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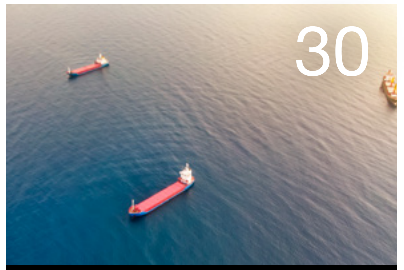
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Foreword

Welcome to our second edition of Global Trade, our periodic round up of insights into International Trade.

Since our last edition in December, there has been a number of changes which have impacted the industry. A new UK government was elected and there was an initial drive to deliver Brexit which dominated the news at the beginning of the year. Then we were faced with an unprecedented pandemic caused by COVID-19, which caused major interruptions to international trade around the world. Physical lockdowns, supply chain shortages and manpower have all been hit hard causing most businesses to reassess how they trade both locally and globally.

In addition, trade wars continue to dominate the news and, although there was a brief lull, Brexit is now firmly back on the agenda.

All of this has created a huge amount of uncertainty and extremely difficult trading conditions for UK importers and exporters.

Our round up includes insights from our International Trade team, designed to update you on the key developments in the sector.

We have also included articles kindly provided by David Priestly, from UK Export Finance, Vijay Thacker and Shitij Bahl from Crowe India and Jaspaul Bains at RationalFX.

We continue to produce regular insights and guidance as well as seminars and courses to support those involved in international trade.

Our dedicated webpage pulls together everything in one place and I would encourage you to visit the site to keep up with the latest developments. Visit our webpage for more info.

Darren Rigden
Head of International Trade, Crowe UK

How COVID-19 has impacted international trade, transport and infrastructure

Darren Rigden, Partner, Head of International Trade, Mark Evans, Partner, Corporate Audit and Chris Mould, Partner, Corporate Audit

COVID-19 is having an unprecedented impact on global trade and the transport and infrastructure sector. Supply chains are being disrupted, the movement of goods and people nationally and internationally are being restricted in a way not previously seen. Overall, this is putting increased pressure on the transport and logistics sector, which was already struggling with Brexit, a lack of drivers (made worse by sickness and increased demand for home deliveries) and other industry wide problems.

Freight costs are already rising with average costs increasing from $1.5-4.5/kg to $6-7/kg, according to the Institute of Export and International Trade. Green lanes are being introduced in an attempt to streamline freight services through EU countries.

The Institute of Export and International Trade reported on 25 March that "demand for freight charters is going through the roof with prices for capacity spiking as a result. The spike in demand is due to China's return to manufacturing production, together with diminished belly cargo capacity that began as the country's economy began its shutdown in December last year."

With China now waking up and hopefully the rest of Asia, Europe and the US following suit soon, there will be huge pressure on the sector to ship orders in order to fuel a recovery as demand for parts and manufacturing stock increases.

The industry has been calling out for help since the start of the COVID-19 outbreak.

Those working in the sector are now seen as key workers and many will argue the sector is now starting to get the recognition and attention it deserves in its pivotal role in international trade.

As ever the industry is responding practically with examples including the use of passenger planes as cargo planes to meet the demand. From our own clients we are seeing new initiatives which we thought would be useful to share.

Client initiatives to manage the impact

The food industry is generally buoyant but it's not universal. Food services have been decimated by the 'shutdown' of the hospitality and leisure sector. Conversely, supply chains to retail food outlets have seen a surge in demand.

Businesses are reviewing their fleets to identify where they might be applied to sectors that remain strong, such as food supply and retail food distribution, and are then approaching potential customers.

As well as varying demand, the other main issue is staff resourcing. We have seen businesses initiate additional social distancing measures in relation to both their workforce and their customers' workforces. These include isolating their drivers from their customers' workforce, not allowing external drivers into their site and removing direct interaction during deliveries by replacing hard copy delivery documentation with electronic alternatives or document drops.

All visiting staff are being triaged via questionnaires regarding their whereabouts to assess their risk of infection, augmented by temperature checks of visitors.

The three month MOT holiday is useful but there is a risk that when it ends, there will be a shortage of MOT capacity. To manage this, businesses are reviewing their fleets and doing pre MOT prep work where efficient to do so.

Carriers are working closely with their customers to minimise the amount of repacking that they have to do. Customers are wary of their personnel working in close proximity while un-packing/re-packing products. Logistics firms are therefore working with the customers to package their loads in smaller more specific load sizes and composition to reduce or eliminate the need for re-packing by the customer.

Office and support staff are being furloughed but frontline warehouse and driver teams, while being re-deployed where appropriate, are mainly being retained.

What to consider to protect your business

The impact of the disruption will correlate with the number of components in the supply chain and the number of countries' goods need to pass through. By reviewing your supply chains you might be able to reduce the level of disruption if you can bypass countries or part of the supply chain.

It is also worth considering the concentration of your suppliers if possible. Now would be a good time to try to broaden the number of suppliers you are reliant on and the sources of your supplies. Think not only of suppliers but also the countries/locations they are based in - the more breadth you can incorporate, the safer your supply chain will be.

Some of the mega-vessels are now bypassing certain ports in an attempt to speed up deliveries. It is important that you understand where your goods are expected to arrive and any issues with re-routing, along with the impact that will have on the timing of your deliveries.

The fall in the US dollar and the euro highlights the need for businesses to continue to cover their foreign exchange risk.

You should also continue to review your payment and Incoterms to ensure they remain appropriate, both for buying and selling.

Where possible you should make use of electronic sources of documentation.

Check customers can take deliveries, especially if there have been delays since the order as many businesses will now have closed down. Communication with your suppliers and customers is key.

Continue with your due diligence and credit control procedures, unfortunately in the current climate many businesses will be struggling and some will not survive.

Consider holding goods at multiple warehouses to reduce risk. This might reduce efficiency and increase costs but could ensure you can maintain your supply chain.

Manage your cash and stock very carefully to ensure you can keep your businesses going as long as possible during the disruption.

What support is available?
Support is available to the sector and we are helping a lot of clients to interpret the rules to ensure they obtain the relief as soon as possible, to maintain business continuity. Some of the support available includes:

- deferring VAT and income tax payments
- a Statutory Sick Pay relief package for small and medium sized businesses (SMEs)
- grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000
- the Coronavirus Business Interruption Loan Scheme offering loans of up to £5 million for SMEs through the British Business Bank
- a new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cashflows through loans
- the Coronavirus Job Retention Scheme.

To stay updated on how you can manage the impact of COVID-19 and help you and your business through the challenges, visit our COVID-19 hub.

As things develop we will endeavour to keep businesses informed. For more information, please contact Darren Rigden, Mark Evans or Chris Mould, or your usual Crowe contact.

“Manage your cash and stock very carefully to ensure you can keep your businesses going as long as possible during the disruption.”

How UKEF is supporting UK Exports through the coronavirus pandemic

David Priestley, Head of Export Finance Managers,
UK Export Finance

The economic impact of coronavirus has devastated countries across the world. The resulting dampening of supply and demand in the global supply chain has hit UK exporters hard.

Transit restrictions and factory shutdowns in the UK and overseas mean many UK exporters cannot manufacture their products in the UK and fulfil their export orders globally.

Companies who rely on imports and those who have substantial export orders are not getting paid, despite incurring costs to manufacture or ship goods to fulfil an overseas contract.

As an island nation reliant on global supply chains, trade is essential if the UK is to overcome the unprecedented economic challenge posed by coronavirus. Exporting can open new markets for business, bringing investment, better jobs, higher wages and lower prices at a time when we need them the most.

