Ireland: Temporary VAT rate cut

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Introduction

Ireland has unveiled a Stimulus Plan of tax, loan and spending measures designed to boost the country's economic recovery from the COVID-19 crisis.

The Plan includes a temporary reduction in the Irish standard rate of VAT from 23% to 21% for the period from 1 September 2020 to 28 February 2021.

The move is designed to foster economic activity and support businesses. The standard rate applies to some 53% of activity, including the supply of cars, petrol, diesel, alcohol, tobacco, electrical equipment and adult clothes and footwear.

There will be no reduction in the 13.5% reduced rate of VAT which is seen by many as blow to the Irish hospitality and tourism industry, particularly since in Northern Ireland the sector is now subject to 5% VAT following the UK's recent VAT rate reduction.

It is essential for businesses to make plans now to ensure they can effect the necessary changes to billing and ERP systems for the new VAT rate with effect from 1 September 2020.

Businesses affected by the change should bear in mind that it is temporary and also plan for the return to the higher rate from 1 March 2021.

What businesses need to do now

Businesses should now take the following actions:

- Identify all products and services which are subject to the Irish standard VAT rate.
- Plan for the implementation of the changes needed to accounting, billing and check-out systems to enable the charging and reporting of the new 21% standard VAT rate with effect rate from 1 September 2020.
- Retailers that advertise gross prices will need to change the standard rate VAT fraction from 23/123 to 21/121.
- Businesses that issue tax invoices should ensure the invoice format is updated to reflect the new rate from 1 September 2020.
- Businesses should assess the impact on pricing and review commercial contracts to identify whether prices are fixed, or if the contract allows for VAT rate variations.
- Businesses with partial VAT recovery that account for reverse charge VAT should remember to account for VAT at 23% on invoices dated 31 August 2020 or earlier, even where the invoices are received after the rate change.
- Any credit notes issued after the rate change that relate to supplies made before 1 September 2020 must show the 23% VAT rate in force at the time of the supply.
- Businesses should carefully consider which VAT rate applies to supplies that span the VAT rate change date.
- Irish Revenue guidance on "Changes in rates of VAT" is available here. How to deal with continuous supplies of services, such as utilities, when the VAT rate changes is covered in section 6 of the guidance.
- Businesses should also remember to plan for the return to the 23% standard VAT rate from 1 March 2021.

For further information, please contact us on:
+44 (0) 118 321 6823
http://www.rbcvat.com/