The threat of Brexit along with possible changes arising from an EU common tax base and US Trade/Tax Reform has led to serious warnings on the possible impact on the Irish economy, and to Ireland's export model. Political, economic and trade changes beyond our control are bringing uncertainty to Ireland's economy and the outcome remains unknown.

In this chapter, we highlight the tax challenges for Ireland posed by Brexit, potential US business tax reform measures and the EU's proposal for a Common Consolidated Corporate Tax Base. Due to the immediacy of Brexit we have taken a closer look at the economic and political challenges posed by the UK's exit from the EU.

An Overview of Brexit

Background

Following the UK vote to leave the EU in 2016 and the triggering of Article 50 earlier this year, the impact of Brexit is of real concern to people in Ireland. Although Brexit is a British policy, the consequences could be very serious for Ireland, given the close relationship between Ireland and Britain. The Irish economy is closely linked to the UK economy, especially through a strong trading relationship, which sees Ireland and the UK trade more than €1bn worth of goods and services every week and over €60bn per annum.

Post-recession, Ireland's economic stability is underpinned by its healthy and mutually beneficial trading relationship with the UK. In 2016 Ireland exported €14.9bn worth of goods to Britain.[1] In 2015 14% of Irish exported goods were destined for the UK and 26% of Irish imports were sourced from the UK. In 2014 the value of Irish goods and services exported to the UK amounted to 17% of our GDP, while most other EU countries' exports to the UK are in low single digits.[2]

Britain's departure from the EU is going to alter Ireland's trading relationships. The UK is Ireland's largest single trading partner in Europe and ranks second to the US in terms of global export markets.[3] Brexit will also mean that Ireland's two largest trading partners will be outside the EU.

Ireland's main political parties advocate our remaining committed to the EU and believe that our future prosperity and well-being lie with continued membership of the EU. The Government is making concerted efforts to ensure that Ireland is well prepared for the challenges that lie ahead in the Brexit negotiations and beyond.

The Government has sought to articulate the position that it is in the interests of all EU Member States that the UK maintain the closest possible links to the EU. The Government can claim some success to date. The Chief EU negotiator, Michel Barnier, has named only four initial priorities – Northern Ireland is one of them.

The economy

The impact of Brexit on Ireland's economy is potentially damaging, with specific sectors such as agri-food and tourism particularly challenged. The European Commission has said that Ireland's GDP is forecast to expand robustly over this year and the next but that the pace of growth will then moderate. In its spring economic forecast, the Commission predicted Irish GDP growth of 4% for 2017 and 3.6% for 2018. The Commission said that

1 CSO statistical release, Goods Exports and Imports December 2016 (15 February 2017), http://www.cso.ie/en/releasesandpublications/er/gei/goodsexportsandimportsdecember2016/.
2 Remarks by Dan O'Brien to the Oireachtas symposium on Brexit, *Irish Independent*, 25 September 2016.
3 IBEC, *The UK Referendum on EU Membership: The Impact of a Possible Brexit on Irish Business* (2016), p. 6.

improving labour market conditions are expected to support domestic demand over the next two years. It predicted that the unemployment rate will fall to 5.9% in 2018, while employment trends will remain positive. The Commission, however, also warned that considerable uncertainty surrounds the final outcome of the Brexit talks between the UK and the EU, as well as potential changes to US tax and trade policies, to which Ireland is highly exposed.[4]

Brexit's likely negative impact on business and trade is a huge concern for Ireland. As a small, open economy, Ireland's national prosperity is hugely dependent on our ability to trade. As the Institute of International and European Affairs[5] argues: "Big countries with big home markets can get rich without doing much international trade. Small countries can't. Ireland proves that rule. Since the 1990s, and in parallel with accelerated globalisation and Europeanisation, exporting has been central to driving Ireland's prosperity levels closer to those of our peers in northern Europe."[6]

