

# Chapter 1

# General explanation of VAT

This Chapter sets out the basic principles of VAT. It describes how VAT works and indicates briefly who must register for VAT and what obligations this entails as regards accounting for the tax, record keeping etc. More detail is contained in later Chapters.

## 1.1 What is VAT?

VAT is a tax on consumer spending. It is collected by VAT-registered traders on their supplies of goods and services effected within the State for consideration to their customers. Each such trader in the chain of supply from manufacturer through to retailer charges VAT on his or her sales and is entitled to deduct from this amount the VAT paid on his or her purchases. The effect of offsetting VAT on purchases against VAT on sales is to impose the tax on the added value at each stage of production - hence Value-Added Tax. The final consumer, who is not registered for VAT, absorbs VAT as part of the purchase price. The following example illustrates how this works:

	Purchase Transactions			Value Added	Price Charged (Ex. VAT)	Sale Transactions			
	Price Paid (Ex. VAT)	VAT	Total Purchase Price			VAT @ 21%	Total Sale Price	Credit for VAT Paid	Net to Collector General
	€	€	€	€	€	€	€	€	€
Manufacturer	-	-	-	100	100	21	121	0	21
Wholesaler	100	21	121	100	200	42	242	21	21
Distributor	200	42	242	100	300	63	363	42	21
Retailer	300	63	363	200	500	105	605	63	42
Consumer	500	105	605	-	-	-	-	-	-
					500				105

As may be seen from the above example, the consumer pays a total of €605 for the finished product, of which €105 is VAT.

## 1.2 Rates

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The standard rate of VAT is 21%. There is a reduced rate of 13.5% and a zero rate. There is also a special rate of 4.8% on the sale of livestock (i.e. live cattle, horses, sheep, goats, pigs and deer) as well as on the sale of greyhounds and the hire of horses. Further details on these rates are contained in Appendices B, C, D, G and H to this Guide. A list of the rates applicable to a large range of goods and services is available on the Revenue website at [www.revenue.ie](http://www.revenue.ie).

## 1.3 Taxable person and accountable person - redefinitions

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A taxable person is any person who independently carries out any business in the State. It includes persons who are exempt from VAT as well as flat-rate farmers.

VAT law provides that VAT is chargeable on the supply of goods and services effected within the State for consideration by a taxable person acting as such, other than in the course or furtherance of an exempted activity. A person who is required to charge VAT is referred to as an accountable person.

An accountable person is, therefore, a taxable person (an individual, partnership, company etc.) who supplies taxable goods or services in the State and who is, or is required to be, registered for VAT. Persons who are involved in the taxable supply of property and persons whose annual turnover from supplies of taxable goods and services in the State, or the value of whose acquisitions of goods from other EU Member States, exceed or are likely to exceed certain limits are obliged to register for VAT. While persons whose turnover from taxable activities does not exceed these limits are not obliged to register, they may register for VAT if they so wish. This subject is dealt with in greater detail in Chapter 2.

Additionally, persons who are in receipt of Fourth Schedule, or cultural, artistic, entertainment or similar services are accountable persons (see paragraphs 4.7 to 4.10). However, persons who do not have an establishment in the State but who either supply and install goods in the State or who supply gas through the natural gas distribution network or electricity in the State are not accountable persons. A sub-contractor not established in the State who provides construction services in the State to principal contractors will not be regarded as an accountable person with effect from 1 September 2008, but may apply to become one in order to claim repayment of input VAT.

## 1.4 Exemptions

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A person who makes exempt supplies, comes within the scope of the term 'taxable person' but this has no bearing on his/her VAT status. Goods and services of the kind listed in Appendix A are exempt from VAT and suppliers of such goods and services are not obliged, nor indeed are they entitled, to register for VAT unless they also make taxable supplies. These persons may be required to register and account for VAT in respect of intra-Community acquisitions, Fourth Schedule services or goods and services received by them (see paragraphs 2.1 and 2.2). For special provisions relating to property please see the VAT on Property Guide.

