

## Direct Debit Modernisation

Revenue is currently modernising its Direct Debit Scheme to bring it into line with standard industry practice. This is in preparation for a wider modernisation of its payment and banking processes which will happen over the coming years.

Revenue currently offers Fixed Direct Debit (FDD) as a payment option but is one of the last organisations still offering this option. Under this FDD option the taxpayer pays an estimated monthly amount along with a balancing payment when an annual return is filed.

Revenue intends to cease offering the FDD payment option for VAT over the coming months. We will move to Variable Direct Debit (VDD) which is the more standard payment option. Under this option, the taxpayer authorises Revenue to automatically collect the balance outstanding when it is due. This ensures that the taxpayer always pays the right amount at the right time and avoids the risk of interest arising on late payments.

The move to VDD for VAT necessitates a change in filing frequency from an annual to a bi-monthly basis. Revenue accepts that this change in filing frequency may increase the administration cost for small businesses. However, regardless of filing frequency, there is a requirement on all businesses to keep their books and records up to date. Also, there are a number of the benefits that bi-monthly filing along with the VDD payment option will deliver for many businesses such as:

- Ability to avail of approved VAT credits as soon as they arise in the year which can be used to either reduce the balance owing or be repaid. This is not possible under the current FDD payment option, whereby any credits or refunds due can only be processed after the year has ended. This is after the annual VAT return is filed, and the balancing payment paid in full.
- Greater certainty and visibility of the correct VAT position earlier in the tax year when filing takes place every 2 months as liabilities arise for payment.
- Reduced payment frequency as a maximum of six payments a year are required (and only when there is an outstanding balance due for a period). Currently 12 monthly payments are made as part of the FDD scheme.
- Provides for timely and automated payment with the balance outstanding collected automatically by Revenue on the due date every 2 months, requiring no balancing payments.
- Eliminates the need for estimation of VAT liabilities and follow up action by the taxpayer. The FDD scheme and annual filing places the onus on the customer to ensure they make sufficient payments throughout the year. Where insufficient amounts are paid resulting in a balancing payment, interest is payable if the balance is not paid by the due date. If the balance due exceeds 20% of the annual liability for VAT, then interest will be backdated to the mid-point of the accounting year. This risk is eliminated with the new VDD scheme and bi-monthly filing.

This change also expands the availability of the Direct Debit payment option to all customers for the payment of VAT and Employer's Income Tax. Prior to Direct Debit Modernisation, the FDD payment option was limited to customers who met certain maximum thresholds:

- where monthly Employers' Income Tax liabilities were less than €25,000
- and
- bi-monthly VAT liabilities were less than €50,000.

These thresholds do not apply for Variable Direct Debits and, therefore, this payment option is available to all.

A communications campaign specific to VAT taxpayers, highlighting the planned changes including the change in filing frequency commenced in April 2025. Letters issued to all VAT customers impacted by the changes. This will be followed by tailored letters highlighting the actions required both by Revenue and the taxpayer to change over to VDD. These tailored letters will issue on a rolling basis up to April 2026, as the customer's annual VAT period ends.

Notwithstanding these changes however, Revenue fully appreciates the continuing need to reduce the administrative burden on taxpayers when meeting their tax obligations. In this regard, Revenue continues to provide reduced payment and filing patterns to small businesses that meet certain criteria. For VAT, the qualifying criteria is as follows:

- Four-monthly returns, if the annual VAT liability is between €3,001 and €14,400.
- Six-monthly returns, if the annual liability is €3,000 or less.

Where taxpayers meet either of the criteria outlined above, they can apply to Revenue to move to the applicable reduced filing frequency.

The information in this document is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive or that it provides a definitive answer in every case.

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