BREXIT:
TAX IMPLICATIONS FOR INTERNATIONAL BUSINESSES

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AGENDA

- Overview and what it could mean for the UK economy
  - Peter Hemington
- VAT and Customs Duty Implications
  - Glyn Woodhouse and Håkan Henningsson
- Corporate Tax Implications
  - Ingrid Gardner
- Brexit – an Irish perspective
  - Kevin Doyle

BREXIT:
OVERVIEW AND WHAT IT COULD MEAN FOR THE UK ECONOMY

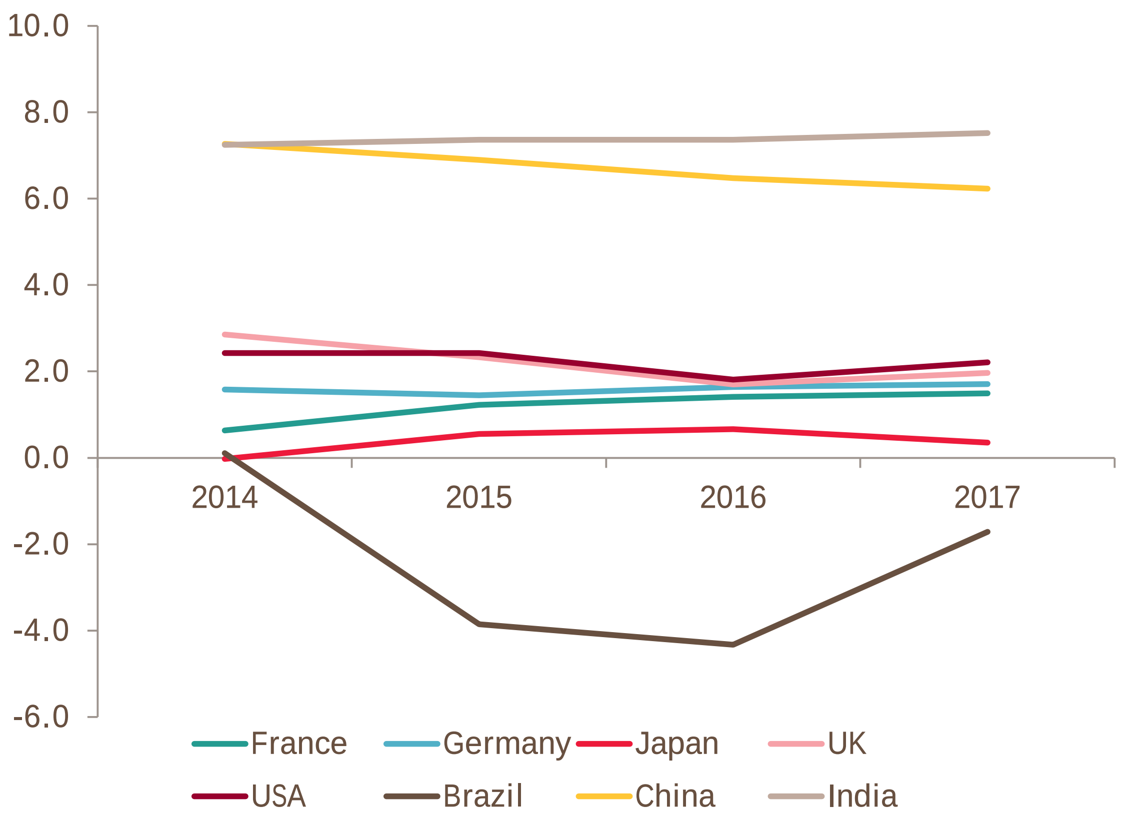
PETER HEMINGTON

BREXIT: OVERVIEW

- Brexit has not happened - the UK has not even formally given notice ("article 50") that it will withdraw. Though this is expected in early 2017 followed by two years of negotiations before final execution.
- The vote to leave the EU has taken many businesses by surprise, resulting in slowing capital expenditures and rising uncertainty in the UK market.
- The pound has plummeted against the dollar, reaching its lowest level in over 30 years. But the overall fall against a trade weighted basket of currencies is only about 6%.
- Consumer and business confidence plunged in the month after the vote, only to recover strongly the next month.
- The FTSE 100 is up 7.5% since the vote, perhaps reflecting its international nature and the decline of the pound, but even the far more UK domestic FTSE 250 is up 5%.
- There is a general sense that things may get difficult as Brexit unfolds, but it's business as usual at the moment - businesses want to get on with trading and growing.