The precise economic implications of Brexit will depend on the trade and other arrangements ultimately negotiated between the EU and the UK. However, the reality that Brexit is going to place obstacles in the route of Ireland's trading relationship with the UK should be enough to start economic alarm bells ringing for a country that must trade to thrive. Today, the UK is Ireland's most important European market, and Ireland is the UK's fifth-largest trading partner. As we mentioned previously, total exports of Irish goods to the UK in 2016 were worth €14.9bn, or 13% of total goods exports.[7]

Economic analysis from global leaders in the field of trade-related credit insurance, suggests that Brexit will mean increased economic uncertainty for Ireland, resulting in delayed investments and a slowdown in GDP growth.[8] Furthermore, this analysis suggests that Brexit will increase export and import prices in Ireland's trading relationship with the UK, leading to higher inflation and lower volumes of trade, all of which will impinge on economic growth.[9]

The impact of Brexit on the British economy is projected to mean that UK GDP in 2020 could be between 3% and 5.5% lower. Analysis undertaken by the ESRI suggests that this could equate to an estimated reduction of between 0.9% and 1.6% in Irish GDP in the medium term.[10] Open Europe has estimated that "in a worst case scenario" Ireland could see a permanent loss of 3.1% from GDP by 2030. Even in the best-case scenario the loss would still be 1.1% of GDP.[11]

Note: The ESRI Quarterly Economic Report Summer 2017 was published since this Brexit analysis was written. The new QER says Brexit continues to pose a substantial risk for the Irish economy. New calculations presented in the QEC suggests that a hard Brexit could have significant implications for the fiscal space available in the budgetary process. The need for caution on the public finances is reinforced by the results of analysis presented in the Commentary using the new structural model of the Irish economy (COSMO). The analysis uses the model to examine the impact on Irish potential output of different Brexit possibilities. The results indicate that a 'hard' Brexit would reduce Irish potential output by more than 3% over the medium term.

4 "EU Predicts Irish GDP Growth of 4% for 2017", RTE.ie, 11 May 2017.
5 Dan O'Brien, Chief Economist at the Institute of International and European Affairs.
6 *Irish Independent*, 30 April 2017.
7 CSO statistical release, Goods Exports and Imports December 2016 (15 February 2017), http://www.cso.ie/en/releasesandpublications/er/gei/goodsexportsandimportsdecember2016/.
8 R. Lissek and B. Murphy, *Ireland, Germany and the EU: Meeting the Brexit Challenge*, Report by the German-Irish Chamber of Commerce (May 2017), p. 15.
9 Euler Hermes (Ana Boata, Economist for Europe), "Brexit: What Are the Pressure Points on Ireland?" (June 2015).
10 ESRI, *Scoping the Possible Economic Implications of Brexit on Ireland*, Research Series No. 48 (November 2015), p. 6.
11 National Treasury Management Agency, *Brexit and Its Impact on the Irish Economy* (2015), p. 5.

Trade

Since 1973, Ireland's strong trading relationship with the UK has been regulated by the Single Market framework, but Brexit will change this completely. When Britain formally leaves the EU, this will place obstacles in the way of the flow of goods and services and will lead to a reduction in Ireland's GDP.[12] A so-called hard Brexit, would see the UK leave the Single Market entirely and then have a relationship with it based, at least initially, on World Trade Organisation (WTO) rules. This would place significant restrictions on the current favourable regime, which allows for the free movement of goods, services, capital and people between the UK and the other EU Member States, including Ireland.

The Irish Department of Finance has warned that the separation of the UK from the EU could lead to an increase in tariff and non-tariff barriers, which would have a very damaging impact on sectors in Ireland that export to the UK. In addition to the exporter impact, trade barriers could cause disruption to the global production networks that characterise many modern industries, making it more costly for sectors to source inputs.[13]

The Chartered Institute of Logistics and Transport points out that over 80% of Ireland's trade with mainland Europe transits as road freight through the UK. This is principally perishable or other time-sensitive trade. The dominant mode is RoRo (Roll-on/Roll-off), and there is unlikely to be any realistic alternative for this trade other than the UK landbridge. After Brexit, Irish landbridge trade will have to exit and re-enter the EU, with potential Customs and border inspection implications that it does not face at present. To illustrate this point, the WTO estimates that, on average, Customs clearance accounts for around 8% of the cost of importing goods by sea and adds about a day to the import process for a single freight container. The impact would potentially be more serious for Irish landbridge trade, which involves two sea crossings.