## 1.5 Non-taxable entities

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State bodies (such as Government Departments, local authorities, health boards etc.), educational establishments (such as schools, universities, VECs etc.), public hospitals, charities, sports bodies and church bodies are, with some exceptions, not considered to be engaged in economic activities. They are not generally, therefore, obliged or entitled to register and account for VAT on income from supplies made by them and they must bear VAT on their purchases of goods and services.

VAT law provides that State bodies or any non-profit making body engaged in the provision of facilities for taking part in sporting activities may be required to register for VAT in certain circumstances. Third level educational establishments may be required to register for VAT in respect of certain research services.

## 1.6 Flat-rate farmers

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Farmers who do not register for VAT are compensated for the VAT they are charged on their purchases by means of a 5.2% flat-rate addition to the prices at which they sell their agricultural produce and agricultural services to VAT-registered persons. These farmers are known in the VAT system as 'flat-rate' farmers (see paragraph 2.26).

A farmer may nonetheless be obliged to register in respect of the intra-Community acquisition of goods, certain services received from abroad and certain other supplies. (See paragraph 2.26).

## 1.7 Registration

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Revenue will issue a VAT registration number to a person on being satisfied that the person is carrying on a taxable business in the State. The procedure for registration is outlined in Chapter 2.

## 1.8 Reverse charge/Self-accounting

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VAT is normally charged and accounted for by the supplier of goods or services. However, in certain limited circumstances the recipient of goods or services, rather than the supplier, is obliged to account for the VAT due. This applies:

- on the intra-Community acquisition of goods from another Member State (see Chapter 6),
- on receipt from abroad of Fourth Schedule services (see paragraph 4.8), or cultural, artistic or entertainment services received by a promoter from persons not established in the State (see paragraph 4.7),
- valuation, repair or contract work carried out on movable goods in another State in certain circumstances (see paragraph 4.11),
- where goods are installed or assembled for certain designated persons in the State by a supplier who is not established in the State (see paragraph 3.2),

- intra-Community transport and ancillary services supplied by a non-established person to an accountable person in the State (see paragraph 4.6),
- with effect from 1 September 2008, construction services supplied to a principal contractor by a sub-contractor, whether or not the sub-contractor is established in the State (see paragraph 2.11),
- on the receipt of gas through the natural gas distribution system, or electricity, from a person not established in the State by certain categories of persons in the State (see paragraph 3.2).

## 1.9 VAT returns

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A VAT-registered person normally accounts for VAT on a two-monthly basis (January/February, March/April etc.). Please see paragraph 11.5 for persons who may file monthly VAT returns.

The return made on the form VAT 3 together with a payment for any VAT due should be furnished to the Collector-General on or before the 19th of the month following the end of the taxable period. For example, a return for the VAT period May/June 2008 is due by 19 July 2008. The VAT 3 return includes a Bank Giro slip for payment of the tax due to the Collector-General (see Chapter 11). Traders are encouraged to submit their VAT returns using the Revenue Online Service (ROS) (see [www.revenue.ie](http://www.revenue.ie)).

From 1 July 2007, the frequency of filing VAT returns was reduced for certain accountable persons to the following:

- For businesses with a yearly VAT liability of €3,000 or less the option of filing returns on a six month basis is available.
- For businesses with a yearly liability of between €3,001 and €14,400 the option of filing returns every four months is available.

## 1.10 Amount on which VAT is chargeable

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The amount on which VAT is chargeable is the total sum the person supplying the goods or services becomes entitled to receive, including all taxes, commissions, costs and charges whatsoever but not including the VAT chargeable in respect of the transaction (see paragraph 9.1).

## 1.11 Basis of accounting

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Registered persons normally account for VAT on the invoice ('sales') basis. This means that they become liable for VAT by reference to invoices issued and sales made by them irrespective of whether payment has actually been received (see Chapter 14). However, certain persons may opt to account for VAT on the moneys received ('cash') basis i.e. by reference to payments actually received by them (see Chapter 12).

