AUDIT • TAX • ADVISORY

MHA Motor Sector
Motor Finance & EV Forum
Executive Summary (3 March 2022)

mha MACINTYRE HUDSON | An independent member of bakertilly INTERNATIONAL

Introduction

Steve Freeman
Head of Automotive
MHA MacIntyre Hudson

> We will be delighted to support you with one-to-one advice, so please contact one of the MHA MacIntyre Hudson team for direct support.

Thank you to those who joined us recently for our Motor Finance, EV and Tax update webinar, as well as those who signed up to receive the webinar recording and this executive summary.

There was some excellent insight on the current sector performance and future opportunities and challenges from Mike Allen of Zeus Capital and from Alastair Cassels who I am delighted to announce is about to Join MHA as a Partner in our Automotive Advisory team. In addition there were some very useful presentations on EV Readiness, Energy Forecasting, Carbon net zero training plus the EV customer journey and potential Mobility solutions for dealer groups. We also had a concise and relevant tax update covering specific tax opportunities for the sector.

I hope that this webinar executive summary is useful and would be delighted to arrange follow-up calls for anyone who would like to explore any of the topics covered in further detail. I am also really looking forward to seeing you at our next “in-person” sector update forum in a few months time.

Best Regards,

Steve Freeman,
Partner and Head of Automotive at MHA
(an independent member firm of Baker Tilly International)

Industry Update

Mike Allen
Head of Research
Zeus Capital

Industry update

- Quoted motor retailers have mostly outperformed the FTSE All-Share and AIM All-Share
- Valuation: the sector looks cheap as share prices have not kept pace with earnings upgrades
- Cost pressures: labour market tightness, energy costs, and rate rises
- Supply issues are acute, with new registrations still far behind pre-pandemic averages
- Exceptionally strong used car prices slowed down recently – this is normal seasonality
- Sector consolidation - Constellation Automotive's 400p takeover bid for Marshall Motor Holdings could spark further consolidation
- Online car retailers face tough competition from franchised dealers
- Electrification: the growth in EV sales is inevitable, but how quickly will they take over?

1. Strong earnings momentum has driven share price growth for franchised dealers, leading them to outperform Motorpoint and major UK stock indexes in 2021. The sector still appears undervalued.
2. Supply shortages are impacting the new car market, which we don't see being resolved until midway through 2022 at the earliest, 2023 more likely. Dealier margins will be boosted as OEMs favour higher margin channels and models.
3. Used car prices are showing signs of plateauing, but we don't expect any significant supply inflows to cause prices to crash, so margins will likely be stronger for longer.
4. Constellation's MMH acquisition and financial investment in Lookers could be a precursor to significant industry consolidation and new entrants into the franchised dealer space.
5. Dealers must continue to offer a flexible "omnichannel" approach, providing a full choice to consumers in how they wish to complete their sales journey. This is critical and expected.
6. EV adoption is increasing at a fast pace despite headwinds from cost, cuts to government grants and charging infrastructure. The EV transition creates opportunities for dealers, OEMs, charging companies and others.

The Future for Franchise Sellers

Alastair Cassels
Former Network Development Head at VWG

Summary of key points:

- Dealer numbers have been decreasing in recent years although not across all franchises. The 2018 KPMG Global Auto survey predicted up to 50% reduction by 2025.
- Reducing dealers is a last resort for many manufacturers NSC as it threatens short term sales
- Current dealer numbers are a reflection of pre-pandemic forecasts and are not reflective of the move to online car retailing
- Distribution costs are significant for car manufacturers and as such represent a target for reducing costs as the industry transforms to electric vehicles and future autonomous driving
- The biggest opportunity for OEMs is to pay dealers less and change the sales process to be more aligned with other retail goods.
- Momentum is building towards a more widescale migration to Agency sales models

What Does Agency mean?

- In Agency models the OEM/Importer looks to form a direct contractual relationship with the customer.
- OEMS view a number of benefits in the model – reduce costs of distribution, Data exclusivity, customer journey more aligned to modern life
- Retailers need to consider what the implications of an agent model would be for their business and future invest-ability.
- Dealer Groups need to understand how different OEMs varying approaches will affect their systems, process and financial planning
- Retailers should ideally begin to assess some “what if” scenarios

What Should Retailers do?

