UHY

Automotive Outlook

2026

Helping you prosper

Contents

Drawing on our experience as automotive accountants, we welcome you to the ninth edition of our Automotive Outlook.

State of the market

As we enter 2026, UK motor dealers face a sector undergoing structural change and persistent uncertainty. The past couple of years have illustrated just how quickly market dynamics can shift, leaving dealers and finance leaders needing to remain agile, resilient and forward thinking in an industry that never stands still.

The volatility of the motor trade has been particularly evident through the stalling of the agency model. Despite being positioned as a route to simplified franchise operations, many manufacturers have paused or reconsidered their rollout plans. Dealers continue to juggle rising operational costs with uncertain returns, as margins struggle to keep pace with inflationary pressures. Policy shifts - such as the government's zero-emission vehicle (ZEV) mandate - are also reshaping long-term strategy, requiring investment in EV infrastructure and training despite ongoing uncertainty around consumer demand and residual values.

One of the most significant cost challenges has been the increase in employer National Insurance contributions (NIC), which rose from 13.8% to 15% in April 2025. Analysis from Motor Trader indicates that for the UK's Top 200 dealer groups, the NIC changes represent a substantial financial hit - around £140 million in additional annual NIC costs under the new rate, and up to £200 million when compared with 2023 levels - at a time when other overheads, including energy, staffing and compliance requirements remain elevated.

While new car registrations saw modest year on year growth, the picture remains mixed. Petrol and hybrid sales continue to perform strongly, yet the oversupply in the EV market has driven down residual values, contributing to a more complex operating environment for dealers.

Key industry developments

Vehicle production and export outlook: Society of Motor Manufacturers and Traders (SMMT) data shows UK car production fell sharply in 2025, driven by lingering global supply disruptions and a major cyber incident at Jaguar Land Rover which forced a five week shutdown, pushing output to historic lows and making September the weakest month since 1952. Despite the setback, manufacturers and analysts are cautiously optimistic. The SMMT forecasts a gradual uplift through 2026, driven by growing EV production, new model launches and continued investment across UK manufacturing.

Used car market resilience: the used car market continues to be a relative bright spot. Improved consumer confidence, a stabilised supply of good quality pre owned stock and realistic pricing strategies have all helped maintain healthy demand. Independent retailers performed particularly strongly, reflecting consumers' heightened focus on value.

EV oversupply and residual value pressure: oversupply of new EVs, heavy discounting and rapid technological change have led to a sharp decline in residual values. Leasing firms and market analysts warn that some used EVs are now retaining less than half of their original cost, compared to much stronger performance just two years ago. While government incentives for new EVs have boosted sales, they risk further weakening the used market and increasing depreciation for dealers and fleet operators.

Challenger brands are reshaping the market: manufacturers such as BYD, Jaecoo and MG have expanded rapidly, capturing market share through competitive pricing and well equipped EV models. With Chinese brands now accounting for around 10–13% of UK new car registrations, analysts expect their market share to grow substantially in the coming years - a shift that would fundamentally reshape the retail landscape and leave several legacy players vulnerable.

Included in this year's Outlook

Navigating the road ahead will require flexibility and careful financial planning. This edition of our Automotive Outlook brings together expert insights and practical strategies to help you steer confidently into 2026 and beyond.

We begin with a deep dive into Employee Ownership Trusts (EOTs) on **page 6,** which are gaining traction as an alternative exit route, offering a way to secure succession, reward employees and preserve company culture. On **page 10**, we share insights from UHY client Cars2 about their transition and the impact on the business. It's an inspiring read!

Sustainability is another key theme set to remain high on the agenda. On **page 12**, we examine why carbon reporting matters - even for businesses not yet within the reporting threshold. It's not just about compliance; it's about futureproofing your dealership.

Looking ahead, significant changes are on the way for Employee Car Ownership Schemes (ECOS). From 6 April 2030, the tax advantages offered by most ECOS arrangements will end, with vehicles instead treated as company cars for tax purposes. On **page 22**, we explain what the new rules mean in practice and outline the steps you should take now to prepare.

Finally, with financial pressures intensifying, operational efficiency remains more important than ever. On **page 16** we outline practical actions dealers can take to improve performance without compromising customer experience, and we share insights on **page 18** into strengthening fraud prevention – an increasingly critical priority during periods of economic uncertainty.

Staying ahead

The market is in flux, with new entrants, regulatory changes and evolving consumer preferences. While the exceptional profitability of the pandemic period has passed, most dealers remain resilient, supported by solid aftersales performance and careful working capital management.

Looking ahead, success in 2026 will depend on informed decision making, cost control and a willingness to adapt. Dealers who proactively engage with regulatory changes, refine operational models and invest in people and technology will be best placed to navigate the year ahead.

We hope this ninth edition of our Automotive Outlook provides valuable insight into the sector and prompts meaningful reflection. If any topics spark questions, you'll find our contact details on **page 26** - our specialists will be more than happy to assist, and we look forward to hearing from you.

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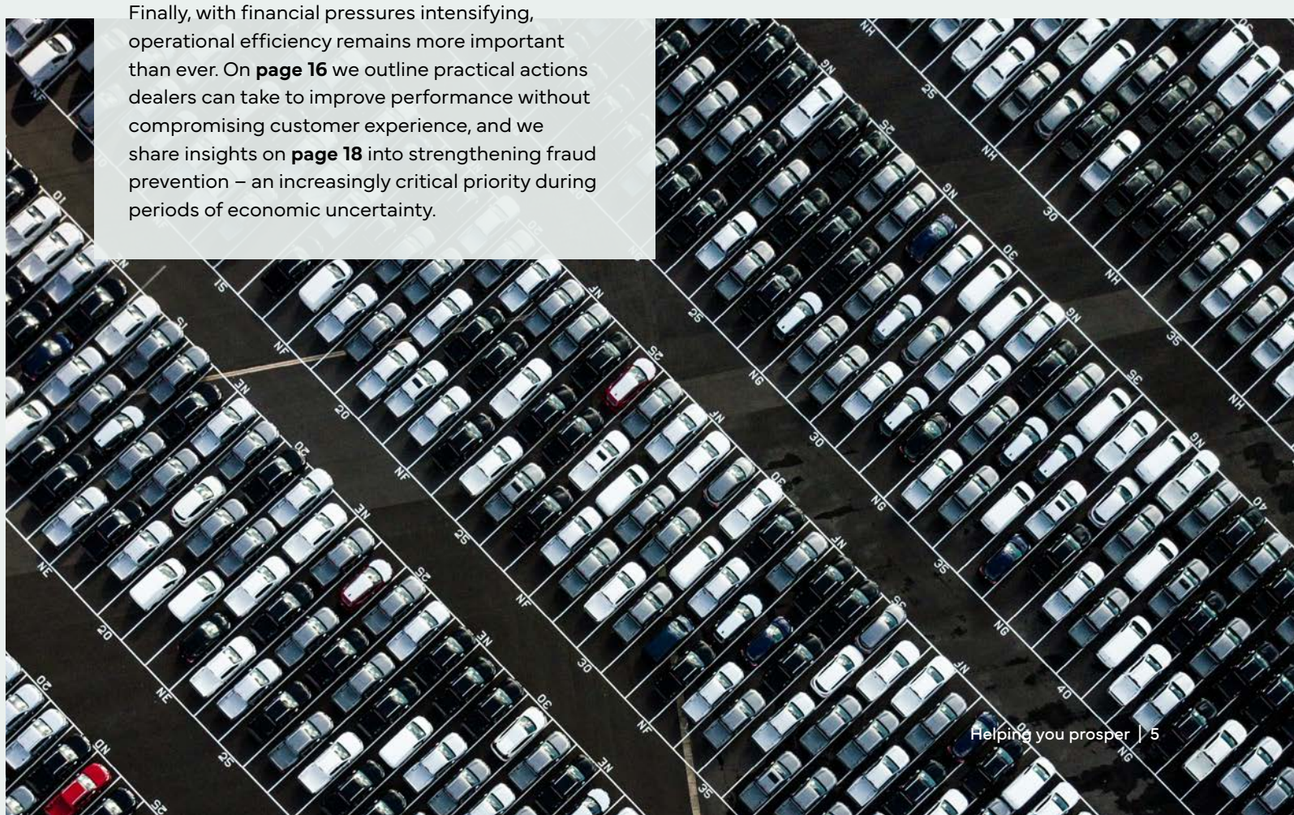


