The Engine

Spring 2024

Keeping you up to date with the
Manufacturing & Engineering sector

Now, for tomorrow

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Welcome to the latest issue of The Engine from MHA, with insights for Manufacturing & Engineering businesses.

With signs of Spring taking hold, the industrial landscape continues to face significant challenges, particularly with the depressing news of job losses at Tata's Port Talbot steelworks.

The announcement stems from the decision to close the site's blast furnaces and replace them with new, environmentally friendly electric alternatives. Some industry commentators have suggested that the steel sector is now in a phase of 'managed decline' and will leave the UK as the sole G20 country incapable of producing steel from raw materials.

It's worth noting that UK Steel highlighted the 'vast chasm' in electricity prices between the UK and its EU counterparts in November last year, reporting that the average cost for UK steelmakers in 2023/24 stood at £113 per MWh, significantly higher than the £61/MWh paid in Germany and France. With energy-intensive businesses, such as manufacturers paying nearly two times more for electricity than their European competitors, addressing these issues will be crucial to ensure our country's competitiveness.

Since the start of the global pandemic, SMEs have faced unprecedented challenges, contending with inflation hitting a 30-year high, a once-in-a-generation energy crisis, interest rates seeing the steepest series of increases in decades, the pound falling to a record low against the dollar and conflicts in Ukraine and the Middle East.

Relatively few businesses in the Manufacturing & Engineering sector will have escaped these challenges unscathed. The S&P Global/CIPS UK Purchasing Managers' Index™ ended the year at 46.2% in December (only mildly improving to 47 in January and 47.5 in February), signalling a month-on-month deterioration in operating conditions; so it is unsurprising that Manufacturing firms made up around 8% of all UK insolvencies in 2023.

However, while there are clearly challenges ahead, the sector is resilient and innovative. Despite the tough conditions, according to analysis by Make UK, the UK overtook France to become the 8th largest global manufacturer, contributing £224 billion to the economy, supporting 2.6 million jobs, and accounting for 41% of all UK R&D and 15% of business investment. This is testament to how strong the sector is.

In 2024, with inflation falling, interest rates stabilising and the economy in a stronger than anticipated position, there may be some further beneficial tax breaks on the horizon with could help stimulate growth in the sector, especially with an election looming.

In this edition of The Engine, we take a look at several issues which businesses in the manufacturing and engineering sectors should be aware of, such as the impact of the spring budget on the sector, the Corporate Tax Landscape and associated companies, navigating the Corporate Interest Restriction, and measuring your environmental impact, alongside a whole host of other topics.

As always, we are on hand to provide guidance and support. If you would like further information on any of the issues covered, please get in touch.

Best wishes

The MHA Manufacturing & Engineering team

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2024 UK Spring Budget

Chris Barlow

The 2024 UK Spring Budget has left many in the manufacturing sector cautiously optimistic but craving more concrete measures for stability and growth. Despite promises of long-term economic prosperity, the Chancellor's speech lacked ambition and fell short of delivering substantial changes.

With the Office for Budget Responsibility's optimistic growth forecast of 0.8%, there's a lingering concern about the feasibility of reversing the current recessionary trend.

Overall investment

There were glimmers of hope for the manufacturing sector with £270 million of investment in advanced manufacturing, which follows the Advanced Manufacturing Plan announced in the Autumn Statement to provide £4.5 billion of targeted support over the next five years for strategic manufacturing sectors, including automotive, aerospace, life sciences and clean energy. While these are all steps in the right direction, serious questions remain about its efficacy without a comprehensive industrial strategy for sustained growth and clear lines of accountability to make sure the money reaches the right places.

Research & Development

Much of the proposed investment over the next 5 years is earmarked for R&D and manufacturing projects, such as cutting-edge automotive R&D projects to support the development of electric vehicle technology and the development of energy efficient and zero-carbon aircraft technology, to deliver highly skilled jobs and cement the UK's position as a global hub for EV manufacturing. Other measures will support the expansion of low carbon manufacturing supply chains across the UK, to help lower costs and accelerate the transition to Net Zero.

The UK is a global leader in engineering, so any measures to increase investment in R&D activities is welcomed, however, the reality is that previous cuts to R&D tax credits and reforms announced in the Autumn Statement to unify the two R&D tax credit schemes from 1st April 2024, alongside the aggressive treatment of claims by HMRC have been somewhat at odds with the rhetoric, which acts as a barrier, particularly for SMEs.

A new R&D expert advisory panel will be established to advise HMRC and support the administration of R&D tax reliefs and provide more clarity and certainty on qualifying R&D activities. It is essential that this leads to a more consistent approach to claims by HMRC and encourages businesses to make positive investment decisions on R&D

Capital Allowances

The decision to make full expensing permanent represents a considerable advancement in the treatment of capital expenditure for manufacturing businesses, who invest in plant and machinery and benefit from significant tax savings. The Chancellor also announced an extension of the 100% Full Expensing Allowance to include leased assets, once fiscal conditions allow, which will be of particular benefit to smaller manufacturers. Industry commentators have also suggested the government should explore whether it can be expanded to cover refurbished and second-hand technologies to support sustainability goals.

Skills and Apprenticeships

To boost apprenticeship training in sectors which contribute to economic growth, like engineering and manufacturing, the government announced a £50 million Apprenticeship Growth Sector pilot, in the autumn statement.

