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Auto focus

Companies to lose valuable indexation allowance?

The method of calculating capital gains entitles companies (as opposed to individuals) to indexation allowance to give relief from that part of any capital gain that was generated simply by an increase in the Retail Price Index.

In March 2011, the Office of Tax Simplification (OTS) produced its final report on the review of tax reliefs. One of the more important suggestions in that report is the aim to realign the treatment of capital gains for individuals and companies. It is proposed that there should be consultation on the abolition of indexation allowance for companies. The OTS recognise that this is a long term project and if the Government goes through the consultation process as recommended, we should have some warning as to when any changes might come into effect. It is recognised that there would need to be some compensatory adjustment to the way capital gains are taxed in companies and one of the suggestions is that there be a lower rate of corporation tax for corporate capital gains.

Indexation is very valuable. The increase in retail prices between March 1982 (the earliest date on which indexation allowance can be obtained) and March 2011 is 191.3%.



...company owners and directors will need to consider whether they should be taking any action to preserve their entitlement to any indexation allowance that has already accrued.

Accordingly, if a company acquired premises in March 1982 at a cost of £1million, then a sale in March 2011 would mean that the gain would be computed after deducting the original cost of £1million and indexation allowance which, based on cost, would be another £1.913 million. If this change to corporate capital gains is going to happen, as seems likely, then company owners and directors will need to consider whether they should be taking any action to preserve their entitlement to any indexation allowance that has already accrued.



So what does this mean in practice?

For trading companies which perhaps own their premises or have freehold investments or any other chargeable asset, such as shares or goodwill acquired before 2002, action should be considered to preserve indexation allowance.

In a corporate situation, a no gain, no loss disposal can be generated by transferring the assets within a capital gains group. Accordingly, transferring an asset on which indexation has accrued to a parent company or a subsidiary company may be the way in which this can be achieved.

In the case of a trading company there are other issues to consider, including the need to protect the value of valuable assets from trading risk. For example, if a trading company owns a valuable property, then putting in place a parent company into which the property is transferred might be appropriate from a commercial point of view, as well as the fact that it might help preserve indexation. A more radical solution maybe to look at whether or not the property should be within the group in any case. Reconstructing the company or group so as the property is removed from it may be a more attractive alternative and it should be possible to do so in a way which would preserve the entitlement to indexation allowance.

The taxation issues do not revolve solely around the treatment of capital gains. Any transaction of assets in the company will need to take into account other issues, for example, stamp duty or stamp duty land tax (SDLT), VAT and so on. In the case of land and buildings where SDLT is now chargeable at rates up to and including 5%, the cost is becoming quite significant.

There are also commercial issues to consider including the impact of any property transfer onto the accounts and also whether land and buildings are used as security for any third party borrowings.

For trading companies which perhaps own their premises or have freehold investments or any other chargeable asset,... action should be considered to preserve indexation allowance.

What is the urgency of this tax planning opportunity?

A more interesting alternative to consider might be to have an intra-group transfer of the property to crystallise the indexation allowance, and then to follow this up with a transfer of the property into a limited liability partnership (LLP). The members of the LLP would be the existing company or group together with perhaps the shareholders. With care, it is possible to achieve such a transfer without crystallising a capital gain on the property or any SDLT liability. It may be possible then to structure the arrangements so that the individual members of the LLP (the shareholders) can participate in any future growth in value of the property. This could mean that on a disposal they can take a share of the capital gain directly and pay personal capital gains tax at 28%.

What is the urgency of this tax planning opportunity? The OTS admits that this is a long term project and the suggestion of a consultation process could mean that we have several years to consider the proposals and take appropriate action. However, given the planning that took place to preserve indexation allowance for individuals, it is not impossible for the Government to announce that there will be anti-forestalling rules with immediate effect so that action cannot be taken to 'bank' indexation allowance. Reviewing this matter sooner rather than later is therefore appropriate and, in any case, business owners should regularly review their operating structure to see whether or not it achieves all they require from a commercial and taxation point of view.

Should you have any questions about how your business may be affected by the abolition of indexation allowance for companies, ask your client partner or contact [Mike Hayes on 020 7566 3813 or email](mailto:mhayes@kingstonsmith.co.uk)

Social media in the automotive sector

Social media is just one of many channels open for use as a way of engaging with customers and prospective customers. The automotive industry has been a little slower than some in embracing social media. However, in recent months activity from dealers using this channel to engage with their audience has been on the rise.

A lot of businesses are trying to do social media without any real business objectives. Organisations need to take a strategic approach rather than doing it for its own sake. Savvy dealers must exploit the full potential of the social media world.

Here are ten tips for getting started in the right way.

1. Plan what you want to achieve

Some use social media as a way of listening to customers for feedback, and to demonstrate that they are listening, engaging, and showing an interest. Others want to use it to generate new business. Be clear about what you are trying to achieve. Inevitably this will directly affect your approach to social media activity.

