Brexit and Indian businesses: An initial report

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Foreword

As the dust settles on the U.K.'s historic vote to leave the European Union, the traditionally slow month of August in Western Europe feels like a good time to reflect on what has been, and what will be. In a few short weeks after the referendum, we saw a generation's worth of political and economic change; a new British Prime Minister with a fresh-look cabinet, record-low interest rates, a crisis within the official opposition, and dramatic pound volatility with accompanying market movements. Perhaps the clearest sign yet of the 'VUCA' (Volatile, Uncertain, Complex, Ambiguous) world we live in.

The implications of 'Brexit' for the rest of the world are highly differential. Some European countries see huge opportunity from a possible flight of capital and influence from the city of London in search of other European nodes. Others – particularly those committed to the European unification project – are fretting over the fear of contagion, giving satirical pundits great ammunition for creative memes; Greexit, Portugone, Italeave, Byegium and Oustria, to name but a few.

For political and economic actors in countries further afield working out what this all means for them, it is the issues of trade regulations, currency movements and immigration effects that are top of mind. For many Indian businesses, the U.K. has long been seen as a 'window to Europe' and a node for expansion or management of their global expansion. The number of Indian companies, the people they employ and the revenue they generate have all shown a steady uptick in recent years. So, where do recent events and these uncertain times leave the Golden Era of relations between India and the U.K.?

In this whitepaper, we attempt to answer that question by setting out the implications of Brexit for issues of particular relevance to Indian businesses with interests in the U.K. economy. The insights come from extensive pre-vote engagement and scenario planning by our dedicated U.K.-based Brexit team, with deep local insights and expertise from a multi-disciplinary Indian team.

In my role, which now encompasses KPMG's global response to Brexit, I have followed India's progress with keen interest and have been a regular visitor to the country for many years. In that spirit, I look forward to fostering an even stronger bond between KPMG and Indian organisations in order to help navigate the effects of Brexit, in what is certain to be a period of great change, and even greater potential.

Nick Chism
Global Chair of Infrastructure, Government and Healthcare
Deputy Head,
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KPMG in the U.K.

'Brexit' has been one of the key disruptors of 2016 so far. It has not only impacted the mood of the global economy, but is also making companies worldwide evaluate and re-sketch their strategies for the times ahead. Organisations are quickly preparing themselves for the potential scenarios that will play out, once the details of Brexit is eventually formulated. Once the details are crystallised, organisations may not have the luxury of time to respond to the changes. For Indian companies, the U.K. has been the 'window to Europe' for a long time. Brexit is expected to have a significant impact on many Indian firms with exposure to the U.K. and Europe.

While India tries to address the challenges of scaling up investments, downsizing subsidies, creating a predictable and clean tax policy environment (introduction of Goods and Services Tax by April 2017), quickening disinvestment, etc., Brexit could pose a new set of challenges for the Indian companies.

The U.K. International Development Minister, Priti Patel's recent India visit to assess the scope of Indo-U.K. ties underlines the significance of Brexit and its impact on Indian companies. It further demonstrates the seriousness of the U.K. government (under Theresa May) to smoothen out the potential impact on India-U.K. business relations. The U.K. government is clearly keen on moving beyond Brexit to build a positive relationship between the two nations.

Although there are diverse thoughts prevailing in the market about how Indian businesses might be impacted in the U.K. and European markets, the precise assessment of Brexit's real impact on the business environment would be visible only gradually. This whitepaper by KPMG in India aims to help Indian organisations understand Brexit and help the leadership decide on the next steps for ensuring minimal disruption to their businesses in the U.K. and Europe. It also aims to facilitate businesses take the requisite pre-emptive measures to buffer the impact of Brexit on their businesses.

I firmly believe that this whitepaper will help Indian organisations develop the necessary perspective to make informed decisions at this early stage of the event.

Richard Rekhy
Chief Executive Officer
KPMG in India

Purpose of the document

The purpose of this document is to give an understanding of issues and the status of the United Kingdom leaving the European Union, popularly referred to as 'Brexit'.

Infographic: No-one knows what the passage of the U.K. leaving the EU looks like. There are, simply, too many moving parts

How much more will I pay the EU if the U.K. doesn't contribute?

British tourists and expats eat at my restaurant

The U.K. is a valuable market for my exports

27 remaining members

My products are made with British parts. I don't want to see tariffs put the price up

There are tensions within and between these states. Their relationship with the U.K. is not uniform. Some are net exporters to U.K., some are net recipients of EU funds, some have diaspora in U.K., some have U.K. expat residents. To reach consensus each state will be considering its interest and their own combination of bilateral politics. It is very difficult to predict the negotiations around conditions of Brexit.

London is France's 6th biggest city

Provide mandate for discussion

Will a good deal for U.K. mean other countries will vote to leave the EU?

I want Norway's access to the free market, Switzerland's flexibility on regulations, Iceland's control of its borders and Turkey's membership fee.

Must negotiate exit terms within 2 years of giving notice to avoid the need to seek unanimous agreement to extend timeframes. No specific time limit on the nature of the continuing EU/U.K. relationship. To what extent will the discussion be mutually dependent?

EU

Negotiate terms of Brexit

Negotiate terms of confirmed relationship

U.K.

What does the rest of the world think? Is this a valuable opportunity to secure a trade deal with the world's 5thlargest economy? Or is the U.K. at the back of the queue?

May need to negotiate bilateral trade deals if no access to EU deals

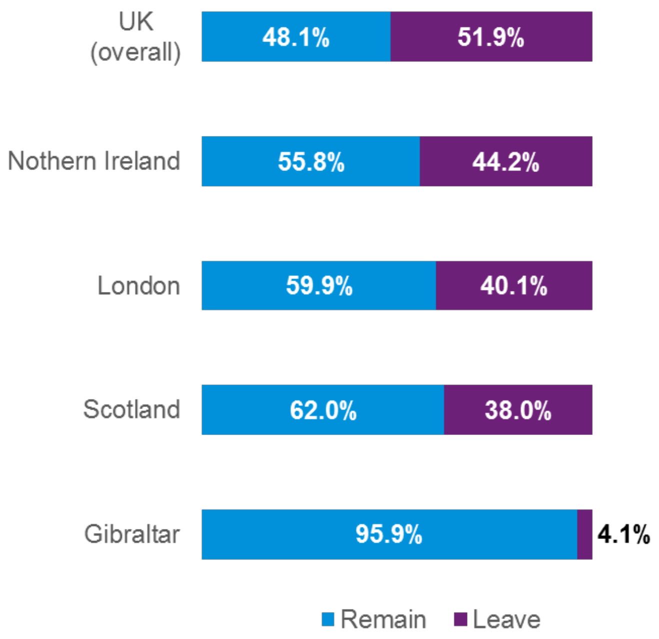
U.K. cannot automatically rely on EU/RoW (Rest of the World) trade deals. Depending on the U.K./EU negotiation, U.K. needs to negotiate up to 120 bilateral trade deals, or credibility represent the ability to do so.

RoW

Introduction to Brexit

The United Kingdom (U.K.) held a national referendum on 23 June 2016 to gather the people's mandate on the country being part of the European Union. In the landmark referendum, people in the U.K. voted to 'leave the European Union', much in contrast to expectations leading up to the vote. Among the 3.35 crore people who exercised their right, a significant 51.9 per cent voted for the U.K. to exit from the 43 year old union. The country has exercised its right of withdrawal from the European Union as per the Treaty on European Union. The U.K. and the EU will now commence negotiations, until 2018, to determine the terms for their future relationship, leaving scope for uncertainty during the period.[1]

The 'Leave' campaign was chiefly propagated on the back of regulatory and reforms hurdles, burdensome immigration and savings on contribution to the EU. Now, in light of the decision, it has been widely deliberated that leaving the EU might impact growth and job-creation, through its effect on migration, trade and manufacturing, financial services, innovation and productivity and foreign investments.[2]



