

Update; Warehousing of deferred tax debts and interest suspension arrangements

Revenue announced additional measures to support both SME businesses (automatically) and larger businesses (on request) experiencing cashflow and trading difficulties arising from the impacts of COVID-19. Revenue have provided further information in relation to the suspension of interest and on the new scheme to 'warehouse' VAT and PAYE (Employer) debts associated with the COVID-19 crisis.

1. Suspension of Interest

The charging of interest on late payments is suspended automatically for SMEs* and on request for larger businesses for the following:

- May and June PAYE (Employers) liabilities normally due in June and July respectively
- May/June VAT liabilities, normally due in July.

Those businesses which are managed by either Revenue's Large Corporates Division (LCD) or Medium Enterprises Division (MED) and are currently experiencing tax payment difficulties should contact the Collector-General's Office, if they have not already done so.

Revenue has again stressed the importance of filing tax returns even where payment or part payment is not immediately possible. In addition, where key personnel are unavailable to compute the tax returns due to the COVID-19 virus, businesses should still file on a 'best estimates' basis. Any subsequent amendments can be completed on a self-correction basis without penalty.

*An SME is a business with an annual turnover of less than €3million, which is not dealt with by either Revenue's Large Corporates Division (LCD) or Medium Enterprises Division (MED). SMEs are managed from both a service and compliance standpoint by Revenue's Business Division.

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2. New scheme to warehouse VAT and PAYE (Employer) tax debts associated with the COVID-19 crisis

Overview

The Government announced that it will legislate to provide that Revenue will warehouse deferred tax debts associated with the Covid-19 crisis. The proposed scheme will involve :

1. the effective parking of unpaid VAT and PAYE (Employer) tax debts, that arose from the Covid-19 crisis, for a period of 12 months after a business resumes trading and
2. the application of a lower interest rate of 3% per annum on the repayment of such 'warehoused tax debts' after that date.

Pending the enactment of the necessary legislation, Revenue will operate the arrangements on an administrative basis. The period covered by the arrangements is the duration of time during which;

- the business was and is unable to trade, or
- was and is trading at a significantly reduced level, due to the Covid-19 related restrictions and
- includes two months after the business re-commences 'normal' trading.

The tax debts covered are VAT and PAYE (Employer) debts from the 'Covid-19 restricted trading' period. (Tax debts before and after this period will not be included in the warehousing arrangement.) There will be three periods in the scheme; further details below.

Period 1 – Covid-19 restricted trading phase:

The relevant tax debts built up while the business is unable to trade or was subject to restricted trading, and debts for an additional two months after the business re-commences 'normal' trading, will be 'ring-fenced'. There will be no collection of any of the debt in question during this period and no interest will apply, but the debt will have to have been quantified by the business through the filing of all the relevant returns for the restricted trading phase. If a best estimate return of liability has been made for any period, the correct return will have to be filed before the end of Period 1 to ensure that the debt benefits from the warehousing.

Period 1 may vary from sector to sector and business to business, depending on when Government restrictions are relaxed in line with the roadmap for re-opening society and business as announced on 1 May 2020.

Period 2

Zero interest phase: This will last for 12 months after the end of Period 1. During this period no interest will be charged on the debt built up in Period 1. Businesses must pay current tax liabilities as they arise.

Period 3

Reduced interest phase: This will last from the end of Period 2 until the Covid-19 related debts built up in Period 1 are paid. A reduced interest rate of 3% per annum will be charged on the debt from Period 1. This compares to a rate of 10% per annum normally or otherwise due on overdue VAT and PAYE (Employer) liabilities.

Tax clearance will not be affected by a business availing of tax debt 'warehousing' under this arrangement. Refunds and repayments of tax which arise will be paid, notwithstanding that the business owes VAT and PAYE (Employer) liabilities built up in Period 1. (The business can choose to offset the repayment against the Covid-19 liabilities if it wishes.)

Full details of the arrangements for debt warehousing will be published in legislation in due course.

Right people.
Right size.
Right solutions.

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

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