

MAZARS INTERNATIONAL TAX CONFERENCE 2019

 TAX IN THE NEXT DECADE
Preparing for 2020 and beyond

*Mazars International Tax Conference 2019 3 October 2019
Pullman London St. Pancras*

AUTOMOTIVE & TAX: HOW TO SURVIVE DISRUPTION

1. WELCOME & INTRODUCTION
2. INSIGHTS FROM THE INDUSTRY - KEY MESSAGES & TRENDS
3. TAX – HOW TO SURVIVE DISRUPTION IN THE AUTOMOTIVE INDUSTRY
4. TRANSFORMATIONAL LEADERSHIP IN A DISRUPTIVE ENVIRONMENT
5. DISCUSSION



INSIGHTS FROM THE INDUSTRY – KEY MESSAGES & TRENDS

DR. CHRISTIAN BACK

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Key Market Trends

Automotive players are navigating
the land of disruptions creating new business
models & new services



New technologies:

connected cars, autonomous vehicles, apps, electrical vehicles [based on battery or fuel cell or other clean technology] ...

New consumer behavior:

car sharing, leasing vs property

Moving from manufacturing to mobility services:

B2B to B2B2C strategy

New players challenging the market:

Tesla, Google, Apple, Uber, Chinese companies, ... vs historical players

Sustainability requirements:

Higher and diverse from region to region

A global market to be addressed:

China, US and Germany as market engine

“If you buy a car that does not have the hardware for full autonomous-driving, it is like buying a horse.”

Tesla CEO Elon Musk

“If you let Google in your car, you've got a Trojan horse.”

Dieter May, former Senior VP Digital Products and Services BMW

“We want to make the car the better driver.”

Harald Kröger, Managing Director of Bosch

SECTOR AT A CROSSROAD

The sector is going through major disruptions in multiple aspects: Drive-train electrification, autonomous driving, connectivity, mobility ...

70.5 Million

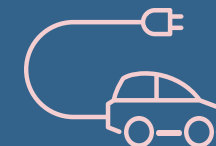
cars are produced worldwide in 2018



DIGITALIZATION & CONNECTIVITY



5.6 Million



E-cars are used worldwide currently. It is an increase of 64% over the previous year

TECHNOLOGICAL DISRUPTION



DRIVE-TRAIN ELECTRIFICATION



ECONOMIC & SOCIAL EVOLUTION



FROM A MANUFACTURING COMPANY



POLLUTION SENSIBILITIES



CONSUMPTION BEHAVIOR SHIFT



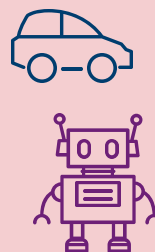
78.7 Million

cars are sold worldwide in 2018



68 %

of the automotive manufacturer see the future in autonomous driving. 11% already invest, 13% plan to invest in the coming years

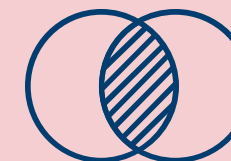


TO A TECHNOLOGY COMPANY



157 K

vehicles are registered for carsharing in >2,000 cities. It is estimated to triple by 2025



THE GLOBAL AUTOMOTIVE MARKET – DIFFERENT TRENDS BY REGION

US

- 2.0% CAGR for the automotive market 2019-2023
- 50 percent of survey respondents do not believe autonomous vehicles will be safe which is drastically different from 2017, when 74 percent voiced safety concerns
- Over 360k auto industry workers might lose their jobs due to a possible increase in tariffs on US imports

EUROPE

- 2.0% CAGR for the automotive market at all from 2019 to 2023, but 8.3% CAGR for connected cars
- >100m connected cars in 2023
- Vision 2050: zero fatalities and accidents, zero emissions in cities
- Currently all market expectations are under review and might be strongly revised due to the upcoming crisis

