An Roinn Airgeadais
Department of Finance

Value Added Tax
Tax Strategy Group – 19/08

July 2019

Prepared by the Tax Division,
Department of Finance
www.gov.ie/finance

Contents

1 Introduction **5**
1.1 VAT Rating and structure 5
2 Recent Developments **6**
2.1 Recent VAT changes 6
3 International Comparisons **7**
3.1 Irelands VAT rates in comparison with EU/UK 7
4 Options: complying with Programme for Partnership Governmant commitments **8**
4.1 Option 1: Consider Introducing a 9% VAT rate on residential construction 8
4.2 Option 2: Work with EU to reform difficulties faced by community re VAT rates on certain products e.g. defibrillators 8
4.3 Option 3: Retain 9% VAT rate on Tourism 9
5 Options: reform of the VAT structure and rates **10**
5.1 Option 4: Increasing or decreasing VAT rates 10
5.2 Option 5: Moving zero rated items to higher rates 10
5.3 Option 6: Moving zero rated items to higher rates 10
5.4 Option 7: Streamlining VAT rates 11
5.5 Concerns regarding changes to VAT rates 11
6 Options: assisting Small to Medium Businesses **12**
6.1 Option 8: Increasing the cash receipts basis threshold 12
6.2 VAT registration thresholds 12
7 Options: VAT treatment of Food Supplements **13**
7.1 Background 13
7.2 Scope 14
7.3 Public Consultation 14
7.4 Feedback from the Minister for Health 16
7.5 Analysis of VAT treatment of Food Supplements in Other EU Member States 17
7.6 Possible Options 18
8 VAT Developments at EU Level **20**
8.1 Commission's VAT Action Plan 2016 20
8.2 Modernisation of VAT on e-commerce - Implementing Regulations 20

8.3 VAT on e-Publications
and Generalised Reverse Charge Mechanism 20
8.4 Simplification for SMEs 21
8.5 Reform of VAT rating 21
8.6 Definitive VAT system for cross-border trade 22
8.7 Payment Service Providers 23
8.8 Quick Fixes 23
9 VAT Developments at Domestic Level 24
9.1 VAT Compensation Scheme for Charities **Error! Bookmark not defined.**
9.2 Brexit 24
10 Gender and Equality Implications 26

SELECTED VAT ISSUES

1. Introduction

This paper reviews the Value-Added Tax (VAT) rates and structures, provides options for change and looks at VAT developments at EU and domestic level. In 2018, VAT accounted for approximately €14,234 million or 26% of the overall tax yield to the Exchequer. The estimate for the VAT yield in 2019 underpinning the Stability Programme Update is €15,140 million.

1.1 VAT Rating and Structure

Ireland operates the following VAT rates:

- standard rate of 23% applies to 50% of activity, including cars, petrol, diesel, alcohol, tobacco, electrical equipment and CD/DVDs.
- reduced rate of 13.5% applies to 38% of activity, including fuel used for heat or light, construction, housing, holiday accommodation, restaurants, labour intensive services and general repairs and maintenance.
- reduced rate of 9% applies to 1% of activity, including digital and print newspapers and periodicals, and sporting facilities.
- super-reduced 4.8% rate applies to livestock by registered farmers.
- zero rate accounts for 11% of activity and applies to most food, books, children's clothes and shoes, and oral medicines.
- exempt services include transport, water, education, financial services, schools and hospitals, services provided by charities, etc.

Irish VAT law must comply with the EU VAT Directive, which directs that Member States must apply a standard VAT rate of 15% or more, and can apply up to two reduced VAT rates of 5% or more. Ireland applies the 23%, 13.5% and 9% VAT rates in this context. Member States may also retain derogated historical VAT rating where it was in place on and from 1 January 1991. Ireland's zero and 4.8% rates and some of the activity applying at the 13.5% rate fit into this category. Historical VAT rates cannot be applied to new goods and services that were not charged at those rates on and from 1991, and cannot be reapplied to goods and services currently applying at historic rates where the rate is increased. Similar conditions apply to some exempt services, such as transportation and water, under a derogation from 1978.