In a submission to an Oireachtas Committee, the Irish Exporters Association highlighted that a significant share of Irish exports is shipped through the UK landbridge as this is the quickest route to continental Europe. Depending on the terms of the future trade agreement between the EU and the UK, Brexit has the capacity to significantly threaten the reliability of this transit route.[14]

It is estimated that if the UK withdraws from the Single Market, through a hard Brexit, Irish annual exports could decrease by approximately 3.6% in GDP terms, or €6.6bn.[15] Even in a soft Brexit scenario, the additional expense of complying with two different regulatory regimes (EU and non-EU) and associated costs will substantially hit Irish exports, with negative knock-on effects for employment and for economic growth.

The first international sector-by-sector impact study of Brexit suggests that Ireland is particularly exposed to a hard Brexit. The ESRI examined 5,200 products that face some sort of tariffs when crossing EU borders and concluded that, irrespective of the nature of Brexit, Estonia, Finland, Latvia and Slovenia would experience only a very small decrease in their total trade, with "reductions of less than half of one per cent".[16] In contrast, "Ireland is the most severely affected [country] when total trade is used, followed by Belgium and Slovakia".[17] The ESRI report projects that Ireland could lose 4% of its total exports, representing an annual loss of €4.5bn in cash terms, and states that "Ireland now stands out as the most reliant on the UK market, followed by Cyprus, whereas Germany with its more global export reach is less vulnerable than the EU shares columns suggested".[18] The scale of Irish losses is compounded by the fact that much of Ireland's trade with the UK is in agricultural products, to which high tariff levels may apply when Britain actually leaves

12 P. McGrath, *Brexit and Likely Implications for Ireland* (2015), p. 3.
13 Department of Finance, *UK EU Exit – An Exposure Analysis of Sectors of the Irish Economy* (October 2016), p. 1.
14 Irish Exporters Association, submission to the Joint Committee on Foreign Affairs and Trade and Defence (9 March 2017).
15 Houses of the Oireachtas Joint Committee on European Union Affairs, "UK/EU Future Relationship: Implications for Ireland" (June 2015), p. 22.
16 ESRI, *The Product and Sector Level Impact of a Hard Brexit Across the EU* (November 2016), p. 24.
17 ESRI, *The Product and Sector Level Impact of a Hard Brexit Across the EU*, p. 24.
18 *The Irish Times*, 24 November 2016; ESRI, *The Product and Sector Level Impact of a Hard Brexit Across the EU*, p. 8.

the EU. The report suggests that "trade in some specific sectors, such as food and textiles would be close to wiped out while others would be almost unaffected".[19]

Instead of turning inward as a result of Brexit, the Government says that it is committed to redoubling our efforts to help Irish business trade more into Europe and across the world. For example, in March the Government launched a new trade, tourism and investment strategy, *Ireland Connected*, which sets out a vision and a plan to rebuild a strong economy and make Ireland the best place to do business in, to visit, to work in and to live in. Its goal is to increase Irish indigenous exports by 26% by 2020.

The huge uncertainty around Brexit is particularly severe when it comes to services trade. In 2015, the most recent year for which figures are available by individual market, Irish services exports to the UK were worth €24bn and this far exceeds the value of merchandise goods, at €14bn that the British buy from Ireland-based firms.[20] That latter figures, incidentally, includes all food products sold into the UK market. Services are a large part of our exports to the UK and are especially vulnerable to Brexit. It has been suggested that the new arrangements post-Brexit will mean barriers for such business and "a deterioration in access to the UK by EU-based firms."[21]

Employment

Almost 200,000 people in Ireland are employed as a direct result of Irish exports to the UK. This represents 10.4% of those currently employed.[22]

The damage that Brexit will inflict on Irish exports, as a result of increased transaction and compliance costs for business, has the potential to increase unemployment significantly.

