

Bright ideas for tax planning

Automotive sector briefing



Sign up to receive our regular sector updates

If you like these ideas and would like more information, email:
auto@kingstonsmith.co.uk.
Include 'iPhone' in the subject line for a chance to win a 8Gb iPhone 3G. Closing date for entries is 31st August 2009.

Recent tax changes affecting higher earners, in particular the new top rate of income tax at 50%, the phased withdrawal of the personal allowance, and the restriction of higher rate relief for pension contributions, can combine to give an effective marginal rate of tax of over 61%.

Small wonder, then, that business owners are increasingly focusing on tax planning strategies to "ease the pain". Although tax planning may be some way down the list of priorities for many automotive businesses in the current trading conditions, the uncertainties in the market do offer opportunities for tax-efficient restructuring to position the business to take advantage of the eventual upturn.

In this briefing we explain three key tax planning areas for automotive businesses:

- Property ownership
- Alternative business structures
- Retirement provision

Property ownership

Ownership of property within a privately owned company is potentially inefficient from a tax viewpoint.

This is because tax is charged on the disposal of the property at two levels. The company will pay corporation tax on its chargeable gain arising on the sale of the property at rates between 21% and 28% depending on the level of taxable profits, and there is a second charge in the hands of the shareholders on distributing the post-tax profits, either as a dividend, or as a distribution in a winding up. Direct ownership at shareholder level eliminates the first level of taxation, and provides shareholders with a source of income from the company in the form of rent.

Automotive property is often owned within a trading company. As businesses have "traded up" otherwise taxable gains arising on the disposal of one property may have been "rolled over" into its replacement.

In normal market conditions the tax charge deferred by this "rollover relief" would crystallise when the company ultimately disposes of the property.

Until relatively recently this has meant that restructuring property ownership has been prohibitively expensive from a tax viewpoint, since extracting the property from the company involves a disposal by the company at market value. With property values currently severely depressed, now may be the moment to extract the property portfolio from the trading vehicle to protect it whilst the corporation tax consequences are likely to be much reduced, if not avoided altogether.

Future growth in value will be for the benefit of the shareholders directly, and subject to capital gains tax in their hands, possibly at rates as low as 10%.



Alternative business structures

Consider whether you should take advantage of the flexibility offered by a limited liability partnership (LLP) instead of the traditional company/group of companies structure. An LLP combines the protection from creditors found in a company together with the profit allocation flexibility of a partnership. With careful planning and by including a corporate member in an LLP you can shelter profits at 21% and reward key people far more tax effectively than through a limited company.

Retirement provision

The changes to tax relief for pensions, and the general limitations of conventionally registered pension schemes, have increased interest in a different type of pension scheme – the Employer Financed Retirement Benefit scheme.

Carefully implemented, such a strategy enables selected employees and directors the opportunity to apply company profits to a special tax-free fund without the constraints on investment policy, and the financial limitations of an orthodox personal or occupational pension plan.

About Kingston Smith's Automotive team

Kingston Smith is a top 20 firm of chartered accountants, with 61 partners and 500 staff spanning seven offices across London and the South East.

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.

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



Contact us

Mark Bridge +44 (0)20 7566 3818
Janice Riches +44 (0)20 7566 3804
Sidney Bright +44 (0)1708 759702

Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD

Telephone +44 (0)20 7566 4000
Fax +44 (0)20 7566 4010
Email auto@kingstonsmith.co.uk
www.kingstonsmith.co.uk/automotive