

COVID-19 MEASURES

In light of the Government's recent financial measures implemented for businesses, we have summarised below some practical steps businesses may take to improve VAT cash flow.

1. Deferral of VAT liability and acceleration of VAT refunds

Revenue has indicated that interest will be suspended in relation to the late payment of the January February and March April 2020 VAT for SMEs. The VAT return should continue to be submitted as normal but payment can be deferred. The Revenue have outlined that an SME is a business with turnover of less than €3m, which is not dealt with by the Revenue's Large Corporate Division or Medium Enterprise Division. Revenue advised that Businesses other than SME's who are experiencing difficulty in paying their tax liabilities, should contact the Collector General or their branch contacts in LCD or MED.

Furthermore, Revenue have announced that where key personnel are unavailable, best estimates can be used to populate the VAT returns and any resulting self-correction can be completed without penalty.

Now may also be an optimal time to examine the businesses Revenue record to determine if any VAT refunds are owed for prior VAT periods. Refunds, which may currently be subject to an aspect query, might also have scope to be progressed at this time.

In addition, it is worth noting that Revenue has currently suspended enforcement proceedings on past liabilities due. That said, there has been no commentary on the effect of interest accruing on any liabilities during this time.

Current tax clearance and RCT rate status should not be affected by the above as Revenue have confirmed that taxpayer's current status will remain in place over the coming months.

2. Electronic VAT Refund (EVR) reclaims

If the business was correctly charged VAT in another European country in 2019, you should now request a refund of this overpaid VAT from Revenue.

Repayment applications may be submitted on ROS, subject to a minimum claim of €50 for an annual claim. The deadline for submitting is 30th September 2020. A three-month EVR claim for the period January to March 2020 may now also be submitted on ROS, subject to a minimum claim of €400.

3. Bad debt relief

VAT legislation provides for a VAT refund of sales VAT paid, where a debtor becomes a bad debt. This VAT will be repayable in the VAT period that the debtor becomes a bad debt.

A review of customer listings should be undertaken and any bad debts arising may be written off. A VAT deduction for the VAT element written off may be taking during the VAT period of write off by making an adjustment to the current VAT return.



4. Annual VAT recovery adjustment

Where a business is engaged in a mix of VAT taxable and VAT exempt activities, then a VAT adjustment should be submitted to Revenue within a specified period following the accounting year end. If there has been an under or over estimation of VAT recovery, a VAT adjustment should be made to Revenue.

For example, a business who submits bi-monthly VAT returns with a 31 December accounting year-end can now examine the VAT recovery methodology used and any VAT adjustments due should be submitted to Revenue by 23 July 2020, i.e. the filing date for the May-June 2020 VAT return.

5. Basis of accounting for VAT

Ensure the business is accounting for VAT on a cash receipts basis once certain conditions are satisfied. Under the cash receipts method of VAT accounting, VAT is due at the point of payment by your customer.

Under general VAT accounting rules VAT becomes due on issuance of a VAT invoice even where the invoice remains unpaid. The cash receipts basis may be used where either; 90% of turnover is derived from sales of goods or supplies of services to persons not registered for VAT or, gross turnover is less than €2million per annum.

If the above conditions are satisfied, Revenue should be contacted to request the change from the invoice basis of accounting for VAT to the cash receipts basis.

6. Change your VAT reporting period. Most VAT registered entities will be on a bi-monthly VAT reporting period. This could be changed to;

- four monthly VAT period (where annual VAT payments are between €3,001 and €14,400),
- six monthly (if VAT payments are less than €3,000 annually) or annually (subject to direct debit setup and bi-monthly VAT liabilities of €50,000 or less).

If the above criteria are satisfied, a change may be requested to take effect following the VAT period during which the change is requested. Revenue may look back over a certain period in determining if the request will be allowed.

If a business is in a constant VAT refund position, then an application may be made to Revenue to lodge monthly VAT returns as a way of expediting VAT refunds.

7. Section 56 Authorisation

A review of customer listings should be undertaken and any bad debts arising may be written off. A VAT deduction for the VAT element written off may be taken during the VAT period of write off by making an adjustment to the current VAT return.

If you have any queries please feel free to reach out to Catherine McGovern c.mcgovern@pkf.ie, Shane O' Donovan s.odonovan@pkf.ie or contact PKF directly and we will put you in touch with a member of our tax department.

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Please contact a member of our team if you would like to discuss any of the issues raised.

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