That's why government support for the 230,000 exporters in the UK who have been disrupted by the pandemic is so important. UK Export Finance (UKEF) is the UK's Export Credit Agency and its role is to do just that - help any company, in any sector, to win, fulfil and get paid for export contracts.

UKEF works directly with banks and lenders to help exporters through direct lending, government-backed guarantees and export insurance. Its support has been developed over the course of a century and UKEF has a proven track record in delivering export contracts for companies across the UK.

Below are some of UKEF's products that are helping exporters to secure deals, fulfil orders and get paid when selling internationally.

EXIP

If a business is concerned about getting paid, UKEF offers an Export Insurance Policy (EXIP) that can help an exporter recover the costs of fulfilling an order that is terminated by events outside their control.

In light of COVID-19, this product has been expanded and is now available to cover exports to over 180 countries and now includes transactions with the EU nations, Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the USA.

Exporters taking out one of UKEF's export insurance policies receive up to 95% cover on the value of their exports. To qualify for cover, an exporter must be carrying on business in the UK and demonstrate an inability to obtain credit insurance from the commercial market.

Take-up of EXIP inquiries has increased significantly in the last few weeks. Increases are occurring:

- where an exporter has an existing credit insurance policy and this insurance cover for a customer has been removed, reduced or refused
- where an exporter has not previously had or does not currently have credit insurance in place but concerns about the COVID-19 crisis has prompted a more risk averse approach to credit management.

We are working with insurance brokers who can arrange UKEF's EXIPs for their clients to help ensure the product is used by those who need it.

To apply for cover, visit our website or speak to the customer services team.

Working capital

If UK exporters are experiencing cashflow constraints when looking to fulfil orders, UKEF can help ease cashflow constraints tied to an export contract by guaranteeing bank loans through its Export Working Capital Scheme.

UKEF can provide partial guarantees covering up to 80% of the risk to lenders to cover the credit risks associated with export working capital facilities both pre and post-shipment.

To apply for cover, speak to your bank or to the UKEF customer services team who can put you in contact with your local UKEF Export Finance Manager.

Buyer Finance, including Direct Lending

UKEF can also support financing for overseas buyers of UK exports through providing guarantees to lending banks and through Direct Lending. These products reduce the risks faced by lending banks so that buyers can continue to purchase UK goods and services with extended payment terms.

The Chancellor increased UKEF's direct lending capacity to £8 billion in the Spring Budget, further enabling support to UK exporters and suppliers in facilitating their overseas buyers to procure from the UK.

UKEF's Smaller Deals Initiative offers similar support for smaller contract values (£0.5 million+) and has supported several such transactions in recent months.

UKEF works with specialist lenders to help businesses win exports. Its products allow UK companies to get paid when their exports have been shipped while letting buyers benefit from deferred payment terms.

Given the nature of such contracts UKEF is providing particular support for SMEs through this initiative.

Bond support
The collateral that lenders can require to put a bond in place for export contracts can sometimes negatively impact the working capital of a business and thereby restrict ongoing operations. UKEF's Bond Support Scheme can cover up to 80% of a bond's value and mitigate the lender's requirement for collateral, easing cashflow constraints.

UKEF's local network
UKEF's network of experienced Export Finance Managers are located across the UK and are the first point of contact for financial guidance for exporters impacted by COVID-19. Businesses can learn more at UK Export Finance.

Global reach
UK Export Finance has a total risk appetite limit of £50 billion, providing support to help UK companies of all sizes and across sectors win, fulfil and get paid for export contracts in over 200 markets. For an up to date list of cover availability by country please see here.

Founded following the First World War in 1919, UKEF has a long history of supporting UK businesses through turbulent times, helped hundreds of UK businesses to achieve international success.

For more information, visit trade finance or find your local representative.

Setting up in the UK

Sakshi Malhotra, Director, Accounts & Outsourcing

Are you an Indian business looking to branch out internationally?

The UK is a good location to consider as it is one of the top ten economies in the world, thriving across various sectors it has a good, long standing relationship with India. Research has shown that there were over 800 Indian businesses set up in the UK within the last year. Additionally, Companies House (UK Government) statistics show an increase of approximately 5% year-on-year for company incorporations.

As with any new market, research is key. It is critical that you initially research whether there is a market for your product or service, and whether you can supply that product or service at a competitive price after taking into account taxes and other regulatory requirements.

We have outlined the key points for you to consider.

Key points to consider

Location

This very much depends on the sector that you operate in. For example the financial sector would be better suited in London whereas the manufacturing sector may be best in the Midlands or the North where there is more land and warehousing space available along with a pool of experienced staff. Other points to consider are proximity to transport links such as airports and ports; location of suppliers; employees; and customers.

Some areas of the UK also have additional incentives to attract businesses to set up in that region.

Business structure

With regards to the optimum business structure, there are various options available including either:

- setting up as a UK legal trading entity (for example a limited company, limited liability partnership, sole trade or partnership)
- establishing a UK permanent establishment (a branch)
- trading directly from overseas.

Each of these has advantages and disadvantages and it's essential to take advice before setting up to ensure the most appropriate and efficient structure is set up at the outset and that this takes into account any tax planning opportunities, or grants and funding that may be available.

Forming a limited company is the most commonly used option and is relatively easy to set up. It can take less than 24 hours to register a company and you don't need to have a UK resident director (although it may assist with opening a bank account) and the minimum share capital required is £1. Details about the company ownership, registered address and financial statements are all available as public documentation in the UK.

This structure also provides some risk protection compared to a sole trader type arrangement.

Running a business

It is essential to consider who will be running the UK company/operations. Will you be hiring someone locally, sending someone from India or will you be looking to relocate yourself? This is an important consideration and should form part of your general planning phase. Just by being a majority shareholder or owning a company in the UK does not automatically provide access to visas. There are certain visa options which are easily obtainable, however some of these are only available before you start trading here in the UK. It is therefore vital that you take advice on this in your general planning phase. Crowe has a dedicated Global Mobility team headed by Dinesh Jangra who supports organisation on all aspects of global mobility.

Sales representative

Consider hiring a local salesperson who understands the local markets/regions and may have a number of contacts which could help win sales quicker.

Corporation tax

The UK has a central tax system and therefore the tax rate (currently a 19% flat rate) is applicable to all companies regardless of where they are situated.

Indirect tax

The company may also be required to register for Value Added Tax (VAT) depending on the amount of revenue it generates. This is an indirect tax and is similar to GST in India. There are different rates for VAT (0%, 5% or 20%) depending on the type of goods/services being offered.

Employment tax

Employers in the UK pay National Insurance which is calculated at 13.8% of the gross salaries of employees.

Research and Development

The UK has a very attractive Research & Development (R&D) scheme, therefore if your business is conducting R&D (and the definition is very broad), then it may be valuable to consider setting up in the UK. There is also a possibility of obtaining cashback under this scheme.

Access to funding

The UK is considered as one of the hubs for access to funding and investment, especially with startups where investment is encouraged. There are tax benefits available to investors who invest in start-ups. Your business structure may need to be aligned so you can benefit from this and in order to make your company attractive for funding.

UK Government bodies such as Department for International Trade (DIT) can provide a lot of market research to assist you in setting up in the UK and also introduce you to local councils.

If you have any questions, or would like to proceed with moving your business to the UK, please do not hesitate to contact us. Sakshi Malhotra has experience of helping companies from India locate in the UK and we also have a dedicated India desk.