Why Employee Ownership Trusts could be the smartest investment you will ever make

The UK dealership sector is at a crossroads. With tightening margins, uncertainty over EV adoption and rising staff costs, many owners are rethinking their long-term strategy. For those considering succession, the Employee Ownership Trust (EOT) is no longer a fringe option - it's a credible, tax-efficient and people-focused route.

The number of employee-owned businesses in the UK has tripled in the past five years, and dealerships are beginning to join that movement. The Cars2 transaction at the start of 2025 proves the model works at scale. For the right dealers, an EOT offers something rare: a fair exit for owners, a meaningful reward for employees and a stable future for the business.

What is an EOT - and why should dealers care?

An EOT allows employees to become collective owners of the business through a trust. They don't buy shares themselves, and they don't take over the day-to-day running. Instead, the trust holds a controlling interest (usually 51% or more), and the outgoing owners are paid over time - often using company profits.

It's a model that keeps ownership in-house, protects your legacy and gives staff a meaningful stake in the future. For dealerships, where people are the heartbeat of the business - from the showroom to the service bay - that matters.

Why EOTs are gaining traction in automotive retail

Succession planning in the automotive retail sector isn't always easy. But for dealers with strong cash flow and a loyal team, EOTs offer a way to exit gracefully without selling out. The benefits include:

- 50% capital gains tax relief for qualifying sellers (50% exempt; 50% taxable on disposals completing on/after 26 Nov 2025)
- up to £3,600 in tax-free bonuses for employees
- cultural continuity - brand, ethos and systems stay intact
- flexible funding - often paid from future profits over five to seven years.

Real world examples

Cars2 Ltd

At the start of 2025, UHY client, Cars2 - a £220m turnover group with 17 dealerships - transitioned to employee ownership. The shareholders wanted to protect the business' culture, reward their 250+ staff and ensure a smooth succession. The trust now owns the business on behalf of employees, while founder, Allan Otley, remains as Chief Executive and the senior management team continue to lead day-to-day operations. Essentially, the EOT structure allows employees to benefit from future growth while preserving the brand, ethos and operational stability of the business.

Peter Ambrose Peugeot

Back in 2022, Peter Ambrose Peugeot became one of the first mainstream UK dealerships to adopt an EOT. Founder Peter Ambrose had bought the business from Peugeot via a management buyout in the late 1990s. When it came time to sell, he chose a structure that would keep the business in the hands of those who helped build it. The dealership - selling over 1,300 vehicles a year with a turnover of £25m - continues to thrive, with Ambrose still involved in supporting the management team.

And employee ownership isn't limited to dealers. Restoration specialist **Classic Motor Cars**, auction house **H&H**, and major supplier **Unipart** have all embraced the model. This shows its flexibility across different parts of the automotive industry.

> An EOT is not about selling to an outside buyer. It's about keeping ownership in-house, giving employees a stake in the future, and allowing leadership to step back at their own pace.

Is your dealership a good fit?

EOTs work best for profitable, people-focused businesses with strong leadership and a long-term view. Ask yourself:

- Is your dealership consistently profitable? EOTs rely on future profits to fund deferred payments. If your dealership has stable earnings from both sales and aftersales, it's well placed to support the model
- Do you have a committed management team ready to lead? Owners usually stay on for a period after the sale, ensuring a smooth handover. A committed management team is essential
- Would your manufacturer partners support the change? Stability is highly valued by manufacturers. An EOT allows you to reassure OEMs that the dealership remains in safe, familiar hands
- Are your employees engaged and invested in the business? If your employees already feel part of a close-knit business, an EOT will build on that loyalty. Conversely, if morale is low, the structure alone will not fix cultural issues.

If the answer to most of these is yes, an EOT could be a game-changer.

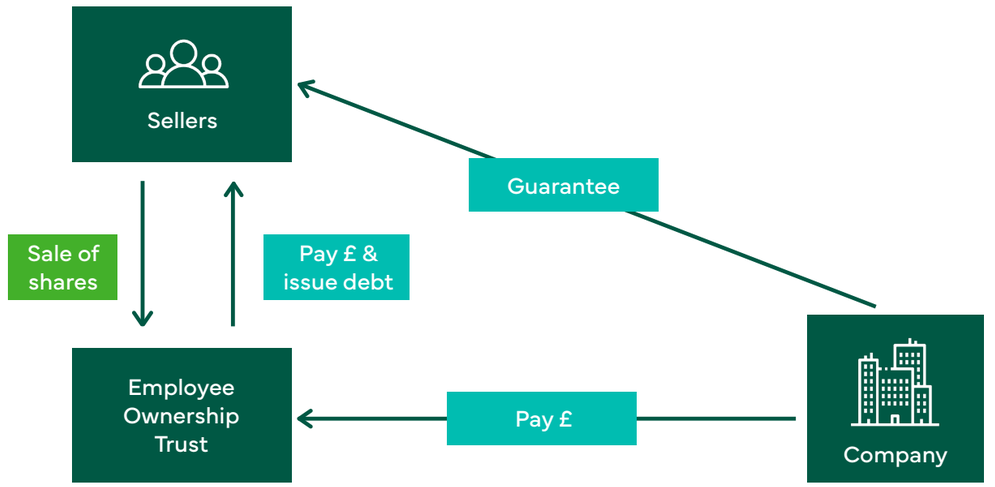
What's involved?

Implementing an EOT is not just a legal exercise, it's a cultural shift. You will need:

- a feasibility review to assess profits and repayment capacity
- an independent valuation and HMRC clearance
- a deal structure balancing upfront cash and deferred payments
- a governance framework with trustees and clear decision-making
- a communication plan that brings staff on the journey.