2. Recent Developments

2.1 Recent VAT changes

Recent changes to the VAT rates and thresholds include:

- Budget 2012: increase in standard VAT rate from 21% to 23%.
- Budget 2013: increase in cash basis threshold from €1 million to €1.25 million; flat-rate farmer addition reduced from 5.2% to 4.8%.
- Budget 2014: increase in cash basis threshold from €1.25 million to €2 million; flat-rate farmer addition increased from 4.8% to 5%; retention of 9% VAT rate.
- Budget 2015: flat-rate farmer addition increased to 5.2%; telecoms and electronic services charged to VAT in the Member State of the consumer from 1 January 2015.
- Budget 2017: flat-rate farmer addition increased to 5.4%.
- Budget 2018: VAT rate on sunbed use increased from 13.5% to 23%; VAT Compensation Scheme for Charities announced.
- Budget 2019: Services and goods applying at the 9% VAT rate increased to 13.5%, with the exception of newspapers and periodicals and sporting facilities. This includes restaurants, tourist accommodation, cinemas, theatres, museums, historic houses, open farms, amusement parks, hairdressing and horses and greyhounds.

3. International Comparisons

3.1 Ireland's VAT Rates in comparison with EU/UK

As of 1 January 2019, 23 of the 28 EU Member States have a standard VAT rate of 20% or higher and the average standard rate in the EU is 21.5%. Ireland has the joint 4th highest standard rate of VAT in the EU, at 23%. The standard rate VAT differential between Ireland and the UK has narrowed from a high of 6.5 percentage points in 2009 to 3 percentage points since January 2012, with the current Irish and UK standard VAT rates standing at 23% and 20% respectively.

At 13.5%, Ireland has the 4th highest reduced VAT rate in Europe. However, we apply reduced rates to an extensive range of activity relative to other Member States. In addition, Ireland, along with the UK, applies a zero rate to a sizable proportion of economic activity.

4. Options: complying with Programme for Partnership Government commitments

4.1 Option 1: Consider introducing a 9% VAT rate on residential construction

"Consistent with our existing deficit reduction targets, we will ask the Oireachtas to consider the merits of a temporary targeted reduction of the rate of VAT from 13.5% to 9% on new, affordable houses and apartments, both public and private, timed to generate the maximum impact on supply and to target principally the purchasers of affordable homes." page 25

In the context of Budget 2017, the Oireachtas Committee on Housing and Homelessness reviewed the costs of construction, including VAT, in the light of the Programme for Partnership Government commitment. In their June 2016 Report, the Committee recommended that the Housing Agency annually review construction costs but did not recommend that the VAT rate on new residential property be reduced. It was decided at that time that a more effective aid to home purchases was through the income tax system and the Help to Buy incentive was introduced to this effect. One of the main aims of the incentive was to make mortgages more accessible to first-time buyers.

4.2 Option 2: Work with EU to reform difficulties faced by community re VAT rates on certain products e.g. defibrillators

"We recognise the difficulties faced by community groups in relation to VAT rates on certain products (e.g. defibrillators). While this is an EU competency we will work with our EU counterparts in seeking to reform this area." page 43

VAT rating is constrained by the conditions of the EU VAT Directive, which currently does not allow a reduced VAT rate to apply to defibrillators. Any changes to VAT rates outside of what is currently permitted by the EU VAT Directive must be agreed by the EU Council of Finance Ministers. As part of the VAT Action Plan 2016, which sets out a pathway for modernising the VAT system, the Commission published a proposal on the Simplification of VAT rating on 18 January 2018. When a preliminary version of this proposal was discussed as part of the Commission's Group on the Future of VAT in 2017, Ireland specifically

recommended to the Commission that defibrillators and other emergency-medical and rescue equipment be included.

While the proposal was the subject of introductory meetings under the Bulgarian and Romanian Presidency, technical and political discussions have not yet commenced with regularity on this proposal. When discussions commence substantively, Ireland will continue to recommend that Member States be entitled to apply reduced VAT ratings to defibrillators and other emergency-medical and rescue equipment.

4.3 Option 3: Retain 9% VAT rate on Tourism

"We will work towards achieving the ambitious tourism policy goals set for 2025. These include increasing revenue from overseas visitors to €5 billion, growing employment in the tourism sector to 250,000 (from 200,000 currently) and increasing the number of visits to Ireland to 10 million. We will do this through the national tourism policy and through specific measures like the maintenance of the 0% Airport Travel Tax and the retention of the hugely successful 9% VAT rate on tourism related services, providing that prices remain competitive." Page 45/6

In Budget 2019 the second reduced VAT rate of 9% was increased to 13.5% on tourism related services. The Programme for Partnership Government commitment to retain the 9% VAT rate on tourism was conditional on prices remaining competitive. Reviews conducted by the Revenue Commissioners and the Department of Finance in 2018 illustrated that while tourism has grown significantly since the introduction of the 9% VAT rate, and to a greater extent than the economy as a whole, prices had not remained competitive. The Department of Finance report concluded that tourism related services were very sensitive to income growth and the economic cycle, more so than to price changes. It was based on these findings that it was decided to revert tourism activity from 9% to 13.5% in Budget 2019.

