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Brexit: is your dealership ready?

Brexit: the almost forgotten factor that could significantly impact the automotive sector

COVID-19 has been the factor that has affected most businesses in 2020 and, with dealerships closing again for a second lockdown, continues to remain a real threat.

Whilst many will be looking forward to seeing the back of 2020, it is important to remember that come 1 January 2021 the trading relationship between the UK and the European Union will look very different.

Following further negotiations between Downing Street and Brussels in October, the Prime Minister warned UK businesses to prepare for the prospect of a 'no-deal' Brexit.

If this is the case and the free trade agreement (FTA) is not kept in place, the automotive industry could face price increases due to tariffs of up to 10%, having a significant impact across the industry. Not only would it make imported new vehicles more expensive for those importing from within the EU, but Korean and Japanese manufacturers may also gain market share, falling outside of any EU agreement.

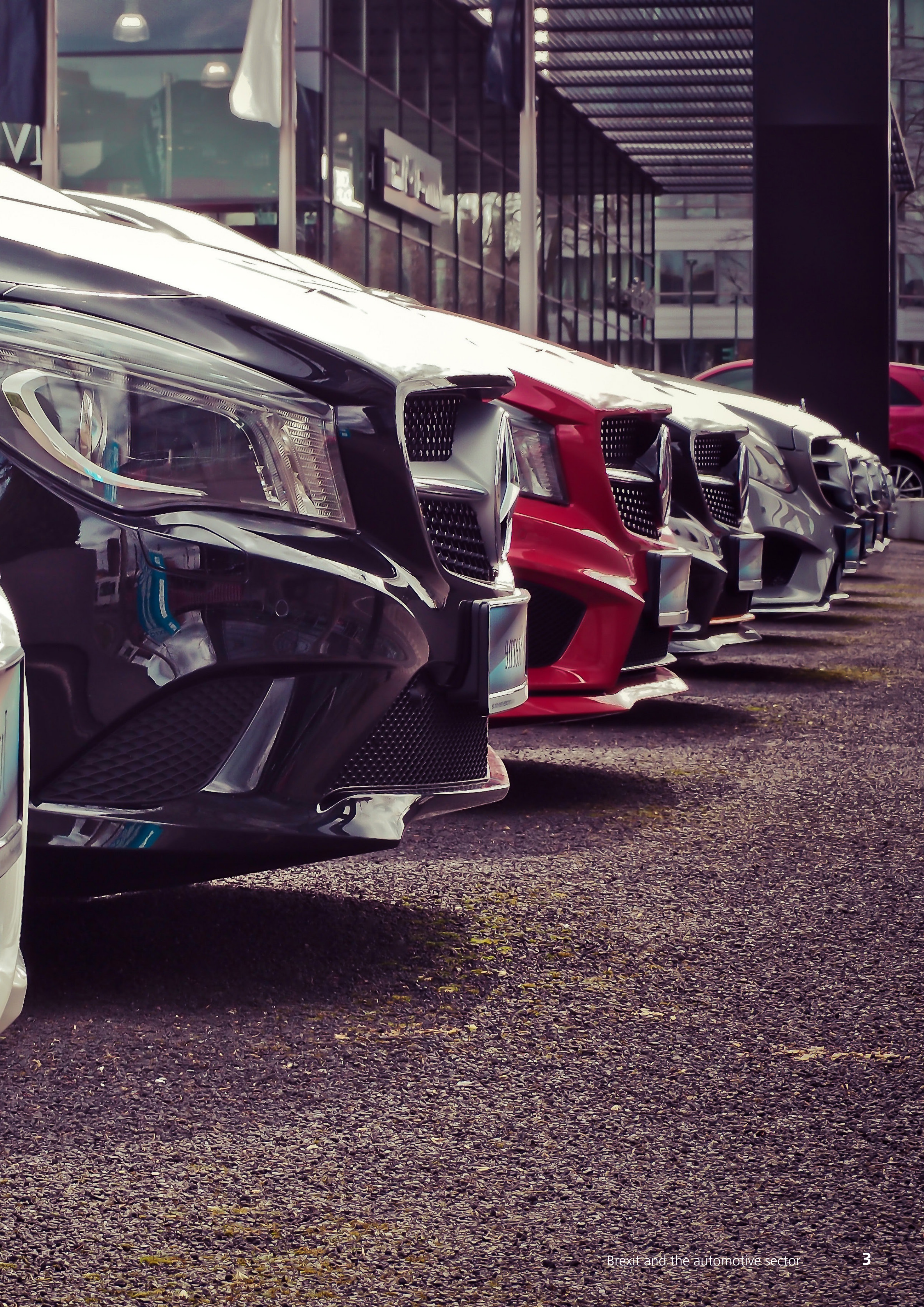
This could have a significant impact, not only on the competitiveness of vehicle pricing, but also the longer term market share manufacturers gain. Increased tariffs are also expected to impact the used car market; a short term benefit being the potential for used car prices to rise due to the sudden increased cost of a new vehicle.