There are, of course, common pitfalls to avoid when implementing an EOT. Over-optimistic financial forecasts can make repayment schedules unmanageable, putting pressure on both the trust and the business. Poor communication with staff may lead to confusion or scepticism, undermining the sense of shared purpose that employee ownership is meant to foster. Failing to secure manufacturer consent can jeopardise franchise relationships, especially in a sector where Original Equipment Manufacturer (OEM) alignment is critical. And if leadership teams are misaligned or unclear on their roles post-transition, both cultural and financial benefits can quickly unravel.

The workings of an EOT



What are the potential risks for the seller?

While EOTs offer compelling benefits, there are risks involved:

Deferred consideration risk: A significant portion of the sale price is typically deferred and paid out of future profits. If the business underperforms post-sale, you may receive less than expected.

No upside from future growth: The sale price is fixed at completion. If the business thrives afterward, you won't benefit from any increase in value.

Loss of control: To meet qualifying conditions, you must relinquish control of both the company and the EOT. If you retain a board seat or become a trustee, your role is advisory, not executive.

Governance complexity: EOTs require a robust governance framework. If not well-structured, decision-making can become unclear or ineffective, affecting both cultural and financial outcomes.

EOT vs other succession options

Option	Advantages	Key risks/considerations
EOT	50% CGT relief for sellers, staff engagement, cultural continuity	Deferred payments, governance requirements
Trade sale	Immediate cash, potentially higher valuation	Risk of culture change, job losses, loss of independence
Management buyout	Retains management, gradual transition	Requires significant debt, no CGT relief

EOTs are not about chasing the highest price. They're about balancing value with legacy - and for many dealers, that's a trade worth making.

The next steps

Download our 2025 EOT Guide for more information about how employee ownership can support succession planning, deliver tax advantages and protect your business' culture.

If you are thinking about the next chapter for your dealership and want to protect what you have built while rewarding the people who helped build it, an EOT might be a smart investment. At UHY, we have guided many businesses through the transition. We can help you assess feasibility, structure the deal and communicate clearly with your team, ensuring the process is practical and future proof. If you would like to discuss your options, please contact one of our specialists on **page 26** of this outlook.

Clarifying note: Before 26 November 2025, qualifying disposals to an Employee Ownership Trust were fully exempt from Capital Gains Tax (0% CGT). Following the Autumn Budget 2025, only 50% of the gain is now exempt, with the remaining 50% becoming a chargeable gain.

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Key takeaways

- EOTs are growing fast across the UK, including in dealerships.
- They offer 0% CGT for owners and tax-free bonuses for staff.
- They help preserve culture, jobs and manufacturer relationships.
- They work best for profitable, people-focused businesses with strong leadership.
- With the right planning, they can turn succession from a challenge into an opportunity.

In the Spotlight: Cars2

How employee ownership is fuelling a new era of success

Cars2 is one of the UK's most dynamic and successful motor dealership groups, headquartered in West Yorkshire and operating across 20 sites. Since launching in 2006 as a single-site used car business, Cars2 has achieved impressive growth, now employing over 250 staff and reporting turnover in excess of £220 million in 2024. The group retails new and used vehicles from leading manufacturers including Hyundai, Nissan, Renault, MG, Dacia, SEAT and the fast-growing OMODA and JAECOO brands, as well as prestige marques such as McLaren, Ferrari, Bentley and Porsche.

In early 2025, Cars2's shareholders made the landmark decision to transition the business to an Employee Ownership Trust (EOT). This move not only secured succession and preserved the company's strong brand, ethos and culture of success, but also ensured that the rewards of future growth will be shared by the employees who drive the business forward. The senior management team - including CEO Allan Otley - remains in place to guide Cars2 through its next phase of growth.

The combination of scale, innovation and premium partnerships position Cars2 as a standout player in the UK automotive market. We were delighted to sit down with Allan to discuss the impact of employee ownership and what the future holds for one of the UK's strongest and most forward-thinking dealership groups.

What have been the biggest surprises - positive or negative - since Cars2 transitioned to an Employee Ownership Trust? How has the reality compared to your initial expectations?

From my perspective, the EOT has been a great success. Everyone has benefited and Cars2 is going from strength to strength. We expected a morale boost, but the level of engagement has been fantastic. People genuinely feel like they own their work, and you can see the difference in the customer experience as a result. Seeing staff understand and embrace the shift so quickly has exceeded even our optimistic estimates. And it's been a joy to watch as the whole point was to share ownership with the people who drive our success.

How has the EOT structure influenced day-to-day operations and company culture?

The day-to-day impact has been subtle, but I believe the EOT has deepened our sense of unity. We've seen more proactive problem-solving and idea sharing because employees know they share in any upside, leaning into that 'we're all in it together' mentality. Small operational tweaks become shared wins rather than manager tasks.

What steps did you take to communicate the EOT transition to staff and build understanding and buy-in?

From the outset, transparency was key. We hosted staff briefings and smaller team sessions to explain what the EOT meant and why we chose it. Importantly, the messaging wasn't "We're doing this to you" but "We're doing this with you." We emphasised that this was about preserving Cars2's brand, ethos and culture - and rewarding those who contribute every day.

What advice would you give to other dealerships considering a similar move?

If you're thinking about transitioning to an EOT, my biggest piece of advice is to start with clear, honest communication. Make sure your team understands not just the mechanics of the structure, but the reasons behind it. People need to see how it benefits them and the business long-term. We found that when staff understood the 'why,' they were far more engaged with the 'how.'

It's also important to surround yourself with the right advisors. We worked with Castle Square, Freeths and Barclays, and having the support from UHY as our auditor was a real asset. Their understanding of our business helped us navigate the process with confidence and kept everything on track.

Finally, don't lose sight of your culture. The EOT isn't just a succession tool - it's a way to protect and enhance the values that make your business successful. At Cars2, culture has always been at the heart of what we do: from our origins as a family-run business, our people have been hand-picked to deliver a high standard car buying experience. We knew the people working in the business were already going that extra mile and, for us, the EOT was about securing the future of Cars2 while ensuring the people who helped build it remain at the centre of its culture and future success.

How have your relationships with manufacturers, funders and other key stakeholders evolved since becoming employee-owned?

The model reassures partners that we're in this for the long haul, with a committed team and a continuity of leadership. There's also an extra layer of trust: employees are stakeholders. That's a powerful signal to everyone from OEMs to finance houses.

Have you encountered any challenges or opportunities unique to the EOT structure?

The biggest challenge was ensuring everyone understood the EOT. Not just what it does but why it matters. Having employees truly vested in success means they think deeper about long-term value - whether that's brand reputation, retention or community engagement.

How do you see the EOT model supporting your growth and succession plans?

The EOT aligns with our plans for measured growth and an eventual, seamless succession. We've locked in our senior leadership, secured the legacy of the Cars2 brand and created a pipeline where staff feel empowered to lead in the future. From an operational standpoint, we're primed for sustainable expansion, taking advantage of what's already working and letting everyone share in the ride.

