

RIDING THE TIDE

The highly publicised credit crunch, escalating fuel, food and energy costs and general volatility in the global economy is having a significant impact upon consumer spending. Not least affected is the motor industry, where car buyers are becoming increasingly shrewd about their acquisitions or even, in a lot of cases, choosing to postpone the purchase altogether.

Today's motor dealers are faced with the very same issues that are eroding their customer's spending. The energy costs incurred in operating car showrooms, service bays and bodyshops have significantly increased and, with the onset of winter on the horizon, the recent price hikes will be further amplified. Add to this the increased cost of fuelling demo and courtesy vehicles, stocking interest rates, and the alarming speed at which used car values are declining and it becomes apparent why net margins are now feeling the squeeze.

With some of the larger Plc groups currently evaluating their trading performance and taking measures to curb losses, it is imperative that the smaller business owner does the same. Carrying out regular assessments of the systems and procedures in place is

a vital tool for dealership management. Up to date information and strong internal controls are paramount in maintaining a successful business, and are especially important during an economic slowdown. Some of the key areas for review are as follows:

1. Management information systems

Working capital management is a key factor in surviving adverse trading conditions – reducing outstanding debtors, concentrating on stock levels and purchasing terms can all have significant impact upon cash flows. In addition, regular, systematic reviews of departmental results can highlight individual areas of the business which may be cause for concern. Prompt attention to these areas can prevent a problem before it manifests. To facilitate such procedures though, your management information systems need to be robust and up to date.

2. Key controls and procedures

Some areas of the business are more susceptible than others to "lost" or overlooked profits. The implementation of key controls and procedures is vital to minimise the occurrence of such anomalies, but perhaps even more important is the regular review of such controls. Some things to consider might be:

- Bonuses – are procedures present to ensure all bonuses due are matched to credits received?

- Cash and stocks of parts – are there appropriate safeguards in place to prevent the misappropriation of such attractive items?
- Warranties – are procedures present to ensure all warranty work is followed up and married with self bills and/or payments?
- Idle time/overtime – what controls are in place to regulate labour costs?

3. Staff training and infrastructure

When facing difficult trading conditions, the thought of further investment into the company is unlikely to be at the forefront of many minds. However, a competent, well informed sales force can make all the difference when it comes to individual deal margins and, as the face of the business, your staff are a key factor to its success. Staff training does not have to invoke expense – regular internal briefings and team meetings can convey the information necessary to filter through and ensure profitability on a deal.

Operating in such a volatile market, the most successful business owners will be the ones who can critically assess their business, anticipate the need for change and act accordingly.

If you would like to know more about anything in this article please contact Ginni Cooper, corporate senior manager on 01772 821021 or ginni.cooper@mooreandsmalley.co.uk



BENCHMARKING FOR BUSINESS

Remaining competitive in today's economic climate can be difficult. While ingenuity and innovation are essential business attributes, a lot may be learnt from the actions and processes of your closest competitors. As such, taking the time to conduct a benchmarking review can be a rewarding task – increasing your efficiency and, more importantly, your profitability.

What is benchmarking?

Benchmarking involves comparing your business processes, products or services against those of your nearest competitor or industry leader. A good benchmarking review will allow you to assess how well each aspect of your business is performing and identify areas for improvement.

In essence, benchmarking entails:

- Establishing standards that will help you achieve the best relationships with your customers and the best results on your bottom line
- Observing how others, either outside your organisation or elsewhere within it, attain these standards
- Applying the knowledge gained to achieving and maintaining those standards yourself.

Benchmarking is not about copying others' successes, but learning lessons from them. If you want your firm to be a world leader you need to be constantly researching the best practices and adapting them to your own situation.

Where do I begin?

Identifying rival businesses is the first crucial step when undertaking a benchmarking review. Knowing who your competitors are,

and what they are offering, can help you to make your products, services and marketing stand out from the crowd. It will enable you to set competitive prices and help you respond to rival marketing campaigns with your own initiatives.

When deciding which competitors should form the basis of your benchmarking exercise, select firms of a similar size and with similar objectives to help you calculate industry yardsticks.

Smaller firms in particular can have difficulty in finding the equivalent information about other firms with which to make comparisons, especially if the other organisation is a competitor. However, you do not need to source the data directly from the other firm. There is a surprising amount of information available in magazines and newspapers, trade association reports, and various publicly accessible databases.

To benchmark successfully, however, it is not always necessary to measure your performance against that of a competitor. Comparing certain procedures with businesses in parallel industries or even in completely unrelated trades can often be very revealing and lead to creative, lateral thinking – a key element in the process of innovation.

Internal processes

You might also begin to benchmark internal processes such as stock levels or stock turnaround times, quantity of waste or rejects generated, cost of sales or sales per employee. Besides facilitating continuous improvement, this also helps to create a culture of settling for nothing but the best within your organisation.

If you are interested in these and other ways of improving your business processes and profitability, please contact us.

Learning from your competitors doesn't mean you have to spy

BUSINESS MILEAGE: DON'T STALL OVER VAT FUEL RECOVERY

For many business owners, motoring costs represent a significant proportion of their firm's expenditure. As fuel prices climb to unprecedented levels, reclaiming VAT on car fuel is an ideal way to recover some of these draining costs. However, it is imperative that this process is carried out correctly as this is often one of the first areas that a VAT inspector will study when reviewing your accounting records. In addition, if claims have been missed in prior years it is possible to file estimated backdated claims from 1 April 1973 before 31 March 2009 (only) and we can help you with this.

