
WHAT BREXIT MEANS FOR U.S. COMPANIES



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After several years of negotiation and politicking, the United Kingdom finally exited the European Union on January 31, 2020.

Key decisions are yet to be made on both sides about what the future relationship between these two important trading entities will look like. This “transition period”, which ends on December 31, 2020, naturally poses more questions for U.S. companies with business interests in the UK and EU.

In this article, we’ll explore changes impacting U.S. businesses during this transition period and outline key tax, legal, and regulatory outcomes to prepare for as the UK and EU work to agree on their future relationship.

HOW BREXIT IMPACTS U.S. BUSINESSES DURING THE TRANSITION PERIOD

Until the transition period ends, most things will stay the same. For example, the UK will remain in both the EU customs union and single common market until December 31, 2020. As such, all trading treaties and principles of EU law such as freedom of movement for U.K. and EU citizens, will not change.

However, there are immediate changes on the political front. Now that the transition has begun, the UK has lost its membership of EU political institutions including the European Council, the Council of Ministers, and the European Parliament. Exceptions to the removal of these voting rights will be made on a case-by-case basis, such as instances in which discussion concerns laws and regulations that impact the UK and its citizens, or the UK’s presence in matters of government is deemed necessary.

The transition period also removes the ability of certain UK regulatory agencies, such as the Veterinary Medicines Directorate and Medicine and Healthcare products Regulatory Agency, to conduct quality and safety assessments — which, pre-Brexit, would inform the approval process for products consumed in the EU. U.S. businesses that used these avenues to apply for new products within the EU may need to contact each individual UK agency or other authorities within an EU member state.

WHAT IF THERE IS NO DEAL?

Should the UK exit the transition period without a Free Trade Agreement (FTA), it would signal the end of a decades-long common market that existed between the two regions and leave the UK trading on World Trade Organization (WTO) terms with the EU. This means that tariffs

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and regulatory checks on UK goods that travel into the EU and vice versa would come into play, in addition to other trade barriers.

HOW CAN U.S. COMPANIES PREPARE FOR THE CONSEQUENCES OF BREXIT?

The end of the transition phase could result in any variety of outcomes that impact trade regulation, immigration laws, and more. For U.S. businesses with [business interests in the UK](#), this could place unexpected pressure on labor costs, access to capital, and cash flows.

It's critical that U.S. businesses prepare now to understand the areas of doing business that will change, regardless of whether a new FTA is agreed between the UK and the EU. This will also ensure businesses are aware of how they can engage with government agencies (on both sides of the English Channel) on important business issues until an agreement is settled.

Here are some key business areas to consider as U.S. companies prepare for the impact of Brexit.

1. Contracts

Brexit has created a great deal of trading uncertainty. To prepare for further changes, companies that export or import should review their principal contracts. How will they be affected by Brexit — the uncertainty it brings and changes in trading conditions? What terms do these agreements stipulate for cross-border EU trade, including how sales or value-added tax (VAT) is dealt with?

2. Mergers and Acquisitions

U.S. businesses should consider how any new UK-EU relationship at the end of the transition period could impact any entities in their portfolio. For example, the company registration may require updating if it is a European entity formed under EU law, is a UK company with a European Economic Area (EEA) corporate officer, is a UK company involved in a cross-border merger, or is an EEA company.

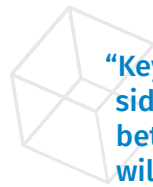
3. Tax and Administration

Because certain EU regulations for cross-border taxation will not apply after Brexit, U.S. businesses with UK interests could face higher taxes. These companies can prepare by reviewing their operations and tax structures, and anticipate new duties for dividend payments, corporate restructuring, and so on.

4. Supply Chain

With the severance of a common market and streamlined trade agreements between EU nations and the UK, U.S. businesses with supply chains in the UK may need to quickly consider complicated trade rules imposed by multiple entities, including the EU, post-Brexit UK, and the WTO.

Furthermore, without an FTA, many businesses will face longer lead times across their supply chains as new hurdles such as stringent customs controls delay the movement of goods between the UK and EU.



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5. Personnel

The EU long provided the UK with an influx of skilled and oftentimes cost-effective labor.

However, once the transition period ends, companies may find it harder to secure working rights for European citizens seeking to enter the UK workforce. Indeed, the UK is known to be considering a [points-based](#) immigration system that would limit an employers' ability to hire low- or unskilled workers. This would likely drive up hiring costs, and U.S. businesses must be prepared for the possibility of raising wages to attract quality employees, particularly in the competitive technology sector.

6. Data Protection

The EU [General Data Protection Regulation](#) (GDPR) will no longer be law in the UK at the end of the Brexit transition period.

However, as with many other cybersecurity regulations, it is likely that similar regulation will be written into UK law and the key requirements of the GDPR will still apply. U.S. businesses can prepare by reviewing whether they receive and collect the personal data of EU citizens, including from suppliers and other business entities and ensure they are in compliance with the key requirements of GDPR or similar regulation.

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CONCLUSION

While much uncertainty remains about what Brexit will mean for U.S. businesses, it's important that any entity with interests in the UK and the EU has contingency plans in place to prepare for the possible outcomes of a deal vs. no deal.

It pays to have trusted expertise as organizations navigate the tax, legal, regulatory, and compliance landscape of a post-Brexit business climate.

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