While there were no new measures announced in the Spring budget to invest in skills, Prime Minister Rishi Sunak's subsequent announcement on 18th March on Apprenticeship Levy Reforms does inject some optimism, particularly for SMEs and young people entering the workforce. The announcement confirms that from 1st April apprenticeships for anyone below 21 in small businesses will be fully funded, while employers paying the Apprenticeship Levy will be able to share up to 50% of unspent funds, up from the 25% they are currently able to transfer to another employer.

Summary

While the 2024 UK Spring Budget offered glimpses of support for the manufacturing sector, it still fell short of providing the clarity and certainty needed for sustained growth. As industry leaders and policymakers navigate the road ahead, a concerted effort to address pressing challenges and implement a comprehensive industrial strategy is paramount. The building blocks of an industrial strategy are starting to emerge – it just needs the leadership and ambition to bring it all together in a cohesive plan.

Navigating the New Corporate Tax Landscape: Associated Companies from April 2023

Steve Tebbutt

As of 01 April 2023, the landscape for corporate taxation in the UK has undergone a significant shift, with the return of some old rules on associated companies.

This change in legislation, combined with the increase in the main rate of corporation tax (25%, up from 19%), creates new risk and opportunity around how businesses are structured and the management of their tax liabilities. The risk will be of particular concern to businesses with multiple stand-alone companies or multiple groups, as well as to non-resident landlord companies, who could see the amount of tax and the frequency of tax payments increase unless further planning is undertaken.

So, what are the implications of the changes and why should businesses consider changing their group structures in response?

Understanding Associated Companies

Firstly, let's demystify the term 'associated companies'. Broadly speaking, companies are considered associated with each other if one company controls the other, or if both companies are controlled by the same person(s). This control factor, while broad in its scope, is crucial in determining the tax implications for businesses.
The associated companies rules are broader in scope than the prior '51% related companies' rules - which, generally only linked companies in a group – whereas the new rules can link companies in separate groups with common owners.

How Associated Companies Affects Tax

The rate of tax that a company pays is directly linked to its augmented profits. Augmented profits encompass taxable total profits along with certain distribution income. Critically, the corporation tax rate varies based on the level of augmented profits and the thresholds set at £50,000 (the lower limit) and £250,000 (the upper limit). This means that from 1 April 2023:

1. Augmented profits of £50,000 or less are subject to a rate of 19%, known as the 'small profits rate.'
2. Augmented profits ranging from £50,001 to £250,000 incur a 25% rate, with 'marginal relief' available.
3. Augmented profits exceeding £250,000 are taxed at the 'main rate' of 25%.

However, when a company has associated companies, these profit thresholds are divided by the number of associated companies. So, if a company has five associates, the thresholds are divided by six. This division affects not only the tax rates but also factors into any calculations for marginal relief. Therefore, it can significantly alter a company or group's tax liability. The number of associated companies will also impact the thresholds that are relevant for determining Quarterly Instalment Payments, so there is also a potential cash-flow impact in the change of rules.

Prior to 1 April 2023, if an in individual controlled two groups, each consisting of three companies, then each group might only have divided the relevant thresholds by three. This created some tax opportunities, which some businesses would have structured themselves around, that the new rules may eliminate.

Non-resident landlord companies should also be alert to the fact that they are unable to claim marginal relief. This means that they should expect to pay 25% on all profits and, in some cases, it may be prudent consider whether the business structure is still viable given the significant increase in the rate of UK corporation tax.

What is the solution?

Now, let's connect the dots between associated companies and why it might be wise to simplify existing business structures:

1. **Reduced tax liability:** By consolidating entities or simplifying group structures, you can reduce the number of associates companies and may find yourself positioned in a lower tax bracket. This can directly translate into reduced tax liability, allowing you to retain more of your profits.
2. **Simplified compliance:** Multiple entities mean multiple layers of administrative complexity. Considering the impact of the associated companies rules is only one factor. Streamlining reduces the burden of compliance, freeing up resources for other endeavours.
3. **Eliminating redundant costs:** Each entity carries its own set of expenses, from accounting fees to legal costs. Eliminating superfluous entities can help limit expenditure, bolstering results and available cash.
4. **Access to tax benefits:** Some tax credits, allowances and incentives are tied to specific group structures and might be optimised through a simplified group structure.
5. **Efficient planning:** A simpler structure can facilitate more efficient tax planning and can be more attractive to outside investors or key management/employees looking to take equity in the business.

Should you restructure?

For many Owner-Managed Businesses (OMBs), the shift from the 51% related companies rule to the associated companies rule is a pivotal moment. If your existing corporate structure was tailored to the now-defunct 51% rule, or if your structure has not been reviewed since the change to associated companies rules were announced, or if you are a non-resident landlord company, then (re) assessment is likely to be advisable.