CHINA

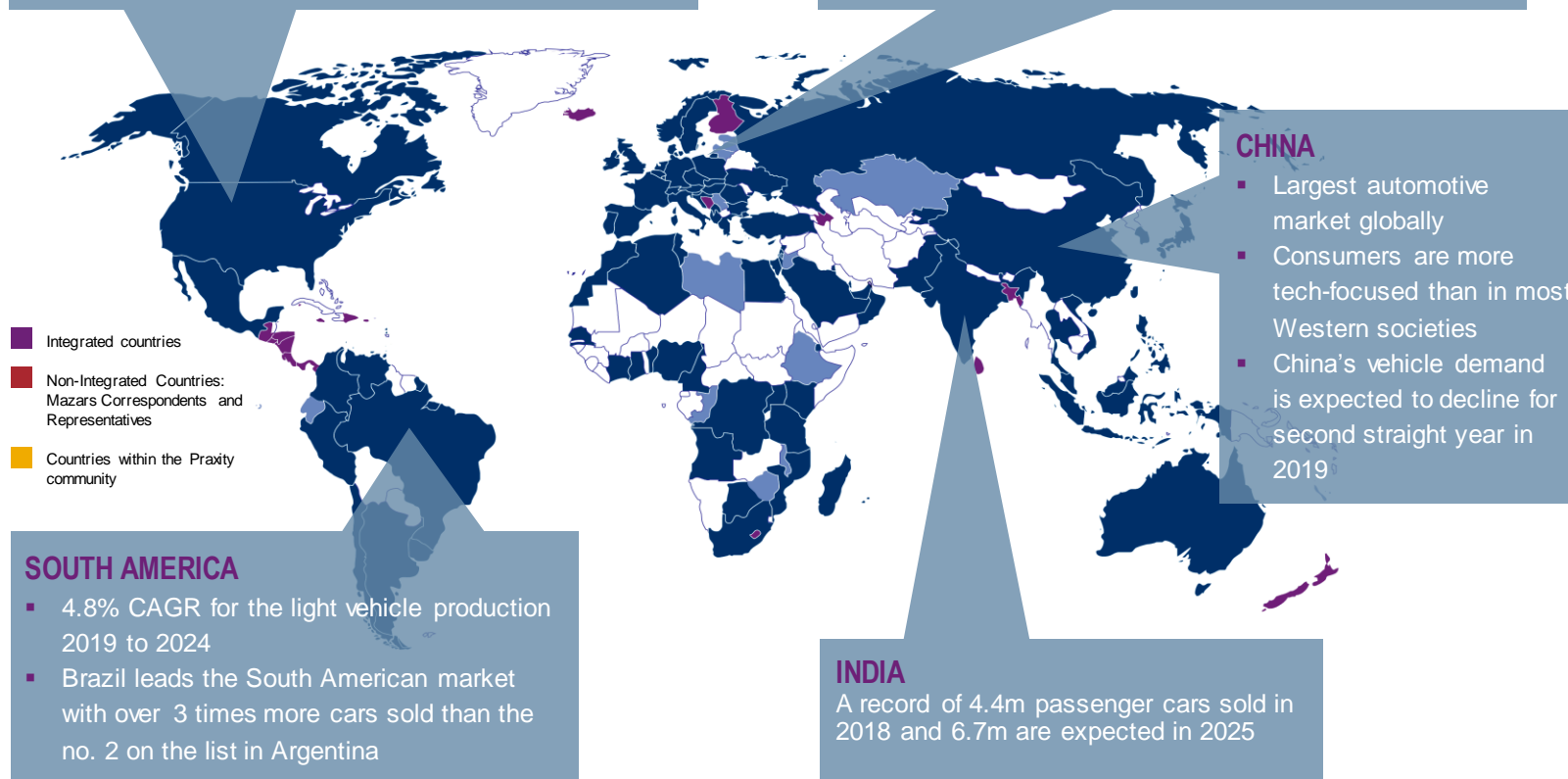
- Largest automotive market globally
- Consumers are more tech-focused than in most Western societies
- China's vehicle demand is expected to decline for second straight year in 2019

INDIA

A record of 4.4m passenger cars sold in 2018 and 6.7m are expected in 2025

SOUTH AMERICA

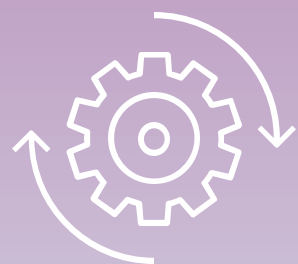
- 4.8% CAGR for the light vehicle production 2019 to 2024
- Brazil leads the South American market with over 3 times more cars sold than the no. 2 on the list in Argentina



“We're going through a storm. And when you get into such a storm, you better keep your ship on course and pull all the ropes tight.”

