brexit centre of excellence

Brexit Briefing

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Brexit Opportunities And Risks

Figures published by the Northern Ireland Statistics and Research Agency earlier this year show that total sales of NI products and services amounted to just short of an estimated £66.7 billion in 2015. Exports amounted to £9.1 billion of which £3.4 billion went to the Republic of Ireland, £1.9 billion to the EU, and £3.8 billion to the rest of the world.

While Northern Irish businesses rely heavily on the local economy, the export sector is critical for growth and the creation of a viable and sustainable private sector. In this uncertain period it is vital that growing export businesses and their advisors work in partnership to overcome challenges and take advantage of the opportunities that will inevitably present themselves as the Brexit jigsaw is put together. This however is only half of the story as the importing of raw materials and components sourced outside of Northern Ireland, typically from the Republic of Ireland or the UK, will present further challenges for these businesses. Nowhere is this more apparent than in the food sector where the supply chain for higher value finished products often depends on high volume low value cross-border trade at an earlier stage in the process.

Meanwhile, the UK continues to be an important market for Northern businesses and one where ambitious companies see opportunities to expand. In 2015, NI sales of goods and services to GB amounted to an estimated £13.9 billion, more than four times sales to the Republic of Ireland and seven times sales to the rest of the EU. The strength of the trade relationship with the UK and a common currency have insulated Northern Ireland businesses from the worst impact of Brexit, but that is not to say that there are not other

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concerns. In the food sector, for example, profit margins are well below potential tariff levels and hiring of non-UK staff is becoming more difficult because potential employees are worried about their future residency rights.

Dependency on cross-border trade is particularly evident in the agri-food sector, with Ireland the destination for 53% of NI export sales according to an additional data paper published with the UK Government's Brexit position paper on Northern Ireland in August.

Given the volume of trade and traffic, it's not surprising that the question of border controls has been at the forefront of Brexit discussions. However, the issue will be difficult to resolve. Michel Barnier, the EU negotiator, recently dismissed the notion of a 'frictionless border' and Irish foreign minister, Simon Coveney has said that a technical solution involving cameras and pre-registration will not work. A proposal to have a border in the Irish Sea was not popular either and although UK and EU officials have said they want to preserve the Common Travel Area, it is as yet unclear how this might be achieved.

While the negotiations continue, businesses across Ireland have little option but to plan for the worst while hoping for the best.

To mitigate Brexit-related risks, some NI businesses are exploring relocating certain functions out of the region. PKF-FPM are working with a number of clients who are exploring strategic alliances to mitigate potential supply chain and market entry risks associated with Brexit. Successful and progressive businesses leaders are identifying risks and actively looking at innovative solutions.

Across the island, agile businesses are exploring all options to maintain access to the UK market and/or to access passporting rights, international talent and the ability to pursue government tenders in EU member states.

However, where Brexit prompts businesses to restructure, there are a plethora of issues to consider. Tax must be high on the list as changes to functions or profit earning activity

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will alter a business's effective tax rate while changes to an entity's legal structure may affect losses brought forward in the UK or elsewhere. Exit charges where functions are moved out of one jurisdiction into another may trigger taxable gains or require transfer pricing adjustments.

Similar issues will arise for the disposal of assets. Supply chain changes potentially impact VAT and businesses also need to factor in the potential cost of tariffs changes to inter-company terms and IT systems. There will be capital acquisitions tax issues for Irish farmers whose land straddles the border as the existing regime for agricultural property relief refers to agricultural land being land situated in the EU. Similarly, the Irish CGT exemption for investment property bought in the period 7 Dec 2011–31 Dec 2014 and held for at least seven years refers specifically to property within the EEA. Other potential problems are that non-residents wishing to establish an Irish company must have an EEA resident director under current legislation and that UK/Irish social security legislation currently refers to residents/workers in EEA countries. Many clients are worried by the uncertainty about the enforceability of UK judgments and potential legal conflicts in contracts and cross-border matters.

Across all sectors, regardless of whether businesses plan to restructure, relocate, source new markets or concentrate on the UK, there are concerns about currency, financing, grants, data protection and various sector specific issues. Yet, amid the talk of problems, there is also talk of opportunities. Ambitious NI businesses see opportunities to expand their trade with the UK on the one hand, and potentially to retain access to EU markets by establishing cross-border alliances or restructuring. Similarly, we are seeing some Irish businesses actively exploring opportunities to establish in Northern Ireland.