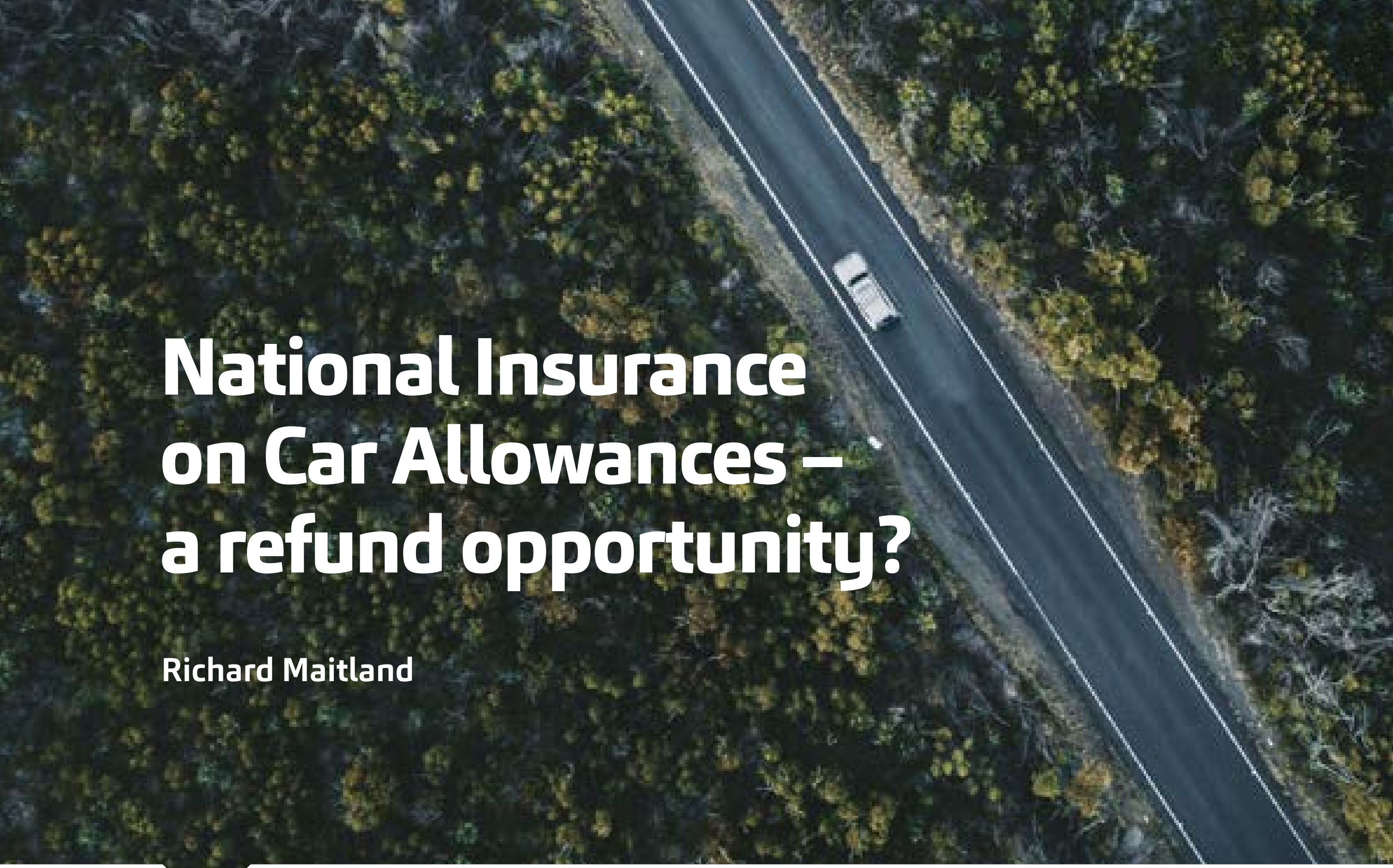
Affected OMBs may wish to think about completing:

- **An impact assessment -** to examine the ownership structure of your group to identify associated companies and thus the expected tax thresholds for determining the rate and timing of tax payments.
- **A legal structure check -** to evaluate legal structures. Do they still align with immediate business objectives? For non-resident landlords, is it still commercially necessary to be situated offshore?
- **A review of long-term objectives –** to agree the long-term business goals and shareholder objectives and consider whether the current setup supports these plans.

A tax efficiency evaluation – to pull the above together and assess whether there are opportunities for tax savings. Collaboration with suitably qualified and experienced professionals at each step is vital to ensure that the risks and opportunities are managed.

Conclusion: Seize the Tax-Saving Opportunity

The resurrection of the associated companies rules brings with it a golden opportunity for OMBs to reassess their structure and optimise their tax positions. By simplifying group structures and exploring entity mergers, for example, OMBs might be able to achieve significant tax savings, streamline operations, and prepare their business for a more agile and efficientfuture. In a tax landscape that is always evolving, seizing such opportunities can be hugely impactful for your business's financial health and competitive edge.



National Insurance on Car Allowances – a refund opportunity?

Richard Maitland

Employers may be able to claim a refund of National Insurance Contributions (NIC) from HMRC in relation to employee car allowances paid to employees who use their own vehicles for business journeys. Claims must be supported by detailed data - which may be challenging to analyse, collate, and present - but in the right circumstances that analysis will certainly be justified.

The technical basis

The recent legal case of Laing O'Rourke and Willmott Dixon v HMRC was a joint appeal by the taxpayer employers to the Upper Tribunal. The appeal argued that employee car allowances constitute Relevant Motoring Expenditure for NIC purposes.

The Qualifying Amount is the maximum amount of Relevant Motoring Expenditure an employer can pay NIC-free to an employee, who uses a privately owned vehicle, in respect of motoring expenses.

The Qualifying Amount is calculated by multiplying the number of business miles travelled by the employee by the appropriate HMRC-approved mileage rate.

The employers were successful in their appeal that car allowances do constitute Relevant Motoring Expenditure and HMRC are not appealing the decision further.

Practical application

Under the HMRC rules, employers can reimburse employees who use their own vehicle for work up to 45p per mile for business journeys. The tax-free mileage rate drops to 25p per mile after the first 10,000 business miles, but the 45p rate continues past that level for NIC relief purposes.

Therefore, if an employer reimburses employee business miles at a rate below 45p per mile, there is an element of unused relief on the difference between the HMRC 45p rate and the lower employer rate.

If the same employee has also received a car allowance on which PAYE / NIC has been operated, the unused relief from the mileage reimbursement can be used against the equivalent amount of the car allowance.

