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Auto focus

Big tax changes and how to make them work for you

The UK tax system is constantly evolving and a number of changes have been introduced over the last six months, following the new government's Emergency Budget.

Whenever there is change, there are opportunities for automotive businesses to save tax and reduce their exposure to tax risk.

Capital allowances

The Annual Investment Allowance (AIA), which gives 100% first-year tax relief for expenditure on plant or machinery, doubled to £100,000 from 1 April 2010. There is a sting in the tail in that the AIA will reduce to £25,000 from April 2012. The main rate of capital allowances will also fall from 20% to 18% for accounting periods ending on or after 1 April 2012.

Dealerships and other public-facing automotive businesses tend to have high capital spends. It seems that now is the right time – before 1 April 2012 – to consider accelerating plans to invest in new plant and machinery and/or premises, and benefit from the higher tax allowances available.

Allowances for cars with a CO₂ emission exceeding 160g/km also fall from 10% to 8% while those between 111g/km and 160g/km reduce to 18% from April 2012.



On 31 March 2013 the 100% first-year allowance for cars under 1.11g/km will cease. As a result of these changes, tax relief for significant expenditure will be received over a longer period.

Corporation tax and tax-effective structures

The June 2010 Budget introduced lower rates of corporation tax, to be phased in over the next few years. The corporation tax rate for smaller companies will be 20% with effect from 1 April 2011 while for larger companies, the headline rate of corporation tax will reduce to 24% from 1 April 2014.

Despite the corporation tax rate reductions, it is worth reviewing your activities to ensure they are structured in the most tax-effective manner, particularly given the beneficial personal capital gains tax (CGT) rates.

We have advised a number of automotive businesses about the tax merits of operating as a Limited Liability Partnership (LLP). We have developed tax strategies allowing properties to be placed into a LLP without cost to capital gains or Stamp Duty Land Tax. This means that as the property appreciates in value, individual members (including owner managers) will only be taxed at the rate of CGT (normally 28%).

Employee benefits

Even taking into account the future reduction in corporation tax rates to 24%, this is an attractive proposition, given the double incidence of tax when extracting profits out of a company, i.e. corporation tax and income tax (for individuals).

Capital gains tax

We have seen a number of successful dealerships consolidate their position through acquisitions.

Owners looking to sell their businesses will be pleased that recent CGT increases were not as painful as the pundits predicted.

Since 23 June 2010, CGT rates have been:

- 18% for lower-rate taxpayers
- 28% for a higher-rate (40%+) taxpayers

The good news is that Entrepreneur's Relief lifetime limit on gains has increased from £2m to £5m, which means that qualifying capital gains up to this threshold will be taxed at 10%, subject to satisfying the detailed eligibility requirements.

VAT

The increase in the VAT rate from 17.5% to 20% from 4 January 2011 is likely to affect the timing of car purchases. A 2.5% increase, if passed on to the retail customer, is a significant additional cost. So there could be a spike in sales in December 2010. After that, will retail customers expect dealers to absorb some of the increase, leading to a reduction in dealer margins?

There is also a possible knock-on effect in the value of used cars held on 4 January; whereby the dealer may suffer a reduction in margin if the market cannot sustain an increase in the value of used cars. Again, planning is key to maximising profits.

If you would like to discuss potential tax saving opportunities please contact: [Janice Riches at jriches@kingston-smith.co.uk](mailto:Janice.Riches@kingston-smith.co.uk) or [Alan Craddock at acraddock@kingston-smith.co.uk](mailto:Alan.Craddock@kingston-smith.co.uk), partners, Kingston Smith LLP.

More pensions reform and more cost?

The current plans for pension reform consist of a package of changes to both state and private pensions, with the aim of getting people to save more for their retirement. The government estimates that about seven million people are not currently saving enough, which is putting the onus on employers to encourage employees to save.

Starting in 2012, employers' responsibilities will be built on two principles:

1. Auto enrolment of individuals into a suitable pension scheme, and
2. Compulsory contributions

Auto enrolment means that an individual is automatically enrolled into a pension scheme and does not need to do anything or make any decisions. This applies to any employee between the age of 22 and state pension age. This underpins the government's view that employees have a tendency to inertia but once they are enlisted in a pension scheme, they are more likely to continue contributing to it.