Cars2 represent some of the world's leading vehicle brands across their network of 20 dealerships. Visit their website to learn more: www.cars2.co.uk

Climate reporting in the automotive sector: who must report, what to report and why it matters

As the UK automotive industry races toward electrification and sustainability, climate-related financial disclosures (CRFDs) are becoming a critical part of corporate transparency. Whether you are a dealership group, parts supplier, or mobility service provider, understanding your climate risks and opportunities - and reporting them - is increasingly expected by regulators, investors and customers alike.

This article explains who must report, what needs to be reported and why it's smart to start even if you are not yet required to.

Why climate reporting is gaining traction

Climate change is no longer a distant issue, it is a business reality. From supply chain disruptions caused by extreme weather to shifting consumer preferences toward electric vehicles (EVs), the automotive sector is directly exposed to both the risks and opportunities of a low-carbon transition.

In response, the UK Government introduced mandatory climate-related financial disclosure requirements for large companies and LLPs, aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework. These rules aim to improve transparency, support informed decision-making and accelerate the shift to Net Zero.

Who must report?

Under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, mandatory reporting applies to UK companies and LLPs that meet the following criteria:

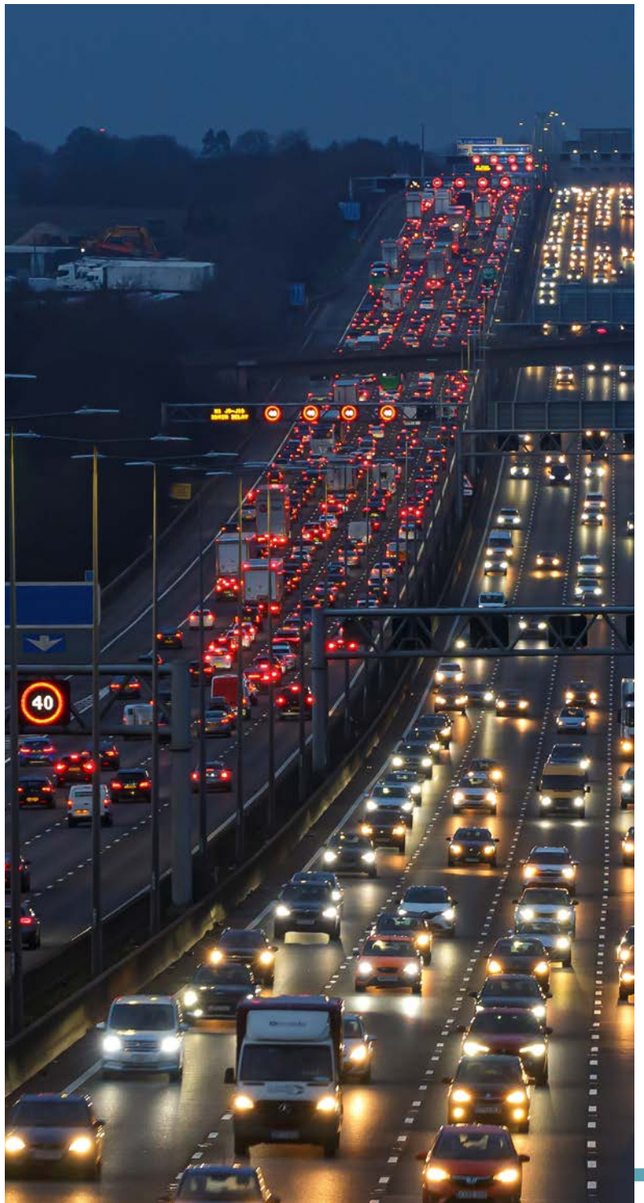
- more than 500 employees
- annual turnover over £500 million

This includes:

- publicly quoted companies (eg. listed on the London Stock Exchange)
- AIM listed companies
- large private companies
- large LLPs.

If your business meets these thresholds, you must include climate-related disclosures in your strategic report for financial years starting on or after 6 April 2022.

For automotive businesses operating in retail and distribution, this could include dealership groups, vehicle leasing companies, parts distributors, or logistics providers with significant scale. While manufacturers face distinct climate reporting challenges, retail businesses are increasingly expected to align with OEM sustainability goals and contribute to Scope 3 transparency.



What needs to be reported?

The regulations require disclosures across eight key areas, aligned with the TCFD framework:

1. Governance

Describe your governance arrangements for assessing and managing climate-related risks and opportunities. Who is responsible? How often is it discussed?

2. Strategy

Explain how climate-related risks and opportunities affect your business model and strategy. Consider impacts on vehicle sales, infrastructure, supply chains and customer demand.

3. Risk management

Outline how you identify, assess and manage climate-related risks. Are these integrated into your overall risk management framework?

4. Principal risks and opportunities

Identify the most significant climate-related risks and opportunities, and the timeframes over which they are assessed (short, medium, long term).

5. Scenario analysis

Assess the resilience of your business model under different climate scenarios (eg. 1.5°C, 2°C, 3.5°C+ warming). Use qualitative or quantitative analysis.

6. Targets

Disclose any targets used to manage climate-related risks or realise opportunities. These could include emissions reductions, EV sales goals or energy efficiency improvements.

7. Key performance indicators (KPIs)

Report on KPIs used to measure progress against your targets. Include definitions, methodologies and performance data.

8. Methodologies and assumptions

Explain the assumptions and methods used in your analysis, including emissions calculations and scenario modelling.

Why report even if you're not required to?

Even if your business falls below the thresholds, there are compelling reasons to start climate-related reporting now:

1. Stay ahead of regulation

Climate disclosure rules are expanding. The UK Government has signalled that Scope 3 emissions and smaller companies may be included in future legislation. Early action helps you prepare and avoid last-minute compliance pressure.

2. Build trust with OEMs and investors

OEMs are increasingly aligning with net zero targets and expect their partners to do the same. Transparent reporting can strengthen your position in supply chains and attract sustainability-conscious investors.

3. Improve operational efficiency

Reporting requires you to track energy use, emissions and resource efficiency, often revealing cost-saving opportunities (eg. switching to green tariffs, installing LED lighting and reducing waste).

4. Enhance brand reputation

Consumers are more climate-aware than ever. Demonstrating your commitment to sustainability can differentiate your brand and attract loyal customers.

5. Access green finance

Banks and lenders are offering sustainability-linked loans and incentives. Having credible climate data and targets can unlock these opportunities.

How to get started: a roadmap for automotive businesses

Even if you are not mandated to report, you can still follow the same TCFD-aligned structure to build a credible ESG strategy.

Governance

- assign a senior leader to oversee climate matters
- add climate risk to board agendas
- provide basic training for executives
- establish a sustainability or ESG committee.

Risk management

- create a simple climate risk register
- run workshops to identify transition and physical risks
- integrate climate into your enterprise risk framework
- train managers using climate-related courses (eg. IRM, Cambridge).

Strategy and scenario analysis

- explore how EV mandates, extreme weather and energy costs could affect your business
- use qualitative "what if" scenarios to test resilience
- align with OEM sustainability roadmaps.

Targets and KPIs

Start with what you can measure:

- **Scope 1 emissions:** Fuel used by your fleet
- **Scope 2 emissions:** Purchased electricity and gas used at your sites
- **Scope 3 emissions (optional but valuable):** Supply chain, vehicle use, business travel

Potential KPIs:

- % of new vehicle sales that are EVs
- gross emissions intensity (tCO_2e per £m turnover)
- proportion of energy from renewable sources
- EV technician training hours
- number of EV chargers installed.