According to the ESRI, as a result of Brexit, there will be a risk of wage reductions as high as 5% in exposed industries.[23] Brexit also creates a threat to employment through a loss of business and higher costs.

A Status Report on Brexit published by the Institute of International and European Affairs in 2017 noted that: "Brexit will cause companies to change their investment decisions. This is likely to result in both Irish jobs moving to the UK and British jobs moving to Ireland. Among the most traditional motivations for foreign direct investment is to jump over trade barriers that exist between countries. The higher the new barriers to trade between Britain and Ireland are after Brexit, the more likely it is that companies based in Ireland, which service the UK market, will have reason to relocate at least part of their operations into the UK. Such barrier jumping is likely to lead to job losses in Ireland."[24]

The same report also noted, however, that "jumping trade barriers works both ways. While Ireland stands to lose some jobs, it also stands to gain jobs from Britain as a result of Brexit. This is the only significant upside for Ireland from the UK departing the EU."

The CSO Business Demography results from 2014 show that 919,985 people are employed by SMEs in Ireland.[25] This major employment sector in Ireland is particularly vulnerable to Brexit.

FDI

The threat of the UK competing more aggressively for FDI upon formally leaving the EU has been identified by the National Treasury Management Agency (NTMA), a State entity that provides a range of asset and liability management services to the Irish Government.

19 ESRI, *The Product and Sector Level Impact of a Hard Brexit Across the EU*, p. 4.
20 Dan O'Brien, *Irish Independent*, 14 May 2017.
21 Dan O'Brien, *Irish Independent*, 14 May 2017.
22 Houses of the Oireachtas Joint Committee on European Union Affairs, "UK/EU Future Relationship: Implications for Ireland", p. 24.
23 British–Irish Chamber of Commerce, *UK – EU Membership Referendum* (June 2016), p. 4.
24 Institute of International and European Affairs, "Brexit: A Status Report" (2017), p. 35.
25 Irish Small and Medium Enterprises Association, "SME Facts and FAQs" (factsheet) (July 2016), https://www.isme.ie/advice/sme-facts-faq#employed.

The NTMA has stated that "the UK could lure FDI away from Ireland with lower taxes, higher subsidies and other incentives. The EU state aid rules may no longer apply to the UK and could give the UK a competitive advantage over the remaining EU nations."[26]

The British Prime Minister, Theresa May, has suggested that the UK will cut corporation tax to the lowest rate among the world's 20 largest economies. In a speech to the Confederation of British Industry, Mrs May said that her aim was "not solely for the UK to have the lowest corporate tax rate in the G-20 but also a tax system that is profoundly pro-innovation".[27] Experts have suggested that Britain could reduce corporation tax to less than 15% and that this would pose a serious challenge to Ireland.[28]

In Ireland, 40% of the population is under 29; we have the youngest population in the EU. Ireland's education system ranks in the top ten in the world, and over 50% of Irish 30–34-year-olds have a third-level degree – higher than any other country in the EU. Ireland offers a pro-business environment, together with a stable and competitive corporation tax regime.[29]

Brexit has the potential to make the Irish financial services sector more attractive. "Passporting", which allows London-based lenders and insurance companies to sell their services anywhere in the EU Single Market, is unlikely to continue after the UK leaves the EU.

Energy

Brexit has huge implications for the Irish energy market. It is estimated that Ireland imported in excess of €6bn worth of energy products through the UK in 2014.[30]

The UK and Ireland's gas grids are linked by sub-sea gas pipelines between the two countries. 100% of Ireland's natural gas came via transmission through the UK in 2015, and the introduction of tariffs or other barriers to trade on British gas could make Ireland's attempts to decarbonise more expensive. Alternatively, UK tariffs could incentivise Irish investment in indigenous renewable resources or finding new countries from which to import gas.[31] A report by the Oxford Institute for Energy Studies suggests that Ireland will "be effectively cut off from the main European Continent" gas market when the UK leaves the EU.[32]

Ireland and the UK's electricity grids are also linked. In turn, the British energy market is connected to both mainland Europe and Norway, but the UK is less dependent on energy imports than Ireland because the UK has North Sea reserves.[33] Electricity prices in Ireland are high but actually currently benefit from the UK cheaper access (with a 20% mark-up).[34] There is a distinct possibility that Brexit will substantially increase the price of electricity for Irish consumers and businesses.

