



Brexit

Fernand Rutten - Partner- Global Lead Customs & Global Trade Deloitte

19 April 2017

Contents

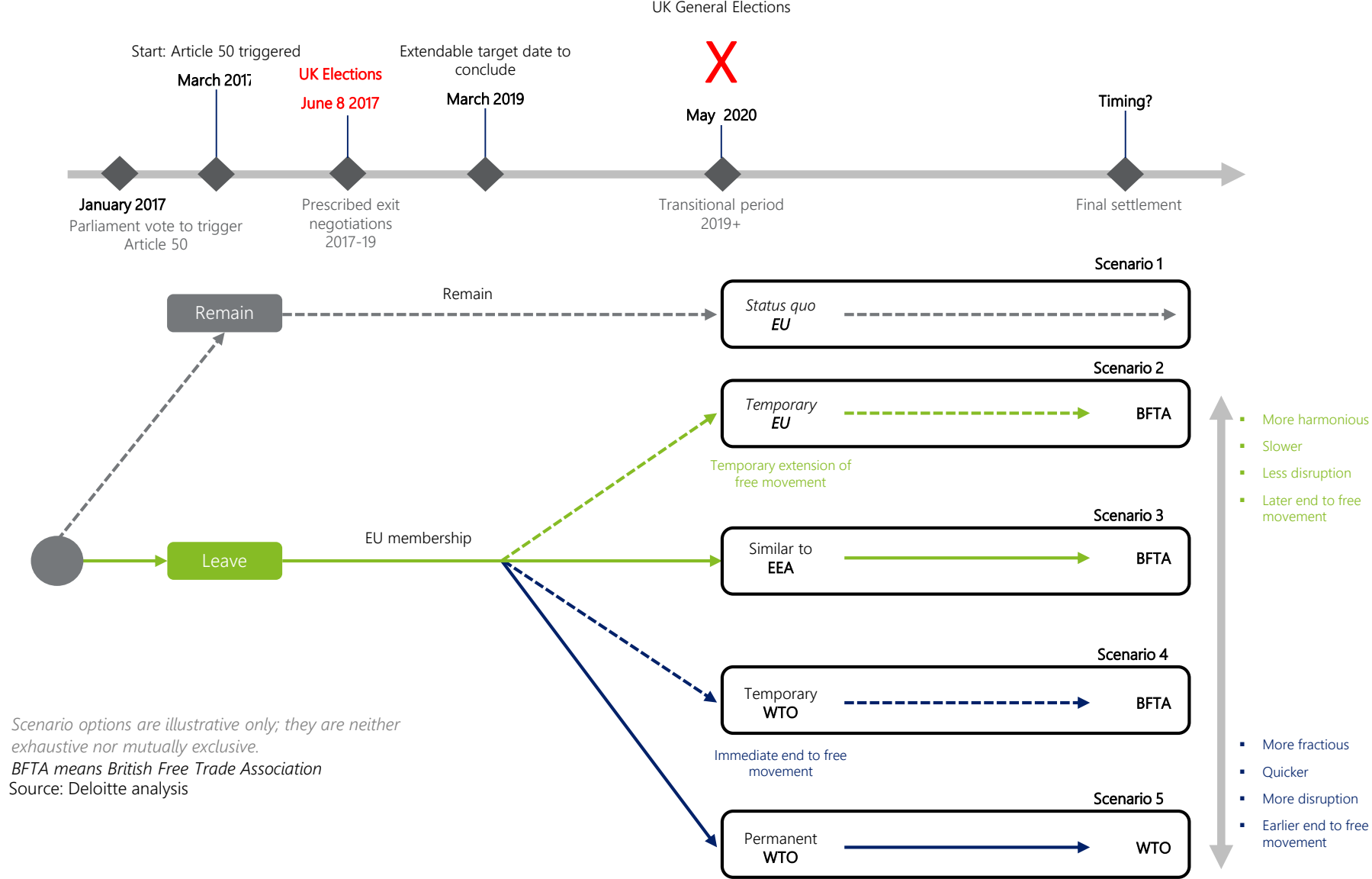
- Introduction
- Potential alternatives to EU Membership
- Customs duty and VAT impacts
- Typical supply chain scenarios – business cases
- Systems and process impacts
- What next ?