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Setting up in India

Shitij Bahl, Senior Advisor, Crowe India

Are you considering moving your business to India?

India is an attractive location for businesses across a number of different sectors, including manufacturing, product sales, technology, financial services, healthcare, hospitality to name a few. In addition to the need for a commercial evaluation, it is also necessary to check if any Foreign Direct Investment (FDI) limitations or other regulations apply to any investment for your selected sector. Automatic investment approval is available for most sectors, however restrictions are stipulated in some cases, either requiring case by case approval or effectively being not permitted.

India is often known as being a difficult place to do business. However, this does not need to be the case, provided adequate effort has been made initially to set up the entity, and its administration and compliances are on a sound footing, consistent with the business needs and strategy.

Key points to consider

Location
India is a large country (1.24 million square miles) and the choice of location is an important factor. It is influenced by the nature of your business, resource needs, reliance on imports and quantum of exports, and the type of services. For manufacturing, the kind of products being manufactured, costs of sourcing, production and distribution, environmental guidelines and regulations must be considered. Certain states provide more facilitation and local benefits, for example limited direct tax incentives are granted for setting up plants in specific areas (these are normally remote areas in need of development).

In relation to the services industry, the sector and target market are important determinants of location. For example, Mumbai and Delhi NCR are more suited for the financial sector; Bengaluru is the most prominent hub for the IT sector but Gurugram, Hyderabad, and other Tier II cities are also significant for the IT sector along with benefitting from efficient cost of living and operations. Proximity to ports and major airports can be critical for operations that are materially dependent on import/export or require substantial international travel for services.

The registered address of the entity can be in a different location to where the work is actually performed. Therefore, registration does not need to be delayed to decide on the location for operations. However, an address with a lease arrangement is required for registration. To change the location of the registered office is straightforward when it is within the same city or state. Although, changing it to another state faces several challenges due to tax and company laws among others.

Business Structure
Among the many business structures available in India, the structures most suited for cross-border investment are limited liability companies (private or publicly held), branches and limited liability partnerships.

If the intent is only for limited business objectives without carrying out business in India, a Liaison Office/Project Office could be considered. Each form of organisation has its own advantages and disadvantages. The ultimate decision of what business structure to choose depends upon balancing the pros and cons of the different options available.

The right choice is crucial because it determines the power, control, risk and responsibility as well as the distribution and repatriation of profits and losses.

A private limited company is the most commonly used option and is relatively easy to set-up. There is no requirement of a minimum share capital, however the company will require a minimum of two shareholders and two directors - one of the directors must be an Indian resident.

The two shareholder requirement can be structured to ensure that the company is a wholly-owned subsidiary of the UK based parent entity. Details about the company ownership, registered address and financial statements are available as a public document in India, although to a limited degree compared to a public limited company (this can be closely held and does not need to be listed).

Joint ventures (JV) and Acquisitions
A JV structure is frequently used for cross-border investments. It is advisable to ensure that the JV partner selection is done through a prudent process; the JV arrangements are based on proper

advice and are properly documented; and that you have adequately understood the cultural nuances underlying business in India and working with JV partners.

Acquisitions could occur through a negotiated M&A deal or through an insolvency resolution process – all acquisitions should be supported by a detailed financial, tax, legal and commercial due diligence. This includes deals for setting up a JV through an existing entity.

Running the business

It is essential to consider who will be running the Indian company/operations. Will you be hiring someone locally, sending someone from UK or will you be looking to relocate yourself? This is an important consideration and should form part of your general planning phase.

Expatriate taxation needs to be planned. An expatriate needs to obtain a work permit which is typically valid for 24 months and is renewable with a maximum duration of five years. Make sure that all commercial and contractual arrangements are properly documented consistent with Indian law and commercial custom. Operations planning should also encompass all compliance obligations – there are several procedural compliances concerning tax withholding, payroll, tax and company law matters, GST and it is advisable to get proper advice or outsourced assistance for this.

Corporation tax

India has a central direct tax system. Tax rates are announced each year and vary for different entity types. Tax rates currently applicable to private limited companies are 15%, 22%, 25% or 30% under different circumstances and branches carry a higher tax rate. Different income streams (royalty, dividend, technical service fees, interest) attract specified tax rates and tax withholding - these will benefit from the UK-India double tax treaty.

Basic tax rates are presently subject to a surcharge of 7% or 12%, and mandatory health and educational cess of 4% on the tax payable.

Indirect tax

The business entity may be required to register for Goods and Services Tax (GST) depending on the amount of revenue it generates. This is an indirect tax and is similar to VAT in the UK. There are different rates for GST (0%, 5%, 12%, 18% or 28%) depending on the type of goods/services being offered, with offset credit entitlements in several cases.

Employment tax

Employers in India pay a mandatory Provident Fund contribution, which is calculated at 12% of the basic salary of employees. This is applicable only if there are more than 20 employees. Retirement gratuity benefit is payable in a defined scale to employees who have completed at least five years of service.

IT and ITES Industry

India's IT/Information Technology Enabled Services (ITeS) sector is a global powerhouse with four major sub-components:

- IT services
- business process outsourcing (BPO)
- engineering services
- research and development (R&D)
- software products.

With AI and Robotics as more recent features of the sector. Each of the four service components has a major contributory value, depending upon your business type and needs. Diverse skills and cost competitiveness are particularly attractive. The sector is eligible for up to 100% FDI under automatic route.

If you have any questions, or would like to proceed with moving your business to the UK, please do not hesitate to contact us. Vijay Thacker has experience of helping companies from the UK located in India.

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The Next Phase of Brexit—VAT and Customs Duty Developments

Robert Marchant, Partner, VAT

The UK is now in a transition period while negotiations take place to decide its future trade relationship with the EU. This article looks at what changes may be expected to the Value Added Tax regime and to customs duty rules, both in the transition period and beyond.

Following the official departure of the UK from the EU on 31 January 2020, the UK is now in a period of transition. Negotiations are taking place to decide what form the UK's relationship with the EU will take, in particular with regard to trading arrangements, including both Value Added Tax (VAT) and customs duty.

Under the terms of the Withdrawal Agreement, the UK will remain within the single market, EU VAT regime and EU Customs Union until 31 December 2020. UK organisations will welcome the fact that, for the remainder of this year, they have certainty as to the VAT and customs duty treatment of their activities, although clearly there remains significant uncertainty about what happens beyond 2020.

The UK and EU will soon enter into negotiation of a trade agreement to take effect from 1 January 2021. Many commentators have questioned whether a trade deal can be agreed in this time, so it remains unclear whether there could be an extension to the period of transition agreed in the Withdrawal Agreement. While, at one time, there was provision in the agreement for an extension, it remains to be seen whether there is political will for this.

In the event that a trade agreement is not concluded by 31 December 2020, and no extension is agreed, the UK would exit the EU on a 'no deal' basis.

'No Deal' Brexit reminder

Should the UK leave the EU on a 'no deal' basis, then the UK will exit the EU Customs Union and EU VAT system, and businesses trading in goods (as opposed to services) can probably expect the major impact. The EU Customs Union removes import tariffs on goods moving between its members, and there is currently no need for import or export declarations on physical movements between member countries. If the UK exits the EU Customs Union, then all goods moving between the UK and EU would require declarations (giving rise to increased administrative costs) and would potentially be subject to import taxes on import.

During 2019, the UK government issued a considerable amount of material about its 'no deal' plans. This included the introduction of postponed import VAT accounting to ease the cashflow cost of the current import process, whereby import VAT is paid at the time of the goods entering the UK, with a refund of the import VAT being given several months later. There will also be a temporary period of 12 months where 87% of imports into the UK (i.e. goods coming to the UK from another country) will be tariff (but not import VAT) free. A note of caution though, is that the EU has not said it will do the same.