5. Options: reform of the VAT structure and rates

5.1 Option 4: Increasing or decreasing VAT rates

The cost of increasing or decreasing the VAT rates by 1% is outlined as follows. These are full year figures and would be 1/6th lower in the first year as VAT is paid two months in arrears.

Rate	1% increase/decrease
9% Reduced rate	+/- €9m
13.5% Reduced rate	+/- €345m
23% Standard rate	+/- €450m

5.2 Option 5: Moving zero rated items to higher rates

The following illustrates the estimated yield to the Exchequer where goods at the zero rate are charged to VAT at various rates. However, once moved, it would not be possible under EU VAT law to revert them back to the zero rate.

Zero rate increased	Yield
0% to 5%	€513m
0% to 9%	€923m
0% to 13.5%	€1,384m
0% to 23%	€2,358m

5.3 Option 6: Restructuring the VAT system on a revenue-neutral basis

Restructuring the VAT system on a revenue-neutral basis would result in the following composite VAT rates:

Rates being merged	Revenue neutral rate
0%, 9%, 13.5% and 23%	16.631%
9%, 13.5% and 23%	18.752%

5.4 Option 7: Streamlining VAT rates

Streamlining the VAT rates structure along the lines of the scenarios below would yield the following:

New Streamlined Rates	Yield	Change
0%, 5%, 15% and 25%	€1,381m	items at 0% stay to 0% items at 9% to 5% items at 13.5% to 15% items at 23% to 25%
5%, 15% and 25%	€1,983m	items at 0% to 5% items at 9/13.5% to 15% items at 23% to 25%

5.5 Concerns regarding changes to VAT rates

Increasing VAT rates may negatively affect inflation (all rates), employment (13.5% rate), the less well-off (0% and 13.5% rates) and impact on cross-border trade (0% and 23%). Any reform of the zero rate would be best undertaken in conjunction with similar changes in the UK or with compensatory expenditure measures for those less well off, which can be difficult to achieve.

6. Options: assisting Small to Medium Businesses

In addition to the options for complying with the Programme for Partnership Government commitments and the options for reform of the structure and rating of the Irish VAT system, the following is an option for changing the VAT system that would assist small to medium enterprises.

6.1 Option 8: Increasing the cash receipts basis threshold

Businesses with an annual turnover of €2 million or less can opt to account for VAT on a cash receipts basis, where VAT is not required to be paid until payment for the supply is received. Currently, a total of 187,000, or 67% of all businesses, are benefitting from the scheme. It should be noted that the threshold was increased from €1 million to €2 million in Budgets 2013 and 2014. The impact of increasing the cash basis threshold to various levels is as follows:

New threshold	Once-off Cost to Exchequer	No of additional businesses benefitting
€2.25m	€22m	400
€2.5m	€45m	767
€2.75m	€71m	1126
€3m	€92m	1421

6.2 VAT registration thresholds

Small businesses with a low turnover can opt to be exempt from VAT, thereby avoiding the administrative burden that VAT registration entails. The current thresholds are €37,500 for services and €75,000 for goods, in a 12 month period. It is only possible to increase the thresholds in line with inflation. As inflation has not increased beyond the level it was in 2008 when the registration thresholds were last changed it is not possible to increase the thresholds further. Any increase in the thresholds above these levels would require a derogation and agreement by all 28 Member States.

7. Options: VAT treatment of Food Supplements

7.1 Background

Shortly after the introduction of VAT in 1972, the Revenue Commissioners applied a concessionary zero rating to certain vitamin, mineral and fish oil food supplement products. As the market developed over the years, this treatment resulted in the zero rating by Revenue of further similar products, despite the fact that VAT legislation does not specifically apply the zero rate of VAT to food supplement products.

However, in the operation of this concession, it became increasingly difficult to maintain an effective distinction between food supplement products that can benefit from the zero rate and those that are standard rated, resulting in diverging views over which food supplement products should apply at the zero rate and which should apply at the standard rate.

