

VAT rate decrease announced as part of the July 2020 Stimulus Plan



The July 2020 Jobs Stimulus Plan announced by the 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 **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 UK 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.

When a VAT rate change is introduced, there are a number of practical issues that taxpayers should consider:

Here's 8 Issues To Consider When a VAT Rate Reduction is Introduced

Systems

Your ERP system(s) will have to be updated and tested for the new VAT rate change. With only 5 weeks to go and in the middle of the Summer holiday season, depending on your systems configuration, this could be a tight turnaround.

Pricing

Do you need to amend the pricing of your goods and services as a result of the temporary VAT rate change? How will this impact on your budgets heading into the last quarter of 2020? Does the VAT rate reduction have to be passed onto the customer? On the purchases side, particularly if you only have partial VAT recovery entitlement, will the VAT rate reduction be passed on to you by your suppliers?

Contracts

To assess the impact on pricing, you may need to review your commercial contracts. Is the price fixed or does the contract provide for VAT rate variations?

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.

Advance Payments

If your 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.

We would be delighted to assist you with any questions you may have on the impact of the VAT rate change on your business. For further assistance, please contact one of our VAT team members or your usual EY Tax adviser.

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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).

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.

Other issues

There are a lot of unique 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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122931.indd 07/20. Produced by Creative (Ireland). ED none

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