Source: The Electoral Commission

Brexit and geopolitics in the U.K.: selected highlights

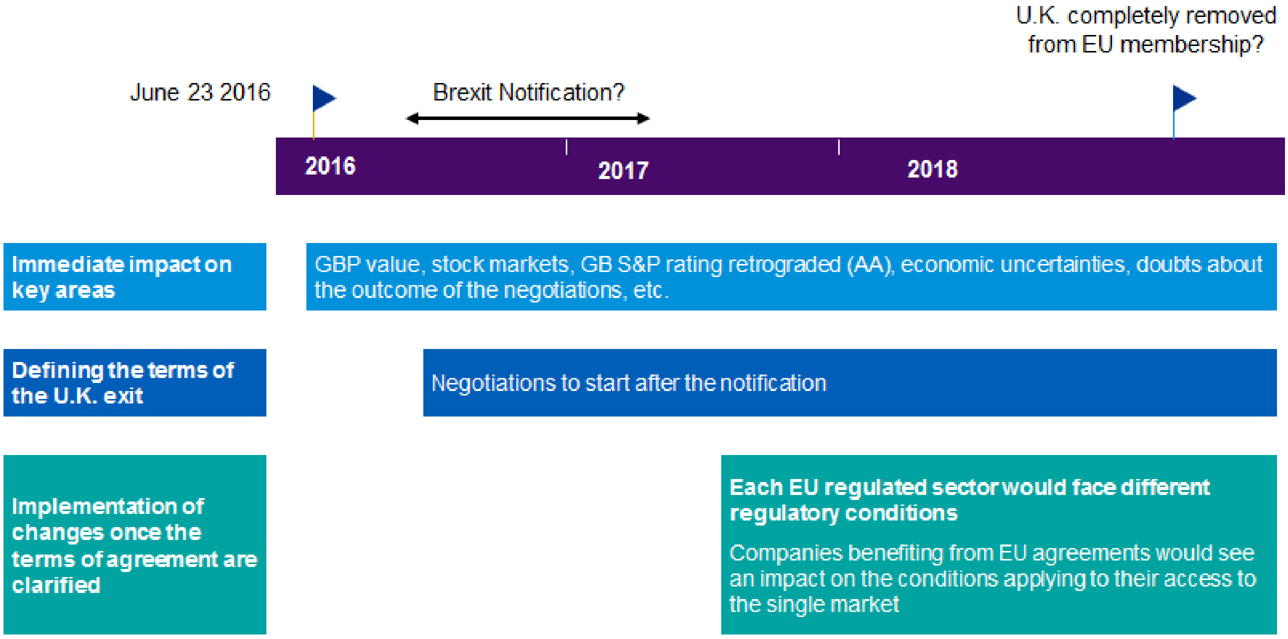
The referendum results per region have been varied:

- Scotland, along with Northern Ireland, London and Gibraltar all voted overwhelmingly to 'Remain'
- Scotland may go for a second independence referendum, however Scotland could remain in the EU by other means
- Other EU member states may have concerns that Scotland is given special treatment, e.g. Spain for fear of encouraging Catalonia towards independence
- Euro-skepticism and separatist movements might gather further momentum, particularly in countries preparing for upcoming elections

1 Brexit: All you need to know about UK leaving the EU, BBC News, 21/07/2016
2 Brexit: All you need to know about UK leaving the EU, BBC News, 21/07/2016

Timeline of Brexit

The people's mandate through the referendum might just be the beginning of a complex and prolonged exit process of the United Kingdom. The "withdrawal" terms allow up to 2 years for negotiations, further extendable by agreement of all 27 members of the EU.[11] While things on paper might remain unchanged during the process, what it does is create scope for uncertainty, some of which has been witnessed in the immediate aftermath of the verdict.



11 EU's Article 50: the rules for Brexit, The EUObserver, 24/02/2016
12 Brexit: the impact on the UK and the EU, Global Counsel, 06/2015

The current situation

The European Union, as it exists today, at the core is a partnership of 28 member countries including the U.K. that have collective sovereignty in policy areas and coherent egulations in a range of political, economic and social issues.[3] The union initiated post World War II, to promote peace, security and economic prosperity through regional cooperation[4].

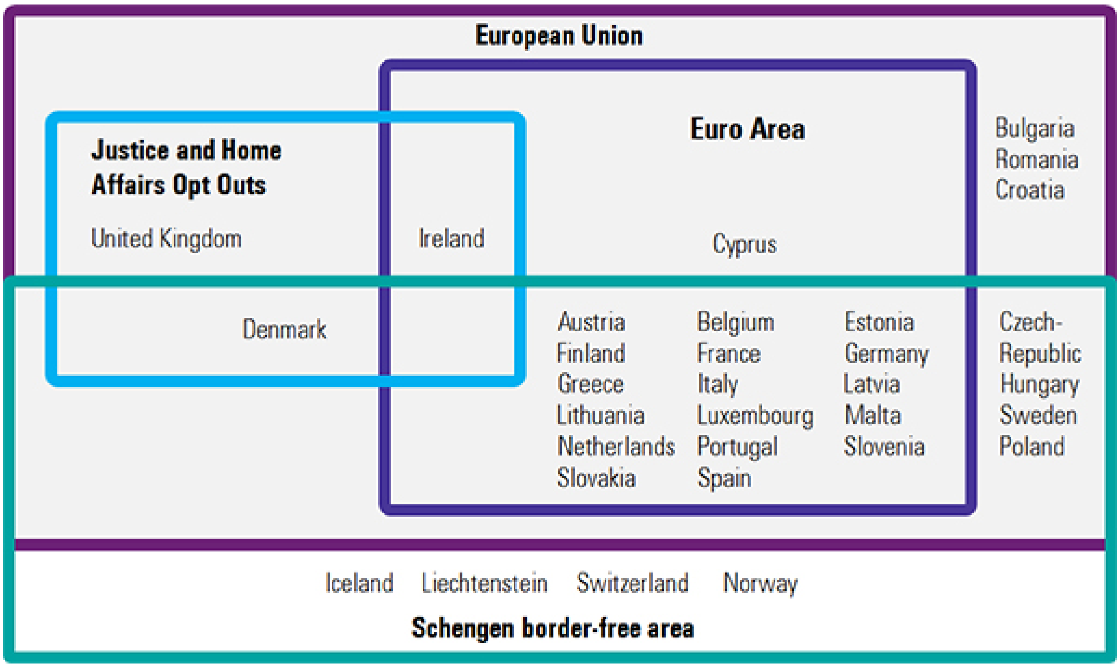


Figure: The complex structure of the European Union, as it stands today
Source: Alternatives to membership, HM Government, 2016

The EU functions based on the rule of law, established on the foundation of treaties democratically approved by the members. As a result of years of negotiations and amendments, the EU member countries share a single market ('free movement' of goods, people and capital), a customs union, a common trade policy, a common agricultural policy, and a common currency – the Euro (for 19 members). Additionally, 22 members are part of the Schengen area of free movement (passport free movement of individuals).[5]

Viewed as a cornerstone of stability and success, owing to shared trade, security and economic development strategy, today, the EU faces several economic pressures. Slow growth and high unemployment, among other reasons, have led to the rise of political parties garnering the 'euroskeptic' point of view. Key challenges the union faces today include:

- Debt crises
- Migrant and refugee crisis
- Heightened terrorism threat and security concerns
- Regulatory hurdles[6]

The extremely complex nature of the union and several internal and external factors are giving rise to different views concerning its future. Ranging from complete dissolution to partial disintegration to further strengthened entity, opinions about the future of the EU are varied.[7]

3 How the European Union Works, European Union
4 How the European Union Works, European Union
5 The European Union: Current Challenges and Future Prospects, FAS, 06/2016
6 The European Union: Current Challenges and Future Prospects, FAS, 06/2016
7 The European Union: Current Challenges and Future Prospects, FAS, 06/2016

What could happen next?

The Brexit referendum, for the first time in a generation, has created the serious prospect of the U.K. leaving the EU. With the verdict out, focus is now on the implications of it which will invariably guide the EU-U.K. negotiations in the coming time.[8]

The overall impact, in macroeconomic magnitude, is hard to quantify. Nevertheless, most models depicting future scenarios present significant negative impact for the U.K., and relatively smaller yet significant effects for the rest of the EU.[9]

The vast channel of uncertainty starting with the verdict until a new stable relationship between the entities is a prolonged and complex process.[10]

Political consequences of the referendum

UK level

- Legal vs. political obligations resulting from the referendum
- Theresa May appointed as new Prime Minister

EU level

- The U.K. Commissioner for Financial Stability, Financial Services and Capital Markets Union Johnathan Hill resigned from the EC
- Estonia to assume EU presidency after U.K. quits

The legal process is codified by Article 50 of the EU Treaty

Notification to leave the EU

Article 50 of the EU Treaty

- A Member State may decide to withdraw from the EU
- Notification has to be sent to the European Council
- The EU will negotiate and conclude an agreement with the leaving state
- Negotiations will be held by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament

Timing & Conditions of the negotiations

Timing

- Leaving date: date of entry into force of the withdrawal agreement or 2 years after the notification
- Extension possible only with unanimous consent

Conditions

- U.K. will not be represented in the EU's negotiating team
- Treaties may still be applicable to the U.K.

