

VAT Matters

Right now, it's all about the cash.

Cash-flow management has never been more critical for Irish businesses. This edition of VAT Matters outlines just some of the ways in which traders can maximise their cash-flow position from a VAT perspective.

Bad debt relief

Where a trader has accounted for VAT on a supply made and has not yet received payment, it may be possible to claim a refund of that VAT based on 'bad debt relief'. While certain conditions need to be satisfied, it is likely that many traders are unaware of this opportunity. Where bad debts have previously been written off and relief for VAT was not claimed, it should be possible to make a retrospective claim (subject to the standard four-year time limit).

Cash receipts basis

Many traders are unaware that the turnover limit for accounting for VAT on the 'cash-receipts' basis is currently €1,000,000 per annum. It is possible that businesses with decreasing turnover may now qualify to operate on this basis where they had not before. Clearly there is a significant cash-flow advantage in being obliged to account for VAT only when payment is received. It is important to note that a trader operating on this basis is still entitled to reclaim VAT on invoices received whether they have paid those invoices or not. Certain conditions apply where a trader switches from one basis to the other.

VAT groups

Two closely-associated persons (corporate or individuals) may be included in a VAT group. Effectively, the two entities are then treated as a single person for VAT purposes. As a result, it may be possible to ignore supplies made between the two entities, for VAT purposes. This avoids the situation of having one of the entities being obliged to charge VAT to the other entity and pay it over to Revenue with the second entity then needing to claim a refund. Apart from cash-flow, a VAT group can achieve very real cost savings where one of the entities is engaged in VAT-exempt activities.

VAT 13B certificates

Traders whose turnover is derived primarily (>75%) from sales to non Irish clients may qualify for a VAT 13B certificate. This entitles the trader to receive invoices from most suppliers of goods and services without paying VAT. It does not change the obligation for the trader to charge VAT on its own sales.

VAT offsets

It may be possible in some cases to ask Revenue to offset the VAT arising in relation to a particular transaction. For example, where a property is being transferred between two persons and a large VAT liability arises, it may be possible to offset the liability of the vendor against the refund due to the purchaser.

Frequency of VAT returns

Revenue recently introduced measures which allow traders with small annual VAT liabilities to file VAT returns every four months (or six months in certain cases) and to pay their liabilities accordingly. Additionally, traders who are in a constant VAT repayment position can submit VAT returns every month to enable them to recover their VAT more quickly. There is also a slight extension for those who pay and file via ROS. Finally, very small traders below the annual thresholds should consider cancelling their VAT registration where it is advantageous to do so.

Issuing of invoices

VAT legislation obliges traders to issue invoices by certain dates depending on the nature of the supply being made and the customer in question. Traders may be able to delay the point in time at which they issue VAT invoices and therefore delay the payment of the relevant VAT. This is particularly relevant for those who provide services to clients on an on-going basis.

VAT on passenger cars

Following changes in the recent Finance Act, traders are now entitled to recover some of the VAT incurred on the purchase or lease of new passenger vehicles which are used for business purposes. Certain conditions apply. Traders can continue to recover VAT on the costs of maintaining such vehicles.

Property/construction transactions

Many property transactions are dealt with by 'reverse charge' and since 1 September 2008, construction services which are subject to RCT are also dealt with by 'reverse-charge'. Traders involved in such transactions should ensure that they are adopting the correct VAT treatment as failing to do so may result in cash-flow inefficiencies as well as interest and/or penalties.

Foreign VAT

It may be possible to reclaim VAT incurred abroad through an international reclaim (e.g. costs of attending a trade exhibition). Some other countries allow Irish traders to recover VAT on costs such as hotel bills, subsistence etc even though VAT cannot be reclaimed on similar costs in Ireland. Additionally, when purchasing goods or services from suppliers established overseas, traders should establish before paying any foreign VAT whether or not it is correct to do so as many such transactions are subject to 'reverse-charge' (i.e. trader is not obliged to pay the foreign VAT but rather to self-account for the VAT in Ireland).

Avoid penalties

The Revenue Commissioners recently increased the penalties payable for a range of offences such as late filing of VAT returns etc. Penalties are now likely to be imposed in

circumstances where this would not previously have been the case. Traders are therefore strongly advised to ensure that returns (even nil returns) are submitted by the due date.

Please feel free to contact us should you wish to discuss the above or indeed any VAT issues which you may have.

Contact

Finbarr O'Connell

VAT Director

T +353 (0)1 6805 805

D +353 (0)1 6805 771

E finbarr.oconnell@grantthornton.ie

Jim Kelly

VAT Director

T +353 (0)1 6805 805

D +353 (0)1 6805 780

E jim.kelly@grantthornton.ie

24-26 City Quay, Dublin 2

Offices also in Limerick and Kildare

This briefing is provided for general information purposes only and is not a comprehensive or complete statement of the issues to which it relates. It should not be used as a substitute for advice on individual cases. Before acting or refraining from acting in particular circumstances, specialist advice should always be obtained. No liability can be accepted by Grant Thornton for any loss occasioned to any person acting or refraining from acting as a result of any material in this briefing. Grant Thornton is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business.

