

Wednesday 20 January 2021 / 12pm - 1pm

ADVANTAGE

Danske Bank

An Economic Update and Brexit – how to comply with the new rules



Hosted by

Robert McCullough

Head of Business Sector
Engagement



The Outlook for the Northern Ireland Economy

Conor Lambe is the Chief Economist at Danske Bank, acting as the Bank's spokesperson and a trusted subject matter expert on all UK and Northern Ireland economic and related matters.

Conor is responsible for Danske Bank's Quarterly Sectoral Forecasts and Consumer Confidence Index

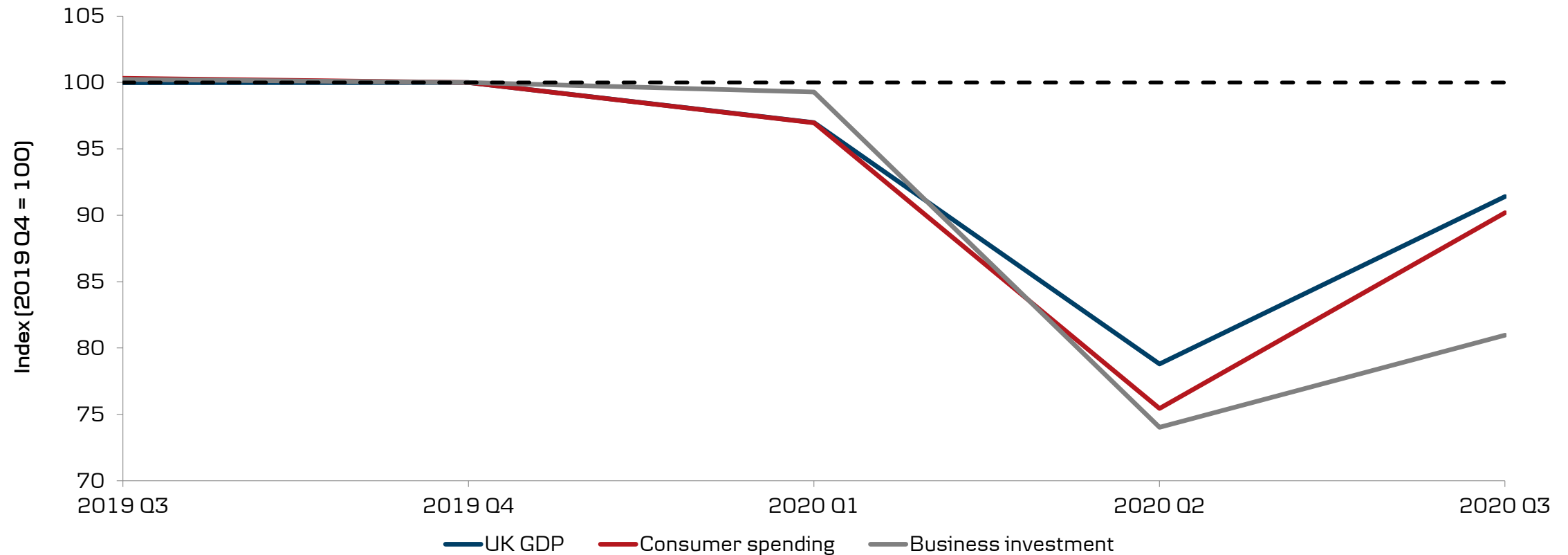
Conor Lambe, Danske Bank
Chief Economist



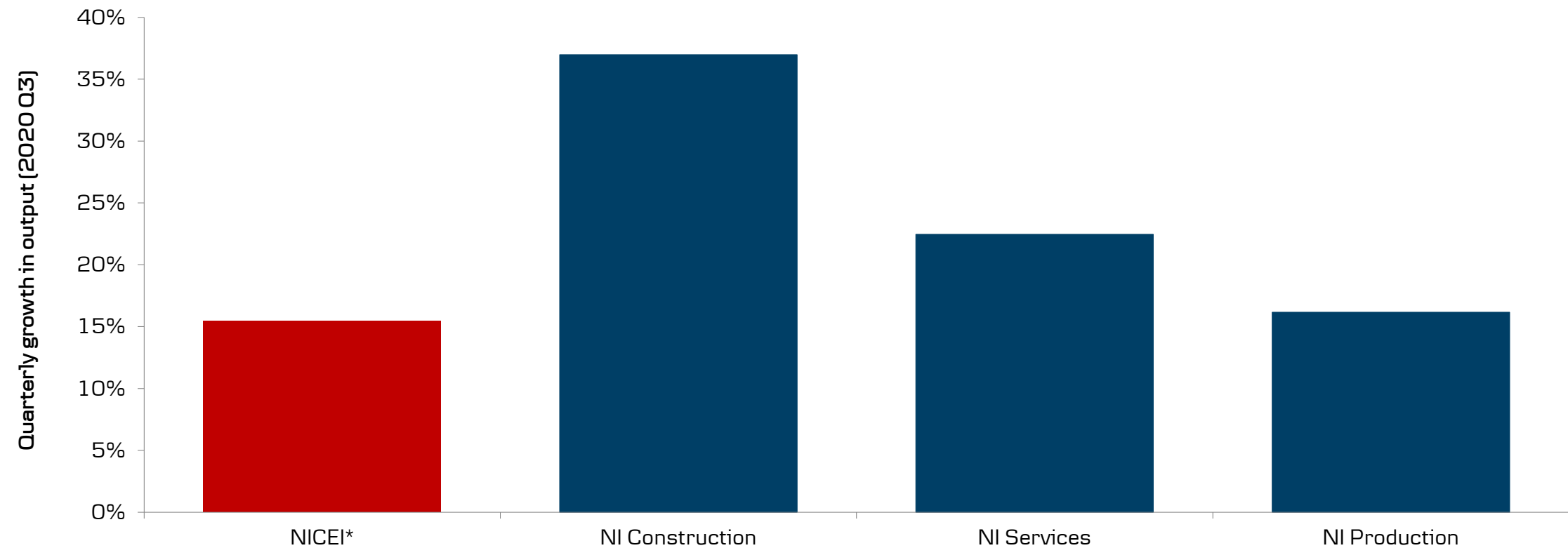
@ConorLambe



The UK economy expanded at a relatively strong rate in 2020 Q3, but activity remained below its pre-coronavirus levels



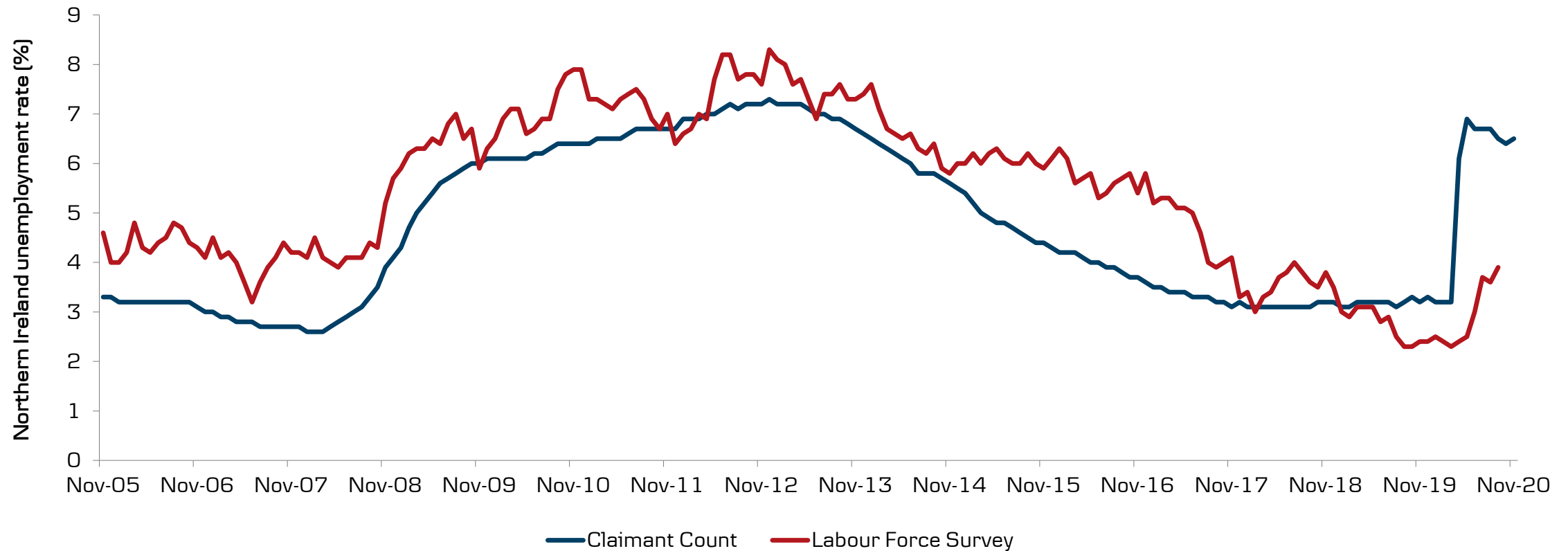
Similar to the wider UK, the NI economy also experienced relatively strong growth in the third quarter of 2020



