

Garages and Motor Dealers



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STANBURY
CHARTERED ACCOUNTANTS



Some Industry specific areas of advice from our experience

VAT: Where second hand vehicles are bought and sold, dealers may use a special scheme whereby VAT is only charged on the seller's margin.

Are VAT Scale Charges on fuel being correctly applied?

A special method applied to calculating VAT due on private use of 'stock-in-trade' cars made available free of charge to employees.

In fact there are many aspects of motor vehicle retailing which are complex and for which guidance as to the correct VAT treatment should be obtained.

Are P11d forms for staff having a company car being completed?

There can be annual tax/NI savings to be had by operating the trade from within a limited company, but should the premises be owned personally?

Is ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Wills: are they tax efficient particularly as regards the business?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?

Are controls over and reconciliation of cash sales adequate to guard against theft and rebuff challenges of completeness from HMRC?

Industry Background

The number of cars on the road currently stands at around 28 million. The long term rise in the number of vehicles has inevitably boosted demand for automotive services, especially as the vehicles themselves have become increasingly complex and more difficult for owners to repair and service themselves. However, the rate of growth in the area of servicing and repair has been relatively modest, affected by a number of factors:

Improvements to vehicle design, performance and quality have boosted reliability and durability.

Better quality replacement parts, which last longer

Longer service intervals.

Insurance companies are increasingly prepared to scrap accident-damaged vehicles rather than repair them.

Falling new car prices have made consumers reluctant to pay hefty repair bills

The market for automotive services has become intensely competitive, particularly since the emergence of specialist fast-fit tyre and exhaust replacement centres

Independent used car retailers fall into one of two main categories - outlets of greatly varying size which specialise in used car sales and other types of business (usually repair garages and petrol filling stations), for which car dealing is a peripheral activity. While it is estimated that around 10,000 examples of the latter type of business exist in the UK, there are only around 5,000 specialist independent used car dealers. Of this total, it is estimated that around 3,500 are identifiable as dedicated used car retail outlets, with much of the balance being accounted for by small dealers with no formal premises including part-time 'dabblers'.



Some Industry specific areas of advice from our experience (cont'd)

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven by CO2 emissions? It can now even make sense for a company to provide low emission cars to non-employee family members.



The rise of the internet as an alternative sales channel for used cars means that many dealers have their own website, which they use to display photographs and details of their current stock. Online classified directories such as Autotrader list several thousand vehicles at any one time, while eBay Motors claims to sell a car on average every two minutes. As well as providing an alternative sales channel for dealers, however, it should be noted that websites such as Autotrader and eBay make it easy for private individuals to buy and sell vehicles without using a dealer.

Some dealers report, however that greater use of the internet means that those individuals who do visit a dealer have generally done a considerable amount of research on their target vehicle, and are more likely to be serious about making a purchase.

Independent vehicle servicing and repair outlets range in size from one-man bands to larger concerns with multiple outlets. According to Government figures (UK Business: Activity, Size and Location), over 75% of the 33,900 VAT registered enterprises involved in vehicle maintenance and repair work had 4 or fewer employees.

As the petrol retailing market has become increasingly competitive, many in the sector have sought to improve turnover and margins by extending the range of goods on sale in the forecourt shop to include 'convenience' lines such as groceries, tobacco products, newspapers and magazines, soft and alcoholic drinks, snacks and fast food. The lines traditionally carried by garage shops, such as car care products and accessories, have been given much less prominence. According to the Institute of Grocery Distribution there are some 8,600 forecourt convenience stores in the UK.

Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?



Forecourt retailing is forecast to continue to enjoy reasonable growth in the future. Although consumers might generally go to the supermarket for the weekly 'shop', they also make 'top up' or impulse purchases frequently during the week.

Many forecourt shops have introduced a range of snacks such as sandwiches, pies, pasties and more ambitious ready-meals in order to take advantage of the fact that consumers often 'eat on the move'. This trend has become so well-established that it has become known in the trade as 'dashboard dining'.

Key Performance Indicators

Performance in this sector may be expressed in terms of the gross profit percentage rate achieved.

Although gross margins returned by used cars are typically somewhat higher than those associated with new car retailing, they are still low in comparison with many retail sectors, including most other areas of the motor trade. Many used car dealers - do not think in terms of mark-up or margin percentages, but work instead on the basis of a lump sum profit per car.

Conversely to what might be generally expected motor dealers selling vehicles toward the upper end of the market and also franchised dealerships are likely to achieve some of the lowest gross profit rates, while those selling more vehicles at the lower end of the market should achieve a considerably higher margin.

Margins on petrol retailing are very slim and if fuel sales account for a significant proportion of turnover margins will be lower than where the business consists primarily of workshop activities although this may well be boosted by a forecourt retail convenience store.

It is an arithmetical fact that the higher the gross profit percentage that can be achieved the less turnover is needed to cover overheads and a reasonable level of profit.

Ask us how your gross profit percentages compare with the norm for your type of activities.

Ask about our own award winning "tax tools" software including "business profitability analyst" based on key driver information.



Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including garages and motor dealers. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.



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