

Innovation Nurtures Business Resilience

In recent years we have come to accept political instability and economic uncertainty as the norm, and yet against this backdrop, we have witnessed a business community that has continued to invest and recruit in an effort to stimulate the local economy. Ongoing complications with trading relationships between the UK and EU, with Northern Ireland playing a central role, are having a particular impact on our manufacturing and engineering sectors who need clarity around issues that determine their future operations.

Having navigated many key issues in recent years such as Brexit, effects of a two-year pandemic, the war in Ukraine, supply chain issues and a critical lack of labour, local businesses are now presented with rapid inflationary pressures. Along with a cost-of-living crisis, we are also presented with a 'cost of business' issue, with 77% of businesses in manufacturing (NI Chamber of Commerce and BDO Quarterly Economic Survey April 2022) expecting to have to increase prices in the next few months, with the cost of materials increasing and the reality that profits will be squeezed.

2022 so far...

The NI Protocol has continued to dominate headlines and whilst its impact on business is debated, what is certain is that the business community, particularly those within manufacturing who are dealing with ongoing issues with GB suppliers, and subsequent supply chains, need a workable co-designed solution to the current challenges.

Whilst not a simplistic task by any stretch, the urgency of these negotiations to result in tangible outcomes is becoming more and more apparent. The UK Government has now announced its plans to bring forward legislation that would effectively override parts of the NI Protocol, in an attempt to make it easier for some goods to move between Great Britain and Northern Ireland. With an expected period of negotiations with the EU and other partners, not to mention rigorous scrutiny through the Houses of Commons and Lords, it doesn't look like this issue will be resolved anytime soon.

BDO NI continues to support clients across sectors during this period of uncertainty, identifying where appropriate opportunities to maximise, of which there are many. Several significant tax changes have been announced or rolled out since the start of 2022 and whilst many of these have added to the already significant tax burden for companies, there are some initiatives that will offer opportunities for the business community.

Last month, the Chancellor Rishi Sunak announced a number of new measures aimed at addressing the rising cost of living, acknowledging that high inflation rates were causing acute distress to people across the UK. As ever, the detail will dictate whether these measures will make a significant difference to people's lives but, on the face of it, a £15bn support package is to be welcomed.

A one-off payment to the most vulnerable and lowest income families will include families in need across Northern Ireland. Whilst there was initial uncertainty as to whether the £400 energy bill discount also announced by the Chancellor would make its way to Northern Ireland in the absence of an Executive, recent comments by the Treasury indicate that they are urgently working on a solution to ensure that people in NI can be included.

Although we face many of the same challenges as the rest of the UK and Ireland, we have shown that we are a resilient community that is adept at dealing with changing circumstances. In the midst of all this change, BDO NI's team of expert business advisors are working on a daily basis with companies and organisations that are driving and encouraging the growth and development of the private sector, delivering jobs, investment, and opportunities for the future.

Whilst the recent reduction in fuel duty by 5p per litre for a period of one year was welcomed it is difficult to see what real impact this will have for businesses, particularly those within manufacturing who are dealing with rapidly growing fuel and transport costs. Similarly, the reduction of the rebate on red diesel (5% VAT) will have substantial implications across industries, again with manufacturing likely to be hard hit. With the continued rise in global commodity prices, it has been questioned by many within the business community as to whether it was the right time to cut such an important VAT exemption.

With inflation increasing we could be in for a difficult period ahead. Large energy users and hauliers have seen their bills increase dramatically over the last year, with the circumstances in Ukraine exacerbating the situation.

NI Manufacturing and engineering The impact

that the manufacturing and engineering sectors have on our local economy cannot be underestimated, with a recent report suggesting that manufacturing brings in almost £15bn of external income into Northern Ireland. It also found that in terms of employment, local manufacturing firms are returning or creating jobs four times faster than their counterparts in Britain (Manufacturing NI - April 2022).

The manufacturing and engineering sectors in Northern Ireland have demonstrated best practice in how to deal with a continuously changing environment, whether this was the changing landscape as a result of pandemic regulations or the changing trading terms as a result of Brexit. With suppliers in GB, for example, demonstrating inflexibility regarding new trading regulations, this disruption to supply chains led our local manufacturing sector to seek alternative solutions to allow them to continue their operations / services. Adapting their products, streamlining services, investment in plant and automation, new energy / technology systems and sourcing alternative avenues to raw materials are all examples of this.



Maybeth Shaw, Partner at BDO Northern Ireland

Looking ahead

BDO NI, through their expert tax team continue to advise clients across sectors on ongoing tax related issues, including identifying areas that could be maximised by businesses. With a range of tax related changes impacting the daily operations of companies, including national insurance, income tax and other indirect tax alterations alongside likely future changes, the local business community continues to adapt.

Looking further down the line, businesses posting profits of over £250k will, from April 2023 see an increase in corporation tax to 25% and now is the time for these companies to plan for this. In the Autumn Budget we will be expecting to see movement on Investment and Innovation with reform of R&D relief to help boost productivity - another element that the business community need to prepare for.

The recent announcement from the Treasury on a temporary 25% levy on the profits of oil and gas companies will also include a new investment allowance to incentivise the reinvestment of these profits. This levy will be phased out when global community prices return to some kind of normal.

If embraced properly, change can be a good thing and BDO NI is helping bring about positive change within the business community. Companies will likely face further regulatory and technological changes which will put more pressure on their tax functions. It is vital for companies to proactively plan for these changes and where appropriate react to the ever-changing tax landscape. Can some businesses, for example, avail of the Super Deduction Relief Scheme or the Patent Box Scheme? More importantly, can they afford not to investigate these opportunities?

Northern Ireland is fortunate to have a resilient, focused and innovative business community that has been leading the way in bringing change and opportunity. The key will be in identifying and maximising potential opportunities in the hope that they do not need to wait too much longer for a more certain outlook.