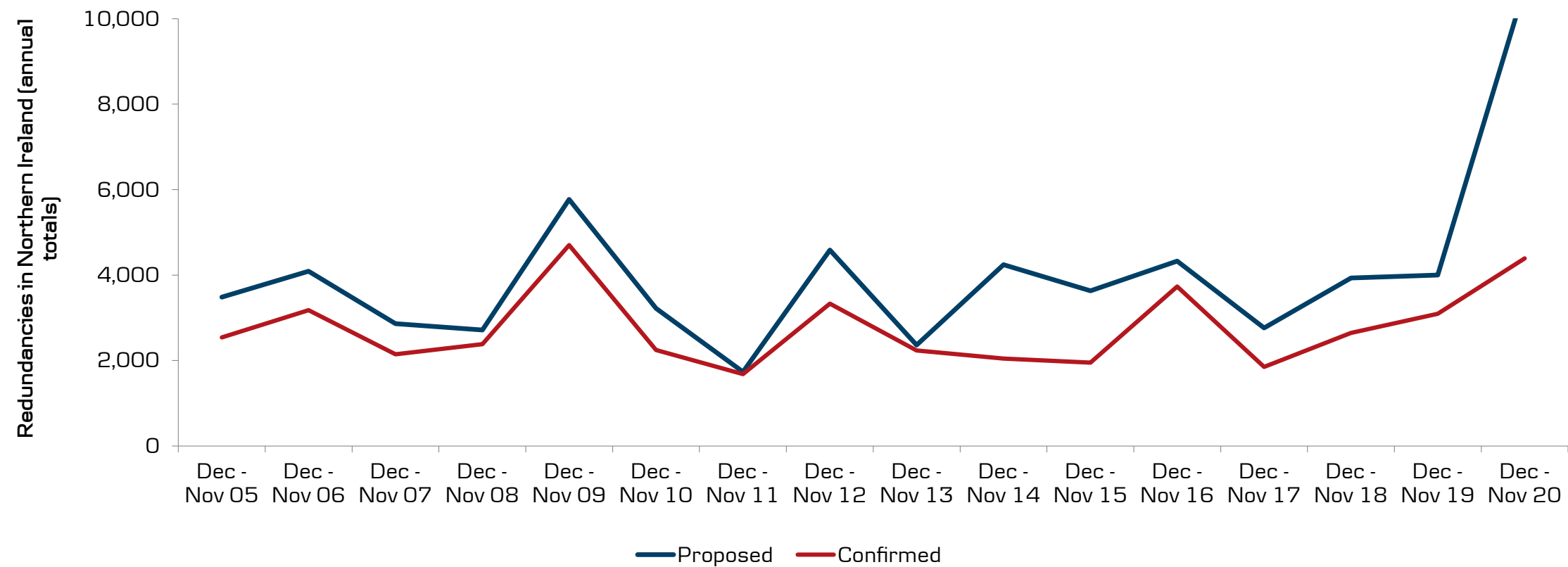
Sources: Danske Bank analysis, NISRA

*Northern Ireland Composite Economic Index - a quarterly measure of how the NI economy is performing

Policy measures are continuing to provide some protection to jobs, but the labour market has deteriorated due to the pandemic



The latest annual numbers of proposed and confirmed redundancies are significantly higher than in recent years



There are a number of key factors which we expect to impact the performance of the economy in 2021