Set SMART targets (Specific, Measurable, Achievable, Relevant, Time-bound) to turn ambition into action. For example, "100% of new vehicle sales to be EVs by 2035" or "reduce dealership energy use by 15% by 2027." Report progress annually to build stakeholder confidence and identify operational efficiencies and areas for improvement.

Common pitfalls

Many begin their climate reporting journey with good intentions but fall into predictable traps. Frequent issues include:

Vague or long-dated targets: setting net zero goals for 2040 or 2050 without interim steps, making it hard to demonstrate progress or credibility to stakeholders.

Underreporting Scope 3 emissions: While manufacturing emissions fall to OEMs, dealers still influence Scope 3 through vehicle use, servicing, parts logistics and customer engagement.

Siloed risk management: Climate risks - like energy price volatility, EV uptake or flooding - making disclosures feel disconnected from core strategy.

Generic reporting frameworks: boilerplate ESG templates that are not tailored to your operations (eg. multi-site energy use, fleet emissions, customer-facing sustainability initiatives etc), will weaken impact.

Opaque data and assumptions: a lack of transparency around data sources, assumptions and verification processes can erode stakeholder trust, even when intentions are sound.

With the right approach, climate reporting becomes a tool for operational improvement, stakeholder engagement and long-term resilience.

Best practice examples from the sector

Arnold Clark has committed to net zero by 2050 and reports annually on Scope 1 and 2 emissions. Their Streamlined Energy and Carbon Reporting (SECR) disclosures are independently verified.

Vertu Motors is investing £3.2 million in rooftop solar panels to reduce operational emissions, aiming to generate around 2,000 MWh of electricity - about 25% of their total consumption - and offset 596 tonnes of CO_2 annually.

Marshall Motor Group has invested in energy-efficient buildings and EV infrastructure, including LED lighting and solar PV installations. Their sustainability strategy includes publishing ESG updates and engaging with local communities, supported by ISO 14001 certification and a dedicated Sustainability Committee.

BMW links executive bonuses to sustainability KPIs, including EV sales and emissions reductions. The manufacturer aims to cut lifecycle CO_2 emissions per vehicle by 40% by 2030 and has joined initiatives like the Science-Based Targets and Race to Zero campaigns.

These examples show how climate reporting can be embedded into strategy, governance and operations - not just compliance.

Resources to help you prosper

- UK Government Guidance on Mandatory Climate Disclosures (PDF)
- IFRS Sustainability Knowledge Hub
- Carbon Literacy Toolkit for Automotive
- FRC Thematic Review on Climate-related Financial Disclosures

Final thought: lead the charge

Climate-related reporting is not just about ticking boxes, it's about leadership. Automotive businesses that embrace transparency and sustainability now will be better positioned to thrive in a low-carbon future.

Whether you are a large dealership group or a growing EV startup, the road to net zero starts with understanding your climate impact and sharing it.

We have a dedicated sustainable business services team at UHY and can support you at every stage. From defining your priorities to embedding change across your operations. If you would like to hear more about our services and how we can help you, please get in touch.

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> For the first time, we were required to include climate-related financial disclosures within our strategic report. We turned to Harriet Hodgson-Grove at UHY for support, and she made the whole process straightforward. Harriet helped us prepare our climate-related financial disclosures for inclusion in our statutory accounts and provided practical, tailored advice we could use internally. She worked efficiently and kept us on track for our filing deadline, which gave us real peace of mind. We've already asked UHY to help with next year's disclosures, and I'd happily recommend Harriet to any organisation facing the new reporting requirements.
>
> **Karen Humphreys**
> **Group Financial Controller, Steven Eagell Group**

Is cash still king for car dealers?

Back in 1987, following the stock market crash, Volvo's then CEO famously coined the phrase: "Cash is king." The message resonated strongly across the automotive retail sector - an industry built on high volumes, significant stock levels and large financing exposures. For decades, finance teams across UK dealerships mastered the art of fine-tuning sales processes and stock funding to maximise cash flow and protect the bottom line.

Fast forward to 2026, and the question remains: is cash still king or has the game changed?

From surplus to squeeze: the cash flow cycle is shifting

In the immediate aftermath of the pandemic, many dealers found themselves in an unexpected position, sitting on substantial cash reserves. Reduced vehicle volumes, manufacturer bonuses, furlough support and tight cost control helped preserve cash, despite widespread disruption.

But that environment has changed.

New car supply has improved significantly, and volumes are climbing. The SMMT now forecasts 2.012 million new passenger vehicle registrations in 2025 and 2.032 million in 2026, continuing the recovery from recent years. Electrified vehicles are driving much of this momentum, with BEVs expected to account for 23.3% of the market in 2025 and rising to 28.2% in 2026.

Battery Electric Vehicles (BEVs) now account for 21.5% of new car sales, up from 16.8% in 2024. Plug-in Hybrids (PHEVs) are also gaining momentum. While this growth is helping to drive turnover, it is also increasing working-capital demands - particularly as some used EV values have fallen by as much as 70% since 2022, with early-generation models hit hardest by rapid model updates and weakening residuals. The result is heightened margin risk for dealers carrying used EV stock, making accurate valuation and faster stock turn more critical than ever.

Corporate identity upgrades are back on the agenda, with multiple OEMs expecting dealership refits and investment in brand environments. These can be significant cash outflows if not planned for.

Agency is unlikely to help. Originally positioned as a way to ease working capital strain, the agency model rollout has been far from smooth. "Agency is dead," said one dealer group executive in early 2025 - a sentiment echoed across the industry as brands including Stellantis, Mercedes-Benz, JLR, Ford and Volkswagen paused or restructured their strategies. While the model may evolve, dealers should not rely on agency to ease working capital pressures in the near term. Instead, a robust approach to cash flow forecasting and cost control remains essential.

How can dealers stay cash-smart?

While profitability remains broadly resilient, buoyed by strong used car margins and digital lead conversion, dealers face growing pressure from EV discounting, regulatory targets and rising operational costs. A disciplined approach to cash flow and forecasting is more important than ever.

While revenue growth grabs headlines, sustainable profit often comes from controlling the cost base. Staffing costs, compliance and vehicle prep are rising again. A regular rhythm of monthly cost reviews can help catch creeping overheads early and protect margin.