The employer NIC and employee NIC paid on that amount can now be claimed as a refund from HMRC. Historical refunds can be claimed going back up to 6 years.

Illustrative refund

An employer has 200 eligible employees who are paid a tax/ NICable car allowance through payroll.

Employees use their own cars for business journeys for which the employer reimburses them at the rate of 20p per mile. The employees each complete 10,000 business miles per tax year. Employer NIC at 13.8% on the unused relief of 25 per mile would be £69,000 for one year and £414,000 over 6 years.

Employee NIC could also be claimed.

Claiming a refund - key factors to be aware of

In light of HMRC not appealing the Laing O'Rourke and Willmott Dixon case, they are likely to scrutinise any NIC

refund claims very closely. Employers will need to demonstrate that the circumstances on which they are basing their claims are as close as possible to those in that case.

The essential supporting factors will be

1. Car allowances are paid to employees in relation to employees using their own vehicles for business purposes
2. Car allowances are paid via the payroll subject to Class 1 NIC
3. The employees are reimbursed for business mileage in their own vehicles at a rate lower than 45p per mile, or are not reimbursed at all

The data analysis required to support the above factors is likely to be extensive.

We anticipate HMRC will not accept estimates based on, say, sample periods – actual figures will be required for each employee and each period.

Next steps

1. Do you have the essential supporting factors above?
2. Can the detailed data necessary to support a claim be extracted from your systems?
3. Consider submitting a protective claim to HMRC
4. Collate and submit your fully supported claim to HMRC
5. Consider changes to policies and systems going forward

MHA's Human Capital Advisory team can help you navigate each of these steps. Please do get in touch if you would like to explore this further.

Navigating the Corporate Interest Restriction Landscape

Exploring Investment Groups and the Public Infrastructure Exemption

Nathan Sutcliffe

The Corporate Interest Restriction (CIR) involves restricting the tax deductibility of interest for companies. These rules were brought in to reduce the tax advantage of multinational groups parking excessive amounts of debt in the UK. This tax advantage has often been achieved where interest income is received in a low tax jurisdiction, but the expense is eligible for a full UK tax deduction.

Under the CIR rules, where a UK standalone company, or group, has a net interest expense of more than £2m, there may be a restriction on the tax deduction received. The net interest expense is broadly calculated by deducting interest expenses from interest income. The £2m can be pro-rated for short periods.

Once over the £2m de minimis, the company's, or group's, interest capacity is calculated using either the fixed ratio or group ratio method. The fixed ratio method very broadly takes the lower of 30% tax-EBITDA of the UK group and the worldwide net group expense subject to certain technical adjustments such as capitalised interest (fixed ratio debt cap).

The group ratio is more complex and replaces the 30% above with the group ratio percentage, which is broadly the net external interest of the worldwide group divided by the EBITDA of the worldwide group. This is then instead compared to the group's net worldwide third-party interest expense. When dealing with a wider non-UK group, the group ratio could yield a more favourable outcome.

It is always recommended to compare the two calculations to determine which gives the greatest deductibility. If there is a restriction, the disallowed interest can be carried forward to future years and 'reactivated' (giving the company the interest deduction at that point) although in practice this can be challenging.

What are Investment entities?

The starting point for the CIR calculation is identifying the worldwide group. A worldwide group is an ultimate parent and all its consolidated subsidiaries. Broadly, an ultimate parent will not be a consolidated subsidiary of an entity which is an ultimate parent itself.

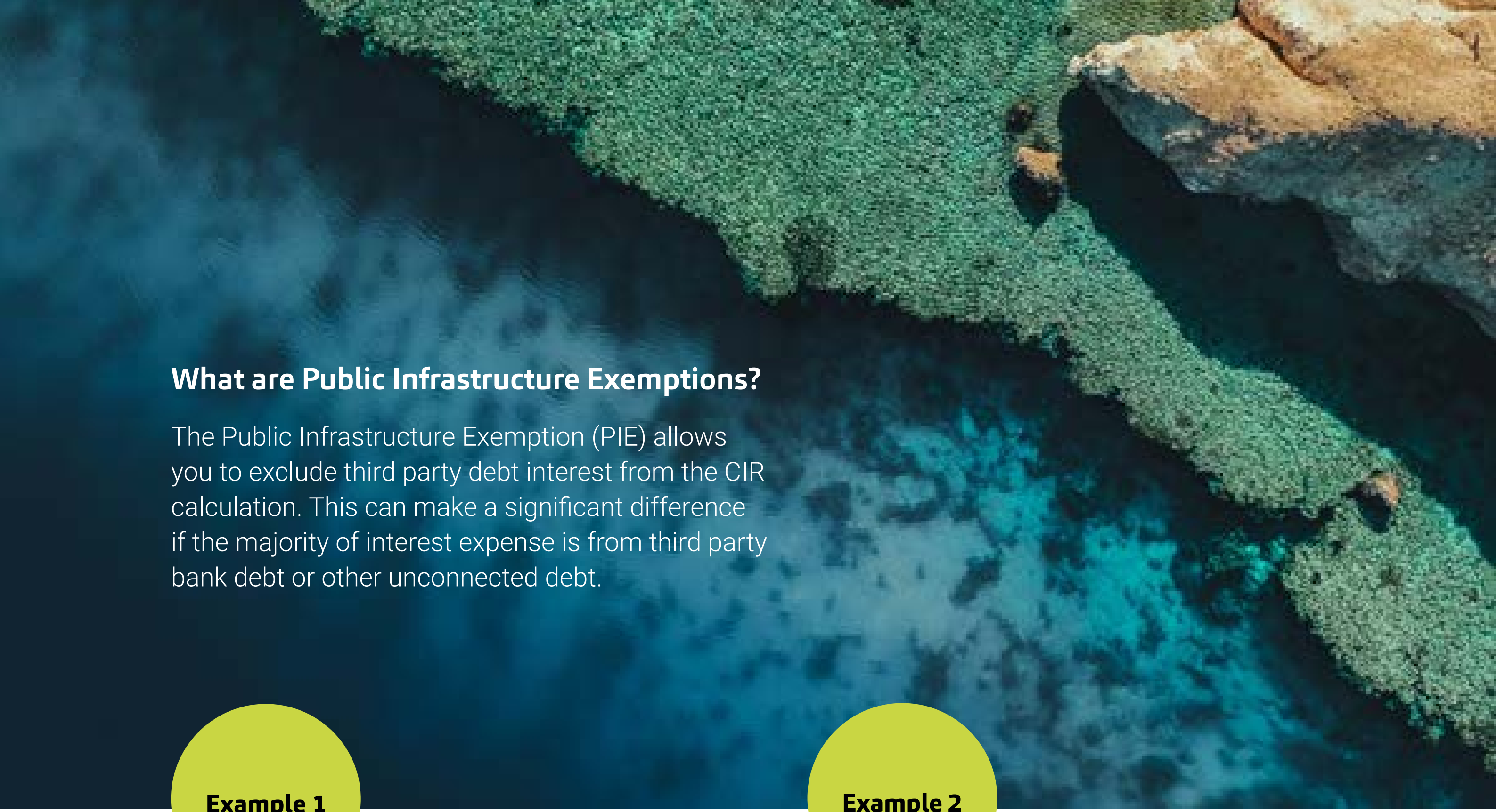
Where an entity is required to measure its investments using fair-value accounting, some subsidiaries may be non-consolidated. This is most likely where the parent is considered an 'investment entity' under IFRS 10 and as such:

- There are multiple, usually unrelated, investors,
- There is usually more than one investment,
- The business purpose is to invest funds solely for capital gains and/or investment income, and
- The performance of investments are measured on a fair-value basis.

Where a subsidiary is measured using fair-value accounting, it is not consolidated into the parent company's accounts and therefore not part of the worldwide group. Therefore, this entity can become the ultimate parent ofits own worldwide group. The CIR planning point here is that more than one worldwide group means more than one £2m de minimis.

The result here is that if the parent entity has net tax interest expense and the non-consolidated subsidiary also has net tax interest expense, you don't collate these amounts as part of one CIR calculation. Instead, the parent entity will have its own CIR calculation based on its worldwide group position and the non-consolidated subsidiary, including any of its own subsidiaries, will become the ultimate parent of his own group and that group will be the scope of a second CIR calculation

Care must be taken to not assume non-consolidated entities qualify for this exemption. A prudent position is to assume subsidiaries are consolidated until further investigation is undertaken to confirm that the ultimate parent is an investment entity under IFRS10.



What are Public Infrastructure Exemptions?

The Public Infrastructure Exemption (PIE) allows you to exclude third party debt interest from the CIR calculation. This can make a significant difference if the majority of interest expense is from third party bank debt or other unconnected debt.

Example 1

Let's look at an example for the ABC group (a UK group):

- third-party debt interest of £20m – this is the only interest expense
- tax-EBITDA of £50m

Under the fixed ratio the interest allowance is the lower of 30% tax-EBITDA or the fixed ratio debt cap as defined above, so in this example if would be 30% of £50m being £15m. This would give a restriction of £5m. A PIE election would exclude the third-party interest meaning that in this example, there would be no restriction.

This exemption is available for companies which provide public infrastructure assets, known as Qualifying Infrastructure Companies (QIC). These types of companies commonly have fairly steady cash flows and generate only a small profit margin over financing cost, so pose little risk in terms of the Base Erosion and Profit Shifting agenda which brought in the CIR rules.

There are detailed conditions which must be met, including an election which must be made for each company to qualify. The types of groups which tend to benefit are property investment groups and renewable energy groups, although the legislation gives detailed definitions of businesses which will qualify.

The challenge with the PIE election is that it assumes other figures are nil for the CIR calculation which can lead to a tax-EBITDA of nil. Additionally, for groups that include a QIC, in many cases the interest capacity will be calculated as if there were no £2m de minimis. Therefore, if there is related party debt interest, then the likelihood is that the majority, if not all, of the related party debt interest may end up being disallowed.

Example 2

Let's take our previous example, but assume the following:

- third-party debt interest of £10m
- related-party debt interest of £10m
- tax-EBITDA of £50m

With a PIE election there is likely to be a full restriction of the tax-EBITDA to nil and therefore the worst case is that the related-party debt interest is fully restricted. This results in a disallowance of £10m. If no election had been made,the disallowance would only have been £5m as per example 1.

It is important to look at the PIE election on a case-by-case basis to understand the debt makeup of the group. If it is mainly geared from investor debt or other related party debt then the chances are the PIE election is going to be less beneficial. However, if the majority of debt is third party debt interest, it could be worth making the election. The election must be made by the end of the accounting period, so work should be undertaken during the year to confirm either way.

In Summary

The purpose of the CIR legislation is to restrict overly geared groups in the UK. The two planning points mentioned in this insight show how CIR needs to be considered proactively, and from a wider lens than just the headline of restricting net interest expense to 30% tax-EBITDA. Here at MHA we work closely with clients to ensure their CIR position is calculated and reported in the most tax efficient manner.