The extent of restrictions to limit the spread of coronavirus



A deterioration in the performance of the labour market



More cautious consumer and business behaviours

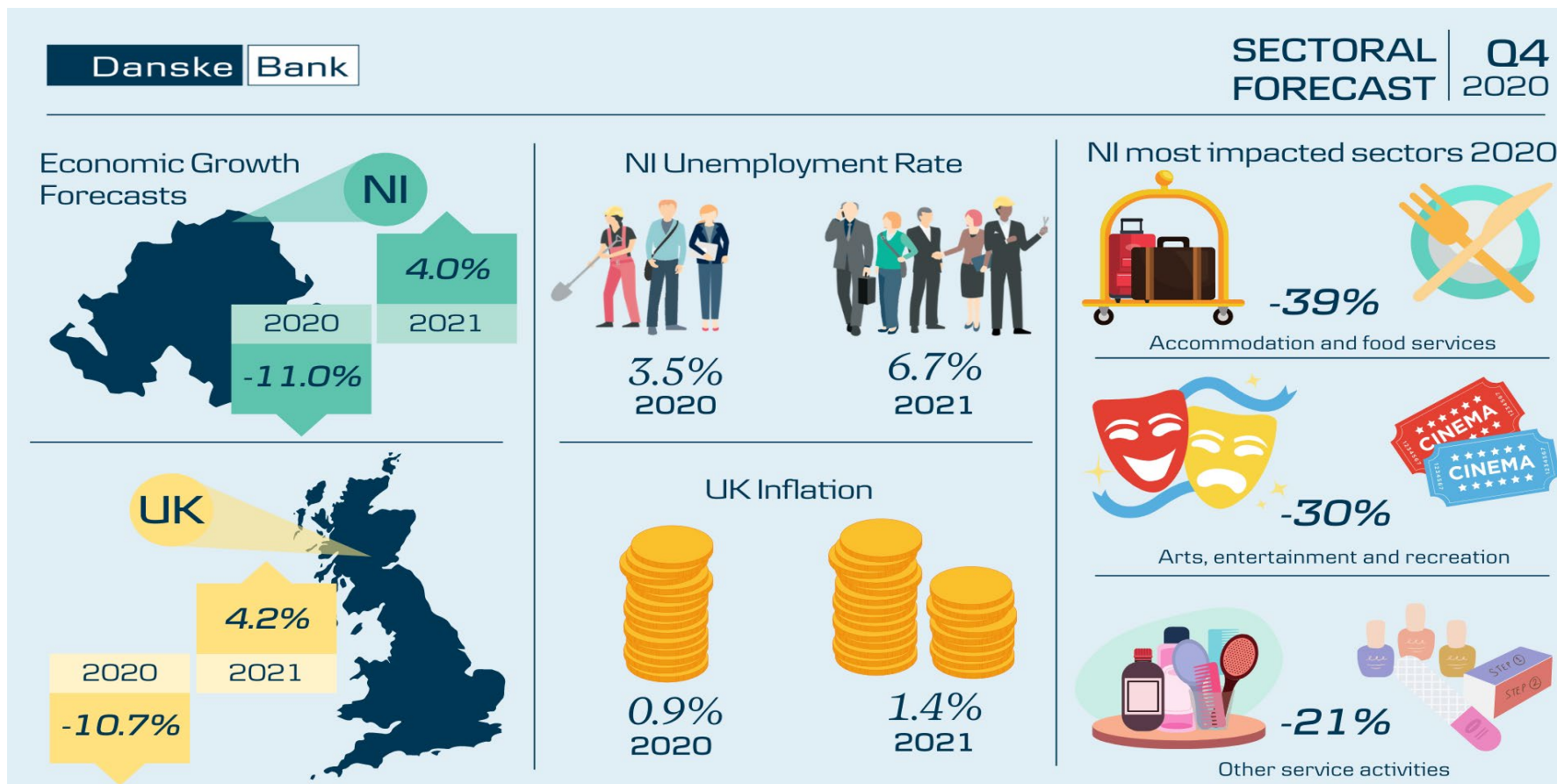


Extra trade frictions due to Brexit



Policy measures facilitating a return to economic growth

We are forecasting that the local economy contracted by around 11% in 2020 and will grow by about 4% in 2021

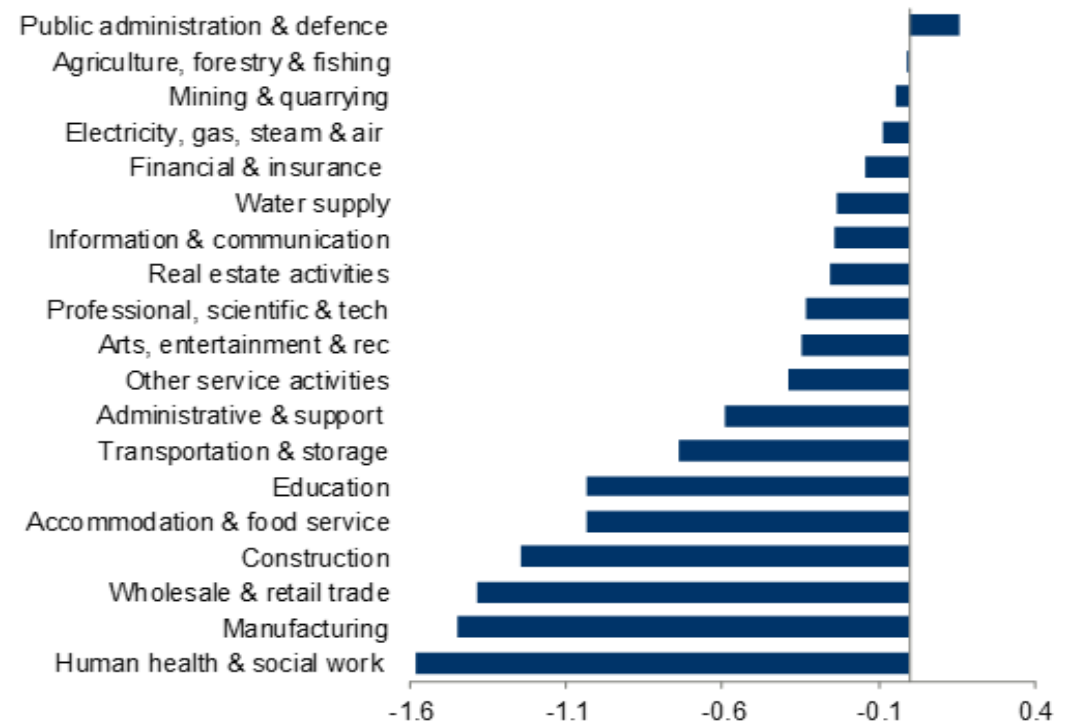


Consumer-focused sectors are expected to have seen the largest contractions in 2020 but all sectors are forecast to grow in 2021

GVA (%)	2020	2021
Public administration & defence	1.9	0.6
Agriculture, forestry & fishing	-0.4	0.3
Real estate activities	-2.2	0.8
Financial & insurance	-3.8	1.2
Information & communication	-7.2	3.7
Electricity, gas, steam & air	-7.2	4.5
Professional, scientific & tech	-8.2	4.5
Mining & quarrying	-8.8	4.5
Wholesale & retail trade	-10.1	3.5
Manufacturing	-10.1	5.0
Water supply	-14.5	5.3
Human health & social work	-15.2	5.5
Construction	-17.2	5.7
Administrative & support	-18.8	5.0
Education	-18.9	6.1
Transportation & storage	-19.2	6.9
Other service activities	-20.8	6.5
Arts, entertainment & rec	-29.6	8.9
Accommodation & food service	-39.4	16.5
Total	-11.0	4.0

Source: Oxford Economics, Danske Bank Analysis

Sector contributions to the change in GVA in 2020



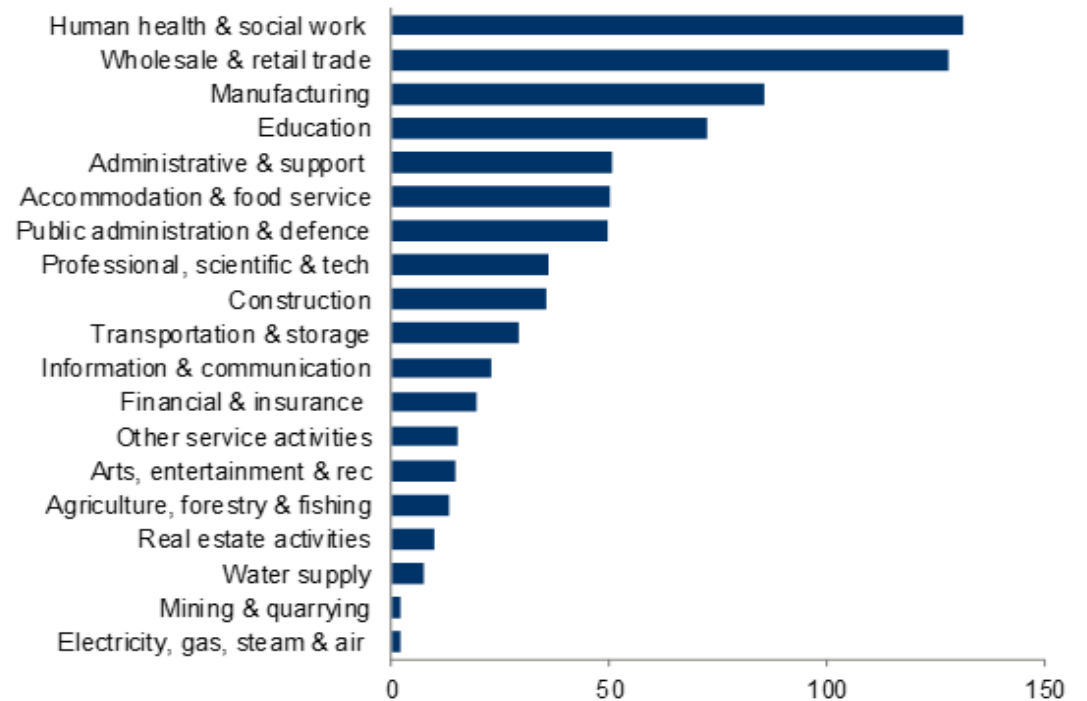
Source: Oxford Economics, Danske Bank Analysis % annual contribution to change in GVA

We are projecting that the average number of employee jobs fell by around 0.3% in 2020 with a decline of 3.0% expected in 2021

