

ADOPTED (OCTOBER 2018)

# PENDRAGON PLC TAX STRATEGY

In accordance with paragraph 17(4), Schedule 19, Finance Act 2016, Pendragon PLC and its subsidiaries consider the publication of the information below as complying with the duty to publish the Group's tax strategy as required by paragraph 16(2), Schedule 19, Finance Act 2016.

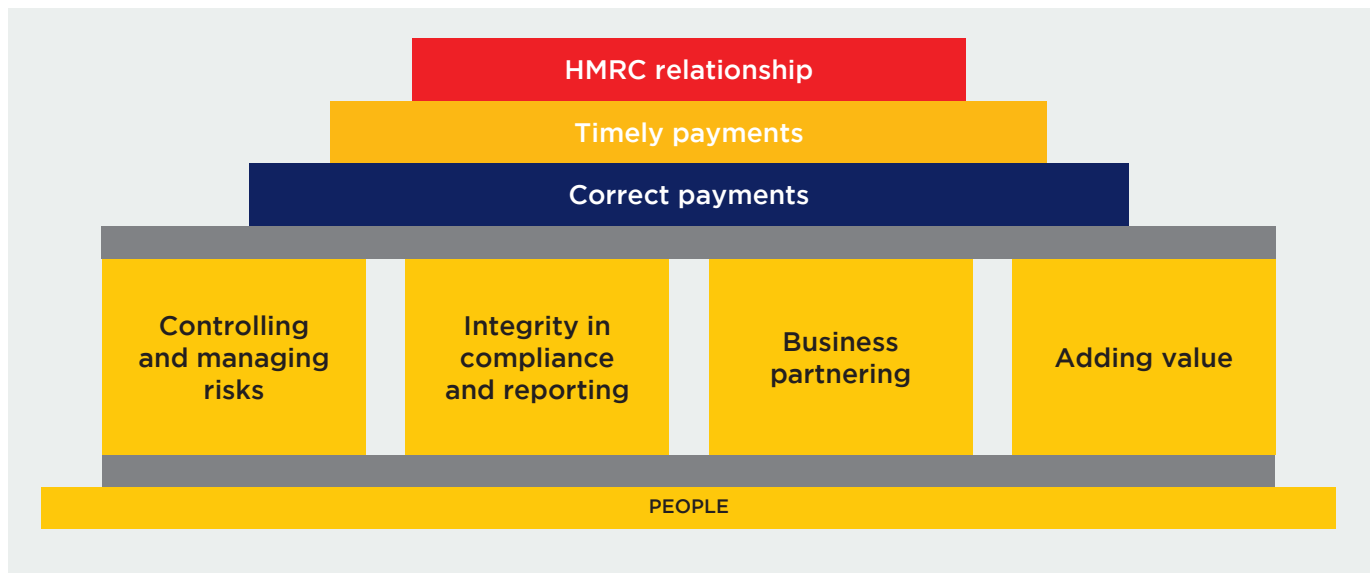
## OVERALL TAX STRATEGY

As a responsible taxpayer, Pendragon PLC and its subsidiaries ('Pendragon') are committed to establishing, maintaining and monitoring an appropriate tax strategy. The overall objective of Pendragon's tax strategy is to pay the correct amount of tax at the right time and to maintain an open and robust relationship with HMRC. Our tax strategy is underpinned by four strategic pillars which are: Controlling and Managing Risk, Integrity in Compliance and Reporting, Business Partnering and Adding Value, all of which are supported by our People.

## PAYING THE CORRECT AMOUNT OF TAX

The "correct" amount of tax is that calculated as payable according to the legislation in force at the time. "Correct" does not mean paying the maximum amount of tax due but

that which results from a careful evaluation of the particular facts and legislation. Pendragon adheres to the principles set out in HMRC's "Framework for Cooperative Compliance" (the "Framework"), the overall objective of which is also to ensure "payment of tax at the right time". However, it should be noted that although Pendragon would aim to structure transactions in the most tax efficient way without resorting to artificial arrangements, and also reasonably believe that this is not contrary to the intention of Parliament (as required by the framework), HMRC's subjective view of the matter may well be different. Pendragon considers that this is a difficult area of subjectivity and believes that the intention of Parliament should be reflected in the letter of the law and that any dispute over its interpretation has to be settled by the courts.



