

VALUE-ADDED TAX (VAT)

NOTE: VAT is something of a minefield. Prospective venturers into business should make sure to clarify any and all requirements relating to VAT in this guide.

VAT AND HOW IT WORKS

Value-Added Tax is a tax on consumer spending. It is not a business overhead; but the business is the channel through which the tax is collected by the government. It is called Value-Added Tax because the tax becomes payable at each successive stage where value is added to the product or service. If a manufacturer sells an item of goods to a wholesaler for £100, he will charge him VAT on that amount (normally 21%), and the wholesaler will therefore pay £121. The manufacturer will then pay the £21 to the government. If the wholesaler goes on to sell the item to a retailer for £200, he will charge the retailer a total of £242 – having added 21% VAT. The wholesaler will then owe the government £42, less the £21 he has paid to the manufacturer, leaving again a net £21 to the government. The retailer in turn applies VAT to his selling price, say £63 on a selling price of £300, he then remits this £63 leaving a further net gain of £21 to the government – having charged the consumer £363, and claimed back the £42 of VAT which he paid to the wholesaler. As can be seen from this example, the government has now received the full 21% on the price paid by the consumer, i.e. £63 (£21 by the wholesaler, and £21 by the retailer) all of whom have only paid the net amount of tax they charged on to the next group down the line.

VAT RATES

The standard rate of VAT is currently 21%. The other general rates are zero, 10 and 12.5. There is also a special rate of 2.5% which applies to livestock, greyhounds and hire of horses. For details of what products and services these rates apply to, the Guide to Value-Added Tax published by the revenue Commissioners should be consulted. In addition, certain goods and services come under the category of Exempted. They are discussed further below.

WHO IS A TAXABLE PERSON?

Any individual, partnership, company or other business entity which is required to be registered for VAT is a taxable person. A taxable person must register for VAT if their turnover exceeds, or is likely to exceed in the defined future, certain limits as laid down from time to time by the government. These are currently £20,000 for the supply of Services and £40,000 for the supply of Goods. Within these outer limits, there are three other parameters: these also should be carefully checked in the Revenue Commissioners' Guide.

Persons (individual, partnership, company) whose turnover from taxable activities does not exceed these limits, may register for VAT if they wish to do so. The advantages of this are that such a trader can claim back VAT paid on his business purchases, which otherwise would become a business overhead. If in addition he is the supplier of zero-rated goods, he would for obvious reasons be well advised to register. As noted above certain goods and services – for example, banking, education, professional medical services – are exempt from VAT. These are categorised as Exempted Persons. Groups of persons engaged in non commercial activity – Non taxable entities – and Farmers make up the final categories.

REGISTRATION AND VAT RETURNS

When a business entity becomes registered for VAT, it will be issued with a registration number, which should be displayed on all sales documents – invoices, credit notes, etc. – at least. VAT is normally accounted for on a bimonthly basis. A form (VAT3) is sent out in advance by the Collector of Taxes, and any payment due must be received by the Collector – General by the 19th of the month following the end of the taxable period in question.

ACCOUNTING BASIS

VAT is normally payable on the total invoice value of the goods and/or services supplied – excluding of course, the amount of the VAT itself. If more than one rate applies, this will need to be indicated. VAT becomes liable when the sale is invoiced, irrespective of whether it has been paid for or not. However, within certain defined limits, a trader may opt to account on a ‘Cash’ basis, that is by reference only to those sales which have been paid for. The Commissioners’ Guide should be consulted for the relevant parameter in this regard. A statutory obligation to maintain proper records of VAT liability also exists.

Further regulations exist in relation to the buying and selling of goods abroad. An important distinction exists in this area between Acquisition of goods from and the supply of goods to other EU member-states on the one hand, and importing from and exporting to other parts of the world. Once again, for further details of requirements in these areas, the Revenue Commissioners’ guide should be consulted.