HMRC also embarked on a program of automatically issuing Economic Operator Registration and Identification (EORI) numbers and auto-enrolling businesses for Transitional Simplified Procedures (TSP): measures which are designed to help businesses trade with the EU after a 'no deal' Brexit.

Expected VAT Changes after 1 January 2021

While some areas of the UK's future VAT and customs duty rules may not be fully known until the UK/EU trade negotiations are complete, organisations can expect a number of changes to the UK VAT regime.

- **EU VAT Directive:** the starting point is that the UK will no longer have to apply the EU VAT Directive, meaning that the UK VAT Act will be the sole source of UK VAT law. Initially, we do not expect any significant changes from the terms of the EU VAT Directive, but there is likely to be a deviation over time. For example, the UK will not be subject to the restrictions in the EU VAT Directive about what goods and services qualify for reduced rates and exemptions.
- **Movement of goods:** as noted above, all movements of goods to/from the UK will be imports and exports as the EU becomes a third country to the UK.
- **EU VAT Distance Selling thresholds:** a concern for sellers of goods from the UK to consumers in the EU is the likely loss of the EU VAT Distance Selling thresholds. This can allow businesses not to have to VAT register in multiple EU countries, where their sales to customers in that country are below a compulsory VAT registration threshold. The same is likely to apply to EU businesses selling to UK consumers, in that after 1 January 2021, goods will need to be imported into the local country, which will require the supplier to UK VAT register.
- **Intrastat and EC Sales List:** it remains to be seen whether the Intrastat and EC Sales List regimes will continue, given they are focused on EU trade.
- **Use and Enjoyment rules:** for suppliers of services, such as telecommunications services, broadcasting services, electronically supplied services (for business customers), hired goods and hired means of transport, there is likely to be a need to consider the Use and Enjoyment rules in more situations.
- **Digital Services:** once the UK has left the EU after its transition period ends, all supplies of digital services to consumers in EU member states will become liable for VAT in the consumer's member state. UK businesses will no longer be able to benefit from the existing annual threshold of 10,000 euros ($10,979) for cross-border sales of digital services to EU consumers. For UK sellers of digital services to EU consumers, the UK will no longer be a member of the EU Mini One Stop Shop (MOSS). Any non-EU business which used the UK MOSS registration will have to re-register for MOSS in the EU and separately in the UK under a regular VAT return.
- **Reclaiming EU VAT:** there are also likely to be changes for businesses providing financial services and there are initial signs that they may benefit from increased VAT recovery. There will be changes to the way in which UK businesses reclaim EU VAT in countries where they are not required to be VAT registered. UK tour operators could lose access to the Tour Operator Margin Scheme (TOMS), which may result in them having to VAT register in every country in which they operate. A 'no deal' Brexit could mean that the simplification is no longer available— increasing the VAT compliance obligations for businesses that currently benefit from the TOMS rules.
- **Appointment of a fiscal representative:** any UK businesses that are registered for VAT in an EU member state in which they are not resident may have to appoint a fiscal representative. This will increase compliance costs as the fiscal representative will charge for its services and will also require a bank guarantee to be provided, given the fiscal representative is jointly liable for any VAT debts. To date, there appears to be inconsistency in the EU member states as to whether or not this is required, and so the position in each country should be reviewed.

Finally, there is specific provision in the Withdrawal Agreement for what will happen in relation to trade to/from Northern Ireland. In the event of a 'no deal', Northern Ireland will remain in the UK VAT area, but in full alignment with EU VAT laws. It will also remain part of the UK's customs territory, meaning that if the UK signs an international trade agreement with another country, its terms would also apply to Northern Ireland. For Northern Ireland to Republic of Ireland trade, the EU Customs Union rules apply, and there would be no tariffs or restrictions.

Goods moving directly from Great Britain to Northern Ireland would not be subject to a tariff unless the goods are 'at risk' of being moved into the EU afterwards. Likewise, goods from third countries entering Northern Ireland will be subject to the UK tariff, unless they are at risk of being moved to the EU.

Life after Brexit

We are now in a period of transition and relative calm while the UK and EU prepare to negotiate their future trading relationship. As the talks progress, there will no doubt be a period of intense media reporting on the negotiations and the likely outcomes, during which businesses may want to take steps to reassure their customers, suppliers and workforce, informing them of the steps being taken to deal with the uncertainties of Brexit, and vice versa.

Business will carry on; there may be some changes, and perhaps some delays, but all companies will be working to adjust to the changes so that business can continue as normal.

To help make the smartest decisions for your business at each step of the above and beyond, it is also worth seeking specialist advisors to look at your business operations more generally. Specialist advisors are adept at noticing and addressing issues that you may have overlooked, or not had the chance to consider.

This article was first published in *Bloomberg Tax* in February 2020.

Planning for business as (un)usual

Michael Jayson, Partner, Audit

Many businesses will be familiar with the ‘Now, Where, How’ or possibly the ‘Stop, Start Continue’ strategic planning models. In these unusual times, while addressing the ‘Now’ and planning the ‘Where’, organisations must also take that bit more time reconsidering the lasting shifts in ‘How’ that could be the legacy of COVID-19.

In one sense, nothing has changed. The basic disciplines that underpin strategic planning and getting the right supply chain in place remain unchanged. Businesses looking to grow still need to focus on their strategic priorities, develop robust forecasts, communicate clearly with key stakeholders, execute the strategy well operationally and remember that, whatever happens, cash is king. In another sense, though, everything is different. COVID-19 has radically shifted the context in which business leaders must view the fundamentals and execute them.

The COVID-19 pandemic is forcing an unprecedented social, economic, and business response. Once we settle back to our routine/business as usual, a sense of normality will inevitably return. However, a key question is what will ‘normal’ look like in terms of global trade and the supply chain?

One thing is for certain, COVID-19’s lasting impact is still to be determined, but it is in the global supply chain where we are likely to spur sweeping changes.

COVID-19 has put in the spotlight how particularly vulnerable globally integrated supply chains can be. Specifically, any model in which businesses rely on one key supplier or a handful of suppliers concentrated in a single country, other than their own, now appears fragile.

Over the next few months, the pandemic will drive risk-mitigating procedures designed to track employee health, reduce human-to-human interactions and upgrade physical barriers. Companies could gain a competitive advantage by adopting emerging automation technologies such as robotics and systems where less human intervention is required.

Once global trade settles down to the ‘new normal’, the response to the pandemic could well accelerate the transition to approaches such as additive manufacturing i.e. 3D printing, which has the potential to deliver significant advantages in speed, cost, precision and materials. This, in turn, might enable new or reshaped business models not just in manufacturing but in associated sectors such as logistics.

Another response may be for businesses to move production back closer to home from the previous offshoring strategy which was common to ensure the best price. However, instead of asking whether to onshore or off-shore production, the starting point should really be: How can we create a supply chain that reduces risk yet creates the most value?

The answer will often be neither offshoring nor on-shoring but rather ‘near-shoring’ and ‘multi-shoring’ and with it, the reduction of risk by avoiding being dependent on any single source of supply.

One area of vulnerability the current crisis has revealed, is that many companies didn't know which suppliers their own suppliers were using and as a result were unable to manage critical elements of their global supply chains. Businesses now realise that they need to know where their most critical components come from. On that basis, they can evaluate the level of risk and decide how to address these, using rigorous scenario planning and reversing their models to do this from a bottom-up approach. Suppliers themselves will no doubt be required to show that they have their own risk plans (including knowing the performance, financial, and compliance record of their own suppliers or subcontractors) in place.

