

Brexit, The Biggest But Not The Only Risk...

Twelve months on from the UK's Brexit referendum vote on 23 June 2016, businesses and sectors across Ireland are being affected in different ways.

For some, sterling's weakness against the euro has been an advantage while for others, including Irish exporters selling into the UK, profits have eroded.

Asked whether Irish exporters should look to the EU rather than the UK for new customers, PKF-FPM Managing Director Feargal McCormack says "There is too much uncertainty over future tariff regimes to make meaningful planning possible at present.

In any event, if there were opportunities for expansion in EU markets, most businesses would have taken them by now."

Instead, he recommends that businesses should consider changing their corporate structure because, "with uncertainty set to continue due to geopolitical developments in the US and elsewhere, Brexit, and a plethora of other challenges, devising a robust and resilient strategy has never been more important".

"Monitor monetary policy over the coming months because with interest rates already very low central banks have little room to manoeuvre," Feargal advises, adding that regardless of sector or jurisdiction, controlling costs and optimising operations in line with strategic priorities will be critical in the future.

"Cybersecurity concerns, new data protection legislation, technological advances including HMRC's proposed Making Tax Digital initiative, changing customer expectations — all of



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these issues are affecting PKF-FPM clients to one extent or another at the moment.

"Tax, supply chain, regulatory and legal issues should all be on your agenda at present and kept under constant review. Contracts should also be reviewed, particularly long-term contracts, to ensure that they will continue to be fit for purpose post-Brexit. Employee mobility will be an issue for NI food and beverage businesses, agri-businesses and others who rely on low-skill EU workers. Location, logistics and financing will be other top priorities.

"In times of change and uncertainty, good communication is critical. Depending on the size of your business, you may need to assemble a cross-functional team led by your heads of finance, legal and HR to ensure that your strategy and risk management processes are alert to economic, customer, market and competitor developments.

"Finally, if you have not already done so, now is the time to critically assess your management information systems. Companies with the ability to rapidly analyse and assess robust, reliable financial information and performance indicators will be best placed to navigate the choppy waters ahead," Feargal advises.

Keep Calm and Keep on Planning

Over the last twelve months, PKF-FPM has seen businesses in certain sectors struggle with increased costs due to weaker sterling. While currency and exchange rates are understandably the immediate concern, it is essential that businesses factor the potential impact of customs duties into their Brexit plans. Post-Brexit, customs duties will be the biggest challenge facing businesses North and South. Without a trade agreement, duties could add as much as 50 percent or more to the cost of imports and exports between Ireland and the UK.

It will be vital that Customs checks are designed to minimise delays at border controls — not just customs checkpoints but also the IT infrastructure for customs payments and declarations.

Business leaders and representative organisations must continue to make the case for maintaining the Common Transit Area which enables goods to be shipped from Ireland to mainland Europe via the UK without customs penalties. Policy makers will also need to push for support and assistance for businesses North and South in the interests of the wider economy.



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.

Meanwhile, businesses should maintain their focus on strategy and keep planning for the worst scenarios while hoping for a better outcome. Tax planning will be an important consideration for business owners with cross-border interests. If you have not already done so, we would encourage you to contact PKF-FPM's tax team for advice on what you can do now to minimise potential future liabilities for your business and yourself.

In previous editions of Brexit Briefing, we flagged other key areas to focus on. These include supply chain, employee and skills-related issues, financing,





contracts, cross border transactions and data protection.

Our Brexit Centre of Excellence has the resources to help with your preparations. For information, please contact a member of our team.

Revenue Commissioners, HMRC best placed to design border controls

Recent research shows that relatively few businesses understand that the enforcement of border controls for the Customs

Union, however implemented, will have to be separated from political promises of future trade agreements between the UK and the EU, and between the UK and the rest of the world.

Addressing the Committee on Finance, Public Expenditure & Reform and Taoiseach in May, Brian Keegan, Director of Public Policy and Tax at Chartered Accountants Ireland warned that the introduction of Customs controls between Ireland and the UK is "all but inevitable" and that the EU will insist on complete and rigorous controls over goods traded between Ireland and the UK, and further afield.

"Because the nature of the land

border to be created for Customs is virtually unique, Ireland will be under intense scrutiny from our EU partners to get our Customs controls with the UK both watertight and legally valid," Mr Keegan said.

PKF-FPM is seeing at first hand the difficulties many smaller Irish exporters and importers will face for the first time. In our view, the real challenge will be facilitating Customs administration for businesses exclusively importing from or exporting to the UK. Many of these businesses will be dealing with Customs obligations for the first time and will view customs duties as a new tax.

It will fall to Ireland to put in place a Customs system with the UK that preserves the integrity of the Customs Union. PKF-FPM believes it is critical that this system is designed from the outset to do the least harm to businesses across the Island of Ireland. In our view, the Revenue Commissioners working in cooperation with HMRC, and operating with the approval of the EU Institutions, would be best placed to design it.

Time is of the essence. While it may be possible to establish transitional Customs arrangements between the EU and UK, this is by no means certain.

Border Impact

PKF-FPM clients are sceptical that effective border controls can be put in place within the available timeframe to deal efficiently with the increased volume of Customs checking which will be required between Ireland and the UK.

Food processing businesses warn that delays in clearing Customs could eliminate cross-border trade between the north and the south of Ireland. Businesses producing consumer foodstuffs and those engaged in the processing of ingredients sourced in one jurisdiction but processed in another before being returned for resale would be worst affected.

Meanwhile, smaller businesses report being daunted by the

number and variety of Customs codes applicable to their product range.

Clients who are concerned about the impact of border controls on their business can access support via PKF-FPM's Brexit Centre of Excellence.

Routing goods through the UK

Companies routing goods through the UK, both from and to the EU are warning that some routine road trips could involve two Customs controls and two sets of tariffs post-Brexit.

Typically, these companies go by ferry to the UK before travelling onwards to various EU destinations. They say that unless a sealed container agreement can be put in place to allow transit without a double customs and compliance cost for goods in transit, there will be long delays at customs for many businesses.

Shipping from Rosslare directly to mainland Europe may be an option for some businesses, however it would increase transport costs and probably be slower than travelling through the UK.

Clients raising issues like this with PKF-FPM can be assured that we will avail of every opportunity to relay your concerns in our discussions with representative organisations and policy makers.

Skills deficit

There is evidence that some businesses may find it difficult to obtain reliable advice on their customs obligations in the run up to Brexit. While businesses should not delay augmenting their teams to ensure they have the skills to manage the unfamiliar additional workload ahead, there are understandable concerns about incurring staff costs that do not generate a productive return for the business. For some companies, outsourcing may be the best solution. Contact PKF-FPM to find out how we can help.

GETTING TO GRIPS WITH YOUR BREXIT PLAN NOW...

- Labour & Skills
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- Logistics
- Supply Chain
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- Diversification
- Contracts Review
- Operational Effectiveness
- Costs
- Pensions
- Location of Activities
- Wealth Management