Introduction

What's expected to happen next?





Potential alternatives to EU Membership

Possible existing alternatives to EU membership

Multiple options

		EU member	EEA	EFTA	FTA	WTO MFN	Customs Union
		<i>28 European member nations</i>	<i>Norway, Liechtenstein, Iceland</i>	<i>Switzerland</i>	<i>Bespoke</i>	<i>Australia</i>	<i>Turkey</i>
Free movement of goods, services and capital		Yes	Yes	Yes	Some	No	No
Free movement of people		Yes	Yes	Yes	No	No	No
Free to negotiate trade deals and set tariff levels with non-EU countries		No	Yes	Yes	Yes	Yes	Limited
EU laws and regulation	Influence	Yes	Very limited	No	No	No	No
	Compliance	Yes	Yes	Yes, but some opt-outs	Possible	No	Some
Fiscal contributions		Yes	Yes (83%)	Yes (52%)	No	No	No
Common agricultural policy		Yes	No	No	No	No	No

EU – European Union
 EEA – European Economic Area
 EFTA – European Free Trade Association
 FTA – Free Trade Agreement
 WTO – World Trade Organisation
 MFN – Most Favoured Nation



Customs duty and VAT impacts

Trade data – September 2016

Import & Export UK



Imports	50628.00 GBP Million	<ol style="list-style-type: none"> 1. Machinery & equipment (39%) 2. Miscellaneous manufactured articles (16%) 3. Chemical products (12%) 4. Mineral fuels, lubricants related materials (9%) 5. Manufactured products (8%) 	<ol style="list-style-type: none"> 1. Germany (15,1%) 2. China (9,2%) 3. US (8,4%) 4. Netherlands (7,6%) 5. France (6%)
Imports from European Union	21297.00 GBP Million		
Exports	45407.00 GBP Million	<ol style="list-style-type: none"> 1. Machinery & transport equipment (38%) 2. Chemical products (18%); 3. Miscellaneous manufactured articles (14%) 4. Mineral fuels, lubricants and related materials (9%); 5. Manufactured products (8%). <p>Note: Services (44%)- professional, scientific and technical activities & the information and communication services</p>	<ol style="list-style-type: none"> 1. the United States (16.6%), 2. Germany (10.7%) 3. France (6.3%) 4. Netherlands (6.1%) 5. Ireland (5.9%) 6. China (4.5%)
Exports to European Union	12563.00 GBP Million		