Employee jobs (%)	2020	2021
Electricity, gas, steam & air	11.8	-2.1
Professional, scientific & tech	4.2	-2.1
Water supply	4.0	-2.3
Financial & insurance	3.5	-1.3
Construction	2.3	-2.4
Transportation & storage	2.1	-2.0
Human health & social work	2.1	-1.1
Education	1.7	-0.2
Agriculture, forestry & fishing	1.4	-2.0
Information & communication	1.1	-1.0
Public administration & defence	0.6	-1.1
Real estate activities	0.2	-1.0
Mining & quarrying	0.1	-2.5
Accommodation & food service	-1.4	-7.6
Arts, entertainment & rec	-1.9	-7.3
Wholesale & retail trade	-2.1	-4.8
Manufacturing	-2.6	-3.4
Other service activities	-5.0	-5.7
Administrative & support	-7.4	-5.4
Total	-0.3	-3.0

Source: Oxford Economics, Danske Bank Analysis

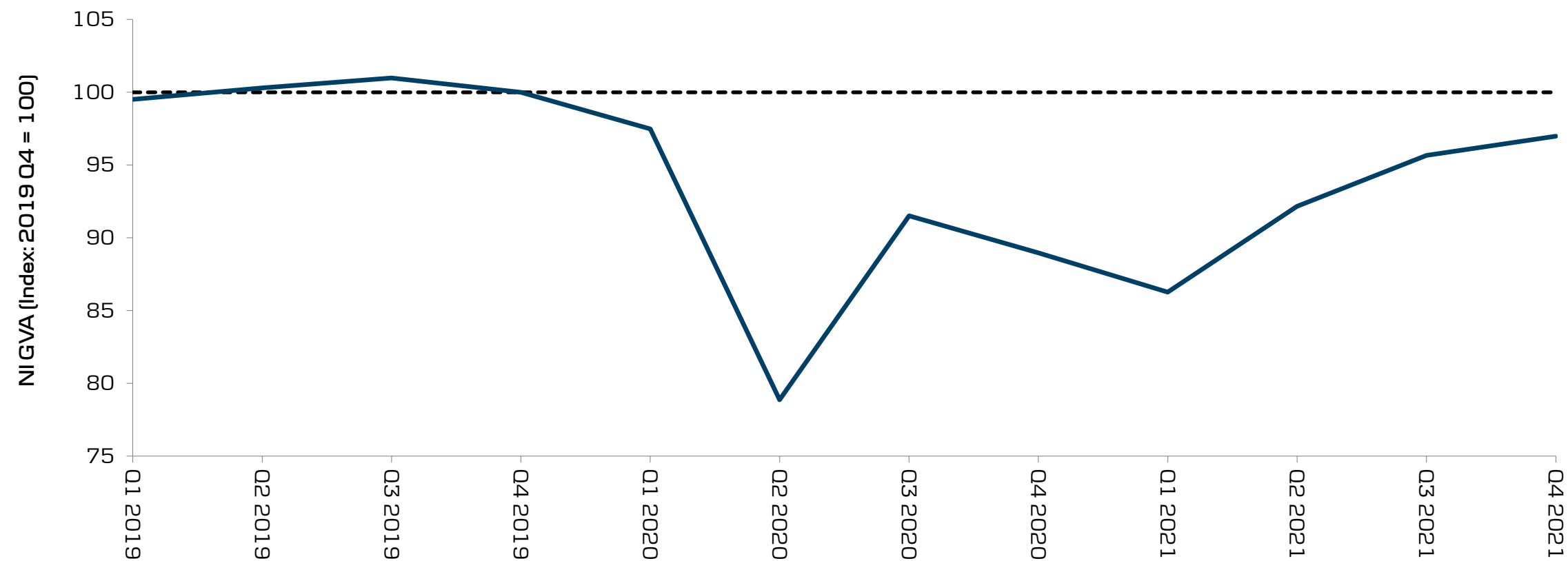
Employee jobs per sector in 2020



Source: Oxford Economics, Danske Bank Analysis

Employee jobs (000s)

Economic output is still expected to be below its pre-coronavirus level in the final quarter of 2021



Source: Danske Bank Northern Ireland Quarterly Sectoral Forecasts 2020 Q4

There are several risks and uncertainties which could impact the performance of the economy over the next twelve months

Coronavirus

*Disruption
related to the
end of the Brexit
transition period*

*The global
economic outlook
deteriorates*

Thank you

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 Conor Lambe

Reports available at
www.danskebank.co.uk/economy



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Introduction

Global Themes impacting the world economy in 2021

John-Paul Coleman is Head of Treasury & Markets, managing the Bank's funding, liquidity, Foreign Exchange (FX) and interest rate risk and leading a team of specialists in hedging (FX) and interest rate risk. John-Paul is a Chartered Financial Analyst with over 20 years' experience in national and international banks working in Dublin, London and Belfast.

John-Paul Coleman, Danske Bank
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@PaulcolemanJohn



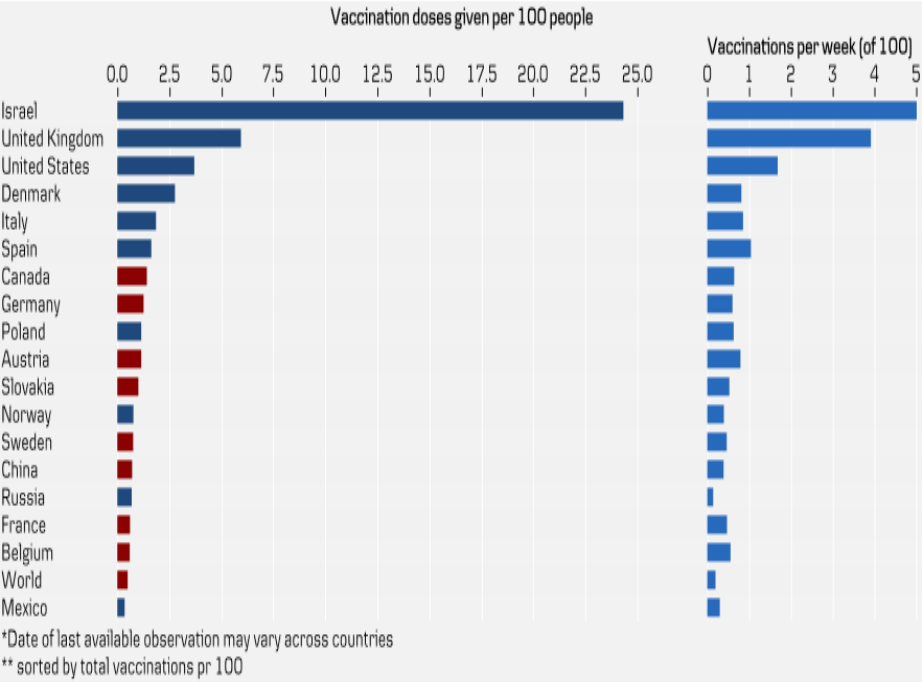
Global Themes for 2021

- Will the COVID-19 crisis be behind us in 2021?
- Will the vaccine roll-out lead to the normalisation of economic activity?
- Inflation Comeback?
- Normalisation of extraordinary fiscal and monetary policy?
- A quiet political year?