In some critical areas, governments or customers will pay for excess capacity and stockholdings, moving away from just-in-time production. In most cases, however, businesses will try to create more flexible supply chains that can also switch between suppliers to operate on a just-in-case approach. A term used by some for this type of planning is now 'next-shoring'.

Like all crises, the pandemic will bring out the best and the worst in organisations and their management. At a time when companies are being called on to assume a broader societal role, business leaders can lead by tackling misinformation, combating anti-globalisation and addressing the urgent challenges ahead.

At the same time, they should keep an eye on the many changes underway in technological adoption, the global economy, societal norms and consumer behaviour, which together will shape the 'new normal' beyond the crisis.

There will no doubt be winners and losers in the move to a 'new normal' as international businesses rearrange their supply chains. The key for the UK across all industries will be to continue to ensure our businesses can adapt and sell internationally as being low risk, value-adding and the place of choice.

It is absolutely key that all policymakers and industries collaborate globally to see the role of resource efficiency and supply chain sustainability embedded in their operations. A world where decisions are made with this in mind, improving supply chain resource forecasting, utilisation, and conflict resolution decisions, will contribute towards translating wide-ranging targets into specific production and operational objectives.

More of these new supply chains will emerge from COVID-19 with improvements for the economy, environment and society as a whole.

Trading internationally in the shadow of COVID-19

Johnathan Dudley, Partner, Head of Manufacturing, Crowe

The introduction of a two week quarantine for some people entering (or re-entering) the UK as a result of the UK lockdown and the global pandemic has caused considerable concern for international traders.

Exemptions for logistics workers are of course helpful, however the inclusion of any exemption may bring into question the worth of a quarantine in the first place. Although, what the need is there for sales and business development teams to cross-borders to visit customers or conduct quality/regulatory audits of sites such as food manufacturing?

It is possible for some business development to be conducted through IT solutions such as video conferencing but nothing can replace meeting the people in person. This is especially important for international traders due to the need to form bonds as it is much easier to deal with local customs when you meet in person. It is possible to attend conferences and expos via video conferencing but this loses the human side and those more general conversations which can lead to innovation.

We also need to consider the need for UK businesses to attract inward investment or indeed be sold or even rescued by foreign investors or acquirers who will naturally want to meet in person to conduct due diligence and so on.

The above cannot be practical with the prospect of a two week quarantine on entry into the UK.

It's hoped that the measures will therefore only be temporary or that other provisions such as testing regimes could be introduced to widen exceptions for genuine business travel, to ensure that our international trade gets going again without undue impingement. However, there is a growing concern that employees will not want to travel internationally or attend mass events, for some time afterwards.

The answer seems to be testing, to ensure people are not currently infected along with an antibody test to see if people have had the virus and therefore are unlikely to be carrying it or at risk from re-infection. Greater research into whether people can carry or be re-infected needs to be conducted urgently so that a passporting system for people can be developed. This is not favoured by the WHO at present simply because not enough research has been conducted.

In business, we can only change what is possible, therefore and against a background of potentially open-ended barriers, international business needs to continue to innovate, develop and adopt processes and methods which remove the need for physical business travel, such as using the 'virtual' environment of video conferencing, portals and emails.

While we have all got used to this over the last couple of months and some of what we have learned will continue, this has come at a hidden cost and risk, cybersecurity. It is essential that businesses are both aware of the exponential increase in known cybercrime since lockdown began and insulate themselves to avoid loss of IP, industrial and commercial advantage and of course, the apocalyptic effects of personal data breach.

Successful and enduring 'virtual' international trading will require the adoption of the safest video conferencing/meeting technology that is practicable, taking into account the need to manage the attendant risks. However, there is also the opportunity now to make use of virtual and augmented reality techniques to demonstrate, educate and train on products and services. For instance, using 3D technology, especially while the opportunity to attend exhibitions and expos, both internationally and domestically is currently impossible and unlikely to return for some time.

At Crowe, we can help businesses select and adopt virtual processes and help with fundraising and harvesting of the related tax incentives in order to do so. Our fraud teams can also help protect your businesses from cybercrime and help you deal with attacks when they do occur.

Free Trade Zones: a potential opportunity for the UK?

Robert Marchant, Partner, VAT

In February 2020, the UK government issued a consultation on reintroducing freeports as part of its post Brexit international trade strategy.

As a member of the EU, the UK has been unable to negotiate its own individual trade agreements and it is possible that non-EU countries such as the US, Canada, Australia and India and emerging markets in Africa and South America present significant trading opportunities that can be better developed when the UK is able to negotiate its own, bespoke trade terms, unrestricted by EU frameworks.

One area of potential opportunity which would be possible if the UK left the Single Market and Customs Union would be to reinstate Free Trade Zones (FTZs) in the UK. The government has begun a period of consultation to assess the merits and feasibility of such a move.

At the same time, the UK has a significant amount of trade with the EU which UK businesses will want to maintain once it has left the EU. Given the UK's close physical proximity to the EU, it is well placed to continue to sell into those markets and the use of FTZs could help to incentivise businesses to remain in the UK (rather than re-locate to the EU) or even attract new investment from foreign companies that could expand by using the UK as a base for selling into the EU, as well as the home UK market.

What is a Free Trade Zone?

FTZs are designed to both facilitate international trade and to promote economic development of the region in which they are located. There are currently no operational FTZs in the UK; while there are a number of ports which have been authorised in the past, none have active authorisations. Post-Brexit, the UK could have the freedom to set its own trade policy and to re-introduce FTZs.

An FTZ is an area that is physically within a country but legally outside of it for tax purposes. An FTZ would need to be a designated physical area. It wouldn't be a single building but a geographical location. It would most likely entail an enclosed area where the flow of goods and people entering and exiting could be controlled. This is important as there would be a need to prevent criminal behaviour relating to the illegal entry of people or to the unpaid import taxes for goods.

Put simply, an FTZ allows goods to be imported, manufactured, processed and re-exported without the payment of import taxes, which only fall due when the goods are removed from the zone and entered into the domestic economy. The FTZ may also offer tax incentives such as lower corporation or payroll taxes. It may also include non tax-incentives such as grants for research and development activities.

Removal of technical barriers

Whilst the EU has permitted several FTZs to be established in the EU, for example at Shannon Airport and in Katowice, it has been very difficult for governments to do so because of EU State Aid rules. Under these rules a measure constitutes (illegal) state aid if it:

- involves the transfer of state resources
- has potential distortive effects on competition and trade in the EU market
- confers a selective advantage to the recipients.

Once outside of the EU, the UK may not be subject to the EU State Aid restrictions which would allow the government the freedom to introduce one or more FTZs in the UK as part of its international trade strategy.

FTZs used widely elsewhere in the world

Worldwide FTZs are a 'well trodden path' so there is plenty of practical experience on which the UK could draw. They are used widely across the world, particularly in the US, South America, Canada and Asia. Official figures are hard to come by but it is thought that several thousand FTZs exist globally. The precise format varies, but it is very common for governments to use FTZs to encourage local business and economic investment.