During the Finance Bill 2018 debates, the Minister for Finance agreed that he would ask his officials to address the matter in the context of the 2019 Tax Strategy Group. The Minister subsequently decided to launch a public consultation on the VAT treatment of food supplements and also agreed to consult with his colleague, the Minister for Health, in this regard.

Prior to this, and arising from the difficulties encountered by Revenue and industry in identifying which products were eligible for the zero rate and which were standard rated, Revenue undertook a comprehensive review of the VAT treatment of food supplement products and engaged an expert to advise on the definition of food for the purposes of interpreting the VAT Consolidation Act 2010.

Revenue determined that there was no legal provision that would allow a zero rate to continue to be applied to food supplement products. In those circumstances Revenue concluded that the status quo was no longer sustainable and announced their intention to apply the 23% VAT rate to most food supplement products with effect from 1 March 2019. However, this date was extended to 1 November 2019 to support the Minister’s plans to examine the policy and legislative options for the taxation of food supplement products ahead of Budget 2020.

Revenue has confirmed their understanding in relation to food supplement products with the European Commission. Under the normal VAT rules it is currently only possible to apply the standard or a reduced VAT rate to food supplement products. This is subject to any changes in the relevant European VAT law, as set out in the pertinent Directives, notably Directive 2006/112, and the case law of the European Court of Justice.

7.2 Scope

As outlined in the public consultation document, the VAT treatment of food supplement products is a complex area given the diversity and range of products on the market. For the purposes of this paper, it is important to clarify that certain products will not be impacted by any change introduced as a result of options outlined here (e.g. foods for specific groups, folic acid and other vitamins and minerals classified as medicines, and fortified foods).

There are certain categories of foods for specific groups. These are well established and defined categories of food that are essential for vulnerable groups of the population. These products include infant formula, baby food, food for special medical purposes and total diet replacement for weight control. These products are zero rated for VAT purposes and this rating is not the subject of debate.

Human oral medicines that are licensed or authorised by the HPRA are zero rated for VAT purposes. This includes certain folic acid and other vitamin and mineral products for oral use. Once such products are licensed/authorised by the HPRA as medicines they are zero rated for VAT purposes and again are not subject to debate.

Fortified foods are foods that are enriched with vitamins and/or minerals. Examples include fortified cereals or yoghurts. These products are zero rated for VAT purposes and that will not change in Budget 2020.

7.3 Public Consultation

The Department initiated a public consultation requesting the views of industry, stakeholders and the general public on the appropriate VAT treatment for food supplements. The public consultation document provided background information on why a change was being made and made clear that there is no legal provision that would allow a zero rate to continue to be applied to food supplement products going forward.

While welcoming all submissions, the consultation document specified four questions to assist respondents:

- Do you agree that the standard rate should apply to all food supplement products?
- Do you agree that a reduced rate should be applied to all types of food supplement products?
- Do you agree that a reduced VAT rate should only apply to food supplement products that are recommended for intake by the Department of Health?
- Do you agree that a reduced VAT rate should apply to food supplement products but that certain categories should be excluded?

The public consultation period ran from 18 April to 24 May. In total, 121 submissions were received. This included submissions from individuals, businesses, lobby groups and a political party.

The submissions cover a broad range of issues but on review three specific focuses emerged. The first focus was on health and wellbeing issues arising from the proposed change. The second focus was on the economic impact of the proposed change. The third focus was on the legal basis for the proposed change.

The vast majority of submissions called for the retention of the 0% rate that has applied to food supplements to date. A small number of submissions indicated that if a 0% rate was not possible, the next lowest rate should be applied instead. A small portion of submissions indicated that certain supplements, associated with sport, slimming or cosmetics, should be treated differently to general food supplement products.

A small number of submissions that focused on health and wellbeing issues outlined specific medical conditions and the supplements that assisted with those conditions. These submissions requested that such supplements were treated in a similar manner as medicine (presumably a reference to the fact that oral medicines are zero rated). Submissions referencing health and wellbeing issues frequently cited concern over additional costs to individuals arising from the change. Several submissions argued that supplements contributed to a healthy lifestyle and that their absence would increase the amount of individuals seeking inpatient medical assistance.

Those submissions that referenced the economic impact of suggested changes often focused on the specific harm to an individual or business. The point was made that an increase in cost across the board was likely to reduce consumer spending in this area which would lead to an immediate impact on the businesses involved. A number of submissions mentioned the likelihood that customers would move to purchasing the same products through online vendors to escape the Irish tax net.

