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Brexit

Tax

Preparing for Brexit from an indirect tax perspective

Has your business a strategy in place?

Businesses will need to plan for the obvious uncertainty and will need to understand the potential impact of Brexit. For this reason, an impact assessment should help to provide some clarity. At Grant Thornton we have a dedicated Brexit indirect tax team with experts in both Ireland and the UK which is essential for your business.

Nearly three months have elapsed since the triggering of Article 50 and we are now cognisant of the fact that Brexit is a reality and no longer mere speculation. For some businesses, the impacts may be subtle but for others the effects may be significant.

The UK has just come through a snap general election which has arguably left the UK government in a weaker position as it enters negotiations to exit the EU.

Preparing for Brexit from an indirect tax perspective is not an easy task, particularly given the complexities these taxes (VAT/customs duties) presents in their own right. Therefore, it is critical for businesses to prepare for the outcomes from an indirect tax perspective without delay.

Potential implications of Brexit on indirect taxes:

- Import VAT may become payable at the point of importation into Ireland from the UK.
- Introduction of customs and excise duties which currently do not apply on intra-EU trade.
- VAT 'one stop shop' arrangements are likely to cease in the UK post-Brexit.
- Increased administration and compliance costs.
- Revision of invoicing and reporting protocols.

VAT

Post Brexit, the UK will be in a position to set its own VAT rates and add or remove particular supplies of goods or services to the zero rating, reduced rate or exemption schedule. The UK may also introduce their own version of the 'place of supply' rules.

The UK can also ignore the VAT decisions made by the Court of Justice of the European Union (CJEU) which could provide the UK with a competitive advantage over EU member states.

Once Brexit has happened, intra-community supplies of goods and services will now be treated as imports and exports between the UK and other EU member states including Ireland. The current process of Irish businesses zero rating supplies of goods and services to VAT registered customers in the UK (provided certain criteria are met) may no longer be an option.

Instead, import VAT may become payable at the point of importation of supplies from the UK. Albeit this should not result in a change to the ultimate cost of imported goods, this would result in a cash flow cost and a greater administrative burden on businesses. It would be prudent for the Revenue in Ireland to introduce procedures to alleviate the potential VAT cash flow cost.

Customs

In the short term, it is unlikely that very much will change in terms of formalities relating to the movement of goods between the UK and Ireland. However, post Brexit it is more likely the UK will be outside the customs union of the EU. In that event, it is possible that there could be a reintroduction of more significant customs controls which will have both a time and cost implication for Irish businesses who are trading with the UK. While the Irish government has indicated that there will not be a reintroduction of customs posts at the border, it is difficult to envisage a scenario where increased scrutiny will not be an absolute requirement.

Tariffs are not the only barrier to international trade. In fact, non-tariff barriers are often more problematic. At present UK and EU standards are aligned, meaning that it is not possible for the countries within the EU to raise non-tariff barriers between one another. Whilst the standard that the UK products adhere to are unlikely to change overnight, the UK may choose to introduce different standards which could cause greater complexities for Irish businesses who trade with the UK.

MOSS and digital services

In 2015, the EU imposed a VAT package of changes which affected all Irish and UK businesses selling Telecommunication, Broadcasting or Electronic (TBE) services to consumers. The package introduced a Mini-One-Stop-Shop (MOSS) so that affected businesses could account for VAT due in other EU member states through a single portal.

When the UK leaves the EU, it is likely that Irish businesses selling TBE services to consumers in the UK may no longer be able to avail of MOSS in respect of their UK consumers. It is likely that Irish suppliers will have to charge Irish VAT at the current standard rate of 23% which may put such supplies at a competitive disadvantage.

Impact assessment

Preparing for and dealing with an eventual Brexit starts now. Whilst in truth, no-one yet knows the true impact of Brexit, this does not mean that businesses should not begin the planning process.

Affected businesses should understand what the likely impact of any VAT and customs changes will be on their respective business models, supply chains and profitability. Each business will be affected in different ways depending on the nature, volume and complexity of the trade.

If your business is involved in cross-border trade with suppliers or customers in the UK, we strongly recommend that an impact assessment is undertaken as soon as possible.

An impact assessment should include a strategy as to how Brexit might affect your business development and plans for growing the business:

- Examination of existing supply chains to consider the impact of any VAT and customs changes.
- Review of financial and reporting systems.
- Review of existing customs procedures (imports and exports as well as other customs facilitation measures)
- For digital service providers, a review of MOSS and related issues.

Conclusion

Of course there is no 'one size fits all' answer as to what Brexit will hold for Irish businesses. However, there is no doubt that Irish businesses should prepare for the challenges yet hope for new opportunities. A good starting point is to initiate an impact assessment without delay.

Contact

At Grant Thornton we have a dedicated Brexit indirect tax team with experts in both Ireland and the UK which is essential for your business. If you would like to discuss an impact assessment or if you would like further information, please contact us.

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