Carlos Tavares, Chairman of the Managing Board of Groupe PSA

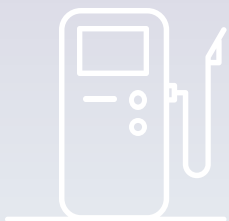
THE GLOBAL AUTOMOTIVE MARKET – MAZARS' AUTOMOTIVE EXPERIENCE



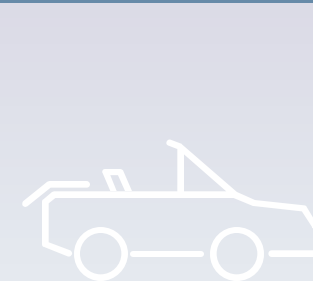
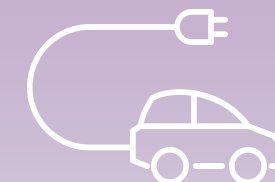
Dealers & Service Provider



Financial Services



OEMs & Suppliers



TAX: HOW TO SURVIVE DISRUPTION IN THE AUTOMOTIVE INDUSTRY?

VESKO PETKOV / BIRGIT JÜRGENSMANN



1. RESEARCH AND DEVELOPMENT TAX CREDITS & TAXATION OF INTELLECTUAL PROPERTY
2. TRANSFER PRICING & BEPS
3. OFF PAYROLL WORKING: IR35 CHANGES & SHORT TERM BUSINESS VISITORS
4. BREXIT AND DIGITAL TAX
5. FUTURE OF VAT – “QUICK FIXES” 2020





RESEARCH AND DEVELOPMENT TAX CREDITS & TAXATION OF INTELLECTUAL PROPERTY

- Capitalised development costs – 100% deduction available in year 1
- Management system development
- International groups – where to locate R&D activities

**How many of you
capitalise
development
costs?**

TRANSFER PRICING & BEPS

- OECD BEPS project - level of control manufacturers have over volume and pricing
- Cost contribution vs profit sharing agreements
- Changes in global automotive supply chains lead to a requirement to review how entities are characterised
- Permanent establishment risks due to engineering activities and business development
- Intragroup management charges and software licensing arrangements
- New BRR template/guidance and indicators (what 'low risk' looks like)





OFF PAYROLL WORKING: IR35 CHANGES & SHORT TERM BUSINESS VISITORS

What is changing?

- Currently, where a worker operates through an intermediary – generally a Personal Services Company – the responsibility to account for PAYE and NIC rests with the intermediary
- From 6 April 2020, the Company will need to decide whether the arrangement falls within IR35 by conducting own employment status tests
- If the relationship would be one of **employer: employee** if not for the intermediary, the responsibility to account for PAYE, NIC and the Apprenticeship Levy rests with the Company as the engager
- The Employer needs to ensure that it has processes in place to identify contractors, and engage with all stakeholders to ensure they can make the correct deductions from payments

How many of you
have
off payroll
workers?