Uncertainties remain in the future

Date of notification

- No rush to notify the European Council (start of the 2 year transition period)
- European institutions called for a quick notification
- Varying preferences among different interest groups on the timing of the exit

Status of the negotiations

- No precedent: Greenland left the EEC in 1982 (3-year process)
- Possible models: Norway (EEA), Switzerland (EFTA), Turkey (Customs Union), Free Trade Agreement, or WTO

Figure: Possible political and legal consequences

8 Brexit: the impact on the UK and the EU, Global Counsel, 06/2015
9 Brexit: the impact on the UK and the EU, Global Counsel, 06/2015
10 Brexit: the impact on the UK and the EU, Global Counsel, 06/2015

Potential impact of Brexit on the U.K. and the EU: Summary

Potential exit scenarios

The impact of Brexit depends upon the nature and terms of relationship which the U.K. and EU shall negotiate. Currently, based on EU's history, various scenarios can be laid out. The following diagram lays out the potential implications of the various situations that may emerge.[12]

Norway Model (European Economic Area (EEA) Member)

- Participation in the EU internal market but no access to EU FTAs
- Member of EFTA
- Free movement of goods, services, people & capital
- Not part of EU VAT area
- Certain principles of EU law apply (e.g. regulation & employment)
- 9% reduction in U.K. contribution to EU budget

Swiss Model (European Free Trade Association (EFTA) Member)

- Participate in EFTA free trade agreements
- Not part of EU VAT area
- Negotiate a bilateral trade agreement with the EU
- 55% reduction in U.K. contribution to EU budget
- EU concerns about cherry picking

Turkish Model (Customs Union)

- No tariff barriers with EU as U.K. adopts EU product market regulations
- U.K. required to implement EU external tariffs
- Not part of EU VAT area
- No contribution to EU budget

Free Trade Agreements

- Negotiate bilateral trade agreements with EU and other major trading partners
- Not part of any customs free trade area or trade association
- Not part of EU VAT area
- U.K. to be excluded from FTAs agreed by the EU and the EFTA
- No contribution to EU budget

Independent (World Trade Organisation (WTO) Member)

- Not part of any customs free trade area or trade association
- Not part of EU VAT area
- Negotiate bilateral trade agreements trading partners
- U.K. to be excluded from all FTAs agreed by the EU and the EFTA
- No contribution to EU budget

Key implications of potential exit

The impact and repercussions of Brexit would ultimately, over the long term, depend upon the terms of Britain’s relationship with EU. Among the models described above, what offers maximum political independence might prove to be economically taxing. The table below throws light upon several such implications of the different Brexit models.[13]

	Norway Model	Swiss Model	Turkish Model	FTA Model	WTO Model
Limited or no tariff barriers on trade in goods	Green	Green	Green	Green	Red
Dynamic agreement	Green	Green	Green	Red	Red
Rules of origin requirements avoided	Green	Red	Green	Red	Red
Single set of regulations for exporting firms	Green	Green	Red	Red	Red
Full access to EU Single Market	Green	Red	Red	Red	Red
EU bank passport still available	Green	Red	Red	Red	Red
Influence over EU regulations	?	Red	Red	Red	Red
Able to adopt own approach to regulation	Red	?	?	?	Green
Ability to negotiate trade agreements independently	Red	Green	Red	Green	Green
No contribution to the EU budget	Red	Red	Green	Green	Green
Ability to implement own immigration policy	Red	?	Green	Green	Green

Source: Global Counsel – BREXIT: the impact on the U.K. and the EU; colours indicate attractiveness from a U.K. policy perspective; green - attractive, red - unattractive, question-mark - uncertainty

Who is the most exposed?

Brexit can impact member states and the impact is expected to vary depending on connectedness with the U.K., alignment with U.K. policy objectives, or underlying vulnerability to shocks. The extent of exposure is revealing not only the risks to member states, but also how much they have invested in keeping the U.K. in the EU[14].

High exposure

Ireland is no surprise, given its proximity to the U.K. The Netherlands and Cyprus, like Ireland, share strong trade, investment and financial links with the U.K. These countries also tend to be closely aligned with the U.K. in terms of regulatory and trade policy objectives.

Significant exposure

Several countries have a significant exposure including Germany, Belgium and Sweden. Sweden is particularly vulnerable due to a close policy alignment with the U.K., while Belgium has close trade links.

Niche exposure

In the case of France, mid-level trade, investment and financial linkages are balanced by often conflicting policy objectives with the U.K. Poland is most exposed through migration and the EU Budget.

13 Brexit: the impact on the UK and the EU, Global Counsel, 06/2015

Low exposure

A small group of states in the south-east of the EU have little direct exposure to Brexit. This reflects their distance and different political cultures, which means there is less alignment of policy interests. Italy in particular may be indirectly affected by the impact of Brexit on political dynamics in the EU.

Within the **Asia Pacific region**, Hong Kong, Singapore, and Malaysia are likely to rank as those which are most exposed, while the economies of Thailand, Indonesia, Taiwan, Korea and China would be moderately exposed and **India** and Philippines would be least exposed on a relative basis[15].

States ranked by exposure to Brexit

Rank	Country	Score (based on multiple metrics)
1	Netherlands	28
2	Ireland	25
3	Cyprus	23
4	Portugal	17
5=	Greece	16
5=	Malta	16
7	Sweden	16
8	Denmark	15
9	Czech Republic	14
10=	Belgium	13
10=	Latvia	13
10=	Lithuania	13
13	Germany	13
14	Luxembourg	12
15=	Slovakia	12
15=	Spain	12
17	Finland	11
18=	Estonia	9
18=	France	9
18=	Hungary	9
21	Poland	8
22	Bulgaria	7
23	Austria	7
24	Romania	5
25	Italy	5
26=	Croatia	4
26=	Slovenia	4

Sources: ONS, Bank of England, IMF, European Commission, EU Barometer Survey autumn 2014, CEIC, GC calculations

14 BREXIT: the impact on the UK and the EU, Global Counsel, 06/2015
15 How will policy makers respond to UK vote to leave the EU?, Morgan Stanley Research, 26/06/2016

Summary of statements/key actions by policy makers

Summary of statements/actions by Central banks and Ministries of Finance		
China	**People's Bank of China (PBOC)**	China will boost communication and co-ordination with other central banks and international financial organisations. It also reiterated that it will keep monetary prudent and ensures appropriately ample liquidity and financial stability. The yuan exchange rate will be kept basically stable.
Hong Kong	**Hong Kong Monetary Authority (HKMA)**	HKMA Chief Executive highlighted that the financial system is stable, and banking system has high liquidity. He also expressed the view that market volatilities will continue in next few days and that exchange fund exposure to U.K.'s assets is small.
Korea	**Ministry Of Strategy and Finance (MOSF)**	FM Yoo said that Korea has sufficient measures to cope with volatility, and will respond swiftly and sternly, if needed. Deputy FM Choi highlighted that government will work to minimise the negative impact, as well as using all measures to stabilise markets and coordinating with others for market-stabilisation.
India	**RBI Governor Raghuram Rajan**	Highlighted that the Indian economy has good fundamentals and that the RBI is continuously maintaining a close vigil on the market developments, and will take all necessary steps, including liquidity support (both dollar and INR), to ensure orderly conditions in financial markets.
	Finance Minister Arun Jaitley	Highlighted that volatility and uncertainty will be the new norm and that they will have to remain alert about the referendum's medium term impact.
Indonesia	**Bank Indonesia**	Expressed confidence that market impact will be temporary, sees rupiah decline as 'acceptable' and will continue to guard market stability.
Philippines	**The Bangko Sentral ng Pilipinas (BSP)**	Expects more volatility in near term. While exposure to U.K. is relatively small, BSP is watching its impact via contagion from USD moves.
	Finance Secretary Carlos Dominguez	Government "will act fast" if impact is greater than expected. New administration will take over on June 30 and the Presidential office will immediately check the employment status of Filipinos in U.K. and how they are affected
Singapore	**Monetary Authority of Singapore (MAS)**	Stands ready to curb excessive volatility in SGD, and will provide liquidity to banking system if needed.
Taiwan	**Central Bank of the Republic of China (Taiwan) (CBC)**	Sees limited impact on the economy. Will maintain financial stability and forex market order in event of volatility. Will provide sufficient liquidity to support economy.
Thailand	**Bank of Thailand (BOT)**	Expects limited impact on trade, with the main impact on market volatility. It also expects some outflows from FX and bonds.

Source: Bloomberg, various central banks and ministry of finance websites, Morgan Stanley Research

Economic diagnosis of the potential impact of Brexit

Other European countries might consider the referendum option

The Brexit vote is likely to enable Euroskeptic parties to grow their popularity in the Eurozone, the heart of the EU. As a result, it is possible that other European countries might consider the referendum option in the coming months to years. The U.K. itself may face an additional exit referendum from Scotland. Since this is the first time a country exits from the EU, there is lack of clarity on how the U.K. can unwind its ties with the union; thus thousands of details are required to be worked out. The Pound saw a substantial decline after the referendum. If the Pound's weakness were to persist, that might stoke inflationary pressure by making imports expensive.

Brexit weighs on global growth

The unexpected U.K. vote to leave the EU is an additional burden on the already sluggish global economic growth. Reflecting this, the IMF has cut global economic growth forecast to 3.1 per cent from 3.2 per cent. 2017 growth forecast for 2016 was also revised down by 0.1 percentage points to 3.4 per cent[16]. It is too early to make quantitative estimates about the potential impact of Brexit on the global economy as the U.K. and EU are working through the Brexit transition, and it is believed that the detailed negotiations on the U.K.'s future relations with the EU could take longer time than the two-year deadline imposed by Article 50[17]. The economic fallout from Brexit transition could be limited if the U.K. and EU were to sidestep a large increase in economic barriers[18].