Below are key areas where we see opportunities for UK dealerships to drive efficiency:

- **Dust off old disciplines.** Assess which processes are still in place across the business. If day-to-day disciplines have slipped, now is the time to revisit and reinforce them.
- **Review the full working capital cycle** from the purchase of vehicles through to their sale and eventual cash collection to identify opportunities for greater efficiency. Common areas where improvements can be made include vehicles in stock that have missed funding opportunities, delays in the liquidation of trade stock, suboptimal timing and processes around securing customer retail finance and weak credit control over fleet debts.
- **Headcount discipline.** Rebuild annual budgets from a clean slate rather than applying "last year plus inflation." Ensure every role - particularly in central overhead - delivers measurable commercial value.
- **Stock target setting.** Define and monitor specific vehicle stock targets at the business unit level to reduce excess inventory and cash tied up in unsold vehicles.
- **VAT planning.** VAT remains a major driver of cash flow. Consider whether your VAT quarter-end aligns with your operational cash peaks. From April 2025, HMRC have introduced stricter late payment penalties, so ensuring timely returns and full MTD compliance is essential.
- **Used car profitability starts with buying discipline.** Ensure purchase decisions are made by experienced managers and part-exchange appraisals are quality checked.
- **Technician efficiency.** Invest in accurate labour reporting and challenge inefficiencies. It's a key area where small changes in productivity yield major returns.
- **Write-down discipline.** Daily tracking of stock turn, prep times and sold-not-delivered vehicles can reduce unnecessary depreciation.
- **Digital journey optimisation.** Recent buyer behaviour studies indicate that a majority of car purchases now involve a blend of online and in-person channels - refining the lead conversion process can improve sales velocity and reduce pipeline leakage.
- **Group purchasing power.** Leverage buying clubs or procurement reviews to cut back on recurring costs like oil, finance commission structures, energy and consumables.

Working capital tips:

- scrutinise the full working capital cycle from vehicle acquisition to final payment
- actively manage slow-moving or unfunded stock
- consider VAT quarter-end timing - it still plays a big role in cash pressure
- set and monitor vehicle stock targets at a unit level.

Cash is still king - but the rules have changed

Cash remains the cornerstone of dealership stability, but the playbook has changed. Working capital demands are rising and cost creep is returning. Dealers that reintroduce old disciplines, build strong forecasting frameworks and proactively manage operating costs will be best placed to protect both profit and liquidity in a changing market.

If you need help with cash flow forecasts, scenario setting or general advice, please contact one of the experts listed on **page 26** or your usual UHY adviser.

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Protecting your dealership from fraud: what to watch for and how to stay ahead

Fraud is evolving and dealerships are increasingly in the crosshairs. Rising vehicle values, increasing digital transactions and lingering economic pressures have created fertile ground for fraud. And it's not just external threats. Insider fraud, committed by trusted employees, is now one of the most pressing risks facing UK dealerships.

According to a 2025 Cifas update, the UK's leading fraud prevention service, **internal fraud is up 32% year-on-year**, with the automotive sector flagged as a particular concern. Dealerships are especially vulnerable due to the high-value nature of their assets, small finance teams and the pressure to hit performance targets, all of which can lead to manipulation or cover-ups.

So how can you protect your dealership? In this article, we explore the most common types of fraud affecting dealerships, share real-world examples and outline practical steps to mitigate risk.

The six most common types of fraud in dealerships

1. Profit manipulation

This isn't about stealing cash - it's about hiding poor performance. Profit manipulation involves falsifying financial results to present a more favourable picture, often motivated by bonuses or job security.

Managers may collude with accounting staff to adjust figures temporarily, hoping to "fix it next month." However, if the expected recovery does not materialise, the manipulation escalates, and fraudulent balances accumulate. This often exploits the power imbalance between sales managers and accountants, who may be pressured to conceal discrepancies.

Real example: A dealership had to write off £500,000 due to unreconciled manufacturer statements. The fraud was only uncovered when a motor trade specialist auditor insisted on proper reconciliation.

Tips:

- dual reporting lines for branch accountants to both local management and senior finance
- train accounting teams on fraud risks and detection methods
- regularly review sensitive accounts like vehicle bonus debtors
- rotate accountants between sites to prevent familiarity-based cover-ups
- clear disciplinary policies, including immediate dismissal for detected manipulation
- monitor for signs of stress or pressure in accounting staff.

2. Cash and credit card sales fraud

This occurs when employees receive payment in cash or via credit card but do not remit the funds to the company. They may issue credit notes or proforma invoices to cover the discrepancy, leading to inventory discrepancies, such as parts or vehicles being recorded as in stock when they have been stolen or sold illicitly.

Real examples:

- an employee stole £50,000 worth of sat nav systems
- a Range Rover was misclassified as aged stock and disappeared
- a salesman diverted customer payments into his personal bank account, defrauding a large dealership of over £40,000. He later admitted to 11 additional fraud charges linked to another dealership.

Tips:

- monitor credit notes by individual for unusual trends
- implement perpetual stock counting
- monitor credit card refund volumes
- discourage physical cash transactions.

3. Teeming and lading

This common fraud involves employees misappropriating cash received and covering the shortfall by applying subsequent receipts to earlier debts. It can start small and escalate if undetected. It's also used to conceal errors, such as incorrect vehicle transfers between dealers, which can result in significant financial losses.

Real example: A salesperson used deposits to fund a gambling habit. The fraud went undetected for months until the debt size raised alarms.

Tips:

- segregate duties between cash handling and ledger posting
- reconcile all balance sheet accounts monthly and ensure they are reviewed by management
- ensure key staff take holidays - fraud often unravels when someone else steps in
- use internal audit functions for independent verification
- monitor for lifestyle changes or rumours indicating financial stress among staff.

4. Kickbacks and backhanders

This involves employees receiving payments from suppliers or customers in exchange for preferential treatment, such as sourcing business or offering lower prices. It's hard to detect because transactions appear legitimate.

Real example: A trader offered cash to a sales manager for guaranteed business. The dealership lost profit through undervalued part-exchange sales.

Tips:

- implement auction-only policies for trade vehicles
- establish fixed policies for sensitive supplier areas like auction fees, valeting, subcontracting, advertising, recruitment, cleaning and security
- compare cost metrics across sites to spot anomalies.

5. Supplier fraud

This involves fraudulent invoices or duplicate payments, often orchestrated by someone with deep system access. Weak financial controls allow fraudulent invoices or unauthorised payments to be processed, often by manipulating purchase orders, invoices and payment details. This can lead to significant cash losses over time, with fraudsters exploiting trust and control gaps within finance teams.

Real examples:

- a finance manager duplicated purchase orders and invoices, then swapped bank details to divert payments, stealing £80,000
- a manager used disputed invoices under £1,000 to write themselves cheques, extracting £25,000 over six months.

Tips:

- ensure robust segregation of duties across purchase, receipt, invoice processing and payment authorisation
- review payment schedules and bank reconciliations regularly
- watch for changes in behaviour such as reluctance to take holidays, long working hours, disproportionate lifestyle, territorial behaviour or covering for absent colleagues.

6. Cybercrime

Cybercrime continues to pose a serious risk to automotive businesses. According to the UK Cyber Security Breaches Survey 2025, 43% of UK businesses reported experiencing a cyber breach or attack in the past 12 months. Key threats include cyber extortion via ransomware, which encrypts data and demands payment for decryption keys and email impersonation scams targeting financial transactions by impersonating executives or suppliers.

Real example: In December 2022, Arnold Clark, the UK's largest independent car dealership, suffered a major ransomware attack. Hackers stole over 500GB of sensitive customer data - including passports, bank details and National Insurance numbers - which was later leaked on the dark web. The breach cost the company nearly £50 million and triggered widespread recovery efforts.