It could also mean, in the short term, that we see a much larger variation between the monthly re-payments on new vs. used vehicles, compared to some of the deals available today where a new vehicle can be the same value, or even sometimes cheaper, due to manufacturer incentives.

All of the uncertainty makes it very difficult to plan. However, whilst there is still scope for a deal, you should, as far as possible, try to plan ahead for the additional practical and legal issues which a no-deal Brexit could present.

From reviewing your supply chain to changes in regulations and employment law, there is a lot that still can be done during these last few weeks of the transition period. We recommend closely monitoring the situation over the coming weeks so you are prepared for whatever the outcome may be.

In this short guide, we provide a brief overview about what needs to be agreed, explain the potential impact and provide some tips about what you can do to ensure your dealership is ready for business on the 1 January 2021.



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Brexit: What do we know?

The exact shape Brexit will take and the terms of any future relationship between the UK and the EU is still not yet certain and negotiations look set to continue until the very end of the transition period, due 31 December 2020. By this date, the UK government will need to have agreed any future economic partnership with the EU.

On 1 January 2021, the UK will either:

- Start a new (yet to be agreed) relationship with the EU based on new EU-UK trade terms. This may include a potential implementation period.
- Exit transition without a trade deal. Customs solutions described in the Withdrawal Agreement will enter force. The basis of trade will revert to WTO terms with ‘no deal’ provisions applying.

What will change?

The UK will leave the single market and customs union on 1 January 2021. A free trade agreement will be needed to export to, and import from, the EU without checks or extra charges. Without an agreement, the UK will have to trade without a deal which will mean additional tariffs/taxes on UK goods being exported to the EU, along with other trade barriers.

There are still significant areas of disagreement and it is not just a trade deal that needs to be agreed. The UK must also agree how it is going to work with the EU on areas where co-operation is needed, such as:

- law enforcement, data sharing and security
- aviation standards and safety
- access to fishing waters
- supplies of electricity and gas
- licensing and regulation of medicines

What would a ‘no deal’ Brexit mean?

A ‘no deal’ Brexit scenario would mean:

- No agreement on regulatory alignment
- WTO rules apply to trade
- Restricted movement of people and goods
- Forecasted negative effects on economic growth
- No EU regulations or external tariffs affecting UK economy/trade
- UK free to seek new Trade Agreements with non-EU countries

What does it mean for the automotive sector?

It is important to recognise that major changes will take effect on 1 January 2021 whether or not a trade deal is agreed. The loss of the free, frictionless movement of goods between the EU and the UK could have a significant impact on the automotive industry, including the likelihood of additional customs procedures and tariffs.

Throughout negotiations, the Society of Motor Manufacturers & Traders (SMMT) has been lobbying to secure an ambitious deal for automotive that delivers zero tariffs from day one, creates a new framework for regulatory cooperation, minimises friction at the border and allows manufacturers and suppliers to move staff between sites in the UK and the EU without any unnecessary restriction, delay or cost. However, as things stand, this is not looking likely and Britain's car industry risks losing out even if there is a post-Brexit trade deal with the EU.