Source: <http://www.tradingeconomics.com/united-kingdom/balance-of-trade>

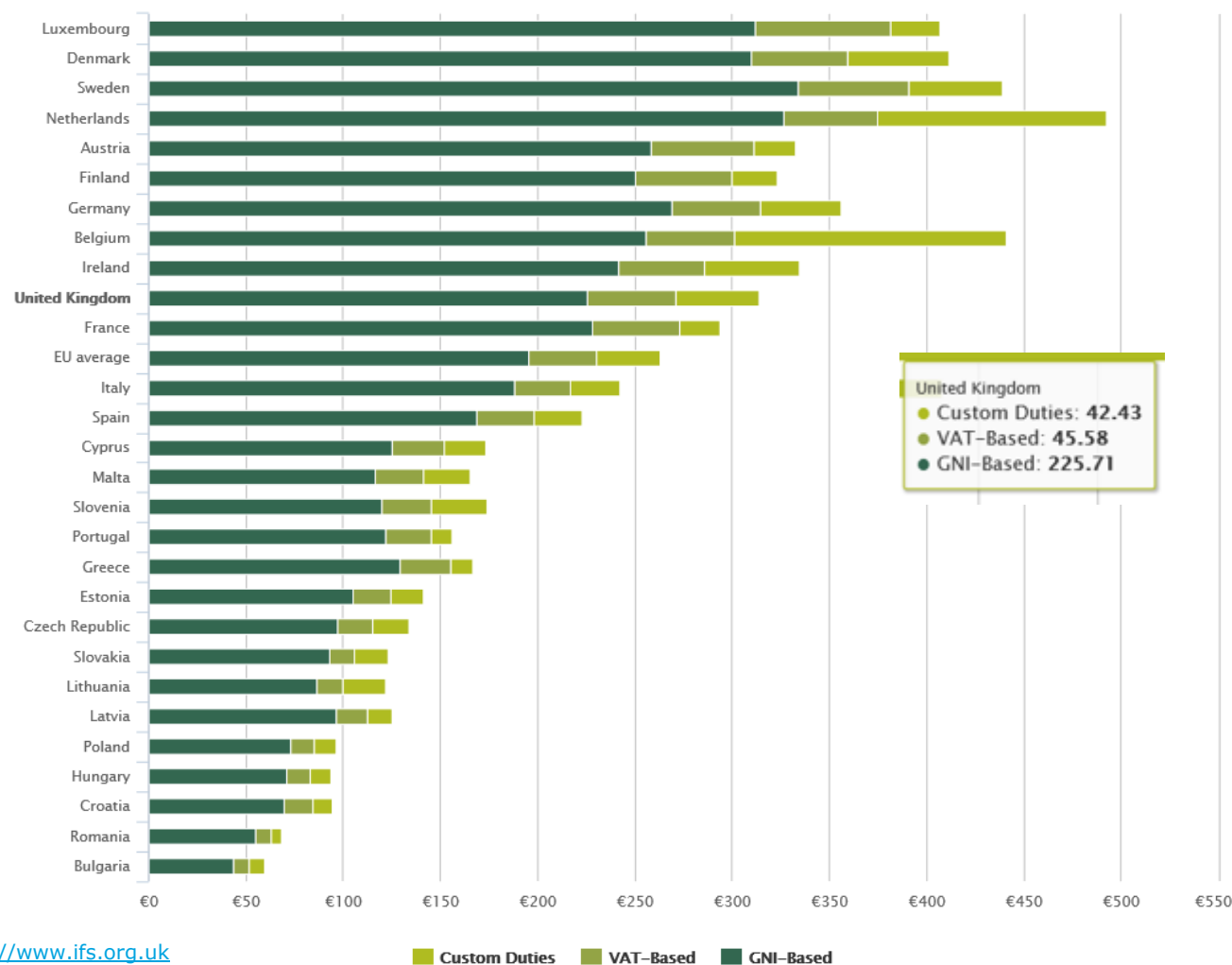
Trade data – UK customs duties

EU own resources will be lost



Customs duties in 2015-2016:
3,1 £ billion

Figure 3. EU Revenues by country and source, 2014



Source: HMRC taxes & <https://www.ifs.org.uk>



Trade data - UK ranks as internationally competitive

Global competitiveness rankings

	Heritage Foundation	World Bank	World Economic Forum
#1	Hong Kong	Singapore	Switzerland
#2	Singapore	New Zealand	Singapore
#3	New Zealand	Denmark	United States
#4	Switzerland	South Korea	Germany
#5	Australia	Hong Kong	Netherlands
UK	10	6	10
Sweden	26	8	9
Poland	39	25	41
Spain	43	33	33
Belgium	44	43	19
France	75	27	22
Italy	86	45	43
Greece	138	60	81

WEF Global Competitiveness Index, World Bank Ease of Doing Business Index and Heritage Foundation Index of Economic Freedom

*Higher rankings indicate better, usually simpler, regulations for businesses, greater ease of doing business, stronger protections of property rights and lower corruption.

Brexit Indirect Tax Client Survey



What are clients doing re indirect tax?

