VAT

Value Added Tax (VAT) is the common system of turnover tax implemented in all member states of the European Union.

At its simplest, VAT is a tax on consumption. However, unlike sales taxes (which are dealt with by a limited number of businesses at the wholesale or retail stage) VAT is a multi-stage tax (i.e. applied at every stage of the production process), which is applied to both goods (i.e. tangible property) and services. Additionally, although the tax is ultimately borne by the consumer (by being included in the price paid), responsibility for charging, collecting and passing the tax on to the tax authorities, rests with the supplier.

How does the tax work?

Basically, a business will pay VAT (input tax) on its purchases and charge VAT (output tax) on its sales. The difference between the two will be the amount of VAT due from the business (i.e. Tax on the Value Added).

Sales	150	31.55
Purchases	100	21
Net VAT due		10.50
Net profit	50	
VAT on profit	50 x 21%	10.50

Is it really as simple as that?

Unfortunately no! Whilst the principles of the tax are reasonably simple, applying the tax in practice is far more complicated - output tax is not chargeable on all sales and input tax cannot be reclaimed on all purchases. At the same time, dealing with the VAT consequences of every transaction, submitting returns on time and finding the funds to pay the tax can prove a significant drain on business resources.

Why should I be interested in VAT?

VAT affects almost every transaction and, with the current Irish standard rate being 21.5%, mistakes can be costly and involve large amounts of tax. In addition, there can be penalties and interest charges for mistakes and the late submission of returns. Therefore, all businesses need to ensure that they are dealing with their VAT affairs properly, are collecting the right amount of tax and are submitting and paying tax returns on time.

Penalties and interest

The amount of VAT collected by the Government each year exceeds all other taxes. Revenue's powers for enforcing or encouraging payment of VAT are wide, and are understandably feared. For the worst cases of fraud they include criminal sanctions, although the great majority of violations are dealt with by what are called 'civil penalties'. The penalties most likely to be encountered are:

- fines for late VAT returns or payments;
- fines for errors on VAT returns; and
- interest on late payment of tax.

What does this mean to you?

If you own a business and your turnover exceeds - or is likely to exceed - €37,500 (for services) and €75,000 (for goods), or if you receive certain services from abroad you should be registered for VAT. This means that you are required to submit VAT returns and make payments of tax by certain deadlines. If you fail to submit returns on time, pay tax late or fill in a return incorrectly, you may be liable to pay surcharges, penalties and/or interest.

Returns and payments

If your business is registered for VAT you will need to keep a VAT summary of the output tax and input tax for each relevant accounting period. The usual accounting period is two months but less frequent returns are possible depending on the circumstances.

The information contained in the summary must be entered onto a periodic VAT return and then submitted to the Revenue Commissioners. If any tax is due, this amount must generally be paid over to Revenue along with the VAT return.

Contact

Finbarr O'Connell
Director, Tax
T +353 (0)1 6805 771
F +353 (0)1 6805 806
E finbarr.oconnell@grantthornton.ie

24-26 City Quay, Dublin 2

Offices also in Limerick and Kildare