

# Proposed VAT rates for 2012 - Impact on your business

## A Quick Guide

VAT Brief  
23 November 2011



The Minister for Finance has announced that he intends to increase the standard rate of VAT in Ireland from 21% to 23% in the forthcoming Budget. It is widely thought that the rate change could be effective from as early as 1 January 2012. The Minister for Finance stated at the IBEC CEO conference 2011 held on 23 November 2011 that there would be no further increases in VAT in the lifetime of the present Government.

This VAT brief outlines the implications of the proposed change for VAT registered persons.

The standard rate of VAT applies, for example, to supplies of motor vehicles, petrol, telecoms services, on-line services, electrical goods, furniture, carpets, adult footwear and clothing. Zero rated goods, such as foodstuffs, children's clothing and oral medicines and goods and services subject to VAT at the reduced rates of 9% and 13.5% such as catering, electricity, solid fuels and construction services will not be affected by the change. A summary of the expected VAT rates for 2012 and examples of the goods and services at these rates can be found at the bottom of this VAT brief.

### **Impact on billing – What rate applies?**

#### **1. Suppliers on the Invoice Basis**

Suppliers accounting for VAT on the invoice basis who are required to issue a VAT invoice for a supply to another VAT registered person, a Public Body or an exempt person must apply the VAT rate in force on the date the VAT invoice is issued, or is required to be issued, whichever is the earlier. Advance payments for these transactions are likewise subject to VAT at the rate in force at the date the invoice is issued, or is required to be issued for the receipt of an advance payment, whichever is the earlier. Where a credit note is issued to a VAT registered person, a Public Body or an exempt person it must show VAT at the rate in force at the time the original invoice was issued.

For transactions with private consumers VAT should be applied at the rate in force at the time of the supply. An exception applies for advance payment received from private consumers in advance of making the supply where VAT should be applied at the rate in force at the time the payment is received. Credit notes issued to a private consumer should apply VAT at the rate in force at the time of the original supply or advance payment, as applicable.

In addition to the above, special rules apply to the rate of VAT on continuous supplies of telecommunications services to private consumers.

## 2. Suppliers on the Cash Receipts Basis

Where suppliers accounting for VAT on the cash receipts basis are required to issue a VAT invoice they must apply the rate of VAT in force at the time of supply or at the time of receipt of an advance payment where earlier. Any credit note issued to a VAT registered person, a Public Body or an exempt person must show VAT at the rate in force at the time of the original supply or advance payment, as applicable.

For transactions with private consumers VAT should be applied at the rate in force at the time of the supply or where an advance payment is received at the time of receiving that advance payment. Credit notes issued to private consumers should apply VAT at the rate in force at the time of the supply or advance payment, as applicable.

### 3. What about Contracts?

Where a contract to supply goods or services is entered into at a particular rate of VAT, and the rate changes before the contract is fulfilled, an adjustment for the change in the rate may be necessary depending on the terms of the contract. Where in doubt professional advice should be sought.

## Impact on goods and services bought in from overseas

The rate change will likewise apply to imports of goods where the VAT rate will be that in force on the date of import. Intra-EU acquisitions of goods and reverse charge services received will also be affected. The VAT rate applicable on these transactions will be the rate in force at the time the intra-Community acquisition is made or the reverse charge services are received.

## Impact on systems - What changes to accounting systems will be needed?

The rate change will require businesses to adapt their accounting systems. With the likelihood that the VAT rate increase will be effective in a matter of weeks businesses should now review what needs to be done to implement a rate change. Matters for review should include:

- **New VAT codes** - New VAT codes will be needed for accounts receivable and accounts payable transactions together with amendments to the existing systems VAT logic. Current VAT codes at 21% rate will need to be retained to deal with transactions taxable at the old rate including credit notes.
- **Amendments to VAT invoicing** - Current invoice templates and processes including electronic invoicing may need to be revised to ensure the correct rate is shown.

- **Electronic Point of Sale (EPOS)** - EPOS systems will need to be changed to accommodate the rate change. This may require amending product data, till receipt information and re-pricing.

In summary the proposed rate change will present a series of challenges for businesses to implement over what is expected to be a short timescale. Accordingly we recommend that businesses take steps now to review what needs to be done to be ready to implement the expected rate change.

Likely VAT Rates for 2012

Rate	Goods and Services at that rate include
0%	Many foodstuffs, oral medicines, books, children's clothing and footwear
4.8%	Livestock, hire of horses
9%	Hotel and holiday accommodation, catering services, newspapers, admission to theatres and cinemas
13.5%	Construction services, electricity, solid fuels, waste acceptance and disposal services
21% likely going to be 23%	Motor vehicles, petrol, telecoms services, on-line services, adult clothing and footwear, alcoholic drinks and soft drinks

**If you have any queries please do not hesitate to contact your PwC VAT advisor or alternatively**

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