Agri-food

The agri-food sector is Ireland's largest indigenous industry, directly and indirectly employing over 230,000 people. The sector is continuing to perform extremely well, increasing exports by 51% since 2009 to reach a record value of €10.8bn in 2015. The strongest categories in terms of export growth were beverages (+10%), beef (+6%) and

26 National Treasury Management Agency, *Brexit and Its Impact on the Irish Economy*, p. 8.
27 *The Irish Times*, 21 November 2016.
28 *The Irish Times*, 21 November 2016.
29 Briefing document coordinated by the Trade Division, Department of Foreign Affairs and Trade (St Patrick's Day 2017).
30 LK Shields, "Brexit: What Will It Mean for Ireland's Energy Market?" (October 2016).
31 P. Higgins and R. Costello, *What Does Brexit Mean for the Energy Sector in Ireland* (2016), p. 9.
32 Oxford Institute for Energy Studies, *Brexit's Impact on Gas Markets* (January 2017), p. 1.
33 National Treasury Management Agency, *Brexit and Its Impact on the Irish Economy*, p. 10.
34 Euler Hermes (Ana Boata, Economist for Europe), "Brexit: What Are the Pressure Points on Ireland?".

seafood (+4%).[35] The UK was the main destination for Irish agri-food and drink exports in 2016, accounting for 47% of such exports.[36]

The Irish agri-food sector is much more closely linked to the UK than to the rest of the EU.[37] Even without post-Brexit tariffs, additional costs associated with the reintroduction of Customs controls (rules-of-origin checks, import licence requirements, documentation, physical border checks), as well as the expense of complying with two different regulatory regimes, are likely to make Irish agri-food exports less competitive in the UK.

Teagasc (the Irish Agriculture and Food Development Authority) projects annual losses of between €150m and €800m in agri-food export value as a result of Brexit.[38] The UK is by far Ireland's largest trading partner in the agri-food sector. According to official figures, last year Ireland exported almost €5.1bn worth of agricultural products to the UK. This included more than €1.1bn of beef products (almost 50% of our total beef exports) and almost €970m of dairy products (almost one-third of our total dairy exports). Ireland is also the UK's largest destination for its food exports – worth €3.8bn last year.[39]

A recent report by ESRI economists underlines that Britain remains by far the most important market for Irish-owned companies and that over the course of the current decade (2011–15) the UK market absorbed just under half of the food exports of such companies.[40] The same report highlights the importance of the agri-food industry to Ireland's exports regime, with only one of the top 10 indigenous exports coming from the non-food sector.[41]

Adding to the challenge that Ireland's food and drink exporters face is the difficulty that Brexit poses regarding the UK landbridge. Ireland's agri-food and fisheries sector depends on fast access to its markets. Post-Brexit, Ireland will need alternative physical routes to markets to avoid the use of the UK landbridge. These alternative routes to continental Europe will need to be researched and funded, including the upgrading of Irish ports.[42]

Bord Bia is responding to the concerns of food and drink exporters to the UK that wish to consolidate their position in the marketplace while planning for a changing environment post Brexit. It is providing exporters with information on the changing landscape and tailored assistance to manage short-term volatility and will work with them to devise options for medium- and long-term challenges.[43]

Tourism

Tourism contributes 4% of our GNP and is one of Ireland's largest indigenous industries.[44] The sector employs over 220,000 people across the country, more than 10% of all employment. Overseas visitor numbers have grown every year since 2010, and 2016 was another record year: we welcomed 9m overseas visitors to Ireland, an increase of 11% on 2015. More importantly, overseas tourism revenue grew by 10% in 2016, delivering in the region of €4.7bn to the economy. In addition, Irish air and sea carriers earned an estimated €1.5bn in fares from overseas visitors in 2016.[45]