- The change affecting the industry is without precedent and whilst retailers are incredibly resilient and inventive, they will not “out sell” pressures brought by structural change
- There are positives as we exit the pandemic – profits have been strong, balance sheets are robust, market demand is stable
- However, challenges are significant in the short and mid term and there are a lot of restrictions to evolving quickly
- Retailers should develop a plan giving them agility to adapt to changes that will take place within their business model

MacIntyre Hudson are ready to help in whatever way they can to help navigate the challenge

EV Infrastructure and Energy Requirements

Ewan Cross
Associate Director
Rolton Engineering

Dealer EV Readiness Projects and Observations - an update

The methodology used deploys forecasts for EV sales and EV uptake as a percentage of total vehicle sales and total vehicles on the road, to forecast the number of EVs in a given area/operation

As the number of EVs within a system increases, the percentage of these vehicles that are likely to require EV charging reduces.

The starting point of the assessment is the vehicle throughput of the facility. This includes operating areas such as prospective customers, new and used car sales, demonstrator vehicles, workshops, courtesy cars, rental cars and staff vehicles.

For new and used car sales, forecast of vehicle sales and EV uptake are used to create the vehicle throughputs. The charts here show examples of:

- Vehicle sales forecasts;
- Electric vehicle sales forecasts; and
- EVs passing through each operating area.

One of aims of the assessment is to assess the potential of energy generation and storage technologies to contribute to the energy consumption and carbon emissions reduction of the facilities being assessed.

For the majority of facilities, this is likely to be limited to solar PV and battery energy storage.

Solar PV is scaled to target 80% of the electricity generated is consumed onsite by the facility, with only 20% being exported to grid.

Battery energy storage has the potential to increase the onsite utilisation of electricity generated by solar PV.

The current capital cost of battery energy storage makes the majority of installations difficult to justify from a financial point of view, however, the forecasted decline in the cost of battery technologies means that they are likely to become financially viable in the future.

It can be seen that only very small scales of battery energy storage make a positive impact of IRR. Battery energy storage can also be utilised to avoid the need for costly grid connection capacity upgrades. If peaks in power demands are sporadic and short lived, battery energy storage can be used to ensure that grid connection capacity is not exceeded and grid connection upgrades not required.

When considering the offset of grid connection costs, this would significantly improve the financial performance of battery energy storage and, in certain cases, will make battery energy storage cost effective, even today.

Carbon Literacy Automotive Toolkit

Ruth James

Automotive Coordinator
The Carbon Literacy Project

What is Carbon Literacy?

An **awareness** of the carbon costs and impacts of everyday activities and the **ability** and **motivation** to reduce emissions, on an individual, community and organisational basis

What do Carbon Literacy do?

Oversee the development of materials to train people in Carbon Literacy and accredit learners and organisations as Carbon Literate.

Contact:

automotive@carbonliteracy.com

What is a Toolkit?

Sector Specific

Developed specifically for the automotive industry, by people in the industry

Adaptable

Make it relevant to your organisation and area with customisable sections

User Friendly

You don't need to be a carbon expert or have training experience to deliver it.

Complete Guide

All materials are included including slides and a trainer manual.

The Business Case for Carbon Literacy

Resiliance
Embedding a low carbon culture will help to futureproof your business.

Investors
Evidencing a sustainability agenda is becoming increasingly important.

Meet Targets
Get your workforce on board to help reach increasingly ambitious emissions goals.

Customer Perceptions
Your green credentials are becoming ever more important to consumers.

Finance
Using less energy and fewer resources saves money.

Prevent Climate Collapse
We all have a job to do and a part to play. If we don't, who knows what that will mean for business...

Referral Process for EV Charging

James Chapman
Partnerships Director
EV Comply

At EV-comply we believe that the current referral process from the dealer/broker network for EV charging isn't working.

The Motor Ombudsman is paying particular attention to EV sales related complaints and OFGEM highlighted that over 70% of customers weren't given any information at all regarding charging during their vehicle purchase.

For those that were given information their needs weren't qualified and the advice often led to a negative customer outcome. With EV comply we've created a brandable platform to enable customers to source the best product for their needs and receive multiple quotations to enable them to secure the best deal on their charger install.

