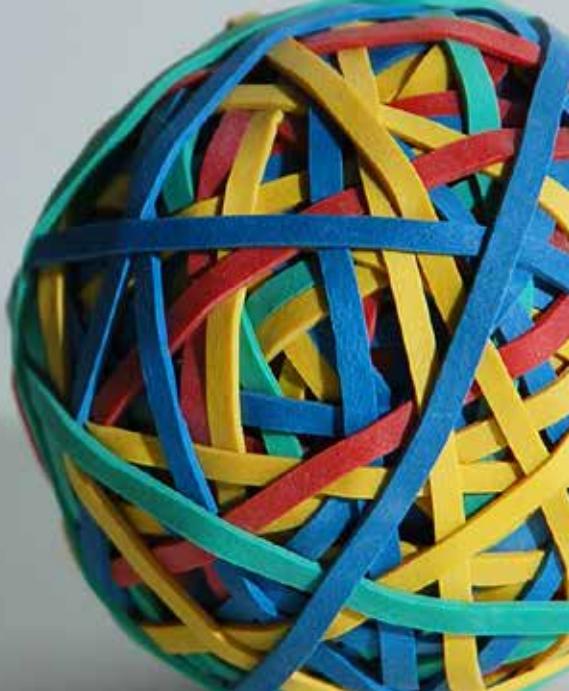


Brexit: Tax

The impact on foreign companies

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Tim Sarson

Tim is a partner in KPMG's tax team. He has 17 years' experience in implementing tax-efficient business models by multinational companies.

tim.sarson@kpmg.co.uk

At a glance:

- UK unlikely to significantly change customs duties on imports from outside EU
- Diverging corporate tax rules would make UK less attractive to inward investors
- Companies may face import VAT on goods entering the EU from the UK and vice versa

Fiscal matters lie at the heart of the EU and a Brexit will have potentially significant implications for multinationals doing business with the UK. From a tax perspective, they need to consider three areas: customs, VAT and corporation taxes.

Customs

The EU is a customs union with no duties inside. Member states share common external tariffs with third countries.

Until the two sides negotiate Britain's exit, we don't know what the tariffs and non-tariff rules will be, either between the UK and EU or between the UK and the rest of the world.

However, on paper one of the big draws of Brexit for the UK might be its ability to negotiate free trade agreements with other groups on potentially more favourable terms than it might get as part of the EU. That might include arrangements with the Commonwealth as well as ASEAN.

It is unlikely the UK would change significantly the customs duties on imports from outside the EU. Nor would we expect to see the UK introduce substantial duties on imports from the EU. However, it's still not clear what terms the EU or the rest of the world would be willing to offer UK businesses. That will in part depend on how quickly new trade agreements can be negotiated with the UK's major trade partners.

VAT

Brexit will restore the UK's right to alter its VAT after four decades of harmonisation inside the EU. That gives the UK Government the option to radically overhaul the rules. In practice it's unlikely to change much. VAT contributes a sizeable chunk of Britain's tax income and we can't see any major advantage in moving much from the existing EU-derived system, except perhaps to create further exemptions or rates in some cases.



One tangible consequence though is that companies would probably face 'import' VAT on goods entering the EU from the UK and vice versa. Ultimately, that could create an unwelcome cash flow cost between paying for the goods and recovering the VAT.

Corporate Tax

The UK acts as a foreign direct investment gateway into the EU and it is estimated that half of EU headquarters of third party multinationals are based in the UK because of a number of favourable domestic tax rules, its extensive

double tax treaty network and its EU status.

The new chancellor, Philip Hammond may have scrapped his predecessor's plans to cut the corporation tax rate to show Britain is 'open for business', but by 2020 it will still have the lowest rate in the G20 at 17%.

In light of Brexit many investors will understandably wish to assess the tax impact of continuing to use a UK holding company structure. However, overall, we would expect most would conclude that Brexit would have little or no impact on their group corporate tax position. In most cases, the UK's

bilateral tax treaties with individual member states mimic favourable arrangements within the EU.

Brexit may therefore offer the UK an opportunity to introduce (or reintroduce) tax measures that EU rules bar them from adopting. For example, the European Court of Justice of the EU has become increasingly proactive in curtailing member state laws where it perceives them to discriminate or be akin to state aid. Recent outcomes of the Commission's enquiries into multinationals tax arrangements are an example of this.

That said, if the UK diverged substantially from the EU system, that might make it less attractive to inward investors and reduce its leverage in negotiations with the EU. We don't see big changes in the short to medium term after a Brexit.

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