> "The Brexit vote implies a substantial increase in economic, political, and institutional uncertainty," says IMF

Source: IMF Cuts Global Growth Forecasts on Brexit, Warns of Risks to Outlook, IMF News, 19/07/2016

Brexit's impact is likely to be felt in Japan through the Yen's strength. The Japanese currency, which is seen as a reliable safe-haven asset, tends to appreciate whenever there are uncertainties in the global economy. The Yen's large increase in the immediate aftermath of the Brexit vote is the manifestation that it still retains the 'safe-haven' status. Given the considerable economic and political uncertainty associated with the EU-U.K. negotiations, the Japanese currency might face additional upside risks in the coming months. Persistent gains in the Yen could adversely affect the Japanese economy, for which exports are a key contributor.

That China has a limited trade and financial relationships with the U.K. does mean that Brexit's fallout might have a muted impact on the former. That said, the impact on China could become material had EU growth seen a substantial decline. The U.S. economy might also face the negative effect should uncertainty over economic growth in both the U.K. and Eurozone continue to exist.

Brexit fallout is likely to have muted impact on India

The impact of the U.K.'s vote to leave the EU on India is expected to be minimal, as India's exports to the U.K. are relatively lower than other more open economies in Asia. Also, India's growth mostly relies on domestic demand rather than external factors. However, the U.K. is the third largest FDI source for India, after Mauritius and Singapore[19]. So it is important to monitor the approach of U.K. firms towards investment following the Brexit vote. They might defer their investment plans until a clear picture emerges about the U.K.'s future ties with the EU, which might in turn affect FDI inflows into India. The Pound's weakness -- which may make Indian investments expensive for the U.K. firms -- might also deter U.K. investments into India.

16 International Monetary Fund's World Economic Outlook (07/2016)
17 Brexit: Tensions emerge over U.K.-EU trade negotiations, BBC, 01/07/2016
18 International Monetary Fund's World Economic Outlook (07/2016)
19 India – United Kingdom Relations, Ministry of External Affairs, 01/2016

Plans in place

The impact on Indian financial markets has so far been limited. India's equity markets, having seen some knee-jerk reactions, have stabilised[20] while the Rupee[21] has started appreciating against the Dollar, supported by capital inflows. India's long-term government bond yields are declining, following global trends. But this does not call for complacency as volatility might return to financial markets at any time if Brexit-fueled uncertainty emerges in the coming months. However, India is prepared to deal with adverse impacts coming through the financial market channels. For instance, India has more than USD360 billion FX reserves[22], which can be deployed to contain the rupee's volatility. The country's strong economic fundamentals should reduce the capital outflows in high stress situations.

The domestic demand-driven Indian economy might not be vulnerable to a further decline in global trade caused by weak growth prospects in the U.K. and EU. However, if such developments were to pose any risks to the Indian economy, the government might consider fiscal stimulus package in order to boost growth.

20 Sensex, Nifty recover from Brexit hangover, Business Today, 28/06/2016
21 Rupee appreciates 2 paise to 67.19 against US dollar, Economic Times, 19/07/2016
22 Forex reserves down by USD1.228 bn to USD361.943 bn, Economic Times, 15/07/2016

Potential tax and legal Implications

Tax implications on U.K. based firms under each of the following scenarios

The Brexit outcome has the potential to have a radical impact on U.K.'s tax system, as European law impacts U.K. tax law in two main ways[23].

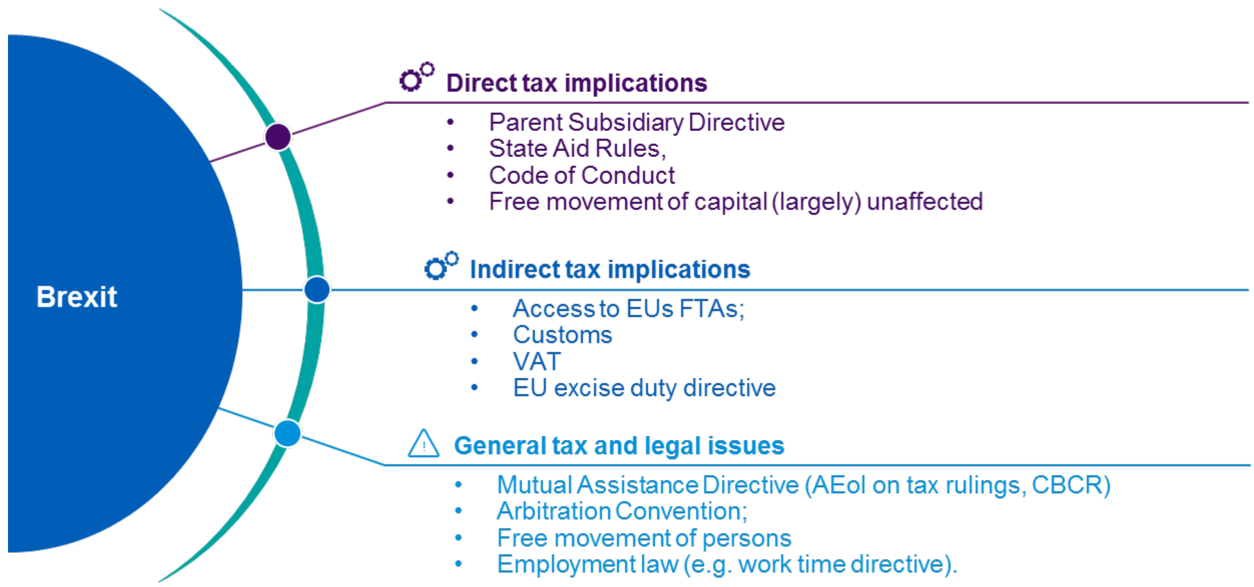
1. **Supremacy of EU law (direct taxation)**
   - Means that U.K. domestic legislation cannot conflict with principles of EU law, particularly the 'four fundamental freedoms'
   - Direct taxes are said to be the competence of each EU member state
   - However, U.K. domestic tax legislation must be in accordance with EU Treaty principles
   - As such, U.K. direct taxation is subject to a number of EU directives, EU principles and the jurisdiction of the European Court of Justice (ECJ)
2. **Indirect taxes**
   - EU legislation and ECJ determinations are the main sources of U.K.'s indirect tax legislation
   - Customs and excise duties as well as VAT are all governed directly by the EU legislation
   - Membership of the EU gives U.K. companies access to the internal market (made up of 28 member states) and to a wide network of preferential trade agreements with third countries

The following can help navigate the potential issues for taxpayers and assess the implications of the various exit scenarios

There are, in general, three key areas of impact:

1. Direct tax
2. Indirect tax
3. General tax and legal issues

Figure 1: Tax implications[24]
(This list is purely illustrative and not exhaustive)



23 Navigating the EU Referendum - A Tax Perspective, KPMG in the U.K., 06/2016
24 Navigating the EU Referendum - A Tax Perspective, KPMG in the U.K., 06/2016

Direct tax[25]

Issue	Explanation	Implications	Post Brexit uncertainties	Who's affected?
Withholding Tax (WHT) - EU Parent/Sub Directive	• EU subsidiary companies no longer able to remit dividends free of WHT under the EU Parent/Sub directive	• Potential WHT costs • U.K. potentially less favourable as a holding company location	• Effect is expected to vary depending on the country of the counterparty and Double Tax Agreement (DTA) rates of WHT	• All Multi-National Enterprises (MNEs) • U.K. holding company structures
WHT -Interest and Royalties Directive	• Intra EU payments of interest and royalties will attract WHT in certain circumstances	• Potential WHT costs for EU subsidiary companies • U.K. less favourable as an IP holding or financing location	• Given the strength of the U.K. DTA network, it is possible that for many companies there are likely to be limited or no material impact	• All MNEs • U.K. holding company structures
State aid	• U.K. is no longer subject to EU law which prohibits state aid (measures which distort competition or inhibit the fundamental freedoms)	• U.K. government may be able to establish favourable tax regimes for specific industries • EU countries free to discriminate in certain areas against U.K. corporates	• Outcome uncertain as it depends to what extent the U.K. faces 'moral' pressure to play by EU state aid rules	• All MNEs and domestic corporates • Foreign Direct Investment (FDI)
EU reliefs based on mergers directive	• Potential loss of tax relief on certain company mergers, acquisitions and reorganisation making, for example, cross-border mergers into a branch structure more problematic	• Tax cost to U.K. corporate reorganisations, acquisitions and mergers • U.K. potentially less favourable as a headquarters location • Status of Societas Europaea companies unknown	• U.K. may well retain its own relatively liberal reorganisation rules • Clarity required on whether U.K. company's access to merger directive will be grandfathered	• All MNEs with U.K. companies • Foreign Direct Investment (FDI)

