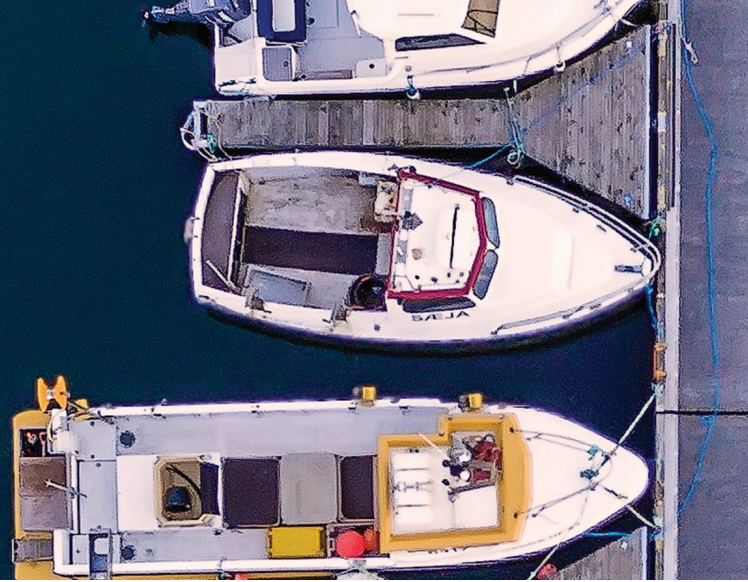


# Brexit - a reality

## The potential impact on Romanian businesses

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Britain has decided: BREXIT has now become a reality. The Brexit vote is likely to have an impact on the UK economy as a whole, but also on the longer-term status of the European Market. Terms for exit and the future relationship of the UK with the EU still need to be negotiated. Once an agreement is negotiated and in force, all remaining treaties will cease to apply to the UK. Furthermore, the EU, as a large and powerful trade bloc, has negotiated terms of trade with many other countries, including the USA, China and Japan. The UK, as an “EU leaver”, will no longer be a party to those agreements and would have to negotiate its own trade terms with each country and EU state itself.

**What does Brexit mean for Romanian businesses?** Leaders of Romanian organizations need to put the reality of Brexit urgently on their agendas and risk radars. Every company currently engaged in business with UK partners or having UK parent companies or subsidiaries should be considering how it might be affected by Brexit, from a legal, regulatory and economic perspective.

### Impact of Brexit

Depending on how the UK manages to negotiate its exit from the EU, the extent of the Four Freedoms guaranteed to members of the European Union could be limited. This may bring significant changes in various areas, including taxation, legal framework, mobility of workforce and other regulatory areas currently dealt with at EU level.



Parliament and Charing Cross bridge, London, UK

### Direct taxes

Depending upon the negotiations of the exit from the European Union, EU tax directives that the UK has had to implement in the past would not need to be preserved e.g. the mergers directive providing for tax free cross border mergers, the parent-subsidiary directive allowing tax free remittance of dividends from a Romanian subsidiary to a UK parent company or the royalties and interest directive providing for tax relief on royalties and interest payments between Romanian and UK resident affiliated parties. Therefore, additional tax costs may arise on various transactions between Romanian and UK tax residents.

### VAT

Intra-community supplies of goods and services will now be treated as imports and exports between the UK and Romania. This may affect mainly Romanian importers of goods from the UK, as simplified VAT treatment would not be available, as well as Romanian exporters of goods to the UK, if UK VAT would be charged upon import of goods to the UK. Transaction-level VAT treatment and hence invoicing and systems requirements would need to change. No EU reliefs will be available any more in the absence of the application of EU legislation (such as triangulation relief, or simplified treatment for call-off works on movable goods, affecting mainly the loan industry in Romania with trading partners in the UK).

## Customs duties

In the absence of continuing agreements, the cost of goods exported by Romanian companies to the UK may increase, making thus Romanian producers less likely to export products to the UK market, and similarly, the price of goods imported from the UK to Romania could increase, meaning that these become less competitive on the local market. Compliance costs and bureaucracy is also expected to increase significantly.

## Mobility of workforce

Brexit may put an end to the automatic right to freedom of movement to and from the UK. Depending upon future negotiations between the UK and the EU, this may have an impact on UK nationals living and working in Romania, but very importantly on Romanian nationals living and working in the UK. Romanian companies regularly deploying staff to the UK on both short term and long term assignments should urgently develop alternative plans to either be able to comply with potentially new immigration requirements or relocation part of their internationally workforce to other locations. The impact may also be seen on social security contributions payable by and in respect of moving individuals.

## Contractual, legal and data protection issues

Transmission of data (e.g. personal data) across borders would be problematic if the UK were not subject to the same data protection rules as the EU. Romanian companies which currently transfer personal data outside Romania due to the nature of their business would need to keep such aspects on their radarscreen. More importantly, Romanian companies involved in trading with UK partners will need to review their contractual arrangements to ensure that those referring to EU law are brought up to date. It may be possible that judgements of EU courts will no longer apply in the UK and there will be no basis to invoke benefits arising under EU law in cases where transactions are made with UK residents.

## Costs associated with structural reorganisation

Both multinational groups, as well as local Romanian businesses with operations in the UK may face significant costs, including tax charges, on a range of reorganisational measures resulting from Brexit if it becomes necessary to relocate business as part of wider overall reorganisation. Other costs will also arise such as costs of relocating people, setting up new offices (any new entity will require appropriate substance and suitably skilled local people to operate it).

## Other implications

Leaving socio-political implications aside, these will likely include possible exchange rate fluctuations for all currencies, including the Romanian leu (and impact on hedging strategies), impact on credit ratings (both the UK's own and those derived from it) and a resultant increase in borrowing costs etc., equity and bond market volatility, access to Euro clearing services, as well as the ability of regulators to deal with all the change.

## What should organisations consider?

Romanian companies need to understand the implications of Brexit on their own business and how to respond from an operational, strategic and legal standpoint. Organisations that currently profit from EU agreements in their day to day trading activities with British partners would be likely to see changes on trade patterns; others might see key suppliers or customers relocate to the Continent. There are several considerations which are likely to be common for all organisations:

- What is the likely cost of Brexit for my business and what am I doing about it?
- What impact will Brexit have on my employees and what steps am I taking to address this?
- How will the reassessed, and possibly changed laws and regulations affect my business?

## A few more questions...

Though Brexit's impact will differ according to the profile and nature of each business, management should ask themselves:

- Who are our customers, suppliers, and outsource providers? What impact does Brexit have on them and our business interactions with them?
- What impact might future political or economic volatility have on our business?
- What impact will this have on our workforce, in terms of immigration, working hours, employee availability, etc?
- How will Brexit impact our current financing arrangements? What about other direct financial implications, such as transfer pricing, tax, jurisdictional issues, exchange rate differences, etc?
- To what extent do we rely on EU grants or trade agreements?
- Following Brexit, might we align voluntarily with EU requirements? If so, what might the potential cost of this be?
- What will the loss of EU laws or directives mean for our organisation? What about reporting requirements and regulatory regimes, etc?

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