Coping with Customs

Andrew Thurston

Are you an importer of goods into the UK and are you confident that you have the necessary knowledge and procedures in your business to comply with UK customs legislation?

If your response to the above is 'No' or 'don't know' then you will need to review your current customs knowledge base within your business or face potentially crippling customs duty assessments and penalties.

Due to Brexit, all movements of goods in and out of the UK are now subject to customs controls. Businesses who have continued to trade with the European Union now have to understand and comply with UK Customs legislation.

There has been a severe shortage of available Customs-trained staff in the UK, MHA has provided support to many UK companies, over the last couple of years, with upskilling employees who are involved in operations requiring an understanding of Customs.

MHA's 'Coping with Customs' training covers all the main areas that an importing business will need to have an awareness of. Within the training there is ample opportunity for open discussion on the practicalities of applying customs controls within the business, which ensures your staff leave the training with ideas for managing your customs compliance.

Failure to have a satisfactory level of knowledge on Customs within your business could pose a significant risk where costings are based on charges paid in relation to imports. Without understanding how these costs are determined, and ensuring any submission of data to HMRC is accurate, a business risks receiving a debt for underpaid customs duties that may remove any profit that was expected on the sale of the goods.

The business may also be unaware of potential duty reliefs which may help reduce duty costs within current supply chains. Our training covers duty reliefs and discusses how these may benefit your business and the potential risks.

Learning outcomes

The course covers:

- An understanding of the importer/exporter's responsibilities
- Valuation of imports from a Customs perspective
- Tariff Classification – Importance of commodity codes, best practice and ways of determining the codes for your goods
- Customs Procedures - An understanding of UK customs procedures which may benefit your business to minimise duty costs
- Recommended internal procedures designed to maintain compliance
- Explanation of the customs import/export declaration (Form C88) and what to check
- Explanation of key import and export documentation
- Tariff Preference – How to determine Origin and claim the preferential status of goods
- The changeover from CHIEF to CDS – The changes CDS will bring, and key actions UK importers and exporters must complete
- Customs Compliance – What HMRC expect from UK importers and exporters and the HMRC customs audit process

Who should attend

This course is suitable for people in your business who are involved in the purchase, movement and sale of goods across the UK border. It also has sufficient content for those who may want to refresh their knowledge.

The departments within a business that this course would apply to are:

Export Administration	Export Sales Administration	Finance/ Accounts
Shipping	Logistics	Distribution

Further information about the course options and prices can be found on our website **here**

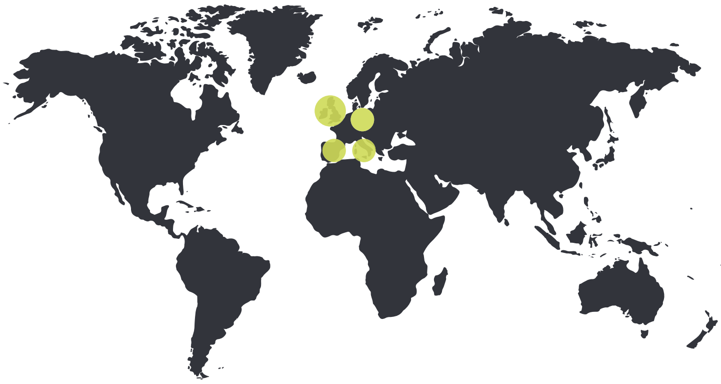
ESG & the impact of Plastic Packaging Tax

Alison Horner

Environmental taxes to drive the sustainability and net-zero agenda are rising at pace across the globe. Plastic production has more than doubled in the last two decades to 450 million tonnes, so it's unsurprising that bans and taxes on single-use plastics have been introduced in more than 120 countries.

Globally, according to the OECD (Organisation for Economic Co-operation and Development) only 9% of plastic waste is ever recycled, so governments are stepping up efforts to encourage businesses to make positive changes to their production methods and supply chains to reduce plastic use.

The UK government introduced a Plastic Packaging Tax (PPT) in April 2022, followed by Spain and Italy in January 2023, with Germany introducing the tax from January 2024. Asia-Pacific regions have also stepped-up regulations on plastic use, while Canada has adopted an ambitious Zero Plastic Waste Strategy.



The current Plastic Packaging tax rates in Europe:

UK
£210.82 per MT (increasing to £217.85 from 1st April 2024)

Spain
€0.45 per kg on non-recycled content

Italy
€0.45 per kg on non-recycled content

Germany
Annual levy

The UK

In the UK between 2022-2023 a total of 4,142 businesses registered for PPT, resulting in revenue of £276m being paid over to HMRC via quarterly PPT returns, according to figures released by the treasury in August last year.

Year on year comparisons of the total quantity of plastic packaging and the revenue generated from the tax will be a useful indicator to determine if it has the desired impact, to change business attitudes to plastic packaging and to reduce the levels of virgin plastic in the supply chain.

What does PPT apply to?

PPT applies to plastic packaging manufactured in, or imported into, the UK where the plastic used in its manufacture is less than 30% recycled. It includes obvious and not so obvious items, such as shrink-wrap, plastic pallets, plastic strapping, moulded polystyrene foam, bin bags, plastic protective film (e.g. for windows) and reusable plastic crates .

Who must register and account for PPT?

Businesses that manufacture or import 10 or more metric tonnes of finished plastic packaging over a 12-month (rolling) period, are required to register for PPT. This is still required even if the packaging manufactured, or imported, contains in excess of 30% recycled plastic.

What is finished plastic packaging?