### 1.12 Right to deduct VAT

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In computing the amount of VAT payable in respect of a taxable period, a registered person may deduct the VAT charged on most goods and services which are used for the purposes of the taxable business. No deduction may be made, however, for the VAT on goods and services used for any other purpose. Non-established sub-contractors providing construction services that are subject to reverse charge may register for VAT if they wish to claim a refund. (see paragraph 2.11 and Chapter 13).

### 1.13 Records to be kept

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A VAT-registered person must keep full and true records of all business transactions which affect his or her liability to VAT. The records must be kept up to date and must be sufficiently detailed to enable that person to accurately calculate liability or repayment and to enable the Revenue to check the calculation, if necessary. Records must normally be retained for six years from the date of the latest transactions to which they refer (see Chapter 15).

### 1.14 Trade between different EU Member States

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In the European Single Market, VAT is accounted for on sales of goods between traders in different EU Member States by a system of intra-Community supplies and acquisitions of goods (see Chapter 6). The supplies are zero-rated in the EU Member State of origin and VAT is accounted for by the VAT-registered recipient in the EU Member State of destination (see Chapters 5 and 6).

### 1.15 Imports (non-EU)

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For VAT purposes imports are goods brought into Ireland from non-EU countries. As a general rule, imported goods are liable to VAT at the point of entry into the State, at the same rate as applies to the sale within the State of similar goods (see Chapter 7).

### 1.16 Exports (non-EU)

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For VAT purposes exports are goods supplied subject to a condition that they are to be transported to a place outside the EU. The zero rate of VAT applies to exports (see Chapter 8).

### 1.17 Repayment of VAT to foreign businesses

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In general, persons who are engaged in business outside the State but who are not engaged in business in the State are able to claim a refund from Revenue under the terms of the EU 8th and 13th VAT Directives of VAT charged to them in respect of services and goods supplied to them in the State for business purposes, where the VAT would be deductible by them if they were accountable persons in

the State (see paragraph 10.6). VAT may not be reclaimed in respect of goods or services supplied within the State (other than certain services for which the person who receives them self-accounts for the VAT due) or in respect of motor vehicles of a kind referred to in paragraph 10.9 for hiring out for utilisation within the State. Applications for refunds of input VAT should be made to **VAT Repayments (Unregistered), River House, Charlotte's Quay, Limerick**.

### 1.18 Repayments to unregistered persons

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There are special provisions for repayment of VAT incurred by unregistered persons in certain cases e.g. on farm buildings by unregistered farmers, on supplies to unregistered sea-fishermen, on certain supplies to disabled persons and to diplomats etc. Please see VAT Information Leaflet 'Repayments to Unregistered Persons'.

### 1.19 Appeals

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A person has the right to appeal against Section 22 estimates or Section 23 assessments (see paragraph 11.7) or against a determination made by Revenue in relation to the rate of VAT chargeable and in relation to whether an activity is an exempt activity. A person also has the right of appeal in relation to charges made in accordance with regulations, for example, in connection with an application for de-registration, and in relation to all claims for repayment. Any question of fact or law may be brought before the Appeal Commissioners, and the taxpayer if dissatisfied with the decision of the Appeal Commissioners may have the appeal re-heard by the Circuit Court. Both the taxpayer and Revenue may appeal to the High Court on a point of law and from there to the Supreme Court. Because VAT is governed by EU law, the Appeal Commissioners or any of the courts may refer the case to the European Court of Justice (ECJ).

Matters which may be appealed also include:

- a charge to tax in connection with the issue of an incorrect invoice or the issue of an invoice showing tax by a non-registered person,
- compulsory group registration, refusal to allow group registration and the cancellation of an existing group registration,
- a determination in relation to certain sports and leisure activities,
- a determination of open market value in relation to certain supplies between connected persons,
- the refusal by Revenue to authorise a person to operate as a refunding agent for the VAT Retail Export Scheme,
- the treatment of a person who allows supplies to be made on land owned, occupied or controlled by him/her, as jointly and severally liable with another person,
- a charge to tax in accordance with regulations,
- a claim for repayment of VAT,
- a refusal by Revenue to treat a person as an accountable person,
- a refusal by Revenue to accept that an expression of doubt is genuine (see paragraph 1.20 below).