If you pay a mileage allowance to your employees for business journeys made in either their own vehicle or a company car, you can reclaim the VAT on the fuel element of those mileage payments.

How it works: Private vehicles

The tax free business mileage allowance for private cars is 40p per mile for the first 10,000 miles and 25p per mile for additional business miles driven in the same tax year. These rates have remained unchanged for more than six years and they are deemed to include an element of reimbursement for the vehicle's other running costs.

To calculate the fuel only element you should refer to the HMRC advisory fuel only rates, published on their website at: www.hmrc.gov.uk/cars/advisory_fuel_current.htm. These rates are re-issued at least every six months and the latest rates apply from 1 July 2008, though by concession they can be used from 1 June 2008.

In order to reclaim the VAT component of the fuel element, firms should retain VAT receipts to cover the amount of fuel that is deemed to be used in the business journey. When an employee submits an expense claim for business mileage he or she must state the engine size of their car, or the band it falls into, and provide VAT receipts for the fuel purchased. It does not matter that the employee initially purchased the fuel rather than the business.

Example

Fred drives 1,000 business miles in his own car, which has a 1500cc diesel engine. The value of the fuel used according to the fuel advisory rates is 13p per mile: £130. The VAT element is $7/47 \times £130 =$

£19.36. Fred must supply his employer with fuel receipts totalling at least £130 to allow the business to reclaim the VAT shown on those receipts.

How it works: Company cars

Some companies may pay for the entire quantity of fuel consumed in a company car, which will inevitably include fuel used in private journeys. This takes the business into the realm of the VAT fuel scale charges, and brings the increased risk of incorrectly recording the figures on the VAT return as exemplified below. A new table of scale rates is published in the Budget each year to take effect from VAT periods beginning on and after 1 May.

Example

Albert drives a company car with CO2 emissions of 180g/km. His employer pays £500 for fuel that is used for both business and private journeys. The business can then recover input VAT on the fuel using the following calculation: $7/47 \times £500 = £74.47$. However, as some of this fuel was used for non-business purposes the VAT scale charge will need to be applied. This is effectively an output VAT charge on the fuel supplied to Albert that he uses privately, but the scale does not vary with the miles driven per quarter or year, only with the CO2 emissions of the vehicle. The VAT scale charge in this case is £49.30.

Advice for employers: How to recover VAT

In your VAT return you need to include £49.30 in box 1, and reclaim £74.47 in box 4. The VAT exclusive value of the scale charge (£281.70) is included in box 6 of the VAT return, which is the outputs box.

It is possible that the output VAT in box 1 will exceed the VAT reclaimed in box 4. In this case your business will lose out by operating the VAT scale rates. The only way to avoid this is not to reclaim VAT on any fuel purchased for company vehicles, but you must tell HMRC when you change your practice in this area. Alternatively, you can ask your company car drivers to pay for their own fuel and then pay mileage allowances for business journeys only.

We can help you calculate and reclaim VAT on car fuel – call us for further advice and information.



ALL CHANGE FROM 1/4/2009 – VAT REFUNDS (FROM 1973) AND 'BIG BANG'

Vat refunds from 1973 (plus interest) are now available following Customs defeat in the two high profile test cases outlined in the summer edition of our Bottom Line magazine.

Customs will now accept extra Vat refund claims (until 31/3/09) for:

- **Overpaid Vat on income (output tax) from 1/4/73 to 4/12/96 and**
- **Under claimed Vat on expenses (input tax) from 1/4/73 to 1/5/97**

Claims for periods after the above dates are subject to the three year 'cap' brought in by the UK treasury (without notice) in 1997 to stop earlier backdated claims on contentious areas of disputed Vat. This 'capping' (without any notice) has now been ruled to have been defective so proper 'notice' (to 31/3/09) is now allowed.

Whilst good news for business, this 11 year uncertainty also suits the UK Treasury because many small and medium-sized businesses will have simply disposed of their records from 1973 to allow accurate claims to be made as these records only need to be kept for the last six years.

What should you do?

Whilst it will be difficult to remember everything that has happened to your business since 1973, if Customs have ever refused to pay any claims made, now may be a good time to revisit them. In addition, many 'normal' claims can now be made (with interest) as follows:

Overpaid vat on income before 4/12/96

In practice, most claims for overpaid output tax arise in very contentious areas of Vat that are very well known by the relevant trade associations on behalf of their members – e.g. golf clubs (for members subs), retailers (for chocolate biscuits etc) and car dealers (for demonstrator sales and bonuses). Many trade associations have agreed the required outline Vat, partial exemption and unjust enrichment calculations with Customs to allow claims to be made but if you are unsure of where you stand on this, please do contact us.

Under claimed Vat on expenses before 1/5/97

This is the main area where most 'normal' claims can be made for 'normal' businesses for Vat reclaims on 'normal' expenses which may have been overlooked – e.g.:

- Vat on staff entertainment (e.g. Christmas parties from 1973 to 1996)
- Vat on business mileage claims (e.g. mileage claims from 1973 to 1997)

Please do get in touch if you think Vat claims have been missed on any 'normal' expenses as the addition of up to 25 years interest can easily make any claims worthwhile.

And finally...

'Big bang' is the name given by the professional bodies to the new tax/vat/cis investigation regime for any returns due after 31/3/09 (outlined in the winter 2007 edition of Bottom Line) which seeks to merge the 'best' parts of former Inland Revenue Customs & Excise investigations to almost double fines for poor compliance so take special care with tax returns this year to avoid unwanted attention in the first year of the new regime.

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