The total minimum contribution will be phased in and, by 2014, will be 8% of 'qualifying earnings' with at least 3% payable by the employer. The balance will be paid by the employee but this includes tax relief.

Contributions can be paid either into a qualifying pension scheme chosen by the employer or, failing that, into a Personal Account. Personal accounts are designed to be a low-cost option aimed at low-to-medium earners, although they will not have the same benefit options offered by current arrangements. The personal account scheme will be known as National Employment Savings Trust (NEST).

Employers' duties will be phased in over four years starting in October 2012 with larger employers first. Dealerships employing less than 50 staff will start their processes from August 2014. The costs will also be introduced in stages so that the full 8% applies from October 2017 onwards.

One way or another, there is likely to be a significant impact on costs for automotive businesses. HR departments and managers responsible for staff will feel the pressure as they will be required to explain how the pension scheme will work.

Although these changes will not start to take effect for another two years, planning needs to begin now rather than leaving it to the last minute.

- If you do not have an existing scheme in place, consider introducing one now and phase in contributions (from the company and employees) so that by the time the new rules take effect, it qualifies for exemption.
- If there is an existing scheme, have it reviewed to ensure it meets the minimum standards required. Consider whether your employees value the scheme or if any improvements can be made.
- Talk to your staff to ensure they are aware of these changes. It is not just the employer who is required to pay into the scheme.

Many dealerships will struggle to cope with these changes and there will be an increasing strain on profits that are already suffering in the current economic climate. However, a pension scheme is a valuable benefit which, if properly arranged, can help with the recruitment and retention of good quality staff. Planning ahead will help you control costs and ensure that the extra administrative burden is minimised.

If you would like further information or if you have any concerns about these changes and the impact they will have on your company, please contact: [Derek Prentice, Director, Kingston Smith Financial Advisers at dprentice@kingston-smith.co.uk](mailto:Derek.Prentice@kingston-smith.co.uk)

This article is based on our understanding of current draft legislation which is subject to change.

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Engage, convert and retain

This year has seen an upturn in sales in the luxury car sector and a more moderate change in the volume sector. However, with the end of the scrappage scheme and with consumer confidence remaining low, there is even greater competition and a need to be smarter in converting prospects, as well as retaining customers.

Automotive manufacturers and dealers frequently struggle to understand their customers' needs, missing valuable opportunities to expand relationships and maximise potential.

Out of the doom and gloom there is some hot news – an approach that can address your own business imperatives and help maintain, and even increase, revenue levels.

The solution lies with maximising the use of your database and turning it into a powerful marketing tool.

This goes far beyond just direct marketing. Knowing, for example, where customers are in their purchase cycle, how their behaviour compares to other similar customers and which propositions they have responded to can all be extremely useful.

People follow a decision-making process that is not necessarily sequential. Their personal buying considerations will affect their path through the process, i.e. from internet to price enquiry to the more emotional aspects of product selection, up to the point of purchase or abandoning the process.

The key to building the insight about customers and prospects lies in bringing together everything you know about them. This can reveal the 'who', 'what', 'when' and 'how' but what if you were able to add the 'why' factor?

To achieve this you must also include attitudes and aspirations that drive their purchase decisions. Consider the scenario where information acquired through tracking response and behaviour is matched to the researched view of attitudes and aspirations to create profiles.



The outcome can then be used to create communication strategies to ensure no opportunity is lost and the customer or prospect is always directed towards the best next action, driving relevant, targeted communications.

A good example of this occurred when consulting for an automotive manufacturer. A list of potential customers for a new mid-range car was tested and ostensibly, the profiles absolutely matched the positioning of the model to be sold. However, research revealed their preference for a used luxury car with personalised plates, as they could not afford their ideal car new. So a new mid-range car proposition would have been totally irrelevant and failed.

Such insight can also be used to determine how best to move customer relationships forward or flag danger signs. Does recent action (or inaction) indicate possible churn? Has an enquiry been exceptionally different to all those before? Are they approaching a milestone in their relationship with the company?

Knowing what motivates their behaviour can be used to generate relevant communications or direct them to the right web page or sales person as part of a strategy to retain their business or cross sell into a new area, e.g. leasing.