BREXIT AND DIGITAL TAX

- Digital services tax
- Supply chain reorganisation and cross border transaction tax, including withholding tax
- Optimising global treasury – centralised or devolved



- EU-Action Plan on VAT – 7 April 2016 start of the “journey”
- “Quick fixes” as an intermediate step
- E-Commerce-Package 2021
- Final VAT System until 1 January 2022

DETAILS OF THE „QUICK FIXES“

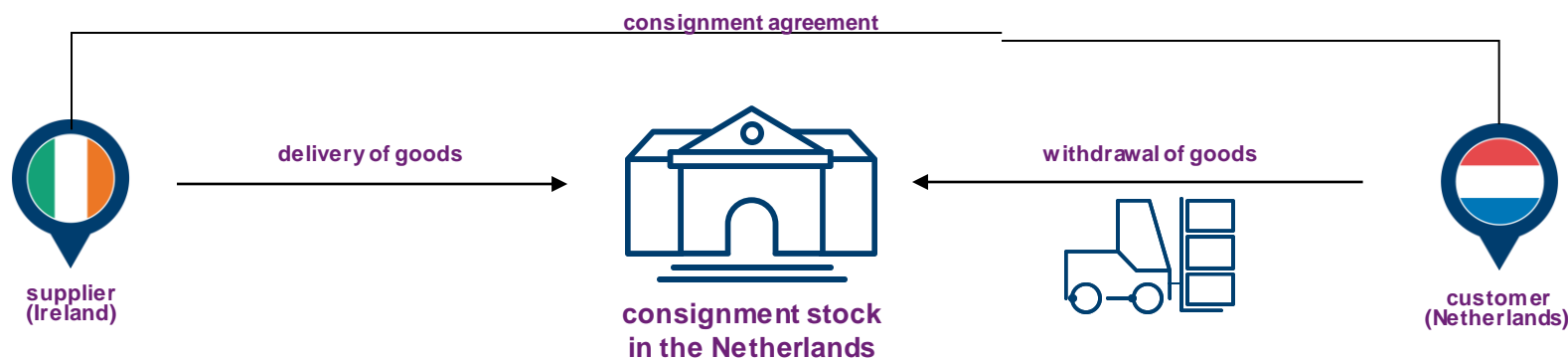
- Allocation of ‘moveable supply’ within chain transactions
- Check of VAT Id. Numbers in cross - border transactions
- Correct and complete EC Sales List
- New Consignment Stock Regulations

To Do’s for Businesses until 31 December 2019:

- Check of the national rules
- Review of the supply chains in the light of the upcoming changes
- Potentially amendments of underlying agreements, supply chains, invoicing (local VAT vs. hint for VAT exemption), IT set up, applications for de-registrations
- Arrange for processes to ensure that the VAT ID. Numbers will be checked regularly & EC Sales list are correct & complete
- Careful monitoring of changes (VAT ID. Numbers, transactions within 12-months-period etc.)
- Training of People

HARMONIZED CONSIGNMENT STOCK RULE (1)

- So far, no legal definition of consignment stocks in the EU-VAT Directive
- In brief: consignment stocks are warehouses, which the supplier maintains at his customer's location
- Customer can, if required, take goods from the consignment stock at any time



- Current VAT principles: intra-community transfer of own goods in the departure Member State and an intra-community acquisition in the Member State of arrival. When the customer withdraws goods from the consignment stock, the supplier would perform a domestic supply in the Member State of destination (where the goods are located).
- Withdrawal of goods by the customer normally results in a VAT registration obligation for the supplier in the Member State where the goods are stored.
- Simplified but different rules in Member States to tackle this topic

HARMONIZED CONSIGNMENT STOCK RULE (2)

- New **Art. 17a** implemented into EU VAT Directive
- Overview of Requirements:
 - Supplier is not established in the country of destination
 - VAT ID. Number of customer is known at the start of the transport
 - Supplier records the transfer of the goods in an consignment stock register and reports the supplies in the EC sales list
 - Supplies are carried out within a period of 12 months after arrival of the goods
 - Customer is known, i.e. supply is carried out to a predetermined purchaser only
 - Non-supplied goods will be transferred back to the departure country
 - Goods will not get lost, be stolen or destroyed.



Is this really a simplification for businesses?