## 1.20 Letter of expression of doubt

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VAT law provides that where a person is in doubt about the application of VAT law to a transaction, including the rate of VAT, he/she may lodge a letter of expression of doubt with Revenue. If the expression of doubt is accepted by Revenue as genuine, interest will not apply to any tax payable until the matter in doubt is resolved.

In the event that Revenue refuses to accept that the expression of doubt is genuine, it is open to the taxpayer to have such refusal referred to the Appeal Commissioners. Please see VAT Information Leaflet 'Expression of Doubt'.

## 1.21 Internal Review procedures

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Where a taxpayer wishes to seek a review of Revenue's handling of his/her tax affairs, or a decision made by a Revenue official, he/she can ask for an internal review to be carried out either:

- by a senior Revenue official who was not involved in the original decision, or
- jointly by an External Reviewer and the Revenue official mentioned above.

Requests for an internal review can be made to the Internal Review Unit, Revenue Commissioners, Dublin Castle, Dublin 2.

## 1.22 Revenue website

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The Revenue website carries a broad range of important information on all taxes and duties. All Revenue forms, guides, and information leaflets mentioned in this Guide are available on the Revenue website at [www.revenue.ie](http://www.revenue.ie).

## 1.23 Revenue on-line Service (ROS)

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ROS is a secure on-line service that enables taxpayers and individuals to interact electronically with Revenue. It offers taxpayers a quick, secure and cost effective method to manage their tax affairs on-line. ROS enables a taxpayer to view his/her own current position with Revenue for various taxes and levies, to file tax returns, including the VAT 3 returns and annual Return of Trading Details (RTD) and to make payments online in a variety of methods. Traders can register for ROS by accessing the ROS website through [www.revenue.ie](http://www.revenue.ie).

## 1.24 VAT 13A Scheme

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This scheme provides that an accountable person who derives not less than 75% of his/her annual turnover from exports or intra-Community supplies of goods out of the State, can apply to have most goods and services supplied to him or her and intra-Community acquisitions and imports made by him or her zero-rated. The zero rating does not apply to supplies of goods or services which in the normal course would not be deductible. Therefore, the supply or hire of any passenger motor vehicles, the supply of petrol, the provision of services consisting of the supply of food, drink, accommodation (other than in connection with a qualifying conference (see paragraph 10.7)), entertainment or other personal services and other non-deductible purchases do not qualify for the zero rate. A VAT-registered person who thinks he/she might qualify under this scheme should make application to the Revenue District responsible for his/her tax affairs. Please see VAT Information Leaflet 'Section 13A-Zero rating of Goods and Services'.

## 1.25 Property transactions

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New VAT on Property rules were introduced in the Finance Act 2008 and are effective from 1 July 2008. The new rules introduce a simpler and more rational basis for applying VAT to property transactions. The main features are:

- The first supply of newly developed property is taxable for a period of five years from completion,
- The second and subsequent supply is taxable for a period of two years following occupation,
- There is an option to tax the supply of properties where the supply would otherwise be exempt,
- Lettings are exempt but where the letting is between unconnected parties there is an option to tax the rents. The option to tax also applies where the parties are connected but the lessee is entitled to deduct over 90% of the VAT charged on the rent,
- A Capital Goods Scheme which ensures that the amount of VAT deductible on acquisition or development of a property will correspond with the use of the property over a period of 20 years (10 years in the case of refurbishment work),
- There are transitional rules to ensure that properties that have been developed under the old system will pass into the new system with a minimum of disruption.

The new system is described in detail in the VAT on Property Guide.