Britain is Ireland's most important tourism market. Over 4.9m UK citizens visited Ireland in 2016, which was worth over €1.5bn to the Irish economy.[46] Although Britain remains

35 Briefing document coordinated by the Trade Division, Department of Foreign Affairs and Trade (St Patrick's Day 2017).
36 Bord Bia, "Factsheet on the Irish Agriculture and Food & Drink Sector" (2017), http://www.bordbia.ie/industry/buyers/industryinfo/agri/pages/default.aspx.
37 Trinity Economics Paper (Professor Alan Matthews, former President of the European Association of Agricultural Economists), *Implications of the British Exit from the EU for the Irish Agri-food Sector* (April 2015), p. 3.
38 House of Lords European Union Committee, *Brexit: UK–Irish Relations* (December 2016), pp 9–10.
39 Briefing document coordinated by the Trade Division, Department of Foreign Affairs and Trade (St Patrick's Day 2017).
40 ESRI, *Expanding and Diversifying the Manufactured Exports of Irish-owned Enterprises* (April 2017).
41 ESRI, *Expanding and Diversifying the Manufactured Exports of Irish-owned Enterprises*.
42 Irish Exporters Association, submission to the Joint Committee on Foreign Affairs and Trade and Defence (9 March 2017).
43 Briefing document coordinated by the Trade Division, Department of Foreign Affairs and Trade (St Patrick's Day 2017).
44 Tourism Ireland, "New Tourism Ireland Red C Research Shows Brexit Implications for Tourism" (January 2017), https://www.tourismireland.com/Press-Releases/2017/January/New-Tourism-Ireland-RedC-research-shows-Brexit-imp.
45 Briefing document coordinated by the Trade Division, Department of Foreign Affairs and Trade (St Patrick's Day 2017).
46 Tourism Ireland, "New Tourism Ireland Red C Research Shows Brexit Implications for Tourism".

Ireland's biggest source market for overseas tourists, representing 41.6% of all such visits,[47] Brexit has the potential to undermine this huge source of revenue and employment for the Irish economy.

The depreciation of sterling since the UK voted to leave the EU is making Ireland more expensive for British visitors to travel to.[48] In addition, economic uncertainty may make British people more cautious about discretionary spending, and this may impact on Irish visitor numbers. The Irish Tourist Industry Confederation also sees Brexit as posing an "immediate-term challenge" for the tourism sector in Ireland because "the UK has become a better value location for international holiday-makers due to the fall of sterling".[49] The depreciation of the UK pound against the euro may also see more British tourists opt for Northern Ireland rather than the Republic of Ireland.

Oxford Economics projects that, as a result of the weaker pound, UK outbound visits will decline by 2.4% in 2017.[50] As the British market accounts for almost 42% of Ireland's overseas visitors, this decline could cost Ireland significant earnings and could lead to considerable job losses.[51]

Northern Ireland

Ireland is the only EU Member State to share a land border with the UK. There is free movement of people and goods across this border. 30,000 people cross the border between Ireland and Northern Ireland every day to work or visit family and friends.[52] The elimination of a hard border in modern times has been critical in the context of the Northern Ireland peace process and in building cooperation between the two jurisdictions on the island.[53] The Government has stressed that, irrespective of Brexit, the border between Ireland and Northern Ireland must remain "invisible" and that the Irish Government will be emphasising the importance of this approach in negotiations with EU colleagues.[54]

Brexit – the tax challenges

1. Customs duty and tariffs

The Brexit issue is shrouded in uncertainty and it is unclear at this stage what the final outcome of the negotiations will be between the EU and the UK.

