

# Case study– Car benefits and the new averaging system from 6 April 2009



## Getting the right advice

Due to the sheer scale of cars available to employees and the frequency with which these vehicles are changed by individual employees, many dealerships entered into local agreements with HM Revenue & Customs (HMRC) to simplify the basis on which employees are taxed. All employees are subject to income tax on the benefit of the use of cars based on the car's list price and CO2 emissions. Until now there has been a special arrangement for employees of motor dealers. The benefit has been calculated on an averaging basis, dependent on the cars generally available to employees, or classes thereof. Up to 5 April 2009, each dealership would have its own local agreement with HMRC as to how that system operated in practice – but this is set to change.

From 6 April 2009, HMRC will introduce a national averaging agreement to calculate the benefit in kind for dealer employees.

The effect of this is a massive increase in the administrative burden for dealers and potentially 'easy pickings' for HMRC to collect additional tax from dealers struggling to apply the new provisions in practice.

Kingston Smith has extensive experience of negotiating with HMRC to reach agreements on the method of calculating the benefit in kind for dealer employees. We can advise you on how to minimise the disruption as a result of the transition to this new calculation method, and provide practical advice on the pitfalls to avoid.

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## The issue

We were approached by a major automotive dealership with several hundred employees and a large stock of demonstrator vehicles. In the past, a simplified arrangement had been agreed locally with HMRC, for employees to be subject to tax based on a sample of vehicles available to individual classes of employees.

The Inspector of Taxes objected to the simplified basis and indicated that unless the dealership became fully compliant with what they considered to be the "minimum" record-keeping and compliance obligations, the dealership would not be eligible to remain in the new averaging system effective from 6 April 2009.

HMRC's initial claim was that the benefit in kind assessed on employees was understated and that calculations might need to be reworked for each of the last six years.

HMRC also wanted assurance as to how the dealer would ensure it complied with the new national car averaging system from 6 April 2009.

## The solution

One of our specialist tax partners spent time with the dealer to understand the system previously employed and the potential impact of HMRC's requirements.

We negotiated with HMRC and agreed the final liability for all past years up to 5 April 2008, saving a substantial sum compared to an estimate of the liability based on HMRC's opening stance.





We also reached an agreement on how the dealership was to manage the transition to the new national averaging agreement.

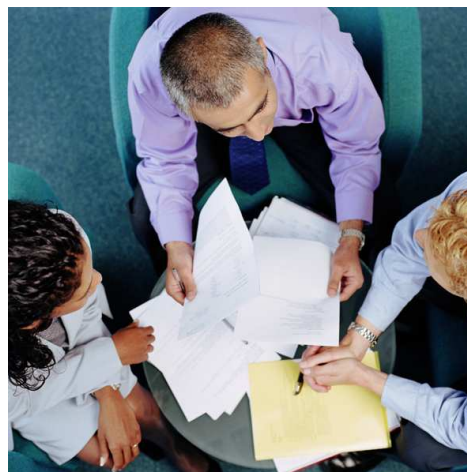
The Inspector of Taxes initially contended that for 2008/09 the dealership should provide full details of every car available to employees: an arduous and costly task. We insisted that this would be unreasonable, and reached agreement for cars in individual franchises to be banded on a reasoned basis between selected classes of employees.

We also reached agreement on the creation of a new 'logging system' for demonstrator and 'loan out' vehicles, and obtained clarity on the information to be maintained by the dealership to comply with the new record-keeping requirements effective 6 April 2009.

The risk to the dealership if negotiations had broken down, and HMRC had insisted that each individual employee should be subject to tax based on actual use of a specific vehicle, would have been a substantial increase in costs and the imposition of an impractical record-keeping requirement.

## How we work with you

We will provide you with the right advice at the right time to give you the maximum financial impact. We do this by providing you with a Partner who is accessible, committed to taking the time to understand your business and who will co-ordinate a team of accounting, tax and audit specialists to successfully meet your objectives.



## About Kingston Smith's Automotive team

Kingston Smith is a top 20 firm of chartered accountants. Our Automotive team has considerable experience in the sector. We help our clients run their businesses more successfully by providing practical advice, such as planning to minimise your tax exposure, business strategy advice to help you build value and protect your wealth, HR planning and consultancy, as well as accounting services ranging from preparation and audit of year-end financial statements to advice on improving financial efficiency.

To find out more about Kingston Smith's bespoke services go to:

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### Kingston Smith Automotive team

Janice Riches (City)

+44 (0)20 7566 3804

Mark Bridge (St Albans)

+44 (0)1727 896008

Sidney Bright (Romford)

+44 (0)1708 759702

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## Contact us

Devonshire House  
60 Goswell Road  
London EC1M 7AD

Telephone +44 (0)20 7566 4000  
Fax +44 (0)20 7566 4010  
Email [ks@kingstonsmith.co.uk](mailto:ks@kingstonsmith.co.uk)  
Web [www.kingstonsmith.co.uk](http://www.kingstonsmith.co.uk)