

Flat-Rate Addition and Milk bought from Creameries

This document should be read in conjunction with section 86(1) of the VAT Consolidation Act 2010 (VATCA 2010)

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Introduction

This guidance deals with the flat-rate addition and milk bought from creameries.

1 Deduction by Creamery for Poor Milk Quality

Where a deduction is made, for example, 3 cent per 100 cent on the litre for poor quality water content, butterfat content, etc., then the net price of the milk is clearly 97 cent. The [flat-rate addition](#) should be calculated on the 97 cent. A quality bonus, if paid, would be added to the base price before the [flat-rate addition](#) is calculated.

2 Deduction for “Cartage”

If the farmer employs an independent contractor to collect and deliver milk, then the contract is presumably between the farmer and the haulier, and the [flat-rate addition](#) supplement is calculated on the full price payable by the creamery. This is subject to any deductions as at Paragraph 1 above. This would be the case even if the creamery, by arrangement, paid the haulier on the farmer's behalf and recovered the haulage charge by way of deduction on the milk statement. The transport charges would, in this instance, be liable to VAT at the [standard rate](#). Any difficulty in this regard should be determined by reference to the supply contract.

However, if the farmer employs the creamery to collect the milk at an agreed rate per litre, with the charge being recovered on the monthly statement, the position is as in the paragraph immediately above, on the basis that ownership of the milk is not transferred at the collection point.

If the creamery uses bulk collection, that is, collects milk from special tanks after sampling and testing, and takes the milk back to the creamery in a bulk tanker, the farmer may be paid a lesser amount for the milk. The difference in price may be shown on the milk statement as "cartage" but this will not strictly be the case if the creamery has already bought the milk and is thus conveying its own property. In such cases, the [flat-rate addition](#) should be calculated on the net price the farmer receives. In effect farmers with this arrangement are being paid less for their milk than if they delivered it themselves or hired someone to deliver it for them.

3 Deduction for Milk Board Levy

There may be a deduction made for the Milk Board Levy. This does not affect the price of milk to the farmer and the addition of the [flat-rate addition](#) should be made to the gross figure before the levy is applied.

4 Milk Collection - Taxable Haulage Services

The possibility of a taxable haulage service being carried on in the type of case covered in the first and second paragraphs of 'Deduction for Cartage' above, should be borne in mind.

The argument can be made that where a creamery has to collect milk and makes a deduction from the price paid to the flat-rate farmer in relation to same, then the amount deducted from the consideration for the supply of the produce is liable at the [standard rate](#) as consideration for a haulage service.

However, if the supply of the produce took place at the collection point, then the purchaser is merely transporting his own property. Although a deduction for such may be shown as "**cartage**" or transport, in reality that is not the case. What is really happening is that the farmer is being paid less for the produce because the purchaser has to collect it. This is not the same as the purchaser supplying the farmer with haulage or transport services. There is no supply of such service as there is no consideration for same. The consideration received by the farmer is in respect of a supply of goods only.

In essence, what you have is a supply of goods with a price structure as follows:

- Price 1 - €X per unit delivered to factory / creamery by seller
- Price 2 - €Y per unit collected by purchaser.

The purchaser will set his "price 2" lower than "price 1" because of the expense he will incur in collecting the goods. In the case of milk to the creamery this lower price will be aside from any reductions for poor quality etc.

5 Appropriate Audit Check(s)

The position in the case of the creamery should be examined to clearly identify the basis on which the [flat-rate addition](#) supplement is calculated. In particular, attention should be paid to the matter of cartage. If the supplement is being incorrectly calculated, the creamery involved should be advised in writing of the correct position and requested to make arrangements for the supplement to be calculated correctly in the future.