



corporate | tax changes affecting motor dealers

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In this report we summarise some of the key changes affecting motor dealerships announced in the recent Budget. Whilst one of the highlights of the Budget was the introduction of the vehicle scrappage scheme there were also a number of other changes that may affect you.

business tax carry back of trading losses

A loss making business can now carry back losses for up to three years and get a tax repayment. After a carry back to the preceding year, a maximum of £50,000 can be carried back to the earlier two years. Initially this extension was only to be available for one year from November 2008 but has now been extended to two years.

capital allowances

A temporary first year allowance of 40% has been introduced for expenditure incurred on general plant and machinery in the year commencing 1 April 2009. This is in addition to the Annual Investment Allowance of 100% on qualifying expenditure up to £50,000 introduced last year.

The capital allowances available on expenditure incurred on cars is now dependent on the car's CO₂ emissions:

CO ₂ emissions	allowance
more than 160g/km	10%
110g/km – 160g/km	20%
less than 110g/km	100%

Expenditure incurred before April 2009 will continue to be subject to the old "expensive" car rules for a transitional period of around five years.

lease cars

The tax deduction available on leased cars is also now dependent on the car's CO₂ emissions. For leased cars that have CO₂ emissions exceeding 160g/km there is a flat disallowance of 15% of the lease payments. Expenditure under leases that commenced prior to April 2009 will continue to be subject to the old rules until the end of the lease.

business support helpline

A helpful announcement for many businesses is the extension of the business support service which can allow businesses with cash flow issues to spread tax payments over an agreed period. A business predicting losses in a future period should now also be able to account for any loss carry back when agreeing payments. Businesses worried about meeting tax liabilities can call the helpline on 0845 3021435.

senior accounting officers

It is proposed that senior accounting officers of large companies or groups will have to certify annually that the accounting systems in operation are adequate for the purposes of accurate tax reporting. Alternatively they must specify the nature of any inadequacies and confirm that these inadequacies have been notified to the company's auditors. The company will have to notify HMRC of the identity of the senior accounting officer. Penalties will be chargeable on the officer personally and on the company for a careless or deliberate failure to comply with the obligations or for giving carelessly or deliberately an incorrect certificate. It is proposed that these rules will be introduced for accounting periods beginning on or after the date the Finance Bill 2009 receives Royal Assent.

employment tax

income tax rate

The major announcement of the Budget was that from April 2010 there will be a new 50% tax rate for income over £150,000. As a consequence of the new higher tax rate, the tax rate for dividends on income over £150,000 will become 42.5% rather than 32.5%. The effective tax rate on such dividend payments after the notional tax credit will therefore increase to 36.11% from 25%.

Affected owners and employees should consider changing the timing of any proposed future bonuses and dividends to before 6 April 2010 if cash flow permits. However those thinking about waiving bonuses into pensions will be disappointed to hear this will not be effective as the Chancellor launched a separate attack on pension contributions.

It is proposed that from April 2011 those with incomes over £150,000 should have their higher rate tax relief on pension contributions abated such that those with income over £180,000 will benefit only at the basis rate of 20%.

Of perhaps greater significance is the fact that "forestalling" provisions are introduced effectively "overnight", to prevent pension contributions in order to reap the benefits of the higher rate relief otherwise available under current rules before the new regime is introduced in 2011. These rules are complex and capricious in their effect: certainly those business owners who have funded their pension provision on an annual basis (generally when profits are known) are unfairly disadvantaged. The forestalling provisions only apply to contributions above the established level of regular (at least quarterly) pension contribution. If such regular contributions have not been made then any contributions after Budget day are vulnerable to these rules.

company car tax

The rules for calculating the taxable benefit on which employees and employers are taxed on cars provided for private use have been changed from 2011/2012, whereby:

- the lower threshold CO₂ emissions figure (130g/km for 2010-11) will be reduced by 5g/km to 125g/km
- the £80,000 price cap that currently applies when calculating the cash equivalent of the car benefit will be abolished

The reductions currently given for electric/petrol hybrid cars and cars propelled by bio-fuels, road fuel gas and bio-ethanol will be abolished. The discount given for Euro IV standard diesel cars registered before 1 January 2006 will also be abolished. This will change the focus of the legislation from the means by which the car achieves its CO₂ emissions figure to the CO₂ emissions figure itself.

Employees with frequent changes of car in the motor trade will be taxed under the new car averaging rules which apply from 6 April 2009. From this date all local arrangements are replaced by a single national arrangement.

VAT

VAT implication of the vehicle scrappage scheme

HMRC published guidance on the scrappage scheme on the eve of its launch. Essentially, a manufacturer will treat their £1,000 subsidy as inclusive of VAT, and they will also treat it as a discount in the same way as they treat a dealer demonstration discount, so the amount of output tax they account for will be reduced by £130.43 (at the current 15% rate).

They will collect the £1,000 grant from the Department for Business, Enterprise and Regulatory Reform and must pass that to the dealer within 14 days. They will not adjust the value of their supply to the dealer to reflect this second £1,000.

As a dealer you simply charge your normal selling price, and account for output tax on that full selling price, but the customer pays £2,000 less. This is paid for by the manufacturer passing you the two lots of £1,000.

As regards input tax, you make no adjustment in respect of what you pay or reclaim as you are simply a conduit for the discount being passed from manufacturer to customer.

VAT standard-rate

The new measures announced to prevent organisations benefitting from the lower 15% rate of VAT before it reverts to 17.5% on 1 January 2010 were more limited than expected. These may give rise to the possibility that goods or services can be purchased in advance or the sales date brought forward to benefit from the 15% rate.

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VAT recovery

Two optional changes to the VAT recovery method for partially exempt business have been introduced with effect from April 2009.

Under the new rules a company can, but does not have to, simply use the previous year's annual recovery rate. This is then finalised in an annual adjustment at the end of the year. It can now also declare the result of the annual adjustment in the final period of the old tax year. Under the previous rules this could only be done in the first return period following the end of the tax year.

VAT fuel scale charge

The VAT fuel scale charge rates for taxing private use of fuel have been amended to reflect changes in fuel prices. They take effect from the start of the next accounting period beginning on or after 1 May 2009.

If you would like to discuss any of the issues raised then please contact David Cox on 020 7969 5564 or dcox@haysmacintyre.com

about haysmacintyre

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Around 50% of the firm's business is within the corporate sector – small and medium sized enterprises, many of which are in the property, media and entertainment, technology, sports and business services sectors. The firm acts for a number of listed companies and assists new companies raise initial funds on the capital markets and through private equity. 35% of the firm's business is for charitable and not for profit organisations and the remainder is for professional practices and private individuals – whether senior executives, entrepreneurs or those with significant land or wealth at home or overseas.

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