Tips:

- maintaining robust and updated IT systems has never been as important
- secure comprehensive business interruption and cyber liability insurance
- conduct regular staff training on recognising suspicious behaviour
- avoid opening emails from unknown sources and be wary of urgent financial requests
- verify requests through independent contact methods.

Final thoughts

Fraud can be subtle, systemic and devastating - and no dealership is immune. But while you may not be able to eliminate the risk entirely, you can put your business in a far stronger position to detect, deter and respond to it. Dealerships that foster transparency, accountability and robust controls are far better equipped to stay ahead of fraud before it takes hold.

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What you can do today

Here are some quick wins to help protect your dealership:

✓ **Strengthen financial controls**

- dual reporting lines for accountants
- monthly reconciliations of all balance sheet accounts
- clear disciplinary policies for manipulation.

✓ **Improve oversight**

- rotate staff between sites
- conduct independent reviews of sensitive accounts
- use internal audit functions where possible.

✓ **Foster a zero-tolerance culture**

- encourage whistleblowing and protect whistleblowers
- train staff to recognise fraud risks
- make it clear that fraud - of any kind - is unacceptable.

✓ **Watch for warning signs**

- staff under unusual stress
- sudden lifestyle changes
- reluctance to take holidays or share responsibilities.

Tax update for dealers: navigating BiK changes and ECOS reforms

The UK automotive market faces important tax changes that will impact strategies, customer decisions and compliance practices. Two areas you should be particularly aware of are the changes to Benefit-in-Kind (BiK) for company cars and Employee Car Ownership Schemes (ECOS), with the Autumn Budget 2025 introducing additional measures that dealers should factor into total cost of ownership conversations.

Understanding these shifts, and preparing your team and customers, can turn potential obstacles into new sales opportunities and build trust through expert guidance.

Understanding BiK and its implications

BiK applies when employees receive non-cash perks from their employer, such as the private use of a company car. The amount of tax due depends on factors including the car's list price, CO_2 emissions and fuel or power type. It's calculated by multiplying the car's P11D value by the relevant BiK percentage rate, then by the employee's income tax rate - so both the vehicle's environmental impact and the employee's tax band influence the final charge.

For fully electric vehicles, BiK rates are set to rise steadily over the next few years:

- **2025/26: 3%**
- **2026/27: 4%**
- **2027/28: 5%**

After 2027/28, these rates are expected to increase further - potentially reaching 7% in 2028/29 and 9% in 2029/30, subject to government confirmation. Plug-in hybrids face even steeper hikes, particularly those with shorter electric ranges.

As a dealer, this means you will need to:

- advise fleet and company car customers on how rising BiK rates affect total cost of ownership (TCO), including tax, depreciation, insurance and running costs
- help fleet managers and company car users plan their vehicle choices with these future tax changes in mind
- provide clear, data-driven comparisons that highlight the benefits and costs of EVs versus petrol/diesel or hybrids.

New in the Autumn Budget 2025: mileage-based EV excise charge (eVED)

From April 2028, EVs will face a mileage-based charge alongside BiK:

- battery EVs: 3p per mile
- plug-in hybrids: 1.5p per mile

This change will affect total cost of ownership and may reduce the relative cost advantage of EVs for some drivers. However, it is worth noting that from April 2026 the Expensive Car Supplement (ECS) threshold for zero emission cars increases from £40,000 to £50,000. This softens the impact for higher value EVs and may partly offset eVED.

ECOS reforms and the updated timeline following the Budget

HMRC has confirmed a revised timetable for changes to ECOS arrangements - a model widely used by employers and manufacturers to provide vehicles to staff in a tax-efficient manner.

Draft legislation will bring most ECOS arrangements within BiK rules from 6 April 2030, not 2026 as previously indicated. Transitional rules will run to 6 April 2032 for existing schemes, or earlier if a scheme is varied or renewed.

Arrangements are particularly likely to be caught where:

- there are restrictions on private use
- the employer remains the registered keeper
- there is a guaranteed buyback or onward sale agreement.

These features are common in many current schemes, meaning the majority of ECOS arrangements may no longer achieve their intended tax advantage post 2030. As a result, employees could face higher tax liabilities and if you run an ECOS you will need to manage new payroll reporting and compliance obligations.

While a small number of ECOS arrangements may continue to qualify - for example, where ownership genuinely transfers to the employee with no restrictions or guarantees - the scope for tax efficiency is narrowing fast.

> If you currently offer ECOS vehicles - whether as a benefit, demonstrator perk or sales incentive - we recommend assessing your exposure in plenty of time. By April 2030, most ECOS cars will be taxed as company cars and non-compliant replacements may bring more risk than reward.

To navigate these changes, we recommend you:

Review existing ECOS arrangements: Identify which schemes are likely to fall under the new rules. Pay close attention to contracts that extend beyond April 2030 and model potential tax costs for affected employees.

Explore compliant alternatives: Consider other options such as enhanced car allowances, EV salary sacrifice schemes, or non-cash benefits that meet employee needs and stay within HMRC rules.

Watch for red flags in 'replacement' schemes: Be cautious of solutions marketed as tax-efficient alternatives. If they involve non-disclosure agreements, limited transparency or unusual structures, they may fall under HMRC's Disclosure of Tax Avoidance Schemes (DOTAS) regime, triggering potential penalties for both employer and provider.

Even where employees pay most or all vehicle costs themselves, this won't necessarily prevent BiK tax charges if the arrangement is deemed to have originated with the employer. If it goes wrong, the financial and compliance consequences could be significant.

The next steps

The combined impact of rising BiK rates and ECOS reforms will reshape the company car landscape. We recommend reviewing your current position and exploring sustainable alternatives in plenty of time, taking tax advice before entering into any new vehicle benefit arrangements. A futureproof strategy will require more than a quick fix, but done right, it can still deliver value for both business and employees.

If you need help understanding the tax landscape and navigating regulatory change, please get in touch with our team to find out how we can support you.

View **HMRC's ECOS policy paper** to explore the legislation in detail.

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To effectively navigate these changes, consider strategies that:

1. **Monitor government policy:** stay informed about further announcements or incentives related to EVs and company cars.
2. **Upskill sales teams:** ensure that sales teams are knowledgeable about BiK and TCO benefits of EVs.
3. **Provide support:** offer guidance to fleet buyers and company car drivers on the financial implications of BiK changes.
4. **Do your research:** plan ahead, take professional advice and don't get caught out!

VAT treatment of electric vehicles and charging costs

As electric vehicles (EVs) become mainstream, motor dealerships face new VAT challenges—whether selling EVs, managing demo fleets or installing charging points. The rules aren't always clear, so here's a quick guide to the key VAT issues affecting dealerships.

Can you recover VAT?

For dealerships purchasing EVs for their own use (eg. demo cars, courtesy vehicles, staff cars), the VAT rules are broadly the same as for petrol or diesel vehicles:

- VAT on cars is generally blocked unless the vehicle is used exclusively for business purposes, with no private use at all, including home-to-work travel.
- This restriction applies even if the vehicle is electric.