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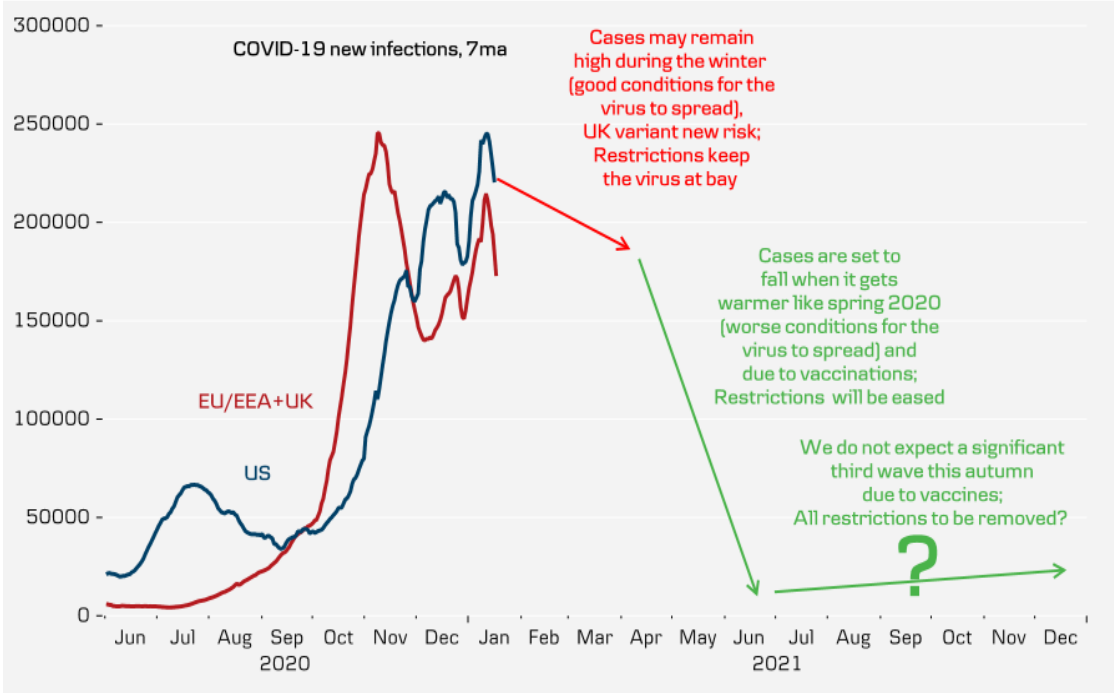
Will the Covid-19 Crisis be behind us in 2021?

Slow Start but Pace Increasing on Vaccination



Sources: Our World In Data, Macrobond Financial

Expected Covid-19 Development in 2021

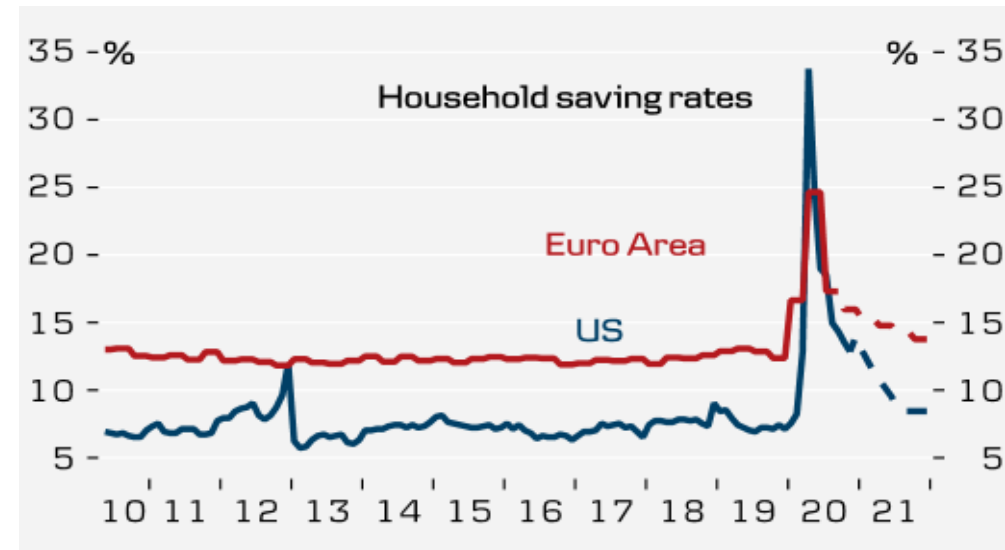
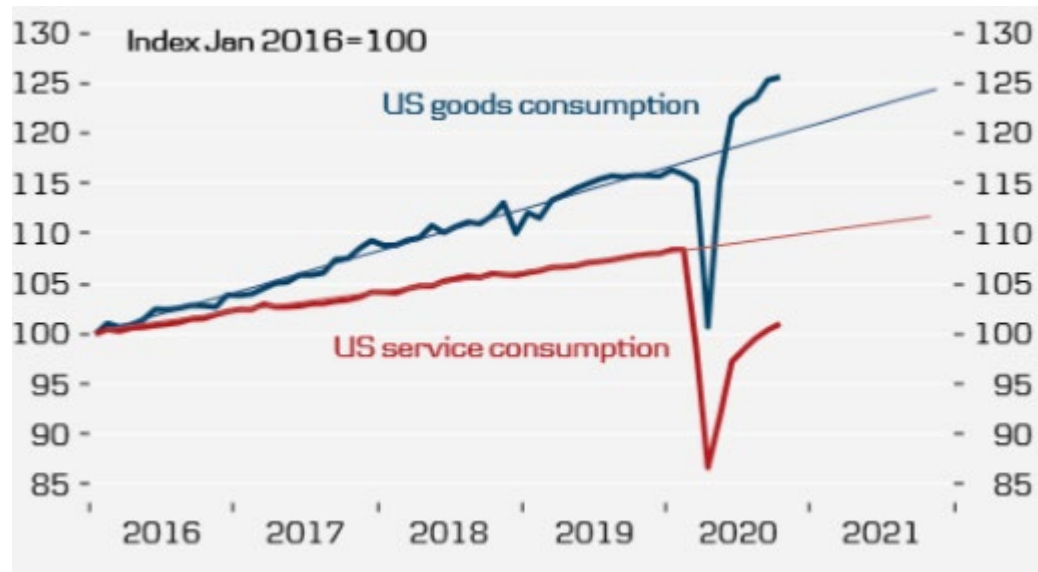


Sources: WHO, Macrobond Financial, Danske Bank assumptions

When will vaccine lead to normalisation of Economic Activity?

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- Normalisation has come a long way on the goods side of the economy, while service sector consumption is still undermined by restrictions
- Further normalisation hinges on the release of remaining pent-up demand, especially for services, as vaccinations roll out. Goods consumption may then be crowded out to some extent
- Experience tells us that consumers return and employment normalises pretty quickly when restrictions are lifted and the fear factor declines.
- China/US to reach pre-crisis levels this year, while have to wait until 2022 for Euro-area and Japan



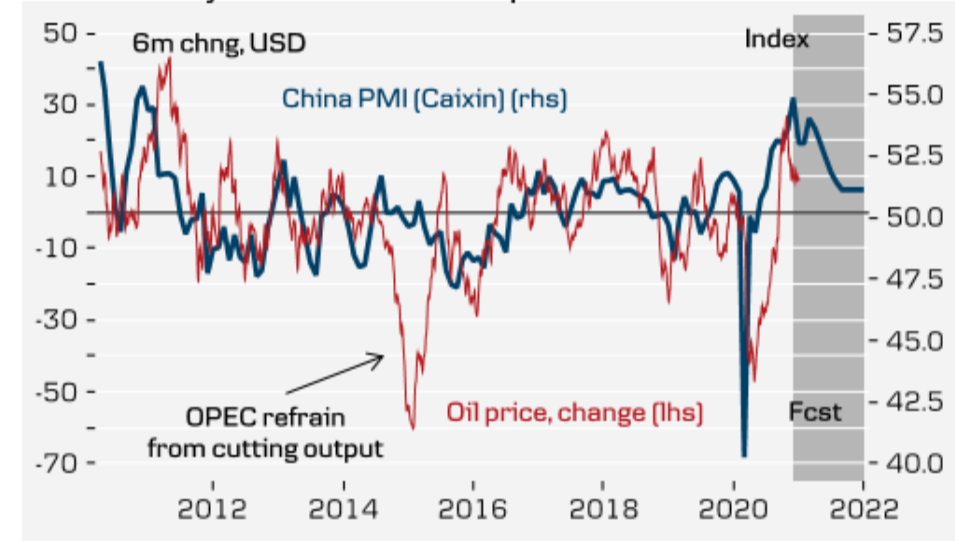
Source: Macrobond Financial, Danske Bank

Will inflation finally comeback in 2021?