The impact for dealerships

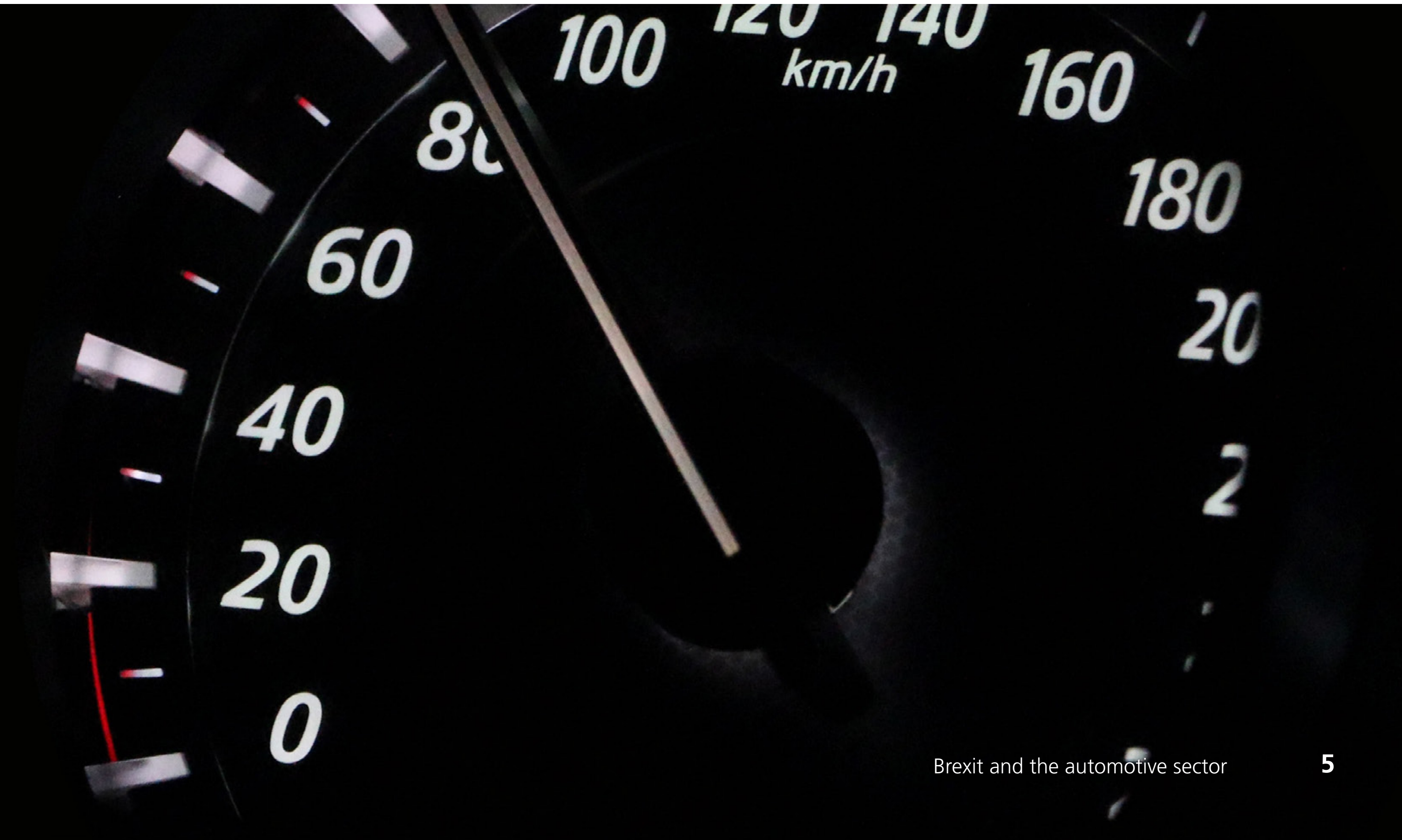
From 1 January 2021, the process for importing and exporting goods will change. The most significant changes will be procedural in relation to goods shipped to or from the EU. For example, under current rules, if you sell cars that are produced elsewhere in the EU, there are no border controls or import/export declarations required by the manufacturer importing the car. This will no longer be the case.

In the event of a 'no deal' Brexit, importing and exporting goods will become significantly harder and movements of goods between the UK and the EU will become subject to customs compliance requirements.