The level of tax support and other incentives would need careful consideration. The payment of import duty is a cost that can not be reclaimed by businesses, so a likely approach would be to reduce the level of UK corporate income tax within the FTZ to an amount that counters the financial burdens of increased duty tariffs given that all trade between the UK and other countries would lead to imports into those markets and be potentially subject to duty, unless free trade agreements are reached. Other incentives of FTZs could take the form of:

- reduced payroll taxes
- grants for research and development spend
- reduced regulatory compliance requirements.

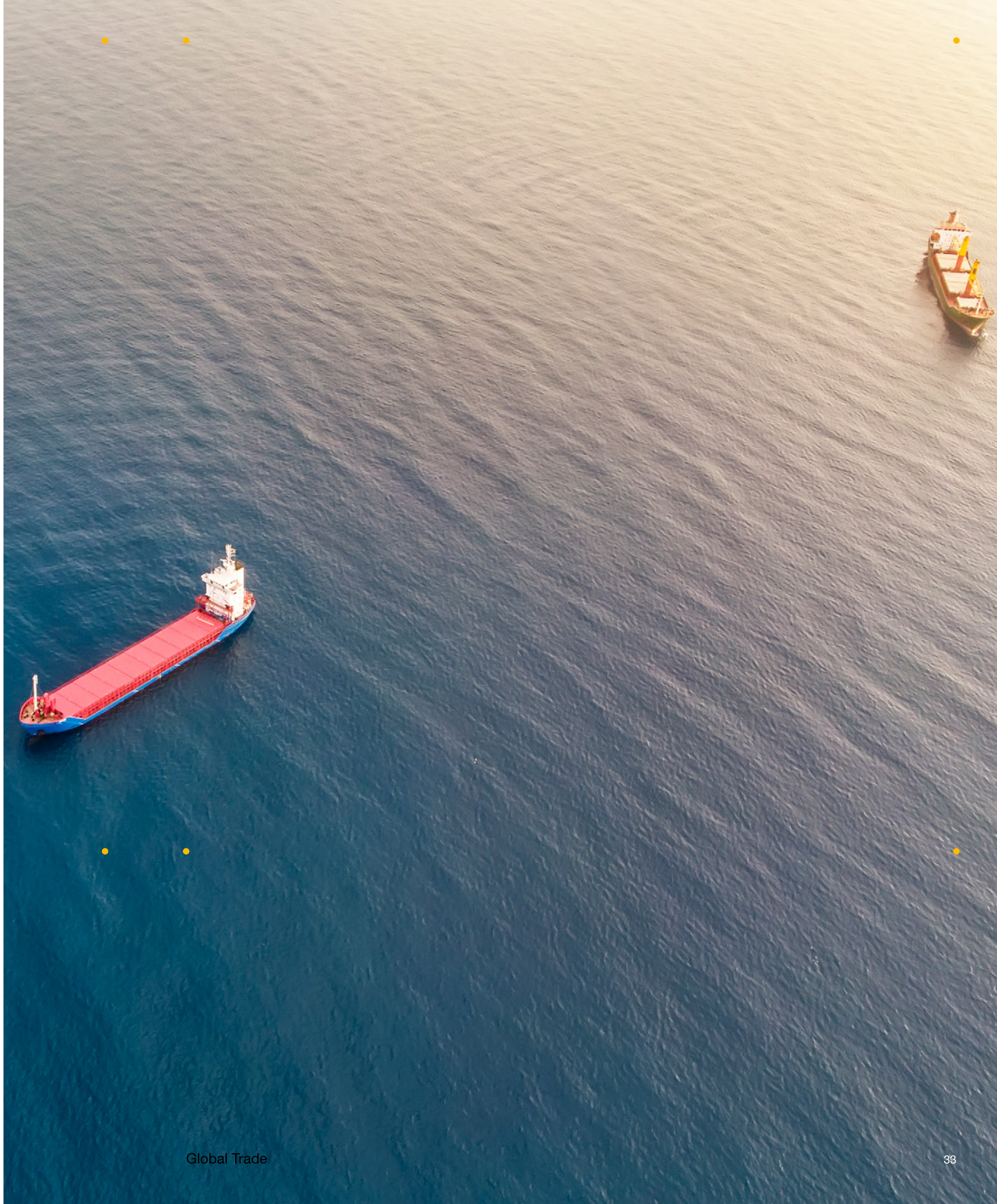
There continues to be much debate about the amount of taxes paid by multinational companies around the world and the UK government would most likely want to avoid setting itself up as an offshore tax haven. Such a move could risk inflaming relationships with the EU and probably provoke higher import tariffs on goods shipped from the UK into the EU.

Ultimately, the UK would have freedom to shape a FTZ and the tax and other incentives that are offered. Indeed, if there were multiple FTZs within the UK, each could have a slightly different set of incentives if that were thought to be appropriate.

Summary

FTZs are generally regarded as supporting the export market. This is an area that the UK aims to grow both in volume and value by being outside of the EU and therefore able to negotiate its own trade deals. As well as being a designated area that is free of import duties, additional benefits such as tax and regulatory incentives could be offered in order to retain businesses in the UK or, more optimistically, encourage additional investment in the UK. FTZs could have a significant role to play as part of the government's post-Brexit international trade strategy.

This article was first published in *Bloomberg Tax* in March 2020.



International tax presence

Simon Crookston, Partner, Corporate Tax

The global workplace and the global market are increasingly a reality for UK businesses.

Where a business's commercial or sales team leads the international expansion, finance teams must follow – often with a mop and bucket; making sense of and cleaning up the global tax compliance requirements.

We explore some of the principles around creating an international tax presence and common problems on which we frequently advise.

A trading company carrying on activities in another territory will often have to consider whether it has any local corporate tax, employment tax or sales tax (VAT) obligations in that territory. We refer to this as creating a taxable presence.

Determining whether a business has created a tax presence in another territory (new country) requires consideration to the facts of the situation and to:

- the national law of the new country
- the tax treaty (assuming there is one) with the business's home country
- any other agreements to which new country and home country are both party (for example EU directives).

As with all things tax, it is often useful to glean some local insight as to how the legislation and international agreements are actually put into practice by the tax authorities.

To keep things simple, the tax authorities around the world operate the same rules and principles and apply these consistently for all taxes… if only that were the case!

Unfortunately, in reality, the rules for when a taxable presence is established differs by tax; by territory and by agreement, so it can be a minefield for businesses to navigate without specialist support.

There are some fairly widely adopted approaches, which we have explored below, but it is imperative that in any foray into international activities the nuances of each new country are considered against the facts of the particular activities.

The taxes

Corporate taxes: permanent establishment

Where a permanent establishment (PE) is created, obligations to register for local corporate income taxes, file returns and pay taxes usually follow.

While each territory will have its own local rules, many territories adopt the OECD model tax treaty for their agreements. Under the OECD model, a PE can include (but is not limited to):

- a place of management
- a branch, office, factory, service facility or workshop
- building sites (often where work spans 12 months).

Certain activities such as storing and displaying goods, and activities of a preparatory or auxiliary nature are frequently excluded from creating a PE where these activities are conducted in isolation.

A dependent agent can also create a PE where they are acting on behalf of the overseas company and habitually exercise authority to conclude contracts in the name of the overseas company.

In our experience this is commonly where we see most issues arising, as these arrangements are often detected late – perhaps as the authority of an individual evolves over time.

With the moral shift over recent years to ensuring companies that trade internationally do not avoid tax or reduce their tax burden by shifting profits between territories, the OECD has set out a global framework - BEPS (Base Erosion and Profit Shifting) of various preventative actions.

Action 7 focuses on PEs and sees more territories moving towards considering the substance of a dependent agent scenario and looking more closely at where contracts are materially negotiated rather than where they are concluded.