## PENDRAGON'S APPROACH TO RISK MANAGEMENT AND GOVERNANCE ARRANGEMENTS IN RELATION TO UK TAXATION

Pendragon's strategic pillars underpin its overall tax strategy as follows:

**CONTROLLING AND MANAGING RISKS** - To identify risks inherent in relevant business processes and ensure controls are in place to mitigate those risks such that Pendragon's exposure to tax risk is kept to a minimum

Pendragon has well established and documented processes

and controls which consider potential tax compliance risks and the controls in place to mitigate these risks. These processes form the basis on which the Senior Accounting Officer certificate is signed on an annual basis.

Pendragon has adopted a "bottom-up" approach to identifying any significant risk in the business. Broadly this encompasses processes and controls at local, regional and national level. How items are accounted for, the review processes in place

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## **CONTROLLING AND MANAGING RISKS - CONTINUED**

to establish accounting integrity, the potential risks that could arise and how those risks are mitigated, are all documented, reviewed from time to time and audited. All business units are subject to monthly accounts reviews at local and regional level; each business receives a visit from Pendragon's Internal Audit department on a 15 month cycle. This forms the "factual" basis from which the tax consequences are calculated. Those tax consequences are calculated both from these embedded processes and the application of judgment to technical areas by the Tax Department.

In the light of the Criminal Finances Act 2017, Pendragon is now responsible for the prevention of the facilitation of tax evasion by associates (eg. employees, agents). A risk assessment has been undertaken to establish those areas where there might be potential for tax evasion. This assessment concluded that Pendragon's existing controls and procedures already cover those areas where the potential for tax evasion is regarded as most significant. Additional training programmes are being rolled out to reinforce Pendragon's Anti-tax Evasion Policy (which can be found at [https://www.pendragonplc.com/documents/corporate\\_responsibility/anti-tax-diversion-policy.pdf](https://www.pendragonplc.com/documents/corporate_responsibility/anti-tax-diversion-policy.pdf).)

## **INTEGRITY IN COMPLIANCE AND REPORTING - To provide a sound basis for the correct preparation of tax returns and timely calculation of tax payments such that HMRC can rely on the integrity of Pendragon's compliance and reporting systems**

Established processes and controls are in place to ensure that tax returns are submitted on time and without subsequent correction. All entries in the tax returns are evidenced with supporting documentation and all thought processes documented. All tax payment calculations are documented and reviewed using well established 'second eye' review procedures. Relationships between the Tax Department and the rest of the business ensure that calculations are based on the most up to date relevant information.

External third party software is licensed for use in-house for preparing certain tax returns. As well as providing an additional layer of integrity for HMRC, it ensures that any changes to legislation that impact tax calculations are correctly reflected in the tax returns as appropriate.

## **ADDING VALUE - To make decisions within the tax arena that add value to internal and external stakeholders**

### **EXTERNAL**

Maximising shareholder value is achieved by minimising taxation. This is not achieved by adopting abusive tax planning but by ensuring systems are in place to enable tax to be calculated correctly (ie not overpaying tax or not underpaying

tax and incurring penalties and interest) and to that extent, by maximising tax reliefs available eg capital allowances, R&D tax credits. Pendragon contributes to public finances by making timely payments of tax.

### **INTERNAL**

The Tax Department is embedded within the Corporate Finance Department which enables tax to be involved in the decision making in all areas of the business.

## **BUSINESS PARTNERING - To partner internal and external business units to ensure that the Tax Strategy is maintained**

### **EXTERNAL**

Pendragon very rarely seeks or uses external tax advice. On occasion, the Tax Department has brought in outside specialists where it was considered that in so doing, the integrity of the tax returns and calculations would be maximised - for example, the use of external experts to identify appropriate research and development expenditure qualifying for R&D tax credits.