The packaging is in a format that it can be used to contain and transport goods. This may be packaging that is fully complete (e.g. plastic carton), or semi-complete packaging, such as a plastic bottle without a cap.

The goods become liable to PPT on completion of manufacture in the UK, or at time of import into UK. For the latter, the consignee named on the UK import declaration will be responsible for retaining records and registering for PPT.

Exceptions to PPT

There are 4 groups that are excepted from the tax. They are:

1. Plastic packaging used in transport to import multiple goods safely into the UK
2. Plastic packaging used in aircraft, ship and rail goods stores
3. Plastic packaging used for the immediate packaging of licensed human medicine
4. Components permanently recorded as set aside for non-packaging use

Europe

If your company is a manufacturer, filler or importer of plastic packaging in Spain, Italy or Germany you will need to understand the tax positions:

Spain introduced a plastic packaging tax in January 2023 with a tax rate of €0.45 per kg of non-recycled plastic packaging. It is applicable on the manufacturing, importation and intra-community acquisition of non-reusable plastic packaging for its final use within the Spanish market, covering the transactions of (empty) packaging materials itself and packaged products, as well as being applicable to primary, secondary and tertiary packaging.

Companies not established in Spain are required to designate a properly accredited representative for the plastic packaging tax to act on their behalf before the Tax Administration, before engaging in any taxable activities.

Italy also introduced a plastic packaging tax in January 2023 with a tax rate of €0.45 per kg of non-recycled plastic packaging. It is applicable to single-use plastic products (so-called MACSI) composed totally or partially of organic polymers of synthetic origin which have (or are meant to have) the function of containment, protection, manipulation or delivery of goods orfoodstuffs, not designed to be used repeatedly.

For MACSI coming from non-EU countries, the tax is assessed and collected at the time of importation directly by the Italian customs authorities, who are also in charge of any audit activities for all the other MACSI subject to plastic tax.

Companies not established in Italy are required to appoint a tax representative who will have joint and several liability with the same.

Germany have implemented a Single-Use Plastics levy (known as the Single-Use Plastics Fund Act or "EWKFondsG") from 1st January 2024. From 2024, companies must be able to identify and report the extent to which they are subject to the tax. Reporting will be annually to the Federal Environment Agency (UBA) and cover all single-use plastic products made available or sold on the German market for the first time in the preceding calendar year.

For companies not established in Germany, the legislation requires that an authorised representative be employed to fulfil the reporting obligations, so it is important for those businesses to review the impact of the new tax and ensure it has the correct representation in place.

Within the legislation the definition for a 'single-use plastic product' is "a product made entirely or partly of plastic that is not designed, developed and placed on the market to undergo several product cycles during its lifetime by being returned to a manufacturer or distributor for refilling or reused for the same purpose for which it was manufactured".

Although the first annual report will not be due until 2025, impacted companies must begin to review their internal processes for recording and reporting the required data to the UBA. Failure to do so could render the company subject to penalties of up to €100,000.

Summary:

A patchwork of differing regulations across the globe adds considerable complexity for multinational businesses to ensure compliance. It is therefore crucial to keep this issue under review. HMRC expects businesses will conduct, as a minimum, annual checks on their suppliers to ensure that their obligations are being met. Such checks could include:

- obtaining confirmation of the tax status of plastic packaging components from your supplier
- getting signed documents from your supplier confirming that Plastic Packaging Tax has been properly accounted for
- checking details provided against other sources, such as supplier websites, product specifications, sales and marketing information.

Within this due diligence process, a focus on current contracts is advised as the legislation allows a review of contracts where PPT is now part of the costs incurred in a UK supply. This is an area that may not be obvious but, where large quantities of plastic packaging are used in supplies, contracts should reflect these costs and define the responsibilities of both parties to avoid any possible liabilities.

Although the current rate of tax per metric tonne, is not significant we expect that this will increase in future if behaviours in relation to the production and importation of plastic packaging do not improve in line with the Government's expectations.

ESG in Supply Chains - measuring your environmental impact

ESG in Supply Chains - measuring your environmental impact

Mark Lumsdon-Taylor

90%

If 90% of your problems came from one place, wouldn't you do something about it? When it comes to environmental impacts, for many companies, that's exactly the case.

According to leading consultancy, McKinsey (2019), 'more than 90% of companies 'environmental impact comes from their supply chains'. Put simply, no matter how effective you believe your sustainability practices are, if you're not addressing your supply chain then, at best, you could be focusing on just 10% of the issue!

Environmental consultancy, The Carbon Trust broadly agrees, claiming that 'Typically, the carbon emissions from a company's value chain are between 65% and 95% of the total emissions triggered by whatever it is a company does'.

Again, according to McKinsey, retail firms' supply chains typically account for 11.5 times eachcompany's impact; and for food & beverage companies it's 24 times.

As if the environmental issue isn't reason enough, when you add the McKinsey claim that 'supply-chain disruptions cost the average organization 45% of a year's profit over the course of a decade', it's not hard to see that ignoring your supply chain is likely to be a costly decision – for your business financially, and for the planet. And yet, there are far too many businesses doing just that. Whilst diligently attending to the mitigation of their own environmental impacts, assiduously pursuing Scope 1 and Scope 2 carbon reporting policies, they consign their Scope 3 emissions to the 'too difficult box'.

Scope 1 (direct emissions from company-owned machinery, facilities and vehicles) and Scope 2 emissions (indirect emissions associated with generation of electricity, heat, steam and/or cooling) are critical of course.

But if the McKinsey findings are correct, it's Scope 3 emissions that make the vital difference to a company's effective GHG mitigation.