25 Navigating the EU Referendum - A Tax Perspective, KPMG in the U.K., 06/2016

Discrimination in corporation tax measures	• U.K. tax legislation no longer required to treat all EU corporates equally e.g. currently an EU branch in U.K. is required to be taxed in same way as local subsidiary and vice versa	• U.K. may discriminate against non-U.K. corporates via tax legislation to give competitive advantage to domestic industry • U.K. corporates may be discriminated against in EU tax measures • No ability to refer discrimination to European Court of Justice (ECJ) • Potential loss of cross-border loss relief	• Impact depends on U.K. political events. Recent tax history suggests it is unlikely the government would enact anything to make reorganisations more difficult	• All industries but in particular regulated industries such as pharmaceuticals and financial services
EU direct tax initiatives	• U.K. is no longer subject to EU direct tax initiatives such as the Anti Tax Avoidance Package and the proposed Common Consolidated Corporation Tax Base	• U.K. tax rules 'out of sync' with EU counterparts • Corporates required to deal with multi-territory approaches to implementation of Base Erosion and Profit Shifting (BEPS) package	• Extent to which U.K. would come under moral pressure to mirror EU changes unknown	• All corporates
EU Arbitration Convention	• U.K. is no longer party to binding arbitration under the EU enhanced convention	• Slower resolution of Transfer Pricing (TP) disputes, Mutual Agreement Procedure (MAP) negotiations and corresponding adjustments • Increased risk of double taxation • Cash flow cost to businesses	• BEPS action 14 may make arbitration more common outside EU anyway, but implementation some way off	• All MNEs

Indirect tax - Customs and excise Duty[26]

Issue	Explanation	Implications	Post Brexit uncertainties	Who's affected?
Access to internal market	• U.K. no longer has access to the internal market (assuming the U.K. does not join the European Economic Area (EEA) at the end of the two year negotiation period) • Customs duty may apply to EU imports and exports	• Potential increased cost of goods imported to U.K. and for U.K. goods sold into EU countries • Increased compliance costs and bureaucracy • Redesign Enterprise Resource Planning (ERP) systems • Potential period of EU trade instability	• Unknown if U.K. will retain rights to access single market or if it will enter into negotiations with EU for a free trade agreement/membership of EEA/EFTA • Long negotiation process	• All Multinational Enterprises (MNEs) trading goods into/from U.K. • U.K. companies selling to or buying from EU counterparties
Access to EU Free Trade Agreements	• U.K. can no longer avail of EU Free Trade Agreements (FTAs) with third countries such as Mexico, South Africa, Chile, Turkey, Switzerland, South Korea (as well as ones in the pipeline e.g. U.S., Canada, Japan)	• Potential barrier to trade as U.K. exports and imports may be subject to significant duty tariffs in absence of FTAs • Increased compliance costs and bureaucracy • Redesign ERP systems • Potential period of international trade instability	• U.K. will need to negotiate trade agreements with major trade partners which can be a long process (in absence of ascending to the EEA or EFTA) • Terms may be more, or less favourable than current conditions • Complete autonomy for U.K. in negotiation process and desired outcomes	• All U.K. MNEs availing of EU FTAs • U.K. companies selling or buying from countries outside EU with FTAs

26 Navigating the EU Referendum - A Tax Perspective, KPMG in the U.K., 06/2016

Union Customs Code and EU regulations are the primary source of U.K. customs legislation	• EU customs legislation becomes redundant in the U.K.	• Increased customs duties • Increased administration costs of EU/foreign trade • No priority/special treatment in the EU • Invoicing and systems changes required • Could lose benefit of mutual agreements, cooperation and recognition put in place by EU • No referral to the ECJ • Potential period of international trade instability	• New customs regime for the U.K. required – no clarity on what that would look like	• MNEs with cross border supply chains and availing of EU customs measures
Customs reliefs and measures	• No access to EU customs reliefs and special measures	• Increased cost of business as companies potentially lose benefit of customs reliefs & measures e.g. inward processing relief • Increased administration costs of EU/foreign trade • No priority /special treatment in the EU • Companies lose out on mutual recognition of Authorised Economic Operator (AEO) status	• New customs regime for the U.K. required – no clarity on what that would look like	• MNEs with cross border supply chains • MNEs availing of customs reliefs and AEO status

Anti-dumping measures	• EU anti-dumping legislation no longer applies in the U.K.	• Lose benefit of EU wide anti-dumping legislation and investigations • Greater competition and price pressure from foreign competitors • Potential to introduce U.K. anti-dumping measures in favour of U.K. corporates	• Unknown what measures U.K. would introduce to replace EU rules	• U.K. corporates in certain industries e.g. steel industry, solar panel industry

Indirect tax – VAT[27]

Issue	Explanation	Implications	Post Brexit uncertainties	Who's affected?
VAT is a tax regulated by consistent EU-wide rules	• Intra-community supplies of goods and services will now be treated as imports and exports between U.K. and EU member states • U.K. rules and interpretation may diverge with EU over time	• Transaction-level VAT treatment and hence invoicing and systems requirements would need to change • Potentially some VAT leakage in certain supply chains • No EU reliefs available e.g. triangulation relief • Potentially no more statistical reporting (Intrastat) and associated compliance • Greater autonomy over VAT rates and reliefs	• Unknown if U.K. retains VAT system in same form and how it will interact with EU counterparts	• U.K. companies selling or buying goods or services with EU member states • MNEs selling into/from U.K. and/or with U.K. operations in supply chain

27 Navigating the EU Referendum - A Tax Perspective, KPMG in the U.K., 06/2016

Specific EU VAT schemes no longer apply	• Sector specific EU schemes such as Tour Operator Margin Scheme (TOMS) potentially no longer applicable	• Potential upside for U.K. as an 'offshore' non-EU location in some cases	• Unknown if U.K. retains, replaces or unwinds existing EU rules and arrangements	• MNEs in tourism industry and U.K. companies providing certain services to EU customers
VAT is governed by EU legislation and interpretation	• U.K. no longer subject to challenges by European Commission or to the jurisdiction of the ECJ	• U.K. corporates no longer afforded protection under EU VAT principles or a right to appeal to ECJ • Cannot rely on ECJ and EU jurisprudence for VAT matters • U.K. courts decide interpretation of VAT legislation	• Possible that U.K would simply continue to mirror EU interpretations and take into account EU judgments	• U.K. companies selling or buying goods or services with EU member states • MNEs selling into/from U.K. and/or with U.K. operations in supply chain

General tax and legal issues[28]

Issue	Explanation	Implications	Post Brexit uncertainties	Who's affected?
Mutual Assistance, Administrative Cooperation and Fiscalis Programme	• U.K. no longer subject to EU mutual assistance and enhanced administrative cooperation with other EU tax authorities	• Potential reduction in mutual assistance and coordination of EU multi-territory tax audits • Her Majesty's Revenues and Customs (HMRC) loses access to funding for mutual cooperation initiatives under Fiscalis programme such as communication, audit and IT projects	• Given the current political climate HMRC might continue to cooperate on multi-territory audits	• HMRC and EU tax authorities • All MNEs