TRANSFORMATIONAL LEADERSHIP IN A DISRUPTIVE ENVIRONMENT

GEOFF COUSINS

17 - MAZARS



FROM: 'MY DAD'S CAR' - 2006



TO: A PERFORMANCE BRAND - 2012

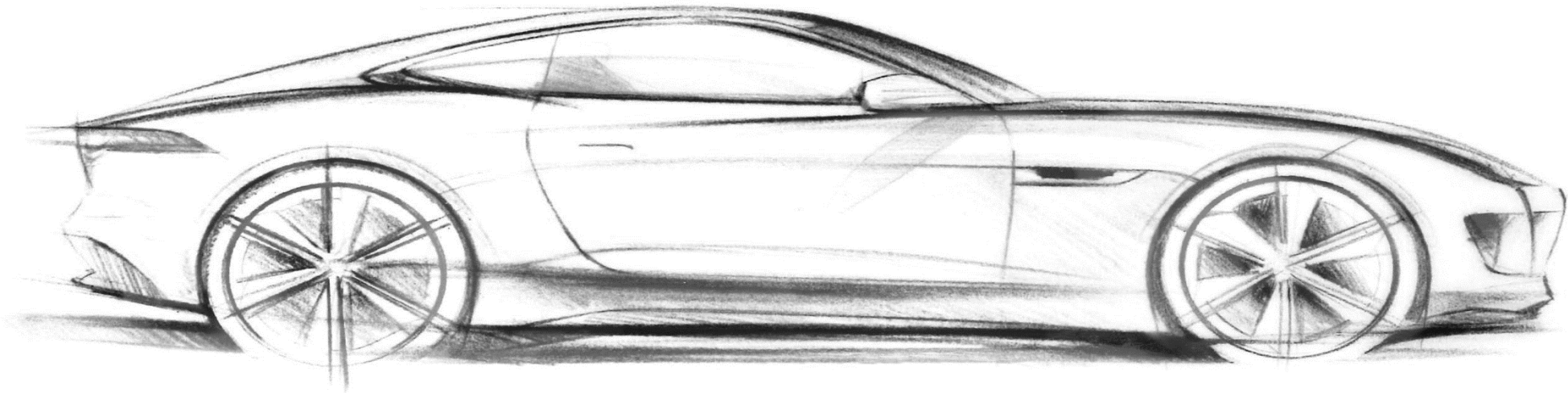


STAND OUT AND STAND APART

THE BIG CHALLENGE: TO BE DISTINCTIVE

Appeal to hearts and minds

- Cool Performance Brand
- Product Innovation
- Customer Experience



STAND OUT AND STAND APART CREATE A SINGLE HIGH PERFORMING TEAM

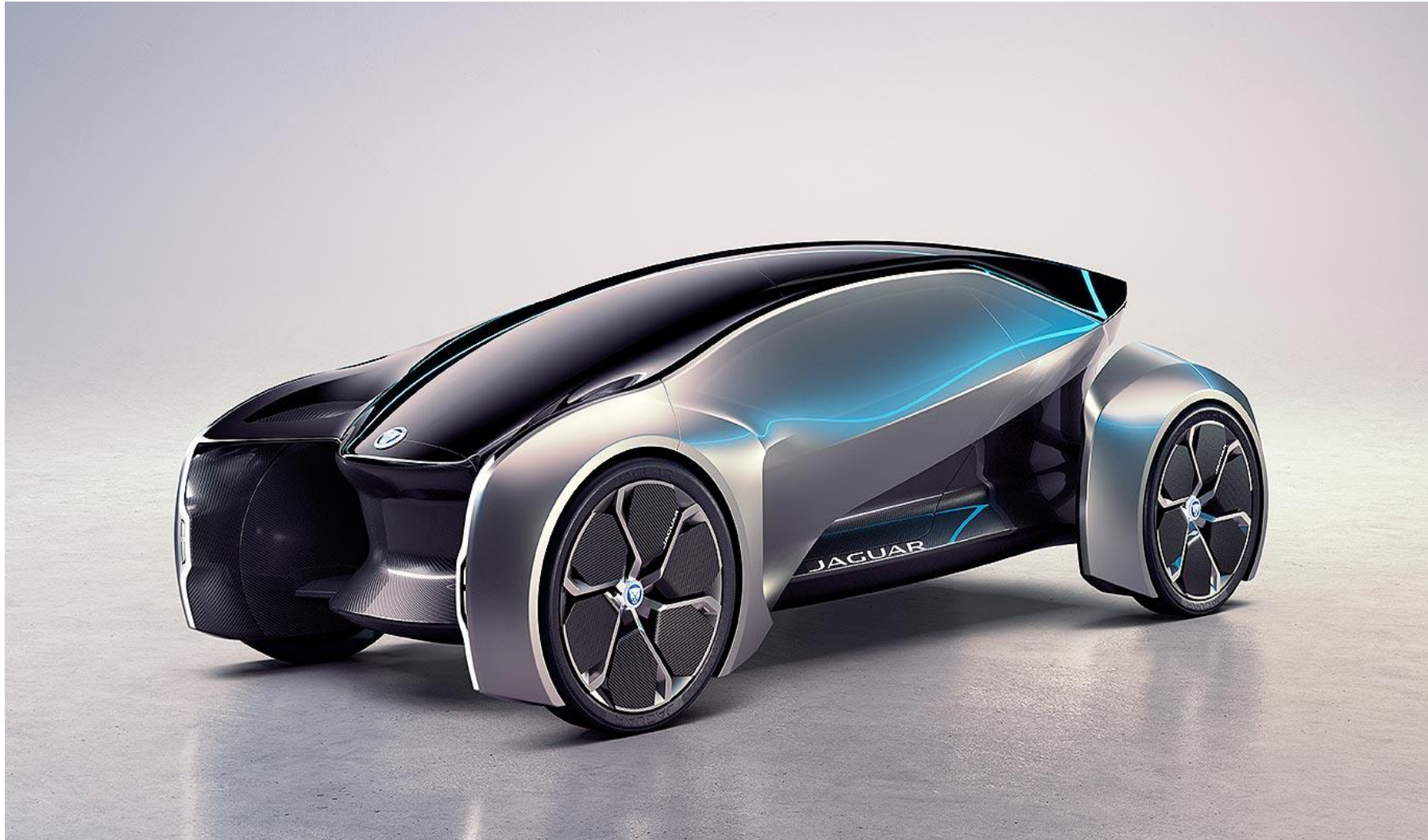
- Fix dysfunctional behaviour
 - Absence of trust
 - Fear of conflict
 - Avoidance of accountability
- Act like business owners
 - Credibility and integrity
 - Challenge the status quo
 - Results driven
- Streetwise skills
 - Be Politically Astute
 - Manage Perceptions
 - Dealing with conflict



TO: DISRUPTIVE FUTURE - 2019



TO: AUTONOMOUS VEHICLES – 2040 ?





THE AGE OF DISRUPTION FORCES OF CHANGE AND CONSEQUENCES

DISRUPTION IS NOT NEW



DISRUPTION HAS ALWAYS BEEN FEARED



JOYOUSLY TOYING WITH DEATH

AND EXPERTS GET IT WRONG !!

“There is no chance that the iPhone is going to get any significant market share – no chance”



McKinsey (in 1985): cell phone users in USA in year 2000

- Estimate 900,000
- Actual 109m



BUT TODAY'S DISRUPTION IS ALL ENCOMPASSING



AUTOMOTIVE : DRIVERS OF CHANGE

- Socio economic trends
 - Urbanisation
 - Health concerns
 - Generational attitudes
 - Fossil fuel resources
- Political and regulatory pressure
- Rise of technology