Scope 3 covers the impacts of business travel, employee commuting, waste disposal, use of sold products, transportation and distribution, investments, leased assets and franchises and that all-important impact of 'purchased goods and services' – in other words, your supply chain. Before everyone reading this looks at the Scope 3 list and consigns it to the box I've already mentioned, let's ask ourselves why measuring Scope 3 emissions might just be worth the effort.

Addressing Scope 3 enables you to assess where the emissions 'hot spots' are in your supply chain, to identify resource and energy risks in the chain, to determine which of your suppliers are leaders and which are laggards (after all It will be your company's reputation that it affects), to focus on energy efficiency and cost reduction opportunities in the supply chain, to engage with suppliers and influence their journey and to improve the energy efficiency of suppliers' products and services.

Don't be put off by the broad range of Scope 3 reporting. Just treat it in the same way as your Scope 1 and Scope 2 emissions. Look for the most efficient, reliable, sustainable and accessible way to collect the data. That might involve working with your suppliers in order to do so, but any meaningful collaboration with suppliers can only bring benefits to your company so doesn't that make the whole exercise even more worthwhile?

ESG as a tool for manufacturing growth

Ginni Cooper

Many manufacturers are aware of the importance of having a sustainability strategy in place, but the urgency of implementation is perhaps not given top priority when there is a plethora of other business issues on the table. Economic times remain challenging and energy intensive manufacturers are met with difficult decisions, so why move ESG up the agenda ?

Regulation and reporting

With the intention to move towards a green and sustainable future, the UK has committed to reaching net zero emissions by 2050. The strategy to achieve this will eventually impact businesses of all shapes and sizes. Publicly quoted companies and some large private companies and LLPs (more than 500 employees and more than £500m turnover) now need to include mandatory climate related disclosures in their annual accounts, for periods commencing after 6 April 2022.

The intention is that these disclosures will help support investment decisions as we move towards a low-carbon economy. It should become easier to compare the climate related risks and opportunities that a business is exposed to, providing business owners and other stakeholders with information upon which they can act and make informed choices. Whilst the reporting regulations only apply to selection of businesses at present, it would not be unexpected for the disclosures to be rolled out to capture a wider population in the future. Businesses that take the initiative now to implement sustainable strategies will be better prepared for prospective changes.

How does my ESG strategy affect the way I do business?

Even though the regulations may not yet apply to you, it is likely you are a component of the manufacturing supply chain to a company within scope. You may need to provide your green credentials as part of any tender process and a lack of attention to this area may render you non-competitive in such situations. Tier 1 suppliers will be reviewing all elements of their supply network and potentially enforcing greener initiatives on them. Being pro-active in this arena can differentiate you from the competition.

Similarly, investors may be looking to improve the carbon footprint of their portfolios and base decisions on non-financial KPI's. They may impose pressure to make changes to a business's strategy as a condition of their investment. Financiers may offer better terms on funding to support investment in green technologies or initiatives which, in turn can improve process efficiencies and profitability.

Consumers are increasingly aware of the environmental impact of their spending and manufacturers must take the opportunity to appeal to their market. Attention to product related improvements, evaluation of supply chain eco policies and steps to improve workforce satisfaction will no doubt contribute to the longevity of a business and its appeal to customers.

Can my ESG strategy help with recruitment and retention?

Recruiting and retaining skills is a key issue for the sector and it is vital that employers understand what motivates their people. Younger generations are socially aware and are looking for businesses that demonstrate a positive purpose, with ESG being a part of this.

Importance is attached to working for an organisation that is doing the right thing, actively managing its carbon outputs or producing goods that are environmentally friendly. But the intention must be real, with goals being set that are achievable, and actions being demonstrably implemented. Any strategy must be set because it is considered the right thing to do and link back to the core principals of the business or it will not be believed in.

MHA Manufacturing & Engineering

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Our Manufacturing & Engineering experts understand the challenges and opportunities within the sector, which remains a vital part of the UK economy.

At MHA we are passionate about manufacturing and engineering businesses, and as a key sector of our firm, our specialists truly understand the full nature of the challenges and opportunities you face.

Our experience has been built over a significant number of years, where we have supported clients in all market conditions, helping them grow, diversify into new subsectors and expand internationally. Our experts regularly advice advise on R&D tax planning, expansion, trading overseas, import and export duties, transfer pricing, compliance with local regulations as well as audit and taxation.

In a world where day-to-day issues like supply chain management, cost pressures, labour shortages, and regulation collide with big challenges like net zero, automation and skills development, our team are ready to help.

We use our deep sector experience and technical expertise to guide manufacturing and engineering clients through these challenges while helping them maximise opportunities and create a sustainable future.

We provide a wide range of tailored services: assurance, tax, compliance, advisory, training and more, delivered with practical understanding.

Worldwide specialist sector support through our independent membership of Baker Tilly International.

MHA is an network of progressive and respected accountancy and business advisory firms with members across the UK.

Our member firms provide both national expertise and local insight to their clients. As an independent member of Baker Tilly International, a top 10 global advisory network, MHA offers clients unparalleled access to a broad range of in-country international specialists where overseas projects are on the horizon.

Our Sector Approach

MHA allows clients to benefit from in depth sector knowledge in addition to specialist accountancy services and expert business advice. Construction & Real Estate is a key sector for MHA, and our industry experts understand the challenges and opportunities within the sector. With MHA's sector experience, and local, national and international knowledge, our team is well placed to provide leading advice.

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106
Partners

19
Offices nationwide

£124
Million turnover

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