The Tax Department's Strategy is to maintain an open relationship with HMRC. To this end, HMRC is aware of any one-off transactions before the tax returns containing those transactions are submitted.

### **INTERNAL**

The Tax Department work within Corporate Finance to ensure that tax payments are built into cash flow forecasts and that tax calculations and returns are based on accurate financial information.

The Tax Department also work with other in-house departments (payroll, property, operational) to ensure that information required is provided on a timely basis.

As an Executive Board Member and Senior Accounting Officer, Pendragon's Group Finance Director is regularly updated by the Tax Department.

### **PEOPLE**

The Team members employed within Pendragon's Tax Department are the key to the establishment and adherence to the Tax Strategy. Pendragon PLC has a Head of Tax & Treasury, Group Tax Accountant and a Group VAT Accountant. Pendragon itself has always placed significant focus on its Team members and testament to this is that all the members of the Tax Department rank within some of the longest serving Team Members in the group. All Tax Department members are either 'Big Four' or HMRC trained and are professionally qualified in Accountancy and/or Taxation or by experience. Their wealth of experience and knowledge both in the tax arena and within the business is key to the success of the Tax Strategy. The membership of Professional Accountancy and Tax bodies ensures that Tax Department Team Members are up to date with legislative changes which impact the tax affairs of the business.

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## Attitude towards tax planning (so far as affecting UK taxation)

The commercial needs of the Group are the main priority and all tax planning will be undertaken in this context. All transactions must have a business purpose. Paying the 'correct' amount of tax does not mean paying the maximum amount of tax due but that which results from careful evaluation of the particular facts and applicable legislation. On this basis, Pendragon is not able to determine the 'fair' amount of tax to pay but has controls and procedures in place to ensure that it pays what it believes to be the correct amount of tax.

## Level of risk in relation to UK taxation that Pendragon is prepared to accept

Pendragon does not undertake artificial arrangements which would be regarded as abusive and high risk. However, as noted above, Pendragon's view of what this means may well be different from HMRC's view, which may ultimately only be settled by litigation. Tax risk will always arise when there is dispute between Pendragon and HMRC over the technical treatment of a particular issue; Pendragon assesses the risk of continuing to dispute any matters by weighing the facts and technical position against the impact on reputation, costs of litigation and any potential penalties, and the desire for certainty versus uncertainty. Apart from any areas of potential technical subjectivity, the governance controls and procedures in place and their constant monitoring ensure that tax returns are prepared in a low risk environment and give the senior accounting officer sufficient comfort when certifying those controls and procedures. HMRC's most recent (November 2017) Risk Assessment of Pendragon was 'Non Low Risk'.