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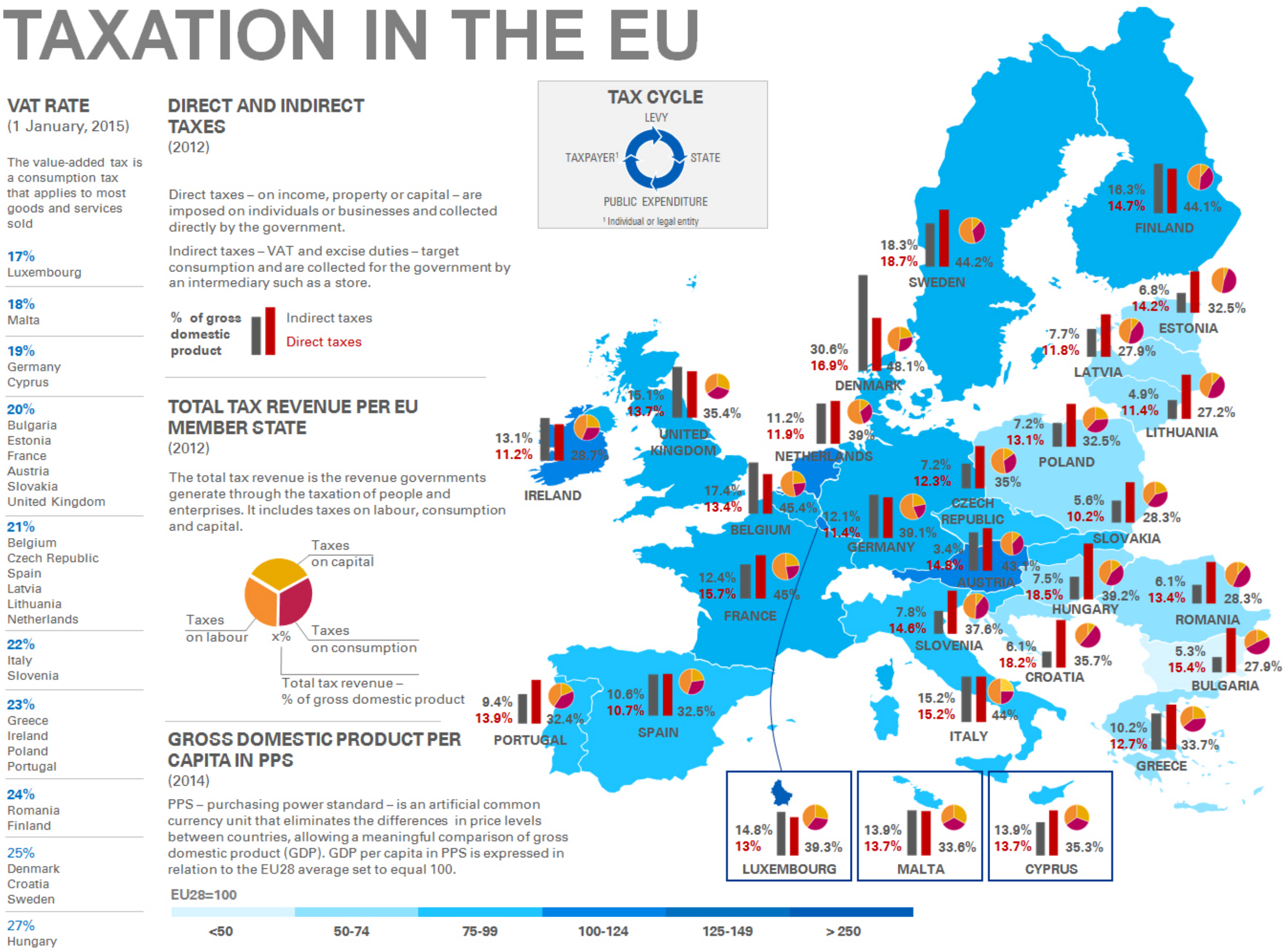
Migration and reciprocal arrangements in relation to social security (tax consequences of)	• Restrictions on free movement of people to hinder the ability of MNEs to locate significant people functions to the U.K. • EU social security reciprocal arrangements no longer available	• Impact on global mobility of employees in MNEs • U.K. potentially less favourable as headquarters location, with impact on value chain and international tax structuring	• U.K. may or may not negotiate to remain part of EEA • Outcome to be dependent on political mood in the country and election results	• U.K. citizens in the EU • EU workers in the U.K. • Employers attracting EU workers to U.K. • U.K. employers sending employees to EU • U.K. tax base • Foreign direct investment • U.K. as headquarter location
Regulation (tax consequences of)	• U.K. no longer viable as a EU hub location for regulatory passporting of certain goods and services into the EU	• Potential relocation of business functions outside the U.K. can attract exit charges • Permanent Establishment (PE) issues as a result of local establishment required to provide regulated services/goods in EU country	• U.K. may negotiate to remain part of EEA and preserve passporting rights • A period of instability and uncertainty is inevitable	• Financial services industry • Pharmaceutical industry • Other regulated industries

What could U.K.'s tax policy be?

Fig: Comparison of taxation levels across the EU[29]



Sources: European Parliamentary Research Service, Eurostat, European Commission

> In an interview with the Financial Times, George Osborne opined that he wants to set the lowest corporation tax rate of any major economy, announcing a target of less than 15 per cent down from 20 per cent now, 'Britain should get on with it' to prove to investors that the country is still 'open for business'.

Source: George Osborne puts corporation tax cut at heart of Brexit recovery plan, Financial Times, 03/07/2016

> "I am thinking particularly of taxation or about the status of expatriates. So I say to major international companies: Welcome to Paris! Come and invest in France!"
>
> Manuel Valls, Prime Minister, France

Source: London-based corporations 'welcome in Paris' after Brexit vote, French PM says, The Independent, 02/07/2016

29 European Parliament, http://www.europarl.europa.eu/news/en/news-room/20160502STO25468/Overview-the-European-Parliament's-work-on-taxation, accessed on 20/07/2016

Key regulatory and legal issues for Indian companies operating in the U.K.

The U.K. has traditionally been a launching pad for Indian companies wishing to enter Europe. Many big corporate houses of India have their presence in Europe through its affiliates/headquarters situated in U.K. Indian Companies have over the years chosen to expand into Europe through U.K. mainly for reasons such as:

- Robust financial services market
- Effective communication (use of English as business language);
- Vibrant technology ecosystem
- Availability of skilled labour/resources;
- Simplicity, competitiveness and similarity in laws vis-à-vis Indian law

In the clouds of uncertainty, it is imperative that the Indian companies analyse the impact of their U.K./EU business. Some areas that may require consideration are as follows:

Mergers and Acquisitions (M&A):
M&A regulations are unlikely to be substantially affected, at least immediately, as currently, the U.K. Takeover Code has evolved, independently, without much influence of EU-derived law[30]. The code, to a greater extent, is a reflection of the markets conditions in U.K. and views of the market participants, including the U.K. Takeover Panel. At this point no major changes are expected to be made to the framework. However, cross-border mergers could be affected. Companies thus need to take into consideration the risks and opportunities depending upon their sector and industry prior to planning their M&A activities as a new cross-border M&A directive might evolve as the result of EU-U.K. negotiations.

Dispute resolution:
It is probably that U.K.'s Court judgments in matters of corporate and company law become less effective across Europe. The U.K., over time, has built a solid reputation for its centres for international dispute resolution. Brexit, however, over the long-term, implications cannot be predicted and this uncertainty might lead to an increase in disputes (due to parties trying to extract themselves out of contracts no longer beneficial). Post Brexit, U.K. also needs to renegotiate its jurisdiction and enforcement arrangements with EU members for mutual recognition and enforcements of judgments.

30 Brexit essentials: The legal and business implications of the UK leaving the EU, Slaughter and May, 03/2016

Companies have to set-up multiple companies/headquarters in Europe:
To continue trading freely in EU, companies might need to set-up additional company/entity in EU along with U.K. headquarters which might entail additional capital expenditure along with routine administrative expenses. It is also critical to optimally select the alternate jurisdiction in EU. This would depend upon number of factors (like competitive tax regime, flexibility in local laws, strength of financial market, availability of labour etc.) especially when several countries have openly invited investors and promised liberalised policy regime. Thus, thoughtful consideration needs to be given to decide the jurisdiction for EU operations.

Family offices in U.K.
Many large Indian corporate houses have set-up family offices in London, U.K. This is essentially on account of robust capital markets in U.K. and its well-connected eco system with the world. It is expected that the U.K. capital markets might be vulnerable for some time, which might dent the ability to raise funds in U.K. market given that large institutional investor also come from countries such as Germany, France, and Swiss etc. Thus, it is important that Indian corporates efficiently assess their proposed fund raising plans and select the optimum jurisdiction to raise funds.

Currency fluctuation
Brexit has this far led to sharp depreciation in the value of U.K. Pound. Exchange rate between INR and U.K. Pound plummeted from 100 to 88. Such sharp fall in a short span of around 10 days has many repercussions. India generally exports IT services and automobiles to U.K./EU and thus, these businesses now need to amend their pricing and hedging strategies especially in the short-term. This can have a direct impact on the bottom lines of the companies. Vice-versa for importers, Rupee appreciation might add to their margin and liquidity.

Free movement of people
As per media reports, one of the prominent reasons that people of U.K. voted in favour of Brexit was presence and employment of significant non-U.K. origin population in U.K. due to EU's liberal migration policy. Post Brexit, given that U.K. may no longer be bound by EU policy, more stringent or rather highly-specific migration rules may be expected to be adopted by both sides which could affect the availability of requisite skilled labour. Indian companies with U.K./EU operations need to alter organisation structure based on re-allocation of people. This might have significant impact while evaluating BEPS impact, Country by Country (CyC) reporting etc.

Business areas likely to be affected

Trade, operations and profitability

Lack of access to a single market can bring into force tariff barriers which might impact sourcing and make procurement more expensive, thereby directly impacting sales. Hence, U.K. negotiating a free-trade or at least a favourable-trade agreement with the EU or member-countries should be a top priority as negotiations take shape. For instance, if we consider the auto-sector which is one of the fastest-growing sectors in U.K., companies have repeatedly expressed their concerns over trade barriers and regulations affecting their sales[31]. According to a report by Roland Berger published in June 2016, 77 per cent of the cars manufactured in U.K. in 2015 were exported and exports to EU made up 44 per cent of it. The report also stated that 94 per cent of the GBP 11 billion worth of automotive parts imported came from the EU.[32]

The impact on small businesses

Reportedly, about 30 Indian SMEs with turnovers between GBP 5 and 25 million, operate in the U.K.[33] Thus, studying the potential implications of Brexit on SMEs becomes imperative[34].

