

Managing and optimising indirect tax compliance and costs as the UK leaves the EU

With the expiration of the option to extend the transition period, the current Brexit transitional arrangements will end on 31 December 2020, such that Irish businesses must prepare to trade with the UK as a third country (the UK will no longer operate as part of the EU's Single market and Customs Union from 1 January 2021).

For the foreseeable future, the exit of the UK from the single market and Customs Union will have significant logistical, administrative, cost and tax implications for Irish businesses trading with the UK market, which will require a holistic approach to achieve a commercially viable solution.

Irish businesses must prepare for this new landscape. The UK will implement its own Tariff regime that will take effect when the transition period ends, and this will impact all importers of goods to the UK, including Irish companies. Similarly, businesses importing goods to Ireland from the UK will need to follow Customs procedures.

Whilst the UK continues to aim for a comprehensive trade agreement to be concluded before the end of the transition period, there is a clear consensus that this is unlikely. When agreed, the UK/EU trade agreement will allow tariff free access to both markets for qualifying goods but will not avoid the requirement for customs declarations to allow goods to be moved.

Our view is that businesses will need to consider a wide range of key issues as part of their preparations for Brexit, which include:

Supply chain optimisation

How are supply chains currently configured in terms of manufacturing locations, storage and transport routes?

Is there existing flexibility within the current structure to reduce the number of times goods must cross what will be a hard border? If not, how might the business evolve and does Brexit provide the impetus to accelerate those plans? Identifying a clear strategy is essential.

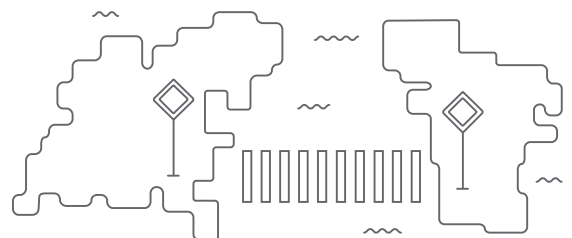
The customer experience

Import procedures bring both compliance obligations, increased administration and cost. Will these be borne by the supplier or the customer? What impact does this have on delivery terms, relations with agents/couriers and pricing?

Managing compliance

Based on current supply chains and terms of business, who will be required to deal with Customs procedures in the UK and Ireland in respect of supplies and acquisitions. Are there any reliefs that may be availed of?

Irish businesses may require a UK VAT registration and will need to plan to deal with the associated compliance requirements. In addition, many Irish businesses may be required to deal with EU Customs procedures for the first time. These changes will take time and care to ensure the correct reporting on ERP/finance systems.



Tax

What is the tax cost of the import? Can import VAT be deferred? Where do the goods originate and would they qualify for a future trade agreement? Is the product classification clear? Are there any complexities regarding the valuation of those goods (transactions between connected parties, goods or those that include royalty payments, etc)?

Does the business currently benefit from agreements with Customs authorities regarding the classification or origin of certain products and do these need to be updated post-Brexit?

All of these factors have the potential to impact the duty cost. What arrangements are in place with agents and can instructions be issued to enable them to manage the practicalities effectively?

Reliefs, authorisations and special procedures – overlaying all of the above permutations are a set of Customs and/or VAT reliefs, authorisations and special procedures that have the ability to:

- Reduce the checks goods are liable to and speed up clearance procedures;
- Allow duty and import VAT to be suspended temporarily or permanently;
- Deferring duty and import VAT payments to improve cashflow; and
- Provide certainty on duty rates through agreements on the classification or origin of the goods.

It is vital that businesses consider all of these factors, to identify a commercially viable solution that balances the customer experience, the current and future evolution of key supply chains, transportation costs and tax, whilst demonstrating to the relevant tax authorities that compliance processes are robust and tax risks are managed effectively.

How RSM can help

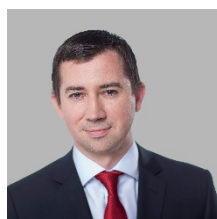
For those businesses that are just starting their Brexit planning, please speak to your usual RSM contact about our Brexit Readiness toolkit.

For those that have begun Brexit preparations or who have previously identified their strategy, we offer a variety of services to help you develop, refine or test your Brexit solution as well as assistance with applying for reliefs, authorisations or procedures.

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