- 27% have given Brexit significant consideration
- 40% have given little consideration
- 35% have considered / are considering Brexit
- 25% will consider in next year (50% including when Article 50 triggered)

Will Brexit make indirect tax compliance harder or easier?

Harder 57.4%

Little difference 24.6%

Don't know 15.1%

Easier 2.9%

Significant / very significant impact

64% changes to VAT rules

22% changes to other indirect taxes

52% loss of ability to rely on EU VAT principles / litigation

54% more complex supply chains goods

48% more complex supply chains services

48% increased VAT registration

44% increased customs duty

25% increased excise duty

Will you pay more?

VAT	-	Yes 17%
	-	Little difference 59%
	-	Don't know 19%
Customs duty	-	Yes 34%
	-	Don't know / N.A 34%
	-	Little difference 31%
Excise duty	-	Yes 12.3%
	-	Little difference 34%
	-	Don't know / N.A 54%

"Britain + Exit = BREXIT"

Impact on customs matters



What are the key 'Customs' issues arising from the UK referendum?

- Risk of renewed border controls, compliance cost, delays
- Valuation: Rulings (renewal), IP becomes dutiable
- EU Free Trade Agreements could be no longer applicable in UK
- Implementation of new customs procedures in UK
- What about the AEO status, Binding Tariff and Origin Information rulings (BTIs, BOIs) issued by UK customs?
- Risk of anti-dumping measures on EU / UK products?



How can organisations address these issues?

Companies should assess the potential customs-related impact of Brexit on their business from the following points of view:

- Customs People & Organizations should be knowledgeable
- Processes, governance and controls need to be reviewed
- Technology & data must absorb changes

Brexit can shake up every supply chain, but can also be an opportunity to enhance your customs compliance and procedures



Typical supply chain scenarios

Aero and defence sector example



Pre-Brexit

Supply 1 – Goods and invoice

- EU supplier – no VAT or duty
- UK manufacturer – acquisition VAT – no cash flow cost

Supply 2 – Goods and invoice

- UK manufacturer
- Duty temporarily suspended or 2.7%
- Import VAT – cash flow impact
- Possible use of other reliefs

Supply 3 – Goods and invoice

- UK manufacturer – no VAT or duty
- EU recipient – acquisition VAT – no cash flow cost

Supply 4

- Currently no duty (trade agreement)
- Local VAT requirements

Post-Brexit

Supply 1 – Goods and invoice (UK importer of record)

- EU supplier – Export no VAT
- UK manufacturer duty temporarily suspended or 2.7%
- Import VAT – cash flow impact
- Possible use of other reliefs

Supply 2

- UK manufacturer
- Duty temporarily suspended or 2.7%
- Import VAT – cash flow impact
- Possible use of other reliefs

Supply 3 – Goods and invoice (ex-works)

- UK manufacturer – export no VAT
- EU recipient
- Duty temporarily suspended or 2.7%
- Import VAT – cash flow impact
- Possible use of other reliefs

Supply 4

- Duty 71 CFR per 100kg (unless trade agreement)
- Local VAT requirements

Retail and distance sales sector example (T-shirts)



Pre-Brexit

Supply 1

- UK retailer
- Import – if Bangladeshi origin no duty otherwise 12%
- Import VAT – cash flow cost

Supply 2

- UK retailer distance sale
 - UK VAT if under distance selling limit
 - VAT registration and EU VAT in EU Member State(s) if not