- Several small businesses get their funding from British high-street banks. Post-Brexit, additional pressure on bank's balance sheets can make small-business loans more expensive
- EU membership brings the perks of foreign investors for start-ups and small businesses. Brexit might impose barriers, making the process of securing foreign investors difficult
- Uncertainty might be the biggest killer for small businesses. A depreciated Pound, volatile markets and a slowed economy might make securing business investments challenging
- U.K. should put into place its own 'Late Payment Directive' as currently, bankruptcy solutions and protection is only applicable for EU members, particularly in the case of EU investors in U.K. small businesses
- Export tariffs can make small-business exports into EU expensive, taking away their price advantage
- Big businesses moving out of U.K., on account of Brexit, may in turn harm SMEs associated or trading with them.

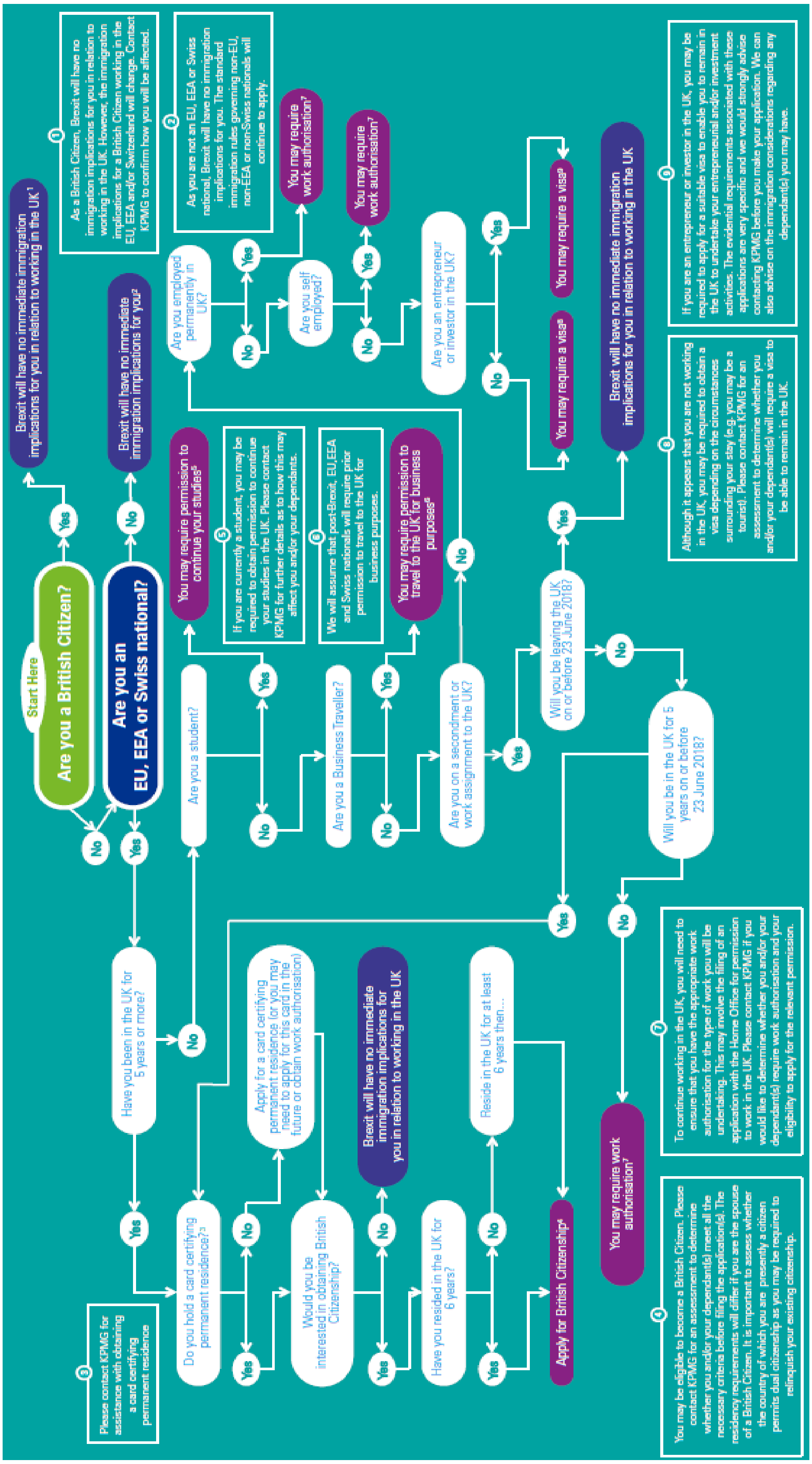
The future of people and workforce mobility

With respect to migration, the rules are complicated and may well change depending on exactly what is negotiated in terms of Britain's exit from the EU if the vote is to 'Leave'. KPMG in the U.K. has developed a flow chart to analyse how different types of people might be affected. Work authorisation in the context of this flow chart refers to the required documentation to evidence a right to work in the U.K. This is typically obtained by way of an application to U.K. visas and immigration department. How long someone's been here makes a difference – more than five years and there's an option to apply for a card certifying permanent residence which proves a right to live in the U.K. indefinitely. Those with more than six years might be eligible to apply for British citizenship. Those with less than five years - be they business travellers, students, self-employed people or entrepreneurs - may need visas or another form of authorisation to remain in the U.K.[35]

Our flow chart attempts to analyse how you, your colleagues working in the U.K., employees or your clients might be affected by Brexit.

31 Bresit may have adverse impact on Jaguar Land Rover's operations, The Economic Times, 21/06/2016
32 Engineering Brexit, Roland Berger, 06/2016
33 India Meets Britain, Grant Thornton-CII, 04/2016
34 How would Brexit affect finance for SMEs, The Guardian, 05/04/2016
35 Brexit in the Boardroom, KPMG in the U.K., 04/2016

Figure 3: How would Brexit impact you?[36]

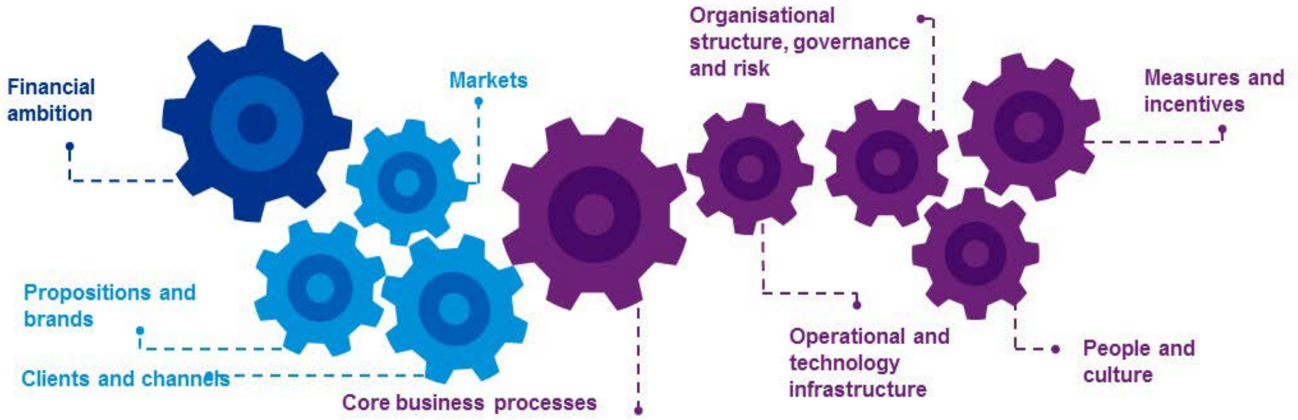


Note: KPMG in the diagram refers to KPMG in the U.K.

36 Brexit in the Boardroom, KPMG in the U.K., 04/2016

Questions for Indian businesses

The potential risks and opportunities posed by the 'vote to leave' the EU should be considered. No two organisations to have the same exposure. Using KPMG in the U.K.'s 9 Levers of Value framework[37] below highlights some questions which business leaders should ask in order to study the impact on their business of the 'leave' vote.



1 Financial ambition

a) What does potential uncertainty mean for availability and cost of capital?
b) Will investors continue to fund capital investment programmes?
c) Will you update your forecasts?

2 Markets

a) Will trade between the EU and U.K. reduce?
b) Will trade with countries where the EU has FTAs be affected? Would India remain insulated from a further decline in global trade?
c) Which alternative markets should be explored?
d) Will U.K. be able to gain the single market access even after its formal exit from the EU?
e) Major global equity markets have reached levels where they were before the Brexit vote. Does this mean global investors underestimate the Brexit impact?
f) India has started preliminary trade talks with U.K. What kind of trade deals would be advantageous to Indian firms in U.K.?

3 Propositions and brands

a) Will British brands face negative sentiment from EU consumers if discussions become tense?
b) What mitigation strategies exist?

4 Clients and channels

U.K. exporters to the EU will need to consider trade barriers.

a) Are your EU customers already developing alternative suppliers?
b) How resilient is your business to the loss of a key customer?
c) Will you need to review pricing policy for changes in tax or costs?
d) The U.K. is still in the European Union and it will take some more time for it to formally exit from the Union. When would Indian firms start feeling the negative effect (if any)?