Social media has provided businesses with the broadcasting tool for a two way information exchange.

2. "In space no one can hear you scream"

If you're spending your time shouting into a vacuum you may as well not bother. Find where your audience is and use those networks. If your customers tend to use Facebook don't build your strategy around LinkedIn. Otherwise no one will be listening to you.

3. Listen and share

Social media is "social" and this means having conversations. So don't just broadcast. Listen and engage with people. In addition, your content doesn't always have to be original content you have slaved over for hours. Sharing what you have found is by definition "social".

4. Pick your theme

Stick – broadly speaking – to a subject relevant to your business. For example, in my role as a marketer for Kingston Smith, I look for articles people have written on the subject of small business and entrepreneurship and share them with our followers.

5. You are a person with a life

Some of your tweets or posts should give an insight into you as a person. This helps attract and engage people like you. People like you are more likely to like you – and it's easier to sell to and do business with people who like you.

6. Use the tools at your disposal

Don't spend your time duplicating posts on multiple networks when you can use excellent tools like Hootsuite to manage almost your entire social media presence and activity.

7. Look for ways to get direct value

Foursquare is a great way to get direct value out of social media. You can make offers and promotions with ease, and the check-in concept is a great way of rewarding loyalty.

8. Treat every foray into social media like a special ops mission

Go in, do what you need to do and get out again. You can spend your life in there if you really want to, but you probably have a business to run!

Savvy dealers must exploit the full potential of the social media world.

9. Don't miss the easy wins

Using tools like Hootsuite you can easily set up searches for tweets containing "car broke down again" within a certain distance of your location. Why not respond – politely and gently – that you might be able to help?

10. Monitor your competitors

If your competitors are active on social media too, keep an eye on what they're up to!

For more information and advice on social media strategy, contact Kingston Smith's Practice Development Manager
Graeme Trigg on gtrigg@kingston-smith.co.uk or 020 7566 4000



About Kingston Smith's automotive team

Kingston Smith is a top 20 firm of Chartered Accountants, with over 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 to help you meet your business 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.

Kingston Smith LLP

Devonshire House
60 Goswell Road
London
EC1M 7AD

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

City

Janice Riches

jriches@kingstonsmith.co.uk

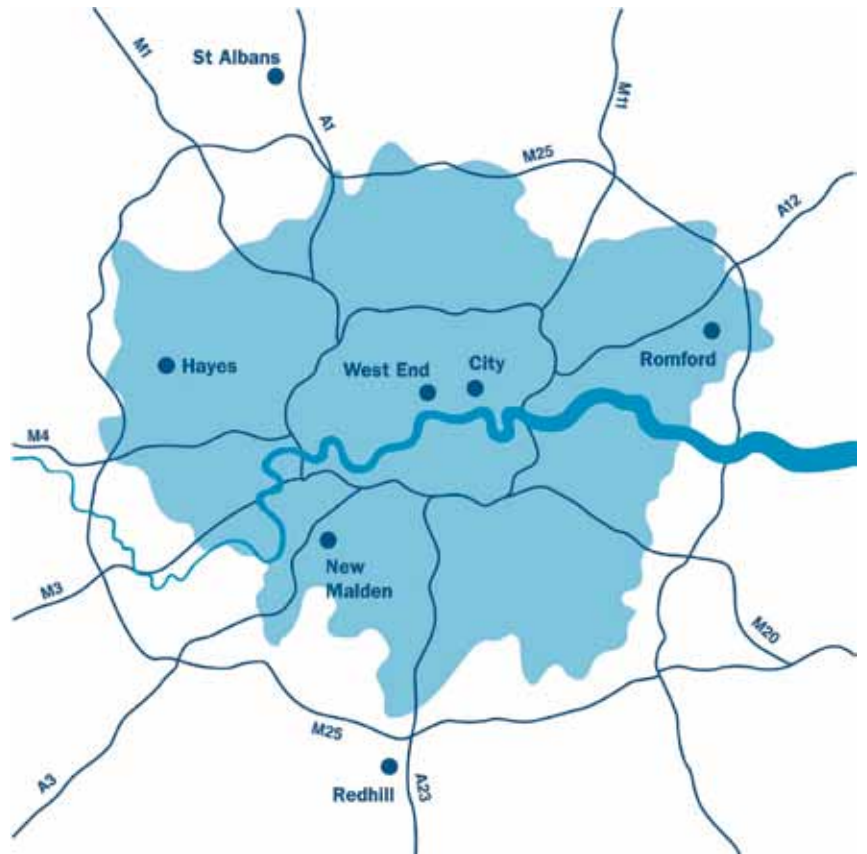
Alan Craddock

acraddock@kingstonsmith.co.uk

Romford

Brian Pope

bpope@kingstonsmith.co.uk



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