## Approach towards dealings with HMRC

The Tax Department's Strategy is to maintain an open

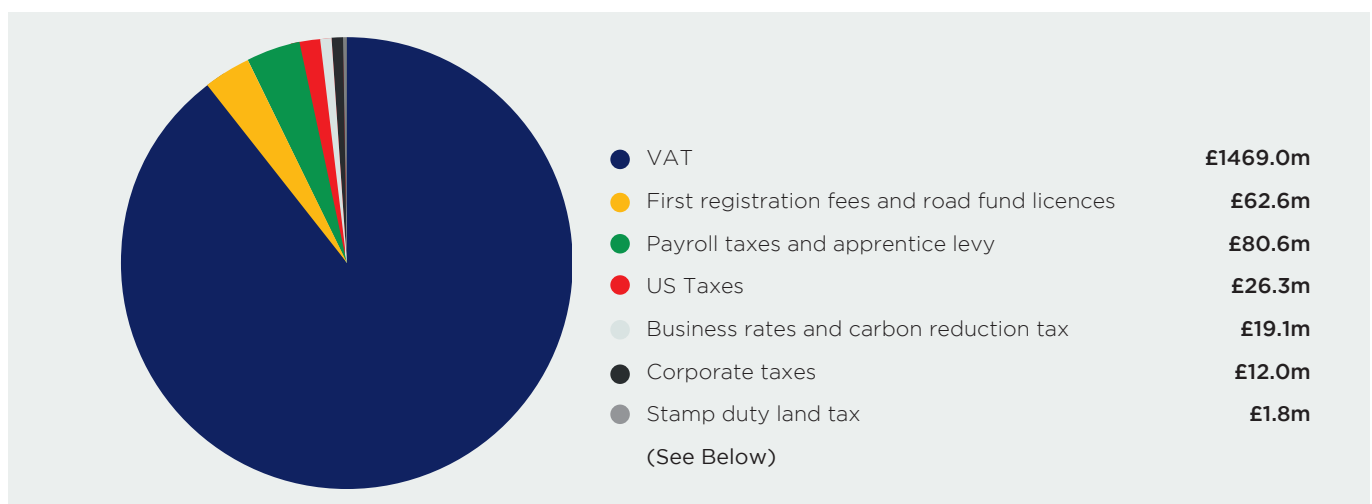
relationship with HMRC in that it recognises that it is more productive for both parties to work together rather than adopt an adversarial approach. To this end, HMRC is aware of any one-off transactions before the tax returns containing those transactions are submitted. An annual update meeting is held between the Tax Department and relevant members of HMRC to discuss open issues and to discuss events occurring within the business. Any disagreements with HMRC have always been in respect of differing interpretations of how the law should be applied so there is mutual respect in our dealings with each other.

Pendragon has a number of on-going disputes with HMRC, all of which have been on-going for 10 years or more and affect other third party UK companies as well as Pendragon. To facilitate a resolution to these enquiries, information is provided to HMRC on a timely and open basis.

Where appropriate, Pendragon participates in any HMRC consultation process on matters of particular relevance to the business or to the retail motor industry. An example of this was Pendragon's contribution to HMRC's consultation on sales of vehicles to disabled customers, a matter which had caused the motor industry considerable consternation in the recent past due to perceived abuse of the rules.

## Country by Country Reporting ("CBCR")

Of the Group's total 221 retail points, ten are located in the USA (as at December 2017). As such, substantially all of Pendragon's taxes are paid in the UK. In the year ended 31 December 2017, Pendragon PLC paid or collected £1,671.4m of tax, as follows :





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	Notes	2017 £m	Tax Collected £m	Tax Borne £m
<b>Revenue</b>	1	<b>4,739.1</b>	815.7	-
Cost of sales	2	<b>(4,186.2)</b>	730.8	-
<b>Gross Profit</b>		<b>552.9</b>	-	-
Operating expenses	3	<b>(461.4)</b>	61.8	45.3
<b>Operating profit before other income</b>		<b>91.5</b>	-	-
Other income - gains on the sale of businesses and property		<b>(0.1)</b>	-	-
<b>Operating profit</b>		<b>91.4</b>	-	-
Finance expense		<b>(26.1)</b>	-	-
Finance income		-	-	-
<b>Net finance costs</b>		<b>(26.1)</b>	-	-
<b>Profit before taxation</b>		<b>65.3</b>	-	-
Income tax (expense) / credit	4	<b>(12.0)</b>	-	16.1
<b>Profit for the year</b>		<b>53.3</b>	-	-
<b>Total tax collected/total tax borne</b>		-	1,608.3	61.4

Notes	£m	£m
1 VAT and sales taxes collected on sales to customers and remitted to the Tax authorities	750.2	
First registration fees and road fund licences collected from customers on sales of vehicles	65.5	
	<u>815.7</u>	
2 VAT and sales taxes paid on purchases from suppliers and reclaimed from the Tax authorities	<u>730.8</u>	
3 Employment taxes collected from employees and remitted to the Tax authorities	<u>61.8</u>	
Employment taxes borne by employer and remitted to tax authorities		24.7
Apprentice Levy		0.9
Carbon reduction tax and other environment levies		0.6
Business rates paid		<u>19.1</u>
		<u>45.3</u>
4 Total corporate taxes paid in the period		16.1
5 Stamp duty land tax in respect of the acquisition of land and buildings		1.8