Essentially, this means if you import any goods you will need to pay customs duties and VAT on imports. Unless there is a FTA in place, the UK government has stated that cars imported into the UK from EU countries will be subject to a 10% import tariff from the start of next year. The 'no deal' default to WTO terms means cars built in the EU will be subject to the same tariff rate as cars from elsewhere in the world. Currently, there is a zero import levy applied to EU-built cars.

It is unlikely that EU-based manufacturers will be able to absorb the additional cost, meaning the increase will be passed on to dealers and consumers in most cases. The levy will see European-built cars become, on average, around £1,500 more expensive, hitting some of Britain's most popular brands, including Ford, VW and Mercedes-Benz.

So whilst manufacturers will bear the brunt of import changes, dealerships representing European brands will also feel the impact if the expected 10% import duty increase is passed on. In addition to the duty increase, there are a number of other changes that could impact you directly. We discuss these over the following pages.



What can you to do prepare?

Prepare for new border formalities

Arguably, the single biggest Brexit risk is failure to prepare for the new border formalities. The UK intends to phase its new processes in over six months, but the EU intends to treat the UK as a 'third country' from 1 January if no deal is in place. Before that date, it is important that you have conducted analysis to determine the additional customs procedures you will be required to submit and understand the import and export procedures for trading with the EU as a third country.

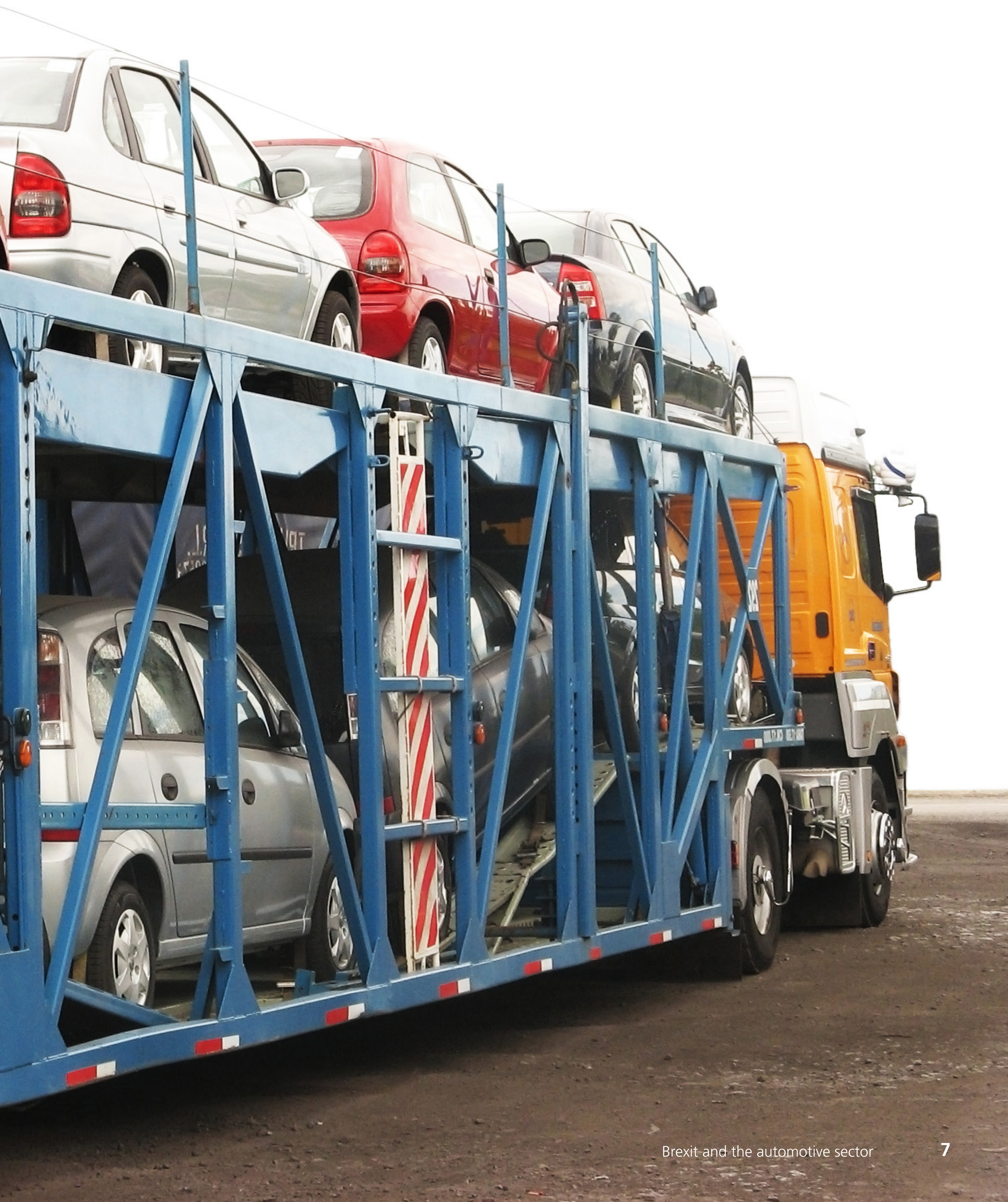
We have provided the headline details below:

Exports

- Companies importing into and exporting from the UK will need to obtain a European Union registration and identification (EORI) number that starts with a GB followed by your VAT number. Businesses established in the EU, who are importing into and exporting from the EU, will need an EU EORI number. If you do not have one, you may have increased costs and delays. You can apply for an EORI at https://www.gov.uk/eori
- Identify whether customs administration will be handled internally or by an external agent. If internally, identify whether existing IT facilities/software within your company will be sufficient to process customs declarations or whether you need to invest in new systems. These declarations are complex and require specialist knowledge to complete, so if you are not confident that you have these capabilities internally, we would recommend making contact with external agents now.
- Regardless of whether or not there is a deal, you must retain proof that the goods have been physically moved to another county and this must be kept for six years.
- Where you have proof of export and goods are exported within three months, the sale of the goods is zero rated. The proof of export must show the physical movement of the goods.
- Assuming no special alternative trade arrangement exists, you will no longer be required to complete an EC Sales list.
- If you currently complete an Intrastat declaration for dispatches (if you have received more than £1.5m worth of goods from countries in the EU in the last year), you should continue to do so.

Import

- As with exports, you must apply for an EORI number that starts with GB in order to import goods. You can apply for an EORI at https://www.gov.uk/eori
- As with export declarations, you will need to identify whether there is the necessary skillset internally to process formal import declarations or whether you need to invest in retraining existing staff or appointing an agent who will clear the goods into the UK. The customs declarations are complex and require specialist knowledge to complete, so we would recommend appointing an external agent to assist. At the time of going to press, the UK has no trade agreements in place which will have a huge impact on all businesses that buy from the EU.
- You will need to decide whether you are going to pay the import duty on arrival or set up a duty deferment account. The duty deferment account allows goods to clear into the UK seamlessly, then a payment is collected on 15th day of the following month by direct debit for the import duty due. Normally, the deferment account requires a bank guarantee which is costly. However, depending on how things work out, this may only be required for the duty element of the import taxes.
- In the event of a no deal Brexit, import duty is likely to be 10% and import VAT is 20%. Import duty is a sticking tax and cannot be reclaimed. When the goods arrive in the UK, import duty is payable to clear the goods unless you have a duty deferment account – the duty deferment account acts like a credit card with HMRC. The use of a deferment account will speed the clearance process up. You can set one up at gov.uk.
- Import VAT will not be payable on arrival. HMRC have introduced postponed VAT accounting for goods imported from the EU to enable businesses to account for import VAT (paying it and claiming it) in the same period. In the case of a 'no-deal', HMRC have confirmed that businesses will be able to use postponed VAT accounting on all imports, not just in goods brought in from the EU.
- The VAT411 form that was used when a customer in another EC Member State bought a new vehicle and took it back to their EC Member State will no longer be required. This is likely to be replaced with an updated version in the future.



Review commercial contracts

You should make sure you have identified contracts with key suppliers where there is a potential financial or operational impact on your business. Contracts may need updating to manage some of the potential risks arising from Brexit or in response to Brexit related restructuring.