We therefore expect to see an increase in overseas permanent establishments being created, as more overseas tax authorities challenge the position, particularly in countries such as the Netherlands, France and Spain that have signed up to Action 7.

The UK has chosen not to fully adopt the changes proposed by Action 7, so we do not expect to see a reciprocal increase in UK PEs.

Sales taxes (VAT): fixed establishment

There are many different VAT systems around the globe and it is an increasingly popular source of taxation for governments. While the individual rules of each country need to be considered, there are often consistent themes which apply across territories. This is particularly the case for the EU Member States where we have a common set of rules arising from the EU VAT Directive and EU Regulations, albeit that local differences in interpretation still arise.

To determine where supplies might be subject to VAT, the specifics of each supply must be considered. This will include understanding:

- where is the supplier located?
- are we supplying goods or services?
- who is the customer – business or individual and where are they located?
- is the customer registered for VAT and in which countries?
- what is the physical path the goods take to reach the customer?
- are any additional goods or services provided? For example, installation of goods.
- if we provide our customer with more than one thing, are we making a single sale subject to one rate of VAT or are we making multiple sales each potentially subject to different rates of VAT?

‘Where’ is a supplier or customer located?

The EU VAT law refers to the concepts of ‘business establishment’ and ‘fixed establishment’ when considering ‘where’ the supplier and customer are located. These terms are different to the corporate tax concept of permanent establishment.

A ‘business establishment’ is the principal place of business. It is usually the head office or ‘seat’ from which the business is run. There can only be one business establishment.

A business though can have multiple ‘fixed establishments’. Fixed establishment is not defined in the primary law so case-law has provided definitions; “a fixed establishment has both the technical and human resources necessary for providing or receiving services on a permanent basis.” While this appears straightforward whether or not a fixed establishment has been created is regularly a subject of dispute with tax authorities and local interpretations of the same facts can vary.

In considering the ‘where’ questions noted above, it is necessary to consider where the supplier and customer are located i.e. where they have business or fixed establishments. Where either has more than one establishment which establishment is actually making/receiving the service; this is normally the one that is most directly connected with the supply.

This is also a subjective test and open to alternative interpretation or minor differences in the factual position resulting in a change to the position. For this reason, businesses are encouraged to document their conclusions as to why they consider they are or are not VAT established in a particular country and whether or not that establishment is making or receiving the supplies in question.

Employment taxes

Over recent years there has been a shift towards more informal and fluid employee mobility. This increases the risk of a taxable presence being created from an employment taxes perspective. As wherever an employee conducts their duties could potentially lead to a permanent establishment risk.

Employer position

Where an employee conducts their duties overseas (unless they are on a formal secondment/assignment and providing their duties wholly for the host entity only), there will commonly be obligations for the home country employer to register for and withhold employment taxes and social security in the overseas country. While they may also continue to have obligations in relation to the employee in the home country.

In theory, any kind of employee mobility scenario can give rise to a taxable presence risk in the overseas country. In particular, the following types of arrangements may require attention:

- an employee working in territory where the employer currently has no taxable presence
- business visitors or those employees who have multi-country or regional roles
- senior executives or management who perform duties outside of their main home country
- commuters or assignees/secondees who do not work exclusively for a host entity alone
- employees that work from home offices or other (none office) places of work.

In some instances, international treaty agreements might override the local country requirements, but commonly this requires some compliance action by the employer enabling them to get relief under the international agreement. Relief is rarely given automatically.

Consideration should therefore be given to the risk of creating a foreign taxable presence whenever employees are globally mobile. Issues to consider should include:

- what activities will the employees be performing and in relation to whom whilst abroad?
- what management authority or capacity do the employees hold?
- how many employees are being sent abroad to work on a particular project or over a period of time?
- how long will they be ‘in territory’ individually or collectively?
- how are employees representing themselves on business cards and letterheads, what addresses do they use and which employer appears on them?

Employee position
Employees may also have to register for taxes and social security personally in the overseas territory and ensure that they have appropriate permits or visas to legally be able to work in the overseas territory.

Not dealing with employees correctly at the outset can frequently lead to unexpected costs, significant management time and effort in resolving the situation and potentially reputational risk both with employees and commercially.

The reality

Companies operating in the global market or trading cross border need to have an awareness of the risks of non-compliance with local tax requirements.

It is important that the finance team within any company ensures that their wider business teams – especially commercial and sales team are alert to the potential for creating a taxable presence internationally. Particularly, as it is common that, steps have to be taken in advance to enable the benefits of tax treaties between territories to be accessed.

In many territories there is also no de-minimus level of activities that triggers a taxable presence and the repercussions for failing to register, file or pay can be serious. These commonly include fines and penalties but can extend to reputational damage, prosecution and being prohibited from operating in the territory.

In our experience, managing a business’s taxable presence and overseas set up successfully is a bit like completing a jigsaw.

To be able to complete the jigsaw you need to:

- plan up front and allocate the appropriate time for completion
- visualise the global picture you are trying to piece together and the local activities to be conducted
- have the key pieces of the jigsaw (taxes) including:
    - the straight pieces (local rules and regulations)
    - corner pieces (treaties)
    - identified the key colours of the picture (activities and other local requirements)
- have considered what assistance you may need with the difficult areas!

It is not uncommon for finance teams to find out about the overseas arrangements after they have been put into place. Therefore, many are left to pick up the jigsaw pieces in scenarios where, had the tax requirements been known up front, the structuring of the global picture could have been improved or might have been considered commercially nonviable (particularly if there are missing pieces!).

International activities are also a key focus of due diligence questions during a company sale process and any issues identified at this stage will likely have a detrimental impact on the sale price for the shareholders.

Conclusion

Expansion overseas has many rewards and benefits for those businesses that that undertake it successfully. These can include:

- increased market penetration and access to a wider market
- improved customer services and after-sales support
- reduction in operating costs
- increased brand awareness within the local market.

However, having a high level understanding of what may create a taxable is a must!

With proactive management and planning it is possible to ensure that there are ‘no surprises’ in relation to tax presences or permanent establishments being created.

If the intention is to create a permanent establishment, it is recommended that the business is on the front foot, so that you understand the compliance requirements. This will also allow you to manage them appropriately and thereby reduce management time and costs by not having to mop up afterwards.

Navigating the requirements of different territories, and for different activities requires specialist knowledge and an understanding of the latest changes.

Our specialists are passionate about helping businesses grow both within the UK and internationally, by working with our colleagues in the international Crowe Global network, we are able proactively support businesses with their international expansion strategy.

Smart decision making – an art or a science?

Richard Baker, Partner, Corporate Audit and Stuart Weekes, Partner, Corporate Tax

In January 2020, Crowe co-sponsored a report on 100 Top Exporters in the Thames Valley area. Although the world is a different place since then, the following article on innovation is still relevant and is reproduced here.

What causes companies around the world to make one decision over another? Can a business learn or be inspired by the decision-making of another, even if it's thousands of miles away?

Drawing on Crowe's extensive knowledge and network, The Art of Smart is the most comprehensive study of corporate decision-making in the world, which explores the different facets of decision-making by companies across the world.

This year's The Art of Smart reveals that risk is a strong motivation for bold decisions and innovation, good news for companies across the UK, where courage has never been in short supply.

The report's findings suggest that bolder companies are often operating in more challenging business conditions, and the more challenging a situation, the bolder the company.

Innovative companies tend to be more prevalent in sectors where growth is sluggish, and, contrary to popular belief, younger companies do not necessarily innovate more. The research found that successful companies operating in slow-growing industries were backed by robust Research and Development (R&D) and had a higher number of recognisable innovations.