Source: FT, Bloomberg, ONS

UK GROWTH RATES/OECD GROWTH FORECAST

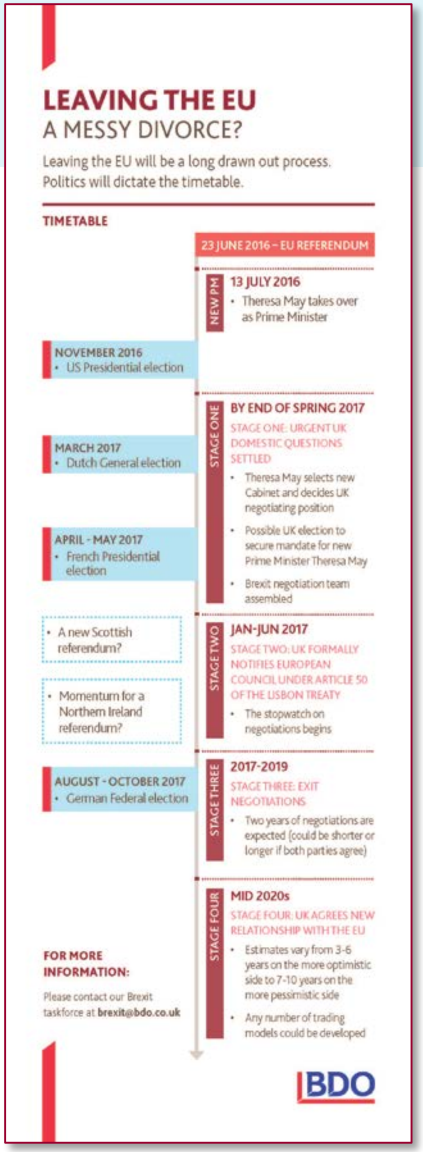


Source: OECD, national accounts

- OECD predicts similar economic growth in the UK, USA, Germany and France, following the outcome of the EU Referendum
- The UK growth has slowed down in 2016 to 1.7% in comparison with 2.9% in 2014. The IMF, the OECD and other international institutions have downgraded growth forecast for the UK and the rest of the world for the short and medium term.

BREXIT: OPTIONS

- **Hostile divorce:** No transitional arrangements agreed. No or limited access to the EU single market. Becomes a low tax, light regulation magnet for global businesses and investment. Undercuts its EU neighbours.
  - Implications: Great for the City, but what about the rest of the UK economy?
- **Clean Break:** Relations between Britain and EU are strong enough to arrange a tariff transition and trade terms. UK loses its EU ‘passport’ but controls immigration.
  - Implication: Too much uncertainty for businesses whilst the politicians decide exact terms? London loses its status of the international financial hub.
- **Amicable transition:** UK remains in the single market but on the adjusted terms.
  - Implications: Preferred by businesses as promises certainty. Will the UK forgo its ability to take part in the EU regulatory decision making?
- **Change of heart:** Triggers article 50 but pulls out before the process is finalised.
  - Implications: Political suicide for the UK politicians? The EU may evolve, following future elections in Germany France, Netherlands and Austria.



Source: FT: ‘Four scenarios: how Brexit process could unfold?’, Bloomberg, ONS

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BREXIT:
VAT AND CUSTOMS DUTY IMPLICATIONS

Glyn Woodhouse and Håkan Henningsson

WHERE WE ARE NOW

Probably until Oct/Nov 2018 if not longer

EU directives to level the playing field across member states

CJEU overrides UK courts

UCC remains in force

EU trade agreements with 53 territories worldwide

= BUSINESS AS USUAL FOR AT LEAST 2 YEARS

...BUT

- Brexit negotiations yet to start
- Currency and markets volatility
- UK “domestication” of EU VAT and customs special procedures

= UNCERTAINTY OVER THE LONGER TERM OUTCOME

BREXIT: EXISTING 'MODELS' FOR NON-MEMBERS

European Economic Area (EEA) Model	• Remain in the free trade area like EFTA members Norway, Iceland, Liechtenstein	• Free movement of people • Financial contribution to EU
Swiss Model	• Series of bilateral interdependent sectoral tariff agreements with the EU	• Free movement of people • Financial contribution to EU
Turkish Model	• Only a partial Customs Union for goods	• Excludes services, agriculture and public procurement • CJEU supremacy
Canadian Model	• Comprehensive Economic and Trade Agreement – although not 100% coverage	• Financial services and some other goods and services excluded
WTO Only	• Tariffs agreed under WTO rules	• No free trade access

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VAT
Landscape post Brexit

VAT and the Regulatory Framework

- VAT may be abolished (unlikely – 170 countries with VAT/similar, global move towards indirect taxation, we need the cash!)
- UK VAT likely to remain in current form – some political capital/flexibility in rate changes etc.
- No overriding EU framework/no ECJ supervisory function from date of leaving – UK Supreme Court becomes ultimate arbiter in VAT matters – Abuse of Rights, Use and Enjoyment, Human Rights ?