While supply chains are the obvious place to start, the range of contracts affected is potentially very broad. All contracts have the potential to contain clauses - relating to people, delivery of goods and services, business infrastructure, pricing and supply chains - that rely on the established legal framework provided by the EU.

Contracts may include references to a particular currency or detailed pricing mechanisms. The impact of Brexit on external factors, such as currency, could result in significant increases in cost and render contracts uneconomical. Analysing your existing contracts will highlight both challenges and opportunities. Some of these are a matter of a simple re-contracting process, but others can be more complex.

Prepare for border delays

The knock-on effect of additional customs checks means there is a risk of border delays. The automotive sector is heavily reliant on just in time delivery so the impact could be substantial, ultimately meaning a delay in stock to showrooms.

You should consider in advance the impact of border delays and identify inbound and outbound shipments due around Brexit cut-off dates. Coordinate with manufacturers regarding their Brexit readiness and consider bringing orders forward. Increase stock where you can and, if necessary, consider prioritising key customers, whilst you wait for new stock.

Familiarise yourself with the new rules about the movement of people

Be prepared for increased complications of moving people between the UK and EU and potential restrictions on the availability of trained staff.

From January 2021, the UK will have a new points-based immigration system. EU and EEA citizens resident in the UK before 31 December 2020 will have the right to settle provided that they apply to the EU Settlement Scheme before 30 June 2021.

You should make sure any EU or EEA citizens working for you know about the EU Settlement Scheme, and how to apply if they wish. It is also important that you familiarise yourself with the new 'right to work' checks that will apply if you take on EU or EEA citizens from 1 January.

Data protection

In the event of a 'no deal' Brexit, the UK will automatically become a third country for EU data protection proposes and so will be subject to restrictions unless it is found 'adequate' in its data protection regime before the end of the transition period.

If the EU has not made adequacy decisions before then, organisations will be required to put in place alternative transfer mechanisms to ensure that data can continue to legally flow from the EU/EEA to the UK.

For most organisations, the most relevant of these will be Standard Contractual Clauses (SCCs) Further information can be found on the ICO's website. Contracts and privacy notices may need to be updated to refer to correct legislation.

Changes to accounting and corporate reporting

For financial years beginning after 31 December 2020, UK incorporated companies and groups that currently use EU-adopted International Accounting Standards (IAS) will instead be required to prepare accounts using UK-adopted international accounting standards. There will be no change for UK incorporated companies that use UK GAAP – for example, FRS 102 - to prepare their annual accounts.

A UK company with an immediate parent undertaking established in an EEA State will no longer be able to claim an exemption from the preparation of consolidated financial statements. However, you should speak to your adviser to consider whether the company is eligible for exemptions under s401 of the Companies Act 2006 as an alternative.

Our top tips:

- Dedicate time to understanding how your business is tied to the EU and the impact of new border formalities.
- Familiarise yourself with the new border formalities and consider appointing an external agent to assist with complicated customs declarations.
- Discuss potential 10% import tariff with your manufacturer and understand whether or not they intend to pass this increase on.
- Ensure that customer T&C's allow Brexit related price increases on any vehicles ordered.
- Identify contracts with key suppliers where there is a potential financial or operational impact for the business. Review contracts and update where necessary.
- Coordinate with manufacturers regarding their Brexit readiness and consider bringing orders forward. Increase stock where you can.
- Make sure any EU or EEA citizens working for you know about the EU Settlement Scheme, and how to apply if they wish.
- Familiarise yourself with the new 'right to work' checks that will apply if you take on EU or EEA citizens from 1 January 2021.
- Be familiar with data protection risks and review the information provided by the ICO at https://ico.org.uk/for-organisations/data-protection-at-the-end-of-the-transition-period/.
- Visit the government's transition web pages at www.gov.uk/transition which provide an overview of the new rules from January 2021. Answer a few questions to get a personalised list of actions and receive email updates when things change.

What next?

We are here to help. Our VAT experts are on hand to provide support and advice regarding changes to import and export duties and we have a dedicated Brexit section on our website which we will be populating with all of the latest information, as it is released. Please visit www.uhy-uk.com/Brexit.

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