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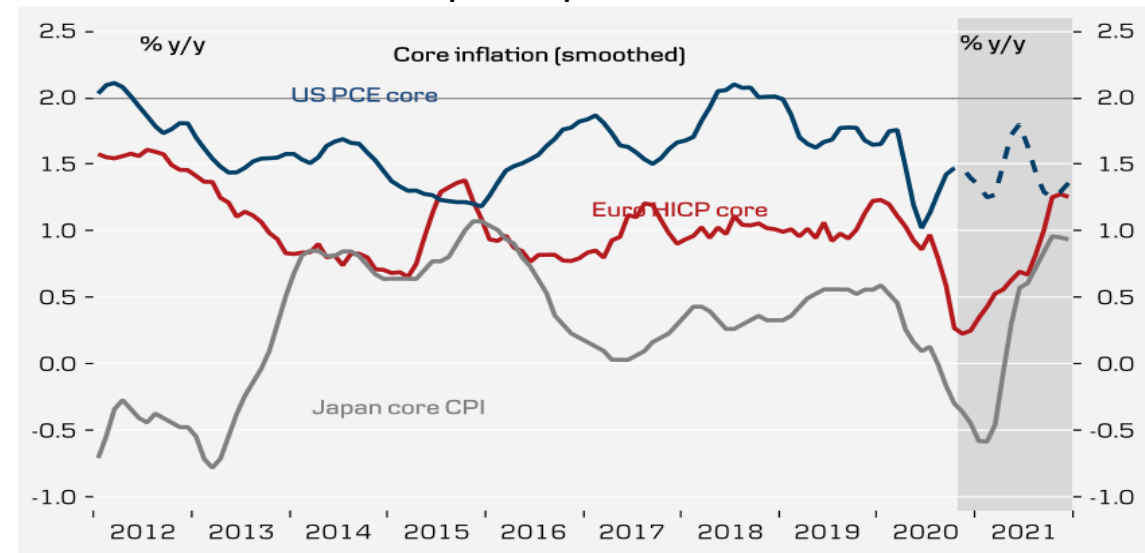
- Development in inflation will be a key factor in 2021 for the development of the market. Some of key determinants for the outlook
 - How much will commodity prices increase?
 - Will the substantial money printing lead to inflation when crisis is over?
 - How fast will economies normalise?
 - How much will fiscal policy sustain demand in 2020?

Chinese cycle has been important driver for oil demand



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Markit, Danske Bank

Core inflation is set to pick up as economies normalise

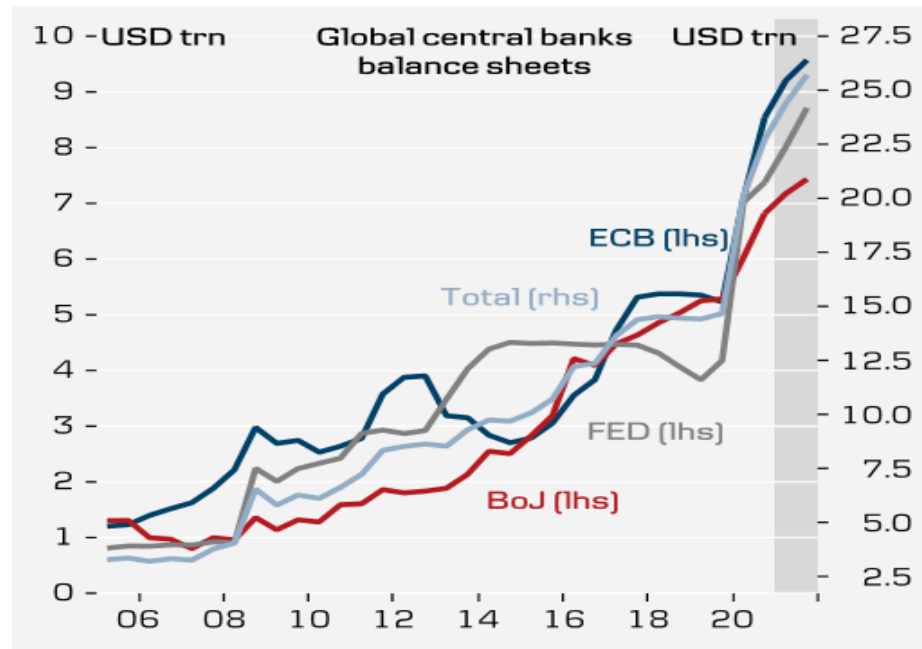


Normalisation of extraordinary fiscal and monetary policies

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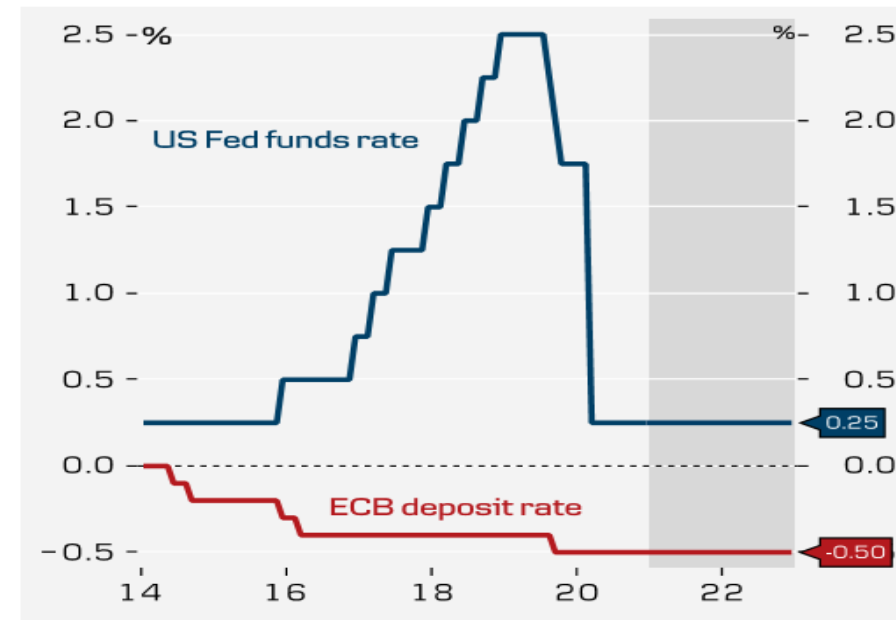
- The main central banks Fed, ECB, BOJ and BOE to err on side of caution, but Fed likely to start sooner than others in tapering, Q1 22
- China looking to exit and slowing credit growth already points to fading effects of stimulus
- US fiscal policy is set to provide further impetus to the US economy given the Biden Administration's new stimulus plans. Easy EU fiscal policies remain in place for 2021

Central bank balance sheets set to continue to increase through 2021



Source: Macrobond Financial, Danske Bank

No changes in policy rates in the near future



Source: Macrobond Financial, Danske Bank

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FX Currency Risk

GBP/EUR Forecast

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Currency	GBP/EUR - forecast				
As of	18 th Jan 2021				
	Q1 21	Q2 2021	Q3 2021	Q4 2021	2022
Low	1.05	1.02	1.02	1.04	1.06
High	1.16	1.18	1.22	1.23	1.35
Mean	1.11	1.11	1.11	1.11	1.13
Source: Bloomberg					

Please note that these forecasts reflect the consensus view of a number of Market participants at a point in time ,

are not a recommendation to transact and may not reflect actual rates at the various future dates.