Several submissions included a focus on the legal basis for the proposed change. These submissions disputed that the 0% rate had no basis in law or was operated on a concession basis. It was highlighted that the current rate of 0% was operated for over 40 years and some submissions argued that Revenue's guidelines had specifically provided for the Zero VAT rating for most food supplements. A number of submissions mentioned that food supplements are considered food in both domestic and EU law.

Separate from the main consultation process, views on the questions posed in the public consultation were sought from the Minister for Health, the Health Products Regulatory Authority (HPRA) and health professional bodies. The HPRA identified that a reduced VAT rate applying only to food supplement products that are recommended for intake by the Department of Health would require clarity on exactly what products and ingredients were being considered. In addition, challenges were highlighted where no exact definition existed for particular categories of supplement, which would make assigning products to those categories difficult.

7.4 Feedback from the Minister for Health

The Minister for Health, Simon Harris TD noted in relation to this issue that the Healthy Food for Life Resources, including the Healthy Eating Guidelines and Food Pyramid issued by his Department under the Healthy Ireland campaign, define the Government's recommendations on healthy eating and outline a balanced diet for adults, teenagers and children under 5 years. He also noted that the Department of Health does not, in general, recommend the consumption of food supplements as a replacement for the nutrition contained in normal foods, as most of the population should be able to obtain the nutrients they need from their food. Two exceptions to this are cited; folic acid for women who could become pregnant, and Vitamin D for infants. It is also the case that food supplement products may be recommended in specific circumstances by health professionals for their patients.

7.5 Analysis of VAT treatment of Food Supplements in Other EU Member States

EU Member States use a variety of means to classify food supplements for VAT purposes. These include custom codes, Annex III of the VAT Directive wording, treating them as food or as supplementing diet, where they contain a nutritional or physiological effect, where they are commonly treated or labelled as a food supplement, where they are orally consumed, and supplements that are not cosmetic.

The only other member states that have a zero VAT rating for food do not apply it to food supplements. There are 13 member states which apply the standard rate of VAT to food supplements. A further 13 member states apply a reduced rate of VAT to food supplements. Ireland and Germany currently apply different rates depending on the type of food supplement.

The following table summarises the VAT treatment of food supplements in the 28 EU Member States. The table is an indicative guide and does not attempt to capture every variation in VAT rate as applied to food.

Member State	Food	Food Supplements
Austria	10%	10%
Belgium	6%	6%
Bulgaria	20%	20%
Croatia	5%	25%
Cyprus	5%	5%
Czech Republic	10%	10%
Denmark	25%	25%
Estonia	20%	20%
Finland	14%	14%
France	5.5%	10%
Germany	7%	7% and 19%
Greece	13%	24%
Hungary	5%	27%
Ireland	0%/13.5%/23%	0% and 23%
Italy	4%	10%
Latvia	5%	21%
Lithuania	21%	21%
Luxembourg	3%	3%
Malta	0%	18%
Netherlands	9%	9%
Poland	5%	23%
Portugal	6%	23%
Romania	9%	9%
Slovakia	10%	20%
Slovenia	9.5%	9.5%
Spain	4%	10%
Sweden	12%	12%
United Kingdom	0%	20%

7.6 Possible Options

In considering the appropriate VAT rate for food supplements there two issues that must be decided. The first is to establish whether all food supplements should be treated in a similar manner or whether supplements such as sports supplements, slimming aids, etc., should remain separate. That is, where a reduced rate may apply to certain identified supplements, the standard rate will apply to substances marketed specifically to improve sporting or physical performance; or for the purpose of bodily sculpture or weight reduction; or for use other than for human consumption; or substances in the form of bars or sweets or any other form similar to confectionery detailed in the Reve0.nue eBrief; or beverages of any kind (including water), concentrates, crystals, essences, extracts, powders or other products for the preparation of beverages, unless as detailed in the Revenue eBrief.

The second issue relates to the applicable VAT rate itself. The rates to be considered are the standard rate of 23%, the first reduced rate of 13.5% and the second reduced rate of 9%.

If all food supplements are considered the same, the decision to be taken is whether to apply the standard rate of 23%, the first reduced rate of 13.5% or the second reduced rate of 9%. In the event that those supplements referred to above remain separate, then the standard rate of 23% would continue to apply as it currently does. Subsequently, the decision to be taken would be whether to apply the first reduced rate of 13.5% or the second reduced rate of 9% to all other food supplements.

