intrinsic to the property but on which capital allowances can be claimed if their value can be identified separately from that of the bricks and mortar. A good accountant will be able to help you make that important distinction and help you minimise the associated tax costs.

National Insurance – National Insurance exemption of £3,000 can often be claimed if you pay Employer's National Insurance for your staff.

Capital expenditure grants – numerous support bodies and public sector organisations are keen to see British businesses invest and create new jobs. To incentivise investment, they offer a variety of capital expenditure grants, some of which can make an appreciable difference to costs and cashflow. They are invariably paid retrospectively and are typically linked to job creation targets. Ask your accountant for advice about applicable schemes in your location and industry.

Management information – Having access to up to date information is vital if you're going to stay in control of your business. Be sure that you have in place the systems and the software necessary to deliver that information. Modern cloud-based accounting solutions are ideal for keeping tabs on key performance indicators, and for giving you 24/7 access to your data. Once you have that data, keep the focus on profitability and cashflow, and look out for any signs of slippage. Know exactly where your break-even point is. If your business relies on any finance, make sure that you manage cashflow so you can keep servicing the debt.

Manufacturers and engineers should establish clear KPIs so they can judge their commercial / financial progress, perhaps on a project by project basis or - where appropriate - looking at individual data for individual product lines. Monitor the changing value of work in progress and of any stock / materials you hold. If you manage multiple production / installation teams that perform similar tasks, monitor their respective performance so you can identify bottlenecks, weak links and situations where further training or investment may yield significant efficiency improvements.

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Identify profit sources – Just as manufacturers sell different products into different markets, so engineers deliver differentfabrication and installation contracts. The financial profile of different contracts can vary enormously. Being able to separate them and to examine their respective costs and profitability can be very useful. It can help identify which parts of the business might not be performing as well as expected, or show that some schemes/product groups are doing so well that they're masking potential problems elsewhere. Identifying the high and low performers can help inform decisions about resource allocation, training, staffing, cost management and new business development.

Benchmarking – Many businesses operate in ignorance of how they are doing compared to their competitors. However, it is possible to obtain industry-specific data that allows you to assess the relative performance of your enterprise. Accountants with relevant sector experience, such as Jones Harris, will be able to benchmark your business against similar firms and contractors. This data will show you where you may be under-performing, whether you are investing at a sustainable rate, and whether some of your costs may be higher than they need to be.

Review your insurance – Too many businesses take out insurance when they set up and then just renew automatically each year. Companies should review their needs regularly and seek competitive quotations every time. Bear in mind, too, that if your business changes, you might find yourself under or over-insured. Review the cost and adequacy of your cover whenever there is a change to the business, and at least annually.

Cashflow management and forecasting – Ensure you submit your bills promptly and accurately so as to keep cashflow healthy. Use your experience of any seasonal peaks and troughs to re-examine any finance repayments. It might be worth reviewing how your financing is structured and considering options that offer flexibility of payments to match busy and quieter periods.

Stock management – Whatever you produce and whatever materials you consume, take stock regularly. Overstocking can put pressure on cashflow by tying up funds. Conversely, poor stock control resulting in delays in supply can damage profits, reputation and cashflow. Knowing what stock you have and what your re-order levels are can help mitigate such issues.

Work intelligently with your suppliers – Pay attention to commodity prices and talk regularly with your suppliers. When prices fall, certain materials may be worth buying in bulk if you know that you will use them, that you can store them without undue difficulty and that they will not perish or degrade. If you can afford to tie up some capital in this way and you know you will be able to sell on at full market value, the extra profit can make the extra effort worthwhile.

More information:
If you would like more information and advice on reducing costs and boosting your profitability, please call us for a free and friendly discussion. We're a practice with a long history of transforming the fortunes of North West manufacturers and engineering firms, and we're confident we can make a positive difference to yours.

Jones Harris Limited
17 St Peters Place
Fleetwood FY7 6EB

Tel: 01253 874255
Fax: 01253 770533
info@jones-harris.co.uk