GBP/EUR FX (with current forecasts)

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GBP/USD Forecast

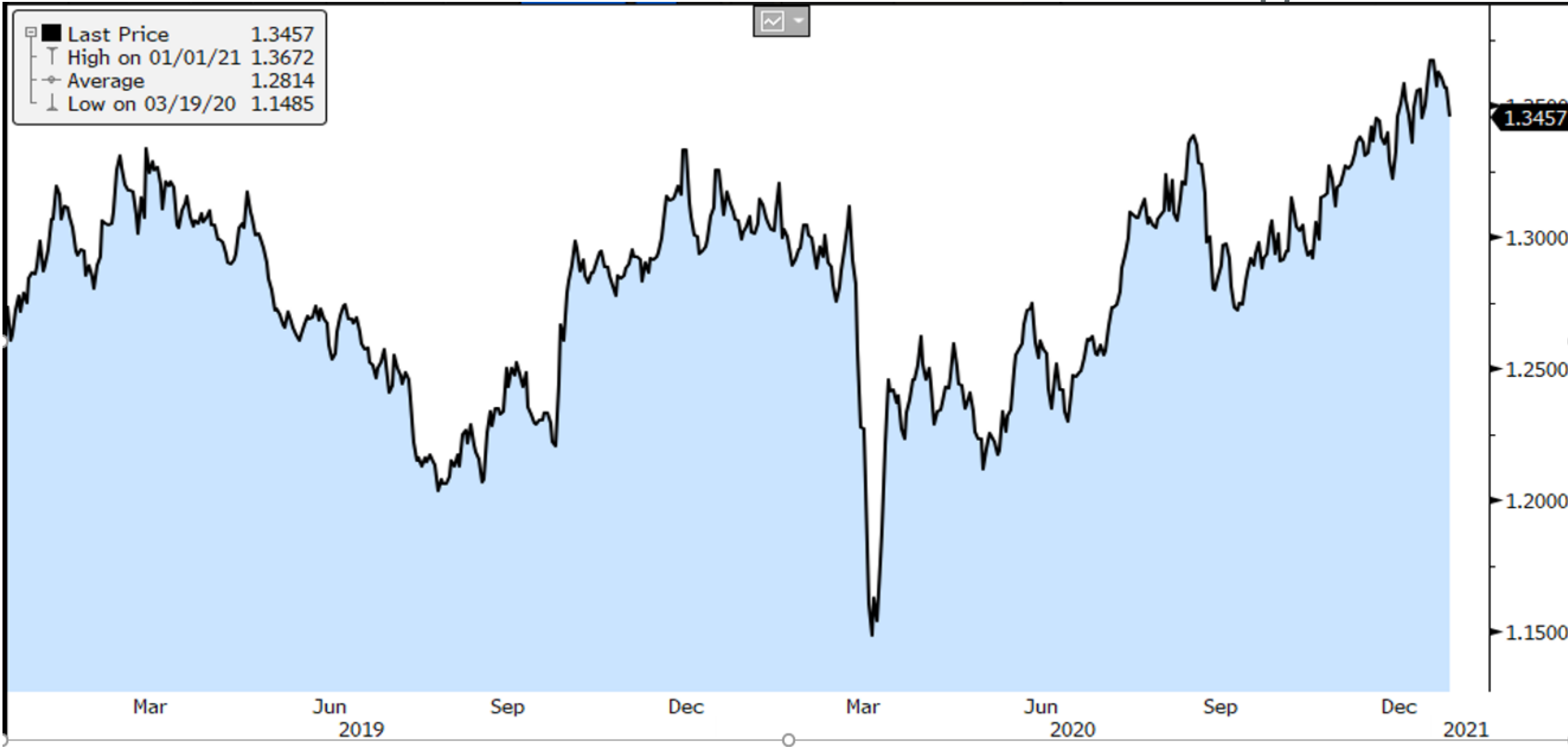
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Currency	GBP/USD - forecast				
As of	18 th Jan 2021				
	Q1 21	Q2 2021	Q3 2021	Q4 2021	2022
Low	1.28	1.25	1.25	1.25	1.23
High	1.42	1.45	1.48	1.50	1.55
Mean	1.35	1.35	1.36	1.37	1.40
Source: Bloomberg					

Please note that these forecasts reflect the consensus view of a number of Market participants at a point in time ,

are not a recommendation to transact and may not reflect actual rates at the various future dates.

GBP/USD FX (with current forecasts)



That's all

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Thank you

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What Brexit means for businesses in Northern Ireland

Peter Legge
Lee Squires

20 January 2021



What Brexit means for businesses in Northern Ireland



Lee Squires, Grant Thornton
Director – Indirect Tax

Lee leads Grant Thornton's VAT and indirect tax practice in Northern Ireland. He advises clients in a number of industry sectors on a wide range of VAT issues, as well as customs duties and stamp taxes, with a particular recent focus on advising clients on the impact of Brexit on the VAT and customs treatment of their cross-border trade. He also has extensive experience in resolving disputes and litigation with HMRC.

Other direct tax issues to keep in mind



Peter Legge, Grant Thornton
Partner - Tax

Peter joined Grant Thornton in 2005 and leads the delivery of UK tax services within the Grant Thornton Ireland partnership. Peter chairs the firms Brexit Committee and leads the delivery of Brexit Advisory services. Peter is also an Executive Board Member of the Belfast Chamber of Trade & Commerce and was elected Honorary Treasurer in 2018.

VAT and Customs issues for NI businesses

Lee Squires

Northern Ireland Protocol

NI Protocol applies even though UK and EU have agreed Trade and Co-operation Agreement (TCA)

NI remains in EU Single Market for goods, so harmonisation on goods standards with ROI and no regulatory checks

But some regulatory checks, including SPS controls, for goods moving from GB to NI

NI part of UK customs territory, but imposes EU customs duties in some cases and follows EU customs rules

NI follows EU VAT rules in relation to goods (but not services)

Subject to democratic consent of NI Assembly after 4 years from end of transition period; if not, ends 2 years later



VAT and customs issues

- Consider scenarios for goods trade:
 - Northern Ireland/EU (inc ROI)
 - Northern Ireland/Great Britain
 - Northern Ireland/RoW
 - Great Britain/EU (inc ROI)

Goods trade: Northern Ireland/ROI

VAT

- Current VAT treatment should apply
- XI prefix used for VAT number when selling/buying goods to EU customer/supplier
- Note further changes from July 2021
- NI businesses may continue to use EU VAT refund system for VAT incurred on goods

Customs

- EU customs rules apply in NI, so no tariffs, customs controls or declarations required
- Frictionless border with ROI should be maintained



Goods trade: Northern Ireland/EU



VAT

- As above

Customs

- Transit declarations needed where goods from NI transit through GB and onto EU (or vice versa)

Goods trade: GB to NI

Customs

- Import declarations and entry summary declarations required
- XI EORI number needed if importing into NI from GB or importing/exporting RoW from NI
- Trader Support Service
 - Support GB-NI customs declarations for traders
- Different rules for postal packages – temporary regime until 31 March
- Duties payable if goods ‘at risk’ of onward movement into EU



Goods trade: GB to NI

Three gateways to zero tariffs:

UK/EU Trade
and
Cooperation
Agreement
(TCA)

- Claim zero duty if UK originating goods according to rules of origin in TCA

UK Trader
Scheme (UKTS)

- Importer is authorised under UKTS and declares goods not 'at risk' of subsequent movement into EU

Waivers

- Importer claims a waiver within their de minimis EU state aid allowance

Otherwise, customs special procedure – inward processing, customs warehouse?

