

Helping dealers with strategic and operational guidance

MHA MacIntyre Hudson is one of the UK's top 20 business advisory and accountancy firms, with more than 70 partners based at 12 offices. Since January, a newly created motor team has been providing support and value to a significant number of dealers, including many in the AM100.

Steve Freeman, partner and national head of motor, and tax director Alastair Kendrick explained how MHA MacIntyre Hudson is helping dealers to focus both strategically over the long-term and in day-to-day operations to maximise the value of their businesses.

1 Business strategy – maximising value through long-term planning

In the past few years, it has been necessary for motor dealers to focus on delivering a return to the business with a very hands-on, operational approach.

However, with only a few exceptions, there has been less emphasis given to consideration of where the owners want their business to be in three to five years. Areas for such consideration include brand portfolio, property mix, locations and ownership of the business, both family and shareholder, and, therefore, potential exit plans.

MHA MacIntyre Hudson will work with dealers in considering the future of the business in terms of property assets and options – owned/leased, short or long leasehold – the value of property, and acquisition and disposal options, in conjunction with driving additional value in the underlying operational aspect of the business, the core motor business.

Freeman said: "I've seen cases where dealers have sold a property and have paid a lot of tax on the sale. What they could have done is created a structure whereby the property is split out and the business owner could have made the disposal using existing capital tax rules and exemptions and potentially paid significantly less tax."

"I've seen dealers that have sold their entire business and had their property and the operations in the same entities, and as a result have not gained the full value."

MHA MacIntyre Hudson guarantees it will take an open-minded approach to each case – there is no "off the shelf" solution in any instance – to gain an understanding of the business and the owner's plans before suggesting options.

"This is extremely important, because unless you understand this through discussions with the owner, you can't possibly plan for the right operational structures to put in place now, or down the line, to give them flexibility on their strategic plans." [See the case study on the next page.]

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2 Employment tax. Averaging schemes, ECOS and pension auto-enrolment – ensuring robust practices, maximising tax limitation opportunities and minimising risk
HMRC's new compliance agenda, with its focus on

employees, means working practices, current and historical, are in the spotlight. Alastair Kendrick looks at one particularly sensitive topic – car averaging schemes.

Dealers need to pay more attention to accurately logging the use of demo cars by staff. It is important there is sufficient data versus providing an average type of car driven on a P11D by staff. Dealers should keep sufficient records of cars made available and CO2 emissions of each car provided and the dates it was driven by employees. The benefit-in-kind is summarised on the return to HMRC, but dealers should ensure an accurate audit trail is available should HMRC decide to review.

Kendrick was part of the negotiation team on the new rules and now MHA MacIntyre Hudson helps dealers to ensure audit trails are in place.

"Every dealer is likely to have a car averaging scheme," Kendrick said. "We will ensure they are refined and robust enough to meet all HMRC's requirements."

Out of car averaging, in particular due to the benefit-in-kind implications, many businesses have developed employee car ownership schemes (ECOS). MHA MacIntyre Hudson has identified the common weaknesses in these:

- The title to the vehicle hasn't transferred. A dealer cannot acquire a car and then sub-lease it to an employee. For benefit-in-kind purposes, the car has to transfer to the employee.
- Ensure the correct valuation of the car on

transfer. The car has to transfer to the employee at market value, not, for example, the value paid by the dealer to the manufacturer. Also, at the end of the term, is the car realistically valued when it comes back on to the balance sheet?

■ ECOS and the national minimum wage. Charging a lower-paid employee through an ECOS scheme can mean their salary falls below the minimum wage. In cases of this kind, HMRC will 'name and shame', warned Kendrick.

"There isn't sufficient awareness of the impact of providing a car to an employee. This is not a service that can be excluded from the national minimum wage," he said.

Turning to auto-enrolment, all employers are required to automatically enrol certain staff onto a pension scheme and provide contributions. Small-to medium-sized dealers (with about 200 employees) are now reaching their staging date, the date when the law applies to their business.

"Some dealers, like many other businesses, have been either ducking the issue, or have left preparation to the last minute, not realising how complicated it was going to be," Kendrick said. "So we are seeing a lot of issues in this sector with dealers trying, at a late stage, to meet their staging date."

MHA MacIntyre Hudson has a team of specialists in auto-enrolment offering independent advice to ensure compliance and ensure financial penalties are avoided.