There are significant concerns over maintaining separate rates for different food supplements. Revenue’s expert report has advised that food supplement products are a distinct category of products which includes vitamins, minerals, botanicals, protein powders, etc. Sports supplement products and slimming aids are considered food supplement products which, in general, are composed of the same ingredients as other food supplement products and as a result there is an inherent difficulty in distinguishing these products from other food supplement products. EU Food Safety Regulations and the Food Safety Authority of Ireland only distinguish between food and food supplements, and therefore it is difficult in the extreme to provide a comprehensive method whereby a subcategory of food supplement products could be readily identifiable on a consistent and transparent basis.

Introducing two rates of VAT for food supplement products would create administrative challenges as the composition of these products are generally the same, and currently they are differentiated for the most part by the labelling and marketing. This is in the control of the supplier and may be changed at any time for commercial reasons. This would provide the opportunity for tax planning, competition issues in the market place, fiscal neutrality issues for taxpayers, complexity in the marketplace for suppliers, importers, wholesalers and retailers and administrative difficulties for business and for Revenue.

A summary of the various options is as follows:

	Standard Rate 23%	Reduced Rate 13.5%	Reduced Rate 9%
Option 1	All food supplements		
Option 2		All food supplements	
Option 3			All food supplements
Option 4	Sports / slimming / cosmetic / supplements	All other food supplements	
Option 5	Sports / slimming / cosmetic / etc. supplements		All other food supplements

While Revenue have indicated that it is not possible to estimate the yield to the exchequer from the various options outlined above, the expert report Revenue commissioned identified that the marketplace for food supplements in Ireland had an estimated value of some €60 million in 2016.

8. VAT Developments at EU Level

8.1 Commission's VAT Action Plan 2016

The Commission Communication "Towards a single EU VAT Area - Time to decide" was adopted on 7 April 2016. It set out the Commission's pathway for modernising the VAT system, including providing for a series of follow-on VAT proposals. Agreement has already been reached on proposals relating to administrative cooperation, modernisation of VAT on e-commerce, and VAT rating of e-publications. Proposals originating in the VAT Action Plan that have yet to be agreed include simplification for SMEs, reform of VAT rating and the definitive VAT system for cross-border B2B trade. Other Commission proposals highlighted below include Generalised Reverse Charge Mechanism, Payment Service Providers, and Quick Fixes.

8.2 Modernisation of VAT on e-commerce - Implementing Regulations

In December 2017, the Commission adopted the VAT on e-commerce package, which changes the place of taxation of cross-border business-to-consumer (B2C) supplies to the Member State of the customer from 2022, abolishes the €22 exemption for third-country imports and makes online platforms liable for the VAT due on 3rd country imports made through their portals. Implementing Proposals were published on 10 December 2018 that lay down detailed rules needed to support the VAT on e-commerce package, including defining when sales of goods or services are facilitated by an interface, and the introduction of practical measures to make the new operation run smoothly. The file was adopted by Council at March 2019 ECOFIN.

8.3 VAT on e-Publications and Generalised Reverse Charge Mechanism

In October 2018, agreement was finally reached at ECOFIN on the adoption of the Commission proposals on VAT on e-publications and the Generalised Reverse Charge Mechanism (GRCM). The e-publications proposal provides the option for Member States to apply a reduced VAT rate to all publications (regardless of whether supplied in printed form or electronically) and also provides the option to align the VAT treatment of printed and electronically supplied publications. This,

in effect, means that zero and super-reduced VAT rating is extended only to those Member States who already apply such derogations to printed publications.

Reverse charge mechanism (RCM) is a mechanism whereby VAT is paid by the customer instead of the supplier, where there is a risk of the supplier not passing VAT onto the tax authorities. The GRCM proposal provides that a generalised RCM would be made available to Member States, experiencing massive carousel fraud, on all invoices over €17,500. Supplies below €17,500 will be charged to VAT as normal.

8.4 Simplification for SMEs

Published on 18 January 2018, the "Simplification for SME's" proposal provides simplified VAT measures for small to medium enterprises (SMEs). VAT compliance costs are a greater administrative burden on SMEs than on large enterprises, because of their more limited resources. In addition, these costs can discourage SMEs from engaging in cross-border EU trade. To counter this distortion, alleviate the burden faced by SMEs, and make compliance easier, the Commission proposal introduces a unified system of simplification measures for SMEs with effect from July 2022.