VAT

If no preferential trade arrangements granted by the EU, on formal exit date:

Movement of goods into the UK from the EU will become imports

- Customs duty will be payable
- Import VAT will be payable before the goods are released (instead of on a VAT return)
- The VAT will be recoverable on the next VAT return but this will cause a cash-flow delay

Movement of goods to the EU will become exports

- Formal customs documentation will need to be completed each time
- For VAT, formal export evidence will be needed for goods sent to customers in the EU to support the zero-rating of the sale
- EC Sales Lists and Intrastat Returns are not needed as the trade statistics will be collected from Customs documentation

VAT
Specific business issues

Travel Businesses

- Provision of travel services to individuals – no longer in TOM's (Tour Operator Margin scheme)
- This may lead to multiple VAT registration for EU sales

Refunds of EU VAT

- Likely to still be possible, but different rules and paper only

Supply of Electronic Services

- Unlikely to be able to use the Mini One Stop Shop (Moss)
- Multiple registrations likely

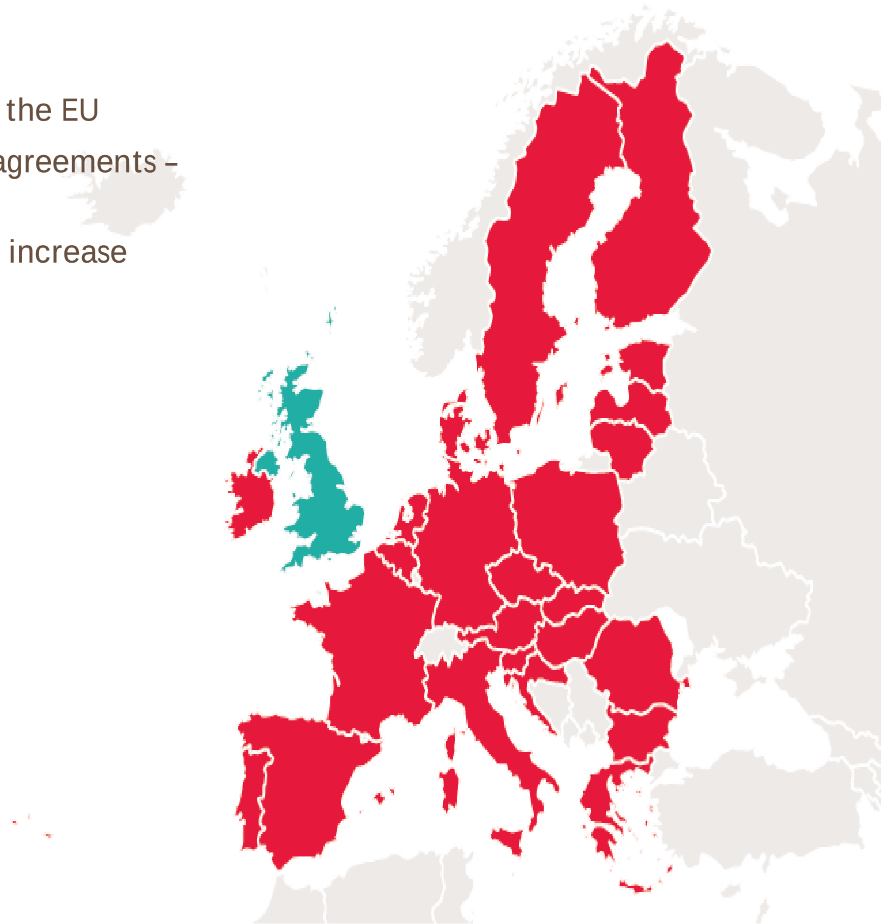
Distance Selling

- The distance selling thresholds will no longer apply
- Personal import rules will apply

UK LEAVING THE EU = LEAVING THE EU CUSTOMS UNION

If no preferential trade arrangements granted by the EU, on formal exit date:

- EU's customs duties will apply to imports from the UK
- UK customs duties, will probably be applied to imports from the EU
- UK businesses will have no access to EU's 34 external trade agreements – so duties on trade with 53 other jurisdictions
- Non-tariff barriers (e.g. export and import declarations) will increase cost and complexity
- Will UK recreate current customs reliefs? (Customs Warehousing, Inward Processing etc.)
- UK will remain in the World Trade organisation



VAT & CUSTOMS – WHAT SHOULD BUSINESSES DO?