3 Capital allowances. Understanding the allowances available when making an acquisition and in corporate identity expenditure

When a dealer buys a site or a property, there is an opportunity to allocate the cost of the acquisition across the various assets, including property, plant and machinery purchased. The allocation exercise is fundamental in determining the amount of tax allowances permitted for the acquisition cost.

Freeman said: "Historically, a certain amount of the purchase price that would traditionally have been allocated to land could have been, through the involvement of a surveyor who carried out a valuation exercise, allocated across plant and machinery."

"These rules have existed for a very long time, but opportunities to maximise the benefit in terms of their tax computations have been missed on many occasions."

"There remains an opportunity to still carry out this exercise retrospectively and this is likely to provide an immediate tax cash benefit opportunity."

CASE STUDY

The owners of a multi-site and franchised dealer with a mixture of owned and leased property are looking to maximise the value of their business by returns on property and operations over three to five years. Options included full disposal, part disposal of some of the franchises and/or the establishment of a management team which would have a stakeholding.

MHA MacIntyre Hudson first looked at missed tax saving opportunities.

"We made sure the owners' tax affairs were in order and maximised any historical tax opportunities they had missed, for example, capital allowances on historical property acquisitions," Freeman said.

"Secondly, we considered structuring the

business to include factors such as tax optimisation, producing a workbook that demonstrated the options involved, from, at one end of the spectrum, consolidating all elements of business – property and operations – to selling each site separately. The owners are now looking at a phased exit, certain franchises and property assets being split out, incentive arrangements being put in place for key management, particularly those they're looking to retain, and then a managed disposal process.

"They will maximise the value in the disposal process, because you're splitting out the relevant value assets in a controlled way with a potentially reduced tax liability also," said Freeman.

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Alastair Kendrick, MHA MacIntyre Hudson

On a similar principle, money invested by dealers to meet CI requirements will attract tax allowances, depending on the type of asset the money's been spent on. The key here is being proactive.

"As soon as you start discussions with the manufacturer over the CI standards, engage an architect or a surveyor. Start thinking, not just about the

refurbishment or the refit and the spend, but about maximising the tax benefit at the same time," said Freeman.

And the devil is in the detail. Work with the architect or surveyor to choose the right fixtures and fittings and the business will benefit from enhanced capital allowances. Qualifying for the external allowances or not can depend on the energy consumption of a chosen bulb, for example.

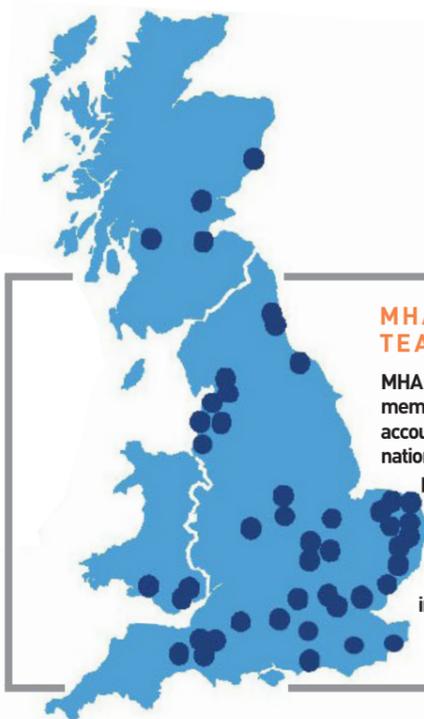
MHA MacIntyre Hudson uses a surveyor with considerable motor dealer experience to ensure opportunities such as this are not missed.

"We involve the surveyor in the annual tax compliance service. If a dealer has carried out a significant site refurbishment, we will work with them to make sure they get all of these allowances in full, in the same year," said Freeman.

Another point to remember is that the period of rectification if a dealer has missed this opportunity has been cut from six years to three. However, Freeman emphasised this should be part of an annual compliance test.

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Steve Freeman, MHA MacIntyre Hudson



MHA MACINTYRE HUDSON'S MOTOR SECTOR TEAM – A CENTRE OF EXCELLENCE

MHA MacIntyre Hudson has 12 offices and is a founding member of MHA – the UK association of independent accountants and business advisers. With 46 offices nationwide, MHA and its member firms are able to provide a truly national service, which is supported by the unique local perspective that MHA MacIntyre Hudson is able to offer. Its core motor specialist team covers audit, corporate finance and all areas of tax, including corporation tax, income tax, VAT and employment tax.

■ For more, visit: www.macintyreHUDSON.co.uk/sectors/motor/overview.



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