The main provisions of the original proposals are: the opening up of the VAT registration exemption for SMEs to all EU eligible businesses; establishing a new maximum level and transitional period for national exemption thresholds; and the introduction of simplified VAT obligations for both exempt and non-exempt SMEs in the areas of registration, VAT numbers and VAT returns. The proposal has been the subject of ongoing technical discussions since March 2018.

8.5 Reform of VAT rating

The VAT Action Plan 2016 proposed reform of the VAT rating structure in light of the move to the destination system - where VAT is charged in the Member State of the consumer and not the supplier - as this minimises the risk of VAT rating competition. In January 2018, the proposal for the Simplification of EU VAT rating was published. As is currently the case, the new proposal provides that Member States must apply a standard rate of 15% or more and will have the option of applying two reduced rates of 5% or more.

In addition, the proposal provides that all Member States will have the option to apply a zero and super-reduced rate, which will remove the need for derogations. The current system operates a set list of goods and services to which a reduced rate may apply. The new proposal allows Member States to apply lower rates to all goods and services but introduces a list of goods and services which must be charged at the standard rate. This list includes alcohol, tobacco, fuel, vehicles, weapons, second-hand goods, travel agent services, precious metals, and exempted services. The proposal also provides that Member States must maintain an average VAT rate of over 12%.

While the file has been presented to the European Council at working party level, substantive discussions have yet to commence.

8.6 Definitive VAT system for cross-border trade

The definitive VAT proposal, which was published on 25 May 2018, provides detailed technical measures for the operation of the definitive business-to-business system, which is due to be implemented by 2022. The proposal changes the place of supply of B2B cross-border goods to the Member State of the consumer. The change will also apply to some B2B services. The One-Stop Shop system (which is a portal that allows a business to account in one Member State for the VAT due in all Member States) will be extended to include these B2B cross-border supplies and deductibility entitlement will be included under the OSS. The proposal removes the obligation to complete recapitulative statements on EU acquisitions. Finally, the proposal abolishes the existing historical derogations.

The definitive package also involves the system of certified taxable payers, which allows the current reverse charge model of B2B cross-border trade to continue to apply to businesses which are certified as trustworthy. This was contained in the first definitive VAT proposal published in October 2017.

Technical and political discussions on this proposal commenced under the Austrian presidency in the second half of 2018. After several council meetings, a “state of play” paper was published by the presidency at the conclusion of their term in December 2018 outlining a broad direction for further discussions - which have not yet recommenced. In May 2019, Commissioner Moscovici urged EU Ministers to commit to reaching agreement on the proposal in the light of reports of growing fraud under the current VAT regime.

8.7 Payment Service Providers

Proposals were published in December 2018 which seek to reduce the problem of e-commerce VAT fraud by strengthening the cooperation between tax authorities and payment service providers (PSPs). The dossiers introduce provisions to define PSPs, outline record-keeping obligations for PSPs, determine the location of payees and payers, outline what information is to be kept by PSPs, and establish a new database for this information.

The Romanian Presidency prioritised discussions on the file and significant progress was made at working party level. The file is likely to be agreed by the Finnish Presidency.

8.8 Quick Fixes

The quick fixes originally formed part of the definitive VAT package published in October 2017 and comprise of technical changes to the current VAT regime to address potential VAT fraud and non-harmonisation. The four areas of change relate to a) VAT identification numbers, b) chain transactions, c) call-off stocks and d) proof of intra-community supply.

A fifth quick fix measure relating to cost sharing was added to the proposal in June 2018 but Council was divided on this measure. Following negotiations under the Austrian presidency, the original four Quick Fixes were adopted by Council in October 2018, under the condition that the fifth quick fix would be subject to further examination.

9. VAT Developments at Domestic Level

9.1 VAT Compensation Scheme for Charities

The VAT Compensation Scheme for Charities was introduced in Budget 2018 to reduce the tax burden on Charities and partially compensate them for the VAT incurred in delivering on their charitable purpose. Under the Scheme, Charities are entitled to claim a refund of a proportion of their VAT costs based on their level of non-public funding. The Scheme applies to VAT incurred on or after 1 January 2018 and will be paid one year in arrears.

A total annual capped fund of €5m is available for payment under the Scheme, which will be subject to review after three years. Where the total amount of eligible claims from all Charities in a year exceeds the capped amount, claims will be paid on a pro-rata basis. Applications for the scheme in relation to expenditure incurred in 2018 was open until 30 June 2019.