In the worst case scenario, where the UK fails to secure a trade agreement with the EU on exit and no transitional arrangements can be agreed, the fall-back position for access to the EU market could be the standard World Trade Organisation (WTO) rules. This means the UK would be treated like any other non-EU (third) country without a free trade agreement with the EU, such as the US.

Even if a free trade agreement is ultimately achieved, all goods moving cross-border between Ireland (EU) and the UK would have to be cleared through customs. This process would create costs, additional administration and possibly time delays.

After exit, the UK could introduce its own regulations and non-tariff measures for products that are sold in the UK market. This could add to the complexity as businesses may have to deal with two different regimes.

47 Fáilte Ireland, "Tourism Facts" (September 2016).
48 Department of Finance, *Getting Ireland Brexit Ready* (October 2016), p. 6.
49 R. McHugh, "Irish Tourism Industry Facing Challenges as a Result of Brexit", *Business World* (8 August 2016).
50 Tourism Ireland, "Post-Brexit Briefing and Update on the British Market" (July 2016), https://www.tourismireland.com/Press-Releases/2016/July/Tourism-Ireland-post-Brexit-briefing-and-update-on.
51 R. Lissek and B. Murphy, *Ireland, Germany and the EU: Meeting the Brexit Challenge*, p. 33.
52 Comments by the Minister for Foreign Affairs, Charles Flanagan TD, *Drivetime*, RTÉ Radio 1, 26 July 2016.
53 Houses of the Oireachtas Joint Committee on European Union Affairs, *UK/EU Future Relationship: Implications for Ireland*, p. 11.
54 Comments by the Minister for Foreign Affairs, Charles Flanagan TD, *Drivetime*, RTÉ Radio 1, 26 July 2016.

2. Corporate tax policy

Immediately after the Brexit vote, the then Chancellor of the Exchequer, George Osborne, announced that the UK would seek to reduce its corporate tax rate to 15% or less. The British Prime Minister, Theresa May, said that her aim was "not solely for the UK to have the lowest corporate tax rate in the G20 but also a tax system that is profoundly pro-innovation" in a speech to the Confederation of British Industry.[55]

Undoubtedly, changes in the UK's corporate tax policy, including a falling corporate tax rate, could pose a challenge to Ireland.

Assuming the UK leaves the EU, it will no longer be subject to EU State Aid rules and the tax reform measures in the EU Anti-Tax Avoidance Directives (ATAD 1 and 2).[56]

However, the UK will continue to be an active member of the OECD and is committed to the reform measures set out in the OECD's Base Erosion and Profit Shifting (BEPS) Project. Indeed, the UK is already further along the road than many of its European neighbours. It has legislated for anti-hybrid rules and interest deductibility rules akin to those outlined in the ATAD. The UK also has a general anti-abuse rule, an exit tax and what it regards as EU-compliant controlled foreign company (CFC) rules.

What might concern the UK more is its potential departure from EU Directives that allow for dividends, interest, royalty payments and certain asset transfers to be made free of withholding taxes between EU Member States.[57] This would mean the UK relying on existing tax treaties, which are not always as favourable as the EU Directives.

Even though the UK can be somewhat more flexible with its corporate tax policy post-Brexit, its options are not without limits.

3. New UK VAT system

After Brexit the European Directives and Regulations on which the EU VAT system is based would no longer apply to the UK and the UK could determine its own VAT system.

As with customs, the UK would become a third country from a VAT perspective which would create an import/export border between Ireland and the UK. All supply chains to, from and via the UK could be affected by the changing VAT treatment and new reporting obligations. This could happen even where goods do not physically move through the UK but are supplied to or by a UK entity or under a UK VAT number. This could create cash-flow and administrative issues relating to VAT recovery in the UK and difficulties around registration and related filings.

55 *The Irish Times*, 21 November 2016.

56 See http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1454056979779&uri=COM:2016:26:FIN.; http://data.consilium.europa.eu/doc/document/ST-6333-2017-INIT/en/pdf

57 Parent–Subsidiary Directive (2003/123/EC), Interest and Royalty Payments Directive (2003/49/EC), Mergers Directive (2005/19/EC).