Post-Brexit

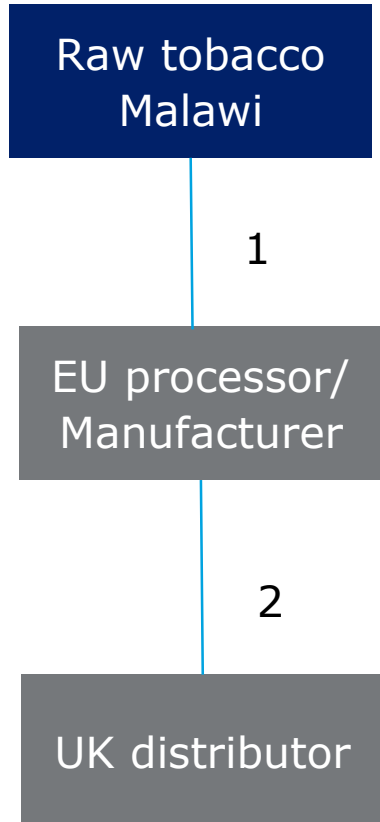
Supply 1

- Import – no duty if Bangladeshi origin and UK retain GSP (Generalised System of Preferences) otherwise 12%
- Import VAT – cash flow impact

Supply 2

- Import into EU Member State
- No duty if Bangladeshi origin otherwise 12%
- Import VAT in EU Member State – cash flow impact
- Local EU VAT accounted for (unless customer imports)

Customer products sector example (tobacco)



Pre-Brexit

Supply 1

- Import into EU duty free (GSP)
- Import VAT

Supply 2

- Acquisition VAT
- Excise duties apply

Post-Brexit

Supply 1

- Import into EU duty free (GSP)
- Import VAT

Supply 2 (UK importer)

- Customs duty of 57.6%
- Import VAT – cash flow impact
- Excise duties also apply

Project Outcomes

UK Retailer

The data reviewed indicates that **8,897** declarations were made in the period reviewed, with a total of **£9.3mio** duties paid.

As a result of Brexit, EU – UK and UK – EU movements will become imports and exports, which during the review period would have resulted in additional broker charges, in the region of, **£29k**.

In addition to the administrative costs, there are potential duty payments of **£77mio** on these movements (£21.4mio potentially becoming due on UK imports from the EU, and approximately £43.8mio potentially being due on UK shipments to EU countries). This does, of course, highlight a 'hard-Brexit' scenario, if the UK and EU are unable to agree a free trade agreement.

In addition, for the UK imports from outside of the EU, there is a potential loss of trade agreements/tariff preference resulting in additional duties payable of **£11.7mio**. The data provided does not include export data therefore we were unable to comment on additional duties the client may face where UK goods are exported to non-EU countries due to the loss of currently-held EU free trade agreements.

Aside from the duty costs and the administrative costs mentioned, there are also additional potential costs in relation to increased resources required to manage the import and export activity as well as systems in place to support the changes.

Project Outcomes

Global Consumer Products Company

The data reviewed indicates that **4,053** declarations were made in the period reviewed, with a total of **£2.4mio** duties paid.

As a result of Brexit, EU – UK and UK – EU movements will become imports and exports, which during the review period would have resulted in additional broker charges, in the region of, **£200k**.

In addition to the administrative costs, there are potential duty payments of **£10.5mio** on these movements (£8.5mio potentially becoming due on UK imports from the EU, and just under £2m potentially being due on UK shipments to EU countries). This does, of course, highlight a 'hard-Brexit' scenario, if the UK and EU are unable to agree a free trade agreement.

In addition, for the UK imports from outside of the EU, there is a potential loss of trade agreements/tariff preference resulting in additional duties payable of **£0.9mio**. From the other perspective, UK goods being exported to current non-EU countries may face additional duties of **£1.6mio**, due to the loss of currently-held EU free trade agreements.

Aside from the duty costs and the administrative costs mentioned, there are also additional potential costs in relation to increased resource required to manage the import and export activity as well as systems in place to support the changes.

Project Outcomes

Retailer

The data reviewed indicates that **68,516** declarations were made in the period reviewed (one year – in line with the FY from Feb 2016 – Jan 2017), with a total of **£20.9mio** duties paid.

Under a 'hard-Brexit' scenario, assuming the UK and EU do not agree a free trade agreement, then the following costs would apply:

EU – UK and UK – EU movements will become imports and exports, which during the review period would have resulted in:

- additional broker charges in the region of, **£281k**
- duty payments of approximately **£44.3mio**
 - **£27.9mio** on UK imports from the EU, and
 - **£16.4mio** on UK shipments to EU countries.