Biotech is a standout sector in this year's Art of Smart data, which is great news for regions across the UK such as Oxfordshire and Thames Valley where there are hundreds of British-born companies in the sector already exporting across the world.

However, while the UK remains full of innovative ideas, of which many can be supported through grants and R&D tax credits, too often companies are short of investors with deep enough pockets to help them scale up.

But stand out businesses such as Protim, Penlon and Norbar, are the exceptions, having secured investment from US companies, which thanks to its entrepreneurial health-related infrastructure, is supported by large amounts of venture and corporate capital wanting to buy into their success.

On a local level, Business and Innovation magazine's list of 100 Top Exporters also reveals that, despite the prevailing view that Britain doesn't make much anymore, the contrary is true. The biggest number of exporters by far are manufacturers, making anything from food produce and furniture to one of the most iconic cars in the world, the MINI, alongside world-beating motorsport and technology.

Retail brands too, feature heavily in the list too. Britain is known for producing world-class brands and we've included some of the newer, fast-growing ones, which might not be immediately familiar. Interestingly, there are two pet product manufacturers listed, clearly tapping into a pet care market which is estimated to hit a value of $269 billion by 2025, according to market intelligence company Global Market Insights.

A diverse workforce can deliver explosive growth

There are other ways to drive a smart business. Investment in workforce diversity is an important one. Increasing numbers of companies are recognising that a more inclusive culture will feed into (and draw from) a wider talent pool, providing different viewpoints on which to base their strategic and operational decisions. In fact research for this year's The Art of Smart revealed that overall, companies that scored highest in diversity also achieved explosive growth in terms of revenue per employee – an incredible 3,680%.

Be bold and brave

Boldness and innovation help companies across the world overcome challenges: Those that do nothing increase their likelihood of business failure; those that are proactive increase their chances of survival and success. In difficult scenarios, companies that make bold moves, such as entering new markets or developing new products and services may still fail, but they're unlikely to be successful without making those big decisions. It's all about changing the balance of probabilities.

To learn from experiences of other companies across the world, read The Art of Smart in full.

This article was first published in *Business and Innovation* magazine in January 2020.

International payments and the global pandemic

Jaspaul Bains, Foreign Exchange Strategist, RationalFX

As the COVID-19 pandemic forces more restrictions upon our daily lives, society's priority is to help each other stay safe. But what about the economic impact of this unprecedented global health crisis?

Thankfully, it's not all doom and gloom for cross-border businesses. While the economic impact of the pandemic has already driven exchange rate volatility beyond the levels experienced during the 2008 financial crisis, bringing the need to manage currency market risk into sharp focus, opportunities to capitalise on favourable market movements will present themselves.

Why has COVID-19 affected currency markets?
As COVID-19 continues its march around the world, governments are closing whole commercial sectors and ordering people to stay at home to contain its spread. While necessary, this has severed supply chains, stalled economies and provided all the ingredients needed to trigger a recession.

The economic fallout has precipitated historic fiscal and monetary action from governments and central banks worldwide. Designed to help economies weather the economic storm, these emergency measures have also caused currency markets to shift like never before.

Exchange rates constantly fluctuate in response to a range of economic factors at the best of times. The unprecedented market movements the COVID-19 pandemic has set in motion will persist until its vice-like grip on economies loosens.

Safe-haven currencies
There's an elite band of currencies that experience increased demand during times of economic uncertainty. Known as safe havens, they typically remain resilient because they hail from economies that tend to be strong. So, when a risk-off mood envelops currency markets – such as the one triggered by the COVID-19 pandemic – demand for these currencies swells because they offer stability in an otherwise unstable environment.

As the pandemic's grip on the global economy started to tighten, safe-haven currencies like the Japanese yen, Swiss franc and US dollar began their upward trend. Unfortunately, there's no such thing as a sure bet when it comes to currency markets. For example, on 20 March 2020, the US dollar achieved its biggest weekly rise since the 2008 financial crisis on the back of COVID-19 fuelled risk-aversion. Fast-forward just a week, however, and it had posted its biggest decline since 2009 as risk appetite grew.

Despite levelling off slightly since the COVID-19 crisis began, the US dollar has maintained an edge relative to most major currencies, including the euro and China's Yuan. Spooked by uncertainty and eager for safe assets, investors and business owners are piling into the US dollar – the world's reserve currency.

Currency risk strategy
The ongoing COVID-19 crisis has emphasised the need for businesses to adopt a proactive approach to currency risk management. Simply hoping the market will move in your favour will leave you exposed to the pandemics economic influence. In contrast, a well planned and executed currency risk strategy could mitigate the impact of currency market risk on your finances, by allowing your business to secure exchange rates now and in the future – saving you time and money.

There's no 'one size fits all' approach to protecting your businesses' finances from currency market risk, so consider working with a foreign exchange provider, such as RationalFX, to develop an FX currency strategy that's tailored to your business's risks and requirements.

Currency risk management tools
A currency risk strategy should be tailored to your business's unique international payment requirements and risk appetite. To achieve this, it will combine appropriate currency products, designed to help you control the cost of your international payments.

- Forward Contract: lock in the current market rate, so you can fix a price for your international payments for up to two years.
- Limit Order: target an exchange rate that's not currently available, so you can secure your desired level the moment the market reaches it.
- Stop Loss: set a minimum exchange rate that you would want your payment to be executed at. If the rate falls and hits this minimum, the transaction will be completed ensuring you avoid a further decrease in value.

Speak to a currency expert
At RationalFX we understand that these are challenging times for businesses of all sizes with international payment requirements. That's why we're on hand to help you navigate these uncharted waters using our knowledge and experience.

To find out more go visit our website, email Jaspaul Bains or call 07738 386263.

Our International Trade team

With our global reach and expertise in International Trade we have the knowledge and expertise to assist our clients expanding across the globe.

How we can help
Our specialists can draw on many years' experience to help you navigate the changing landscape, mitigate risks and achieve your objectives.

Business advisory
International trade is challenging and constantly evolving. Our team can help advise your business so that it can avoid costly mistakes by providing a number of services.

International tax
Careful tax planning and regular advice is key to being a successful international business in a rapidly changing climate.

VAT and Duty
VAT and Duty is a complex area and without the right advice can result in a significant additional cost and administrative burden to businesses.

Global mobility
We advise organisations on the issues they face when employees' roles cross borders and their people or their operations operate across international jurisdictions.

Expanding overseas
Expanding overseas can seem a daunting task, but our experienced team at Crowe can help simplify the process.

Exporting/importing
Exporting and Importing can appear daunting. Our team at Crowe in the UK, alongside our colleagues at Crowe Global, can provide support.

Outsourcing/compliance
Whether you are a large or small business setting up a new branch or entity in the UK or overseas, Crowe can support you and allow you to focus on running your business.

Crowe

We are a national professional services firm providing audit, taxation, advisory and risk services to our clients and are the UK member of the world's eighth largest professional network – Crowe Global. We pride ourselves on our tailored and personal service with long term relationships at the core of everything we do.

Crowe Global is the **eighth largest global network** of independent audit and advisory services firms in the world, with 213 member firms and business associates across 146 countries.

7 offices

>80 Partners

>900 People

8th largest firm of auditors on AIM

9th largest UK audit firm[1]

146 countries

42,000 partners and staff

4.4bn revenue (US$)

765 offices

213 member firms

1 FRC Facts and Trends

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About Us

Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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