

Value Added Tax (VAT) pitfalls and opportunities

VAT is considered a high risk tax as it applies to transactions rather than profits. Due to the complexity of the tax, businesses can easily incur substantial VAT liabilities without realising. Through the extensive Grant Thornton network, we can provide advice to clients in relation to international VAT issues as well as Irish VAT issues. Our leaflet highlights the major pitfalls which can easily lead to significant settlements with the Revenue. It also outlines some of the ways in which savings can be made. Finally, we outline how we can assist you in dealing with your VAT affairs.

Common VAT pitfalls

1 VAT cannot generally be reclaimed on the following items:

- entertainment for clients, staff, personal use, etc;
- food and drink;
- accommodation (unless at a 'qualifying' conference);
- passenger cars (note: 20% of VAT is recoverable on purchase of certain new passenger vehicles used for business purposes); and
- goods/expenses incurred that relate to any VAT exempt activity carried on by the business.

2 Valid invoices must be received in order to reclaim VAT

Valid invoices should include:

- date of issue and sequential number;
- VAT number of supplier;
- details of goods/services supplied;
- full name and address of supplier and customer;
- invoice amount, VAT rate and VAT amount; and
- VAT in question must be Irish VAT expressed in euros.

3 Property transactions

Errors in VAT frequently occur where properties are bought or sold or where leases are being granted, assigned or surrendered. It is vital that VAT advice is taken prior to entering into any such transactions, particularly in light of the recent amendments to the legislation in this area.

4 International transactions

Care must be taken when dealing with cross-border transactions. In many cases, VAT is not chargeable as the invoice will be zero-rated. However, this treatment generally requires certain conditions are satisfied. It is vital that invoices are not issued without VAT (in error), as the supplier remains liable for the VAT, and possibly interest and penalties. It is equally important not to pay VAT to suppliers where it is not correctly chargeable in error as it may be extremely difficult to recover any such VAT.

5 VAT rates

Businesses need to ensure the correct rate of VAT is applied to all goods and services supplied. While the standard rate of VAT in Ireland is 21%, the reduced rates of 13.5% and 0% apply to many goods and services and many services are also exempt from VAT. Many businesses make supplies at different rates and this can equally apply where a mixture of goods/services are supplied for a single consideration.

6 Statistical forms and general compliance

The penalties for a range of offences (including failing to submit VAT returns in a timely manner) have recently been substantially increased. It is therefore important that businesses complete and submit returns on-time. This applies to VAT returns, annual Return of Trading Details (RTD), Intrastat returns, Vat Information Exchange System returns (VIES), etc.

Common VAT opportunities:

- bad debt relief – can you reclaim a refund of VAT already paid?
- cash receipts basis – can you account for VAT when paid by your customers?
- VAT groups – can a cash-flow or real VAT saving be generated by using a VAT group?
- VAT offsets – can you ask Revenue to offset VAT on a large transaction to save cash flow?
- retained deposits – can you claim a refund of VAT where a deposit or advanced payment has been retained but no supply has taken place?
- VAT 13B certificates – are your customers established overseas? Can you have your suppliers invoice you without charging VAT?
- VAT on qualifying accommodation – can you reclaim VAT incurred on these costs?
- VAT on 'business cars' – can you reclaim VAT incurred on such purchases?
- reclaiming foreign VAT – have you incurred VAT abroad? Can this be reclaimed?
- timing of issue of invoices – can you delay issuing invoices to defer the time at which the VAT is due?
- review of input tax recovery methodology;
- for partly VAT exempt clients – are you entitled to reclaim more VAT?
- large asset purchases/unprocessed supplier invoices – are you reclaiming VAT at the earliest opportunity? and
- VAT rates charged – should you be accounting for VAT at a lower rate?

How can Grant Thornton help you?

- we provide VAT reviews for clients to determine potential VAT exposures and savings. We can customise this service to suit individual clients' needs and budgets. From completing our standard checklist to replicating a full Revenue audit, we can review the affairs of the business at a suitable level;
- we provide specialist VAT advice regarding property related transactions (e.g. sales and purchases, leasing, etc). As the numbers involved in these types of transactions are typically quite large, it is important to determine the correct VAT treatment prior to completing such transactions;
- we provide advice in relation to cross-border transactions and through our extensive international network we can advise on the appropriate VAT treatment in other jurisdictions;
- we provide assistance with Revenue audits and investigations and can deal with the authorities fully on your behalf. We have a team of specialists (several of whom have worked with the Revenue for many years), who deal with Revenue audits under all taxes. Assistance is generally required in relation to disclosures, handling the audit itself as well as negotiating a settlement, where appropriate; and
- we provide VAT compliance services (VAT returns, Intrastat returns, VIES returns etc).

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