9.2 Brexit

When the UK leaves the EU, it will become a ‘third country’ for VAT purposes and all supplies to and from the UK will change from intra-Community supplies/acquisitions to third country exports/imports. In order to mitigate the effects of Brexit, a number of VAT policy changes are contained in the *Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019* to ease the administrative and cash-flow burdens for businesses that will occur upon the UK’s exit.

The *Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019*, which was enacted in March 2019, formed a significant part of the Government’s preparations for a “no deal” exit. The Act is subject to commencement and will only be commenced once it is certain that the UK is leaving the EU without an agreement. The Act focuses on measures to protect Irish citizens in supporting the economy, enterprise and jobs, particularly in key economic sectors. Part 6 of the Act provides for taxation measures and includes a number of measures in the area of VAT.

The Act provides for the introduction of postponed accounting for VAT purposes in the event of the withdrawal of the UK from the EU. This system will allow Irish businesses importing goods from the UK to continue to account for VAT on acquisition of goods at the same time as they claim a credit for it in their bi-monthly

VAT return. Under current VAT rules, VAT on imports from third countries is payable at the point of import. The scheme will be introduced for all traders for a certain period to alleviate the immediate cash flow issues arising from Brexit. However, continued qualification for postponed accounting will depend on Revenue authorisation from a later date to be agreed subject to criteria to be set out by Revenue.

The Act also amends section 56 of the VAT Consolidation Act 2010. This concerns Section 56 VAT Authorisations, which entitle authorised taxable persons to receive qualifying goods and services at the zero rate of VAT. The amendment makes participation in the scheme subject to a number of conditions, including compliance with customs legislation and tax rules. The amendment also gives Revenue the power to cancel an authorisation where there are reasonable grounds to do so and to provide for a penalty for failure to adhere to conditions of the scheme.

Provision is also made in the Act to amend the VAT Retail Export Scheme (RES), which enables travellers that are resident outside the EU to benefit from VAT relief on goods that are purchased in Ireland and subsequently exported outside of the European Union. A minimum value for qualifying goods is being introduced in order for a refund to apply, and a new requirement of proof of importation and payment of the goods is required for applicants from the UK. These changes are dependent on the UK policy on their similar scheme.

The UK have not publically confirmed their position on operating a VAT Retail Export Scheme for passengers travelling from Ireland and purchasing goods there, post Brexit. Should the UK apply a full scheme post Brexit, Ireland will not commence the precautionary sections, and a non-restricted VAT RES will therefore operate between Ireland and the UK.

In addition, a suite of secondary legislation has been drafted and approved by the Office of Parliamentary Counsel to implement the policy on the above VAT impacts- all of which are subject to commencement by way of signature by the Revenue Commissioners, some of which will also be dependent on the UK policy.

10. Gender and Equality Implications

There are no specific gender or equality implications with regard to VAT.

July 2019

Appendix

LIST OF VAT RATES APPLIED IN THE MEMBER STATES (1 January 2019)

Member States	Zero	Super	Reduced	Standard	Parked
Belgium	0	-	6 / 12	21	12
Bulgaria	-	-	9	20	-
Czech Republic	-	-	10/15	21	-
Denmark	0	-	-	25	-
Germany	-	-	7	19	-
Estonia	-	-	9	20	-
Greece	-	-	6 / 13	24	-
Spain	-	4	10	21	-
France	-	2.1	5.5 / 10	20	-
Croatia	-	-	5 / 13	25	-
Ireland	**0**	**4.8**	**9 / 13.5**	**23**	**13.5**
Italy	0	4	5 / 10	22	-
Cyprus	-	-	5 / 9	19	-
Latvia	-	-	12	21	-
Lithuania	-	-	5 / 9	21	-
Luxembourg	-	3	8	17	14
Hungary	-	-	5 / 18	27	-
Malta	0	-	5 / 7	18	-
Netherlands	-	-	9	21	-
Austria	-	-	10 / 13	20	13
Poland	-	-	5 / 8	23	-
Portugal	-	-	6 / 13	23	13
Romania	-	-	5 / 9	19	
Slovenia	-	-	9.5	22	-
Slovakia	-	-	10	20	-
Finland	0	-	10 / 14	24	-
Sweden	0	-	6 / 12	25	-
United Kingdom	0	-	5	20	-
Average			**7.3 / 10.6**	**21.5**	

An Roinn Airgeadais
Department of Finance

Tithe an Rialtas. Sráid Mhuirfean Uacht,
Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street,
Dublin 2, D02 R583, Ireland

T:+353 1 676 7571
@IRLDeptFinance
www.gov.ie/finance