That means VAT recovery is limited for most company cars, regardless of fuel type. However, full VAT recovery may be possible for certain commercial vehicles, such as electric vans, pool cars with strictly enforced policies or EVs used exclusively in car hire or driving schools.

Tip: To support a VAT reclaim, dealers must be able to demonstrate zero private use, such as via tracking logs or insurance cover limited to business use.

VAT on electricity for charging EVs

The VAT position on charging is more nuanced and depends on where and how the EV is charged:

Charging at dealership premises

- If you charge a company vehicle at your dealership (eg. forecourt, workshop or staff car park), VAT on the electricity is fully recoverable, provided it is used solely for business purposes.
- If electricity costs are not directly attributable to the charging of EV but are general overhead costs, the electricity is treated as a utility and standard input VAT recovery rules apply.
- If employees charge their own EVs at work and are not charged for it, there may be a benefit-in-kind to consider, but the VAT is generally recoverable by the dealership provided there is exclusive business use of that electricity.

Charging at home

- If an employee or director charges a company vehicle at home, the electricity bill is in their name - not the dealership's - so the business cannot reclaim VAT on that electricity.
- However, there are circumstances when VAT incurred by sole proprietors or partners in a partnership business on charging electric vehicles at home exclusively for business purposes can be recovered.

Installing EV charging points: input VAT is recoverable

If you install EV charging infrastructure, the VAT on installation costs is usually recoverable, provided the facility is used for business purposes.

- This applies whether the charge points are used for fleet vehicles, demo cars or staff EVs.
- If the charging points are also made available to the public (eg. customer charging), the charges will be subject to VAT.

Key points to remember

Scenario	VAT recoverable?
Buying an EV (company car)	Usually not, unless no private use
Charging at dealership premises	Yes, for business use
Charging at employee's home	No (but see above for sole proprietors and partners of a business partnership)
Reimbursing electricity costs	No, unless detailed VAT invoice
Installing workplace charging points	Yes, for business use

How we can help

The VAT treatment of EVs and charging costs is an evolving area - and one where the rules don't always match how dealerships operate in practice. We're helping clients navigate these complexities, from structuring EV purchases efficiently to ensuring correct VAT and benefit-in-kind reporting.

If you would like a review of your current EV arrangements, or help setting up a compliant and VAT-efficient framework for your fleet, demo vehicles or staff incentives, please get in touch.

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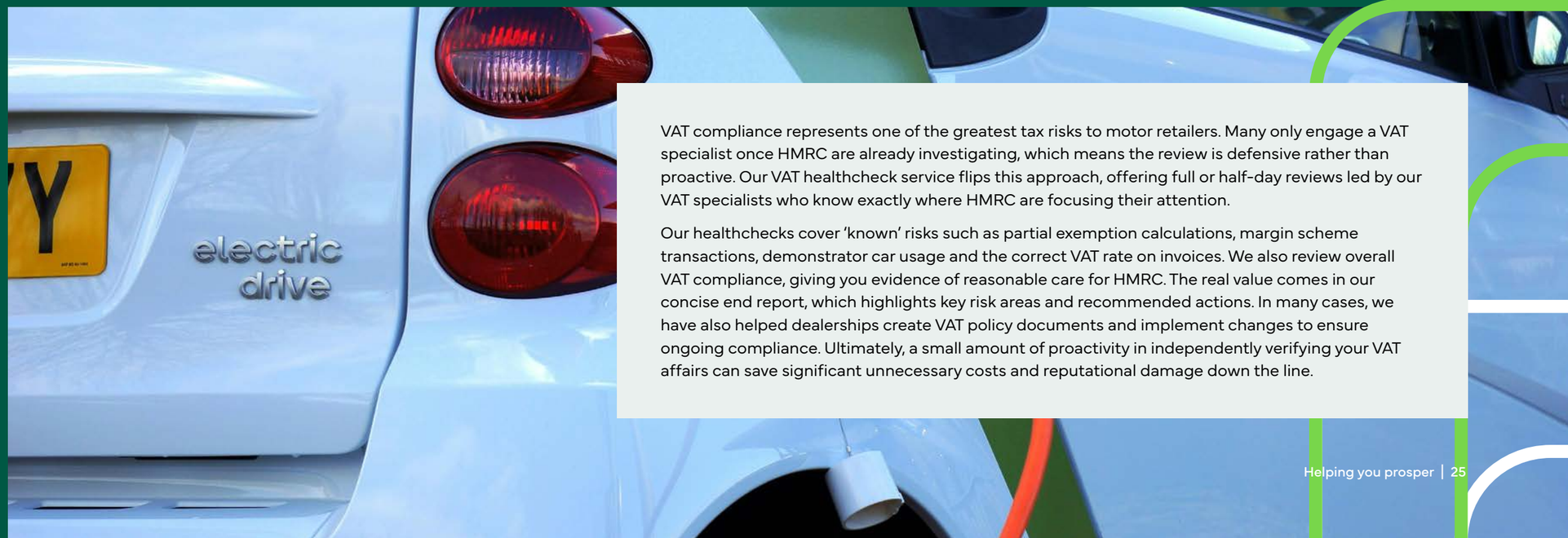

VAT compliance represents one of the greatest tax risks to motor retailers. Many only engage a VAT specialist once HMRC are already investigating, which means the review is defensive rather than proactive. Our VAT healthcheck service flips this approach, offering full or half-day reviews led by our VAT specialists who know exactly where HMRC are focusing their attention.

Our healthchecks cover 'known' risks such as partial exemption calculations, margin scheme transactions, demonstrator car usage and the correct VAT rate on invoices. We also review overall VAT compliance, giving you evidence of reasonable care for HMRC. The real value comes in our concise end report, which highlights key risk areas and recommended actions. In many cases, we have also helped dealerships create VAT policy documents and implement changes to ensure ongoing compliance. Ultimately, a small amount of proactivity in independently verifying your VAT affairs can save significant unnecessary costs and reputational damage down the line.

Our automotive experience

At UHY, our experience includes supporting motor dealers, suppliers and manufacturers with a wide range of services tailored to the needs of the automotive sector. Our offering includes audit and assurance, corporate and personal taxation, mergers and acquisitions, independent business reviews, operational support and guidance on compliance, controls and best practice.

Our audit teams work closely with clients to deliver robust, sector-aware assurance that goes beyond the numbers - helping businesses in the sector identify risks, strengthen processes and meet regulatory obligations with confidence. On the tax side, we advise on everything from VAT and capital allowances to employee benefit schemes, business restructuring and succession planning.

With experience across the breadth of the industry and a strong understanding of current market pressures, we draw on lessons learned to develop practical, forward-thinking solutions. Whether you're navigating regulatory change, planning for growth or seeking operational efficiencies, our team is here to help you prosper by making the most of opportunities and responding proactively to emerging challenges.

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Our straightforward guide to carbon reporting for dealerships:

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Our UHY Hacker Young experts across our 22 offices nationwide provide the best advice because we understand both local needs and the national picture.

Whether you are looking for advice on your personal finances, looking to start a new business, expand your current business interests, or you just want regular compliance advice, our clients come in all shapes and sizes and so do our services.

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