The process is fully digital, fully automated and incredible efficient for your digitally minded, time poor customers. We strongly believe that getting the charger process right is vital to ensure positive customer satisfaction results.

- The average EV customer is 43 years old, digitally savvy, time poor, a professional with an annual salary in excess of £50,000
- 1 in 3 complaints regarding EV sales to Motor Ombudsman are related to point of sale issues or post sale customer service. A significant proportion of these relate to charging and vehicle range.
- 7 in 10 customers receive no information at all from their dealership regarding charging options.
- Most dealers are only able to provide one charger option regardless as to whether this suits their customer needs.
- Dealer CSI and standards money is at risk from EV related, negative customer outcomes.
- EV-comply have a network of over 650 OZEV approved installation companies who are able to provide advice on a range of charging solutions with multiple installation quotes to ensure best value.
- The digital installation process can be fully white labelled to maintain dealer brand awareness throughout the customer journey.
- The entire customer journey is mapped digitally up until the day of install.
- All installations are captured and evidenced on the installers EV-comply mobile app to ensure compliancy and quality.
- EV-comply is entirely FREE to use for dealership and customer.

We strongly believe that getting the charger process right is vital to ensure positive customer satisfaction results.

Flock Mobility

Terry Yoell
Co-founder
Flock Mobility

By making shared fleets more convenient we reduce the dependence on private 'single occupancy' passenger vehicles and cut carbon emissions.

Our technology platform offers a range of shared transport options all of which can be booked, edited or cancelled via our self-service mobile application.

Our services include:

- Electric vehicles
- Support Team
- Professional Drivers
- Mobile App
- Licensing
- Insurance

Next Steps

Define

We review your specific business requirements and provide a custom proposal

Design

We create a customised service design, test the system and request feedback from initial users

Deploy

We deploy the service at scale, analyse initial results and optimise rides as the service evolves.

VAT Recovery Opportunity

Glyn Edwards
VAT Director
MHA MacIntyre Hudson

The recent judgement of the first-tier Tribunal in Hotel La Tour Ltd vs HMRC presents the possibility of retrospective and prospective VAT claims on costs associated with company reorganisations involving the disposal of shares.

Hotel La Tour Ltd owned a subsidiary which operated a hotel in Birmingham. The company decided that it would like to invest in building a new hotel in Milton Keynes but needed to raise funds to finance the build. It therefore decided to sell its subsidiary by way of a sale of shares. The sale of shares was exempt from VAT and HMRC refused to allow Hotel La Tour to deduct the input tax it had incurred on professional fees relating to that sale.

HMRC's decision was not a surprising one – the traditional view is that VAT on costs must be directly linked to the first transaction in a chain – here the link was directly to a sale of shares which, as an exempt supply, meant that no VAT recovery should be allowed.

However, the Tribunal decided that the VAT on the costs incurred to sell the shares could be recovered because of a direct link between the professional costs and the future taxable hotel development activity in Milton Keynes.

> “HMRC's decision was not a surprising one.

The sole purpose of the sale was to generate funds for future taxable activities. It is a concept of raising ones eyes above the immediate to see the true purpose of a cost.

Any business which thinks it may have incurred irrecoverable VAT in respect of share disposals in the last 4 years should consider seeking advice on the implications of Hotel la Tour and whether a protective claim should be lodged whilst the Hotel La Tour case proceeds through higher courts.

More generally a holding company intending to sell shares in its subsidiaries should ensure that any engagement letters and invoices from professional advisers properly identify costs which are solely related to an exempt share sale and costs which are more general and which may therefore be recoverable irrespective of the outcome of Hotel la Tour.

Capital Allowances

Anthony McFarlin
Senior Tax Manager
MHA MacIntyre Hudson

The move to EV is shaping the industry and dealerships are likely to have spent or be spending significant capital, particularly when adding EV equipment.

The tax relief associated with this spend mainly comes in the form of capital allowances. This form of 'tax depreciation' provides a good lever that the Chancellor can pull to encourage or discourage capital spend depending on the state of the economy and some good news is the Government are currently looking to encourage spend so generous relief is on offer.

