



Irish funds and VAT

VAT is generally seen as a costly issue for those involved in the financial services industry. This is because most financial services businesses do not charge VAT and therefore cannot recover VAT (although this is not always the case).

Is Irish VAT registration required?

Irish funds authorised by the Financial Regulator are generally not involved in activities which require a VAT registration in Ireland. Typically, a fund will be involved in the acquisition and disposal of units/shares/equities, which is an exempt activity, for VAT purposes. However, if a fund is involved in other activities, a registration obligation could arise. For example, a fund which leases or disposes of properties in Ireland would likely be required to register for VAT in Ireland.

Irish funds are also obliged to register for VAT if they are in receipt of certain services from outside the State. The services involved could include legal, consultancy or advertising services. In these cases, the fund should quote its Irish VAT number to the supplier and then 'self-account' for the VAT in Ireland. There is no minimum threshold and to remain compliant with Irish tax law a fund must register for VAT, even if it is only in receipt of a minor amount of such services from outside the State.

Example: An Irish fund receives legal advice from a UK firm of solicitors and agrees a fee of €10,000. The UK firm should issue an invoice to the fund with no UK VAT and should instead quote the Irish funds VAT number on the invoice. The Irish fund should self-account for the VAT arising at the standard rate (currently 23%). In practical terms, this means that the fund should include €2,300 (€10,000 @ 23%) of VAT in its Irish VAT return for the period and pay this amount over to Revenue (unless the fund is entitled to recover VAT – see below).

VAT returns are generally filed in Ireland every two months although it may be possible to file them less frequently, depending on the expected liability in a year.

Note: management and certain custodial services provided to qualifying funds are specifically exempt from VAT and no obligation to register arises if the fund is only in receipt of these services from outside the State.

Revenue have significant powers to impose interest and penalties on funds which have not correctly accounted for VAT. Additionally, the fund could potentially appear on the tax defaulters list, if found to be non-compliant.

Can a fund recover any VAT?

An Irish fund may be able to recover VAT incurred if a portion of its investments are outside the EU. This includes VAT charged by Irish suppliers (e.g. audit or legal fees) as well as VAT which the fund accounts for on receipt of services from suppliers established outside the State.

Example: An Irish fund incurs VAT of €3,000 in a period. 60% of the investments of the fund are non-EU. The fund is therefore entitled to reclaim VAT of €1,800 (€3,000 * 60%) in its VAT return for the period in question.

If the fund is registered for VAT, and it is entitled to reclaim VAT on costs, then it will simply include the relevant amount of VAT in its VAT return. If it is not obliged to register for VAT but is entitled to recover VAT on costs, then it will still be entitled to reclaim the VAT but through a different process. An application can be made to Revenue for repayment of VAT by unregistered bodies which are entitled to the refund.

Management of special investment funds

Revenue in its ebrief 63/16 clarified the VAT exemption of special investment funds. Investment management is typically a VATable service but the management of certain special investment funds is exempt from VAT. The ebrief is useful for a number of reasons, one of which is the fact that it outlines Revenue's view on what constitutes management in the context of the funds industry. It is also important to note that following the Court of Justice of the European Union (CJEU) case GFBK (case C-275/11) investment management services provided to non-Irish domiciled funds are also treated as exempt from VAT. Previously such services provided by Irish based investment managers were treated as outside the scope of Irish VAT with full VAT recovery.

How can Grant Thornton help?

Our VAT specialists can provide assistance with all of the issues identified above, namely:

- determining if a VAT registration in Ireland is required;
- completing VAT returns and annual statistical forms;
- reclaiming Irish VAT paid; and
- calculating VAT recovery rates (where applicable).

Contact

If you would like to discuss any element of the recent improvements, please do not hesitate to call your usual Grant Thornton contact.

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