For the UK imports from outside of the EU, there is a potential loss of trade agreements/tariff preference resulting in total duties payable of **£23.8mio (current duty paid £20.9mio)**.

Exports to current non-EU countries is limited with potential additional duties of approximately **£2.8k**, due to the loss of currently-held EU free trade agreements.

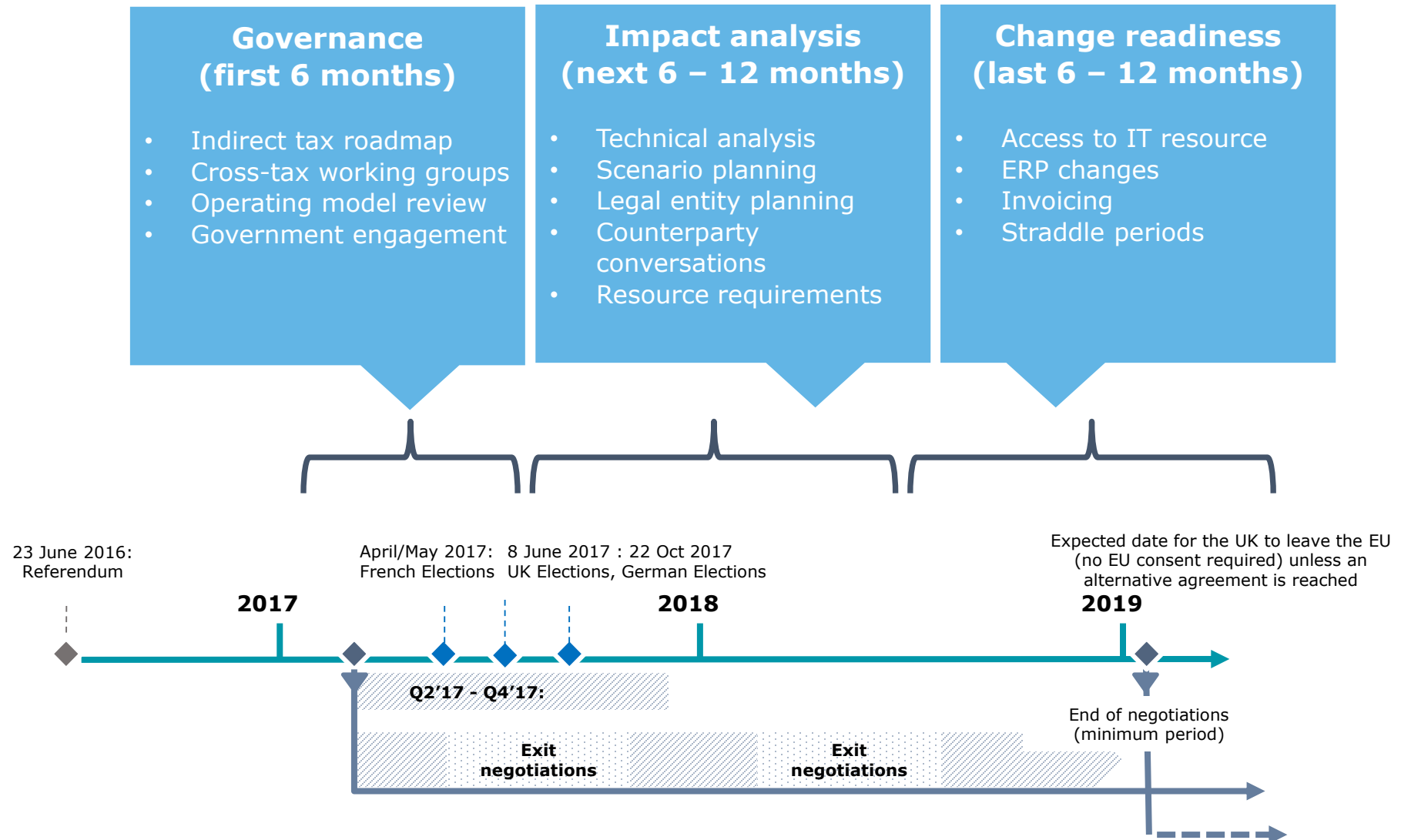
Post Brexit there is an assumption that lead times may be affected with ports already stating that they have concerns with regards to operational and systematic capacity.