5 Core business processes

If U.K. leaves the EU, operations and legal structures will need to be reviewed for unintended *consequences*

a) Will you need to review your 'go to market' approach?
b) Does your distribution footprint and network still make sense in light of the U.K. leaving the EU?
c) Do you have enough visibility over your supply chain to identify threats? Do you have natural hedges?
d) Post Brexit, would Indian companies in the U.K. face more challenges when it comes to their European expansion. Do they have a contingency plan ready to deal with them?

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37 BREXIT: Understanding your exposure, 06/2016

6 Organisational structure, governance and risk

a) Will your corporate structure need to change to take advantage of opportunities? Or respond to changes in regulation?

b) If you restructure your organisation, will you face exit tax costs on transition?

7 Operational and technology infrastructure

a) Will restrictions on cross border activity increase the administration burden for U.K. operations?

b) Will IT systems need to be adapted?

c) Are your systems and processes set up for increased logistics, tax impacts or new pricing structures?

8 Measures and incentives

a) Do you have sufficient data to understand how resilient your business is?

b) How can you improve monitoring to identify any shocks early?

c) Have you quantified the potential changes to the effective tax rate?

d) To cushion hit from Brexit, the U.K. plans to lower corporation tax while the Bank of England (BOE) looks set to announce fresh easing measures. What steps will help Indian firms get maximum benefits from these measures?

9 People and culture

Reduced freedom of movement could lead to labour shortages.

a) How will you meet the gap when non-EU immigration is also restricted?

b) How many EU nationals do you employ in the U.K.? What is the administrative cost of retaining them?

c) How will your workforce change? Or your staff culture?

d) How will you deal with employment policies after Brexit if U.K. law diverges from the rest of the EU?

e) What kind of impact would higher transaction costs post Brexit have on European employees?

How KPMG in the U.K. can help?

Assess the impact – determine your risk areas

To help our clients start to think about all of this, KPMG in the U.K. has developed a framework based on our prior experience of having conducted such assessments.

In our experience, there are two axes against which the impact of Brexit on any business should be assessed.

On one axis are the elements of the firm's operating environment that these changes could affect. By couching the framework for assessing impact of Brexit in economic terms –supply-side factors, demand-side factors and the way in which firms compete with each other –we can be sure that any assessment can capture the key factors that can help determine the firm's operating outcomes. It also helps ensure that a holistic view is reached.

On the other axis are the factors that represent part of the firm's operating ecosystem that Brexit could potentially affect. First, we divide these into categories. One is how a Brexit can affect the Four Freedoms of the EU, a fundamental factor in how the single market affects the way in which businesses operate, certainly within the EU and the U.K. Second, there are a raft of laws and regulations that could potentially change, including the terms of trade between the U.K. and countries outside of the EU. Finally, there are a series of potential direct and indirect economic impacts to consider.

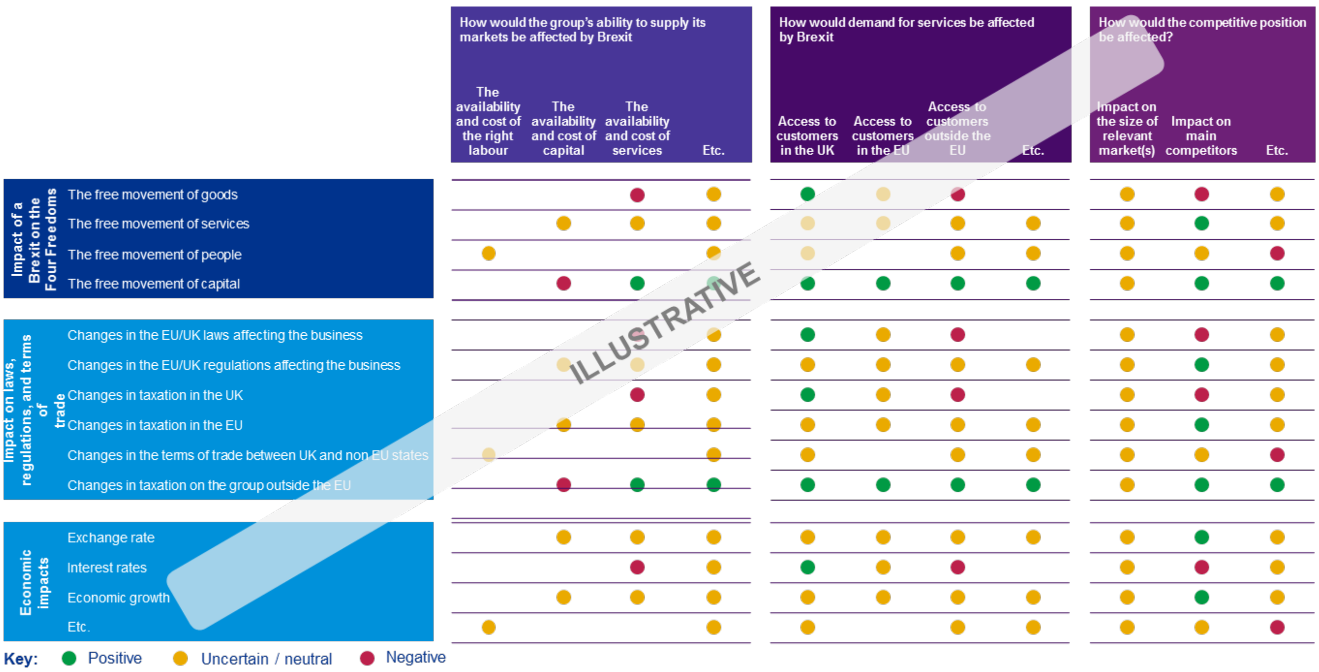

Figure: A framework for assessing the possible impact of a Brexit – Business Area X[38]

38 An economic diagnosis of the potential impact of a Brexit, 02/2016

Checklist for preparedness

The checklist provides a categorisation of a complex situation into a broader (non-exhaustive) set of variables. We think that it is a helpful diagnostic tool to help you measure the impact of Brexit on your business and your industry, considering that we are still in a very early phase of the event.

Ranking the issues	There is currently much opinion but little fact about what Brexit would mean in practice. Brexit means up to two years or more of negotiations which determine the nature of the U.K.'s relationship with Europe. Understanding what outcomes are possible and more or less likely is vital to understand the risks. Groups should be ready to engage the Government (either directly or through trade or industry bodies) immediately to preserve any regulations or trade arrangements that are important for the group.
Flexible monitoring	The situation is evolving and keeping up to date with developments is challenging but necessary.
Where are the economic pressure points?	Groups need a clear understanding of their business and supply chain. This is key for understanding the impacts, not just of Brexit, but future volatility in the political-economy. Internal pressure points include operations, work force and financing. External pressure points include suppliers, competitors and customers, both domestic and international.
Where are the regulatory and trade pressure points?	Groups need to have a clear picture of the EU trade agreements and regulations that are crucial to their business, understand how they might change, and comprehend not only the risks but also the opportunities available if those regulations were to change.
Quantify the impacts	Understand what might change under different outcomes (e.g. the Norwegian, Swiss, Turkish, FTA, or WTO models),
Prioritise	Rank the severity of the risks and opportunities that the interactions between impacts and pressure points present.
Plan	To the extent that a business can **influence** the outcomes, either through evidence-based contributions to the political debate or through public statement, they should consider the costs and benefits of doing so, including reputational impacts. **Mitigation** strategies need to be developed for negative outcomes that cannot be avoided, but also to take advantage of opportunities which are presented. Finally, where necessary, companies must **adapt** to the new environment in which they operate.

Next steps

The U.K. has always acted as a ‘window to Europe’ for Indian companies, it is more because of the access to financial markets in London and ease of doing business with Europe, from U.K. Without access to Europe, will the country be as attractive?

Several companies have majority of their income coming from Europe and sell their products without tariffs due to the access to the single market. Post Brexit, what happens to their profitability? Are contingency plans in place?

What happens to expansion plans of companies? For instance, Jaguar Land Rover had announced plans to invest in the European region of GBP 3.75 billion during fiscal 2016/17 to support continued, sustainable, profitable growth in the future.[39] At this juncture, it is difficult to come up with a precise forecast of the potential impact of Brexit as the real impact is likely to be visible only gradually. The business environment is undergoing various structural changes, with business leaders turning out to be more responsive to geopolitics. The politics of discontent and populism could have a substantial influence on the way business is being conducted.

Brexit might just become one of the many rapid structural changes impacting the business environment today. Along with any repercussions, it can also create an opportunity for renewed emphasis on ‘strategy under uncertainty’. The need for more effective translation of macroeconomic and political developments, by businesses, would in turn create a more pronounced opening for the same.

39 Jaguar Land Rover Reports Full-Year Results for Fiscal 2015/16, Jaguar Land Rover, 30/05/2016

Appendix

Article 50 of the Treaty on the European Union[40]

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.
5. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.
6. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

40 European Parliament, http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577971/EPRS_BRI(2016)577971_EN.pdf

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