History shows that with great change comes opportunity. Now is the time to become agile, de-risk your business model and develop strategies to take advantage of opportunities.

PKF-FPM provides specialist Brexit support for clients. Contact our Brexit Centre of Excellence for details.

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UK Customs Regime

Last month (October 2017) the UK Government published a white paper outlining their approach to legislating for a future customs regime. The paper, which is titled 'Customs Bill: legislating for the UK's future customs, VAT and excise regimes' provides both for implementation of a negotiated settlement with the EU and for a range of other possible outcomes, including leaving the EU without an agreement on customs.

If customs checks are required at the border, it is envisaged that EU goods will have to pass through roll-on roll-off ports in the UK. The paper acknowledges that, 'Because of the nature of the trade and the fact that the majority of ro-ro ports are space- constrained, it would not be desirable to hold vehicles for any amount of time in order for declarations to be lodged.' Consequently, the paper envisages that consignments will have to be pre-notified to customs with checks to ensure businesses comply with relevant obligations.

For trade between Northern Ireland and Ireland, the paper reiterates Government's desire to avoid a hard border on the island of Ireland. It acknowledges that many of the movements of goods across the land border are by smaller traders operating in a local economy, and they cannot be properly categorised or treated as economically significant international trade. It proposes a cross border trade exemption to ensure that smaller traders can continue to move goods with no new requirements in relation to customs processes at the land border.

Where businesses are not eligible for an exemption, the paper says, 'the UK will explore how to ensure that administrative processes could be very significantly streamlined, including for 'trusted traders' on either side of the border' and that this could allow for simplified customs procedures, such as reduced declaration requirements and periodic payment of duty.

Fully funded Brexit advice

InterTradeIreland funding is available for manufacturing and internationally tradable service businesses who wish to avail of PKF-FPM's Brexit advisory services. This support is in the form of a £2k/€2k voucher (inclusive of VAT) which qualifying businesses can use to meet the costs of obtaining Brexit-related advice. The cost of this advice is invoiced directly to InterTradeIreland so there is zero cashflow impact on applicant businesses. 95 per cent of businesses don't have a plan for Brexit according to the latest quarterly (July-September 2017) InterTradeIreland Business Monitor Report.

PKF-FPM's Brexit Centre of Excellence will help you assess the potential impact of Brexit on your business whether it relates to the movement of labour, goods, services or currency management. We will then work with you to develop an action plan to mitigate the risks. For further information, contact Aveen McShane, Senior Manager.

Border Region...

A new study by 11 local authorities along the border between Northern Ireland and the Republic of Ireland shows the significant impact Brexit will have in the border region where there are an estimated 87,000 businesses with approximately 40 percent in the agricultural sector.

The report, 'Brexit Border Corridor on the Island of Ireland, Risks, Opportunities and Issues to Consider', says that both Northern Ireland and the Republic of Ireland depend on a small number of markets and urges government bodies, including local government to work together to help businesses expand their reach.

Brexit impact Irish Tax receipts

Almost 40,000 vehicles a day entered Ireland from NI in 2016 according to a recent paper by the Revenue Commissioners which shows widespread linkages between Irish and UK economies.

Revenue predicts that while Brexit will not eliminate trade flows between Ireland and the UK, the change in trade patterns will have implications for Irish Exchequer receipts.

Brexit Loan Scheme

Ireland's Minister for Finance, Paschal Donohue announced a €300 million Brexit Loan Scheme in Budget 2018. The fund will provide affordable financing for Irish businesses that are either currently impacted by Brexit or will be in the future. It is open to all trading SMEs and large firms employing less than 500. In addition, a further €25 million is being provided for Brexit response loan schemes for the agri-food sector.

EU workers in N. Ireland

Migrant workers from the EU account for around 5 percent of the total labour force in Northern Ireland, with many of these workers employed in the tourism, manufacturing and agriculture sectors.

It is as yet unclear whether EU workers will be able to remain in Northern Ireland after Brexit. Consequently, now is the time to audit your workforce and take appropriate action to address your future skills requirements.

Contact PKF-FPM for information on how we can help.

HOW WILL BREXIT AFFECT YOU?

Brexit will have profound tax implications for individuals domiciled in Northern Ireland, the UK and Ireland.

Find out how you and your business will be affected and how to minimise your future tax liabilities.

Contact PKF-FPM's Brexit Centre of Excellence.