Overview of capital allowances

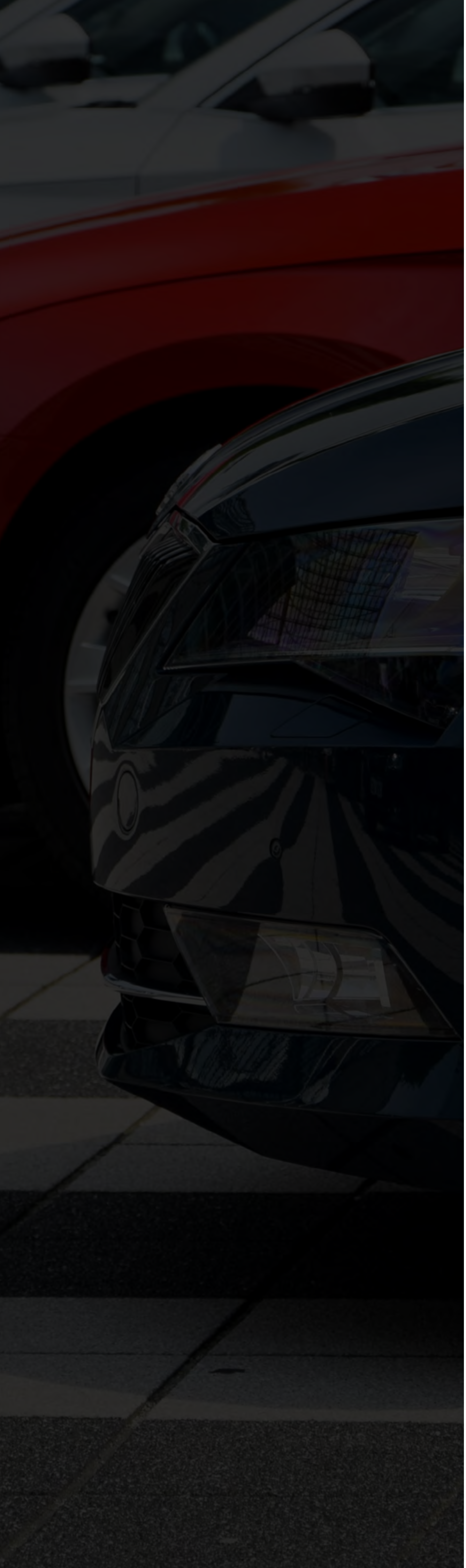
Capital allowances are only available for a limited range of assets, each with a separate set of rules and nuances. The rate of relief ranges from 3% to 130%.

EV chargers are subject to capital allowances at 100% in year one, providing immediate tax relief. This has been in place since 2016 and is due to continue until March 2023. This rate applies to the charging point itself, as well as:

- Alteration of land for the sole purpose of installing the EV charger
- Plant and machinery installed for the purpose of providing that EV charger with electricity.

Allowance	Examples	Rate
Plant and machinery / main pool / "with which"	Advertising / signs / displays, Automatic exit doors and gates, Carpets and floor coverings, CCTV, Flooring – strengthened, Furniture and office equipment, LCVs and HGVs, Security and fire alarm systems	18% 130% (1 April 2021 - 31 March 2023)
Integral features / special rate pool / "within"	Air conditioning, Car park illumination, Electrical systems, Plumbing systems, Solar panels	6% 50% (1 April 2021 - 31 March 2023)
First year allowances	EV charging points	100%
Structures and Building Allowances	Buildings and structures, Car parks, Car wash site / wash hall, Doors, Fences, Flooring	3%

Table 1: Examples of Capital Allowances



Take care to not break the criteria by creating a dual purpose when altering land and scope work accordingly when looking for fee quotes. Also challenge whether the spend will instead qualify for the 130% capital allowance rate.

New temporary capital allowance reliefs – key points

Key qualifying criteria:

- Apply to qualifying assets bought in the period 1 April 2021 to 31 March 2023
- Asset has to be new and unused
- Contract has to be entered into after the announcement on Budget day (3 March 2021)

The tax savings can be significant:

- 130% rate: 24.7p per £1 compared to around 3p per £1 currently available in the first year
- 50% rate: 9.5p per £1 compared to around 1p per £1 currently available in the first year

Note that on disposal:

- Every asset on which new allowances are claimed is individually tracked, which creates an administrative burden and cost.
- When it is sold, proceeds will create a balancing charge (add back to chargeable profits for tax purposes). Key point is not to claim on something that may sell for a profit because the business may end up paying more tax overall.