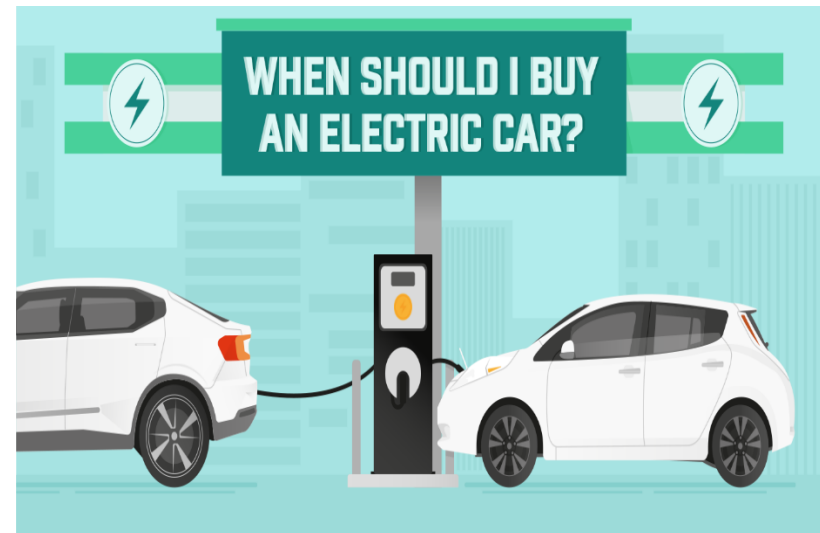
SIGNIFICANT DISRUPTION IN AUTO INDUSTRY

- Mobility Ecosystem 2030
 - Electric Vehicles
 - Connected cars
 - Autonomous Vehicles
 - Mobility as a service
- Auto and tech converging
- China is a global player



ELECTRIC VEHICLES: WHEN AND WHERE

- Battery technology
- Infrastructure Issues
- Scarce resources
- Customer perceptions
- Simplified supply chain



AUTONOMOUS VEHICLES : THE BENEFITS

- UK economic benefit - £51 billion by 2030
- Additional jobs – est 350,000
- Less accidents and lives saved
- Increased mobility and convenience
- Reduced travel costs



AUTONOMOUS VEHICLES: THE CHALLENGES



RIDE SHARING: FACT OR FICTION

- A move away from car ownership in urban areas
- Air quality issues and regulation in cities
- Transport costs will reduce
- Combination with AV's

“Success will depend convenience, geography and personal preference”



AUTO AND TECH CONVERGING

- Tech companies think and act differently
- Auto has relatively low Total Enterprise Value (TEV)
- Tech entrants are investing in technology chokepoints
- Collaborations not Silicon Valley takeovers



CHINA: A GLOBAL PLAYER

- Produce more cars than USA and Germany combined
- Global leader in automation
- Purchasing western companies
- Supportive government



INDUSTRY AND SECTOR TRENDS

- Global Sector Shifts
- Environment and Regulation
- Production and Supply Chain
- Changing Customer Attitudes
- Dealer Profit Squeeze
- Car Financing Experience
- Aftermarket



AUTOMOTIVE COMPANIES: CHALLENGES

- Business models will change significantly
- Sales fall in mature markets
- Changing customer experience
- Large investment and costs
- Pace of tech developments
- New market entrants

‘Future disruption is driving OEM’s behaviours today’



G&P: WORLD LEADING QUALITY MANAGEMENT

- Sustainable profitable growth strategy developed
- Improving breadth and depth of core automotive business
- Diversification strategy set
 - Aerospace and marine
 - Household products
 - International collaborations
- Robust financing plan to grow global opportunities
- Technology to underpin services



G&P: SUPPLIER CHALLENGES

- OEM's more demanding
- Contracts price driven
- Cashflow closely managed
- Effective cost control
- Balance costs and Investment
- Need optimum mix of contracts
- Strong gross margin focus

'Business diversification is critical but needs speed'



MY LESSONS LEARNED

- Key strategy requirements:
 - Brand Reputation
 - Product Innovation
 - Customer experience
- Strategy must be underpinned by
 - Appropriate finance and cashflow strategy
 - Strong focus on gross margins
 - Effective cost control and governance
- Operational imperatives
 - Focus on a small number of priorities
 - Build a high performance team
 - Be tough but fair and results driven



‘Deploy with decisiveness and speed’

YOUR LEADERSHIP CHALLENGES

- Understand the new landscape
- Embrace technology
- Customer centric approach
- Explore new business models
- Fusion of trust and tech





THE LAST WORD : BILL GATES

“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten”

“Don’t let yourself be lulled into inaction”

 **DISCUSSION**





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About Mazars

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