You can access this analysis and profile-building service as part of the range of services Kingston Smith provides to the automotive sector. Specialist consultants and analysts will help you extract the necessary data from your in-house systems and direct a subtle yet effective combination of database strategy, analytics and survey activity that delivers segmentation and profiling. They will apply data-mining techniques to identify the latent trends, opportunities and threats. The results identify the different customer profile attributes influencing purchase and loyalty, and provide direction on favoured channels and extent of communication and preferred promotional activity. Armed with this knowledge you can ensure your marketing strategy addresses these issues to drive the relationships.

To find out more about gaining the competitive edge in today's economic climate please contact [Janice Riches](mailto:janice.riches@kingstonsmith.co.uk), partner, Kingston Smith LLP, at janice.riches@kingstonsmith.co.uk

About Kingston Smith's automotive team

Kingston Smith is a top 20 firm of Chartered Accountants, with 60 partners and 500 staff spanning seven offices across London and the South East.

Our automotive team currently acts for a variety of businesses involved in the sector including franchised dealers, independent garages, bodyshops and after market businesses as well as suppliers and manufacturers of parts and ancillary automotive products.

Our experienced team understands the issues and challenges being faced by businesses in the automotive sector including maximising profitability, improving cash flow, forecasting and working capital management.

We also act for the Retail Motor Industry, RMI, the trade association representing the interests of companies operating in the retail motor industry.

We provide specialist support which in these difficult times will help you meet your challenges.

More information about Kingston Smith and our services can be found at: www.kingstonsmith.co.uk/automotive

Contact us

If you would like to discuss any of the matters arising in this edition or how we can help you, please contact one of the Kingston Smith Partners by email or on 020 7566 4000.

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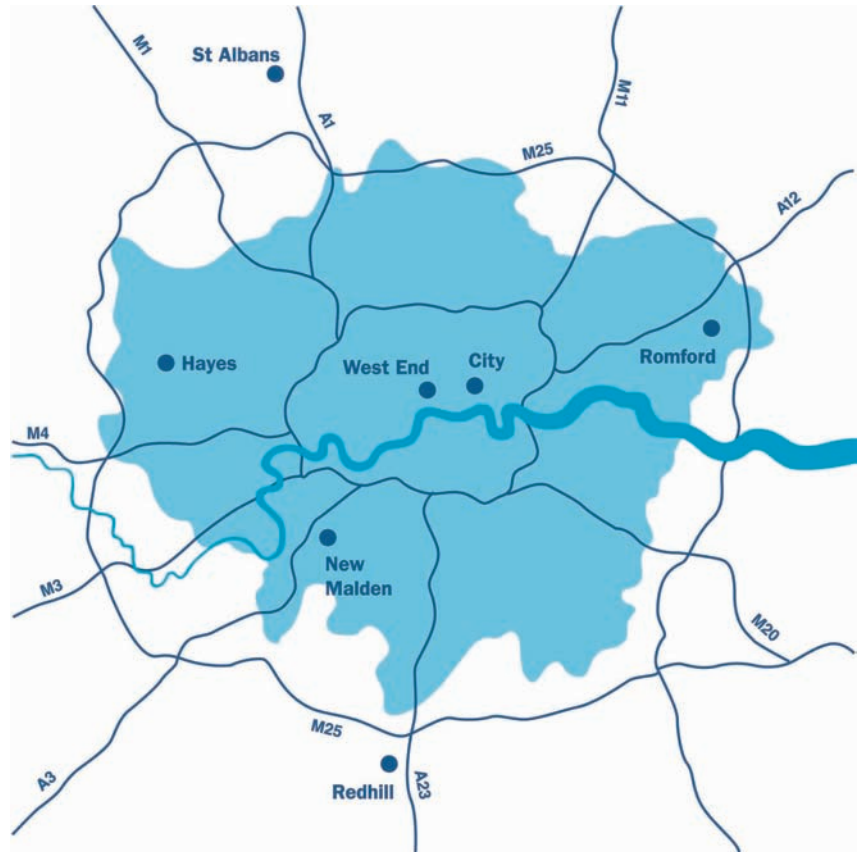
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