The super deduction is likely to create a deferred tax liability as tax relief is in excess of net book value. It can also cause fluctuations in tax payable which should be communicated to stakeholders.

It's important to recognise that, with the exception of the 130% rate, capital allowances are more about timing of tax relief than additional tax relief.

If a sale of a business is a possibility, take tax advice up front because the tax values can have an impact on the method of sale or on the sale price.

The key overall message is if you are spending significant sums, talk to your tax adviser first.

Employment Tax Updates

Nigel Morris
Employment Tax Director
MHA MacIntyre Hudson

Company Cars

As a reminder, there are three aspects that Dealer Groups should be thinking about now:

- Averaging arrangements – have you established the vehicles for the calculations (those available between 17th and 31st January 2022) and established your grades and values for 2022/23 yet.
- Employee Car Ownership (ECOS) arrangements – if you have these in place you will be pleasantly surprised by the used car valuations that support the arrangements and lead to significant tax and NIC savings. Keep on top of valuations as the market evolves over the next 12 months or so and check that the industry 'norms' keep pace. If not, we can assist with other future and used valuation options to support.
- Salary sacrifice - Currently very popular with clients due to the very low benefit in kind (BIK) on EVs and ULEVs which are here until 2025. You may also want to consider these if future supply creates surplus models that work for sal sac that you could provide to employees without cars and support 6 month and 12-month old used vehicle stock.

Other topical issues

- Coronavirus Job Retentions Scheme (CJRS) – Furlough finished some time ago but Dealer Groups are evaluating their balance sheet and reviewing arrangements to make sure that risk of HMRC clawback is mitigated before utilising funds for other purposes. Our reviews have found net underclaims, but numerous errors in calculations, particularly NIC and pension claims.
- IR35 (Off-payroll workers) – this is still of concern in the Sector. We have undertaken a number of reviews and find the following:
  - Valeting – usually ok, with a number of established outsource providers used
  - Driving – generally ok, with a mix of zero hours and outsource providers
  - Technicians – quite a mix, with fly-in technicians being self-employed, via intermediaries and caught by IR35 or via established outsource providers. Real care is needed in this area.
  - Handyman – with many Dealer Groups having larger property portfolios there are repair and maintenance contractors, many of who are outside of IR35, but there is a risk of self-employed and on-payroll workers being used. Another area where real care is required.

National Minimum Wage

a few cases of technical errors leading to small liabilities but still naming and shaming in the mainstream press.
We have successfully defended approaches from HMRC and the complexity of the regulations, particularly interacting with additional hours, voluntary deductions and top-up payments can lead to small issues and large headlines.

A proactive approach and healthcheck review is recommended to avoid this.

The Team

Steve Freeman
Head of Motor, Partner

E: steve.freeman@mhllp.co.uk

Nigel Morris
Motor Tax Head, Director

E: nigel.morris@mhllp.co.uk

Glyn Edwards
Motor VAT Head, Director

E: glyn.edwards@mhllp.co.uk

Anthony McFarlin
Senior Tax Manager, MHA MacIntyre Hudson

E: anthony.mcfarlin@mhllp.co.uk

Terry Yoell
Co-Founder, Flock Mobility

E: t.yoell@flockmobility.com

Mike Allen
Head of Research, Zeus Capital

E: mike.allen@zeuscapital.co.uk

Alastair Cassels
Former Network Development Head at VWG

Jennifer Wilson
Performance Director, Autotrader

E: jennifer.wilson@autotrader.co.uk

Ruth James
Automotive Coordinator, Carbon Literacy

E: ruth.james@carbonliteracy.com

James Chapman
Partnerships Director, EV Comply

E: james.chapman@ev-comply.com

Natalia Phipps
Head of Sectoral Development, Carbon Literacy

E: natalia@carbonliteracy.com

Stephen Smith
CEO, EV Comply

E: stephen.smith@ev-comply.com

Georgia Harbison
BD, Director, Cognito Learning

E: georgia@cognitolearning.co.uk

Ewan Cross
Associate Director, Rolton Engineering

E: ewan.Cross@rolton.com

To find out more about the services
MHA can offer, please contact:

E: webenqueries@mhllp.co.uk   macintyrehusdon.co.uk

Now, for tomorrow

An independent member of bakertilly INTERNATIONAL