Considerations in each key phase of Brexit

Today until Article 50 is triggered

- Business as usual
- Review supply and distribution footprint
- Push on with EU dependent VAT disputes
- Consider IT & accounting systems

Article 50 two year window (and any extension)

- Clarify impact of post Brexit models on your business
- Review internal data systems
- Scenario planning

First two years post Brexit

- Monitor new UK VAT and customs divergence
- Lobby for your industry

BREXIT:
CORPORATE TAX IMPLICATIONS

Ingrid Gardner

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CORPORATE TAX IMPLICATIONS

- Direct taxes are a matter of UK not EU law

- Must be compatible with EU law (e.g. the fundamental freedoms)
  - Court of Justice of the European Union (CJEU)

- Unlikely to be any major changes in the near future
  - Short term measures to stimulate inbound investment anticipated e.g. further reduction in corporate tax rate?
  - Whether specific EU elements included in EU law may be reversed once Brexit is finalized remains to be seen
  - Directives will no longer apply

- BEPS actions expected to continue to be implemented
  - Unlikely UK will adopt EU anti-avoidance package measures that deviate from the OECD BEPS actions
  - EU harmonization of corporate tax (Common Consolidated Tax Base) could be accelerated by UK's exit

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CORPORATE TAX IMPLICATIONS

Parent-Subsidiary Directive

- UK does not withhold on dividends
- Dividends received in the UK from EU member states may no longer be able to be paid free of withholding taxes under the Directive
  - Consider appropriate treaty rate of withholding tax – may not be 0%
  - Examples – Germany and Italy

Interest and Royalties Directive

- Need to consider appropriate treaty rate of withholding tax
  - Example - for royalties paid to Luxembourg treaty rate is 5%
  - Consider alternatives for interest where treaty rate is not 0% e.g. Quoted Eurobond exemption

CORPORATE TAX IMPLICATIONS

Mergers directive

- Allows for tax-free cross-border reorganizations within the EU
- May lead to tax charges on transfer of assets to and from the UK from EU member states
- Consider whether pure domestic reorganization provisions would apply instead

Treaty issues

- European treaties with the US often contain an “equivalent beneficiaries test”
- I.e. extension of treaty benefits to company owned by EU/EEA resident whose treaty provides for withholding rates at least as low at those contained in the US treaty recipient company’s jurisdiction

CORPORATE TAX IMPLICATIONS

Transfer pricing

- UK TP rules not reliant on EU law/directives, rather OECD guidelines incorporated into domestic law
- However, consider impact of post-referendum volatility in the value of sterling and whether this could impact arm's length result of existing TP models. E.G.:
  - Foreign currency denominated fixed fees or market prices
  - Functional currency is not sterling and transfer pricing relies on comparable third party prices
  - A UK entity has non-sterling denominated related party debt
  - Do the transfer pricing arrangements correctly reflect the allocation of forex risk?

VIEW FROM THE USA

Mixed reaction

- Optimism around possible further reductions in corporation tax rate and the potential for increased incentives
- Taking advantage of or planning around the depreciation of sterling
- Concerns for businesses selling into the EU and using the UK as an import hub
- Questions about Scotland and Northern Ireland

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BREXIT:
AN IRISH PERSPECTIVE

Kevin Doyle

BREXIT: AN IRISH PERSPECTIVE

- Over €1bn of bi-lateral trade a week
- Sustains over 400k direct jobs
- 50,000 Irish-born directors on the boards of UK companies
- 2,000 flights a week between Ireland and the UK

“[Post Brexit] there will be no closer relationship, friendship and alliance than the one that exists between the UK and Ireland"

David Davis

8 September 2016

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BREXIT: AN IRISH PERSPECTIVE

The Challenges

- Impact on the Irish domestic market
- Sterling depreciation and exporters
- The UK’s only land border and The Good Friday/Belfast Agreement
- VAT and Customs
- Movement of people

BREXIT: AN IRISH PERSPECTIVE

The Potential Opportunity - FDI

- Brexit = Uncertainty. 2 years? 5 years? 10+ years?
- Only native English-speaking EU Member State
- Proximity
- Common law system similar to the UK
- Gateway to Europe and EU Passporting
- Low tax and business-friendly environment
- Movement of people and attracting EU talent

BREXIT: AN IRISH PERSPECTIVE

Contingency Planning

- Re-run forecasts assuming parity with Sterling
- Consider supply chains – possible Irish & UK M&A activity
- Assumed VAT and Customs costs
- Irish branch or company for UK businesses looking to access EU market or funding?
- Dual passports
- Diversify and consider exporting to other markets

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THANK YOU

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BDO International statistics as of 9-30-15