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VAT in the retail sector

The 23% standard rate of VAT is one of the highest in the European Union (EU) and our low rate of corporation tax of 12.5% means that most Revenue audits tend to focus on fiduciary taxes such as VAT. Retailers involved in any volume of transactions can incur substantial liabilities when VAT errors are made (even where that business is not profitable).

Retailers are perhaps more likely to be audited by Revenue for several reasons:

- a substantial amount of the total Revenue 'VAT-take' is charged and collected by retailers each year and much of this comes from the huge number of small and medium sized outlets based throughout the country;
- retailers generally operate with large amounts of cash. They do not issue invoices to customers and consequently the only indicator of sales may be the amounts lodged to the taxpayers' bank account; and
- VAT is a transactions-based tax. For this reason, if a taxpayer makes a mistake in accounting for VAT on the sale of one item, it is likely that same mistake will be repeated each time that item is sold.

It is therefore advisable that the systems in place are regularly reviewed to minimise potential exposures.
The VAT treatment of supplies must be also considered when retailers assess their pricing policy and the profit margins. In addition to this, where a retailer is involved in property-related transactions, of any kind, care must be taken to ensure that the correct VAT treatment is adopted to avoid potential pitfalls. Advice should always be taken prior to completing any such transactions.

Grant Thornton has an extensive and varied client base of small traders, retailers, distance sellers, and food suppliers. We can assist retailers with any VAT issues they may face and ensure that businesses do not fall into the many costly VAT pitfalls.

Common pitfall and topical VAT issues

VAT rates

A significant amount of VAT (as well as interest and penalties) is collected by Revenue each year as a result of retailers not accounting for the correct amount of VAT on the sale of products. This applies to both large and small retailers. A large supermarket may carry tens of thousands of products. Clearly, mistakes can easily be made.
While the standard rate of VAT in Ireland is 23%, the reduced rates of 13.5%, 9% and 0% apply to many goods and services (some services are exempt from VAT). Additionally, businesses can make supplies at different VAT rates and this can cause confusion particularly where a mixture of goods/services is supplied for a single consideration.

Food and drink

The VAT rate applicable on the supply of food and drink in the retail sector varies depending on the product, the place where the foods will be consumed and whether the food is served hot or cold. Therefore, a number of VAT rates must be considered to ensure accuracy when a business is accounting for VAT on its sales.

Accounting for VAT on sales

Depending on the systems in place, retailers generally have a choice of on how to account for VAT on sales.
They can either record the individual sales and calculate the VAT liability accurately, or they can use one of Revenues approved special schemes. Retailers using an Electric Point of Sale (EPOS) system cannot use a special retail scheme. Separate reporting obligations are required as part of operating Revenue margin scheme - second-hand goods (including second-hand means of mransport and agricultural machinery), pharmacy scheme and the retailers scheme.

Distance sales

The VAT rate applicable to sales to private consumers in other EU jurisdictions (i.e. distance sales made from Ireland) is liable to whichever Irish VAT rate would normally apply to those goods in Ireland, until the relevant distance sales threshold of the customer's country is breached and the supply is liable to VAT in the customer's country. It is important that such sales are tracked and the relevant VAT rate is applied when the threshold is breached and VAT registration is required in a particular jurisdiction.

Electronically delivered services

As of **January 2015**, supplies of telecoms, broadcasting and other electronically supplied services provided by suppliers in Ireland to private customers within the EU will be treated as supplied in the member state where the customer is resident. Irish suppliers of such services will need to determine where their customers are established, or usually, reside and will need to account for VAT at the applicable rate in that member state. This could result in suppliers having to register for VAT in all EU member states where they have customers. As an alternative to multiple VAT registrations in member states where a supplier has a customer, affected suppliers may be able to opt to account for VAT across the EU via a single electronic declaration. This system is known as the **Mini One-Stop Shop (MOSS)** scheme.

Vouchers

The VAT treatment of vouchers, tokens, coupons and loyalty type schemes is a particularly complex area for VAT. The VAT treatment can vary depending on the purchaser, the consideration received and the face value of the voucher. Retailers often account for VAT at the wrong stage of the supply process.

Property-related transaction

Property transactions typically involve large values and the VAT rules relating to property transactions are quite complex. Usually the VAT history of the property must be carefully reviewed before the correct VAT treatment is applied to the property transaction.

VAT savings and opportunities

VAT services provided by Grant Thornton to retailers and potential opportunities.
Grant Thornton VAT team offer a range of services from completing VAT returns to commenting on the VAT consequences arising from complex transactions. We can assist retailers to comply with their VAT obligations. It is equally important for businesses to be able to identify where VAT savings can be made.

Below are some common opportunities which businesses may be able to avail of:
- bad debt relief – can you claim a refund of VAT already paid to Revenue?
- large asset purchases/unprocessed supplier invoices – are you reclaiming VAT at the earliest opportunity?
- VAT groups – can a cash-flow or real VAT saving be generated by using a VAT group?
- retained deposits/cancellation fees – can you claim a refund of VAT where a deposit or advance payment from a customer has been retained but no supply has taken place?
- timing of issue of invoices – can you delay issuing invoices to defer the time at which the VAT is due?
- timing of VAT returns – can you submit your VAT returns less frequently?
- review of input tax recovery methodology – should you have higher VAT recovery rate?
- VAT rates applied – should you be accounting for VAT at a lower rate? Suppliers should review whether there are opportunities to reduce their VAT liabilities, particularly where they supply a wide range of goods to persons who do not have VAT recovery for those items.

A substantial amount of the work we do involves conducting VAT reviews for clients. We also guide our clients through Revenue audits and provide training to those who want to better understand VAT and how it impacts on their organisation.

In Grant Thornton we also use a technology tool "**Excavate**" which is a bespoke process combining data minining software with the experience and insight of our team to deliver a review which is built around a client's specific requirements. An Excavate review can highlight **potential risk areas** for further investigation and **action in advance** of a Revenue enquiry; this analysis can also identify cash saving opportunities as well as highlighting process and control weaknesses. Furthermore having the review demonstrates a **positive risk management** attitude to Revenue.

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