Systems and process impacts

Core systems and process changes

What needs to be done and when



Front office systems and process changes

Key impacts on business activities

Organizational

- Legal entities, VAT registrations, permanent establishments, branches, joint ventures

Master data

- Suppliers, customers, goods/services, other tax-related master data

Supply chain

- Inter-company, cross-border, invoicing, entity relationships, Incoterms, goods in transit, withholding tax, broker integrations, ...

Front office (supply chain) and back office (tax, finance, shared services centre (SSC) processes)

Tax systems and process changes

Key impacts on reporting and compliance processes

Indirect taxes systems

- Customs duty, excise systems, VAT compliance

Tax determination software

- Tax engines, sales and procurement systems, legacy

HR systems

- Mobility, time and expenses, payroll taxes and benefits

Tax logic

- Tax codes, tax determination logic, EU versus global rules, Mini One Stop Shop (MOSS), distance selling and e-commerce regulations

Tax systems and process changes

Key impacts on reporting and compliance processes

Reporting

- Documentation (including invoices), VAT returns, statistical reporting, other compliance reporting

Other tax and finance systems

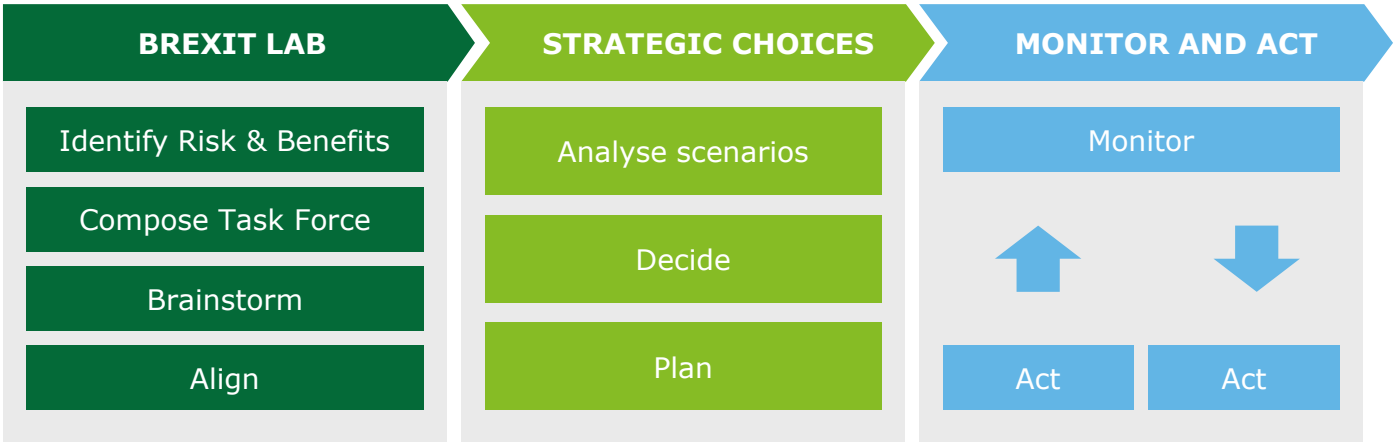
- Corporate income tax, transfer pricing, treasury, cash-flow
- Spreadsheets
- Manual workarounds



What next?

Managing uncertainty – How ?

What can you do?



Deloitte.



OR



Thank You



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

This presentation contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this presentation, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017. For information, contact Deloitte Touche Tohmatsu Limited.