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Indirect Tax Alert

Ireland announces temporary reduction in VAT rate as part of July 2020 Stimulus Plan

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The July 2020 Jobs Stimulus Plan announced by the Irish Government contains a suite of tax, loan and expenditure measures designed to directly support business at all levels of the economy that are negatively impacted by COVID-19.

One of the key measures is the **temporary reduction** in the standard rate of **value-added tax (VAT)** from **23% to 21%** with effect from **1 September 2020 to 28 February 2021**.

The change in VAT rate follows a trend across Europe of reducing VAT rates to stimulate economies during the COVID-19 pandemic. Ireland has not gone as far as the United Kingdom in terms of supporting the hospitality industry (dropped from 20% to 5%) or in dropping its standard rate (e.g., Germany cut its rates by 3%). With no change to the tourism and hospitality rate of 13.5%, the Government has opted for a different response to what was introduced during the financial crisis, instead focusing on implementing a cut across the broadest range of goods and services to seek to provide the market with a well-needed boost.

The change in the VAT rate will bring opportunities for businesses to review their pricing policies and consider any efficiencies that could be made around the timing of supplies. However, this change will also impact businesses from a systems and process perspective as businesses will be required to update their invoicing and ERP systems to account for the new rate of VAT and to ensure that relevant controls are in place.

Building a better working world

When a VAT rate change is introduced, there are a number of practical issues that taxpayers should consider. This Alert summarizes eight key considerations, as outlined below:

1. **Systems** – ERP system(s) will have to be updated and tested for the new VAT rate change. With only five weeks to go and taking into account the Summer holiday season, this is likely to be a tight turnaround, depending on one's systems configuration.
2. **Pricing** – Businesses need to consider whether they should amend the pricing of goods and services as a result of the temporary VAT rate change. They should also consider how this will impact budgets heading into the last quarter of 2020. Another consideration is whether the VAT rate reduction should be passed onto the customer. On the purchases side, particularly if a business only has partial VAT recovery entitlement, it is important to consider whether the VAT rate reduction is being passed on by suppliers.
3. **Contracts** – To assess the impact on pricing, businesses should review commercial contracts and considered whether the price is fixed or if the contract provides for VAT rate variations.
4. **Sales invoices** – The VAT rate in force at the time an invoice is issued (or is required to be issued) is the VAT rate that applies. For example, the reduced 21% VAT rate should apply to goods or services supplied in August but invoiced in September (once in line with VAT legislation on invoicing).
5. **Reverse Charge VAT** – For businesses with partial VAT recovery entitlement, VAT at 23% must be accounted for on the reverse charge basis on taxable foreign purchase invoices dated on or before 31 August, even if those invoices are not received until September 2020.
6. **Credit notes** – Any credit notes issued on or after 1 September in respect of supplies of goods or services made to VAT-registered customers prior to this date must show the VAT rate in force at the time the original invoice was issued, i.e., 23%. For supplies to non-VAT registered customers, credit notes should be issued using the VAT rate in force at the time of the original supply.
7. **Advance Payments** – If a business accounts for VAT on the invoice basis, the VAT rate that applies is the VAT rate in force at the time the invoice relating to the payment is issued, or ought to have been issued, whichever is the earlier date.
8. **Other issues** – There are a number of challenges to consider when a VAT rate change is announced, for example, utilities, continuous supplies of services, import VAT deferred in August and payable in September, stock in hand on date of VAT rate change and the tax point of various financial transactions such as HP or other credit arrangements.

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