Goods trade: GB to NI

UK Trader Scheme (UKTS)

In order to declare goods not 'at risk':

- Importer must be authorised under the UKTS
- Must hold evidence that the goods entered NI for the purpose of either:
 - Sale to or final use by end consumers located in the UK (e.g. sale in retail stores)
 - Use in their own business in the UK
- There must be no commercial processing in NI (unless exemption)
- Goods must not be subject to EU trade defence measures

Goods trade: GB to NI

Processing exemptions

Goods brought into NI for processing are always at risk unless:

- Importer has an annual turnover of less than £500K per year, or
- Processing in NI is for the sole purpose of:
 - Sale of food to end consumers in the UK
 - Construction in NI by the importer
 - Direct provision of health or care services in NI by the importer
 - Not-for-profit activities in NI where no subsequent sale of processed goods
 - Final use of animal feed in NI by the importer

Goods trade: GB to NI

Duty waivers

- Most businesses can claim up to a maximum of €200,000 of aid over 3 tax years, assessed on a rolling basis
- Maximum allowance includes all de minimis state aid claimed over the period, including aid unrelated to waivers for customs duty
- Lower allowances apply to businesses in some sectors
- Claim waiver on import declaration and by customs duty waivers form

Goods trade: GB to NI

VAT

- Current VAT treatment continues for sales of goods between GB and NI
 - Subject to some exceptions
- Business must account for VAT when moves own goods from GB to NI
- Various special cases – VAT groups, margin schemes etc



- GB – NI – ROI movements involve extra complexity
- Charge UK VAT to ROI customer depending on where in movement transfer of title takes place
- May need to use Onward Supply Relief (OSR)

Goods trade: Rest of world to NI



VAT

- Postponed import VAT accounting available on import

Customs

- UK tariff payable on import where:
 - EU tariff is equal to or less than UK tariff (taking into account preferential tariffs under FTAs), or
 - Importer declares goods are not ‘at risk’ of subsequent movement to EU under UKTS
- No waivers of duty
- Goods cannot be declared not ‘at risk’ where EU tariff exceeds UK tariff by 3% or more

Goods trade: NI to GB

- UK export declarations not normally required
- Unfettered access for NI “qualifying goods” with no import declarations, tariffs or customs checks
- “Qualifying goods” – any goods not under customs supervision or control in NI
 - Anti-avoidance provisions apply where goods are moved through NI to avoid UK tariffs or import processes
 - Definition will be updated in 2021



VAT on services

- NI subject to UK VAT rules on services
- B2C supply of certain services to EU no longer subject to VAT
- UK no longer part of Mini One Stop Shop (MOSS) system for digital services
- Increased VAT recovery for UK entities supplying insurance and financial services to EU customers

What should businesses do now?

Businesses trading in or with NI should consider:

- How they will submit customs declarations
- Ensuring they have an XI EORI number and XI VAT number
- Commodity codes/tariffs on products under EU Tariff and UK Global Tariff
- Origin of products under UK-EU Trade and Co-operation Agreement
- Whether goods imported from GB/RoW will be “at risk” of moving to EU and potential for waiver
- Applying for authorisation under the UK Trader Scheme
- Discussing with suppliers / customers which party is responsible for import formalities / duties in supply chains

What should businesses do now?

- VAT changes, particularly for GB/NI trade and goods movements through NI
- Customs procedures when goods move through GB to EU countries (and vice versa)
- Whether any customs special procedures/reliefs could mitigate impacts
- Impact of loss of EU free trade agreements



Other direct tax issues to keep in mind!

Peter Legge

Corporate & international tax

What else should you be thinking about?



Supply chain or organisation changes – Transfer Pricing

International assignments and social security contributions

Group structures and Withholding Taxes

Corporate & International Tax

EU27 direct tax position

January 31, 2020

- UK no longer an EU member state in legal terms
- EU27 domestic provisions **not** part of a Directive could now exclude UK (tax consolidations, CFC white lists, claw back?)
- Directives should still apply to the UK so EU27 treat UK as a member state for WHT, Mergers etc.

End of transition

- Unless agreed, EU27 no longer obliged to treat UK as an EU Member State for Directives. Some concessions (e.g. Italy)
- Cross border payments of interest, royalties or dividends could attract WHT – consult treaty network
- Clearance / admin requirement even if treaty still at 0%

Withholding tax – Impact of UK not being an EU Member State

The impact of moving from the Parent-Subsidiary Directive & Interest and Royalties Directive onto rates agreed with Double Tax Treaties

Country	Dividends	Interest	Royalties
Austria	If shareholding ≥25%, at 5% Otherwise, 15%	0%	If shareholding >50%, 10% Otherwise, 0%
Belgium	If shareholding ≥10%, at 0% Otherwise, 10%/15%	0%/10%	0%
Bulgaria	For certain dividends 0% Otherwise 5%/15%	If shareholding ≥10%, 0% Otherwise 5%	5%
Croatia	If shareholding ≥25%, 5% Otherwise 10%/15%	5%	5%
Cyprus	0%	0%	5% for film royalties Otherwise, 0%
Czech Republic	If shareholding ≥25%, 5% Otherwise, 15%	0%	0%/10%
Denmark	If shareholding ≥25%, 0% Otherwise, 15%	0%	0%
Estonia	0%	0%/10%	0%
Finland	0%	0%	0%
France	If shareholding ≥10%, 0% Otherwise, 15%	0%	0%
Germany	If shareholding ≥10%, 5% Otherwise, 10%/15%	0%	0%
Greece	15%	0%	0%
Hungary	If shareholding ≥10%, 0% Otherwise, 10%/15%	0%	0%

Withholding tax – Impact of UK not being an EU Member State

Country	Dividends	Interest	Royalties
Ireland	For certain qualifying companies 0% Otherwise, 5%/15%	0%	0%
Italy	If shareholding ≥10%, 5% Otherwise, 15%	10%	8%
Latvia	If shareholding ≥25%, 5% Otherwise, 15%	10%	5%/10%
Lithuania	If shareholding ≥25%, 5% Otherwise, 15%	10%	5%/10%
Luxembourg	If shareholding ≥25%, 5% Otherwise, 15%	0%	5%
Malta	0%	0%	0%
Netherlands	If shareholding ≥10%, 0% Otherwise, 10%/15%	0%	0%
Poland	If shareholding ≥10% for 2 consecutive years, 0% Otherwise, 10%	5%	5%
Portugal	If shareholding ≥25%, 10% Otherwise, 15%	10%	5%
Romania	If shareholding ≥25%, 10% Otherwise, 15%	10%	10%/15%
Slovakia	If shareholding ≥25%, 5% Otherwise, 15%	0%	10%
Slovenia	If shareholding ≥20%, 0% Otherwise, 15%	If shareholding ≥20%, 0% Otherwise, 5%	5%
Spain	If shareholding ≥10%, 0% Otherwise, 10%/15%	0%	0%
Sweden	If shareholding ≥10%, 0% Otherwise, 5%/15%	0%	0%

Key

- Unless EU country acts to treat the UK as a Member State, there will be a Brexit impact – payments from EU to UK companies will most likely result in increased costs
- Unless EU country acts to treat the UK as a Member State, then depending on facts, there may be a Brexit impact – payments from EU to UK companies may result in increased costs
- There should not be a Brexit impact – payments under treaty should not result in any additional costs

Withholding tax – Impact of UK not being an EU Member State

- In relation to UK withholding taxes on payments to EU Member States, HMRC released guidance which states that the UK will continue to apply the EU Directives to payments from UK companies to Member States.
- This means that there should be no increased UK withholding tax cost on any interest and royalty payments to Member States. Payments which previously qualified for the Directive exemptions should continue to qualify. NB: Clearance process remains in place for interest payments (but not for royalties).

Q&A

We will endeavor to answer as many questions as we can in connection with today's presentations.

A copy of today's recording, presentations and information can be accessed from our Danske Advantage resource page on our website @ <https://danskebank.co.uk/business/advantage>