

Frequently Asked Questions

Direct Debit and impact of VAT Reverse Charge

When did the new VAT Reverse Charge system take effect?

It took effect from 1 September 2008.

Who does it affect?

All those involved in construction services within the scope of RCT i.e. all principal contractors and subcontractors.

What is the reverse charge?

The reverse charge is a new method of accounting for VAT where principal contractors and subcontractors are involved. The principal will now have to account for the VAT on construction services, previously accounted for by the subcontractor.

How will it affect Direct Debit payments?

Principal contractors

- From 1 Sep 08 the principal will account for the VAT on construction services supplied by subcontractors. The principal contractor will calculate the VAT on the amount charged by the subcontractor and pay the VAT directly to the Revenue Commissioners through his/her VAT return.
- ⇒ **Monthly Direct Debit** payments need to be reviewed (increased) to avoid an underpayment of VAT when the annual return is filed.

Certified subcontractors (C2 holders)

- Subcontractor should invoice the principal contractor net of VAT from 1 September 2008 – the principal accounts for the VAT to Revenue.
- ⇒ **Monthly Direct Debit** payments need to be reviewed (annual liability expected to reduce) to ensure that the correct amount of VAT is paid.

Registered as both a principal and a subcontractor

- When working as a principal contractor you must account for the VAT on the reverse charge on the services received as a principal and
 - When working as a subcontractor, the subcontractor does not charge VAT on services supplied to his or her principals.
- ⇒ **Monthly Direct Debit** payments need to be reviewed as VAT payment/repayment profile may change considerably (this category may require an increase or decrease – it will depend on whether they do more work as a principal or subcontractor).

Uncertified Subcontractor

- A subcontractor should invoice the principal contractor net of VAT from 1 September 2008 – the principal accounts for the VAT.
- ⇒ **Monthly Direct Debit** payments need to be reviewed (annual liability expected to reduce) to avoid an overpayment of VAT.

A business is registered as a principal contractor and asks to reduce the direct debit monthly payment (because of the downturn in the economy) what will Revenue do?

Revenue may ask appropriate questions about the business and will want supporting information on the reduced trading such as:

- Any reduction in number of employees from previous year;
- Any other evidence of reduced business activity.

However if the proposed reduced amount is not supported by specific information in writing, Revenue will withdraw the direct debit facility and return the customer to normal bi-monthly VAT returns.

A business is registered as both a principal contractor and subcontractor but does not know what monthly direct debit amount will now be required. What should happen?

To participate in the direct debit facility the customer is required to tell Revenue what their annual liability for VAT is expected to be. If this is not known the customer is not suitable to pay their tax through the direct debit facility. In this case the business should cease paying taxes by direct debit and return to paying VAT through bi-monthly returns.

A business is registered as both a principal contractor and subcontractor and submits a request to reduce the direct debit monthly payment (e.g. from €10,000 to €1,000 per month) without providing Revenue details of reduced business activity. How will the case be dealt with?

If the proposed reduced payment amount is not supported by specific information in writing, Revenue cannot reduce the monthly payment. Revenue will inform the customer that the direct debit facility will be withdrawn and the customer returned to bi-monthly VAT returns.

Can the customer apply to join the direct debit facility again?

Yes, the customer can apply to rejoin the direct debit facility once Revenue is satisfied with the level of payments proposed by the customer based on a number of bi-monthly returns submitted.

Are there any restrictions on who can join the direct debit facility?

Yes. Applications to avail of the Direct Debit facility are confined to customers with bi-monthly VAT liabilities up to €50,000 and monthly PAYE/PRSI liabilities up to €25,000. For customers with liabilities greater than these amounts, consideration should be given to using the Revenue On-Line Service (ROS).

What sanctions apply for late payment / underpayment of taxes in direct debit cases?

To ensure that sufficient VAT direct debit monthly amounts are paid to cover the annual VAT liability, the following interest charges apply:

- 1) The rate of interest on late payments is 0.0322% per day and is calculated from the date the payment became due up to the date of receipt.
- 2) For VAT direct debit cases where there is an underpayment and the balancing payment **exceeds 20% of the actual annual liability** interest is chargeable on the balancing amount from a date six months prior to the due date for the annual return to the payment date.

What information has gone to direct debit customers?

In September 2008 all customers affected by the VAT Reverse Charge change who make payments by direct debit are being issued with a letter to inform them about the VAT Reverse Charge mechanism. The letters stated that customers should review the direct debit monthly payment amount to ensure adequacy into the future. The letter was included a response form for completion by the customer and also a prepaid addressed envelope for ease of reply. A copy of this letter is on the website.

What happens if the increase in annual VAT puts a customer over the limit to avail of the Direct Debit facility?

The customer should complete the form, which is included with the VAT Reverse Charge direct debit letter issued, and a Revenue official will make contact with you in relation to your further participation in the direct debit facility.